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China’s “Going Out” Strategy in Southeast Asia: Case Studies of the Automobile and Electronics Sectors

Guanie LIM

In view of China’s “going out” programme, this article argues that mainland Chinese firms have not made significant breakthroughs in the Southeast Asian automobile sector, primarily because of a competitive and still consolidating marketplace, various national regulations of Southeast Asian countries, and the need to dovetail their own corporate goals with those of their Southeast Asian partners. Meanwhile, mainland Chinese firms have made major advances in the Southeast Asian electronics sector by offering low prices and high-quality products and services. In addition, they also collaborate with marketing firms that possess intimate knowledge of the marketplace.

<H1>INTRODUCTION

Scholarly research on China’s outward foreign direct investment (FDI) has attracted relatively little attention vis-à-vis the large body of research detailing the country’s inward FDI. Such research was conducted more intensively only since the early 2000s, following the rapid increase in Chinese outward FDI.\(^1\) Chinese outward FDI increased rapidly after the Chinese state launched the “going out” programme—a bold strategy envisioned in 2002 to encourage its firms to “go out”

into the global economy not only through exports, but also by investing overseas—at the Chinese Communist Party’s 16th Congress in 2002. The longevity of the “going out” programme implies that the “One Belt, One Road” initiative proposed by the Chinese political leadership in 2013 can be interpreted as an extension of the ”going out” strategy rather than a totally new initiative. The latest available information showed that China has invested as much as US$116 billion in 2014, establishing itself as the world’s third-largest outward investor after the United States and Hong Kong. Prior to this, China was largely viewed as a “giant sucking vacuum cleaner for global inward foreign direct investment”. The increase in Chinese outward FDI was driven in large part by its firms, particularly those that have accumulated substantial managerial and technical expertise in the domestic economy following the post-1979 economic reforms. As the Chinese economy matures in the near to mid future and more mainland Chinese firms internationalise their operations, it can be expected that China’s outward FDI would further increase.

Implicit in the aforementioned discussion is the importance of FDI to economic development. For China, one of the most important factors undergirding

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5 The term “mainland Chinese firms” is used in this article to avoid confusion with the “ethnic Chinese firms”. The latter term refers to firms owned and/or managed by ethnic Chinese people living outside China (e.g. Hong Kong, Macao, Taiwan, Malaysia, Singapore and Thailand). Within the context of this article, “ethnic Chinese firms” refer to those firms owned and/or managed by the ethnic Chinese populace of Southeast Asia, unless specifically mentioned otherwise.
its economic success is its openness towards FDI inflows following the economic reforms initiated in 1979. Similar to China, most of the Southeast Asian countries have relied on inward FDI to drive their economic growth. However, Southeast Asia as a whole has come under some pressure as increasingly more countries (especially the less developed ones) are eager to attract inward FDI to power their growth. The intensifying race for FDI among these Southeast Asian countries has forced policymakers to seek alternative sources of investment beyond the “traditional” group of FDI contributors, i.e. the Western bloc, Japan, and various offshore financial centres. To this end, China is one of the alternative sources of FDI most actively targeted by these policymakers. The gravitation towards China is understandable following China’s rapid integration with the global economy, including the Southeast Asian countries, following its post-1979 economic reforms. In particular, China’s trade with Southeast Asia has increased dramatically, reducing Japanese economic influence in the region. Furthermore, Southeast Asian firms (especially those owned and managed by Southeast Asian nationals of ethnic Chinese origin) have been active investors in China since China liberalised its economy in 1979, and some of them have also played a crucial role in attracting mainland Chinese firms to invest in the region.

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9 Komori, "The New Dynamics of East Asian Regional Economy".
Against this background, the article analyses the organisation of mainland Chinese firms in Southeast Asian economies, focusing on the global production networks (GPNs) of the automobile and electronics sectors. The article compares and contrasts the progress of China’s leading players in two key economic sectors, namely automobile and electronics, as well as investigates the reasons behind Chinese firms’ varying degree of success in Southeast Asia. This article argues that mainland Chinese firms have not made a significant breakthrough in the automobile sector, largely because of a competitive and still consolidating marketplace, various national regulations of Southeast Asian countries, and the need to harmonise their own corporate goals with those of their Southeast Asian partners. Mainland Chinese firms have instead made significant inroads into Southeast Asia’s electronics sector by offering low prices and high-quality products and services to their consumers. They have also established useful tie-ups with marketing firms that possess intimate knowledge of the regional marketplace. The article also problematises the concept that the Chinese state is the most important, if not the only, variable in explaining the economic globalisation of mainland Chinese firms, particularly the state-owned enterprises (SOEs). It provides evidence that the firms’ strategies are influenced by a broad range of actors that collectively shape the global production anddictate value capture. To succeed in their respective economic sectors, mainland Chinese firms have to properly manage the complex interrelationships within their respective GPNs. The findings in this article suggest that the Chinese electronics firms are more adept at managing these networks compared to their peers operating in the automobile sector.
This article is based on the author’s fieldwork interviews with Chinese corporate representatives, their Southeast Asian affiliates, officers from various Southeast Asian countries’ trade and investment promotion agencies, and political and business analysts familiar with the operations of mainland Chinese firms in Southeast Asia. These interviews were conducted in Indonesia, Malaysia, Singapore, Thailand and Vietnam from 2012 to 2013. To improve the reliability of primary data provided by these parties, the data was cross-validated with relevant archival and secondary materials, e.g. annual reports, company websites and academic manuscripts.

This article begins with a literature review on the GPN approach, underlining its analytical purchase in unpacking cross-border economic activities. The approach is especially useful for examining the interconnection between mainland Chinese firms and their stakeholders (e.g. suppliers, customers, and home and host governments). The article also identifies knowledge gaps in the corpus of scholarship detailing the overseas investment of mainland Chinese firms, which tends to attribute the Chinese state as the most important, if not the only, variable of Chinese firms’ outward investment. More specifically, it critiques recent works covering mainland Chinese firms’ overseas investments in various economic sectors, highlighting that these firms have the imperative obligations to manage the interests of the Chinese state, multiple organisations in home and host economies, and their own commercial objectives. The article also offers a brief analysis of Chinese investment in Southeast Asia. The subsequent section discusses case studies of the automobile and electronics sectors by comparing and contrasting the investment strategies of mainland Chinese firms, and examining the firms’
successes and failures in these two sectors. The article concludes with a summary of the main arguments and findings.

<THEORETICAL FRAMEWORK

To examine the internationalisation process of mainland Chinese firms, this article draws upon the GPN approach as a theoretical framework to analyse the criss-cross flow of materials and information among firms and places that are engaged in the provision of goods and services.\(^\text{11}\) The approach is particularly sophisticated and able to shed light on international and interregional economic relationships, and to rethink the linkages among firms and non-firm actors that create, enhance and capture value.\(^\text{12}\) For the purpose of this analysis, a GPN is defined as a network that is coordinated and controlled by a globally significant multinational firm and involves a vast network of overseas affiliates, strategic partners, key customers and non-firm institutions.\(^\text{13}\) Using the automobile sector as an example, a brand-name company such as Toyota is considered a global lead firm. Although much of Toyota’s early growth in the post-World War II decades was evidently buttressed by a supportive Japanese state (which imposed high import tariffs to discourage Japanese ownership of foreign-produced vehicles), it owes its subsequent rise to global domination considerably to other factors.\(^\text{14}\) As Toyota extends its cross-border activities, it has also learnt how to efficiently manage its own research and


\(^{12}\) Ibid.


development, manufacturing affiliates globally and its group of strategic partners, e.g. the first-tier component and service suppliers. In addition, Toyota has to coordinate marketing activities with its key customers worldwide and to manage non-firm institutions, such as labour unions, non-governmental organisations (NGOs) as well as the national and provincial governments in different host countries.\(^\text{15}\) The example of Toyota underlines the fact that a broad range of actors have collectively shaped global production and, by extension, value capture. In other words, GPNs link not only firms in different locations, but also in the embeddedness—although to varying extents—of such firms at the society, network and territory levels.\(^\text{16}\)

While the aforementioned perspective is well received among researchers studying Western, Japanese, and (to a smaller extent) other newly industrialised countries’ (NIC) firms, scholars studying mainland Chinese firms do not think that is a particularly salient aspect. This is partly because the debate largely centres on whether China is a “threat” and the extent to which China can be incorporated into a US-dominated global system.\(^\text{17}\) As a result, considerable attention has been paid to policies that extend China’s global reach. The interests of other actors (including but not limited to the mainland Chinese firms) involved in the “going out” policy are, however, less scrutinised. In this school of thought, scholars predominantly view mainland Chinese firms (especially the SOEs) as manifestations of China’s

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\(^\text{15}\) See Yeung, "From Followers to Market Leaders".


increasingly skilful diplomacy.\textsuperscript{18} Such an approach of studying China’s outward FDI, especially the realist conceptions of the relationship between wealth and power, tends to attribute the state as the most important—if not the only—variable of mainland Chinese firms’ outward investment.\textsuperscript{19} It also argues that the Chinese state uses its large cohort of SOEs’ transnational businesses as a means to engage with other countries and ultimately, to bolster its political influence against US domination in peripheral regions such as Southeast Asia and Africa.\textsuperscript{20} For example, Chinese engineering contracting SOEs have acquired a dominant market position in Vietnam. In spite of their relative lack of international experience, these SOEs have outcompeted their rivals from other more developed countries. The Chinese state’s generous concessional loans and preferential export buyer’s credits extended to Vietnam in support of Chinese SOEs’ expansion into Vietnam is one of the main reasons contributing to their dominance. However, Vietnam has to use Chinese contractors, technology, equipment and services should it decides to utilise these financial instruments.\textsuperscript{21}

While the Chinese state is undeniably a key player in the Chinese economy as well as the chief architect of the “going out” policy, recent works on mainland Chinese firms’ overseas investment demonstrated that the firms, in addition to handling and meeting the state’s expectation, have to manage multiple interest groups in both the home and host economies as well as their commercial

\textsuperscript{20} Ibid., p. 672.
imperatives. To this end, Huawei, one of the most prominent mainland Chinese firms that has “gone out”, needs to balance its own economic interests with those of the Indian state in its investment into that country.22 To alleviate India’s concern over national security and over China’s role in the country’s communication infrastructure (since China is India’s economic and political arch-rival), Huawei had injected US$500 million in investment in India, localising the manufacture of its core communication equipment, and establishing a research and development centre. In Malaysia, which is China’s largest trading partner in Southeast Asia, mainland Chinese firms have been savvy enough to cooperate with Malaysia’s government-linked companies (GLCs). This is most apparent in the construction sector as the Malaysian state’s legacy and continued practice of providing its cohort of GLCs with preferential treatment to achieve interethnic socio-economic parity has encouraged mainland Chinese firms to establish commercial ties with the GLCs.23 The GLCs’ close relationship with the government confers them with some form of “advantage” in the distribution of state resources (such as land and concession agreements). However, there are considerably fewer collaborations between mainland Chinese firms and the GLCs beyond the construction sector. The Malaysian state’s less-than-stellar success in fostering cooperation between mainland Chinese firms and the GLCs can be attributed to two main reasons: the failure to establish competitive GLCs in the manufacturing sector, and the GLCs’ lack of presence in services, agriculture, finance, and information and communication sectors, which have a more liberalised market environment.

23 Lim, "The Internationalisation of Mainland Chinese Firms into Malaysia".
Consequently, mainland Chinese firms possess more bargaining power vis-à-vis the state when they invest in these sectors, enjoying considerable autonomy in the selection of their “coalition” partners.24

As is evident in Chinese national oil companies’ overseas expansion, it is argued that Chinese bureaucratic fragmentation in the context of the state’s changing relationship with SOEs has a greater impact on firms’ offshore ventures than the state-centred perspective contends.25 The problem of competing bureaucratic agencies is especially acute in the energy sector. After several rounds of restructuring, the authority to regulate energy is currently shared among several government departments without any effective institutional mechanism to coordinate their governance. As each regulatory body is in charge of a specific aspect of energy governance, the ensuing intra-bureaucratic conflict had hampered the formulation of a coherent national energy policy. In addition, each national oil company safeguards its own interests, which are independent from but not necessarily contrary to state interests. For example, in 2004, the state-owned China Petroleum and Chemical Corporation (Sinopec) cooperated with foreign oil companies to outbid its fellow SOE and domestic rival, China National Petroleum Corporation (CNPC), in a 1,385-mile pipeline construction project in south-east of Sudan, which is one of China’s largest energy suppliers. To overcome its disadvantage in the domestic upstream market and reinforce its domestic market position vis-à-vis CNPC, Sinopec aggressively seeks to expand exploration

25 Liou, "Bureaucratic Politics and Overseas Investment by Chinese State-Owned Oil Companies".
projects outside of China. Without a strong central body coordinating the outward investment decisions of these SOEs, Sinopec is effectively incentivised to expand its upstream operations to beat CNPC.\textsuperscript{26} The rivalry even extends to competition in the overseas markets that has, in a way, undermined China’s global strategy for energy security, thus weakening the “China threat” doctrine as is outlined in the earlier paragraphs. By logic, according to the “China threat” doctrine, Sinopec and CNPC, being Chinese national oil companies, should make collective efforts to cooperate with each other to increase the Chinese state’s access to energy resources. However, the overseas investment decisions of national oil companies, which are burdened by China’s domestic politics, have consistently reflected a more complex situation, in which national interest maximisation is compromised by individual pursuits of commercial interests.

A close examination of mainland Chinese firms’ core commercial interests will further underline the aforementioned argument. Drawing on the international business literature, mainland Chinese firms invest abroad to seek resources, technology, markets, diversification and strategic assets, the five driving factors of investment.\textsuperscript{27} Resource seekers invest overseas to acquire certain resources at a comparatively lower cost compared to their home country. They usually seek physical resources of one kind or another and/or supplies of cheap labour. Resource seekers may, on occasions, invest in a particular location in response to governmental restrictions or incentives (of both the host and home economies). Technology seekers tend to invest in developed countries for more sophisticated

\textsuperscript{26} Ibid.

\textsuperscript{27} Deng Ping, "Foreign Investment by Multinationals from Emerging Countries: The Case of China", \textit{Journal of Leadership and Organizational Studies} 10, no. 2 (2003): 113–24.
technology and managerial expertise. A prominent example is Lenovo’s high-profile acquisition of IBM’s “ThinkPad” brand in 2005, thereby improving both its branding and technology, and also making Lenovo the world’s third-largest computer maker by volume.28 A saturated Chinese home market is often the factor that drives market-seeking firms to venture overseas. Excess production capacity also worsens the plight of firms in industries such as textiles and clothing, bicycles and footwear. These firms are therefore forced to target foreign markets for their products. Although exporting to foreign markets is a viable option, these firms often face a variety of trade as well as non-trade barriers. This in turn creates the necessity and opportunities for them to invest abroad to serve markets with limited export access. Diversification-seeking firms engage in overseas investment to strategically diversify their risks. The state-owned China Resources is one of mainland Chinese firms that have successfully diversified their risks. Facing the loss of its monopoly on trade flows between Hong Kong and China, China Resources leveraged its Hong Kong base to internationalise its operations. It now has several trade-supporting subsidiaries abroad, especially in the United States, Singapore and Thailand.29 Strategic asset seekers engage in outward FDI to promote their long-term strategic objectives. Their motivation is less about exploiting specific cost or marketing advantages but more about enhancing the investing firms’ existing assets portfolio as a long-term goal to sustain or strengthen their own competitiveness vis-à-vis their competitors. These firms are usually not averse to sustaining losses in the short to medium term. However, it

29 Deng, "Foreign Investment by Multinationals from Emerging Countries".
should be noted that some investors pursue multiple objectives simultaneously and their outward FDI often reflects characteristics of the five motives.

To enrich the corpus of literature, this article sheds light on the dynamics of the automobile and electronics sectors by comparing and contrasting the investment strategies of mainland Chinese firms in both industries. The article’s focus on Southeast Asia illustrates that Chinese firms’ strategies are influenced by a broad range of actors—across multiple geographical scales—which collectively impact global production and dictate value capture. The article also highlights that China’s national interests are not neglected following the “going out” strategy, but neither are they the most critical factor undergirding the outward investment of mainland Chinese firms and determining their success (or failure). To put it another way, only if mainland Chinese firms properly manage the complex interrelationships within their respective GPNs can they succeed in their respective sectors.

**AN OVERVIEW OF CHINA’S OUTWARD INVESTMENT**

Figure 1 depicts the outward flow of China’s FDI from the years 1990 to 2014. As shown, China’s outward FDI was relatively low during the 1990s, but escalated exponentially after 2000. While China remains the most attractive country in the world in attracting FDI, it has also become one of the largest outward investors since the turn of the century.30

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Geographically, China’s outward FDI flow is unevenly distributed across the continents with most of its investments in Asia (68 per cent) and Latin America (14 per cent) (Figure 2). These two continents accounted for 82 per cent of China’s outward FDI from 2003 to 2014. Within Asia, Hong Kong is the largest recipient, capturing more than 80 per cent of Chinese outward FDI. Investors, including those from China, appreciate the advantage of Hong Kong’s low tax and business-friendly environment. Hong Kong is also an attractive location for the “round-tripping” of Chinese outward FDI back to China itself.31 Some mainland Chinese firms first register their businesses in the city-state (thereby transferring capital from China to Hong Kong in the process), then subsequently invest back into China in order to enjoy preferential treatment for inward FDI.32 Nevertheless, while a significant amount of this outward FDI does “round-trip” back to China, an unknown amount may also “onward-journey” to third countries.33

In Southeast Asia, Singapore is the largest recipient of China’s outward FDI flow, capturing 37 per cent of the market share (Figure 3). Like Hong Kong, Singapore is a global financial hub with a well-established legal framework, sound governance, and a transparent regulatory environment. These factors attract Chinese firms seeking to diversify their investments and access new markets. Other Southeast Asian countries, such as Malaysia and Thailand, also benefit from Chinese investment, often attracting investments in sectors like manufacturing, services, and infrastructure. The presence of Chinese FDI in these regions not only stimulates economic growth but also enhances bilateral trade and investment relationships.

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33 Sutherland and Ning, "Exploring ‘Onward-Journey’ ODI Strategies in China’s Private Sector Businesses".
Singapore is a top performer in attracting FDI primarily because of its low tax and pro-business environment. It is also regarded as a gateway to the surrounding “hinterland” economies, e.g. Indonesia and Malaysia.\textsuperscript{34} The second- and third-largest recipients are Indonesia (15 per cent) and Laos (10 per cent), respectively, but their FDI volumes show a significant gap from Singapore’s at the top spot. The sectoral distribution of Chinese outward FDI in Southeast Asia (Figure 4) shows that the tertiary sector dominates China’s outward FDI flow, accounting for 56 per cent. The majority of the FDI in the tertiary sector comprises investments in transportation, warehousing, postal services, wholesaling, retailing, leasing and business services, mainly to provide services for China’s international trade activities.\textsuperscript{35} The secondary sector, on the other hand, is China’s second-largest FDI outflow, accounting for 23 per cent of the total outflow. This sector is driven almost exclusively by manufacturing firms. Many of the manufacturing firms are still involved in labour-intensive production, but high-technology production have proliferated in recent years, manufacturing complex items such as electronics, automobile, and medical products.\textsuperscript{36} The primary sector contributed the smallest share of China’s FDI outflow at 21 per cent although some of these investments were high-profile mining projects occasionally reported in the mainstream media. It should however be noted that the generalised and aggregate data of Figure 4 is susceptible to misclassification and thus requires careful interpretation. For instance, nearly one-third of total outward FDI was classified as “leasing and

\textsuperscript{34}\textit{UNCTAD, World Investment Report 2015: Reforming International Investment Governance}.  
\textsuperscript{36}Ibid.
business services” (a subcomponent of the tertiary sector), but the definition and what the services actually entail are quite ambiguous. Some experts even argued that most of the capital in tertiary sector is eventually invested in the primary and secondary sectors.\textsuperscript{37} Therefore, for a more accurate and realistic assessment, the primary and secondary sectors should reflect higher shares in China’s total outward FDI. Taking heed of this point and considering China’s advancement in high-technology manufacturing as well as the importance of its secondary sector, this article focuses on the outward investment of some of the biggest mainland Chinese firms in the automobile and electronics sectors, and examines their activities within Southeast Asia, a key economic region for mainland Chinese firms.

[Insert Figure 3. Geographical Distribution of China’s Outward Flow of Foreign Direct Investment in Southeast Asia, 2003–2014 (%)]

[Insert Figure 4. Sector-by-Sector Distribution of China’s Outward Flow of Foreign Direct Investment in Southeast Asia, 2007–2014 (%)]

\textbf{CHINESE INVESTMENT IN THE SOUTHEAST ASIAN AUTOMOBILE SECTOR}

Since the late 1980s, China has earmarked the automobile industry as a strategic economic sector.\textsuperscript{38} To promote domestic technological catch-up, the Chinese state implemented a policy to limit the access of foreign automobile firms to its large domestic market and control the form of their involvement. Furthermore, select


domestic vehicle and components makers (many of which are SOEs) enjoy access to a broad array of subsidies (e.g. reduced corporate income tax rate, subsidised credit from state-owned banks and export credit financing) that are not easily quantifiable. On balance, this industrial policy has worked as China’s large and increasingly wealthy domestic market is a much sought-after resource for foreign automobile firms. In return for the access to the Chinese market, a considerable amount of technological know-how has been transferred from foreign automobile producers to their Chinese counterparts. Building on the expertise gained from foreign automobile producers, many mainland Chinese firms have begun to target foreign markets, attempting to harvest more market share and revenue. To bypass the high tariffs imposed on Chinese automobile exports by virtually every export destination, these Chinese firms concentrate their overseas expansion on establishing new or acquiring mature production facilities in their target market. The Chinese state has played a substantial role in these overseas projects. One of the most common support mechanisms is preferential financing through the state-owned banks. For instance, Shanghai Automotive Industry Corporation (or SAIC Motor, an SOE) acquired a 49 per cent equity stake (valued at US$500 million) in Korea’s Ssangyong Motors in 2004, and three state-owned banks extended preferential loans to finance 66 per cent of this acquisition.

Southeast Asia has been a relatively under-served market, at least until recently, for Chinese automobile firms. As the automobile sector is typically

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40 Liu and Dicken, "Transnational Corporations and 'Obligated Embeddedness'".
41 Andreas Lunding, "Global Champions in Waiting: Perspectives on China’s Overseas Direct Investment", in China Special (Deutsche Bank, 2006).
capital intensive, China’s overseas investment into Southeast Asia is spearheaded by SOEs. Chery, an SOE founded and controlled by the Anhui municipal government, is one of the earliest Chinese automakers to venture out. Chery decided to invest in Southeast Asia in 2004, earmarking Malaysia as its regional headquarters and main manufacturing hub, with long-term plans to produce vehicles for Malaysia and other Southeast Asian countries. Due to the import duty levied on automobile products manufactured outside Southeast Asia, Chery’s presence in the region is considered sustainable only if it is able to produce/assemble vehicles cost-effectively and derive a large sales volume in one or more of the Southeast Asian countries.43

Nevertheless, Chery’s plans suffered several hiccups as the Malaysian automobile market underwent a process of consolidation during the period, mirroring the broader trend in the global automobile market.44 In addition, the firm had to come to terms with the Malaysian state’s automobile policies, which are primarily designed to support the growth of Malaysia’s two national automobile firms, Proton and Perodua.45 Chery was also at the centre of disputes with General Motors and Volkswagen over allegations that it copied their vehicle designs, which

42 “Chinese Carmaker Chery’s Factory Put into Production in Malaysia”, People’s Daily Online, 3 September 2008.
43 Apart from import duty, individual countries can still impose local taxes to shield their domestic producers. See also Joe Studwell, How Asia Works: Success and Failure in the World’s Most Dynamic Region (New York: Grove Press, 2013).
45 Proton and Perodua accounted for more than 50 per cent of the market share in Malaysia, courtesy of state support (in the form of import duty and local taxes imposed on their rivals). The remaining market share constituted the much smaller automobile firms (many of which were contract assemblers for Japanese and Western brands). Although the import duty has reduced over the years, the local taxes have not. See Andrew Staples, Responses to Regionalism in East Asia: Japanese Production Networks in the Automotive Sector (New York: Palgrave Macmillan, 2008).
Chery has repeatedly denied. The combined pressures from these challenges affected Chery, forcing it to modify its investment plan. The firm thus managed to make some minor inroads only in 2008. It adopted a two-pronged strategy, separating the manufacturing/assembly and the distribution/marketing arms of its project in Malaysia. For manufacturing/assembly, Chery appointed Oriental Assemblers to assemble the completely knocked-down (CKD) automobile kits into completely built-up (CBU) units. As for the distribution arm, Chery entered into a Malaysia–China joint venture with two other Malaysian firms—Alado Corporation and Armed Forces Fund Board (a Malaysian GLC).

Despite its two-pronged strategy, Chery has not been able to garner more than one per cent (per annum basis) of Malaysia’s national market share from 2008 to 2015. Chery’s pragmatic approach of targeting the lower-middle income and low income groups only enjoyed a moderate degree of success because Proton and Perodua have traditionally captured the market share of these two consumer groups. More crucially, Chery is not able to market its vehicles cheaper to compete against the two Malaysian firms chiefly because the latter enjoy a more favourable duty and tax regime. The two Malaysian firms also possess a broader sales and aftersales support network countrywide (particularly in East Malaysia), compared

to Chery and its affiliates.\textsuperscript{50} Exports from Chery’s Malaysian regional headquarters have also been minimal.

However, Chery’s lacklustre performance does not imply that it is less determined to press on with its investment in Malaysia (and by extension, Southeast Asia). In 2013, the chief executive officer of Chery (Malaysia) reaffirmed the firm’s unwavering stance of setting up its own assembly plant in Malaysia, and moulding its Malaysian subsidiary into a regional headquarters and main manufacturing hub. He also disclosed that a location for its headquarters was already identified, with US$300 million earmarked for this investment.\textsuperscript{51} However, the plan has been postponed indefinitely and Chery’s CKD kits are still assembled by Oriental Assemblers in small quantities.

SAIC Motor is another SOE that has expanded into Southeast Asia (albeit belatedly). Despite its status as China’s largest automobile producer, SAIC Motor has predominantly targeted the vast domestic market, with minimal export sales. In 2011, it managed to export only 60,000 units of vehicles out of its total production of 4 million units.\textsuperscript{52} The neighbouring Southeast Asia was not a key market for SAIC until 2012, when it entered into a joint venture with Thailand’s largest conglomerate, Charoen Pokphand (CP) Group, to produce MG cars in Thailand. The Shanghai-listed automaker holds a 51\% per cent stake in the joint venture, while

\textsuperscript{50} Author’s personal communication with officer from the Malaysian Industrial Development Authority, Kuala Lumpur, 13 July 2013.
\textsuperscript{51} “Chery Malaysia to Set Up RM930mil Assembly Plant”, \textit{The Star}, 21 June 2013.
\textsuperscript{52} Han Tianyang, “SAIC and Charoen Pokphand Group Form Thai Joint Venture”, \textit{China Daily}, 10 December 2012.
the CP Group claims the remaining 49%. With an initial investment of US$290 million, the joint venture commenced production in 2014.53

Like many of the Western and Japanese automobile makers, SAIC has to organise its Southeast Asian production and sales activities to circumvent import duties and other non-tariff barriers.54 In establishing its Southeast Asian activities in Thailand—the region’s largest and most investor-friendly automobile hub, SAIC has also conformed to the patterns of many other automobile makers. With an annual production capacity of 50,000 vehicles at the outset (which could increase to 200,000 units), the firm aspires to export the Thailand-made MGs to other Southeast Asian markets and a few countries elsewhere.55 According to a senior automobile company executive, the venture is advantageous to both sides as SAIC is able to tap into the CP Group’s deep knowledge of the Southeast Asian marketplace attributable to its other business activities across the region. The CP Group in turn benefits from the technological know-how that the mainland Chinese firm has brought to the table.56 Compared to Chery’s delayed investment in Malaysia, SAIC is more successful as its first line of MG cars (the MG6) was rolled out in June 2014. However, its production volume of less than 5,000 units in 2015 remained far below 200,000 units, the total plant capacity.57

53 Yang Jing, "Driving Abroad", Global Times, 13 June 2014.
54 Staples, Responses to Regionalism in East Asia.
55 Han, "SAIC and Charoen Pokphand Group Form Thai Joint Venture".
56 Author’s personal communication with a senior automobile company executive, Bangkok, 29 March 2013.
While mainland Chinese firms have struggled to establish a formidable presence in the more conventional automobile markets, e.g. four-wheeled vehicles, they made some gains in the less-heralded motorcycle sub-sector instead. In Vietnam (the world’s fourth-largest motorcycle market), a horde of mainland Chinese firms (a sizeable number of them are non-SOEs, albeit many were formerly state-owned prior to being privatised) already established a strong working relationship with their Vietnamese partners in the assembly of CKD units from China and their subsequent distribution. Their main strategy centred on adopting low-cost production technique, relaxed quality standards and certain predatory business practices (e.g. under-declaring local content and imitating Japanese technology), and conducting fluid business transactions at arm’s length with their Vietnamese counterparts and suppliers (the majority of which are SOEs).\textsuperscript{58} Vietnamese SOEs are favoured because they enjoy substantial influence and bargaining power in Vietnam’s political economy. For instance, they are in a privileged position to obtain quotas to import CKD kits and components as a result of close links with the authorities (at least up to the mid 2000s).\textsuperscript{59} The strategy has yielded impressive outcome—Chinese motorcycle manufacturers’ market share increased drastically from 2000 to 2004 as Chinese motorcycles penetrated the medium- and low-income consumer markets which were unexploited by the Japanese (and to a smaller extent, Taiwanese) motorcycle makers prior to the entry

of Chinese motorcycles. A motorcycle component supplier shared his insights on mainland Chinese firms’ investment strategy in Vietnamese motorcycle industry:

“The Chinese managers are very quick in responding to our requests. They are not as rigid as the Japanese when they work with us, the local partners. The Japanese are more concerned about quality and are always very worried about us hurting their brand name. As for the Chinese, their main concern is price of components and services. So long as the price we offer is good, they would be happy to engage us.”

However, the strategy’s approach began to show its limits and have seemingly hurt the firms involved, especially the Chinese and their Vietnamese coalition partners. The approach of adopting low-cost production technique and relaxed quality standards contributed to a decline in product quality. The situation is made worse by the Vietnamese authorities’ tightened enforcement of the local content rule, in the bid to consolidate the industry. Chinese motorcycle makers and their Vietnamese partners were particularly hit hard by the tightened enforcement of local content rules and import tariffs (which many of these firms circumvented), and the introduction of stricter product quality and environmental standards. The countermeasure by the Japanese motorcycle makers (led by Honda, with its “Wave Alpha” model priced about one-third that of its previous models) to

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61 Author’s personal communication with a business owner, Ho Chi Minh City, 28 January 2013.
recapture the market share also spurred further consolidation of the industry.63 These events put collective pressure on Chinese motorcycle firms, resulting in their loss of market share in the Vietnamese market, and forcing many of them to rationalise their investment in Vietnam. As of 2015, Chinese motorcycle manufacturers, along with Vietnamese local-brand motorcycle manufacturer, could only capture about 10 per cent of the market share.64

Overall, mainland Chinese firms in the automobile sector can be classified as market seekers. Chinese firms’ investment in target Southeast Asian markets, exhibiting behaviour of circumventing trade and non-trade barriers enacted by the respective countries, reinforced Deng Ping’s observation.65 Nevertheless, the sector has turned out to be a challenging market for them to break into. Despite receiving some support from the Chinese state (in their formative years at home and in their internationalisation efforts), mainland Chinese firms attained limited success because of the competitive and still consolidating marketplace, the various national regulations in Southeast Asian countries, and the obligation to complement their corporate goals with those of their Southeast Asian partners. The confluence of all these factors shows that a state-centric outlook alone is insufficient to explain the activities of mainland Chinese firms. The complex interrelationships within the GPNs of Chery, SAIC and Chinese motorcycle firms underline their firm- and sector-specific challenges, and the wider political economic processes of various Southeast Asian countries.

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63 Fujita, "The Rise of Local Assemblers in the Vietnamese Motorcycle Industry".  
65 Deng, "Foreign Investment by Multinationals from Emerging Countries".
<H1>CHINESE INVESTMENT IN THE SOUTHEAST ASIAN ELECTRONICS SECTOR</H1>

Similar to the automobile sector, the electronics sector also receives state support. During their formative years operating in domestic market, many of China’s electronics firms had benefited from soft loans, state procurement and protected marketing channels. The complaint from some non-SOEs (private firms) that they do not generally receive as much state support as the SOEs is quite debatable because one only needs to make reference to Huawei (a private firm despite the rumours that the state is its ultimate shareholder) and its good working relationship with the Chinese state to weaken their point. Although some of these protectionist measures have since been curtailed, as part of the requirements that facilitated China’s membership in the World Trade Organization (WTO), they have not been completely eliminated. In response to the WTO ruling, a more mature domestic market and the desire to capture more revenue abroad, many of these mainland Chinese firms begun to target foreign markets. As discussed in the earlier sections, the Chinese state has played a substantial role in encouraging these firms to internationalise. For example, the Export-Import Bank of China provided Haier (a non-SOE) US$1.5 billion in export credit in 2004 to finance its “going out” programme, particularly for overseas investment and for exporting high-technology products.

67 Studwell, How Asia Works.
Both SOEs and non-SOEs have played vital roles in China’s “going out” programme in Southeast Asia’s electronics sector, whereas for the automobile sector in the region, participation is predominantly from the SOEs. The most prominent SOE that has succeeded in establishing a foothold in the region is TCL (consumer electronics maker). Huawei (telecommunication equipment maker and service provider), Haier and Midea (both consumer electronics makers) are, on the other hand, among the more notable non-SOEs that have invested in the region.

Haier has built up a reputation for low prices and high-quality consumer electronics products. Nevertheless, it still suffers from low brand recognition vis-à-vis its more established (Japanese and Korean) rivals such as Sony, Sharp and Samsung. In addition, the direct sales capability of Haier in Southeast Asia, like that of other Chinese consumer electronics firms, remains weak and underdeveloped vis-à-vis their Japanese and Korean rivals. To overcome these shortcomings, Haier adopts a two-pronged approach—that is, collaborating with capable local and/or regional firms to build its distribution and sales network, but keeping its manufacturing competence in-house through a fully owned manufacturing plant. An ethnic Chinese wholesaler of household electronics goods (including Haier products) offered his assessment on Haier’s approach in Malaysia: “Haier is very smart. It knows that it has to depend on the trade network of the local ethnic Chinese firms. The GLCs cannot offer them this kind of market reach, especially in small towns. But, Haier is also afraid that we steal its manufacturing

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technology, so it retains its core manufacturing activities in-house.”71 By adopting
different approaches in the manufacturing and marketing side of its business, Haier
has kept its technological expertise in-house (and out of reach of rivals), and tapped
into the market reach of local distributors whose intimate knowledge of the
marketplace is a desirable asset. Linking up with local distributors is particularly
useful as some smaller towns and cities are relatively less “congested” in terms of
brand preference and cost options. By focusing on these underserved markets,
Haier has gained competitive advantage.72

Haier also adopted a similar two-pronged approach in Thailand; it
collaborates with Thai firms in distribution and sales network, but retains its
manufacturing competence in-house through a fully owned manufacturing plant.
This approach is imperative because Thailand’s retail sector is protective and
restricts complete foreign ownership. Therefore, it is necessary for Haier to
establish joint ventures with local Thai firms to market its products. Nevertheless,
Haier has also experienced some success establishing its own sales offices and
networks; Haier Electrical Appliances (Thailand) is a 55 per cent majority-owned
joint venture between Haier and Distar Electric, an appliance brand in Thailand. By
January 2003, Haier had more than 80 dealers throughout Thailand.73 As of 2012,
Haier had a 10 per cent and five per cent market shares in refrigerator products, and

71 Author’s personal communication with the chairman of a wholesaler, Shah Alam, 23
December 2013.

air conditioners and washing machines, respectively. Haier has also utilised its strength in the Thai market to extend its presence in the neighbouring Laos, Cambodia and Myanmar by providing sales and merchandising support to distributors in these three countries.

Often hailed as the most successful example of China’s ‘going out’ programme, Huawei has expanded into much of the developing world, including many parts of Southeast Asia. Like Haier, Huawei has carved a niche for itself by offering low prices and high-quality products and services. In the Philippines, for example, it secured US$300 million in sales with multiple telecommunication service providers in 2009. In neighbouring Vietnam, the firm recorded an impressive sales of US$590 million in 2008, accounting for 53 per cent of the network equipment market share. Huawei also enjoys a dominant position in Cambodia’s budding telecommunication market. It provided equipment and services to some of Cambodia’s largest telecommunication service providers, mainly Mfone (which went bankrupt and was absorbed into CamGSM in 2013) and Cellcard/MobiTel (owned by CamGSM, a Cambodian conglomerate).

In all of these Southeast Asian countries it penetrated, Huawei primarily imported made-in-China equipment, before making investment in services to build and maintain the communication networks. In addition, Huawei is supported by

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74 Kwanchai Rungfapaisarn, "Haier Lays Plan to Become Top-3 Player in Thailand", The Nation, 14 June 2012.
75 Kwanchai Rungfapaisarn, "Haier Goes for Slot in Top 5", The Nation, 8 January 2016.
78 Ibid., p. 377.
concessionary financing from the Chinese state (largely through China Development Bank [CDB], one of China’s three policy banks responsible for financing economic and trade development and state investment projects), bolstering its already formidable approach of offering low prices, and high-quality products and services. According to industry observers, Huawei was supported by a US$10 billion line of credit from CDB, and is also the largest recipient of CDB’s credit among other mainland Chinese firms.79 Huawei’s market power and political clout are manifested in its involvement as a key player in the largest financing project of its kind in Cambodia’s history. In this project, CamGSM borrowed US$591 million from a consortium of Chinese banks to pay for its five years’ worth of purchase of equipment and services from Huawei.80 Despite these success stories, Huawei’s investment in the region is not without problems. For example, some of Vietnam’s telecommunication service providers are increasingly wary of Huawei’s equipment and regard the firm with some suspicion, following allegations of high-profile spying in certain countries.81 There are persistent related rumours linking Huawei with the Chinese state as well as claims that it is acting as the state’s tool to “supervise the world”.82 The situation is further exacerbated by anti-China sentiments harboured by certain segments of the Vietnamese society. Although Vietnam’s historical spats with China is a complex long-standing issue, much of the resentment in recent years was triggered by maritime disputes in the

79 Studwell, How Asia Works.
South China Sea.83 The anti-China sentiment boiled over and erupted into a series of protests, unrests and riots in May 2014 across Vietnam in response to China’s deployment of an oil rig in the China–Vietnam disputed waters. Despite the Chinese oil rig’s subsequent withdrawal, China–Vietnam ties were severely strained as a result.84 Huawei’s investment in the Philippines, which also has maritime disputes with China, is affected by similar, albeit less severe, issues.85 To soften the impact of these disputes, Huawei (Philippines) has been building up its corporate image through various social and civic projects, e.g. relief efforts after super typhoon Yolanda.86

Apart from Haier and Huawei, the consumer electronics manufacturer Midea is another notable non-SOE that has successfully invested in the region. In 2007, Midea opened its first overseas production facility in southern Vietnam. It covers 75,000 square metres of land area and is the vital base for Midea’s Southeast Asian market. In Malaysia, the firm is known for its affordability and relatively good-quality products. To this end, Midea had entered into a joint venture with a prominent GLC to market its products. Midea has gained greater control of the joint venture, progressively purchasing equity off its Malaysian partner. In 2010, Midea increased its controlling stake of its Malaysia’s unit from 51 per cent to 70 per cent, effectively upgrading it into a subsidiary from an associate company (before 2010).87 Despite collaborating with the GLC at the

84 “China Moves Vietnam Row Oil Rig”, *BBC*, 16 July 2014.
headquarters level, Midea recognised that it is expedient to cooperate with
Malaysia’s ethnic Chinese firms, as they dominate the wholesale and retail trade of
the consumer electronics market. Midea—like its larger competitor, Haier
(Malaysia)—has benefited by tapping into the trade network and market reach of
ethnic Chinese firms. It has since gained a sizeable market presence in the low-end markets of rural and suburban Malaysia, especially in the two relatively underserved East Malaysian states of Sabah and Sarawak. Midea’s washing machines are one of the bestsellers. With about 75,000 units of washing machines sold in 2014, accounting for 10 per cent of the market share, Midea is the third-most popular brand in Malaysia. However, Midea is still heavily reliant on its main factories in China to supply its product line in Malaysia, importing nearly 80 per cent of its goods from its Chinese factories. Midea’s plant in Vietnam supplies merely 20 per cent of the product line. It is therefore not clear whether Midea would import more products from the Vietnamese plant vis-à-vis its main factories in China as the Association of Southeast Asian Nations (ASEAN)–China Free Trade Agreement entered into force on 1 January 2010, significantly reducing trade barriers between the two territories.

Riding on its success in East Malaysia, Midea made inroads into the mini
oil-rich state of neighbouring Brunei. In 2014, Midea’s Malaysian subsidiary inked an exclusive distributorship deal with BruTronics, a Bruneian firm, to import Midea brand of appliances into Brunei. The managing director of Midea (Malaysia)

88 Author’s personal communication with a business analyst, Kuala Lumpur, 18 May 2012.
90 Author’s personal communication with a business analyst, Kuala Lumpur, 18 May 2012.
was bullish about the brand’s prospects in Brunei.\textsuperscript{91} He expected Midea’s operational experience in Malaysia to be invaluable for its foray into Brunei, which shares similar demography with Malaysia (albeit Brunei has a considerably smaller and wealthier populace). Midea has leveraged Malaysia’s product certification in its operations—all Midea products exported to Brunei are certified by SIRIM, Malaysia’s national standards development agency. The SIRIM certification is an emblem of confidence for Malaysian as well as regional consumers because of its decades-long repute in certification, inspection and testing.

In a nutshell, mainland Chinese electronics firms invest in Southeast Asian countries to seek resources and markets for their products. Southeast Asia’s comparatively lower labour wages are appealing to these firms as rising wages in China’s eastern provinces have eroded manufacturers’ profits. Southeast Asia has a young demography and there exists some under-served markets (particularly in rural regions) to penetrate into. Compared to mainland Chinese automobile companies, mainland Chinese electronics firms have made significant breakthroughs by offering customers low prices and high-quality products and services. Although many electronic firms still suffer from low brand recognition vis-à-vis the more established business rivals (from Japan and Korea), they overcome the obstacle partially by establishing tie-ups with marketing firms that possess intimate knowledge of the regional marketplace. As is observed in the automobile sector, the internationalisation experience of these Chinese electronics firms has shown that state support and maximisation of national interests are not the only factors determining their commercial success in Southeast Asia. More

\textsuperscript{91} Koo, "Midea Appliances Now in Brunei".
crucially, these firms have to integrate themselves into the GPNs of the electronics sector, thus requiring them to manage their own commercial goals as well as the wider political economic challenges such as protectionist policies implemented in some Southeast Asian countries, host economies’ suspicion of foreign firms’ intentions, and forging tie-ups with Southeast Asian firms possessing deeper knowledge of the marketplace.

**CONCLUSION**

This article examines the progress mainland Chinese firms have made in their expansion into Southeast Asia, focusing on the automobile and electronics sectors. Findings have shown that mainland Chinese automobile firms are mainly market seekers whereas Chinese electronics firms are both resource and market seekers. The article argues that mainland Chinese firms have yet to make significant breakthroughs in the automobile sector, primarily because of competition in the marketplace that is still consolidating, various national regulations of different Southeast Asian countries, and the need to complement their own corporate goals with those of their Southeast Asian partners. Mainland Chinese firms, on the other hand, have made major advances in the Southeast Asian electronics sector as they target the region’s consumers by offering low prices and high-quality products and services. In addition, they have also established tie-ups with marketing firms that have intimate knowledge of the regional marketplace.

The broader implication of the varying outcomes in mainland Chinese firms’ “going out” strategy in the electronics and automobile sectors is that China’s national interest is not the most important—and certainly not the only—variable in
explaining outward FDI of mainland Chinese firms (in particular but not limited to SOEs). In other words, mainland Chinese firms do not exist in a vacuum as they are integrated within various GPNs that operate across national boundaries in highly differentiated ways, and are influenced by regulatory and non-regulatory barriers as well as political economic processes at multiple geographical scales.\textsuperscript{92} For instance, economic activities of the automobile sector remain one of the most heavily regulated in the region. Thus, mainland Chinese automobile firms like Chery and SAIC have met considerable obstacles in establishing their operations in Malaysia and Thailand, respectively. Operations of both firms have not grown significantly despite them receiving Chinese state support and cooperating with Southeast Asian firms with intimate knowledge of the regional market. Mainland Chinese firms in the electronics sector similarly obtained Chinese state support and collaborated with Southeast Asian firms to promote their products, but they succeeded in gaining a substantial lead. The fact that the electronics sector is comparatively less regulated and that the automobile sector is more capital-intensive explains, to a certain degree, the different levels of success of mainland Chinese firms in Southeast Asia. Findings in both sectors also suggest that mainland Chinese firms must properly manage a gamut of complex factors in their respective economic sectors in order to be successful in their overseas expansion. Overall, Chinese electronics firms are more adept at managing these factors than firms operating in the automobile sector. More specifically, this article argues that while the Chinese state has played an active role in encouraging mainland Chinese firms to “go out” into the global, as well as Southeast Asian, economy, their

\textsuperscript{92} Jeffrey Henderson et al., "Global Production Networks and the Analysis of Economic Development", \textit{Review of International Political Economy} 9, no. 3 (2002): 436–64.
corporate decisions and eventual success cannot be properly understood without us scrutinizing the broader industrial organisation of sectors, and their place-specific political and economic contingencies.
Figure 1. China's Outward Flow of Foreign Direct Investment at Current Prices and Current Exchange Rates, 1990–2014 (US$ Million)

Figure 2. Geographical Distribution of China’s Outward Flow of Foreign Direct Investment, 2003–2014 (%)

Source: CEIC Data Manager.
Figure 3. Geographical Distribution of China’s Outward Flow of Foreign Direct Investment in Southeast Asia, 2003–2014 (%)

Source: CEIC Data Manager.
Figure 4. Sector-by-Sector Distribution of China’s Outward Flow of Foreign Direct Investment in Southeast Asia, 2007–2014 (%)

Source: CEIC Data Manager.