

## **Competing for Western Markets?: The Case of ASEAN**

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## Competing for Western Markets?: The Case of ASEAN

By: Christopher Napoli

In 2001, China joined the World Trade Organization (WTO). For many, the event was seen as a progressive step for the former communist country in adopting neoliberal economic principals and joining the international legal order governing trade. For China's neighbours, however, specifically the Association of South East Asian Nations (ASEAN), WTO entry was viewed with a certain suspicion and angst. The official position of ASEAN was that China's "participation in the world trade system does not only represent a competitive challenge, but also an opportunity for ASEAN investors to take advantage of, and for ASEAN products to enter Chinese market more freely".<sup>1</sup> Despite this, the ASEAN response to China's WTO entry – which was to begin negotiations on a free trade agreement (FTA) - suggests that it recognizes action is needed to account for China's emerging dominance in the global trading sphere. China's entry into the WTO resulted in the 2002 China-ASEAN Framework Agreement on Comprehensive Economic Cooperation, and eventually the China-ASEAN free trade area, which came into effect in 2010. According to one senior Malaysian official speaking on how ASEAN should respond to China's growing dominance in global trade, an FTA is needed because: "If we cannot defeat you [in global markets] we will join you".<sup>2</sup>

There are two reasons why many ASEAN countries were leery about China's WTO accession. First, throughout the 1990's, the Chinese economy was growing at roughly 10% per annum, and the country was increasingly becoming the world's producer of manufacturing goods. As many ASEAN countries had also pursued export-oriented strategies focused on manufacturing, there was a fear amongst some that China might 'crowd out' ASEAN producers, especially in Western markets. Second, the Asian Financial Crisis of 1998 reduced the perception for some that ASEAN was a stable region for investment. This created fears that western investors might consider an open, litigious China a more suitable investment climate compared to ASEAN, which to date is a series of independent markets joined in a trade agreement. By contrast, some saw China's rise as a benefit for the ASEAN region. This is because a growing China would increase the size of the 'economic pie', creating new

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<sup>1</sup> "ASEAN Reaffirms Support for China's WTO Accession" People's Daily Online (July 27, 2001)

<sup>2</sup> "WTO entry catalyst for ASEAN FTA", Chinadaily.com (September 12, 2011)

destinations for ASEAN exports, as well as new country from which to attract foreign direct investment.

The debate over whether China will compliment or crowd-out ASEAN is rooted in the theory and assumptions of comparative advantage. While China's seemingly infinite supply of labour gives the country a strong advantage in certain low cost manufacturing processes, this advantage must, by definition, come at an opportunity cost in other areas. As Ricardo's logic argues, even if one country has the absolute advantage in the production of all goods, there are still gains from specialization based on opportunity cost. Additionally, as the former WTO Director General Michael Moore has stated, there are tremendous benefits in having one of the world's largest exporters committed to following mutually agreed upon global trade rules: "Of course China is going to be very competitive, but having China competitive under rules, under a binding dispute mechanism, is, I would have thought, in the whole world's interests."<sup>3</sup>

Both the economic and legal reasons offer a convincing argument for why China's rise and entry into the WTO should not crowd-out ASEAN countries in trade and investment markets. The economic logic, however, is complicated by certain political economy considerations. First, one of the primary assumptions of comparative advantage is that changing export patterns do not require switching costs. In practice, however, even in low cost manufacturing industries, structural adjustments brought on by changes in trade patterns can cause harm to economies in the short run. Thus, should China's rise require ASEAN economies to shift production into other areas, including investment in new capital and retraining the labour force, this may not be without short-term pain. Additionally, ASEAN is not a single country, but a group of countries with differing languages, legal systems, and 'eases' of doing business. These differences erode the comparative advantage of the bloc, perhaps making China, with its single language, common market, and legal system a more attractive destination for trade and investment.

This paper evaluates the debate over whether China's emergence as an economic superpower has been a compliment or threat for ASEAN by examining data in the 10 years following China's accession to the WTO. Employing a qualitative approach, it seeks to understand whether China's growing dominance has hindered ASEAN GDP growth, exports and attractiveness as a destination for FDI. The evidence suggests that China's rise has certainly

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<sup>3</sup> "China Joins the WTO – at last", BBC News Online (December 11, 2001)

caused a shift in global trade patterns, with China dominating Western markets at the expense of ASEAN countries. Despite this, China's dominance does not appear to have had a significant negative effect on growth rates for ASEAN GDP, exports, or FDI stocks. Given this, the paper concludes that while China is crowding ASEAN out of Western markets, Chinese demand for ASEAN imports has more than offset this effect. The result is that exports and GDP have grown despite shifting trade patterns in the short run. Note that this paper's methodology differs from others on the subject. It does not employ modeling techniques to assess the effects of changing trade patterns on growth, but rather examines the overall evolution of economic indicators. The benefit of this paper's approach is that, while it cannot determine a causal linkage between trade patterns and growth, it shows how China's increasing dominance since WTO accession has affected the fundamental economic situations in ASEAN countries.

The paper is organized as follows. Section one examines the literature regarding whether China and ASEAN are compliments or competitors in the global economy. Section two looks at the evolution of trade and investment flows between China, ASEAN, and the West pre and post China's 2001 accession to the WTO. Section three evaluates the findings and shows that while China's rise has crowded ASEAN countries out of Western markets, there has not been a corresponding decrease in exports, GDP, or FDI growth rates.

### **Predicting the Effects of a Rising China**

As stated, upon China's accession to the WTO a debate ensued over whether a growing Chinese economy would act as a competitor or compliment to other Asian economies. A 2001 study by Lall and Albaladejo warned that a more open China would have a strong comparative advantage in labour intensive manufacturing goods to the detriment of the ASEAN and Indian economies.<sup>4</sup> Should this be the case, the changing pattern of trade could have a broader impact on the overall production and competitiveness in certain technology manufacturing sectors, as they are typically produced in clusters.

By contrast, a study by Abeysinghe and Lu in 2003 has argued that as the Chinese economy has opened up and taken off, "its positive multiplying effect on the neighboring

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<sup>4</sup> Lall, S. and N. Albaladejo, "The Competitive Impact of China on Manufactured Exports by Emerging Economies in Asia", Paper prepared for UNIDO, Queen Elizabeth House, University of Oxford (2001)

economies significantly magnified”.<sup>5</sup> The authors find that China’s positive effect on the Asian region began prior to the country’s accession to the WTO, and should the WTO increase the market access of neighbours, this will only increase the positive effects of Chinese growth.

Similarly, by regressing growth, export and real foreign exchange rate data from 1981-2001 Ahearne et al. find little evidence that China’s increased exports have reduced the overall exports of neighbouring countries. In fact, the study concludes that it is likely growth in Asian country exports are positively correlated with Chinese export growth.<sup>6</sup> In a 2004 paper, Weiss offers similar conclusions suggesting that not only has China’s growth improved trade prospects for ASEAN countries, but also opportunities for attracting FDI. According to the author’s findings, FDI has been a prime mover for integrating Chinese firms into global networks and in developing ‘triangular trade’ between China, the rest of East-South East Asia and the large markets in the US and Europe.<sup>7</sup>

Taking a more balanced approach, a 2007 study by Kui argues that China is a competitor to ASEAN countries for investment and low cost labour manufacturing. This is mainly due to the fact that China has a more favourable investment climate compared to ASEAN countries that also have cheap labour like Vietnam and Indonesia. Despite this, the author argues that Chinese growth that has accompanied increases in exports has opened up the Chinese market for ASEAN products, especially for natural resources producers. Additionally, ASEAN is increasingly playing a complimentary role in Chinese manufacturing networks.<sup>8</sup>

In what is perhaps the most comprehensive study on the evolving trade and investment flows in the Asian regions, Eichengreen argues that “China’s emergence is reorganizing the Asian economy into a core and a periphery” that will see some countries benefit more than others. Using gravity models accounting for country size, distance, and other variables he finds that China’s exports to third markets may crowd out the exports of other Asian countries, but this

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<sup>5</sup> Abeyasinghe, T. and Lu, D. “China as an Economic Powerhouse: Implications on its Neighbours”, *China Economic Review*, 14 (2003) p. 182

<sup>6</sup> Eichengreen, B. “China, Asia, and the World Economy: The Implications of an Emerging Asian Core and Periphery”, FED Working Paper Series (2005) p. 1

<sup>7</sup> Weiss, J. ““People’s Republic of China and its Neighbours: Partners or Competitors for Trade and Investment?”, ADB Institute Research Paper Series, No. 59 (August 2004) p. 19

<sup>8</sup> Kui, N. B. “The Economic Rise of China: Threats and Opportunities from the Perspective of Southeast Asia”, *The Copenhagen Journal of Asian Studies*, 25 (2007) p. 24

effect will only be for certain goods.<sup>9</sup> When distinguishing between consumer goods, intermediaries and capital goods, the findings suggest that most of the ‘crowding out’ occurs in consumer goods, and that Asian neighbours have the opportunities to benefit from increased Chinese demand in capital goods. In practice, this means that growth in Chinese exports is likely to affect ASEAN countries differently. High income exporters of capital goods like Singapore are likely to benefit, while lower income consumer producers are more likely to suffer. Interestingly, the study finds that while Indonesia is likely to experience a fall in consumer goods exports, this is more than compensated by an increase in energy commodities exports, suggesting that there is room for certain economies to benefit from adjustments in the changing structure of trade and investment.<sup>10</sup> Building upon these findings, a 2005 study by Eichengreen and Hui looking at foreign direct investment (FDI) flows finds that FDI into China provides a larger boost to FDI into high-income Asian countries that are producing components and capital equipment for production and assembly operations in China than for low-income Asian countries that mainly compete with China in third markets. Once again, the study suggests that a growing China will affect countries differently within ASEAN, with high-income countries benefiting more than low-income counterparts.<sup>11</sup>

The studies performed in the wake of China’s WTO accession typically conclude that ASEAN will benefit from a rising China, but that the benefits might be felt in the longer run, and changing trade patterns could result in structural changes in ASEAN economies. Roughly 10 years have passed since China’s accession to the WTO. The proceeding section will examine whether there has been a correlation between China’s rise and shifting patterns of trade, and if there is any evidence that China’s dominance in global exports has complimented or crowded out its ASEAN neighbours.

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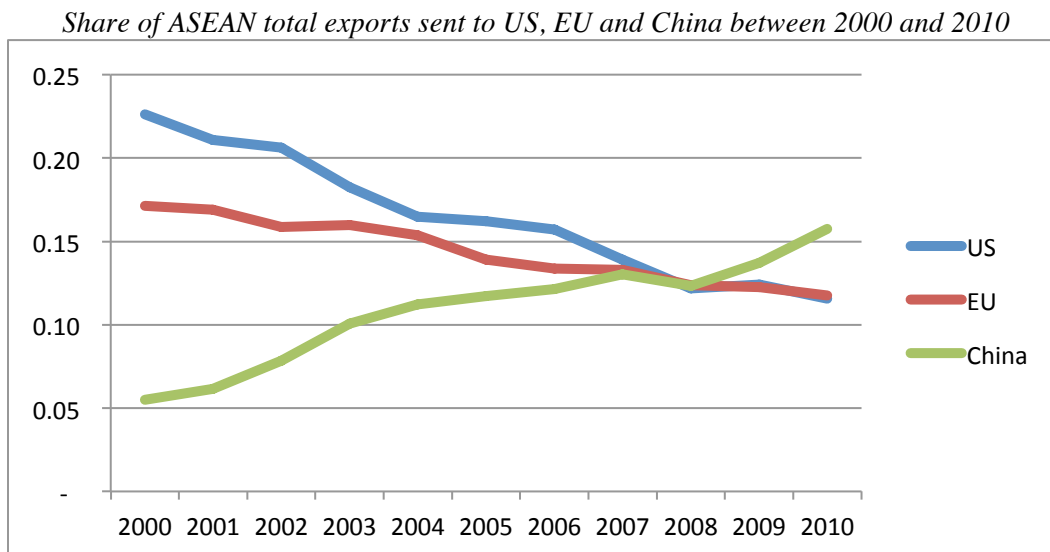
<sup>9</sup> Eichengreen, B. “China, Asia, and the World Economy: The Implications of an Emerging Asian Core and Periphery”, FED Working Paper Series (2005) p. 11

<sup>10</sup> *ibid.*, p. 12

<sup>11</sup> Eichengreen, B. and Hui, T. “Is China’s FDI Coming at the Expense of other Countries?”, NBER Working Paper No.11335 (2005)

## Changing Tides

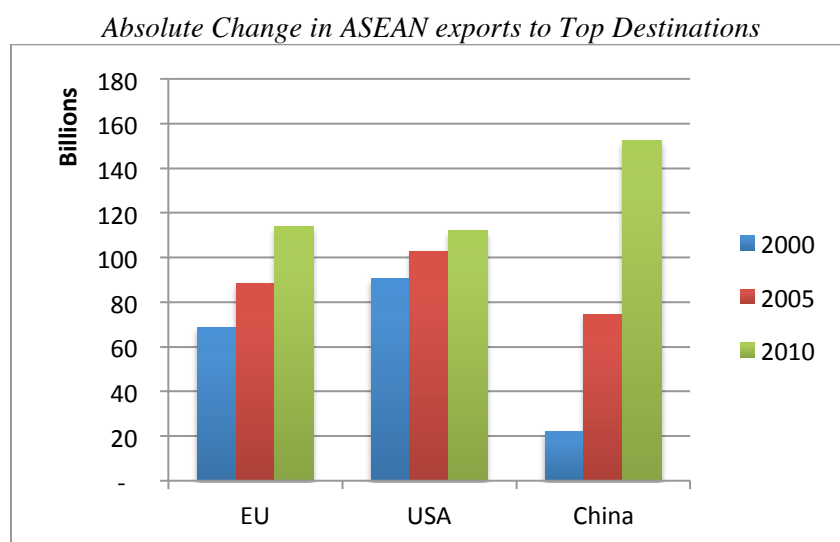
Ten years have passed since China's entry into the WTO. During that time, from the perspective of ASEAN countries, some significant changes have occurred in the international economic order. First, there appears to be a clear relative shift of ASEAN<sup>12</sup> exports away from Western markets. In the year 2000, roughly 64% of all ASEAN exports (including intra ASEAN exports) were sent to OECD countries. By 2010, that figure had dropped to 46%, suggesting that over the decade Western countries had lost relative significance as destinations for ASEAN exports. Regarding ASEAN's most significant trade partners, the table below shows that the reduction in relative trade away from the US and EU has been picked up by China. As the table shows, in 2000 roughly 23% of ASEAN exports went to the United States, while the EU received roughly 17% of ASEAN exports. By 2010, exports destined for the US and EU dropped to 12% each, an 11% drop for the US exports and a 5% drop for EU exports. During that same period, the share of ASEAN exports bound for China increased from 5% to 16%.



*Own Calculations, UN Comtrade database, 2012*

<sup>12</sup> Note that this paper only considers Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam in its ASEAN calculations due to poor data availability in Brunei Darussalam, Myanmar and Laos.

From an absolute perspective, a similar tale is seen. Between 2000 and 2010, ASEAN exports to OECD countries grew from \$256.4 billion to \$448.1 billion, an increase of roughly 75%. For the largest recipients from Western countries, ASEAN exports to the EU increased by 66%, while exports to the United States increased only marginally by 23%. By contrast, between 2000 and 2010, ASEAN exports to China increased from \$29.1 billion to \$152.4 billion, an increase of 593%!



*Own Calculations, UN Comtrade database, 2012*

From China's perspective, a rather different story is told. While China has begun to diversify its exports to many emerging economies, the relative amount by which it has traded with the West has remained rather steady. Admittedly, the relative significance of OECD countries as a destination for Chinese exports reduced somewhat from 63% to 55% between 2000 and 2010. Despite this, the overall importance of the United States and European Union for China has remained strong. In 2000, roughly 21% and 27.5% of China's exports were sent to the United States and EU respectively. In 2010, that figure dropped only marginally to 18% and 23.6%. From the perspective of OECD countries, the importance of Chinese imports has increased significantly. In 2010, China was the largest exporter to the OECD after the European Union; and as the tables below show, China has become the most important import partner for the United States and EU. It is important to note that the relative importance of ASEAN countries as



an import partner declined for both parties. Interestingly, ASEAN exports to the EU were the same as China's in 2000. But by 2010, China's exports to the EU were more than double ASEAN's.

**USA Imports USD billions**

Country	2000	% total	Country	2010	% total
World	1,258	100%	World	1,966	100%
Canada	232	18%	China	382	19%
EU	219	17%	EU	321	16%
Japan	150	12%	Canada	279	14%
Mexico	137	11%	Mexico	231	12%
China	108	9%	Japan	123	6%
ASEAN	90	7%	ASEAN	112	6%

**EU Imports USD billions**

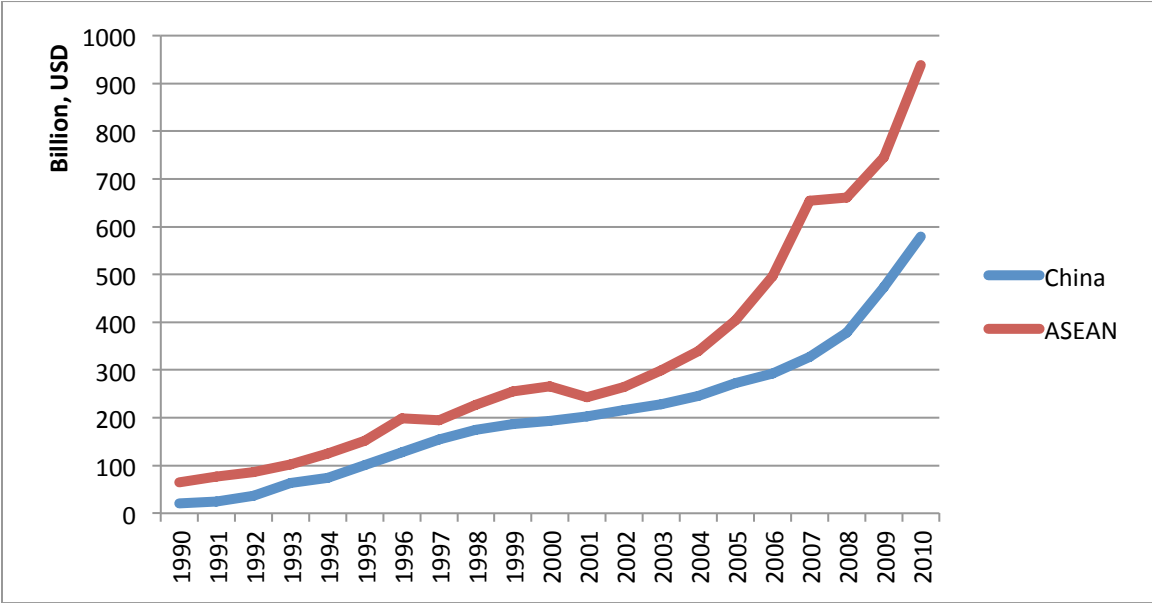
Country	2000	% total	Country	2010	% total
World	913	100%	World	1,975	100%
USA	189	21%	China	373	19%
Japan	84	9%	USA	224	11%
China	68	8%	Russia	205	10%
ASEAN	68	8%	ASEAN	113	6%
Russia	58	6%	Switzerland	112	6%
Switzerland	58	6%	Norway	104	5%

As a result of China's impressive increase in exports to Western countries, the relative importance of the West has not diminished despite the country's large increase in overall exports. That is to say, the rate by which China is increasing exports to its top Western export partners is roughly in line with the overall export growth rates. While China's overall exports between 2000-2010 increased by 533%, the country's increase in exports to OECD countries was 452%, while its increase in exports to the United States and EU were 253% and 448% respectively. The same cannot be said for ASEAN countries. Not only has overall export growth been much less, the importance of Western markets has also declined. Between 2000-2010, ASEAN exports to the world increased by 150%; and overall exports to the OECD, United

States and EU increased by 88%, 100% and 49% respectively. The changing patterns of trade show that China’s overall growth in exports to the West has remained strong relative to the country’s overall growth in exports; while ASEAN’s growth in exports have been much less, and are increasingly geared away from Western markets.

On the investment side a different story is told. Between 1990 and 2000, China’s FDI stocks increased by 9.3 times, albeit from a very small base of roughly \$20 billion. During that same period FDI stocks in ASEAN countries increased by 4.1 times from the larger base of \$64 billion. Between 2000 and 2010, however, ASEAN’s increase in FDI stocks has outpaced China’s, growing by 3.5 times (from the large base of \$266 billion) compared to China’s 3 times (from the smaller base of \$193 billion). The result, as shown below is that despite China’s rapid economic growth, ASEAN’s FDI inflows have outpaced China, suggesting that it is a more favourable destination for FDI.

*FDI Stocks in China and ASEAN, 1990-2010*



*UNCTAD Database, 2012*

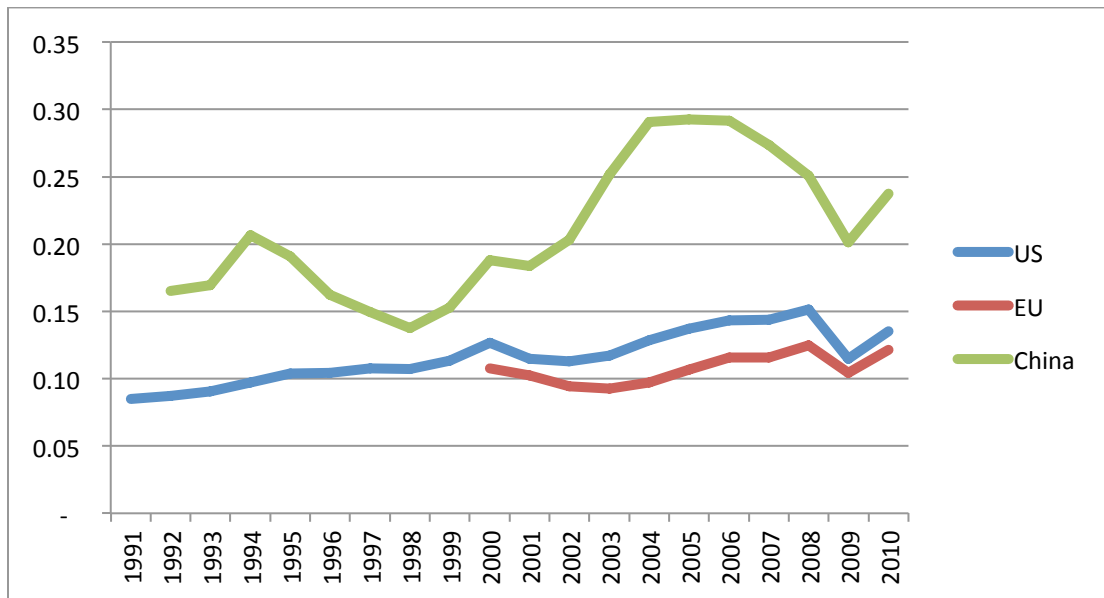
## **Examining the Effects of China's Rise**

While China may be dominating Western export markets, the effect of this on other countries is not necessarily bad. As stated, while free trade might result in changes in the economic structures for countries, by definition no country can have a comparative advantage in *all* production. Additionally, the growth that accompanies free trade can increase the size of the economic pie to the benefit of all countries. To understand how China's growth and newfound dominance in Western markets might be affecting ASEAN countries, one must look at three factors: the relative openness of China as a new trade partner for ASEAN; the evolution of overall ASEAN export competitiveness; and FDI inflows in ASEAN countries. In looking at these indicators, one can better understand whether China 'crowding' in global export markets is a detriment to ASEAN members, or whether shifts in trade patterns away from the West towards China represent an opportunity.

### *Chinese Openness*

The analysis above has shown that ASEAN firms are increasingly shifting exports away from the West and towards China. While this may be good given that China's growth rates are much higher, the potential for ASEAN to benefit from Chinese growth will depend on the country's openness to trade. As the table below shows, despite the conventional wisdom that China is a closed, export oriented economy, ratio between its imports and GDP – perhaps the most useful indicator of a country's general openness to receiving imports – is higher than both the United States and EU. Interestingly, following the country's accession to the WTO in 2001 the import/GDP ratio doubled from 15%-30%, only falling in 2008, presumably as a result of the global financial crisis, and ensuing Eurozone debt crisis. Since 2009 it has begun to increase. Given this, while one cannot conclude that China's increase in openness is a result of its growth or WTO accession, one can conclude that China's export led growth strategy does not appear to come at the expense of imports from third parties.

### *Trade Openness Indicator: Imports/GDP*



*Own Calculations, UN Comtrade Database, 2012*

The findings above are corroborated by other research that finds China has opened its market to imports over the past 30 years.<sup>13</sup> The theoretical explanation for why Chinese imports would increase with export-led growth is twofold. First, the increases in income that accompany GDP growth should cause an increase in demand for consumer products, many of which are not produced in China. Second, as the theory of comparative advantage indicates, China cannot be the most efficient producer in all products. Given this, it must therefore be more efficient for producers in the country to import products used as inputs for final products, many of which will then be re-exported abroad.

#### *ASEAN export competitiveness*

The evidence above suggests that China's market is relatively open. While this is no doubt benefiting ASEAN countries as a whole (seen in the fact that exports to China have

<sup>13</sup> See: Wei, S. J. "China as a Window to the World: Trade Openness, Living Standards and Income Inequality", G-20 Workshop on 'Globalisation, Living Standards and Inequality: Recent Progress and Continuing Challenges' (2002); Yan, I. et al. "Openness and Productivity in China", Unpublished; Marelli, E. and Signorelli, M. "China and India: Openness, Trade and Effects on Economic Growth", The European Journal of Comparative Economics, Vol. 8, No. 1 (2011)

increased by almost 600% in the last 10 years), because demand is finite and markets are rivalrous, only the most efficient, best producers will be able to benefit from China's increased openness. This is especially significant given the fact that China's entry into the WTO has required the country to commit to reductions in trade barriers for *all* countries. It should be noted that, while the EU-ASEAN FTA will offer market access beyond WTO commitments for ASEAN countries, it does not take effect until 2010, and is thus omitted from this analysis. While China's growth has certainly caused changes in trade flows amongst countries, its effect on actual growth and competitiveness in ASEAN less clear. In terms of overall growth, ASEAN countries have not seen large changes in real GDP growth pre and post China's accession to the WTO. As the table below shows, average real GDP growth in ASEAN countries has remained relatively steady in the 10 years leading up to, and following, China's accession to the WTO. In the cases of Cambodia, Indonesia and the Philippines growth rates have actually been larger in the years following China's accession.

*Average Real GDP growth*

<i>Country</i>	<i>1991-2000</i>	<i>2001-2010</i>
Cambodia	7.00	7.86
Indonesia	4.15	5.22
Malaysia	7.22	4.65
Philippines	2.89	4.78
Singapore	7.23	5.69
Thailand	4.59	4.37
Vietnam	7.58	7.27

*Own Calculations, IMF WEO database (2012)*

Similarly, export growth in the largest ASEAN traders has remained, for the most part, stable since China's accession to the WTO. As the table below shows, the average growth in exports has remained relatively stable in Indonesia, Singapore and Thailand. Malaysia's average increase in exports has dropped substantially, which is in line with the country's decrease in overall real GDP growth. Unfortunately, for Vietnam, Cambodia and the Philippines reliable data does not exist for the period 1991-2000. Despite this, given that Vietnam and Cambodia's average export growth has been 19% and 14% respectively from 2001-2010 suggests that even if China is crowding those nations out of Western markets, this has not come at the expense of overall export growth for these countries. By contrast, there is less certainty with the

Philippines, which has had mediocre average export growth of 6% since 2001. While the lower export growth figures could cause concern, given that average real GDP growth increased from 2.89% to 4.78% in the country (see table above) suggests that, despite slow growth in exports, the country's GDP is growing faster than it was prior to 2001.

*Average increase in total ASEAN exports*

<i>Country</i>	<i>1991-2000</i>	<i>2001-2010</i>
Indonesia	10%	11%
Malaysia	15%	9%
Singapore	10%	9%
Thailand	13%	11%
Vietnam	n/a	19%
Cambodia	n/a	14%
Philippines	n/a	6%

*Own Calculations, UN Comtrade, 2012*

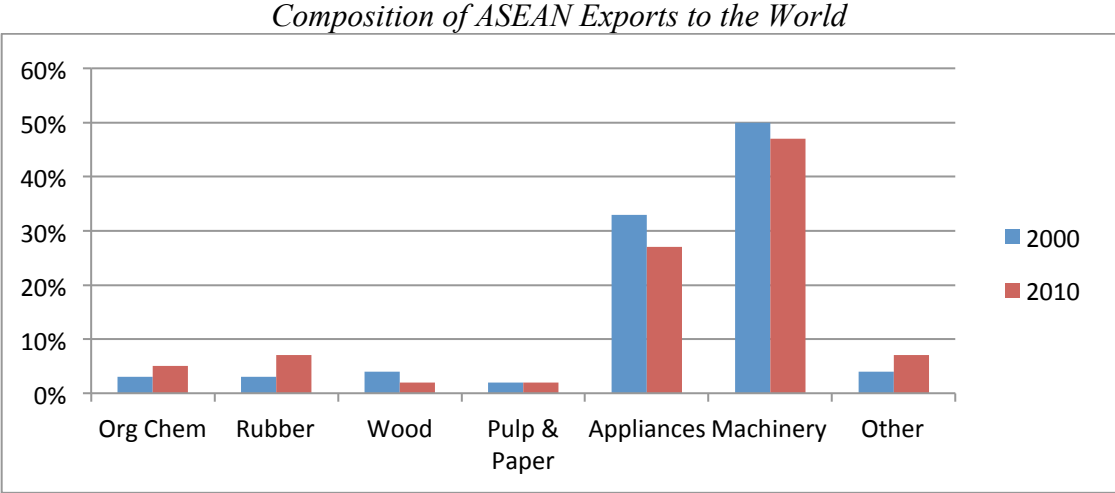
The data above shows that the export competitiveness of most ASEAN countries has not greatly diminished since China's accession to the WTO. In most cases, the ASEAN economies have seen only a slight decline in average growth in exports. For countries where data was unavailable, their export growth post-2001 has been robust. Only Malaysia has seen both a decrease in its overall growth in exports as well as its real GDP growth, which would be a cause for concern if the country did not have such large export and GDP growth during the 1990's. Even with its decrease in average export growth of 6%, average export growth between 2001 and 2010 was still equal to that of Singapore at 9%. Additionally, Malaysia is the largest ASEAN exporter to China, and its annual increase in exports to the country between 2001 and 2010 is 26%, second only to the Philippines (which is operating at a much smaller export base).

*ASEAN Exports to China*

<i>Country</i>	<i>2010 Exports to China, USD</i>	<i>Ave. Annual Increase 2001-2010</i>
Malaysia	50,430,149,705	26%
Thailand	33,193,365,016	23%
Singapore	24,728,920,282	19%
Indonesia	20,795,188,520	18%
Philippines	16,220,254,753	31%
Vietnam	6,984,262,461	24%
Cambodia	3,627,088	14%

*Own Calculations, UN Comtrade, 2012*

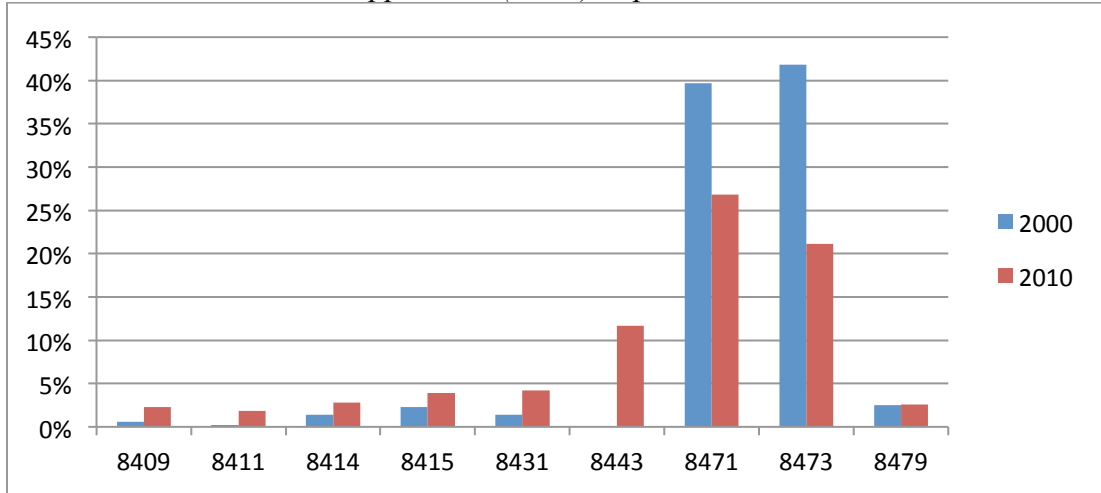
Interestingly, in terms of composition, the table below shows that the composition of ASEAN exports to the world changed only marginally between 2000 and 2010. Despite the shift in exports from the West to China, the majority of ASEAN exports were still Appliances (HS Code 84) and Machinery (HS Code 85). The small relative decrease in Machinery and Appliances exports were picked up by exports in Organic Chemicals and Rubber, perhaps due to an increase in demand for these products from China.



*UN Comtrade, 2012*

When one drills down to the 4-digit level, however, certain shifts are seen. Within the Appliances sector, the relative importance of HS8471 (Automatic data processors and computer hardware) and HS8473 (Computer accessories) decreased, while there was a relative increase in many of the other important export areas, notably HS8443 (Printing Machinery). Given this, it is possible that the shift in export destinations away from the West towards China has resulted in an increased diversification of Appliances exports from ASEAN countries.

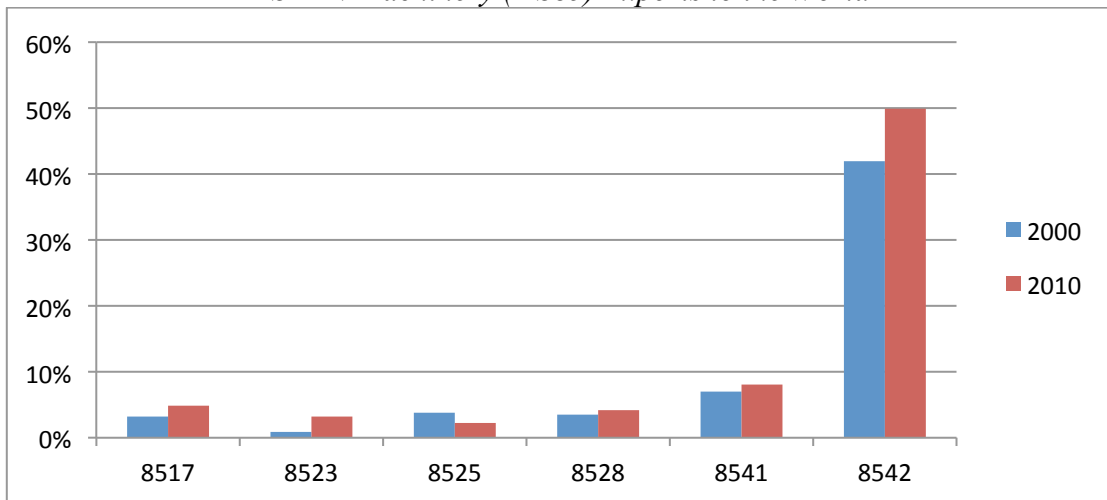
*ASEAN Appliances (HS84) Exports to the World*



*UN Comtrade, 2012*

For Machinery, the situation is different. The relative importance of ASEAN’s most significant Machinery export, HS8542 (Electronic Integrated Circuits), increased by 8 percentage points. There were also marginal increases in exports in HS8517 (Telephones and parts) and HS8523 (Sound Recorders).

*ASEAN Machinery (HS85) Exports to the World*



*UN Comtrade, 2012*

Thus, the export destination shift away from West has accompanied an increased specialization for certain export groups, as well as an increased diversity in others. The changes, however, are only marginal at the aggregate level, suggesting that the change in export destination has not



forced a large reshuffling of production. An interesting question that warrants further study is whether the marginal changes represent shifts up the value chain (i.e. from lower value added exports to higher value added exports) for ASEAN countries.

### *Investment Flows in ASEAN countries*

As stated, ASEAN has outpaced China regarding growth in FDI stocks over the past 10 years. Within ASEAN, however, it should be noted that there is much diversity regarding the beneficiaries of FDI. As the table below shows, traditionally Singapore has enjoyed by far the largest amounts of FDI. In 1990, the next largest recipients were Malaysia, Thailand and the Philippines respectively. By 2010, however, a shift had occurred, as Thailand became the second largest recipient of ASEAN FDI followed by Indonesia and then Malaysia. While certain smaller recipients like Cambodia and Vietnam saw large increases between 1991 and 2000, this was mainly due to the low overall base of FDI in 1990. As a result increases in FDI stocks normalized in the 2000's.

*Country Share of ASEAN FDI and Total FDI increases*

<i>Country</i>	<i>1990</i>	<i>2000</i>	<i>2010</i>	<i>Total times FDI Increase 1991-2000</i>	<i>Total times FDI Increase 2001-2010</i>
Cambodia	0%	1%	1%	41.9	3.4
Indonesia	n/a	3%	13%	n/a	11.8
Malaysia	19%	22%	11%	4.2	3.0
Philippines	8%	8%	3%	3.6	2.4
Singapore	55%	46%	50%	3.1	4.0
Thailand	15%	12%	14%	2.9	3.8
Vietnam	3%	9%	7%	10.2	2.9

*UNCTAD Database, 2012*

Between 2001 and 2010, the slowest growth in FDI was seen in Malaysia, the Philippines and Vietnam. Despite the lower growth in these countries each grew at a competitive rate compared to China. Between 1991 and 2000, FDI stocks in China increased 7.7 times, while between 2001 and 2010 FDI stocks increased only 2.8 times. The data above shows that each country, with the exception of the Philippines, has seen its FDI stocks increase by more than China between 2000 and 2010. Given this, it appears that the 1998 Asian crisis and ASEAN's disintegrated economic and political systems have not made the region a less attractive investment destination compared to China. It should be noted that much of the increases in FDI to ASEAN have been from China. Between 2003 and 2008, Chinese FDI into ASEAN increased

11 times (from \$587 million to \$6,487 million USD); and the percentage of China's total FDI received by ASEAN jumped from 1.77% to 3.53%.<sup>14</sup> While the largest recipients of Chinese FDI are Singapore, Indonesia and Vietnam, all ASEAN countries (with perhaps the exception of Thailand) have been large recipients of Chinese FDI in the 2000's.

*Chinese FDI in ASEAN*

<i>Country</i>	<i>Total times stock increase 2003-8</i>	<i>Total 2008, USD</i>
Singapore	20.2	3,334.77
Indonesia	10.0	543.33
Vietnam	18.2	521.73
Thailand	2.9	437.16
Cambodia	6.6	390.66
Malaysia	3.6	361.2
Philippines	9.9	86.73

*Kubny and Voss, Working Paper*

## **Conclusion**

Following accession to the WTO, many began to wonder how China's booming economy would affect its ASEAN neighbours. There were effectively three hypotheses. First, China's dominance would crowd other Asian countries out of Western export markets, which would be detrimental to their economies in the short run. Second, China's export dominance would increase GDP growth and fuel its desire for imports, many of which would come from Asian neighbours. Third, China's dominance would affect countries differently depending on their export composition (manufacturing, capital intensive goods, commodities).

Over ten years have passed since China's accession to the WTO. Over that time the country has continued to grow at an astounding rate. This paper has employed a qualitative framework to try and understand the effect Chinese growth and export dominance have had on ASEAN countries. The paper has made three observations. First, there has been a large change in export patterns. China now dominates Western markets, and is effectively crowding out ASEAN. This phenomenon is seen from a relative perspective, as the share of trade between ASEAN and the West has reduced, as well as an absolute perspective as overall export growth

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<sup>14</sup> Kubny, J. and Voss, H. "China's FDI in ASEAN: Trends and impact on Host countries, Unpublished Working Paper

rates of ASEAN countries to the West have reduced. From China's perspective, both its relative and absolute share of Western export markets has increased since 2001. As a result, it is clear that China is crowding out its ASEAN neighbours in export markets, as predicted by many.

The second observation this paper has made is that, despite losing the West, the export competitiveness and GDP growth rates in ASEAN countries have not diminished. For every ASEAN country, real GDP growth has remained stable since 2001, and in the cases of Indonesia and Cambodia, it has actually increased. Likewise, growth in ASEAN exports to the world has remained strong throughout the 2000's. In both cases, the likely reason exports have not reduced is that the increase in ASEAN exports to China has more than offset any losses in Western market share. China's demand for ASEAN goods has clearly risen, and the country's high openness to trade (as measured by imports/GDP) has likely made the transition away from the West easier for ASEAN producers. Interestingly, despite the change in destination, the composition of exports from ASEAN countries has not shifted significantly. Thus, ASEAN's transition away from the West does not appear to have had a significant impact on exports or real GDP growth in the short run at the aggregate level; and while China's rise may be arranging Asia into a core and periphery, this does not appear to apply to the ASEAN countries studied in this paper. Both large and small ASEAN economies have enjoyed increased overall exports, GDP growth, as well as increased exports to China since 2001. Admittedly, further research must be done to see how Chinese growth has affected the smaller, poorer ASEAN members like Myanmar and Laos as these countries could conceivably be moving to the periphery.

Last, the paper has shown that, despite lower growth rates, ASEAN countries appear to have offered a more attractive destination for FDI than China between 2000 and 2010. This should alleviate fears that China, with its larger, and perhaps more stable market might divert FDI away from ASEAN countries. Additionally, it should be noted that much of the increases in ASEAN FDI have come from China itself, and that while Singapore still receives the lion's share of Chinese FDI, all ASEAN members studied have enjoyed increased Chinese investment in the past decade.

To conclude, economic indicators suggest that while China's dominance appears to be crowding ASEAN countries out of Western markets, this does not appear to have had an effect on the prospects for growth in GDP, exports, or FDI inflows in ASEAN countries in the short run. In fact, coupled with China's rise have been increases in ASEAN exports and FDI,

suggesting that ASEAN growth may in fact be correlated with the export led development of China.

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