A STUDY OF CHINESE CAPITAL FLOWS TO SIX COUNTRIES: **OVERVIEW**

Mitigating Governance Risks From Investment in Southeast Asia

CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

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FORWARD & INTRODUCTION

Forward

CIPE works at the intersection of economic development, democracy and human rights, a unique position from which to address governance challenges posed by high-risk capital flows. In recent years, CIPE and its partners have witnessed an alarming trend: large amounts of capital invested by authoritarian regimes flowing through opaque channels into emerging markets. In these markets where governance is already weak and corruption is already rampant, high risk capital creates political and economic distortions which often do more harm than good in the recipient country. CIPE coined the term corrosive capital to describe state-backed financing that lacks transparency and accountability flowing from authoritarian states into new and fragile democracies.

CIPE's approach to combatting the effects of corrosive capital centers on identifying specific governance gaps in countries where democratic processes are at risk. Then, working with local partners, we design and implement projects that help close these gaps, fostering collaboration and information sharing among civil society, the private sector, and lawmakers. Because the adverse governance impacts in countries that receive this capital are well-documented and the global flows of such capital are growing

exponentially, CIPE is currently expanding both its policy research and programming on corrosive capital.

This report is unique in a number of ways: (1) it presents invaluable local perspectives on how Chinese investments are being documented, perceived, and implemented in countries around the world; (2) it identifies governance gaps which permit capital inflows to exploit or exacerbate weakness in young democracies; and (3) it provides recommendations for local stakeholders to address these gaps and make the most of Chinese investments. This publication is a demonstration of CIPE's commitment to the principles of local ownership, inclusion, learning & innovation, and accountability which are essential for emerging economies to enjoy sustainable and inclusive growth.

The report represents a group effort by CIPE and its partners. The effort grew out of a long-running dialogue on Chinese investment in Southeast Asia. CIPE partners cited a lack of data and consistency in the existing literature on the governance effects of Chinese state-backed debt and investment in emerging Asian markets. This report aims to fill that information gap and illuminate the governance distortions engendered by corrosive capital.

The first step in this effort was a set of deep-dive country-specific assessments. CIPE partnered with five think tanks and three independent researchers based in Southeast Asia to systematically study the issues. In addition, CIPE commissioned the Rhodium Group to collaborate with our partners in the development of a comprehensive dataset to track Chinese direct investments flowing into Southeast Asia.

It is CIPE's hope that this publication equips donors, implementers, policymakers, and advocates with information that makes their work more effective at managing the risks of corrosive capital. By mitigating the risks of corrosive capital, the targeted investments of CIPE's ongoing program can achieve a larger scale and aggregate impact on the resilience of markets and democracies in the face of capital flows from nondemocratic countries.

Andrew Wilson

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Introduction

Chinese outward investments have increased substantially in recent years, especially after 2013's introduction of its Belt and Road Initiative (BRI). BRI is the most ambitious infrastructure investment effort in recent history. The effect of BRI in Southeast Asia has been a tremendous volume of capital rushing in over a very short period of time. Chinese capital (including foreign direct investment, aid, and commercial loans) offers many benefits. It contributes to economic growth, job opportunities, and better-connected infrastructure networks in local economies. However, a growing volume of evidence indicates that many forms of capital emanating from authoritarian nations have a corrosive effect on democratic institutions and private enterprise in recipient countries.

The genesis of this publication was a CIPE forum in December 2017 at which CIPE's Southeast Asian partners expressed the urgent need to fill the information gap of the impact of corrosive capital on governance distortions. Local researchers and analysts across the region have identified an absence of evidence in the existing body of work on Chinese investment projects and the impact on the local economies and communities. Additionally, researchers and scholars sought greater clarity on specific gaps in governance through which Chinese capital can flow.

This report analyzes the patterns, trends, and characteristics of Chinese investments in Southeast Asia. Against the backdrop of the rising flood of Chinese investment across the region, the report highlights common issues and shared governance risks across countries, and identifies questions requiring further study. The sizable economic interests and political intricacies of China and BRI make this research sensitive in some countries; as result, some information has been redacted from the final report.

Countering corrosive capital requires working closely with local partners in vulnerable countries. In each case, the specific governance gaps which place democratic institutions at risk must be identified. In cooperation with local partners, CIPE can then design and implement local projects to help close those gaps and reinforce democratic institutions by fostering collaboration and information sharing among civil society, the private sector, and lawmakers.

Objectives, Scope & Methodology of the Report

This report aims to answer an important policy question: How can Southeast Asian economies benefit from the Chinese investment while mitigating the associated risks? This report will provide authoritative

and up-to-date data on Chinese regional FDI and loans in chapter 1; the following seven chapters document different forms of Chinese capital flows and identify governance gaps in six countries. Chapter 2 presents the case of Malaysia which highlights issues of opaque procurement practices associated with Chinese mega projects, as well as the need to improve corporate governance of state-owned enterprises to avoid conflict of interest. In chapter 3, Chinese investments are involved in controversial price fixing in the Indonesian extractives industry. Chapter 4 demonstrates the development of evolved oversight mechanisms to screen infrastructure projects in Myanmar. In Chapter 5, Cambodia provides an illustration of what can happen in a small to mid-sized country that becomes overly dependent on Chinese investment. In Chapter 6, the authors raise environmental concerns in Vietnam. Chapter 7 discusses regulatory capture issues in the Philippines using the online gambling industry as an example. Looking into the fast-growing Fintech industry, chapter 8 showcases risky investments and the data abuse problem in Indonesia. In all the case studies, authors examine the macro-level impact of Chinese investment, identify governance gaps, assess its initial impact. They then develop policy recommendations for key stakeholders such as businesses, governments, civil society organizations and international organizations to address these challenges and develop a streamlined, transparent, foreign investment monitoring and management process.

The scope of this report is primarily Foreign Direct Investment (FDI) from the People's Republic of China. During the research process, some authors discovered that domestic controversy centered primarily on Chinese commercial loans funding large infrastructure projects. The capital discussed in this report therefore encompasses all investments from China. Some authors focus on FDI while others place greater emphasis on other official financing such as aid and loans.

CHAPTER 1

CHINESE INVESTMENT IN SOUTHEAST ASIA: MAKING SENSE OF THE DATA

THILO HANEMANN (RHODIUM GROUP), & STANLEY SEIDEN (CIPE CONSULTANT)

Introduction

China's outbound foreign direct investment (OFDI) and other capital flows have grown rapidly in the past decade, requiring recipient countries to assess the benefits and risks from these investments.

FDI is generally recognized as beneficial to local economies because it brings new jobs, tax revenue and knowledge spillovers from worker training, technology transfers and R&D activities. At the same time, there are several widely recognized potential negative impacts that foreign investment can have on local economies and communities. These include: national security risks tied to foreign ownership of or proximity to sensitive assets; distortions to a host country's trade patterns and balance; decreases in competition and consumer welfare if mergers are anti-competitive; market distortions caused by subsidies and mercantilist behavior on the part of the source country; and corruption and corrosion of local institutions.

Researchers' understanding and analysis of these impacts are complicated by incomplete and widely diverging data on Chinese outbound investment. Official government statistics on global capital flows suffer from several shortcomings, which are further amplified in the case of China due to deficiencies in the Chinese statistical system,

capital controls that incentivize firms to not disclose their investments, and other factors. The data situation is particularly problematic for smaller developing countries with weak regulatory institutions and the lack of financial disclosure requirements.

The data situation for Chinese investment in Southeast Asia exemplifies these problems. We know that Chinese companies have rapidly expanded their footprint in Southeast Asian economies since the early 2000s, and anecdotal evidence and data suggest that investments specifically targeted infrastructure, real estate, and basic materials. However, official datasets remain incomplete; they are often inconsistent with each other; they conflict with on-the-ground evidence; and the quality of national data across the region varies starkly. It is therefore important for researchers to consider and critically evaluate existing official datasets and augment official statistics with alternative "bottom-up" datasets that are based on identifying and aggregating individual investment transactions.

The individual contributions to this volume follow this general approach: they combine official data with alternative datasets and case studies. This chapter provides an overview of Chinese capital inflows including FDI, aid, and loans in Southeast Asia based on the available datasets. The first section defines foreign direct investment and describes the challenges for measuring FDI in general and outbound FDI from China in particular. Section 2 then summarizes official data as well as transactions-based data for Chinese FDI in six Southeast Asian nations: Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, and Vietnam. Section 3 describes Chinese development loans and foreign aid in Southeast Asia.

Cataloguing Chinese Outbound Capital Flows

In national accounting statistics, cross-border investment flows are commonly separated into five categories: direct investment, portfolio investment, derivatives, other investment, and reserves (Table 1, PG. 8-9).[1]

All these channels have become important for Chinese activity in Southeast Asia and have been taken into account by the researchers working on this volume. This chapter will address the first two channels presented above: direct investment and other investment. Foreign direct investment contributes the largest volume of flows compared to the other four channels of

1 See the IMF's Balance of Payments and International Investment Position Manual (IMF 2007); the IMF definitions also are used by other international organizations such as the OECD and UNCTAD.

Chinese outbound flows. FDI also involves foreign investors directly taking ownership of local assets and thus exerting influence over the operations of companies in the local economy. Finally, FDI relationships are usually "sticky", which means that investors take a long-term interest in the local economy, as opposed to just short-term capital flows for speculative gains. Other investment, analyzed in section three of this chapter, includes Chinese development loans and aid, one of the fastest-growing types of Chinese capital flows to the region.

TABLE 1: Typology of Cross-Border Capital Flows

DEFINITION	EXAMPLE
Direct investment entails cross-border capital flows from a resident entity that achieve significant influence over the management of an invested entity and a long-term investment relationship in another economy.[2] The common threshold for a direct investment is 10% of voting shares. In addition to capital contribution, direct investors usually provide expertise, innovation, technology, management and marketing, which may benefit the target entity or economy. Within this report, direct investment will usually be referred to as "foreign direct investment," FDI.	• Guangzhou Yuetai Group acquires real estate assets in Cambodia • China Steel Corporation builds a factory in Indonesia • A Chinese national sets up a company in Malaysia
Other investment entails all flows that do not fall under the previous categories, such as foreign bank deposits, currency holdings, cross border loans, insurance, pension or trade credits. Under standard national accounting frameworks, "other investment" is a category used to contain all investments that do not conform to the other four categories of cross-border capital flows. "Other investment" takes on greater significance, however, in the context of Chinese flows to Southeast Asia, where development loans from state-owned enterprises or state-affiliated entities contribute large shares of total cross-border flows.	• The Export-Import Bank of China provides a loan for the second Penang bridge project in Malaysia

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2 See the IMF's Balance of Payments and International Investment Position Manual (IMF 2007)

Chinese FDI in Southeast Asia

CHALLENGES WITH FDI DATA

A range of different measures and sources are available for tracking global FDI flows. Most countries compile balance of payments (BOP) statistics that include information on annual inflows and outflows for each type of cross-border investment and related income flows. The corresponding numbers for the inward and outward stock of each category, which is the accumulated flows adjusted for exchange rate and valuation changes,

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DEFINITION	EXAMPLE
Portfolio investment entails a typically shorter-term investment in liquid securities which constitutes no control or ownership, for example, holdings of equity shares with less than 10% of voting rights, or corporate debt instruments. Portfolio investment involves debt or equity securities, other than those included in direct investment or reserve assets. A company's residual value is acknowledged through equity securities. Debt securities are a negotiable instrument for the evidence of debt, and they include bills, bonds, certificates of deposit, or preferred stock.	• Chinese bank purchases shares in Singapore-listed companies • Shanghai-based VC firm Gobi Ventures provides VC financing to Malaysian startup Carsome
Derivatives refer to financial instruments such as swaps, futures, and options, which are only contractually related to the underlying value of real assets such as firms or commodities. The specific financial risks including interest rate risk, foreign exchange risk, equity and commodity price risk, credit risks can be traded in financial markets separately.	• Chinese bank purchases currency hedging contracts in Singapore
Reserve assets refer to reserves held by governments in the form of gold, foreign exchange, or special drawing rights at the IMF. Reserves are external assets which are readily available to monetary authorities to manage and control balance of payments, or to intervene in currency exchange rate, and other purposes.	• PBOC purchasing government bonds issued by Indonesian government

SOURCE: Author's Compilation

are recorded in countries' international investment position (IIP) statistics. The IMF uses these figures reported by its member states to compile global financial statistics. In addition to such national accounting statistics that capture aggregate flows with the rest of the world based on IMF standard definitions, many countries publish additional datasets that provide a more disaggregated view of their investment relationship with other economies. Several international organizations, such as the United Nations Conference on Trade and Development (UNCTAD) or the Organization for Economic Cooperation and Development (OECD), also collect data on FDI and other cross border investment flows.

Problems with the validity and accuracy of official FDI statistics have been the subject of broad academic debate. One of the most important problems is that the collection and calculation of FDI statistics rely on the efforts of national statistical agencies, which have very different capabilities and resources. Several specific problems have increased the challenges in collecting FDI data in recent years: First, the use of holding companies and offshore vehicles has increased tremendously in recent years, and the extent of "round-tripping" (where companies route funds to themselves through countries or regions with generous tax policies and other incentives) and "trans-shipping" (where companies channel funds into a country to take advantage of favorable tax policies only to re-invest it to a third country) flows is hard to identify. Official statistics often only record direct flows, which can lead to gross under- or over-measurement of a country's foreign investment volume. Second, FDI data by definition should be recorded in market value, but because of the difficulty of obtaining such data on all assets, official data is often recorded in book or historical value, leading to measurement errors. Third, FDI by definition covers all investments with a 10% or higher share in voting rights, but it is often difficult to determine this threshold due to "indirect" holdings.

The result is that international FDI statistics are usually published with a delay of 1.5 years or more; that data from home and host countries are inconsistent with each other; and that there are systemic distortions due to the existence of tax havens. This makes a holistic real-time assessment of global FDI flows virtually impossible and requires analysts to find ways of working around existing gaps and distortions.

SPECIFIC ISSUES WITH ANALYZING CHINESE OUTBOUND FDI

The task of getting reliable data on FDI flows to and from emerging economies is further complicated by lack of resources and

experience in collecting such statistics. Many emerging-economy statistical offices do not have the necessary personnel or adequate training for collecting detailed and accurate data on FDI flows and the operations of transnational enterprises. Moreover, in emerging economies firms have an even greater incentive to use offshore holding companies due to the lack of an adequate financial and legal environment at home and existing capital controls. The case of Chinese FDI statistics illustrates some of these issues.

In China, FDI statistics are compiled by two agencies. The State Administration of Foreign Exchange (SAFE), the foreign exchange regulator of the People's Bank of China (PBOC), is responsible for collecting and publishing FDI data for China's Balance of Payments and International Investment Position. These statistics only provide aggregate numbers for outward FDI, and do not contain any detailed breakdowns by country or industry. Such details are available through the Ministry of Commerce (MOFCOM). MOFCOM collects FDI data following relevant Chinese procedures, and publishes results in annual statistical bulletin releases, which provide FDI flows and stocks in current cost terms, including breakdowns by industry and geographic distribution.

The first difficulty lies in understanding the respective roles of the two agencies and reconciling differences between MOFCOM and SAFE data. The roles of MOFCOM and SAFE vary for inward FDI and outward FDI data compilations. For inward FDI, MOFCOM is responsible for collecting non-financial-companies inward FDI data through its mandatory approval and registration system and SAFE is responsible for collecting financial-companies inward FDI through its Foreign Asset Liabilities and Revenues & Losses reporting system. For outward FDI, data primarily comes from MOFCOM's non-financial-companies outward FDI reporting system, which is supplemented with financial company data and disinvestment data from SAFE. Despite improvements in collaboration between MOFCOM and SAFE, the dual-agency system continues to complicate FDI data and metadata transparency and reliability. The two agencies separately publish quarterly and annual data on their respective parts, and sometimes on estimated overall FDI data. Generally, MOFCOM and SAFE FDI stock data sync up with a nine-month delay in an annual OFDI statistics bulletin report, but discrepancies persist in FDI flows data. The discrepancies and time-lapse issue make official Chinese data confusing to use for foreign policy makers who are unfamiliar with the Chinese system and revision schedule.

A second problem with Chinese FDI statistics is that existing capital controls and burdensome regulatory requirements incentivize firms to mis-report capital

outflows. The Ministry of Commerce and SAFE collect data based on information submitted by firms in mandatory collection processes. Even though information submission is in theory "mandatory," accurate reporting wholly depends on compliance of individual companies and those firms have incentives to under-report or not report because of China's strict capital control and outward foreign investment review system.

Lastly, the lack of a sufficient legal and financial system at home also complicates data collection on Chinese outward FDI, as firms almost always rely on offshore entities to structure their overseas investment. The extensive use of special purpose entities in offshore financial centers does impact the aggregate number of OFDI (through round-tripping), but most importantly distorts data on the geographic distribution of Chinese OFDI and the targeted industries. According to MOFCOM data, more than 75% of China's 2017 outbound FDI stock was registered in either Hong Kong or tax havens such as the Cayman Islands or Bermuda.

AVAILABLE DATASETS

Data on Chinese FDI in Southeast Asia are available from government agencies in China and Southeast Asian countries, regional organizations and private data providers. This section provides an overview of available official datasets from the ASEAN Secretariat and the Chinese Ministry of Commerce, to showcase the similarities and differences between the official datasets.

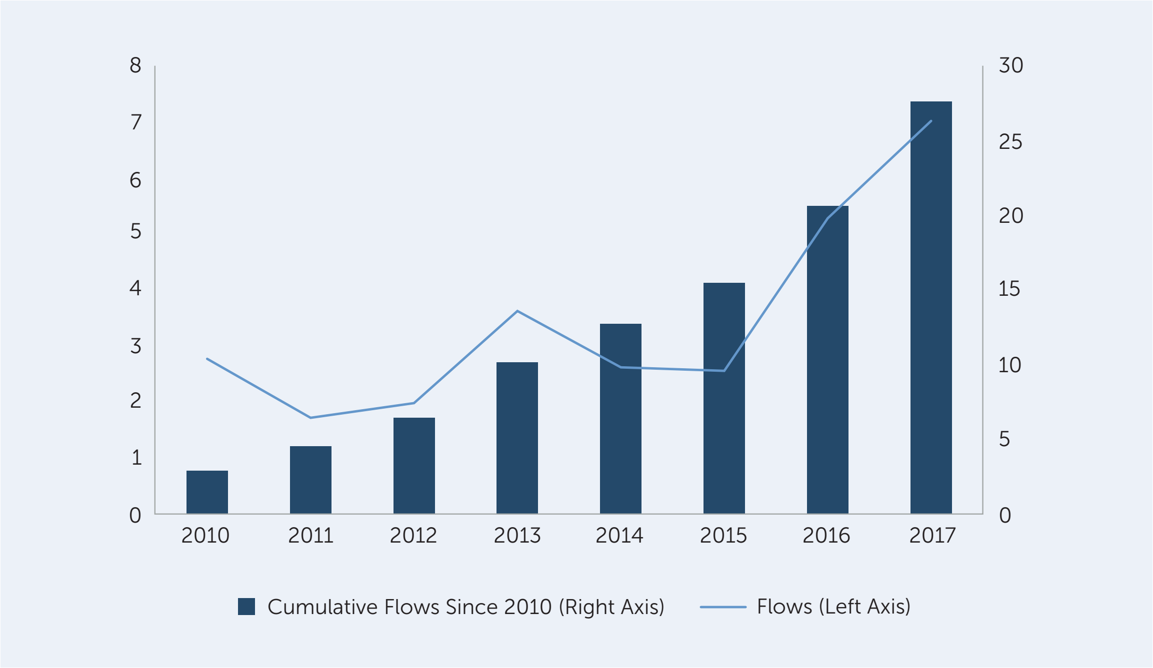
ASEAN statistics

The statistics division (ASEANstat) of the ASEAN Secretariat provides macroeconomic data, flows of foreign direct investment, and other indicators in a compiled portal. The system collects national statistics, which are compiled based on principles of the System of National Accounts.

According to ASEANstat data, there has been an increase of Chinese investment from 2010 to 2017 into the eight Southeast Asian countries covered in this study. Annual investment flows grew from $2.8 billion in 2010 to $3.7 billion in 2012, slightly dipping to below $2.6 billion in 2014-2015, before climbing back up to over $7 billion per year in 2017 (Figure 1, PG. 13). In total, ASEAN official data show a total of $28 billion cumulative Chinese FDI flows in the eight Southeast Asian countries from 2010 to 2017.

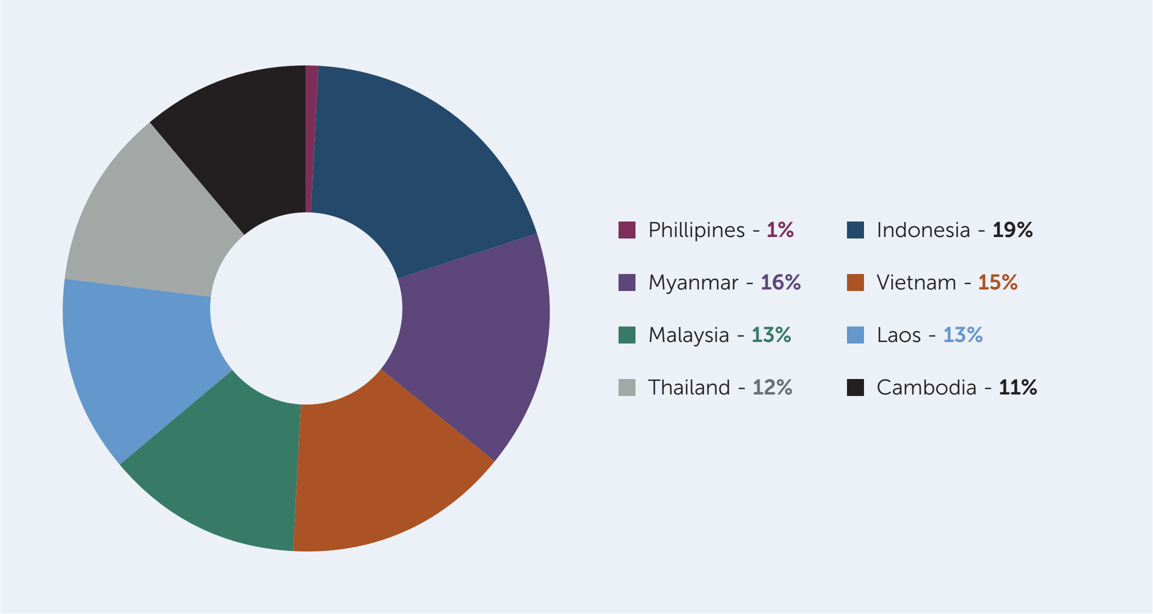
Figure 2 (PG. 13) and 3 (PG. 14-15) show a further breakdown of annual Chinese investment flows by country: Indonesia was the largest recipient among the eight countries from 2010-2017 ($5.2 billion), followed by Myanmar ($4.3 billion), Vietnam ($4 billion), and Malaysia ($3.7 billion).

FIGURE 1: **ASEAN Statistics: Annual Flows and Cumulative Flows of Chinese Investment in Southeast Asia*, 2010-2017 (USD Billion)**



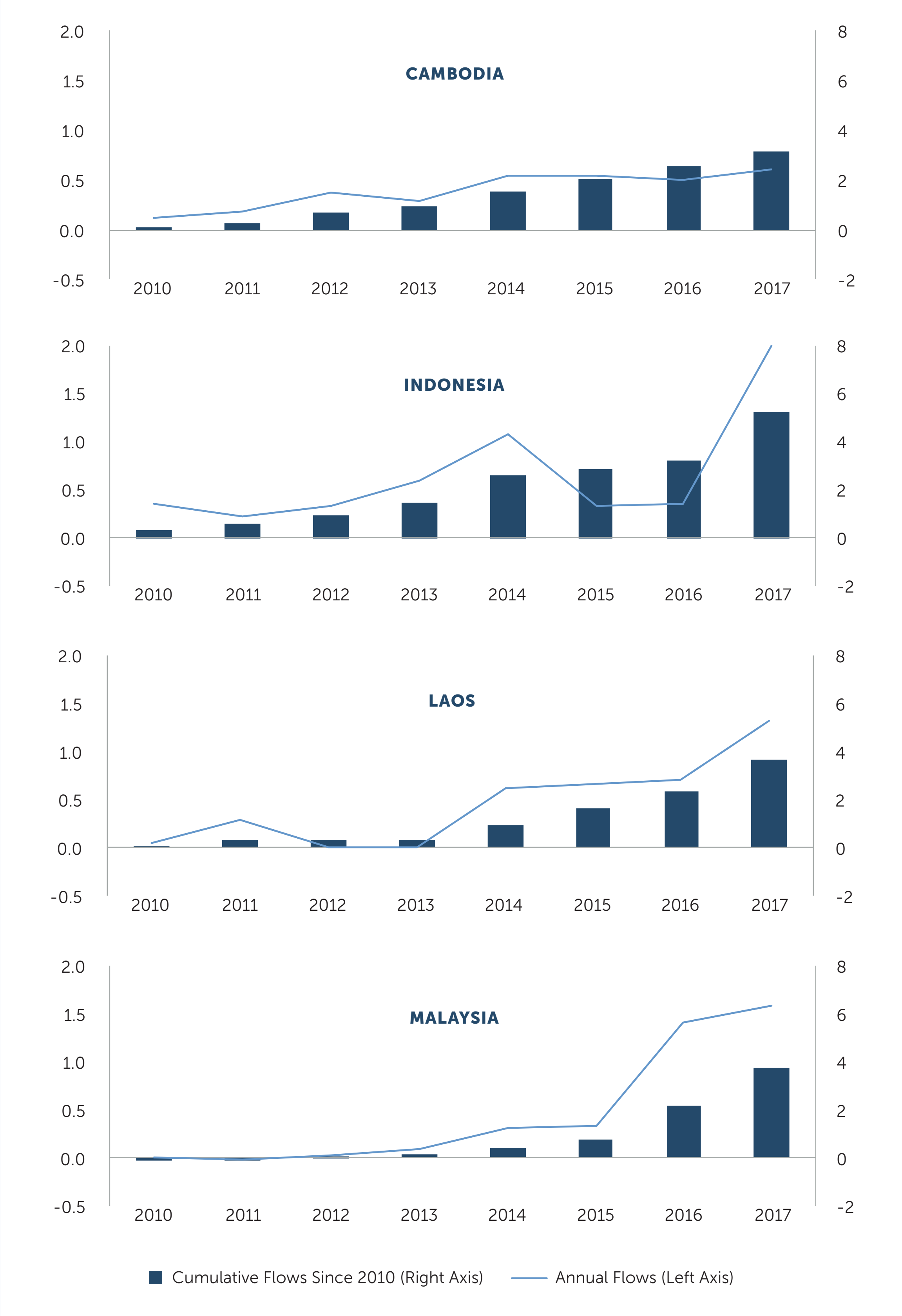
SOURCE: ASEANstat. *Data include the eight countries covered in this study: Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, and Vietnam

FIGURE 2: **ASEAN Statistics: Chinese Investment in Southeast Asia by Country*, Cumulative Flows 2010-2017 (Percent)**



SOURCE: ASEANstat. *Data includes the eight countries covered in this study: Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand & Vietnam

FIGURE 3: ASEAN Statistics: Annual Flows and Cumulative Flows of Chinese Investment in Southeast Asia by Country*, 2010-2017 (USD Billion)



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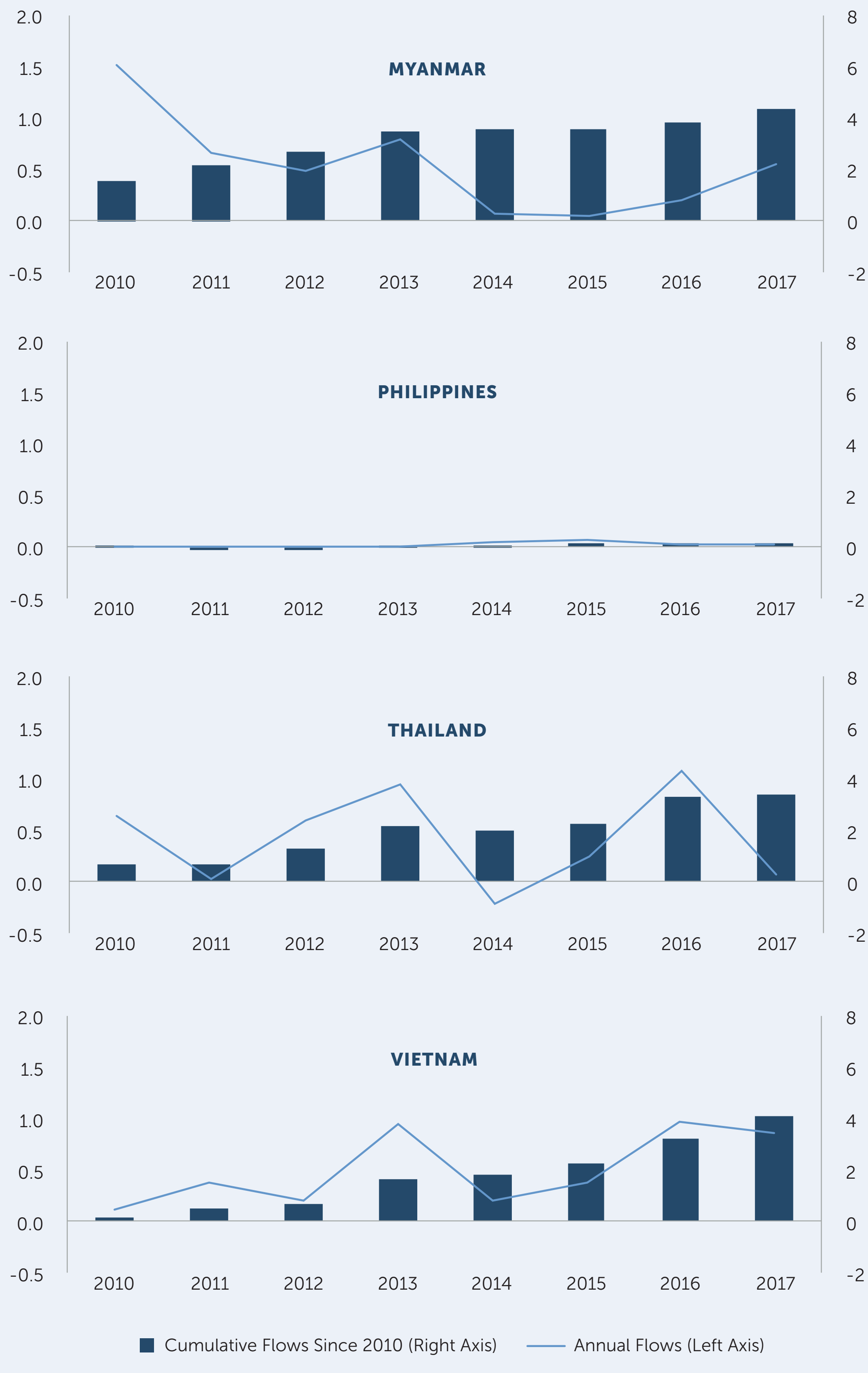
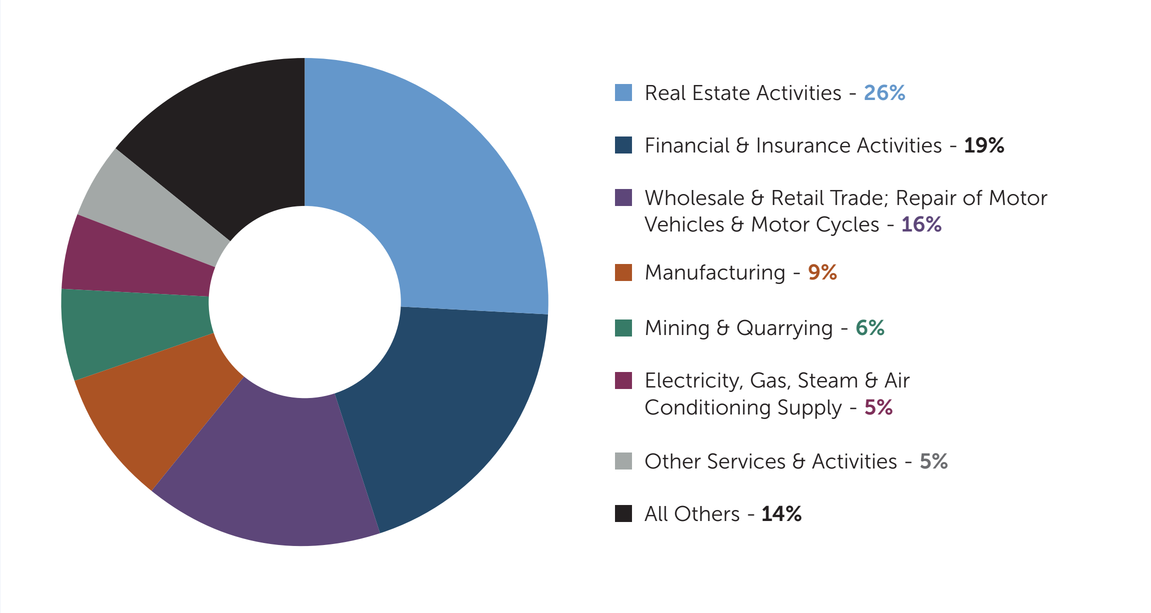


SOURCE: ASEANstat. *Data include the eight countries covered in this study: Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, and Vietnam.

FIGURE 4: ASEAN Statistics: Chinese Investment in All ASEAN Countries by Industry*, Cumulative Flows 2012-2017 (Percent)



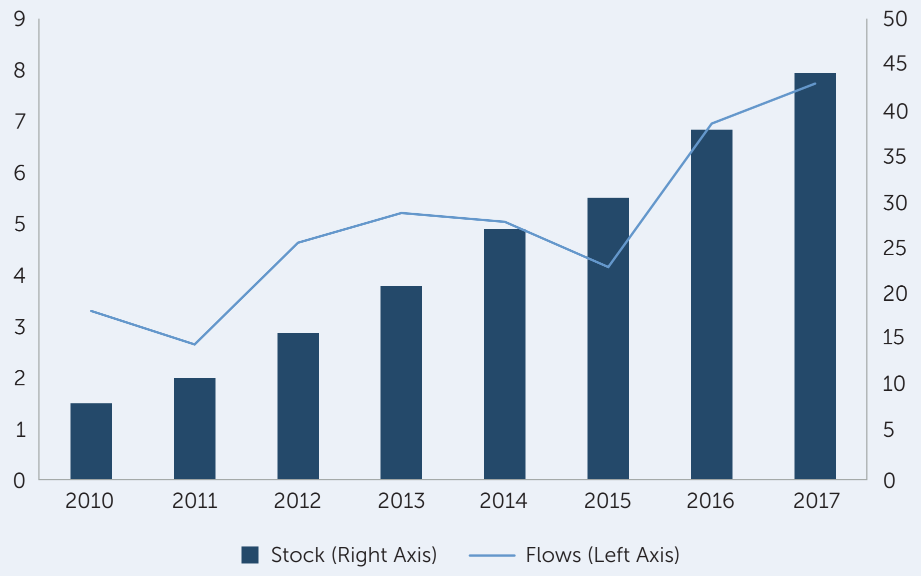
SOURCE: ASEANstat. *Data include all ASEAN countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Vietnam, Philippines, Singapore, and Thailand.

ASEAN official data show that Chinese investments in all ASEAN countries target a variety of industries (Figure 4, PG. 16). From 2012-2017, real estate was the top recipient sector for Chinese investment (26% of total), followed by financial and insurance activities (19%) and wholesale and retail trade; repair of motor vehicles and motorcycles (16%).

Chinese Statistics

The Chinese Ministry of Commerce is the primary agency governing trade and FDI relationships and maintains datasets on monthly and annual FDI flows to and from China. MOFCOM collects more detailed indicators including industries, and target countries, and publishes data on non-financial FDI on a monthly basis, based on administrative approval and registration records from China's record system, as well as periodic company surveys. Non-financial FDI refers to direct investment by companies other than banking, securities, insurance, and other financial institutions. These monthly data records are then combined with data on financial FDI collected by SAFE and published in the form of an annual statistical bulletin on outward FDI, which is the Statistical Bulletin of China's Outward Direct Investment. (MOFCOM, 2017)

FIGURE 5: MOFCOM Statistics: Flows and Stock of Chinese Investment in Southeast Asia*, 2010-2017 (USD Billion)



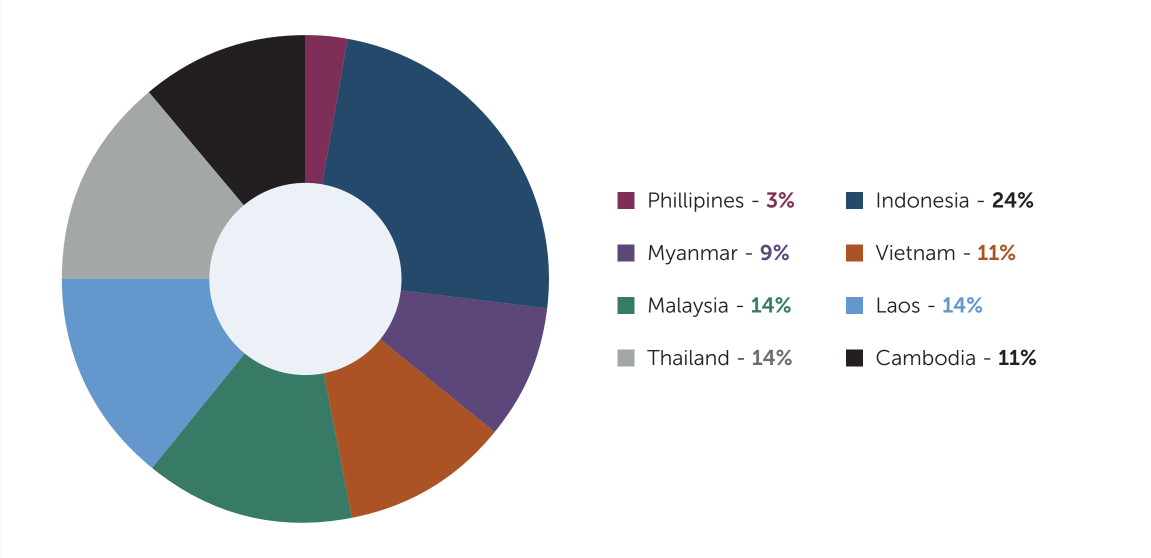
SOURCE: Ministry of Commerce (MOFCOM). *Data include the eight countries covered in this study: Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, and Vietnam.

MOFCOM statistics show a similar growth trend for Chinese investment in the eight Southeast Asian countries covered in this study, but slightly higher levels of annual investment flows (Figure 5, PG. 17). According to MOFCOM statistics, annual Chinese direct investment flows in the eight Southeast Asian countries grew from $3.3 billion in 2008 to over $5 billion in 2013, and jumped up to an average of $7.3 billion in 2016-2017 (compared to $6.1 billion in 2016-2017 in the ASEAN statistics). In 2017, the stock of Chinese investment in the eight countries was $44 billion (compared to $28 billion in the ASEAN official statistics).

Similar to the ASEAN statistics, MOFCOM data also show that Indonesia is the biggest recipient for Chinese direct investment among the eight countries (Figure 6, PG. 18 and 7, PG. 18-20). In total, Indonesia received $9.6 billion cumulative Chinese investment from 2010-2017, followed by Malaysia and Thailand.

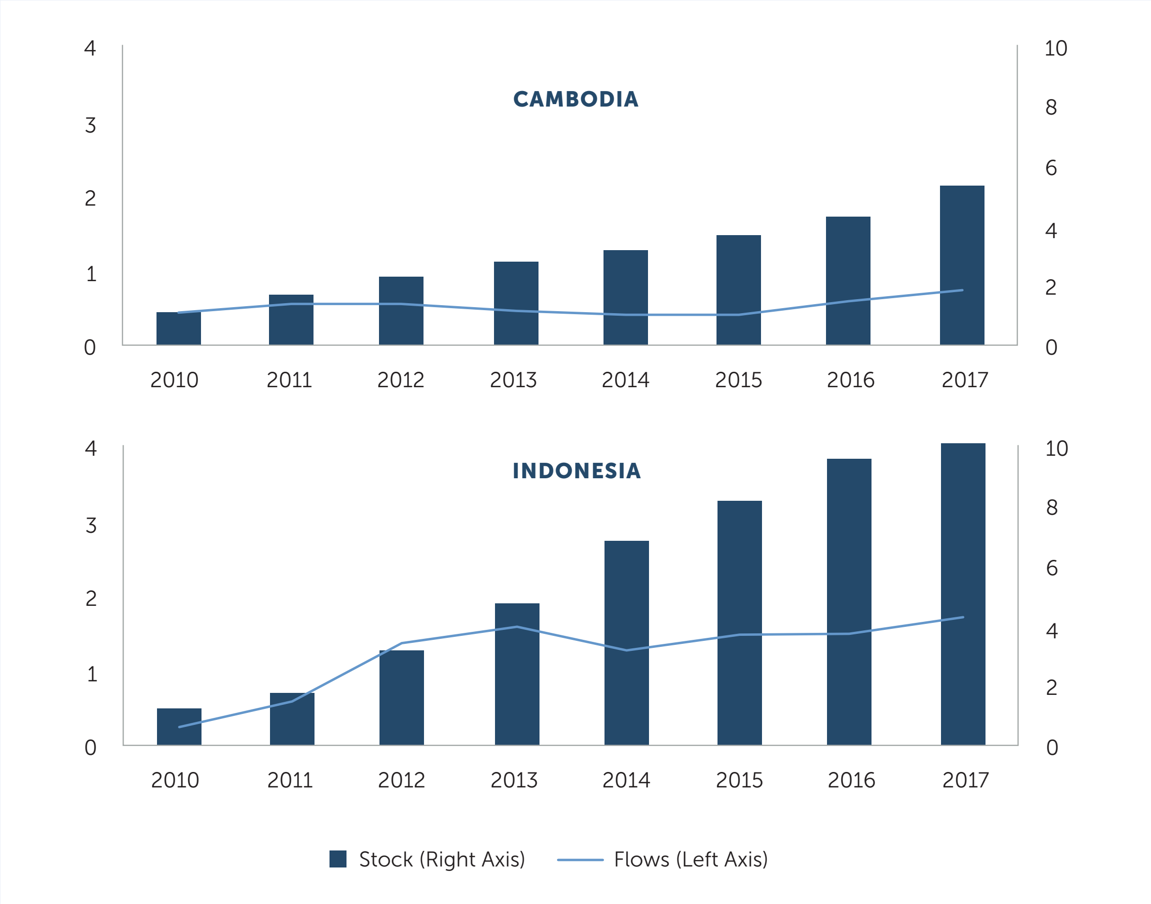
MOFCOM statistics present a quite different breakdown of target industries for Chinese investment in all ASEAN countries (Figure 8, PG. 20). From 2010-2017, the biggest recipient sector for Chinese investment was manufacturing (compared to real estate in

FIGURE 6: MOFCOM Statistics, Chinese Investment in Southeast Asia by Country*, Cumulative Flows 2010-2017 (Percent)



SOURCE: Ministry of Commerce (MOFCOM) *Data include the eight countries covered in this study: Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, and Vietnam.

FIGURE 7: MOFCOM Statistics: Flows and Stock of Chinese investment in Southeast Asia by Country*, 2010-2017 (USD Billion)



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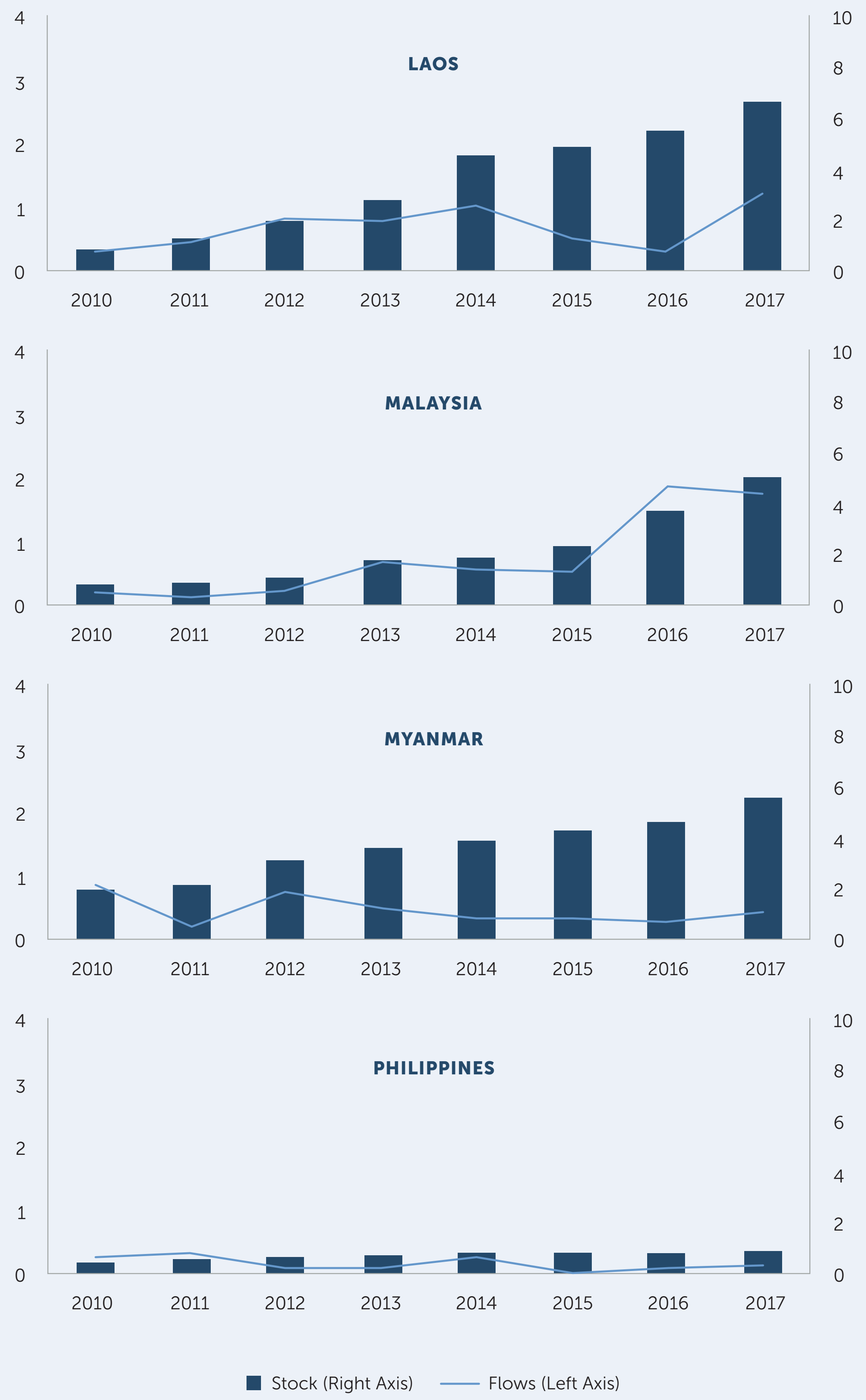

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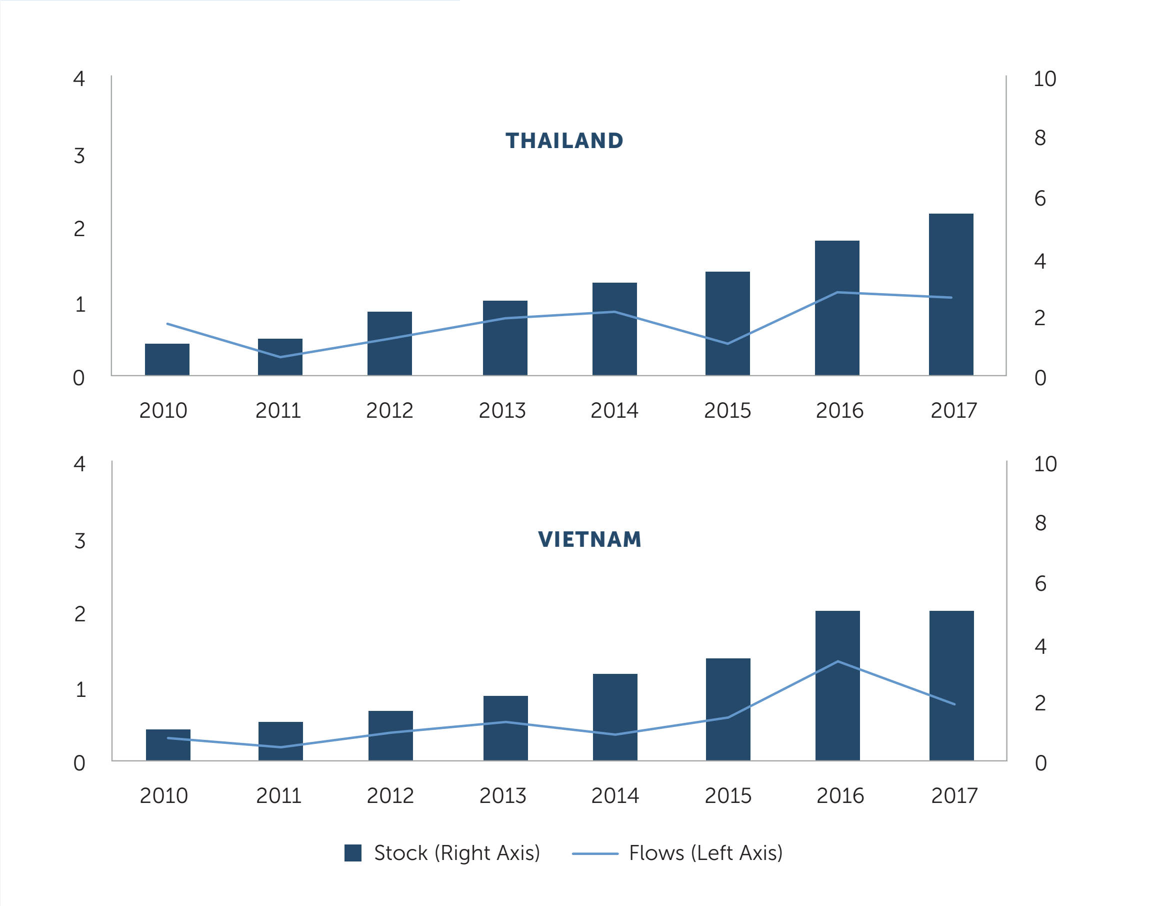
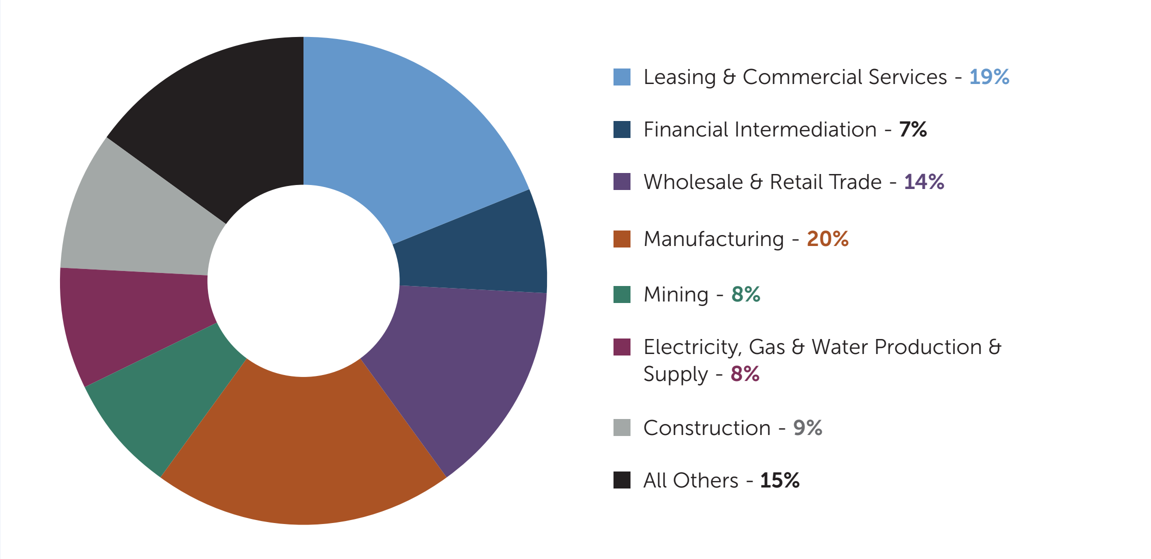


SOURCE: Ministry of Commerce (MOFCOM) *Data include the eight countries covered in this study: Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, and Vietnam.

FIGURE 8: MOFCOM Statistic, Chinese Investments in All ASEAN Countries by Industry*, Cumulative Flows 2010-2017 (Percent)



SOURCE: Ministry of Commerce (MOFCOM) *Data include all ASEAN countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Vietnam, Philippines, Singapore, and Thailand.

the ASEAN official statistics). This is followed by leasing and commercial services and wholesale and retail (similar to in the ASEAN official statistics). Real estate activities, the largest recipient sector in ASEANstat data, has a small presence in the MOFCOM breakdown.

Transactions Data

The previous section has shown that the scope, timelines, and quality of official data can vary substantially. Official data from both the Chinese side and the recipient country are not sufficient for an in-depth, real-time analysis of Chinese investment patterns. This is particularly true for policy research, which requires timely information to be supplied to decision makers.

Researchers have therefore come up with alternative approaches to assess the scope and direction of Chinese overseas investment. One approach that researchers rely on is widely available data on mergers and acquisitions (M&A) to assess trends in Chinese overseas investment. In recent years, several think tanks, academic institutions and private sector firms have compiled databases with more comprehensive coverage based on a bottom-up approach of collecting data on individual transactions: the Heritage Foundation's China Global Investment Tracker tracks China's global non-bond investments more than than $100 million; Rhodium Group (RHG) maintains various datasets that capture Chinese FDI transactions in various economies based on media reports, professional deal databases and regulatory filings; several professional service providers offer insights on Chinese outbound M&A patterns specifically.[3]

Such alternative datasets are not comparable to those compiled using the traditional balance of payments method, but they do avoid some of the existing problems – namely issues with time lags and pass-through locations – and permit a real-time assessment of investment trends.

The following section is based on a transactions database on Chinese FDI transactions in Southeast Asia compiled by Rhodium Group. The dataset is compiled from collecting and aggregating data based on individual transactions, including acquisitions, greenfield projects, and expansions. The dataset provides an aggregated headline figure for each country as well as various metrics of interest such as industry and investor type breakdowns.[4]

Annual Flows and Stock

The Rhodium Group data sample includes a total of 313 transactions by PRC-based

3 For example, see the Heritage Foundation's China Global Investment Tracker at http://www.aei.org/china-global-investment-tracker/, and Rhodium Group's US-China Investment Hub at https://www.us-china-investment.org/

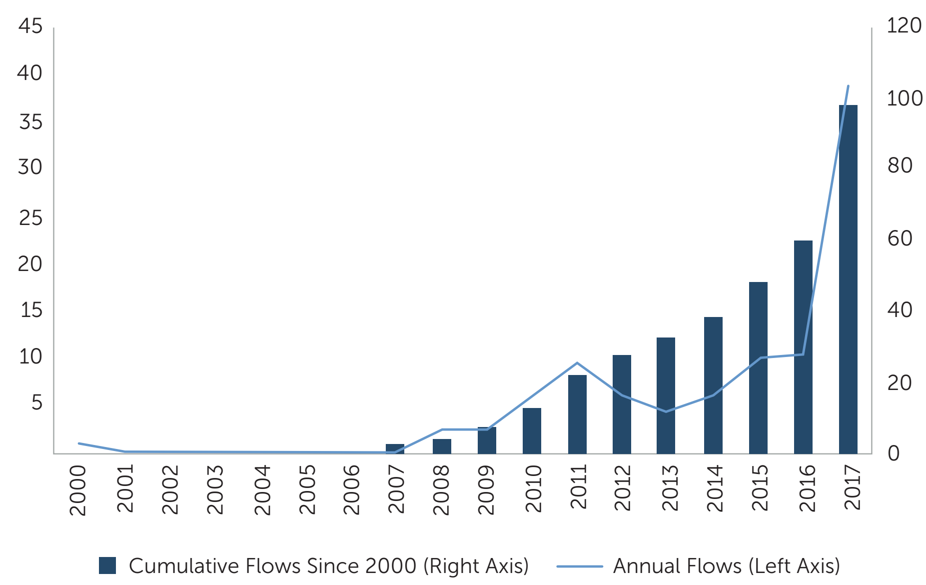
4 For a full explanation of methodology, please see https://rhg.com/research/china-investment-monitor-methodology-update/

companies in the eight Southeast Asian nations covered in this study between 2000 and 2017. Together these transactions are worth $98 billion.

This transactions dataset shows a similar increase of Chinese FDI in Southeast Asia as official data, but at higher investment levels: annual investment grew from less than $2 billion before 2008, to more than $6 billion in 2010 and more than $10 billion in 2015. In 2017 annual investment jumped to nearly $40 billion (compared to less than $10 billion in official statistics in 2017).

The higher investment levels are partially a function of the recording methodology of the dataset, which includes the full announced value of greenfield projects at project commencement date. Recording the full value of these projects (rather than incrementally along with the progress of construction) contributes to a more volatile trend and higher value that compared to official statistics. The jump in the recent years can be mostly attributed to several announced multi-billion-dollar real estate projects in Malaysia and Indonesia. For example, the jump in the 2017 flows figure is due to one mega deal (Country Garden's Forest City project in Malaysia for over $33 billion). While the total value for this project is over $30 billion, this is spread over 20 years of construction. If we were to record the actual amount invested in the project

FIGURE 9: Transactions Data, Annual Chinese FDI Transactions and Cumulative Flows in Southeast Asia, 2000-2017 (Completed Acquisitions and Announced Greenfield Projects; USD Billion)



SOURCE: Rhodium Group

in 2017, we would most likely see a decline in total Chinese investment in Southeast Asia from 2016 to 2017, which is in line with global trends (Figure 9, PG. 22).

Entry Mode

Out of the $98 billion FDI transactions from Chinese investors 2000-2017, the majority was attributable to greenfield investment projects ($83 billion). There was only a limited number of greenfield projects before 2010, when annual project values remained at less than $2 billion, and Chinese FDI entered the region mostly through M&A. Since 2010, greenfield projects have become the main channel of Chinese FDI, and the annual value of greenfield investment reached over $8 billion in 2011. Annual greenfield investment values dropped between 2012-2014 but grew again since 2015. Greenfield investment value skyrocketed in 2017, but mostly because of a singular large greenfield project (Country Garden's Forest City project, which will take multiple years to complete and might not happen at the initially announced scope). The annual value of M&A deals fluctuated between $1 billion and $3 billion between 2010-2017 (Figure 10, PG. 23).

Geographic Distribution

Transactions data mirror official data in that there is a huge gap between the largest and smallest recipients of Chinese investment. Malaysia was the largest recipient of Chinese investment ($48 billion), followed by Indonesia ($20 billion) and Thailand ($8

FIGURE 10: Transactions Data, Annual Chinese FDI Transactions in Southeast Asia by Entry Mode, 2000-2017 (Completed Acquisitions and Announced Greenfield Projects; USD Billion)

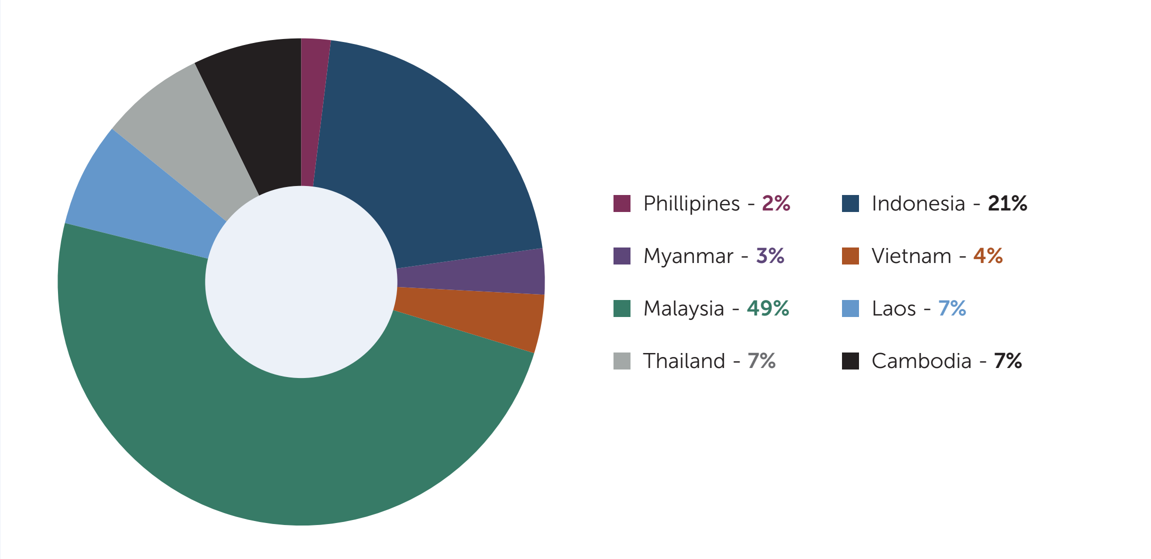
SOURCE: Rhodium Group

billion). The top three recipients took up more than 75% of the total Chinese FDI in Southeast Asia. At the low end, Vietnam, Myanmar and the Philippines respectively received $4 billion, $3 billion and $2 billion of Chinese FDI.

Among the top recipients, greenfield project investment was the driving force. Greenfield projects counted for more than 70% of Chinese FDI in both Malaysia and Indonesia.

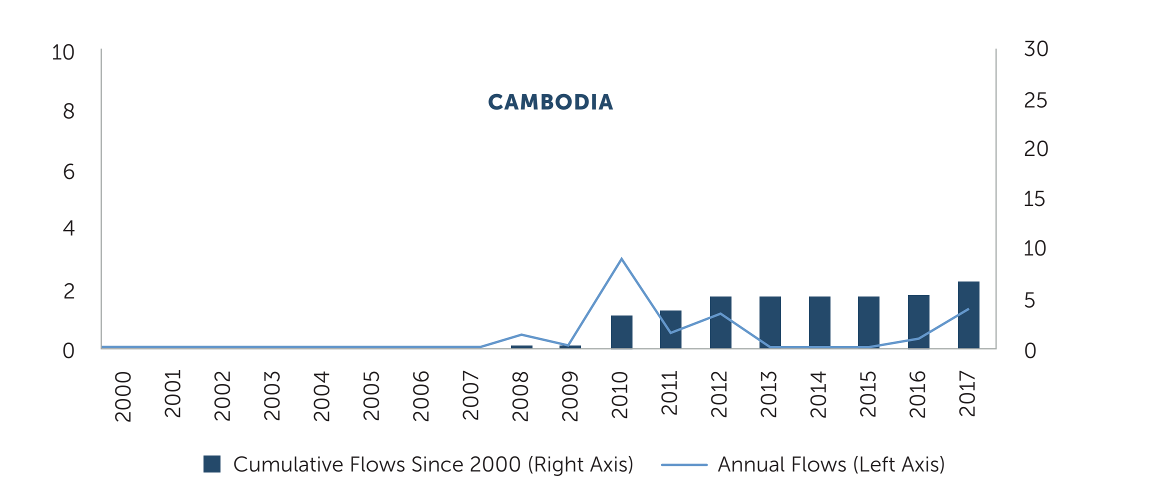
Compared to official data, transactions data show a relatively bigger role for Malaysia and Indonesia. This is due to large greenfield real estate developments in those countries (Figure 11, PG. 24 and 12, PG. 24-27).

FIGURE 11: Transactions Data, Chinese FDI Transactions in Southeast Asia by Country, 2000-2017 (Percent)



SOURCE: Rhodium Group

FIGURE 12: Transactions Data, Annual Chinese FDI Transactions and Cumulative Flows in Southeast Asia by Country, 2000-2017 (USD Billion)



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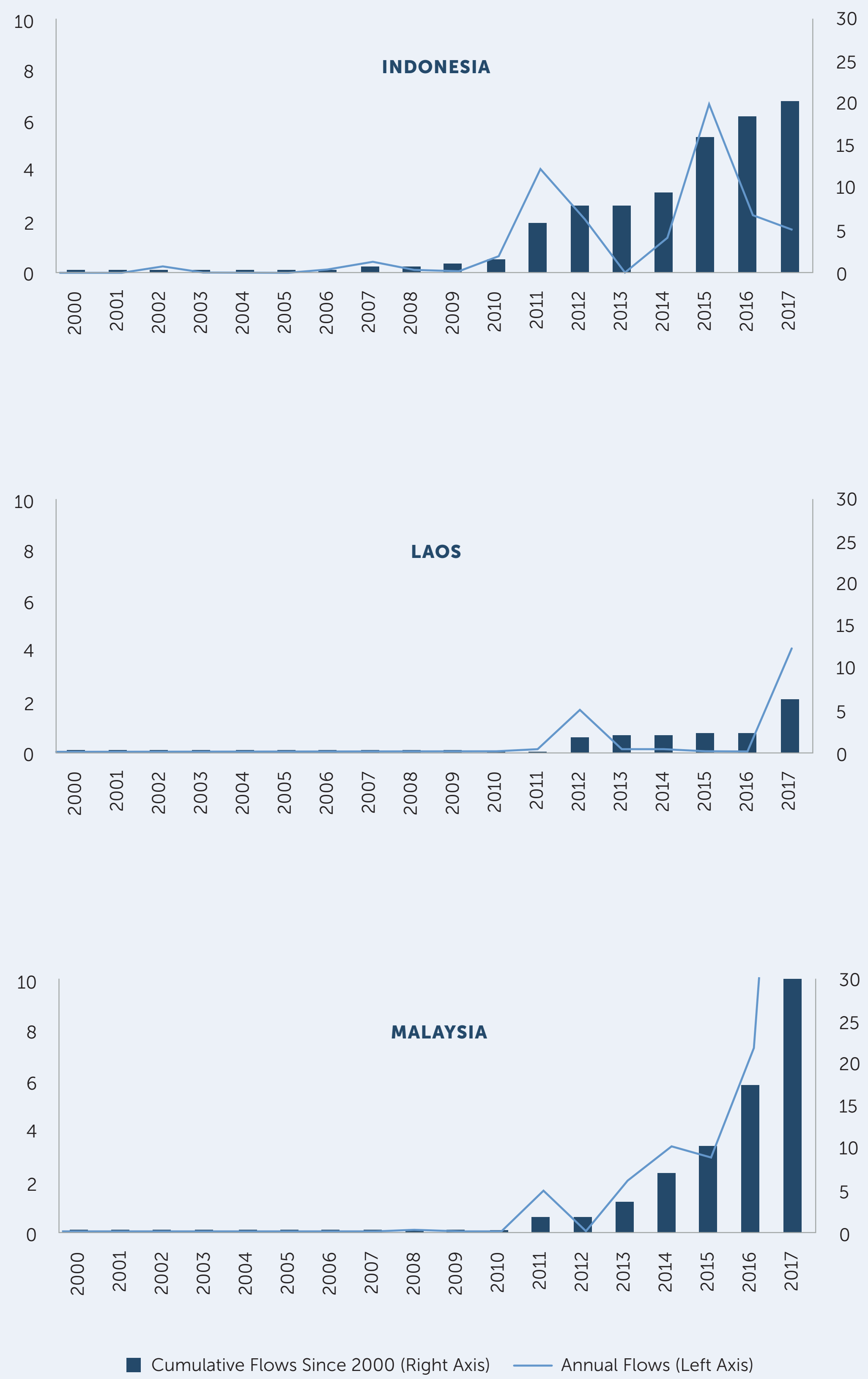

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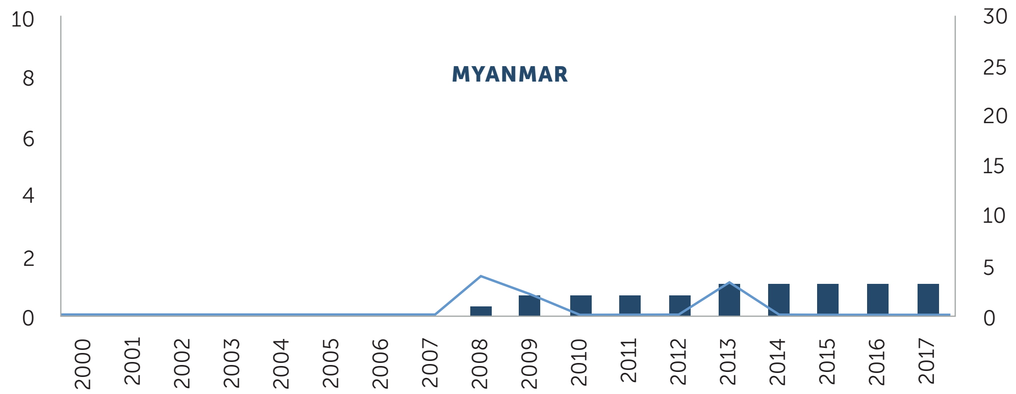

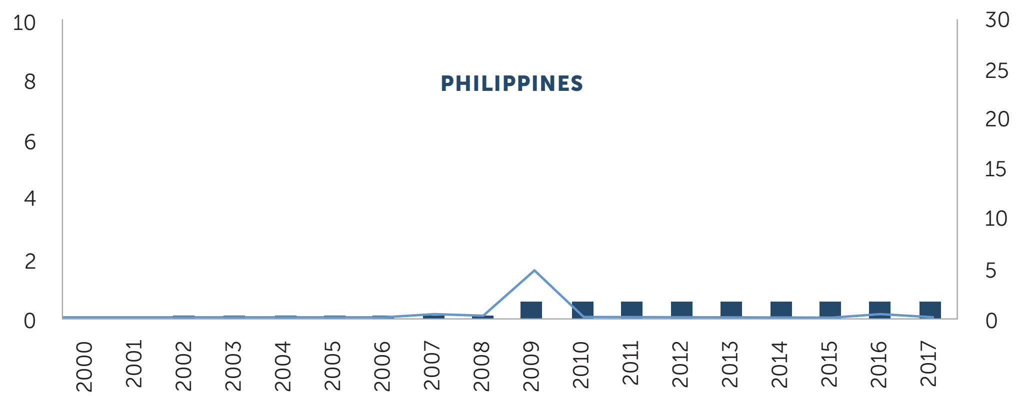

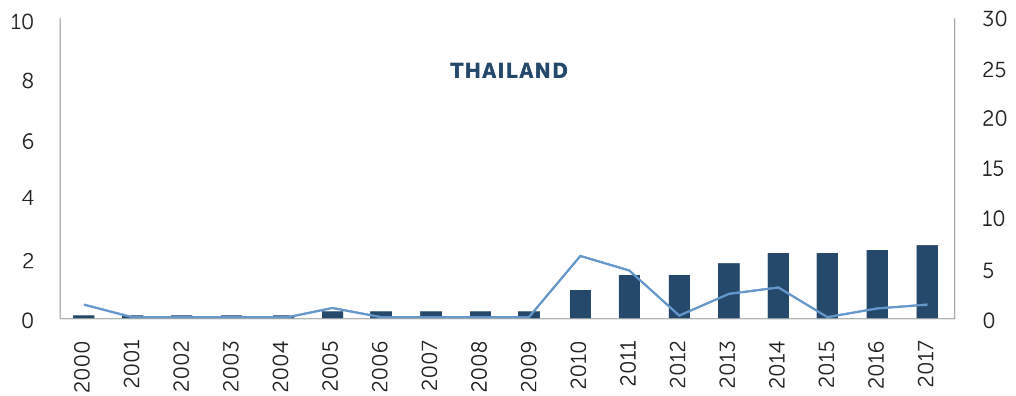

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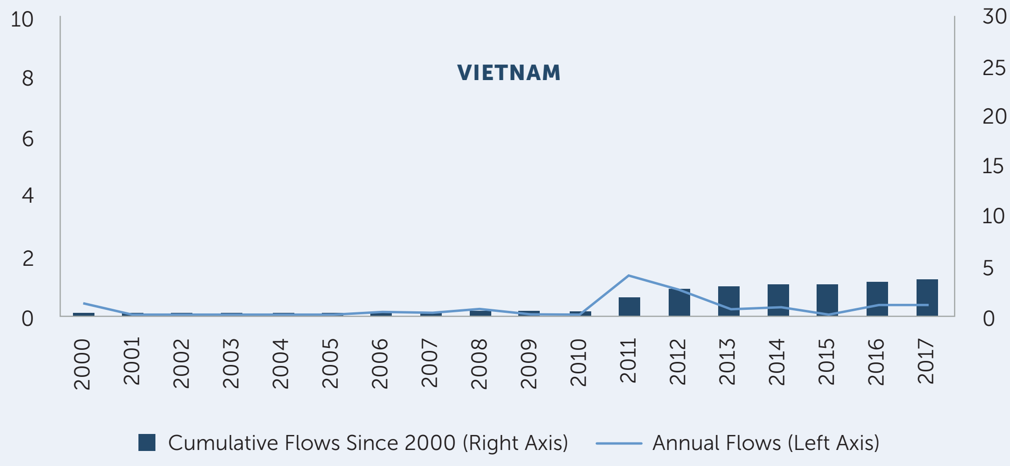


SOURCE: Rhodium Group

Industry Distribution

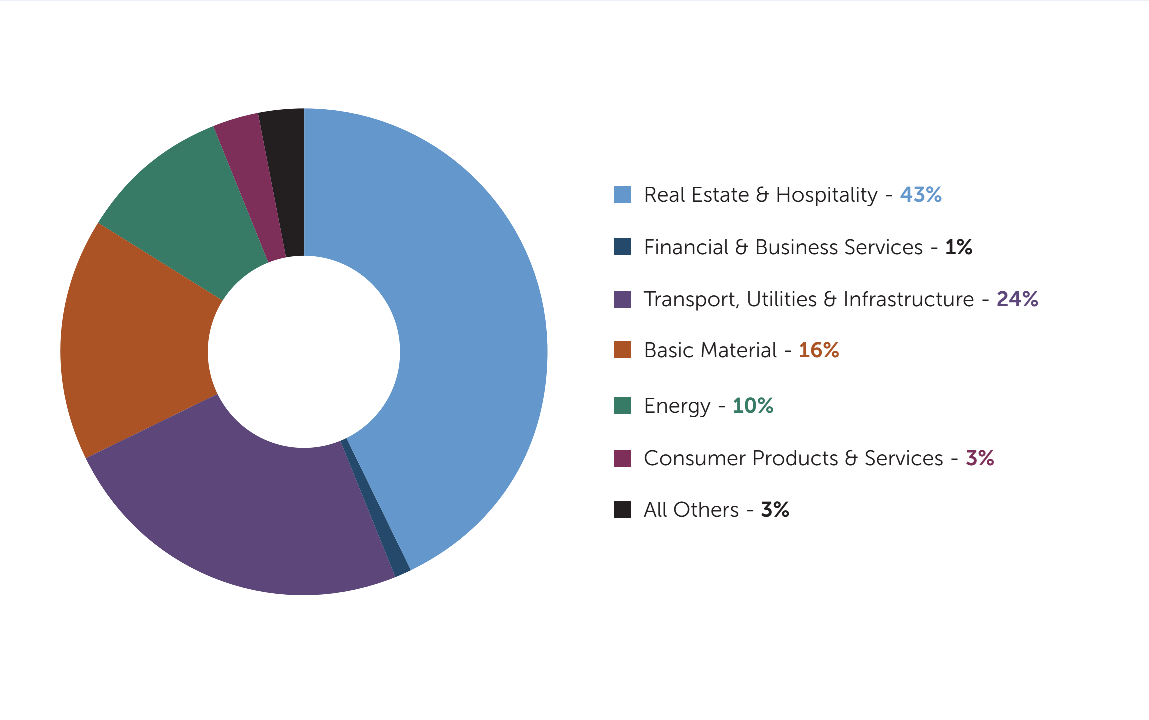
Transactions data show that Chinese companies invested in a diverse range of industries in Southeast Asia. The top two sectors are real estate and hospitality and transport and infrastructure (together they make up 67% of the total investment in the dataset). These are followed by basic materials (16%) and energy (10%).

Investments in real estate and hospitality and transport and infrastructure industries are capital-intensive, thus mega greenfield projects counted for more than 80% of the total investment in the top two industries. Top investors in these two sectors are Country Garden, Greenland Group, China Minsheng Investment and China Huaneng. One caveat for these industries is that they mostly consist of large, greenfield constructions that last many years. Investment value for these projects are already logged in full at project commencement day, even though the project construction will last for many more years (Figure 13, PG. 28).

Investors

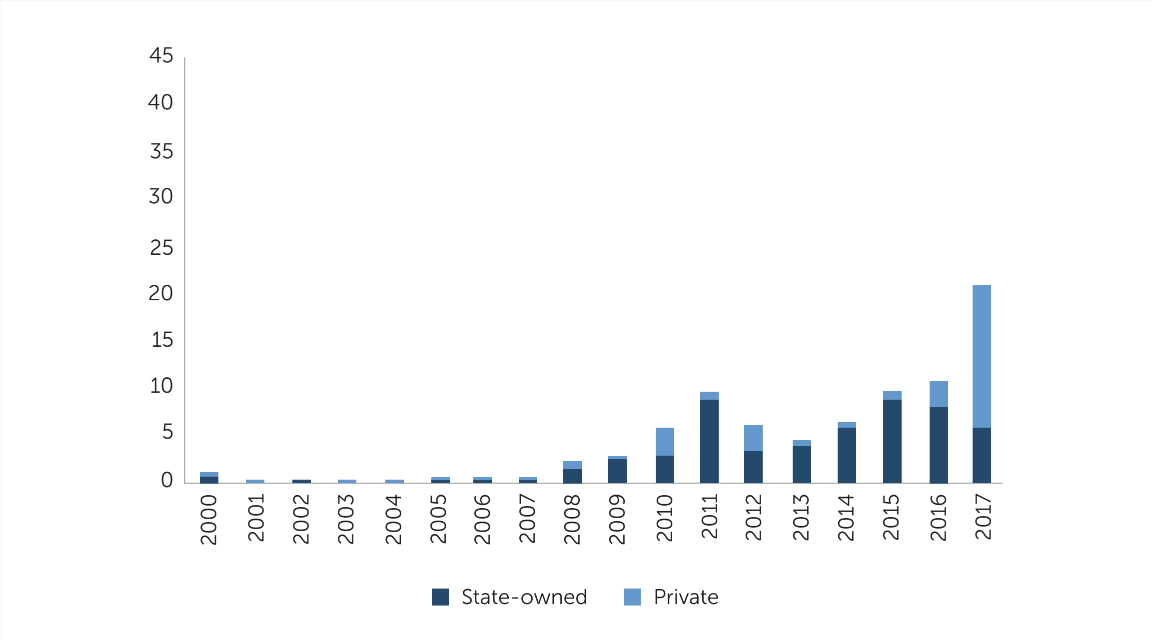
Chinese investment in Southeast Asia predominantly came from state-owned investors for 2000-2016. During this period, investment from state-owned investors made up 78% of the total by value, and investment from private investors only made up 22%. The most prominent state-owned investors include China General Nuclear Power, China Huaneng Group, Greenland Group, and PetroChina. In 2017, Country Garden (a private investor) started its $33

FIGURE 13: Industry breakdown of Chinese FDI in Southeast Asia, 2000-2017 (Percent)



SOURCE: Rhodium Group

FIGURE 14: Chinese FDI in Southeast Asia by Investor Ownership, 2000-2017 (USD Billion)



SOURCE: Rhodium Group

billion Forest City project in Malaysia, which dramatically pushed up the share of private company investment. As discussed, this deal is currently over-represented as the full value is all logged in 2017 (Figure 14, PG. 28).

Chinese Development Flows to Southeast Asia

INTRODUCTION TO CHINESE DEVELOPMENT FLOWS

Chinese development flows to Southeast Asia have undergone rapid growth in the past two decades, similar to that of other outbound Chinese capital. Unlike FDI flows, Chinese development flows primarily take the form of loans, extended most often by state-affiliated banks or state-owned enterprises to local businesses in the recipient country. In addition to the repayable nature of these flows, development flows are further distinguished from typical FDI by their origin: development finance generally originates from the official sector or entities directly linked to the official sector, and the related flows themselves are in some way tied to state policy. The fact that some Chinese development flows are defined internally or externally as "foreign aid" further complicates effective analysis.

As will be described below, Chinese development flows defy simple classification. While foreign loans extended by private banks are typically be categorized in national accounting frameworks as "other investment," China's largest banks are state-owned, rather than private. The Export-Import Bank of China ("Exim Bank"), which is directly responsible for most official development assistance, is administered directly by China's State Council. Development assistance provided by most Western countries is classified as "overseas development assistance" (ODA) and measured as such, but Chinese development loans frequently fail to meet necessary ODA criteria, as well.

Despite these classification challenges, Chinese development flows remain a crucial topic of study. Chinese development loans to Southeast Asia have undergone rapid growth in the past two decades, similar to that of other outbound Chinese capital. By volume, China is already among the top providers of overseas development credit. Much of Chinese development lending targets large-scale infrastructure projects, and development agreements frequently involve large quantities of Chinese labor and technology. As a result, these flows have critical implications for national security, technical capacity, and infrastructure autonomy for recipient countries. In some Southeast Asian countries, excessive reliance on Chinese development lending has raised concerns over falling into Chinese debt traps. For its part, China has

faced criticism over its unique approach to development assistance, and in particular for its disregard for shared standards of development assistance endorsed by the OECD. Second, China's non-compliance with international development assistance standards, together with the strong state affiliation of China's banking and commercial sectors, creates challenges in classifying Chinese development assistance under established frameworks.

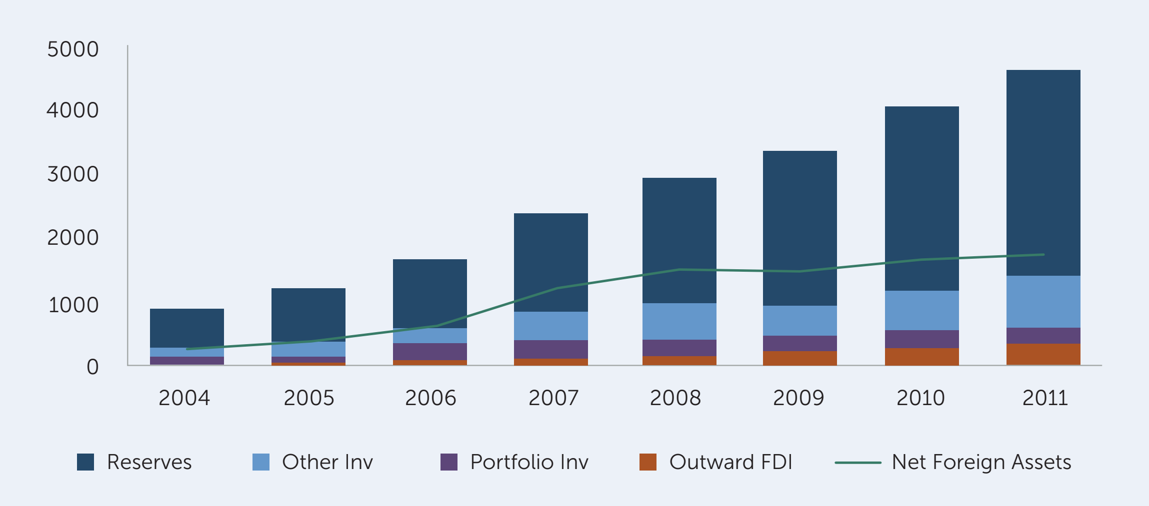
TYPOLOGY OF CHINESE DEVELOPMENT FLOWS

Researchers attempting to track and analyze Chinese development flows face numerous challenges. Despite the significant size and impact of China's development assistance worldwide, these flows are rarely captured in macroeconomic analysis of Chinese cross-border capital flows, which rarely distinguish development loans from the super-category of "other investment" (Figure 15, PG. 31).

Where capital flow accounting fails, the OECD provides a more useful framework of analysis. The OECD has established the presiding system for classifying international development investment, defining all such investment as falling into two classes: official development assistance (ODA) and other official flows (OOF). Official development assistance refers to official sector resource flows "with economic development as the main objective" and provided "at concessional financial terms." Official development assistance can, and often does, consist of a combination of loans and grants. While ODA can in some cases appear very similar to foreign direct investment, the primary distinction lies in the fact that ODA must, by definition, originate from the "official sector," while FDI can originate from any resident entity in the investing country. Official development assistance also differs from typical FDI in the concessionality of ODA loans, which are often extended at sub-market interest rates or with generous grace periods on repayment.

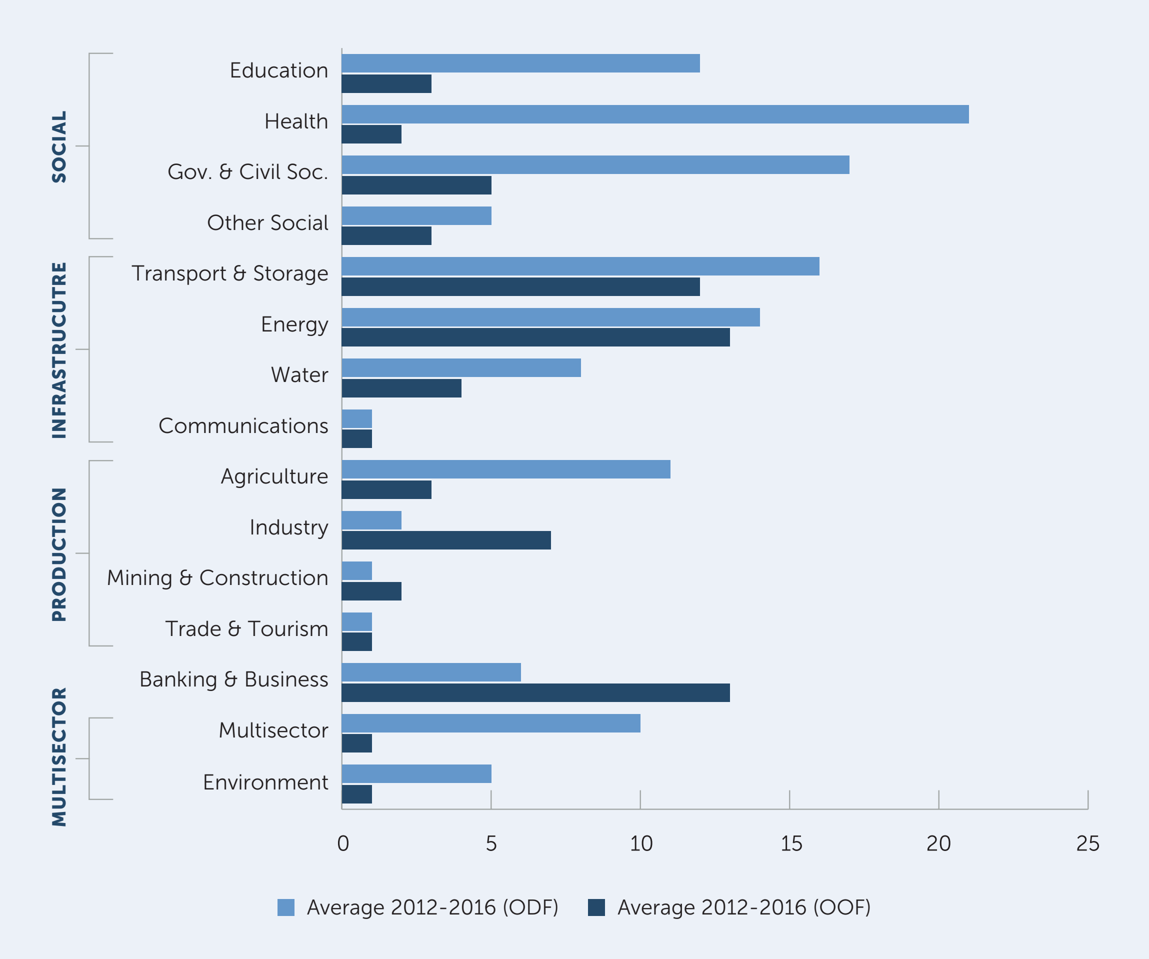
Per OECD terminology, official sector flows to ODA-recipient countries that do not meet the criteria of official development assistance are "other official flows" (OOF). Specifically, other official flows are those whose primary objective is not development, or which do not meet required concessionality levels. In the context of contemporary official sector flows to developing countries, OOF comprises only a fraction of ODA, though relative quantities do vary by donor, recipient, and sector. Because official sector outflows from most OECD states are for the purpose of development assistance, and because these states have collectively established standards for this assistance, most official sector flows from OECD members qualify as ODA (Figure

FIGURE 15: Chinese International Investment Position, 2004 – 2011 (USD Billion)



SOURCE: Building a Global Portfolio: What China Owns Abroad, Rhodium group, https://rhg.com/research/building-a-global-portfolio-what-china-owns-abroad/

FIGURE 16: Concessional and non-concessional ODF by Individual Allocable Sector and by Type of Official Flow, Average 2012-2016 constant prices (USD Billiion Commitments)



SOURCE: International development statistics (database), (OECD, 2018[2]) http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/idsonline.htm.

16, PG. 31). For Chinese official sector flows, the opposite is true.

Whereas ODA provided by OECD members is often described as "foreign aid" in common parlance, China has also resisted this terminology. Most development assistance that could be considered Chinese foreign aid still originates China's Ministry of Commerce, in coordination with the Ministries of Finance and Foreign Affairs. Also distinct from much OECD ODA, a large portion of China's development flows target infrastructure projects, and the recipients of development flows are frequently foreign state-owned enterprises. Through both official policy and public statements, China has encouraged a perception that Chinese development loans avoid political conditions typical of development assistance from developed, Western states. Indeed, China even forgoes the terminology of "donors" and "aid," often preferring to refer to itself as a "partner" in overseas development projects. Since 2010, much of China's foreign assistance has been conducted under a "South-South" cooperation initiative, a framework China continues to use today (Table 2, PG. 33).

So long as China chooses to forgo global standards in terminology or methodology regarding development assistance, international organizations face challenges in classifying and categorizing related financial flows. While most analysis concludes that China engages in low levels of ODA relative to OOF due to the nature of Chinese loans, this classification may fail to adequately characterize the nature of Chinese official development finance. While other official flows are distinguished from official development assistance by degree of concessionality, Chinese aid is often highly concessional. As later chapters in this report will reveal, China frequently secures foreign tenders by undercutting other lenders with extremely low loan repayment rates and other favorable terms.

Other unorthodox loan terms, however, are also used to justify the classification of Chinese aid as OOF, rather than ODA. Chinese official development finance frequently blends commercial and natural-resource-backed loans, which some deem exploitative or otherwise insufficiently concessional to qualify financing as ODA. Finally, China also frequently defers to publish official statistics about the finances of its overseas investment projects, confounding efforts to comprehensively analyze and categorize this funding in OECD frameworks. The Chinese State Council's two Foreign Aid White Papers, published in 2011 and 2014, provide rare glimpses into China's foreign development agenda, but these documents provide minimal information on project financing or lending terms.

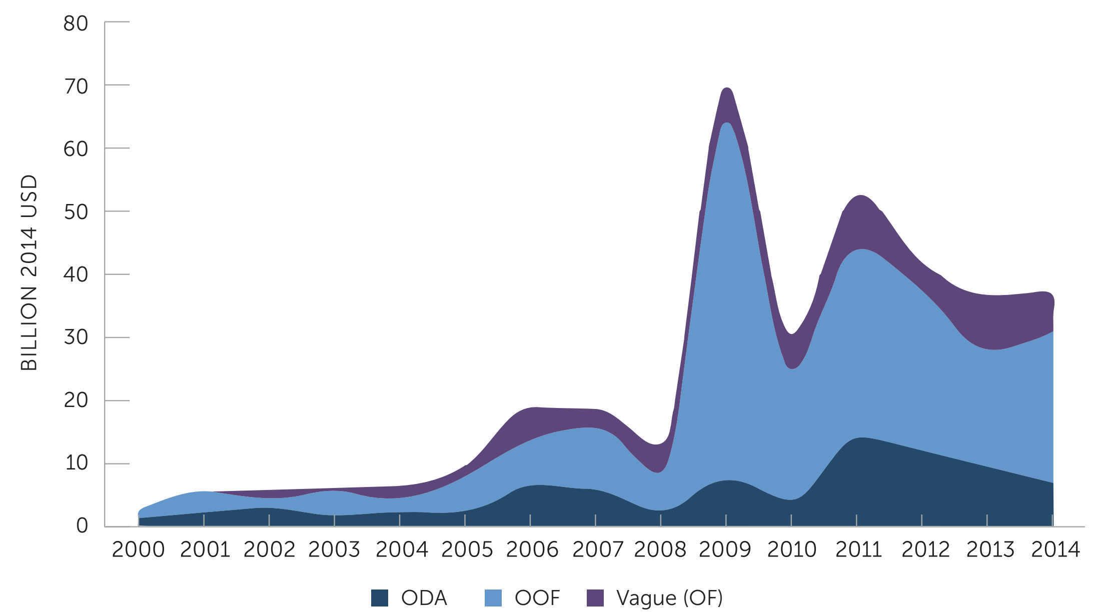
TABLE 2: Comparison of Capital Flow Classifications: OECD and China

	OFFICIAL FLOWS	CROSS-BORDER CAPITAL FLOWS
OECD COUNTRIE	**Official Development Assistance** • OECD-defined, official sector flows meeting specific concessionality criteria **Other Official Flows** • Official sector flows that fail to meet OECD criteria for ODA	**Other Investment** • Public or private loans not originating in the official sector, extended to foreign recipients • Non-loan other investment (trade credits, foreign bank deposits) **Foreign DIrect Investment** • Long-term, cross-border capital investments **Portfolio Investment/Derivatives/Reserve Assets** • Various (see Table 1 above)
CHINA	**Official Development Assistance** • Relative to Western countries, a smaller amount of Chinese official sector flows are considered ODA **Other Official Flows** • Most Chinese official sector flows are classified as OOF under the OECD framework. • Other official flows and other investment can be difficult to distinguish	**Other Investment** • Due to the highly centralized structure of China's government and economy, most large-scale foreign loans originate from the official sector • Other official flows and other investment can be difficult to distinguish **Foreign DIrect Investment** • Long-term, cross-border capital investments **Portfolio Investment/Derivatives/Reserve Assets** • Various (see Table 1 above)

TRENDS IN CHINESE DEVELOPMENT ASSISTANCE

Attempts to overcome these obstacles have met with some success. AidData, a research laboratory at William and Mary University's Global Research Institute, has aggregated years of records of Chinese development projects around the world. Their research provides numerous insights into Chinese development investment, including estimates of financing stock (between 2000 and 2014, China invested $81.1 billion of ODA and $216.3 billion of OOF, relative to US investment of $366.4 billion ODA and $28.1 billion OOF); growth trends (Chinese official flows totaled approximately $37 billion in 2014, compared to $3 billion in 2000); as well as sectorial and regional focuses. Due to the challenges in collecting and analyzing

FIGURE 17: Chinese Official Finance, 2000 – 2014



SOURCE: AidData, https://www.aiddata.org/china-official-finance

information about official flows, however, data about official sector flows tend to lag behind similar FDI data. AidData's data, for example, cover only a 15-year period from 2000 to 2014, though data availability is limited in some regions at certain periods within this timeframe (Figure 17, PG. 34).

Chinese official flows to Southeast Asia have followed a growth trend similar to both those of Chinese FDI to the region as well as Chinese official flows to the rest of the world. Between 2000 and 2012, China delivered $5 billion in ODA and $28.6 billion in OOF to Southeast Asia. Cambodia was the primary recipient of ODA ($2.7 billion) over this 13-year period, well ahead of secondary recipient Myanmar ($760 million). Over the same period, Laos received the largest quantity of OOF ($11.3 billion), followed by Indonesia ($6.5) (Table 3, PG. 35).

According to AidData's analysis, energy generation and supply received the largest share of Chinese ODA (39.6%) and the second largest share of OOF (42.1%) to Southeast Asia over this period. The leading sector for Chinese OOF was transport and storage (44%), which comprised the third largest recipient of ODA (16.2%). These proportions

TABLE 3: Chinese ODF to Southeast Asia

	ODA-LIKE FLOWS		OOF-LIKE FLOWS	
COUNTRY	US$ MIL	%	US$ MIL	%
Cambodia	2660.3	53.1	3583.9	12.5
Myanmar	756.1	15.1	1058.6	3.7
Laos	574.9	11.5	11258.4	39.3
Indonesia	403.2	8.0	6512.0	22.8
Vietnam	349.6	7.0	3673.5	12.8
Philippines	253.3	5.1	1227.3	4.3
Thailand	14.0	0.3	1.2	0.0
Malaysia	0.4	0.0	1302.0	4.5
TOTAL	4011.7	100.0	28617.0	100.0

SOURCE: AidData

TABLE 4: Chinese ODF to Southeast Asia by Sector

	ODA-LIKE FLOWS		OOF-LIKE FLOWS	
SECTOR	US$ MIL	%	US$ MIL	%
Energy Generation & Supply	1984.4	39.7	12056/0	42.1
Action Relating to Debt	949.0	18.9	N/A	N/A
Transport & Storage	811.0	16.2	12581.3	44.0
Agriculture, Forestry & Fishing	413.7	8.3	355.8	1.2

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	ODA-LIKE FLOWS		OOF-LIKE FLOWS	
SECTOR	**US$ MIL**	**%**	**US$ MIL**	**%**
Industry, Mining & Construction	255.5	5.1	1474.9	5.2
Government & Civil Society	248.1	4.9	77.3	0.3
Communications	97.1	1.9	1229.1	4.3
Emergency Response	91.8	1.8	N/A	N/A
General Budget Support	68.7	1.4	N/A	N/a
Unallocated/Unspecified	N/A	N/A	87.7	0.3
Other Social Infrastructure	N/A	N/a	189.2	0.7
Other Mutlisector	27.7	0.6	393.8	1.4
Others	64.9	1.3	17.5	0.1
TOTAL	5011.7	100.0	28617.0	100.0

SOURCE: AidData

are consistent with China's global official sector flows worldwide, which also focus predominantly on these two sectors (37.8% for energy generation and supply; 25.1% for transport and storage). AidData does not designate a sub-sector for general infrastructure development, but the Table 3 sectors of energy generation and supply, transport and storage, communications, water supply and sanitation, and other social infrastructure can all be considered to comprise an infrastructure supersector (Table 4, PG. 35-36).

Summary of Findings

This overview chapter has described various types of Chinese outbound capital flows

and then discussed two types of capital flows in greater detail: direct investment and development loans and aid.

For Chinese FDI in Southeast Asia we find:

- **FDI HAS GROWN RAPIDLY BUT OTHER FLOWS ARE CATCHING UP:** FDI is historically the most important type of Chinese presence in Southeast Asia but China's outbound presence has become more diverse in the past five years. Lending and government aid have grown rapidly across the region, especially from policy banks and large state-owned commercial banks. Private Chinese investors have also rushed into Southeast Asia's technology scene and we observe a big increase in venture capital and other private equity investment. These flows often complement each other so it is important to consider FDI plus other types of capital flows.
- **DATASETS SHOW DIFFERENT FOOTPRINTS OF CHINESE FDI IN THE REGION:** Our analysis show that different data sources could vary significantly in definition and coverage. Serious researchers must consider all angles while conducting research.
- **THERE IS LIKELY INFORMAL ACTIVITY HAPPENING THAT OFFICIAL AND TRANSACTIONS DATASETS DO NOT COVER:** As discussed, one particular distortion in Chinese outbound FDI statistics is extensive "informal activity" through special purpose entities in offshore financial centers (such as Hong Kong) and other channels that allow investors to bypass official approval and capital control. This issue is likely amplified in Southeast Asia due to its geographic proximity to China and large ethnic Chinese population.
- **CHINESE INVESTMENT HAS GROWN RAPIDLY SINCE THE MID-2000S:** While all three data sources show an increase of Chinese investment into Southeast Asia in the past decade, transactions data shows more volatility than official Chinese data. Notably, there was a dip in annual investment flows around 2012-2014, which is also present in official data. This dip is partially attributable to lower activity in the energy and materials sectors during those years. This is in contrast with the rest of the world, which generally saw steady increase of Chinese investment through this time.
- **COUNTRY MIX:** Transactions data show that Malaysia and Indonesia are the biggest recipients of Chinese FDI, followed by Thailand, Cambodia, and Laos. Vietnam, Myanmar and the Philippines received relatively lower levels of Chinese investment. Greenfield investment is the main driver of Chinese

investment in top recipient countries. This is in contrast to Chinese investment in advanced economies where the majority of investment comes from acquisitions.

- **INDUSTRY DISTRIBUTION:** Transactions data show that the industry distribution of Chinese direct investment in Southeast Asia is visibly concentrated in real estate and hospitality, transportation and infrastructure, basic materials and energy. This is different from the breakdowns in official data: while ASEANstat data also show real estate as the top sector, other top sectors from ASEANstat and MOFCOM are financial services and wholesale and retail. This is also quite different from the rest of the world: in comparison, the industry distribution of Chinese direct investment in the US and Europe are more diverse and focused on technology and services sectors.

- **INVESTOR OWNERSHIP:** Chinese investment in Southeast Asia predominantly came from state-owned investors (78% of total 2000-2016). In comparison, in the US and Europe, Chinese investment in the early 2000's was more dominated by state-owned companies, but in recent years the share of private investors rose sharply. This trend is not yet as clear in Southeast Asia, besides private company Country Garden's outsized greenfield investment project.

For Chinese development loans and foreign aid in Southeast Asia we find:

- China's approach to development finance (aid) is to tie aid, direct investment, and trade to achieve win-win conditions for both China and recipient countries. Most Chinese aid projects are implemented by the Ministry of Commerce, in coordination with the Ministries of Finance and Foreign Affairs. Little official data exists documenting the specific mechanisms of Chinese aid.

- A large portion of Chinese aid has consistently gone to infrastructure projects, and foreign state-owned enterprises are common recipients of aid flows. In its public pronouncements on aid and foreign relations, China claims to adhere to five principles of peaceful co-existence and eight principles of aid. Both through its espoused principles and in public statements, China has encouraged a perception that Chinese development loans avoid political conditions typical of development assistance from developed, Western states. Indeed, China rarely uses the donor/aid terminology common among other states. Instead, China frequently refers to itself as a "partner"

in overseas development projects. Since 2010, much of China's foreign assistance has been conducted under a "South-South" cooperation initiative, a framework China continues to use today.

- Chinese official flows to Southeast Asia have followed a growth trend similar to both those of Chinese FDI to the region as well as Chinese official flows to the rest of the world. Between 2000 and 2012, China delivered $5 billion in ODA and $28.6 billion in OOF to Southeast Asia. Cambodia was the primary recipient of ODA ($2.7 billion) over this 13-year period, well ahead of secondary recipient Myanmar ($760 million). Over the same period, Laos received the largest quantity of OOF ($11.3 billion), followed by Indonesia ($6.5).

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CONCLUSION

Investments from China into Southeast Asia have contributed to economic growth and the development of the private sector in the host countries. For example, in Malaysia the solar panel and glass industries have seen leaps in growth due to Chinese investments. Yet there are also cases in Southeast Asia in which the local private sector received marginal benefit from Chinese investments. For instance, in Cambodia, the report showed that Chinese firms have little interaction with local firms and do not contribute much to the capacity and skill development of the local workforce. As a result, the spillover effect of Chinese investments on local SMEs has been limited.

Local firms in host countries seek to benefit more from investments from China. Several authors pointed out that small businesses are concerned about being unfairly outcompeted by Chinese firms, which are supported by state-led industrial policies and cheap credit from the state.

Foreign direct investments from China sometimes goes into high risk and lightly regulated industries, such as mining, online gambling, and payday lending. In the cases of the Philippines and Indonesia, the authors documented that these investments bypass, ignore, or undermine regulations in the host countries. Problems include importing illegal workers, evading taxes, and exploring military networks which are deeply vested in the economy. Southeast Asia's young democracies have suffered from weak rule of law and lax enforcement. Chinese

investments at times exploit and exacerbate these governance gaps.

Chinese-funded megaprojects raise more concerns than traditional FDI due to a lack of transparency and the opacity of the deal-making processes. The deals are made among the ruling elites of China and the host countries without proper scrutiny or oversight. It is widely recognized that the influx of Chinese capital and contractors help to alleviate the massive infrastructure gap in the region. To better utilize these capital inflows, the governments in Southeast Asia need to strengthen their capacity to mitigate the risks identified in this report, such as weak public procurement regulatory regimes, a lack of information on and robust oversight of BRI projects, weak governance of SOEs, and corruption.

Table 1 (PG. 198-199) lists recommendations to help mitigate risks stemming from large Chinese investment inflows:

TABLE 1: Recommendations to Help Mitigate Risk Stemming from Large Chinese Investment Inflows

PROBLEMS	SOLUTIONS
Lack of transparency in public procurement	• Increase transparency of the public sector and public procurement process • Have clear legal regulations on public procurement • Follow public procurement international best practices, such as competitive and public bidding • Replace low-bid procurement practices with Life-Cycle Cost Analysis (LCCA) to promote quality infrastructure project • Empower civil society and interested stakeholders to advocate for greater transparency on public procurement process
Corruption	• Strengthen anti-corruption work through institutional changes • Lawmakers should exercise oversight of loans that the government undertakes • Implement Freedom of Information act • Publicize government loan terms • Disclose ownership of companies which participate in mega infrastructure projects (especially if these companies are owned by government officials, their families, or close associates). • Provide for third party quality control/independent audit mechanism of the mega infrastructure projects • Implement PPP laws to facilitate investments and monitor PPP projects in hopes to increase transparency and accountability

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PROBLEMS	SOLUTIONS
Weak governance of state-owned enterprises	• Demand greater scrutiny of SOEs by lawmakers • Require disclosure of SOEs' annual reports and detailed financial statements as well as disclosure of remuneration of company directors, any financial liabilities potentially borne by the taxpayer and justification of the entities' activities against public policy objectives • Implement mechanisms for SOEs to reduce conflicts of interest among directors
Illegal worker/ migration	• Implement better management systems for foreign workers • Improve the system of working permits and business licenses for foreign investors
Social tension, environmental degradation, land grabbing and force eviction	• Apply multilateral development bank (MDB) standards (such as financial feasibility, environment assessment, social and governance impact analysis) for Belt and Road Initiative loan projects • Promote Corporate Social Responsibility and corporate governance among Chinese firms
Little contribution to local private sector	• Provide a level playing field for local and foreign contractors by requiring foreign firms to abide by the OECD guidelines on export credit assistance • Ensure any local content requirements focusing on promoting technology and knowledge transfer between foreign and local firms

The countries of Southeast Asia should strengthen their regulatory environment to reduce the likelihood of corruption, increase transparency, enhance oversight mechanisms, and improve their public procurement framework. In addition, civil society organizations can play a more significant role as a bridge between foreign investors and local communities to spearhead inclusive dialogue among governments, local civil society, and foreign investors before megaprojects begin so as to ensure that local voices are heard. Civil society and a free press can also help monitor foreign business behavior and promote OECD guidelines for multinational enterprises in agriculture supply chains, the extractive sector, mineral supply chains, and textile and garment supply chains to advocate for more responsible business practices.

Governments can also use regional platforms such as ASEAN to gain stronger negotiation power when advocating for more responsible investments from China.

For China

Chinese civil society is eager to work with foreign counterparts to encourage Chinese firms to engage in more corporate social responsibility and be more responsive to local communities' concerns. Chinese companies could seek Chinese civil society's assistance to try to act more responsibly and inclusively.

The Chinese government could work with Chinese companies abroad to ensure that they are abiding by guidelines released by Chinese business associations. The mining and construction industry associations from China have published guidelines that are on par with international standards. More broadly promoting and sharing these guidelines would help improve business behavior overseas.

Regarding investments with an international development purpose, China should try to employ the standards of AIIB in all its BRI projects to ensure that this new global power is also advancing development goals by acting more responsibly. Greater transparency in business engagements and MOUs between governments would help improve China's image in the region and counter a reputation of colluding with ruling elites.

Lastly, the report highlights research questions requiring further scholarly attention, including:

- Whether Chinese private firms are driven purely by the profit motive or instead act based on the policy guidelines from the state
- Whether SOEs and private firms from China respond differently to local pressure and incentives
- The extent to which China uses its economic leverage to influence host countries' domestic politics or foreign policy

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