

Study of Industrial Sectoral Direct Investment Strategies in the Chang Jiang River Delta

Kim Dongsoo* et al.

The main purpose of this study is to new devise models of cooperation with industries in the Changjiang River Delta, which is the most advanced region in China. In contrast to previous research, this study acknowledges how changes in the exogenous trade and industry environment, including rising trade protectionism, technology and even the COVID-19 pandemic have become very important factors in Foreign Direct Investment. Therefore, this study suggests customized strategies for selected industrial sectors for cooperating and investing in/with the Chiangjiang River Delta area.

This study differs from the extant literature in four ways. First, it analyzes and describes clearly the two areas of trade and direct investment. Second, in this study, organic cooperative research was prompted through mutual discussion over distinct roles among research institutes. Third, the core content of this research materialized when the principal subject of analysis was narrowed down from China as a whole to the Changjiang River Delta specifically. Fourth, the most important contribution of this research is the customized policy suggestions across target sectors that consider specific areas and avenues for investment, corporate strategies, Korean government support, and so on.

After opening up in 1978, China has become the fastest-growing economy and has even

* kim.dongsoo@kiet.re.kr

been able to overtake the US in terms of total economic volume. The Trump administration of the U.S. consistently sought to pressure China through the imposition of tariffs and the protection of cutting-edge industrial technologies. China is expanding investment to gain the upper hand in the future by building digital infrastructure while lowering its dependence on U.S. technologies and enhancing domestic research and development. Meanwhile, Japan imposed sanctions on exports of semiconductor materials to Korea for political reasons. Furthermore, the spread of COVID-19 led to an economic downturn and ushered in an “untact” culture, boosted the online economy and promoted the rapid stimulation of digital technologies. Therefore, when it comes to foreign direct investment, we need to comprehensively assess the stability and sustainability of the supply chain, review production location issues and calculate political risks, among other issues.

The Changjiang River Delta is one of China’s three super metropolitan areas, along with the Capital Area and Zhujiang River Delta, but in substance, it is the heart of China’s economy. It is composed of four states: Shanghai, Jiangsu, Zhejiang, and Anhui. The population of the Changjiang River Delta is about 167 million as of 2020 and the gross regional domestic product came to about 23.7 trillion CNY in 2019, which is about 21.3 percent of China’s gross domestic product. The service industry, including the finance and logistics sectors, are heavily concentrated in Shanghai, while the information communication technologies (ICT) and platform economy sectors are located in Hangzhou. The automotive manufacturing, display and semiconductors are concentrated in Jiangsu and traditional manufacturing and agricultural sectors are in Anhui.

The trade volume between Korea and the Changjiang River Delta accounts for about 35.2 percent of total trade volume between Korea and China. About 84.4 percent of imports to Korea from the Changjiang River Delta are intermediate goods and 64.5 percent of Korean exports to the region are also intermediate goods. Among the aforementioned four states, trade volumes with Jiangsu are the biggest. Korean FDI to China is heavily concentrated in Jiangsu and Shanghai. Since 2016, the portion of direct investment to Jiangsu accounts for 34.8 percent of all FDI to China. The purpose of the direct investment to Changjiang River Delta is for the local market. On the other hand, Korean companies in China seem to lose their competitiveness and appear very vulnerable to frictions between the U.S. and China and even COVID-19.

Considering direct investment in the Changjiang River Delta, it is necessary to review the development plan of the area. Policies including the the One Belt One Road initiative, China Manufacturing 2025, Strategic New Industries and Local Industries are supposed to be screened and be utilized. For effectiveness of direct investment, the Free Trade Zone should be given priority.

Super Metropolitan Economic Area Cooperation between the Dongnam Area in Korea and the Changjiang River Delta may generate new synergies through cross-industrial cooperation. Such cooperation could be undertaken based on the Korea Strait Economic Bloc at the logistical level, and thus could function as a lubricant of trilateral cooperation between Korea, China and Japan in the future.

Three criteria were applied to the selection of promising direct investment sectors in the Changjiang River Delta: fundamental location decisions, the Changjiang River Delta

Direct Investment Strategies for Manufacturing Sectors in the Changjiang River Delta

	Automobile	Home Appliance	Aerospace	Semi-conductor	Hydrogen
sector	Parts parts for E.V.	high VA modules	Parts and MRO	System Semiconductors	Fuel Cells, Storage
area	Shanghai, Yancheng, Nanjing	Nanjing, Suxichang, Hepei	Shanghai	Nanjing, Suxichang, Wuxi, Shanghai	Shanghai, Suzhou, Taizhou, Yunpu, Nantong
method	Re-engineering ex-part vendors	Greenfield Brownfield	Brownfield	Greenfield	Greenfield & R&D
type	Group	Group	Alone	Group	Alone
challenge	price competitiveness	price competitiveness	tech competitiveness	tech competitiveness	tech competitiveness
barrier	demands tech protection	price competitiveness	US-China friction	US-China friction	US-China friction
Gov role	<ul style="list-style-type: none"> · network for parts vendors · resolve rechargeable battery subsidy problems 	<ul style="list-style-type: none"> · Gov dialogue · Minimize international political risks 	<ul style="list-style-type: none"> · Gov Dialogue (Joint R&D) · network for parts vendors 	<ul style="list-style-type: none"> · Gov Dialogue · Preparation for Decoupling · Managing Brain Drain 	<ul style="list-style-type: none"> · Gov Dialogue : Hydrogen Manufacturing, Storage, etc

Direct Investment Strategies for Service Sectors in the Changjiang River Delta

	Bio·Health	e-Commerce	Ocean Logistics
sector	Pharmacy Medical Devices Healthcare	Applications	Ocean Logistics Complex Logistics Global Distribution Center
area	Changjiang River Delta	Changjiang River Delta	Shanghai, Nanjing, Ningbo
method	Greenfield (Joint)	Greenfield (Joint)	Greenfield (Joint)
type	Alone	Alone	Alone / Group
chal- lenge	Regulations	Regulations	Peer Competitiveness
barrier	Business Partner	Regulations	Business Risk
Gov role	Gov dialogue	Incubation Center Deregulation	Gov cooperation

development plan and Korean comparative advantage. As a result, five manufacturing industries and three service industries were selected: the automotive, home appliance, aerospace manufacturing, system semiconductor and hydrogen industries.

This study serves to focus attention on three key issues. First, exogenous factors, such as international political risks, should be considered. Second, reviewing China's government policy review is crucial. Finally, any FDI strategy should be customized. Factors to consider include the region, sector, method of investment, type of investment, looming challenges and the role of government.