

REPORT

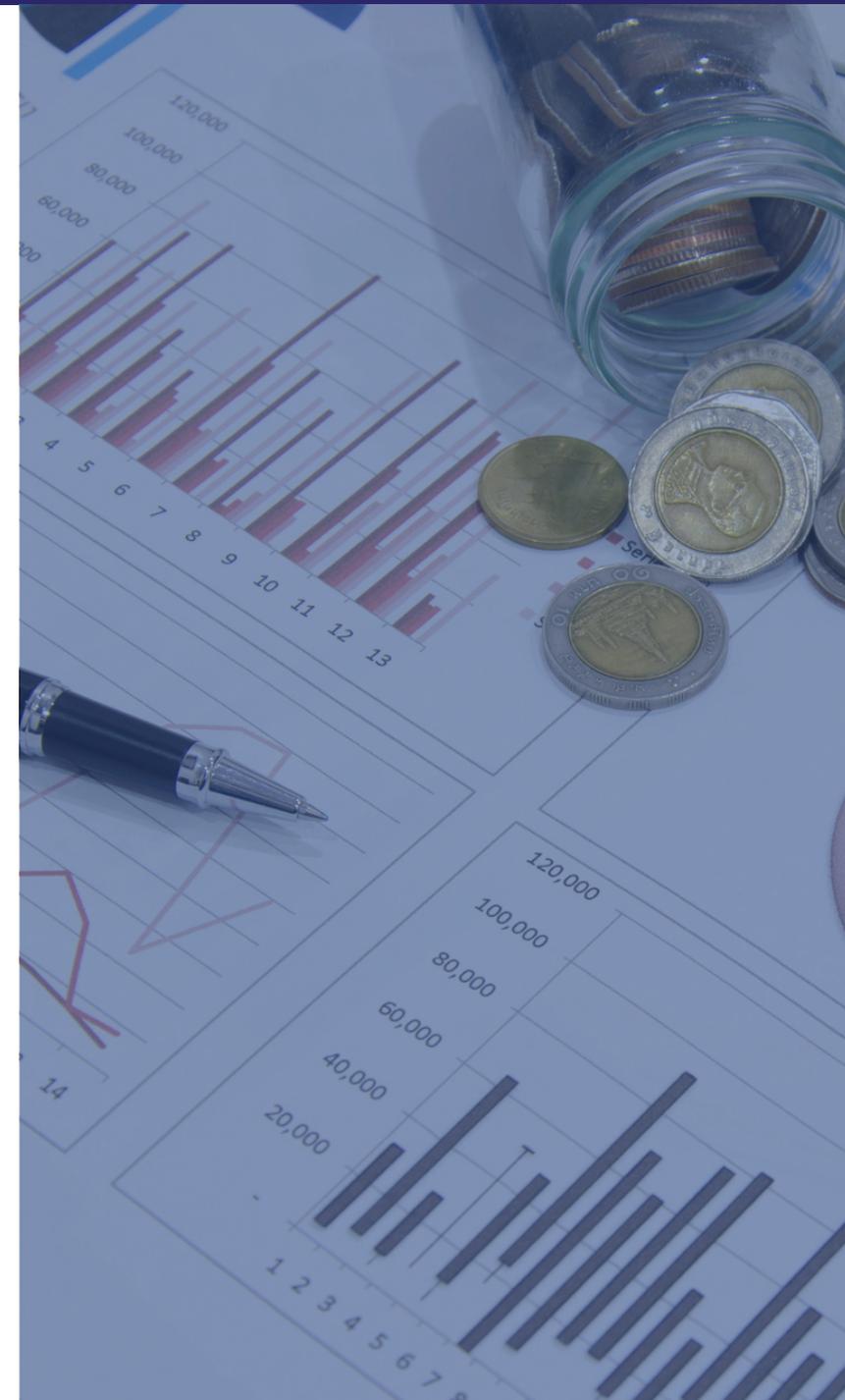
EMERGING LANDSCAPE IN THE INVESTMENT CLIMATE IN ASEAN FROM CHINA, JAPAN, AND INDIA



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Introduction

The dynamic economies of Southeast Asia, collectively known as the Association of Southeast Asian Nations (ASEAN), have emerged as a key market for both Indian and Chinese businesses seeking expansion opportunities. As these two Asian economic powerhouses increase their investments (refer to Fig. 1 on page 4) and trade relations with ASEAN nations, their multifaceted engagement is shaping regional economic integration, trade patterns, and business landscapes across various sectors.

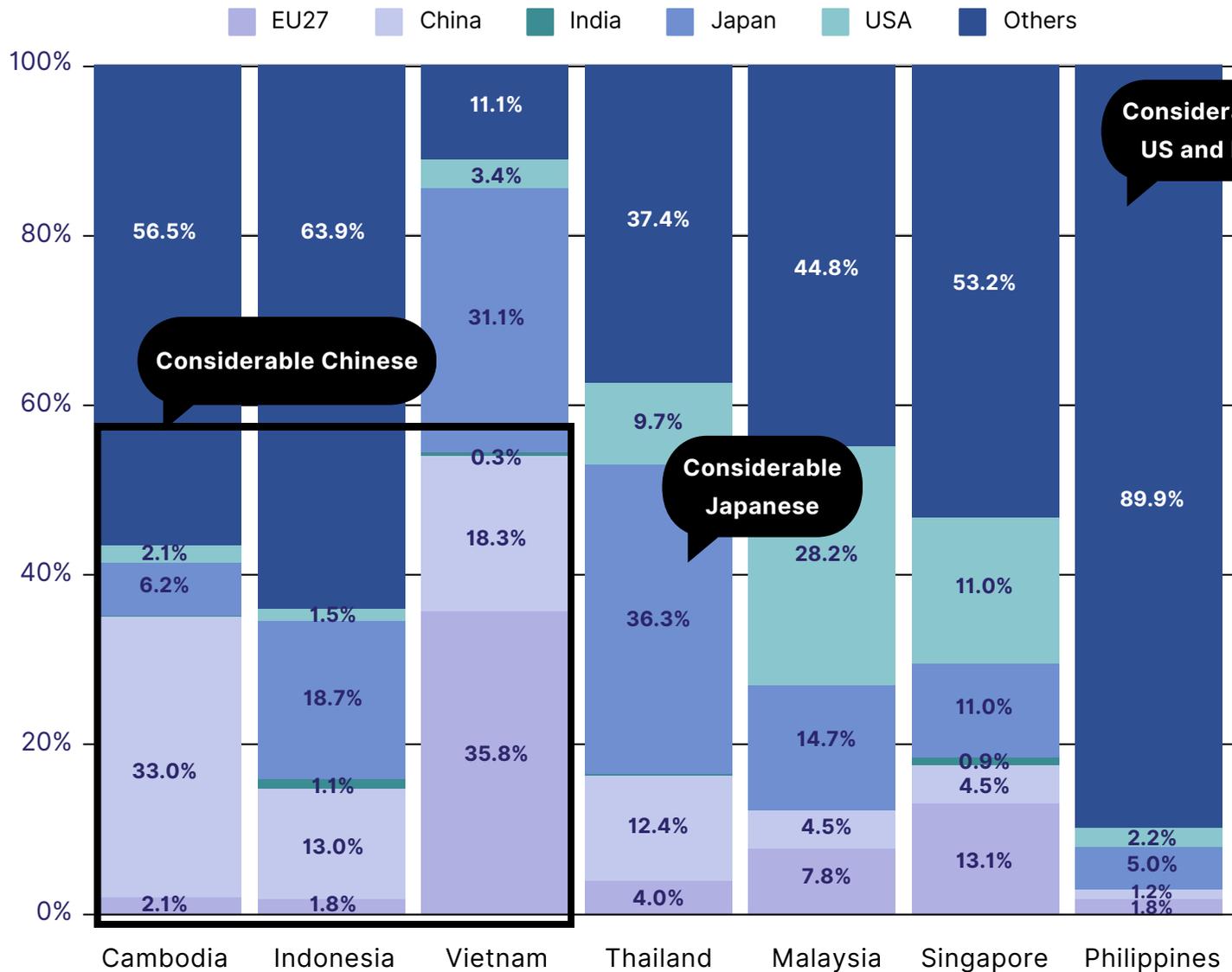


China's Preeminence and the Belt and Road Initiative (BRI)

China's economic prowess and the ambitious Belt and Road Initiative (BRI) have facilitated extensive infrastructure projects and enhanced connectivity within ASEAN, fostering deeper economic integration. While some ASEAN members harbour concerns over loan terms and potential debt traps, the region predominantly views the BRI as an economic opportunity for growth and development. This outlook is reinforced by China's status as ASEAN's largest trading partner, with Chinese exports to the region doubling between 2013 and 2022.

The data on foreign direct investment (FDI) inflows to ASEAN from various sources over the past five years (2018-2022) reveals China's substantial investments, particularly in the manufacturing, real estate, wholesale and retail trade, and information and communication sectors (refer to Fig 2 on page 6). This trend underscores China's strategic intent to capitalize on ASEAN's burgeoning industrial and consumer markets.

Foreign Direct Investment (FDI) Inward Flows to ASEAN in total by each country source (in million US\$) total 2018-2022 in percentage



As shown in Figure 1, the FDI inflows to ASEAN countries vary significantly by source country. China has made considerable investments in countries like Cambodia and Indonesia, while Japan has a strong presence in Vietnam and Thailand. The United States and European Union countries also contribute significantly to FDI in the region, particularly in Singapore and Malaysia.

Figure 1: FDI Inward Flows to ASEAN by Country

Source: ASEAN Statistical Highlights 2023, ITC 2023; Philippines investment mainly comes from ASEAN and unspecified countries, while Vietnam data has been extrapolated using ITC FDI data

India's "Act East" Policy and Growing Engagement

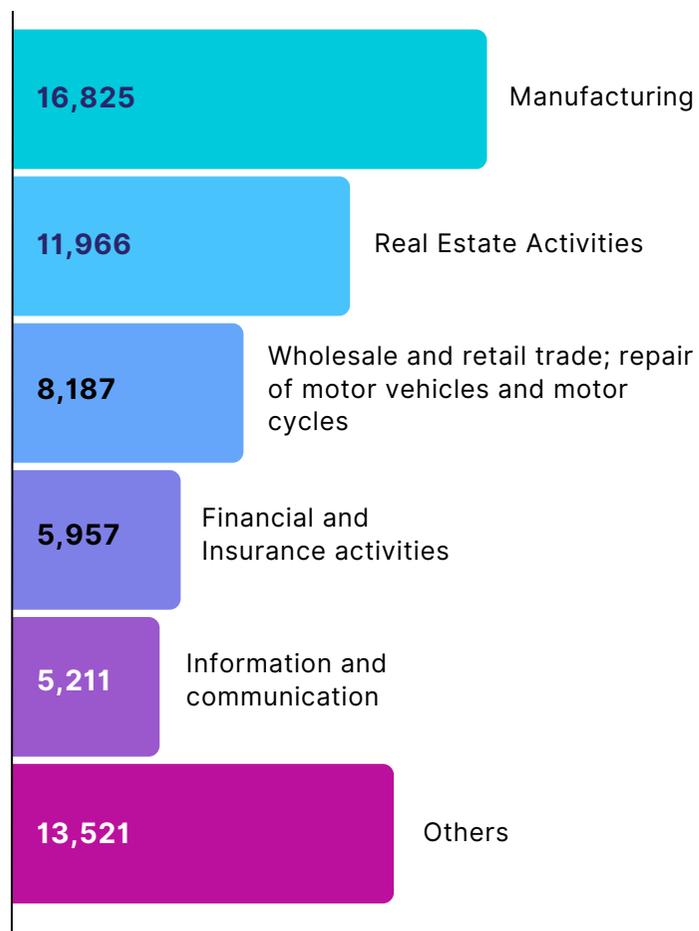
India's engagement with ASEAN has evolved from the "Look East" policy of the 1990s to the more proactive "Act East" approach since 2014. This shift reflects India's determination to enhance connectivity, strengthen ASEAN's centrality, and expand cooperation, especially in the maritime domain. While India's economic ties with ASEAN lag behind China's, its strategic partnership aims to counter China's influence and maintain a multipolar balance of power in the Indo-Pacific region.

The FDI data reveals (refer to Fig. 2 on page 6) India's nascent but rapidly expanding investments in ASEAN, primarily concentrated in the financial and insurance services sectors, catering to the region's expanding middle class and growing demand for such services. India's manufacturing strengths, particularly in the automotive and pharmaceutical industries, present further opportunities for investment and collaboration.



Top 5 Sectors by China, India and Japan into ASEAN for the last 5 years (2018 – 2022, in million US\$)

China 



India 



Japan 

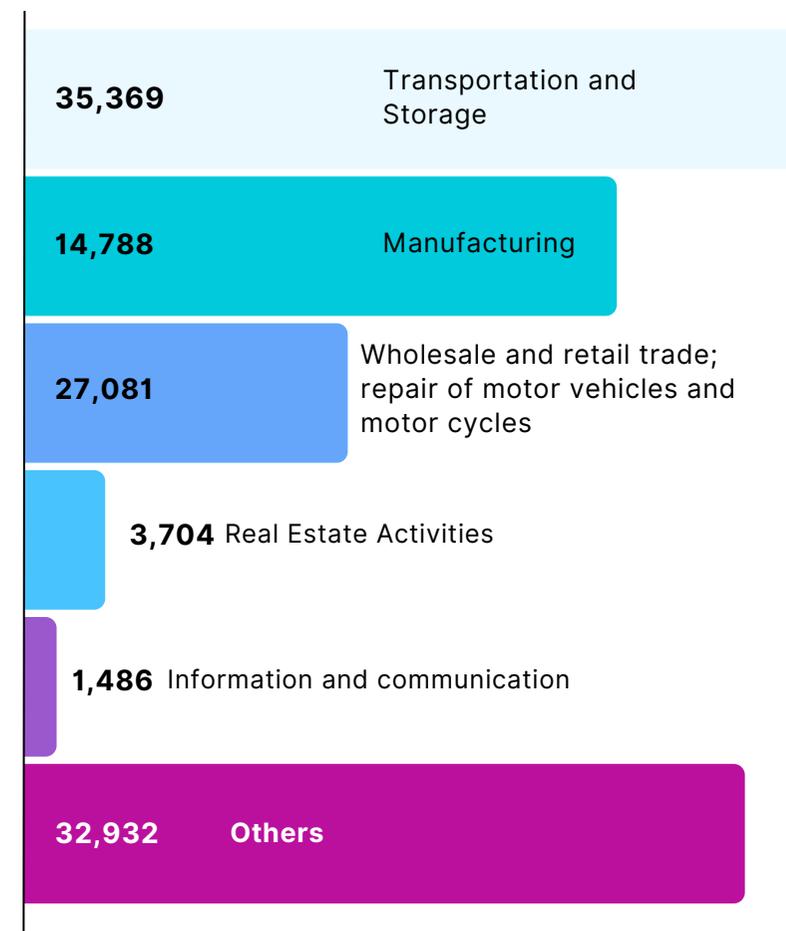


Figure 2: Top 5 Sectors for FDI in ASEAN by China, India, and Japan (2018-2022)

Source: ASEAN Statistical Highlights 2023

Chinese Companies' Strategic Expansion in ASEAN

Chinese companies are rapidly expanding their investments, manufacturing operations, and supply chains in the ASEAN region, driven by the region's growing consumer demand, favorable trade policies like the Regional Comprehensive Economic Partnership (RCEP), and strategic access to critical natural resources. Major Chinese firms like CATL, Country Garden, and SAIC Motor have poured billions into new battery plants, mixed-use developments, and automotive manufacturing facilities across key ASEAN markets like Indonesia, Malaysia, and Thailand.

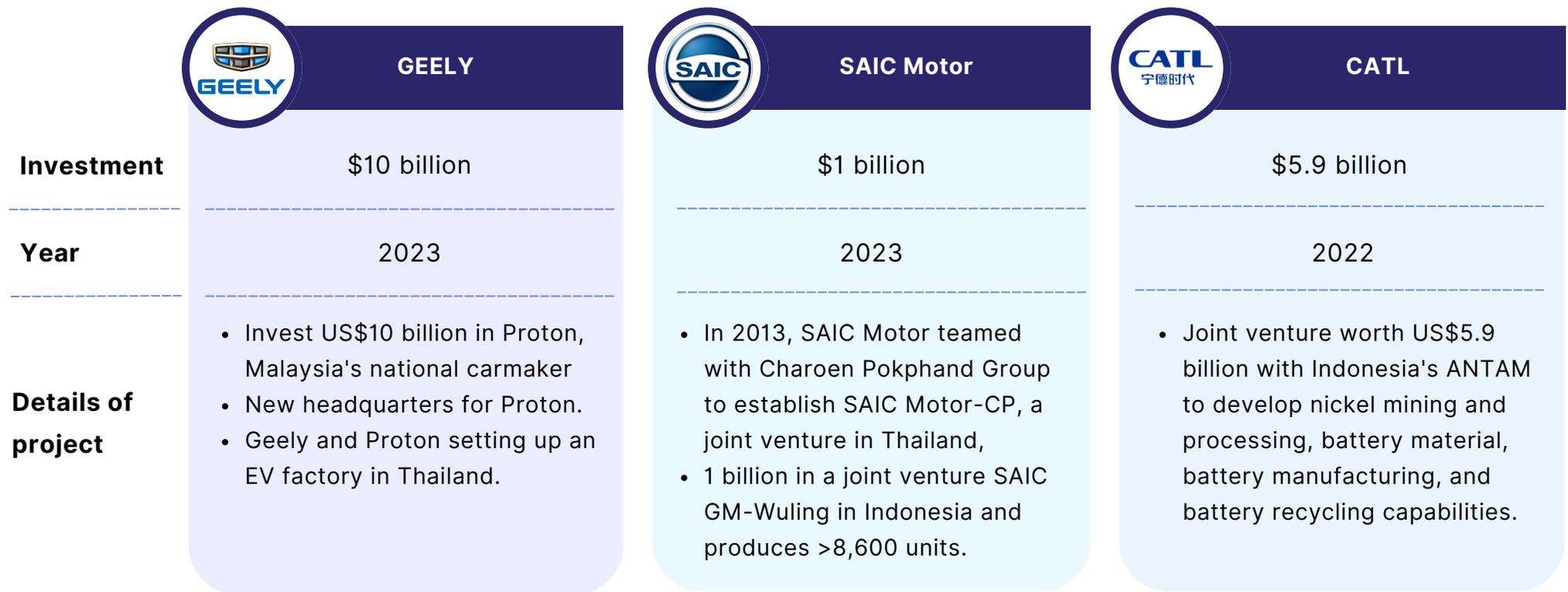


Figure 3: Chinese Companies' Strategic Expansion in ASEAN
 Source: ASEAN Briefing 2023, Reuters 2023, SAIC Motor 2023

Figure 3 showcases some of the major investments made by Chinese companies in the ASEAN region. These investments span various sectors, including automotive manufacturing, battery production, and mining operations.

Indian Companies' Strategic Expansion in ASEAN

India's booming startup ecosystem, having produced over 100 unicorns valued at over \$349 billion collectively, is increasingly looking towards the ASEAN markets for expansion opportunities. Indian startups like RedBus (bus ticketing), Lenskart (eyewear retail), and Oyo (hospitality) have already established a presence across multiple ASEAN countries, tapping into the region's rapidly growing consumer base and digital economy.

	 Redbus	 Lenskart	 OYO
Investment	\$100 million (global)	\$500 million (ASEAN expansion)	\$200 million (ASEAN expansion)
Year	2023	2023	2019-2023
Details of project	<ul style="list-style-type: none"> • Leading online bus ticketing platform • Singapore and Malaysia • Using travel technology (real-time tracking, cashless payments, and multi-lingual support) 	<ul style="list-style-type: none"> • Leverage its vertically integrated supply chain, and omnichannel approach • Singapore, Malaysia, and Indonesia • Majority stake in Japan's Owndays 	<ul style="list-style-type: none"> • Significant presence across ASEAN countries like Indonesia, Malaysia, Philippines, and Vietnam • Oyo has partnered with hundreds of hotels and homes listed on its platform in major cities

Figure 4: Indian Companies' Strategic Expansion in ASEAN

Source: InvestIndia 2023, Economic Times 2023, NST 2023, Techcrunch 2023, Livemint 2016, Skift 2019

Figure 4 illustrates the strategic expansion of Indian companies in the ASEAN region, highlighting key investments and target markets.

Japan's Strategic Shift Toward ASEAN

Alongside China and India, Japan is also pivoting its manufacturing base toward ASEAN nations, seeking to leverage the region's lower costs, favourable tax incentives, and strategic location. Japanese automotive giants like Toyota, Honda, Isuzu, and Mitsubishi Motors are jointly investing billions in the production of electric vehicles in Thailand. Companies like Nissin Foods and Uniqlo are expanding their production capabilities in Indonesia and Vietnam, respectively, to cater to the growing demand for halal-certified products and apparel in ASEAN and beyond.

	 Toyota, Honda, Isuzu & Mitsubishi Motors	 Nissin Foods	 Uniqlo
Investment	150 Billion Bhat (4 Billion USD)	\$20 million (ASEAN expansion)	Undisclosed
Year	2013	2014	2023
Details of project	<ul style="list-style-type: none"> • Support Thai government's policy of transitioning from combustion engine vehicles to EVs • Joint investment by 4 companies to produce EV pickup truck 	<ul style="list-style-type: none"> • Nissinmas joint venture bought Indonesian 49% share in Indofood, production hub for halal-certified products • Target Southeast Asia, and Muslim nations in MEA and Africa and Vietnam to cater to China 	<ul style="list-style-type: none"> • The apparel retailer, is expanding production in Vietnam to serve ASEAN, India and others • Uniqlo has 227 factories in China, 80 in Vietnam, 33 in Bangladesh, 13 in Indonesia, and 16 in India and Japan

Figure 5: Japanese Companies' Strategic Expansion in ASEAN

Source: Nikkei Asia 2014, Business Times 2023, Financial Times, The Investor 2024, Mirage News 2024

Figure 5 showcases the strategic investments of Japanese companies in the ASEAN region, highlighting their focus on automotive, food, and apparel industries.

Main Takeaways



ASEAN has become a strategic battleground for economic and geopolitical influence between China and India, with both nations vying to strengthen their ties and leveraging on the region's growth potential.



China's Belt and Road Initiative and its status as ASEAN's largest trading partner have solidified its economic dominance, while India's "Act East" policy aims to counter China's influence and promote a multipolar regional order.



Foreign direct investment data reveals China's substantial investments in ASEAN's manufacturing, real estate, and trade sectors, while India's investments are concentrated in financial services, real estate, and automotive, catering to the region's expanding middle class.



Chinese and Indian companies are making strategic investments in ASEAN, with Chinese firms focusing on electric vehicles, renewable energy, and critical mineral processing, while Indian startups and companies are tapping into consumer markets and leveraging their technological expertise.



Japan is also shifting its manufacturing base toward ASEAN nations, leveraging lower costs, tax incentives, and strategic locations, while Japanese companies are investing in electric vehicle production, halal-certified food products, and apparel manufacturing.

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