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The Rise of China and the Economic Divergence of the Southeast Asian Countries

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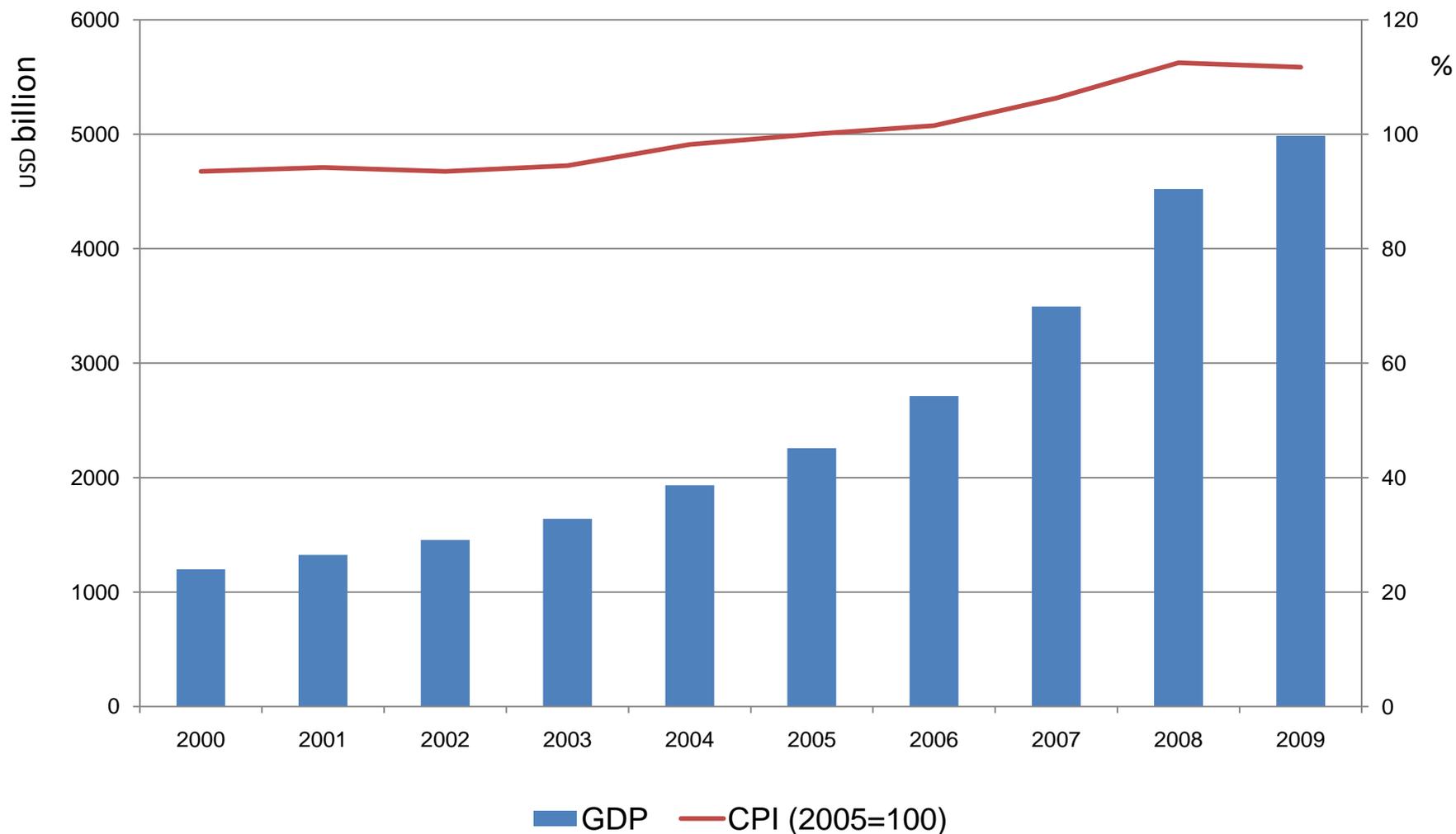
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This version: June 29, 2011, to be revised and improved

Outline of the Presentation

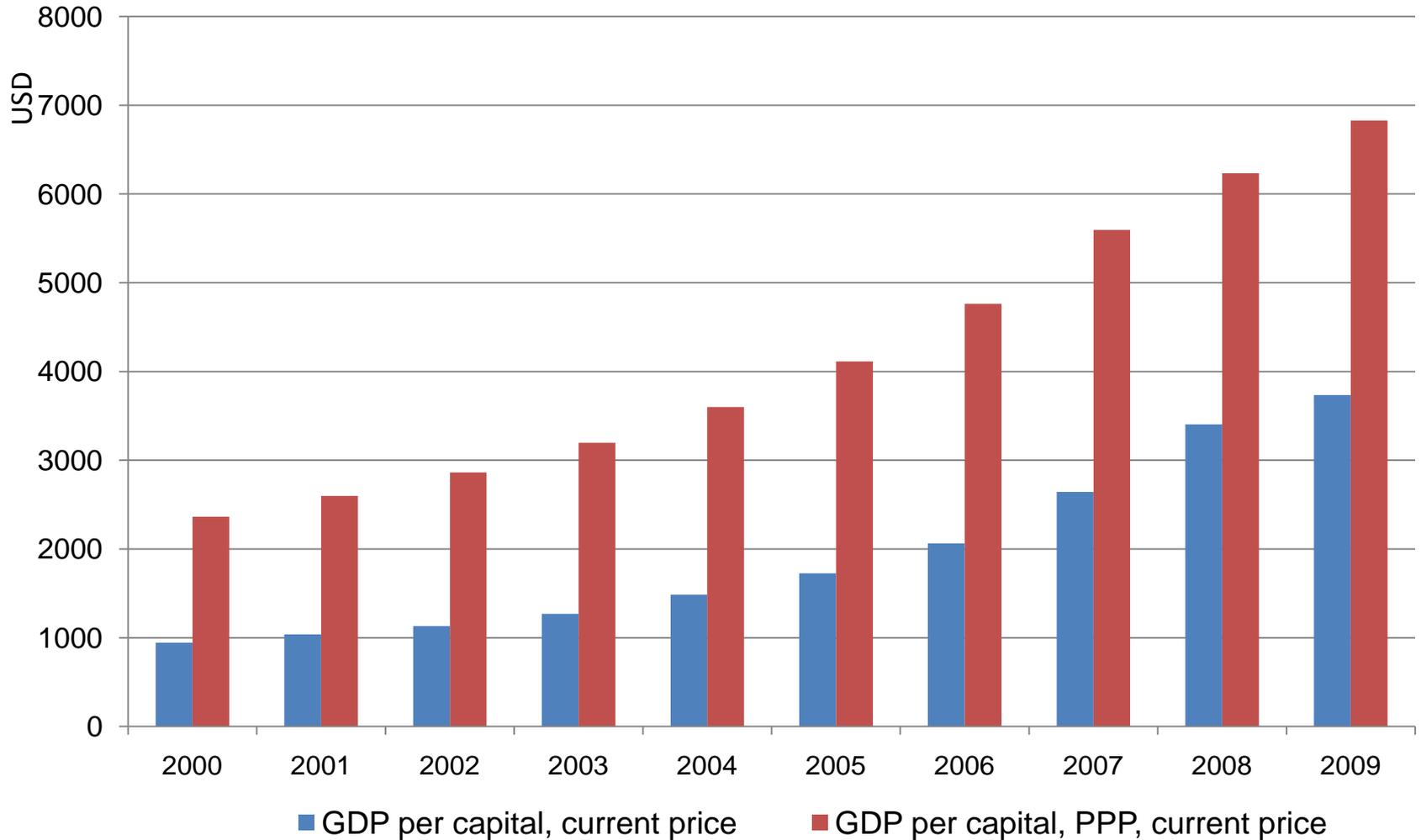
- The economic rise of China
- Theoretical settings for the economic divergence of the Southeast Asian countries under the impact of China's rise
- Observing the trends through the trade between China and SE Asian countries.
- Discussions and Policy recommendations

The Economic Rise of China



Source: ADB (2011)

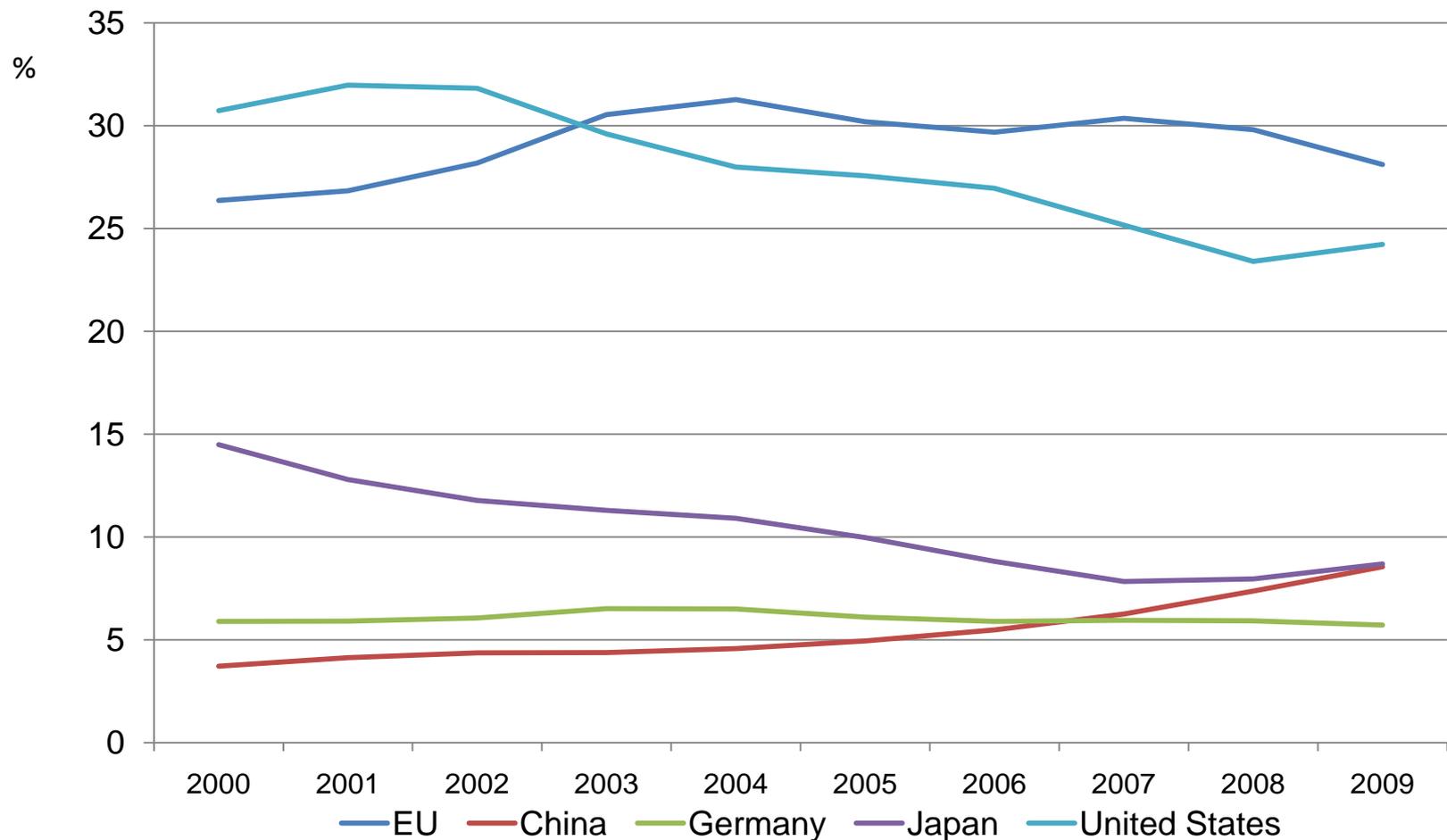
China's GDP per Capita



Source: WB (2011)

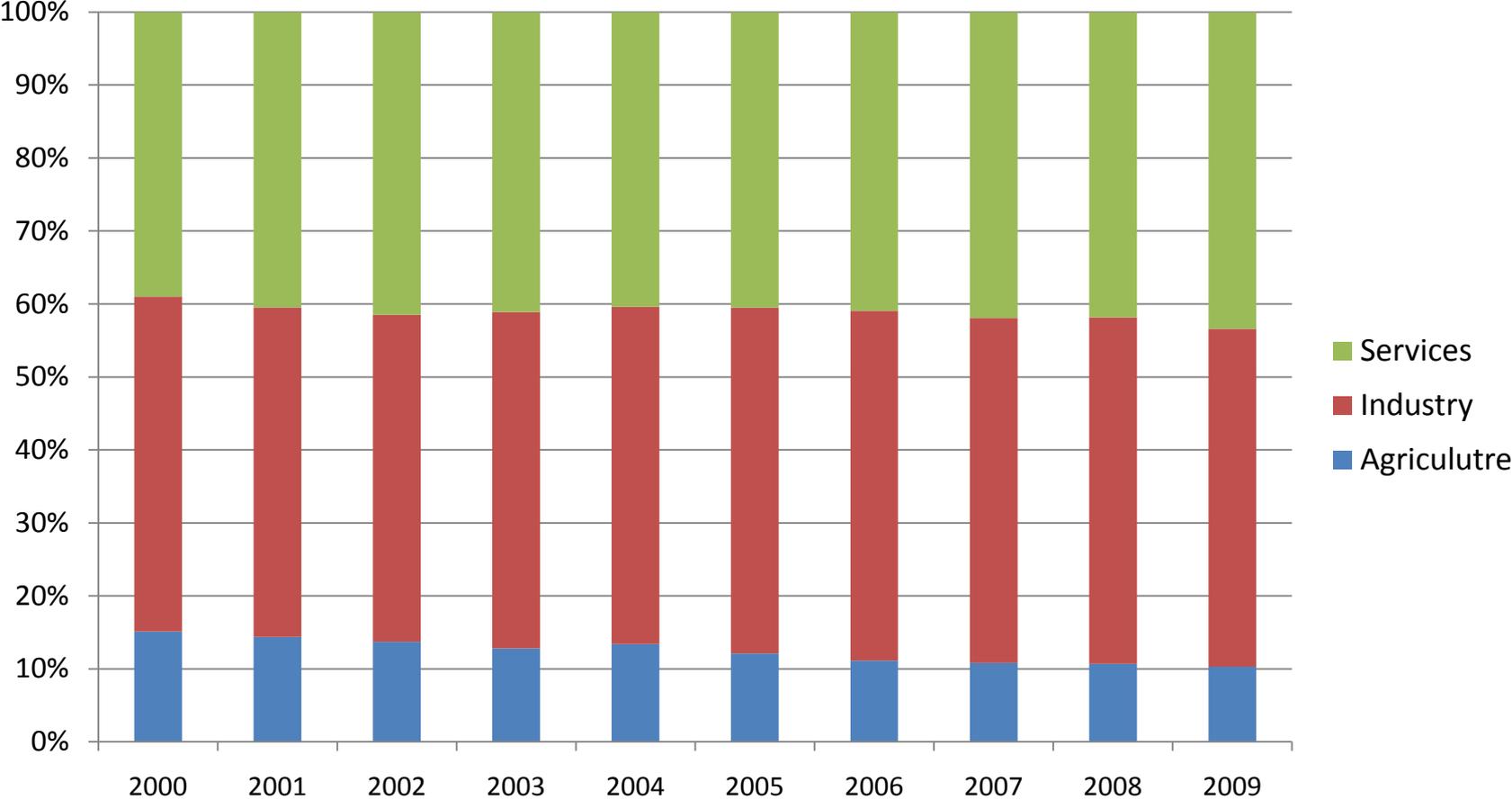
Share in World's GDP

(current price)



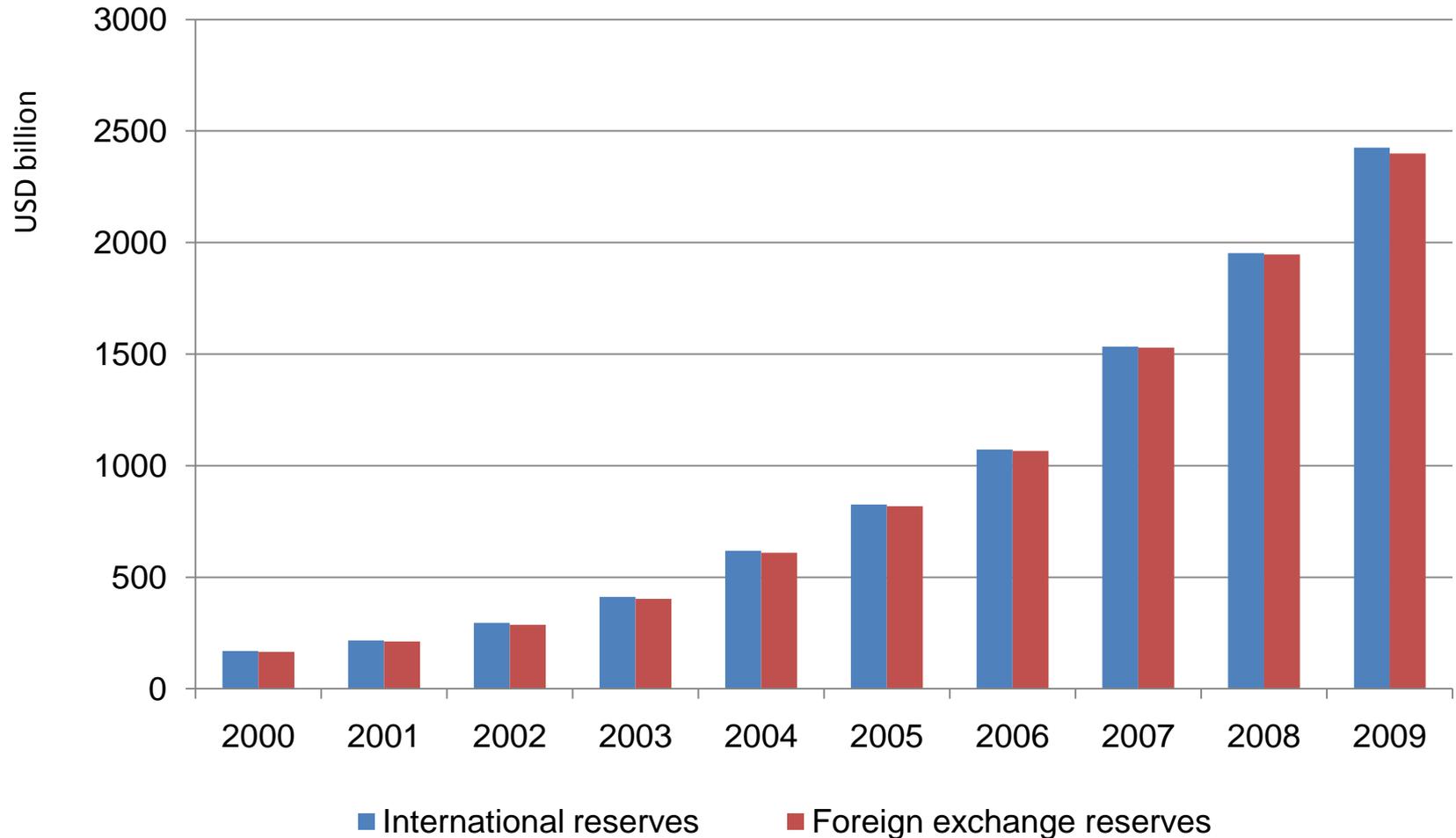
Source: WB (2011)

China's Structure of Output, 2000-2009



Source: ADB (2011)

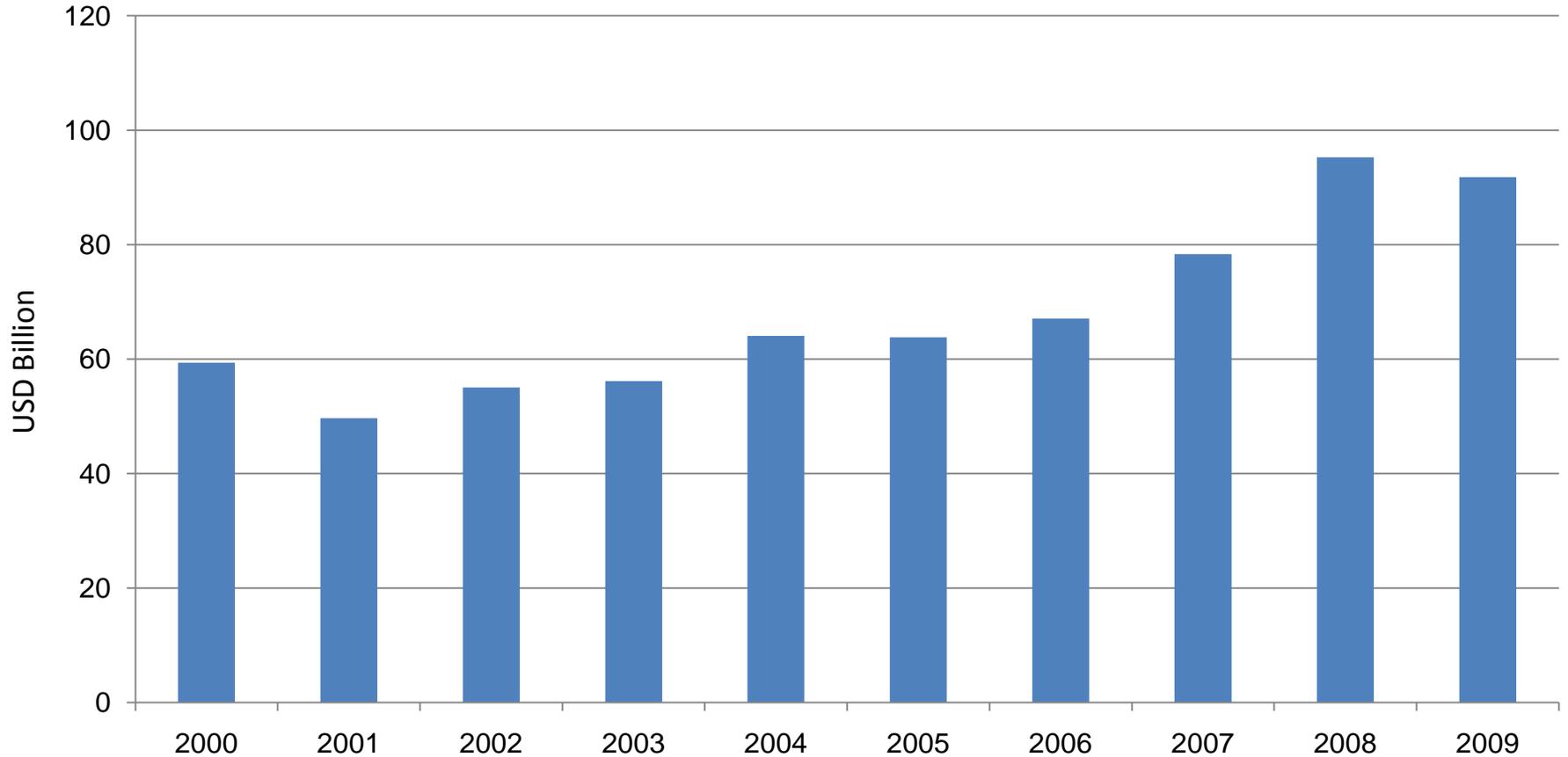
International Reserves



Source: ADB (2011)

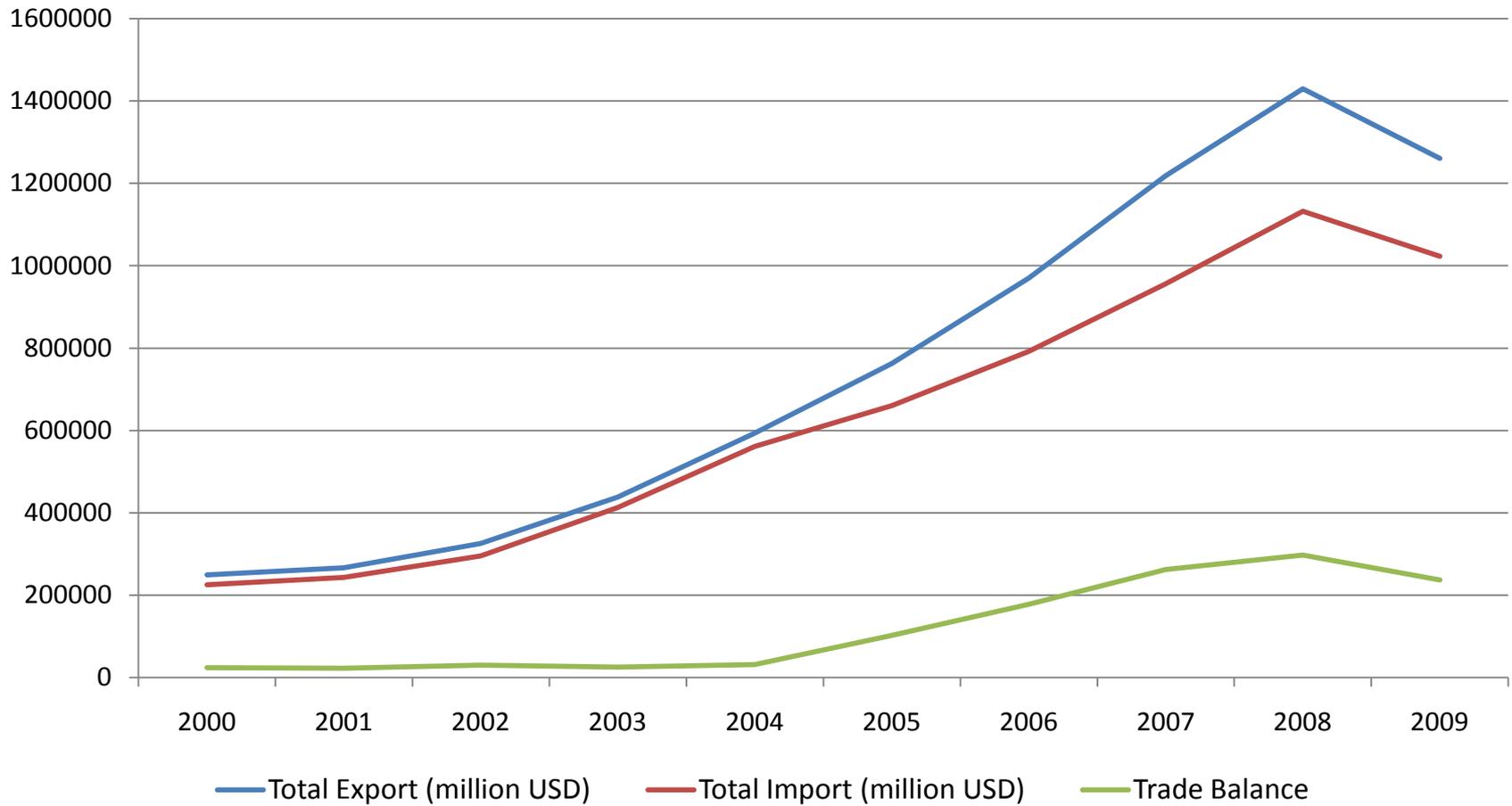
FDI Inflows

Total amount of foreign direct investment actually utilized



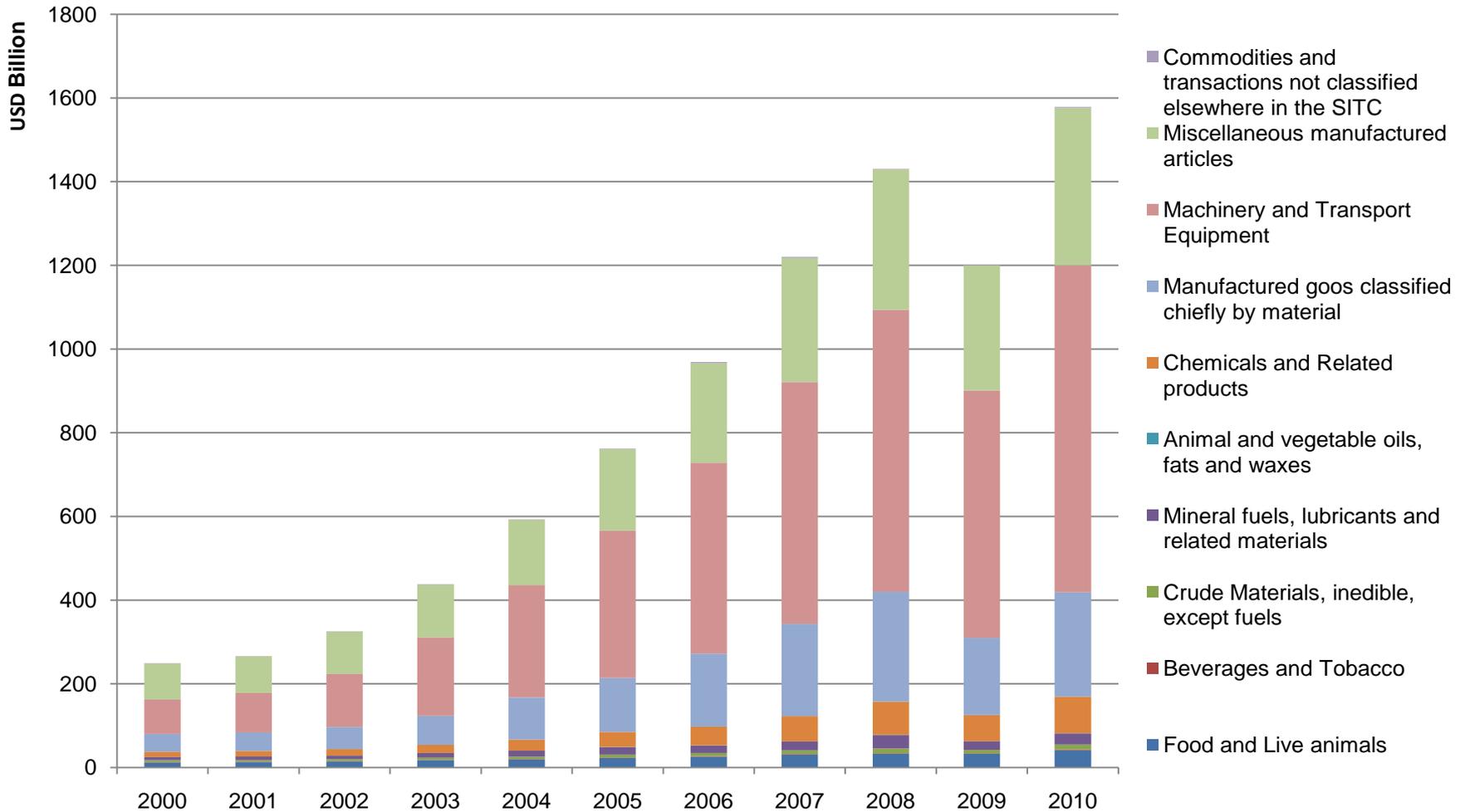
Source: China Bureau of Statistics (2011)

China's International Trade Performance, 2000-2009



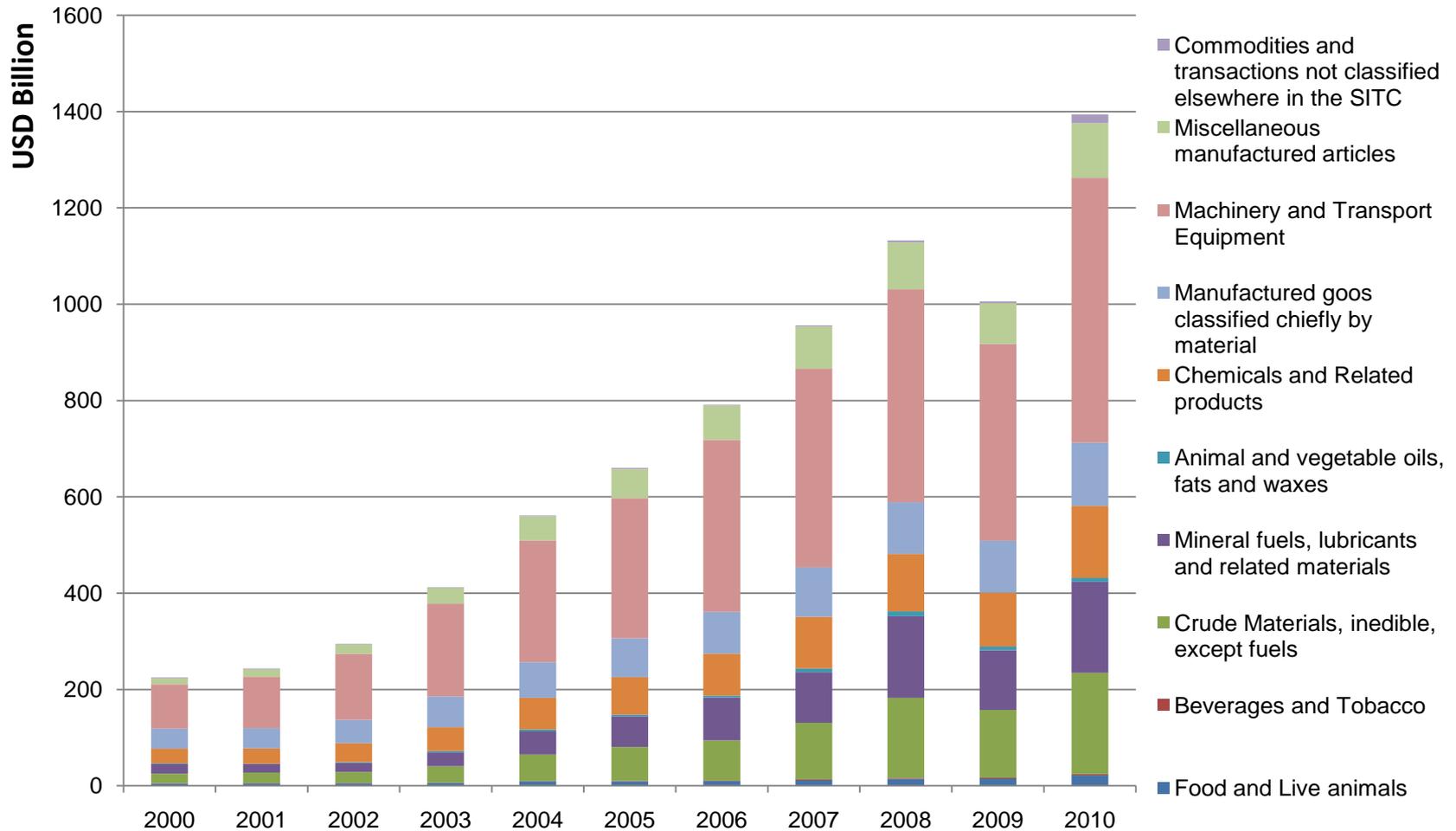
Source: ADB (2011)

Structure of Exports



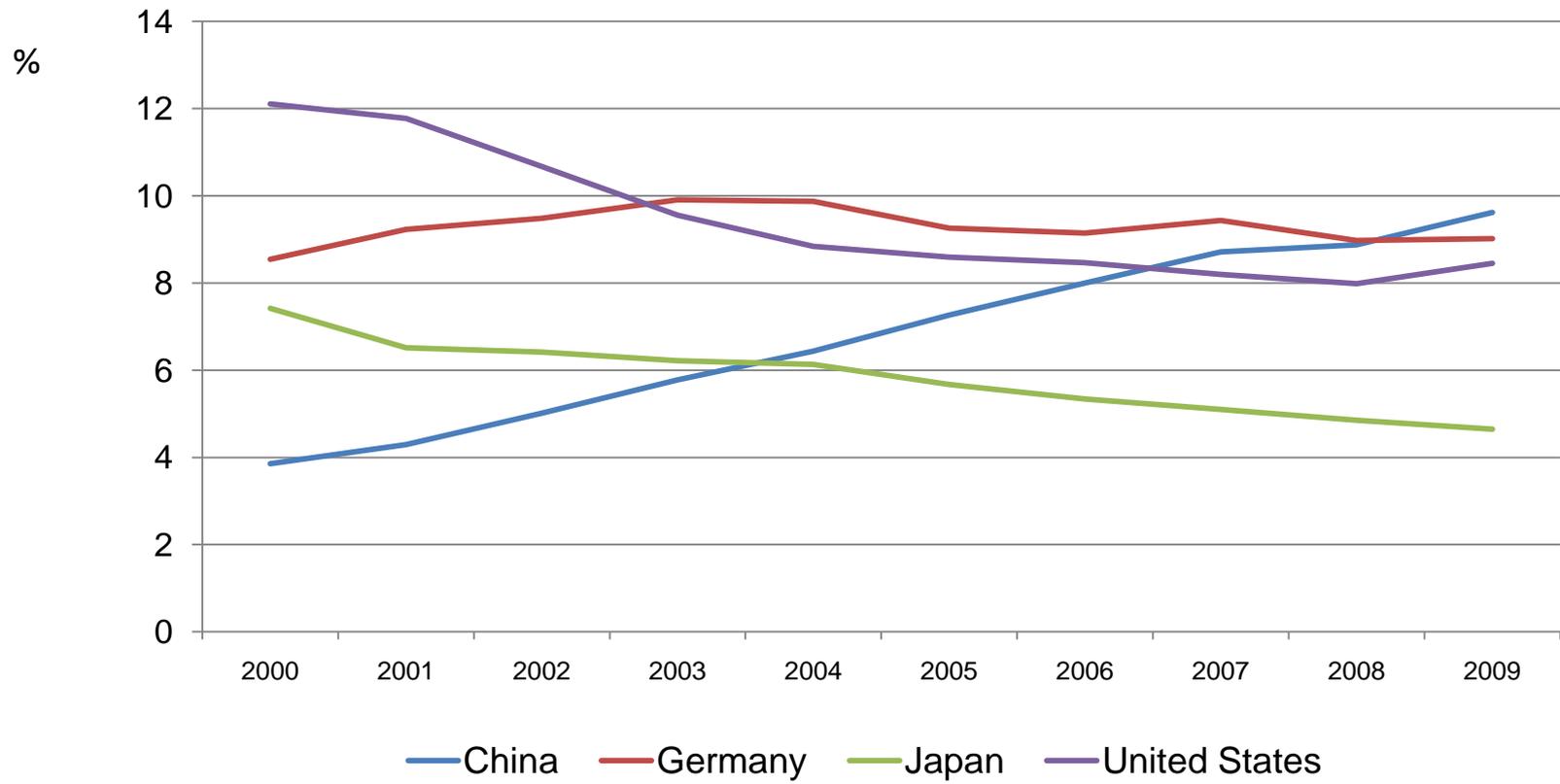
Source: UN Comtrade (2011)

Structure of Imports



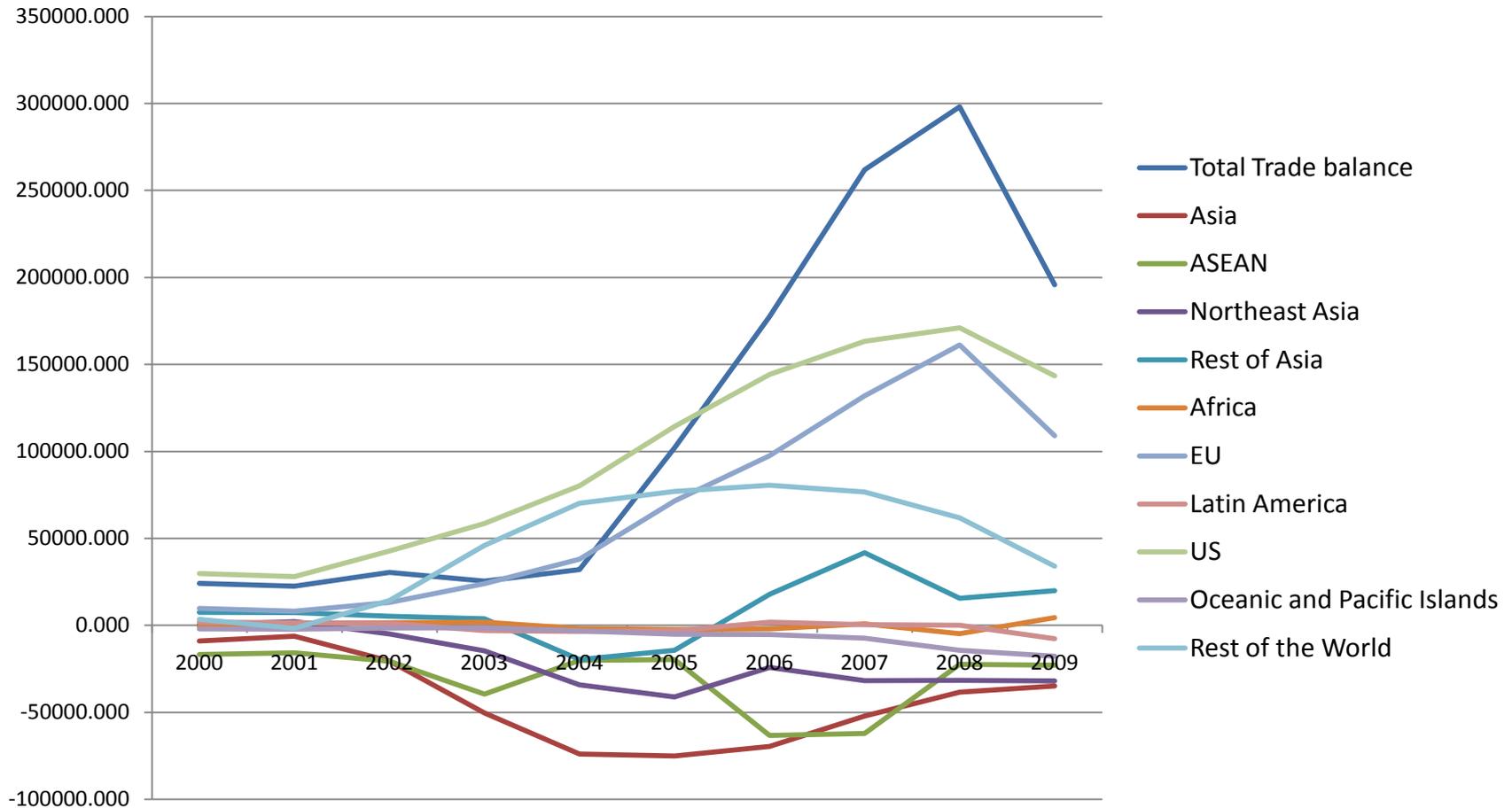
Source: UN Comtrade (2011)

Share in World's Merchandise Exports



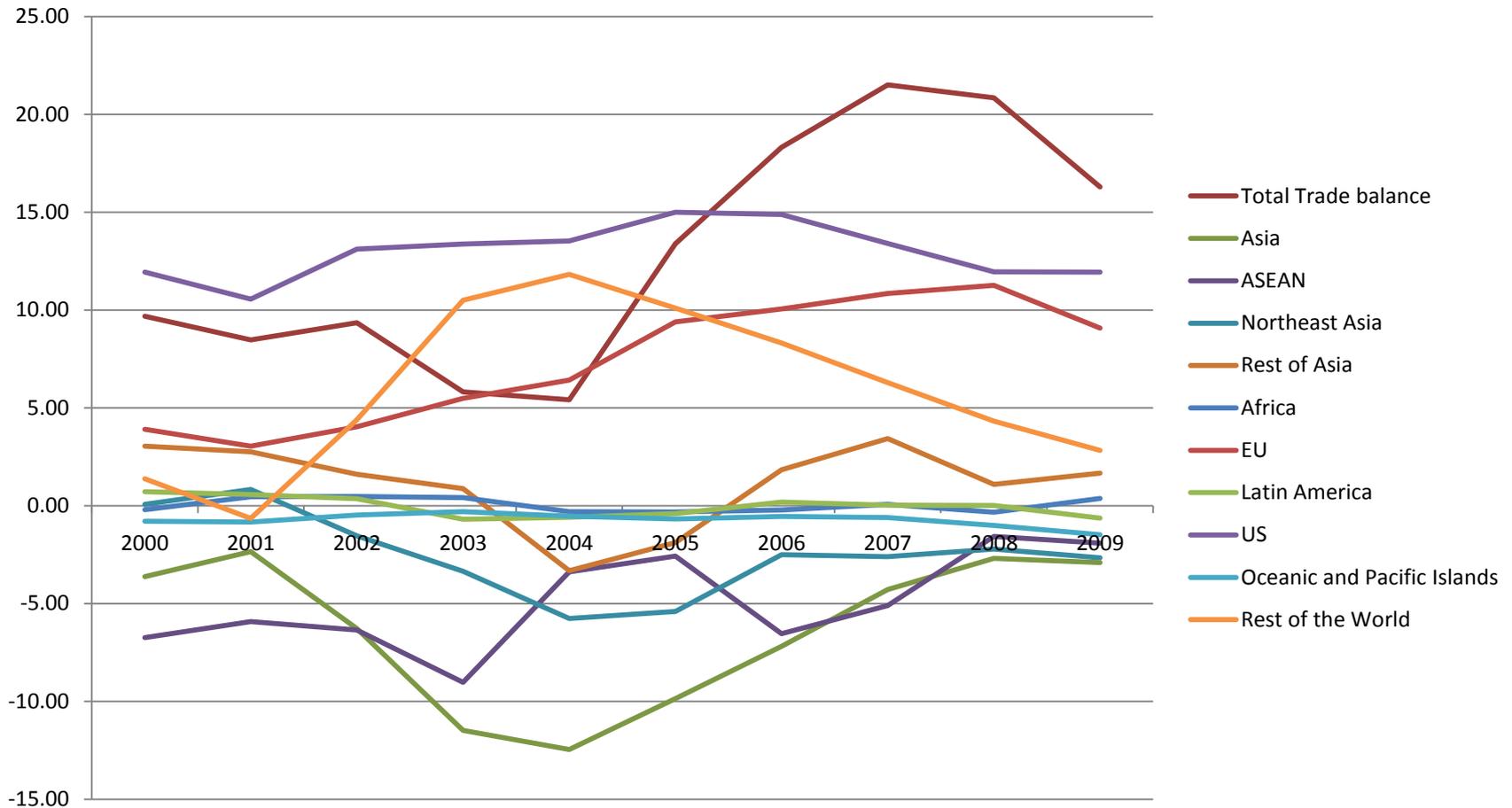
Source: WB (2011)

China's Trade Balance with the World by trade partner (USD mil.)



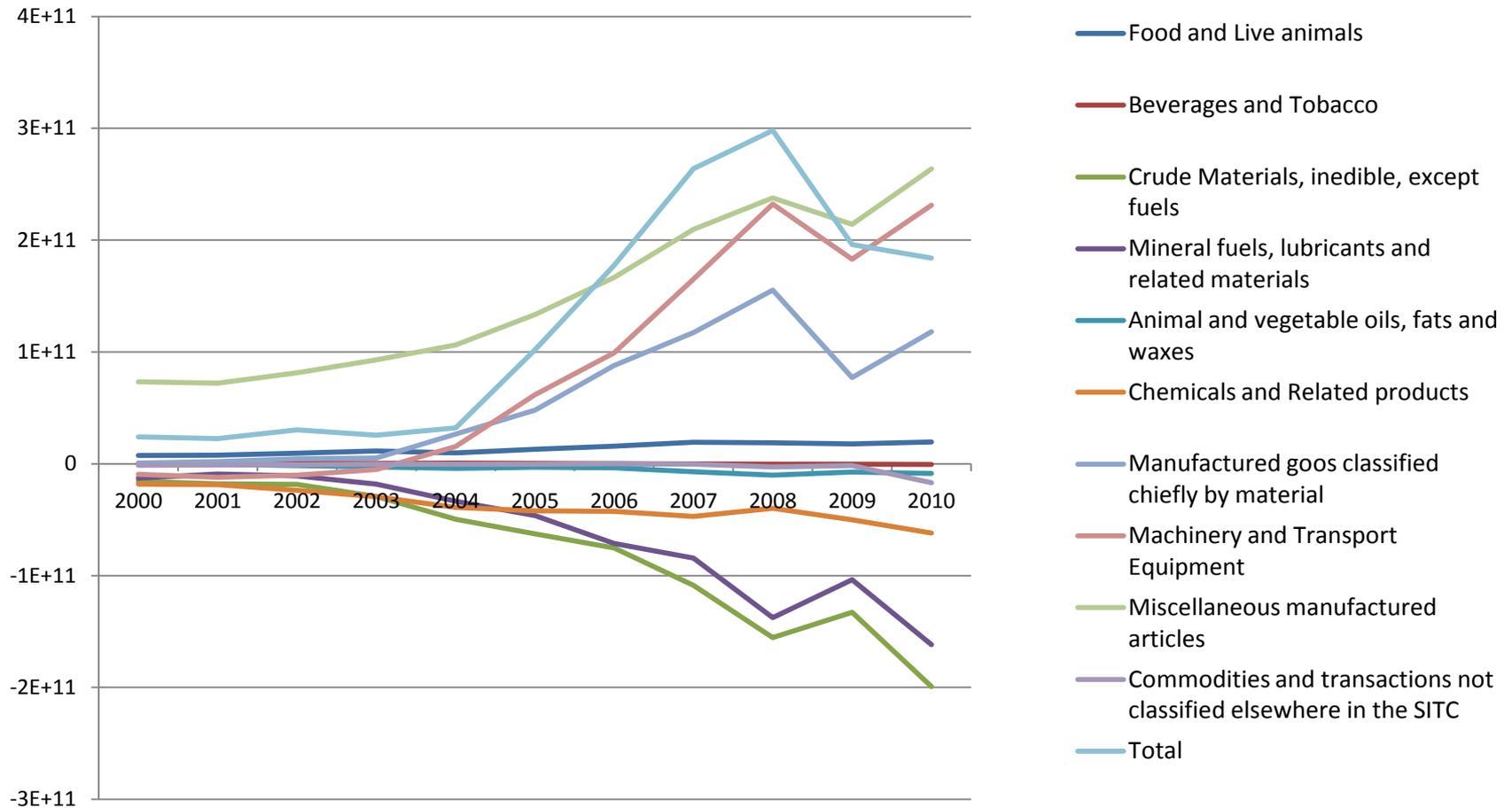
Source: UNcomtrade (2011)

China's Trade Balance with the World by trade partner (% of total China's Export)



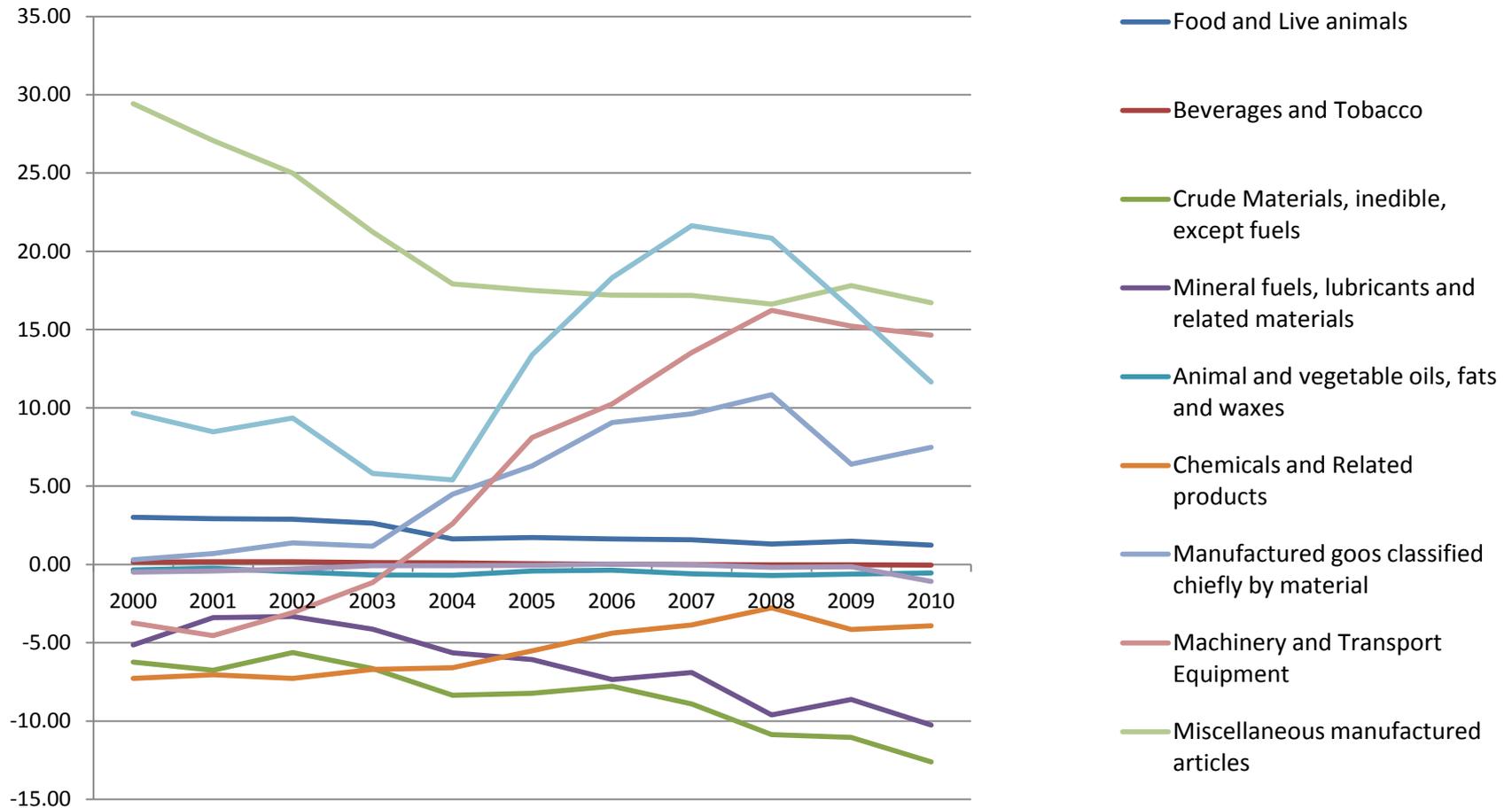
Source: UNcomtrade (2011)

China's Trade Balance with the World by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with the World by group of commodity (% of China's export)



Source: UNcomtrade (2011)

Theoretical Settings

Hypotheses on the impacts of China's rise on Southeast Asian countries:

- China's rise leads to a surge in demand for crude materials and mineral fuels;
- This makes the price of natural resources tend to increase, attracting the expansion of natural resource-based industries in developing countries;
- This trend affirms the static comparative advantage of those countries having been dependent on natural resource exports;
- At the same time, China's manufactures create competitive pressures on the domestic manufacturing industries.
- The two facts may lead to a re-direction of capital and production resources from manufacturing to natural resources-based industries.

Dutch Disease in a new context

Coxhead (2007) calls this phenomenon “A New Resource Curse,” or the return of Dutch Disease in the new context with China’s rise.

Coxhead and Jayasuriya (2009) figures out three issues that a country must face with:

- This trend may reduce dynamic productivity gains of the country;
- This trend may lead the country to expose to higher vulnerability to trade-based shocks, as the country’s export is more dependent on primary commodities, whose price elasticities of supply are usually low;
- This trend may create more inequality, as the share of resource rents will increase in the country’s income. The rising significance of resource rents may also erode the governance quality and innovation activities (more corruption, more rent-seeking)

Scenarios for SE Asian countries

As Southeast Asian countries are largely different in economic development, they receive different impacts from the rise of China under different scenarios:

- Those countries start as depending on natural resource exports may tend to be more dependent on the pattern, or “trapped” in it.
- Those countries whose industrial development is under some threshold that less competitive than that of China, may have a trend of de-industrialization, where more resources re-directed from manufacturing to natural resource-based industries.
- Those countries whose industrial development is above some threshold that more competitive than that of China, may maintain their advantage as providers of capital goods and technology to China.

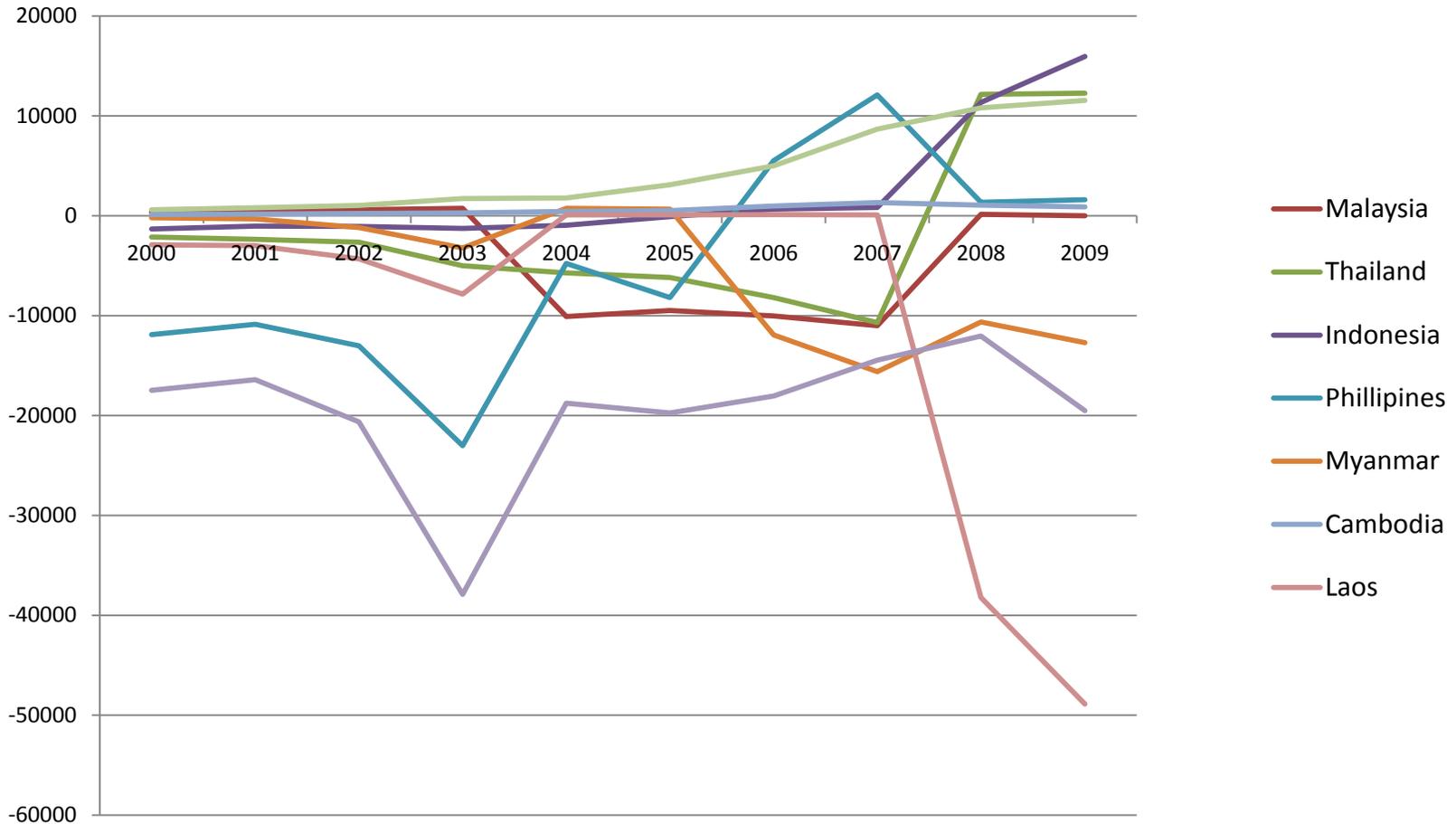
Global crisis as a catalyst

- The current global crisis plays an important role, as after the crisis, the recovery of natural resource-based and manufacturing and capital good industries is different.
- The quick recovery of China leads the demand for natural resources to recover first, while demand for capital goods comes later.
- Our predict is that after the crisis, there will be more pressures for SE countries to be directed to trend of de-industrialization.

Hypothesis testing strategy

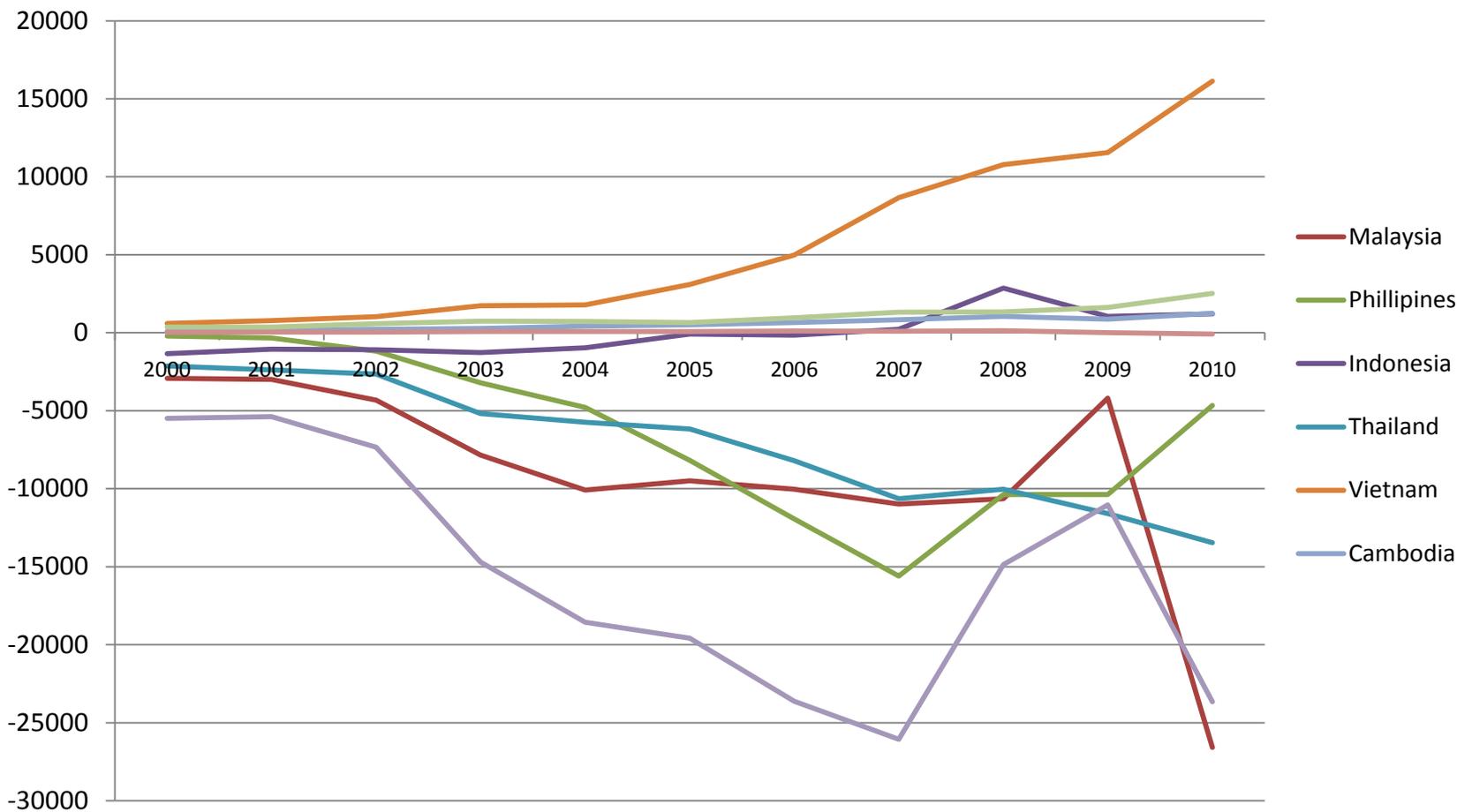
- To test the hypotheses, we may look at the trend in trade between the Southeast Asian countries and China.
- We investigate the different patterns of trade and the changing structure of trade balance between China and a country.

China's Trade Balance with the SE Asian Countries, USD mil. (1)



Source: China Bureau of Statistics (2011)

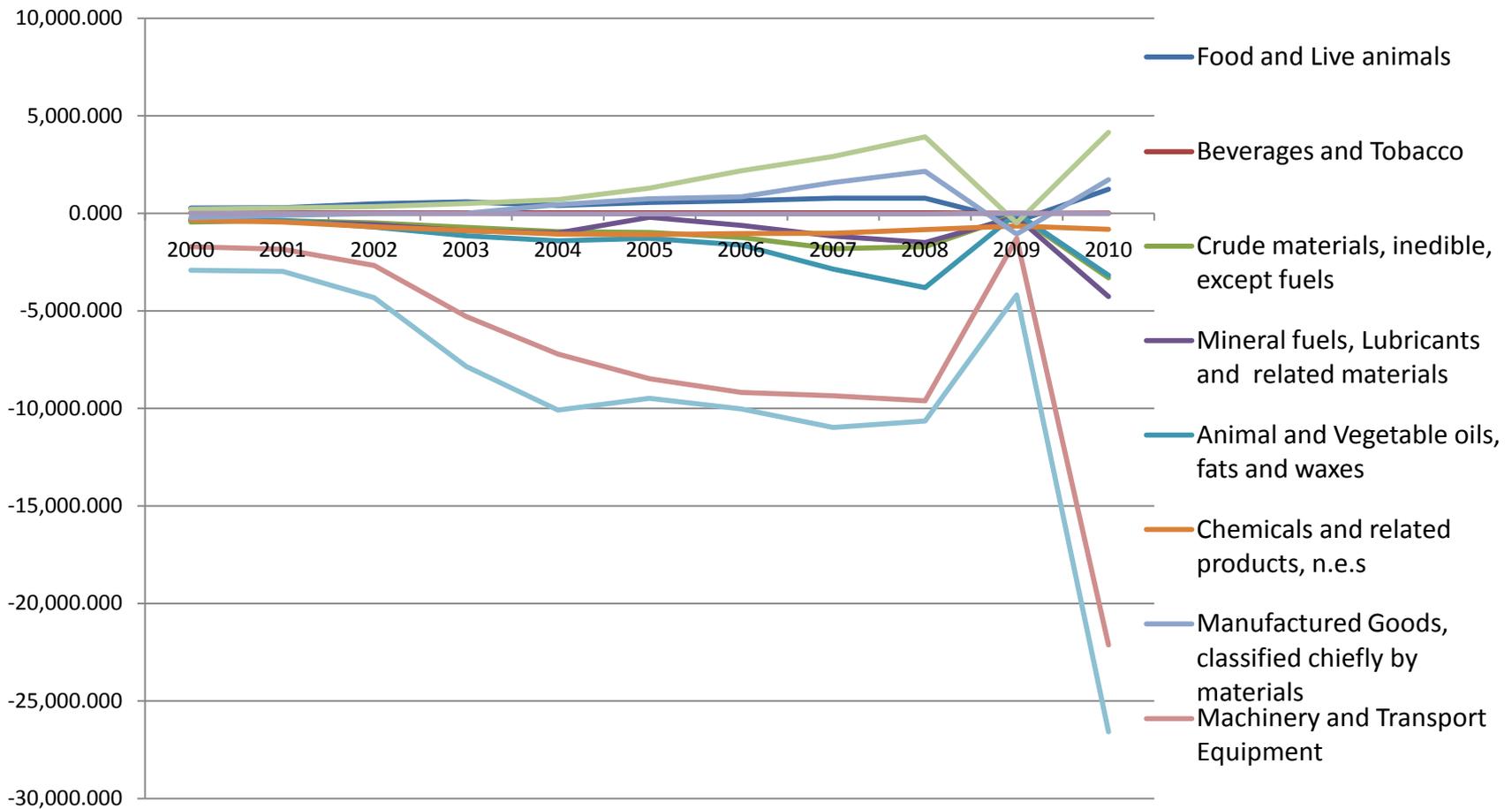
China's Trade Balance with the SE Asian Countries, USD mil. (2)



Source: Authors' calculation from UNcomtrade (2011)

China's Trade Balance with Malaysia

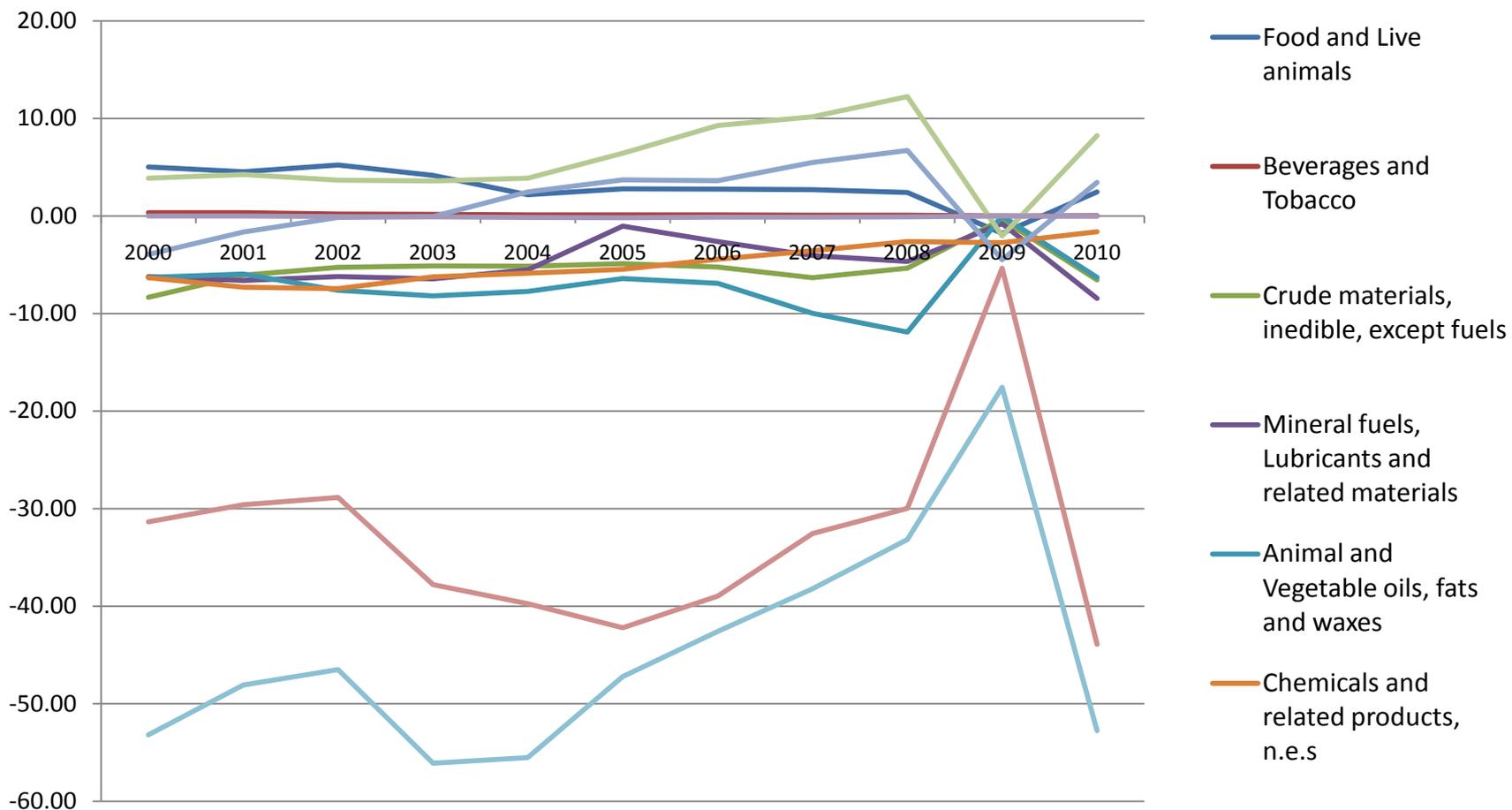
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with Malaysia

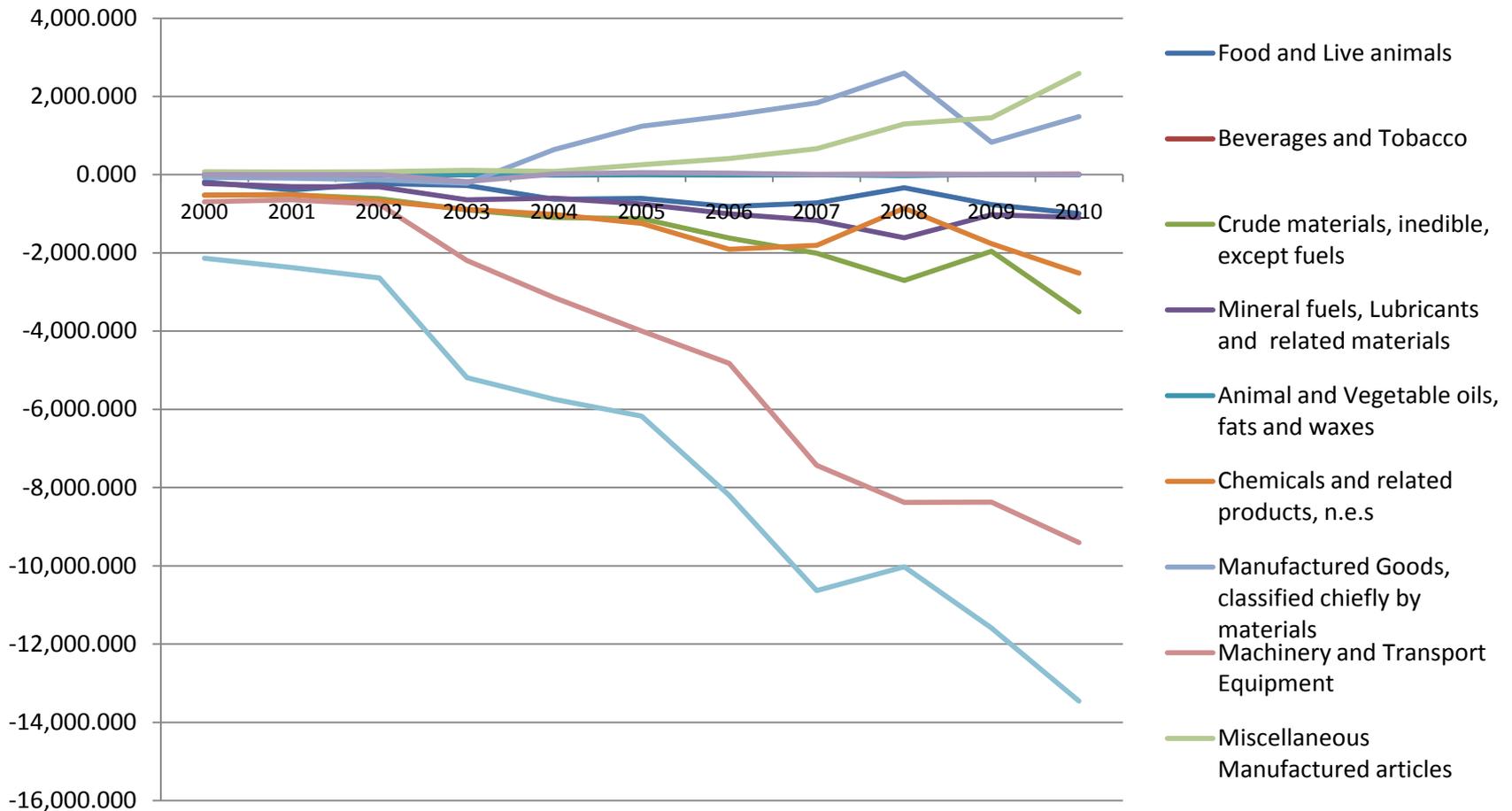
by group of commodity (% of Malaysia's export)



Source: UNcomtrade (2011)

China's Trade Balance with Thailand

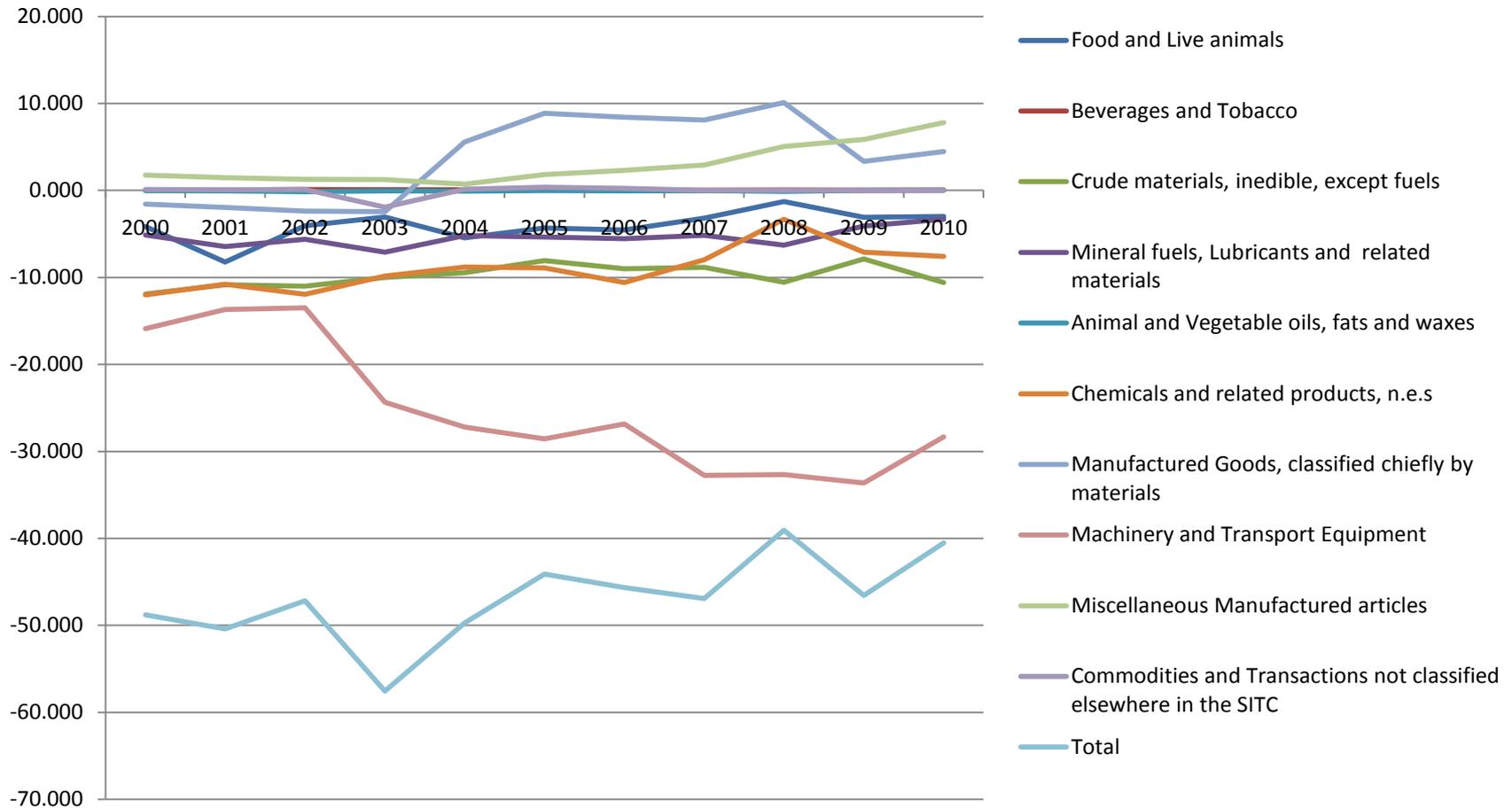
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with Thailand

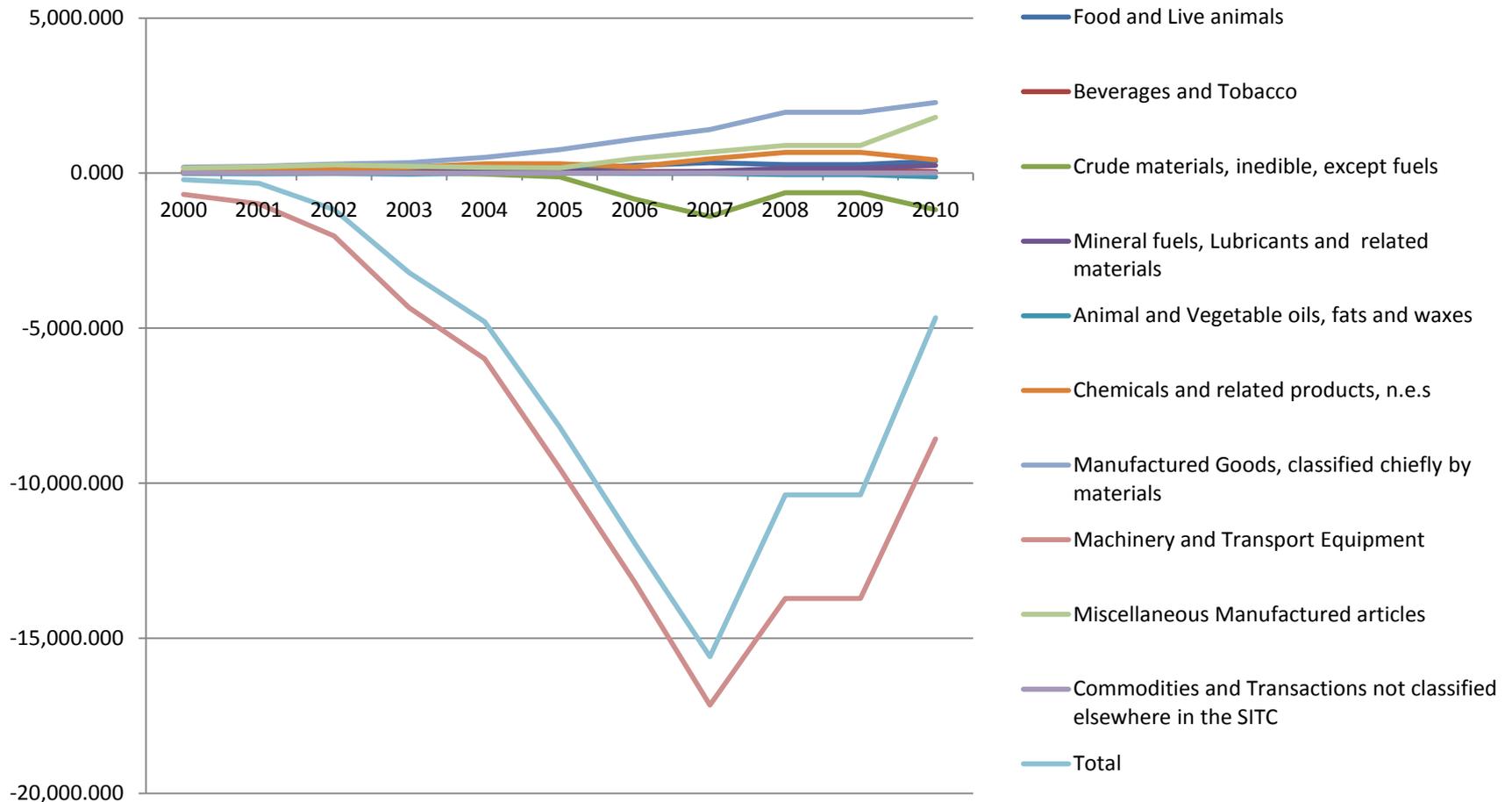
by group of commodity (% of Thailand's export)



Source: UNcomtrade (2011)

China's Trade Balance with Philippines

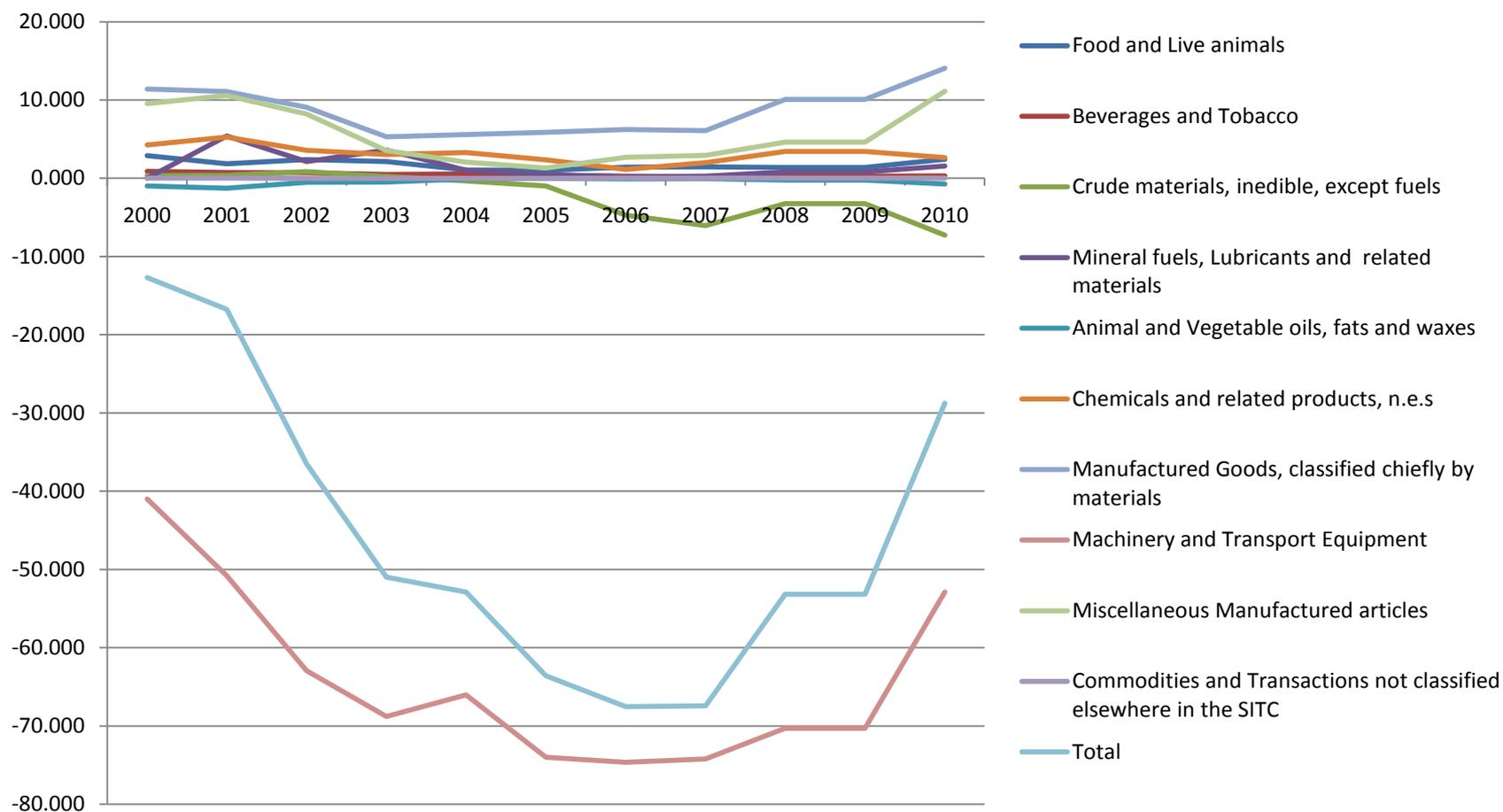
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with Philippines

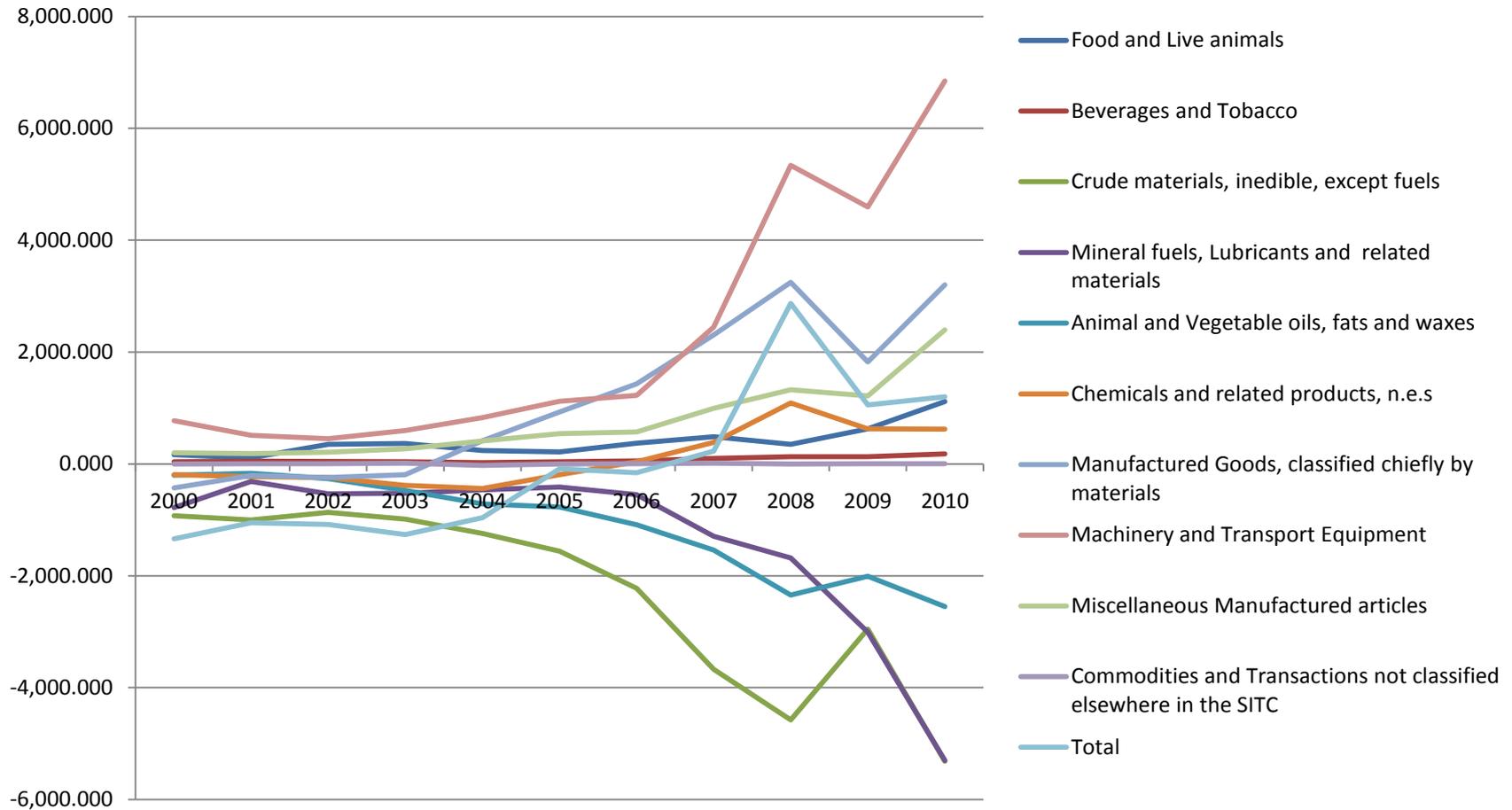
by group of commodity (% of Philippines' export)



Source: UNcomtrade (2011)

China's Trade Balance with Indonesia

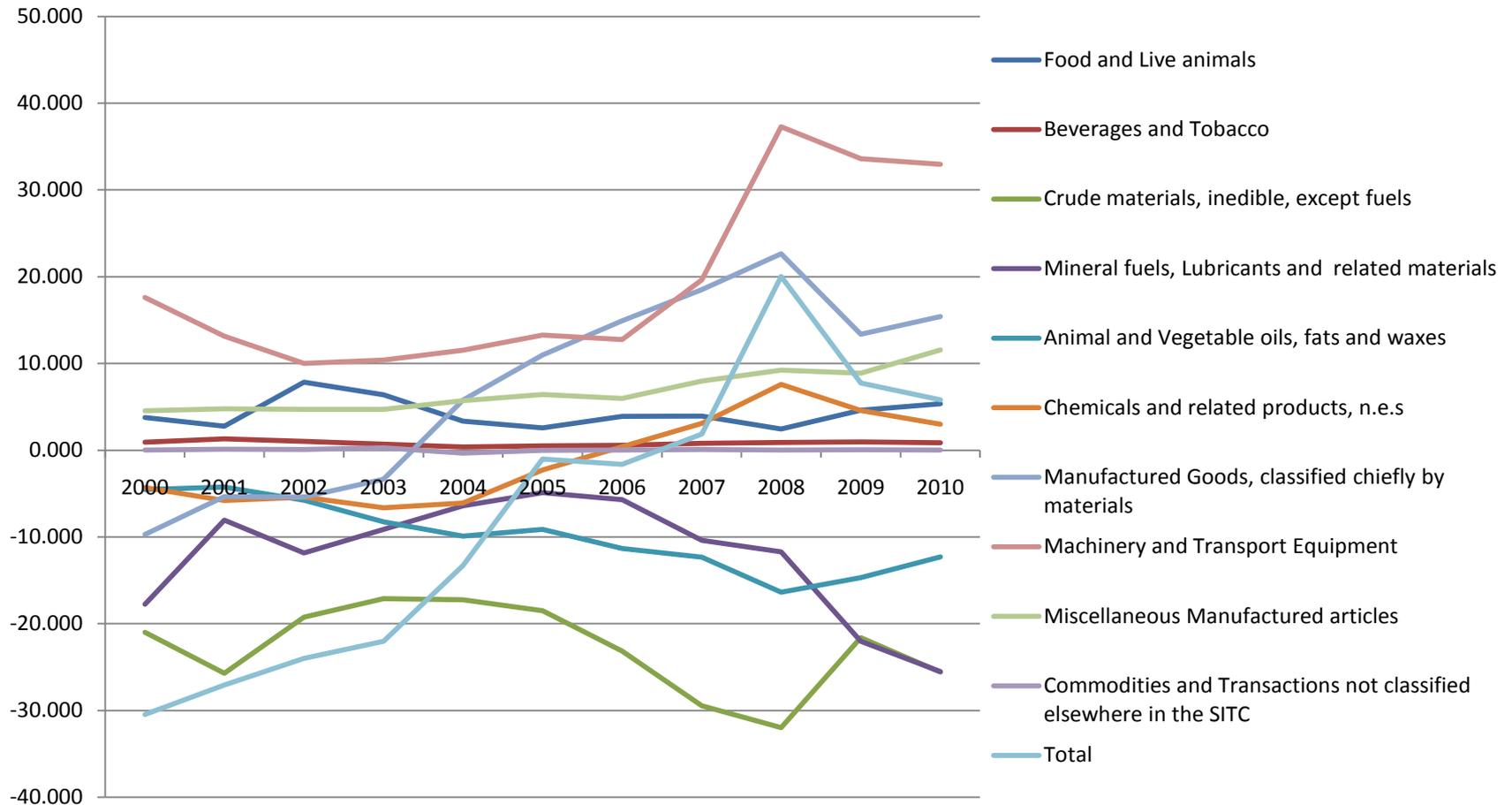
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

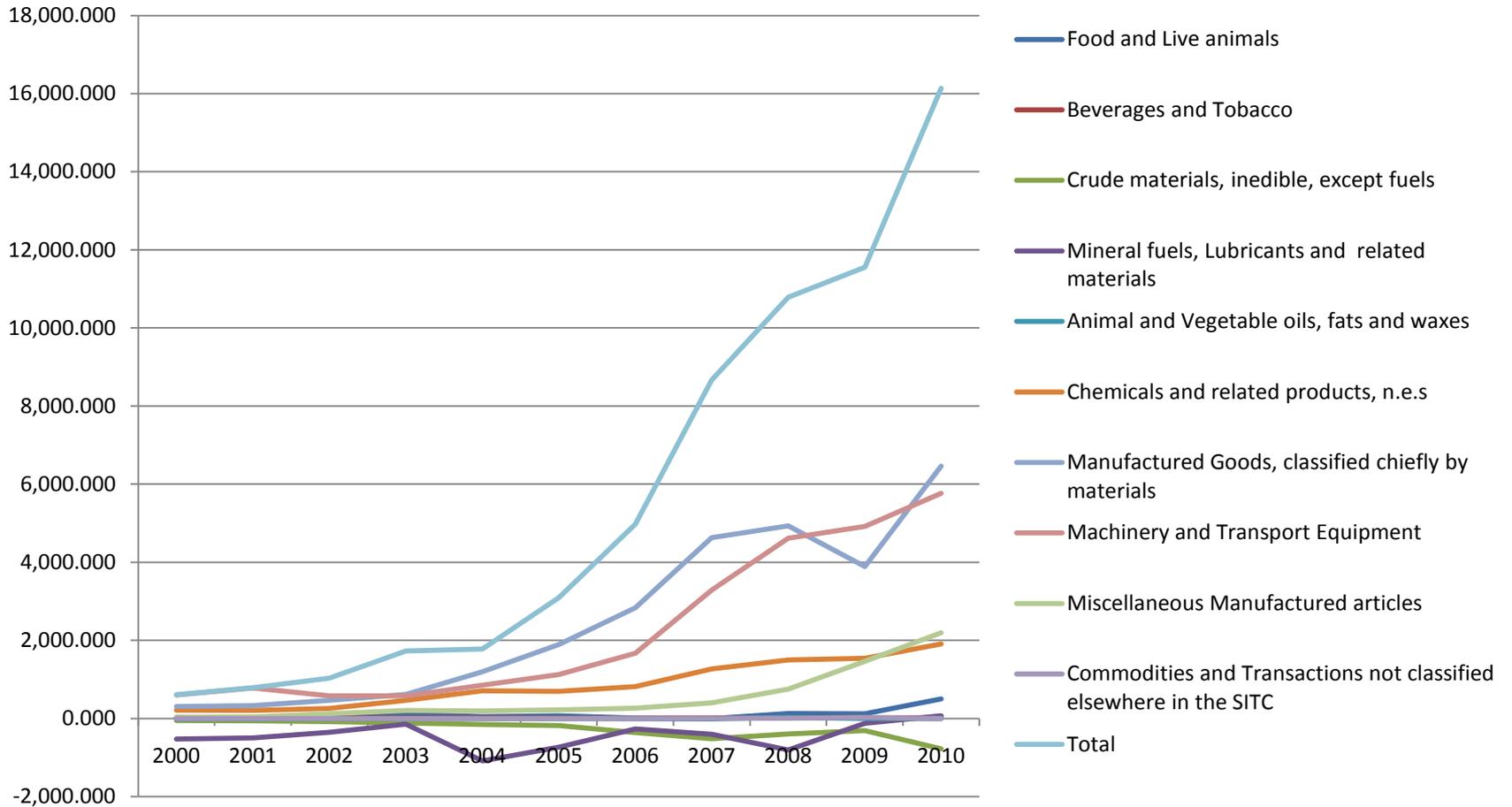
China's Trade Balance with Indonesia

by group of commodity (% of Indonesia's export)



Source: UNcomtrade (2011)

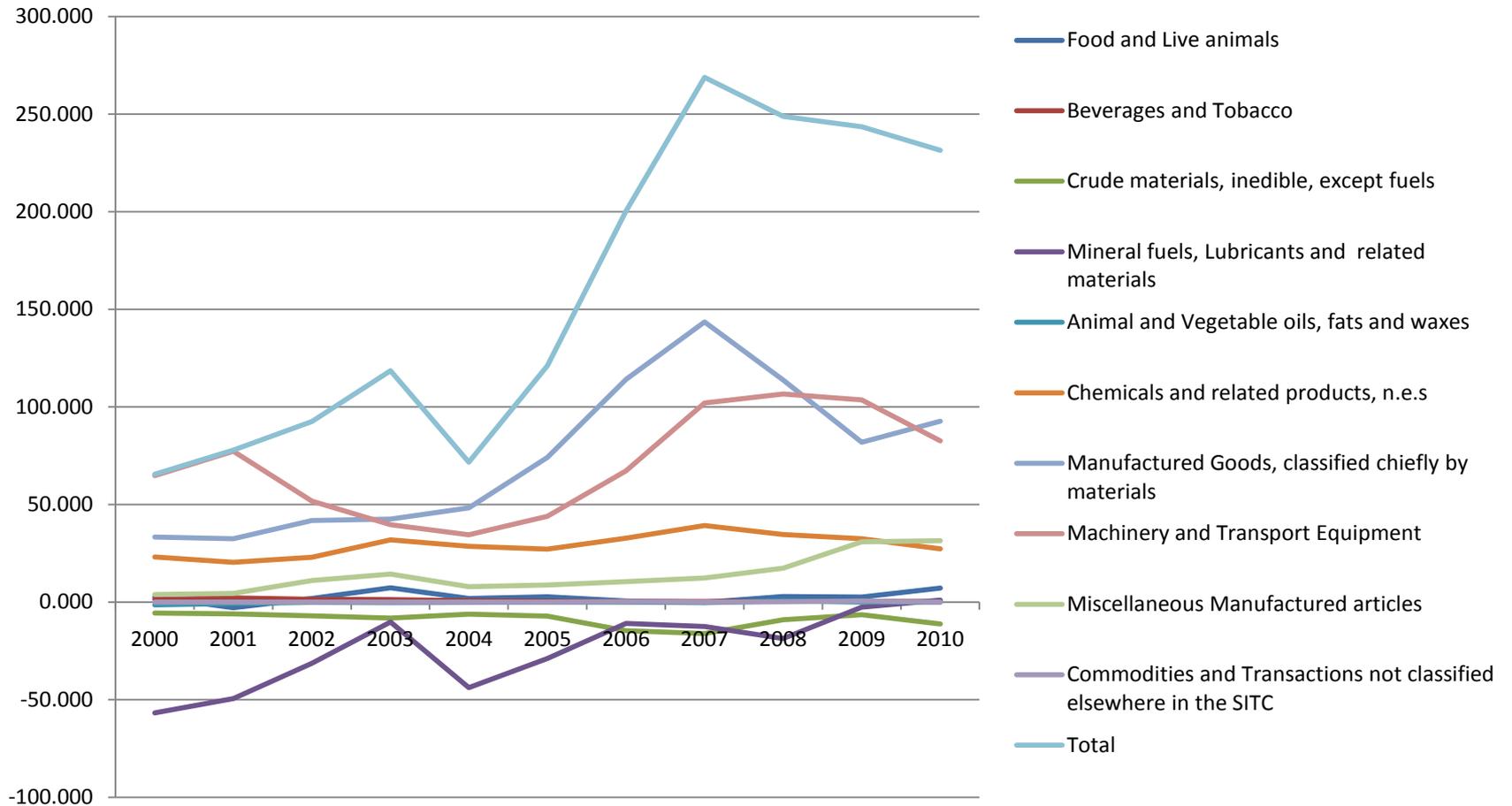
China's Trade Balance with Vietnam by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with Vietnam

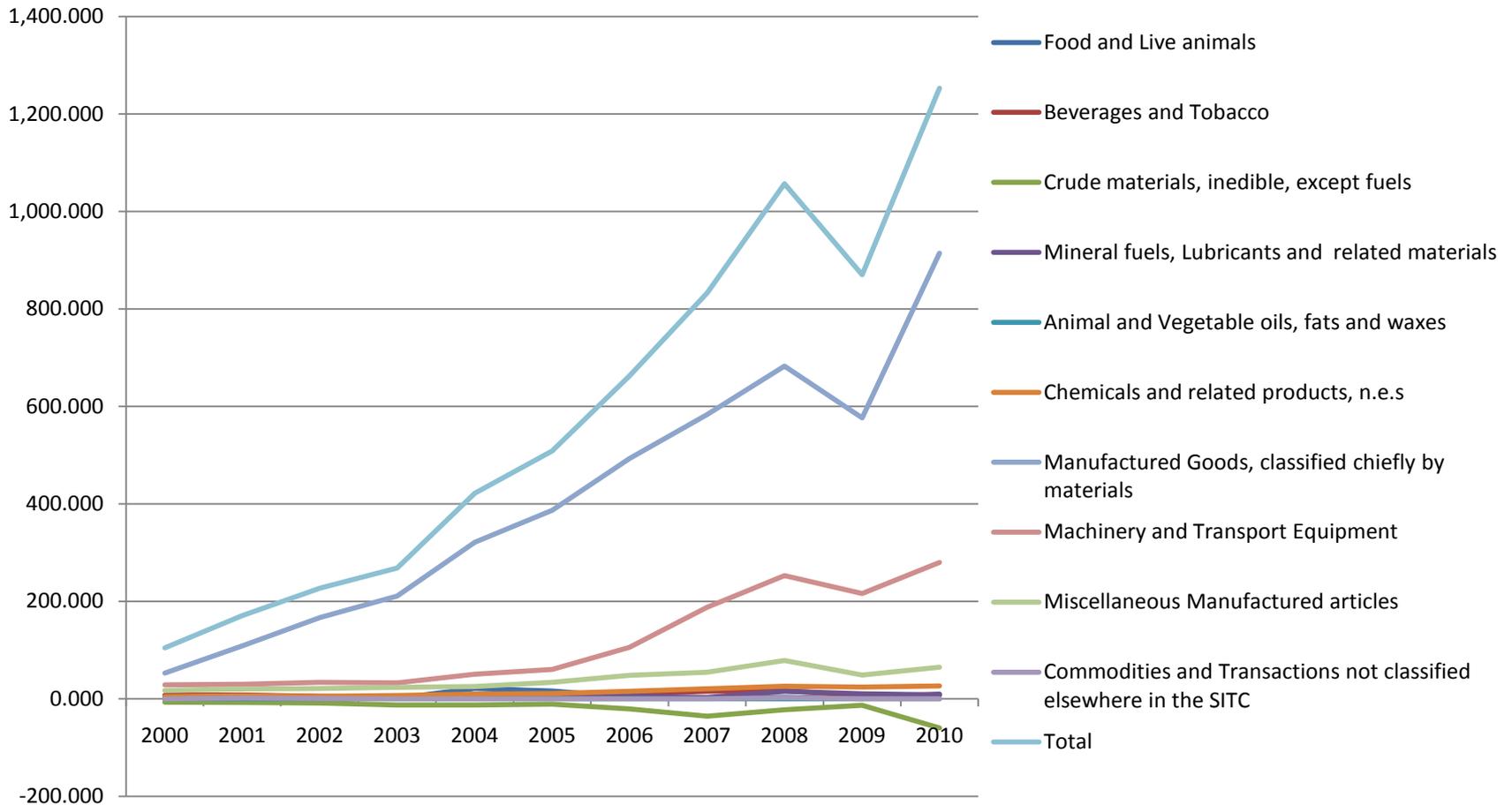
by group of commodity (% of Vietnam's export)



Source: UNcomtrade (2011)

China's Trade Balance with Cambodia

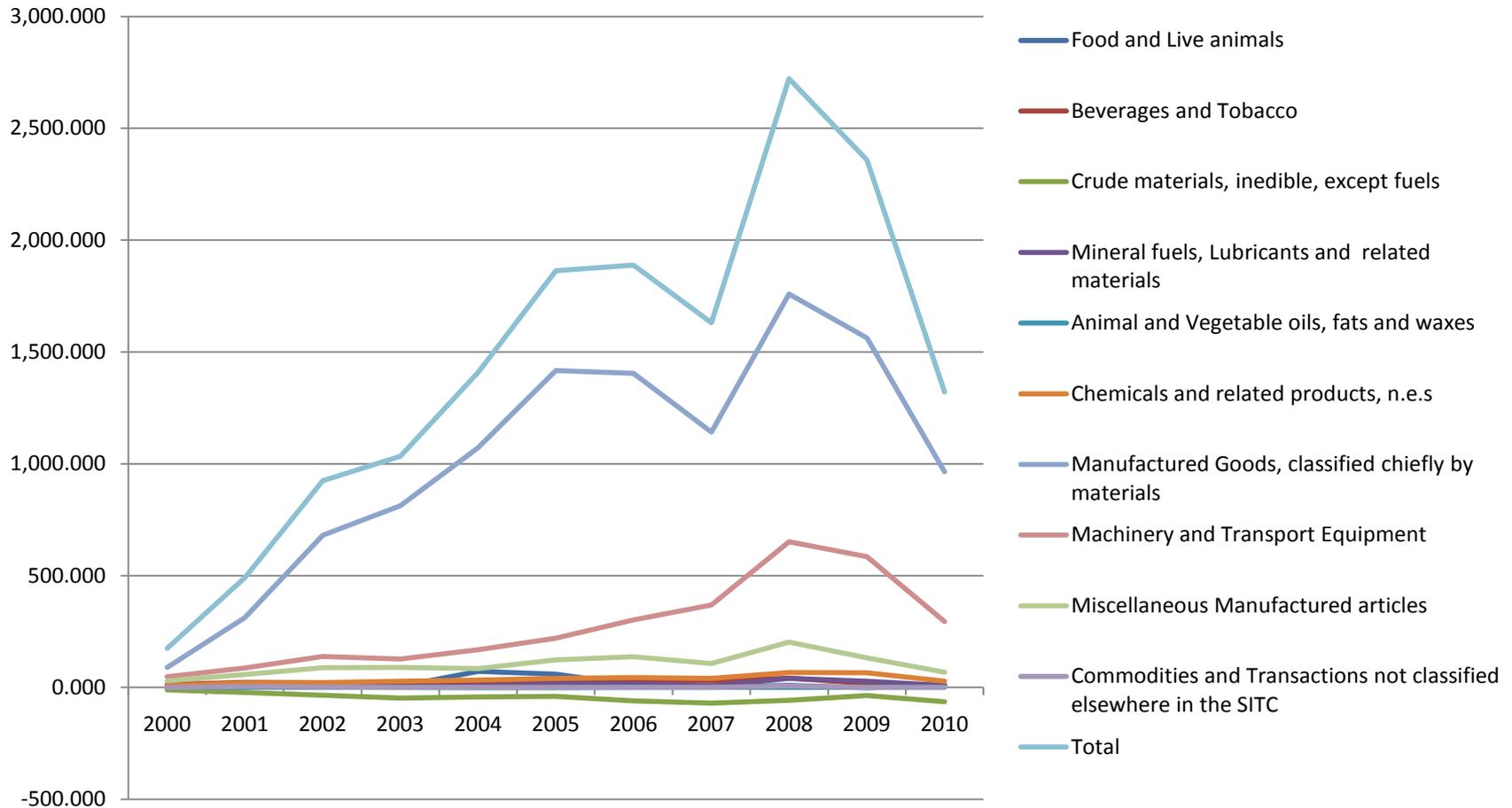
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with Cambodia

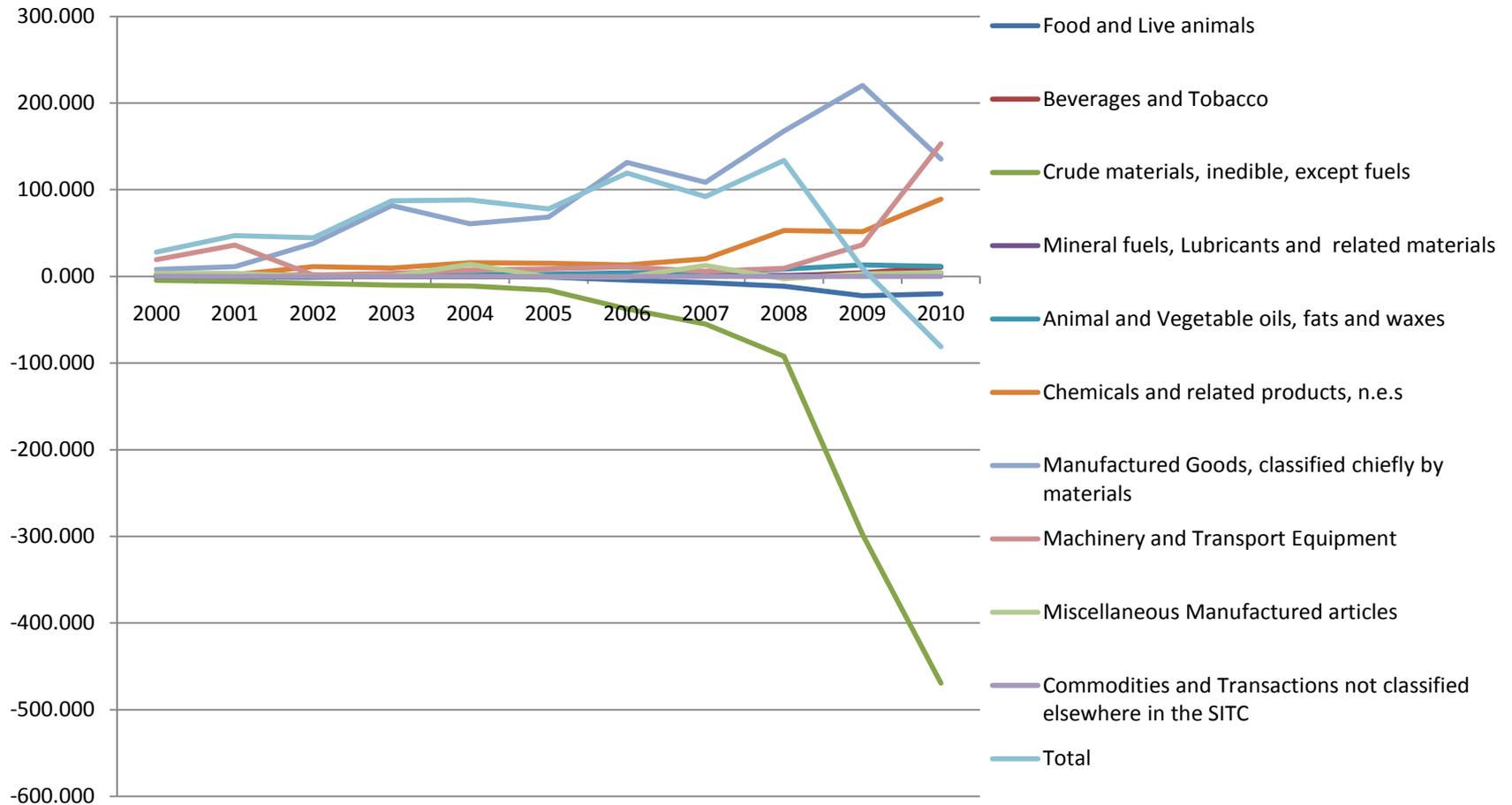
by group of commodity (% of Cambodia's export)



Source: UNcomtrade (2011)

China's Trade Balance with Laos

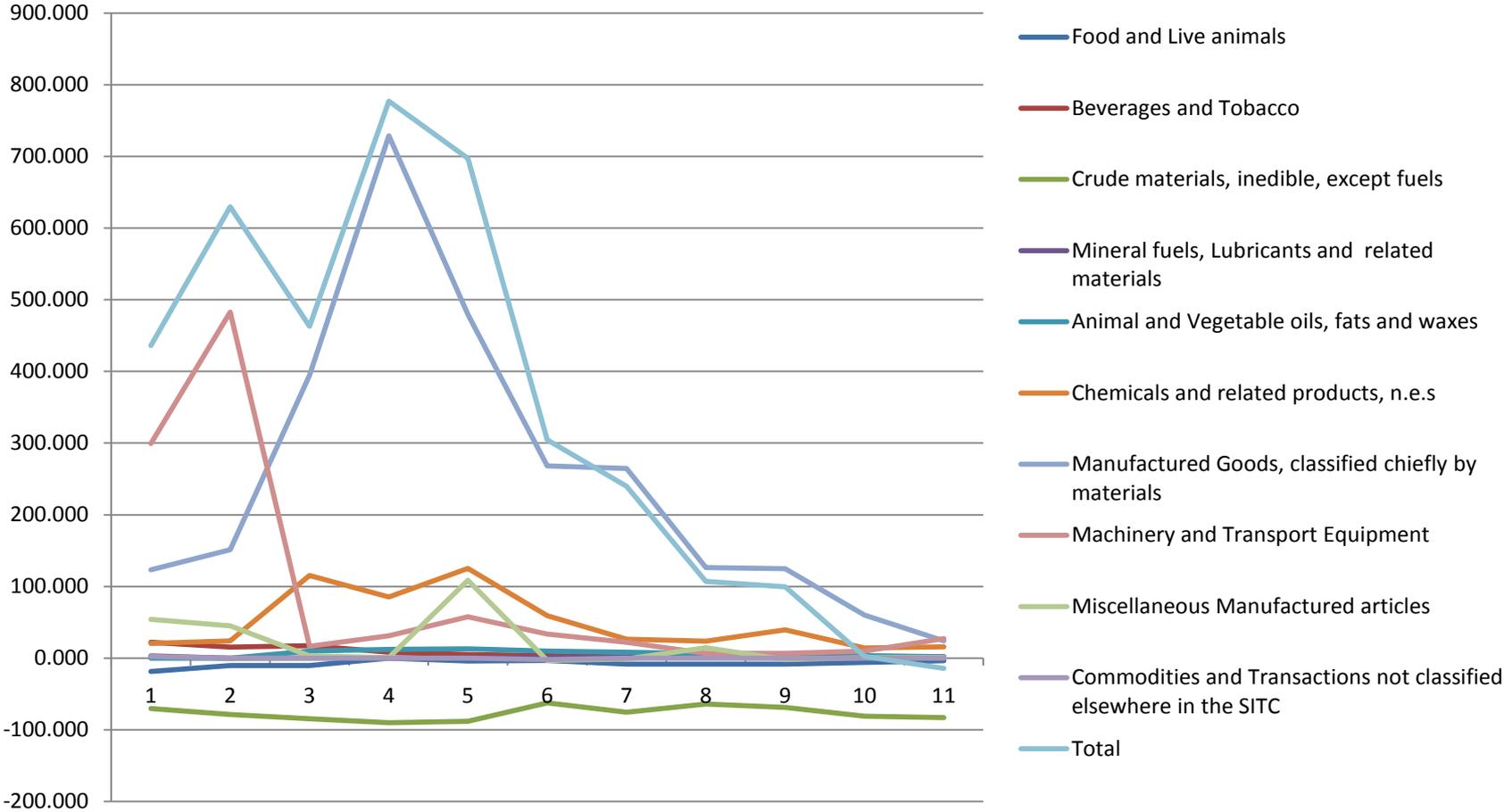
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

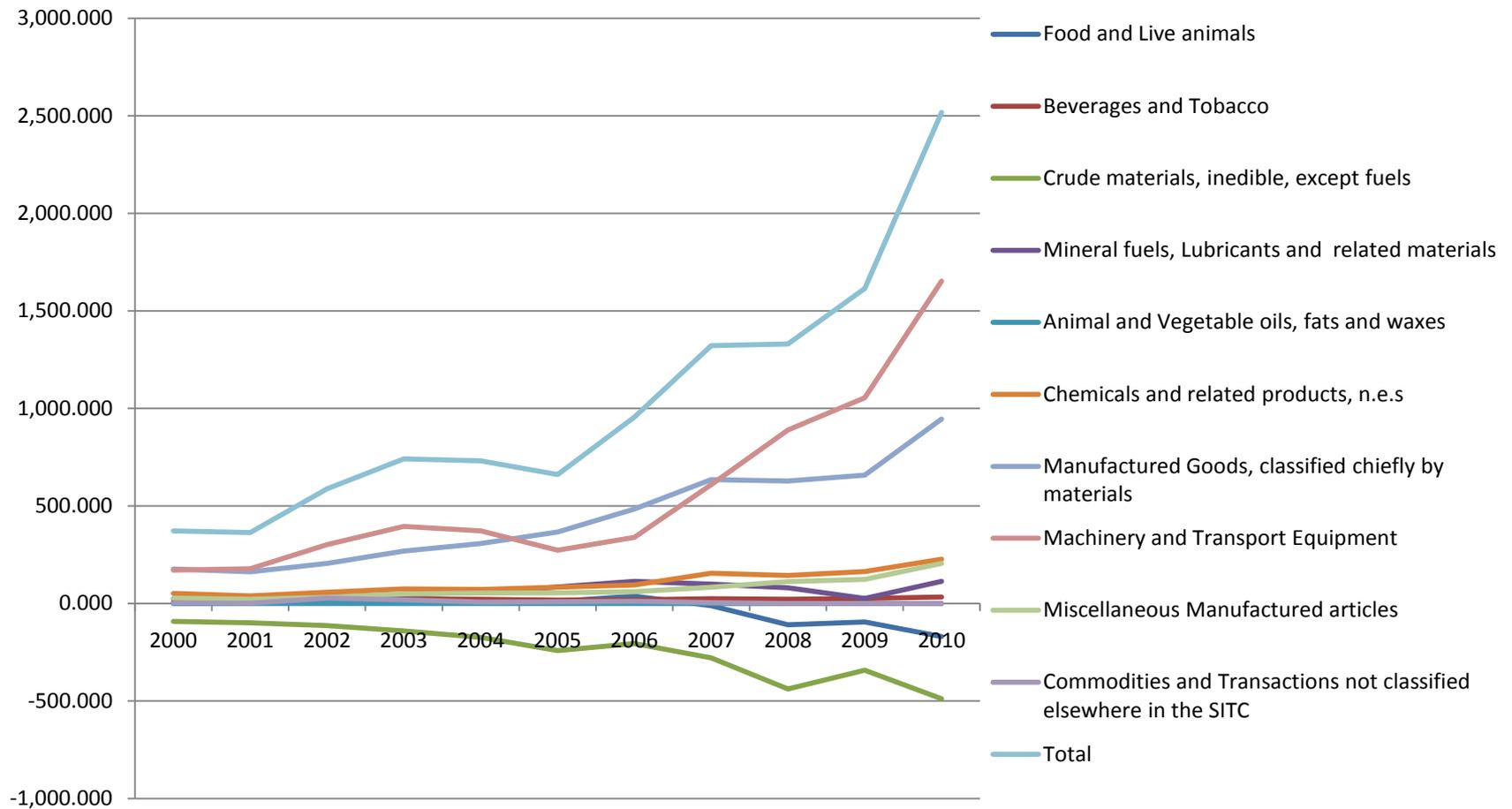
China's Trade Balance with Laos

by group of commodity (% of Laos' export)



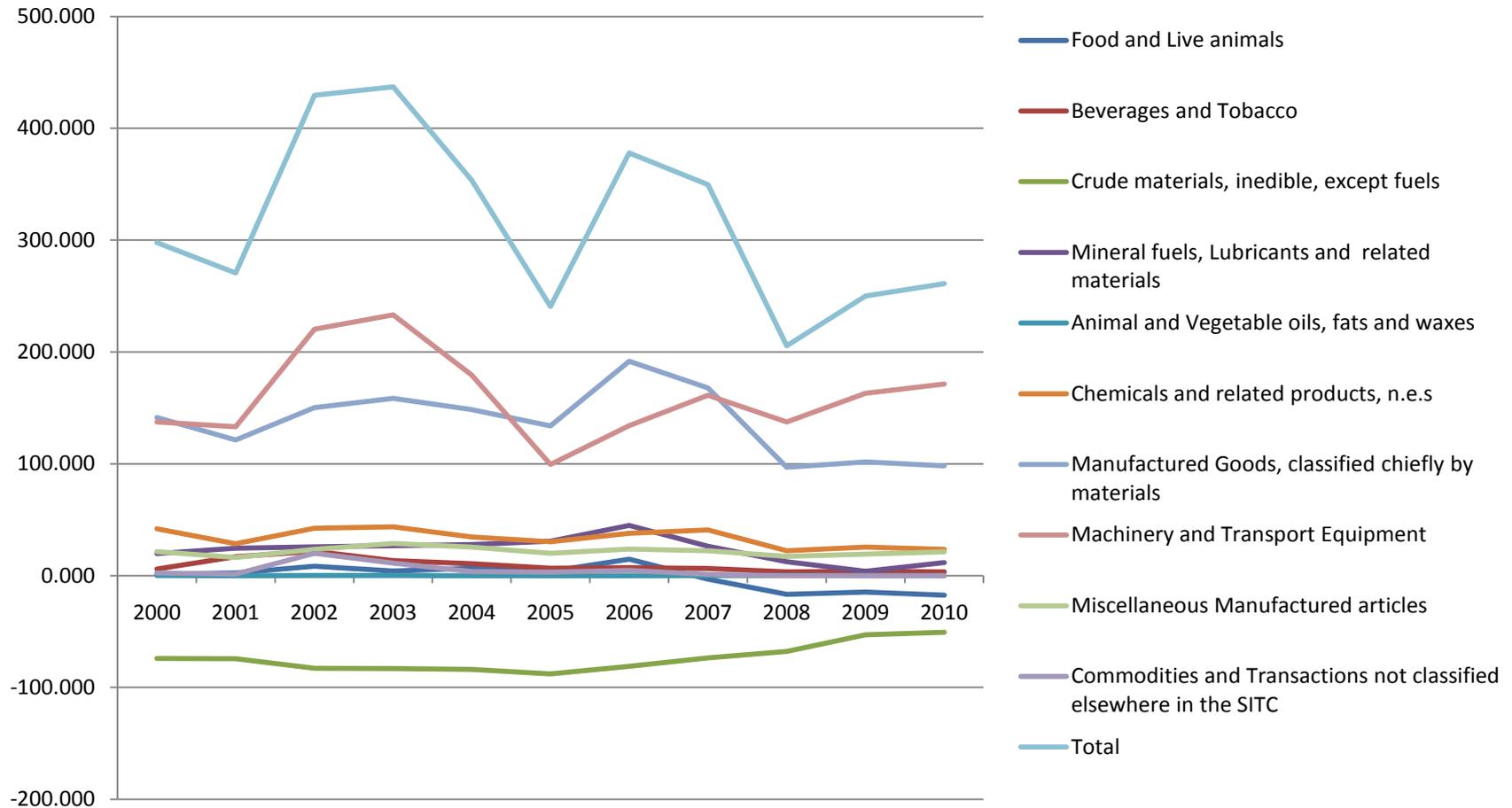
Source: UNcomtrade (2011)

China's Trade Balance with Myanmar by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with Myanmar by group of commodity (% of Myanmar' export)



Source: UNcomtrade (2011)

Some Observations

- All SE countries tend to increase trade surplus with China on mineral resources and natural fuels;
- Only Malaysia tends to keep increasing its export of manufactured goods and machinery, capital goods to China.
- Thailand, Philippines and Indonesia tend to have their trade surplus in manufactures reduced, while surplus in natural resource-based industry increased. The trend is clear in the case of Philippines, and Indonesia has been in trade deficit with China in manufactures, while trade surplus in natural resources increased.
- Vietnam and Cambodia tend to have persistent trade deficit with China, with huge trade deficit in manufactures and capital goods, and have trade surplus mostly in natural resources.
- Myanmar and Laos have trade surplus with China, mostly due to the dominance of natural resource-based product export to China, while not import much from China, even manufactures and capital goods.

Discussions

- The economic development of SE Asian countries are diversified, at different level, lead to different impacts of China's rise in each countries.
- As a most advanced country, Malaysia seems to be the one that gain from the rise of China.
- Thailand, Indonesia and Philippines are under structural pressure of the rise of China. But appropriate policy may impact. Thailand can likely be choose a path like Malaysia? While Indonesia and Philippines should be more careful not to diverge to a lower development path in the long run.
- Vietnam and Cambodia is at its dynamic stage of development, but the de-industrialization may be a risk.
- Laos and Myanmar should be aware of being "trapped" into a path much dependent on the natural resource exploitation.
- In general, there seems a divergence between Malaysia (and Thailand) and ASEAN new member (CMLV) countries. Indonesia and Philippines are between the two trends, and there are risks of converge to the lower path.

Policy recommendations

For individual countries:

- Institutional development;
- Fiscal policy and tax incentive structures;
- Investment in human resources and other infrastructures for long term development;

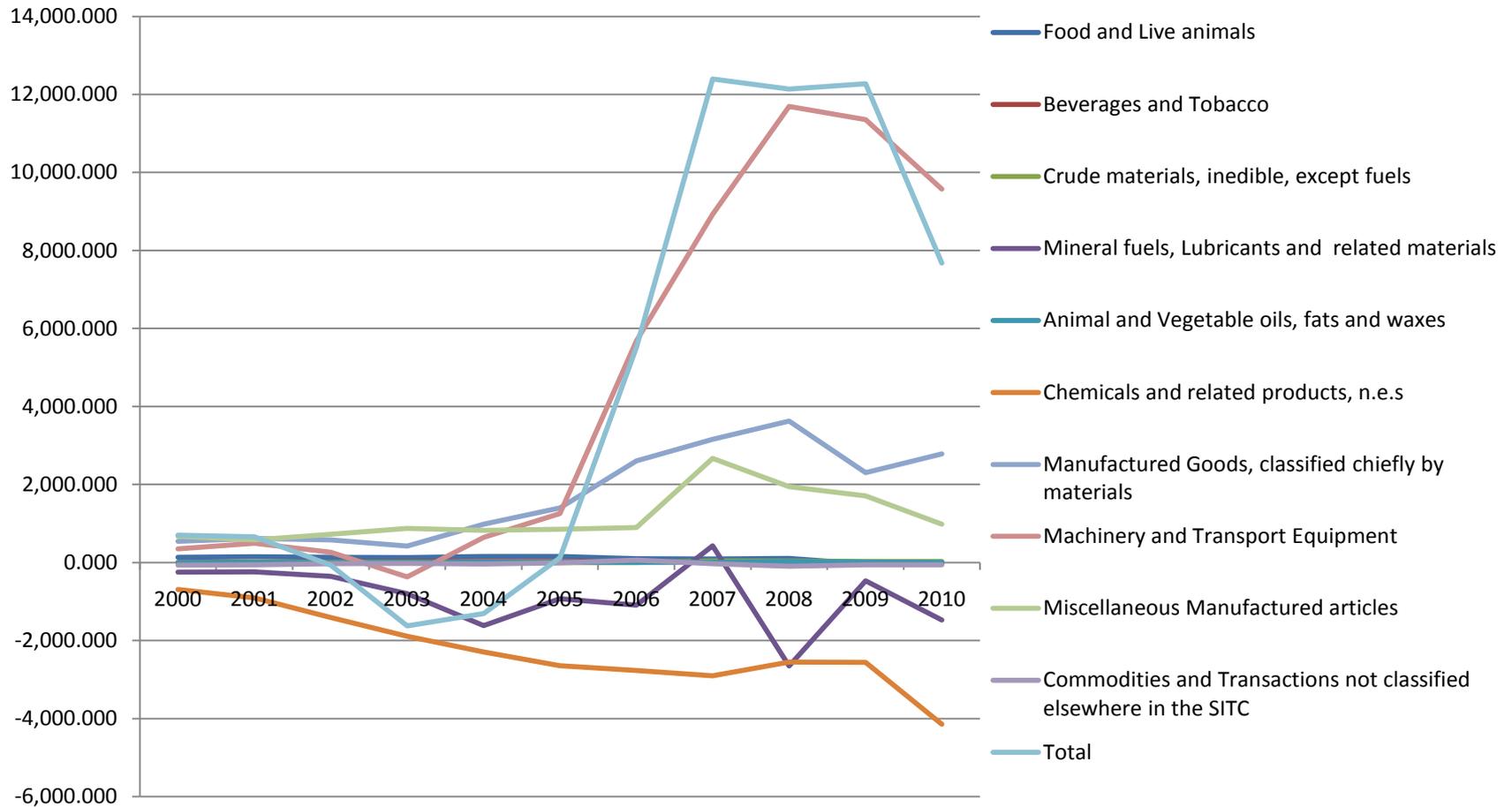
For international cooperation:

- A strategy to cooperate in primary commodity export and management.
- Cooperation in fiscal (tax) policy to manage and control the resources.

Appendix

China's trade balance with advanced countries
in the region and the world

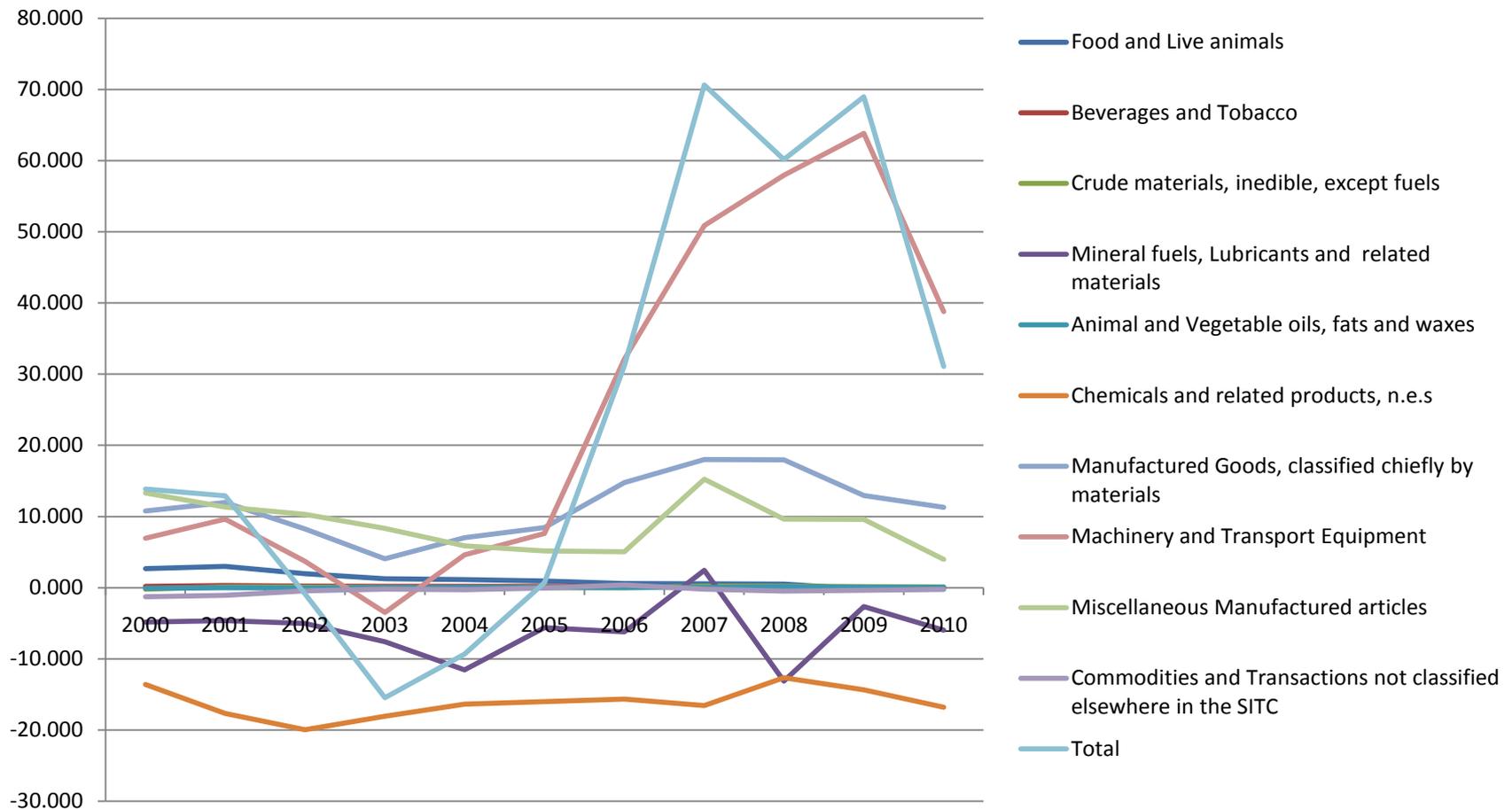
China's Trade Balance with Singapore by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with Singapore

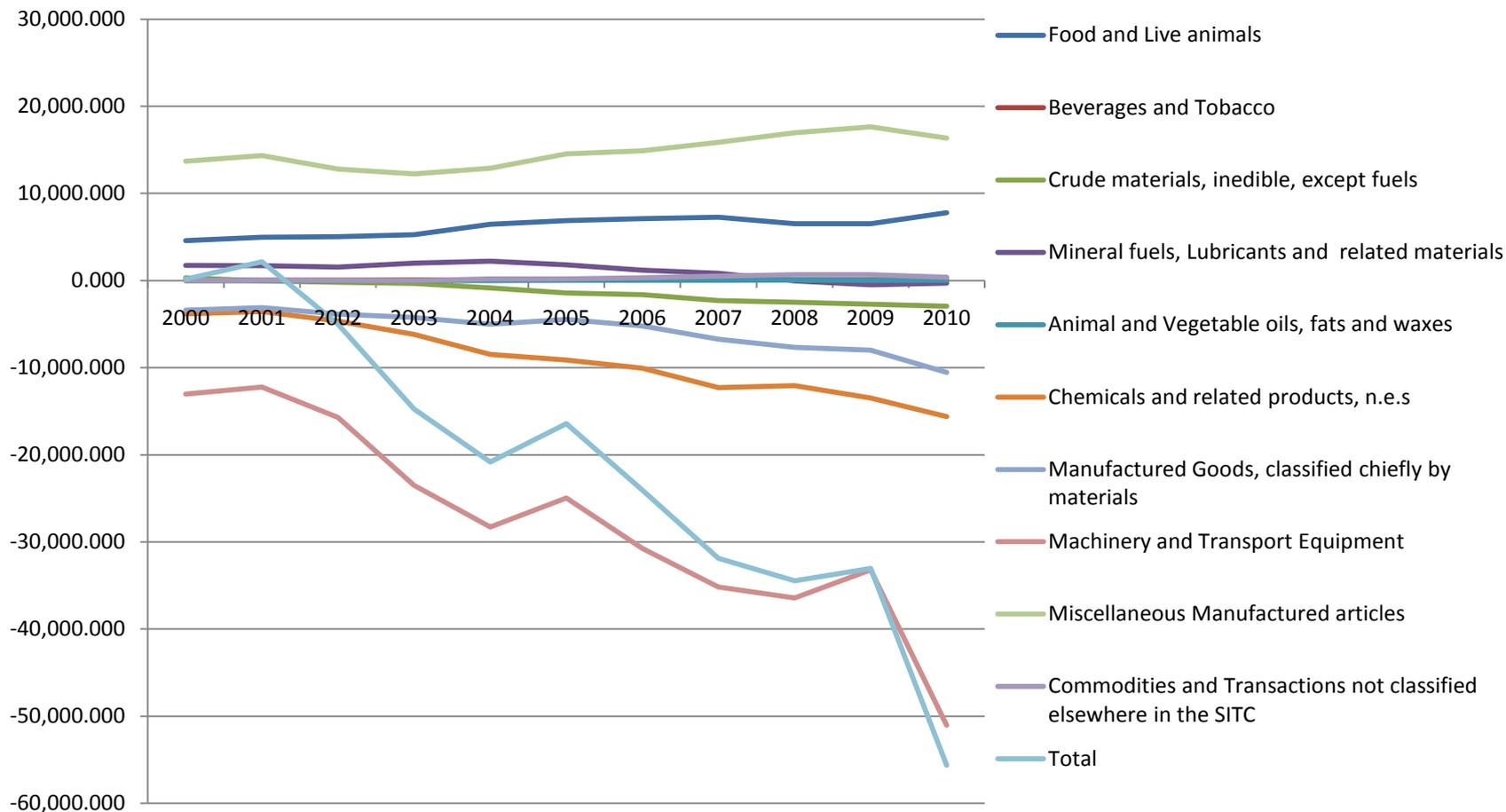
by group of commodity (% of Singapore's export)



Source: UNcomtrade (2011)

China's Trade Balance with Japan

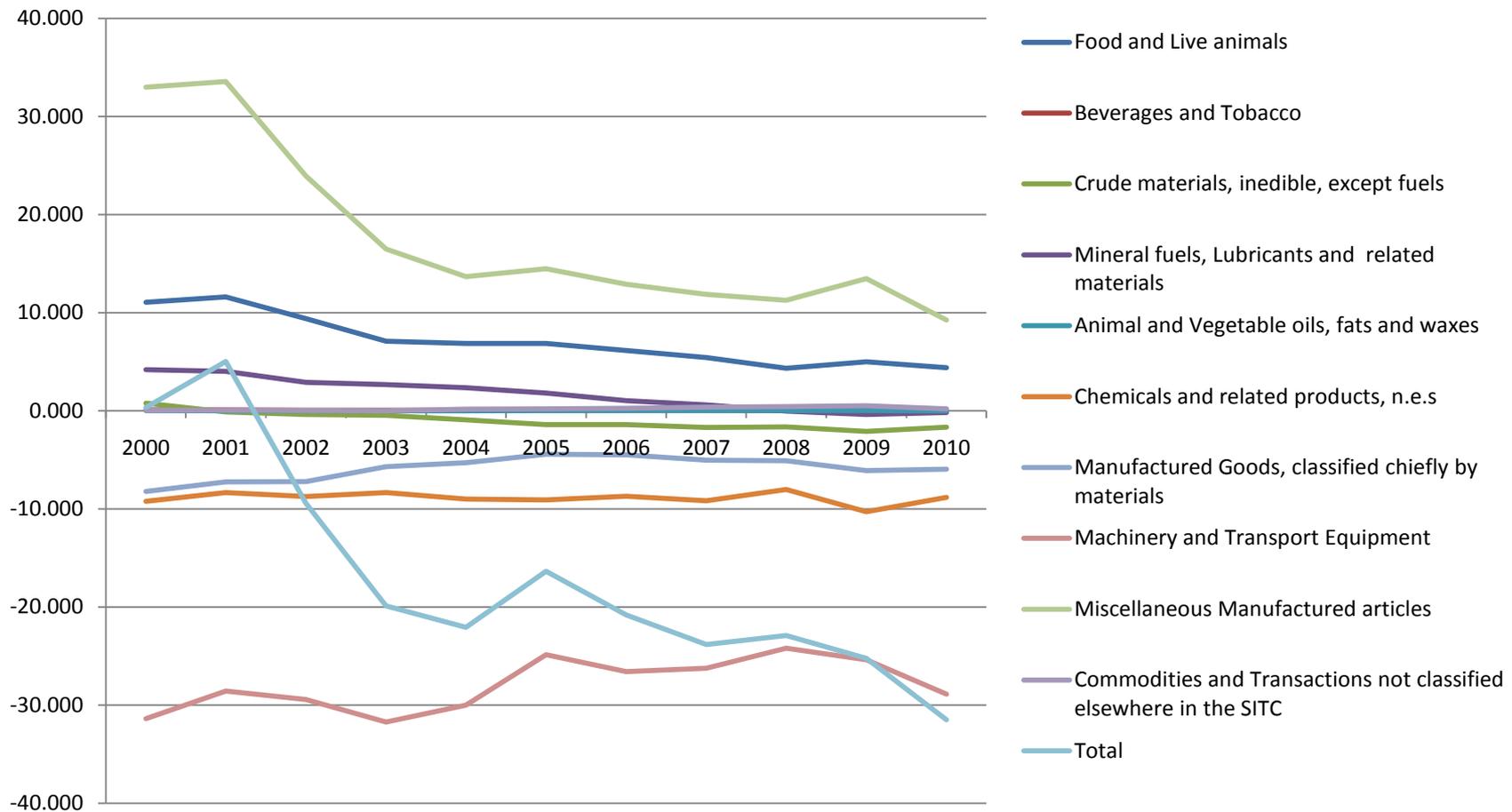
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

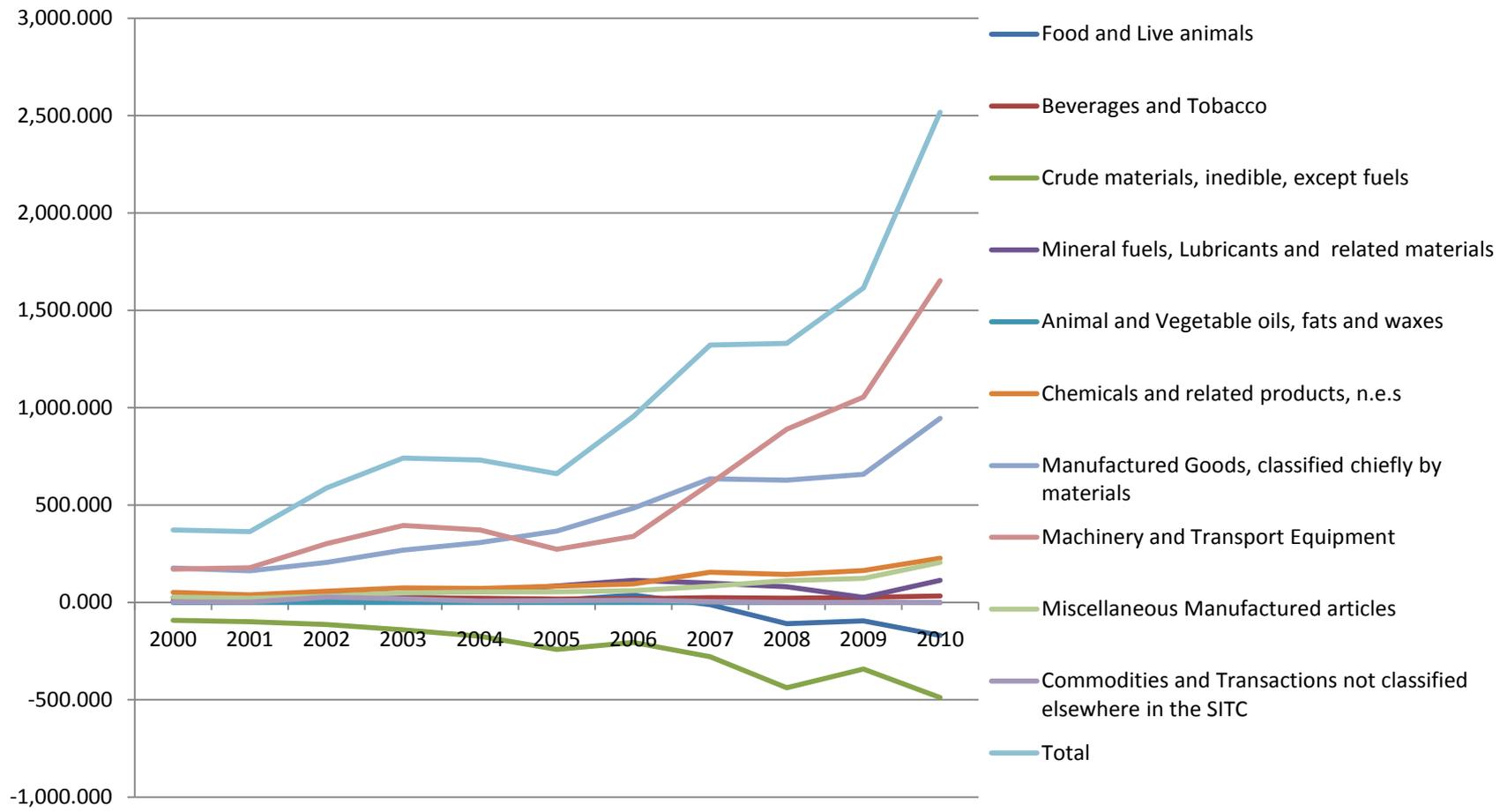
China's Trade Balance with Japan

by group of commodity (% of Japan's export)



Source: UNcomtrade (2011)

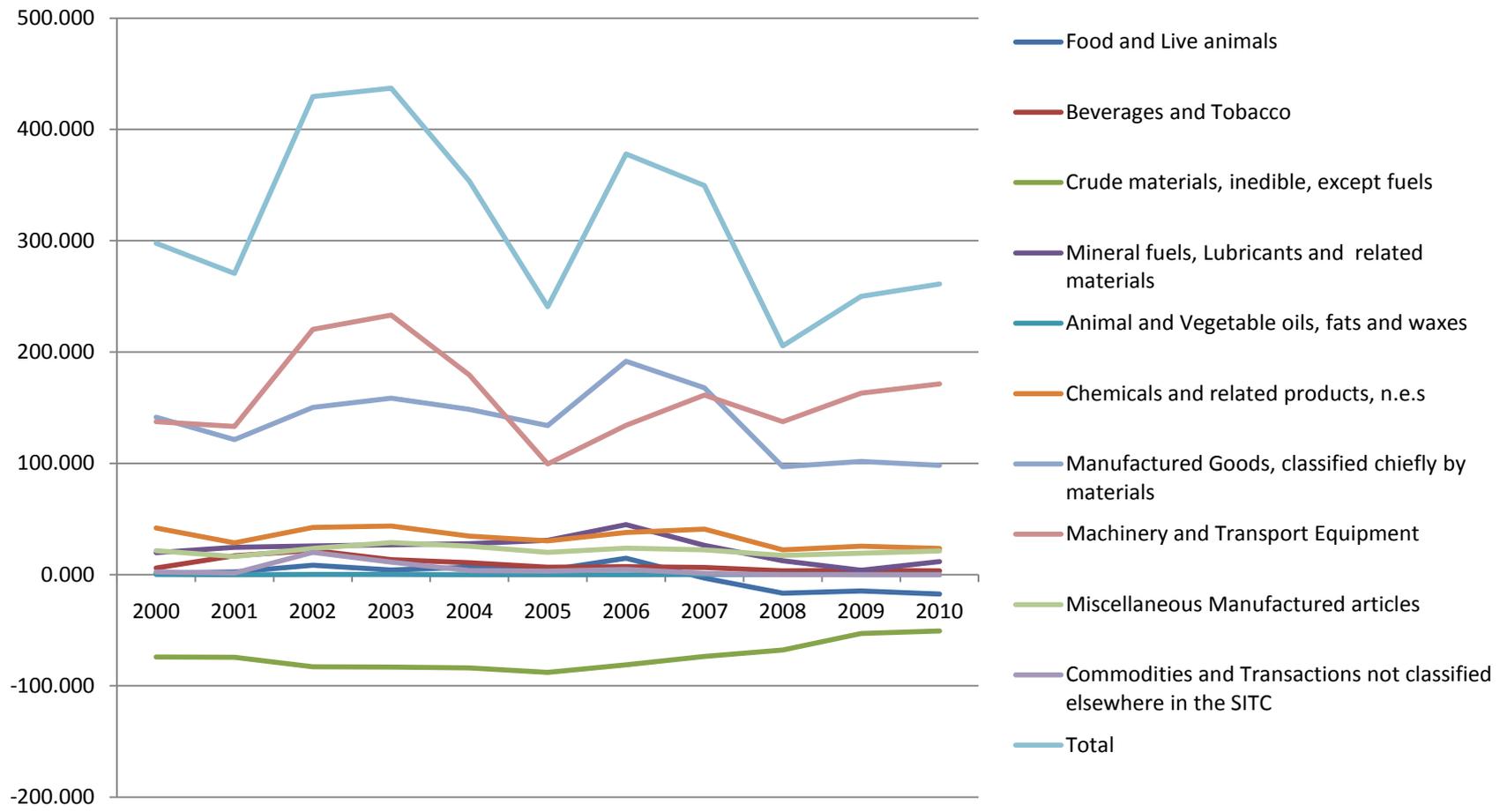
China's Trade Balance with S. Korea by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with S. Korea

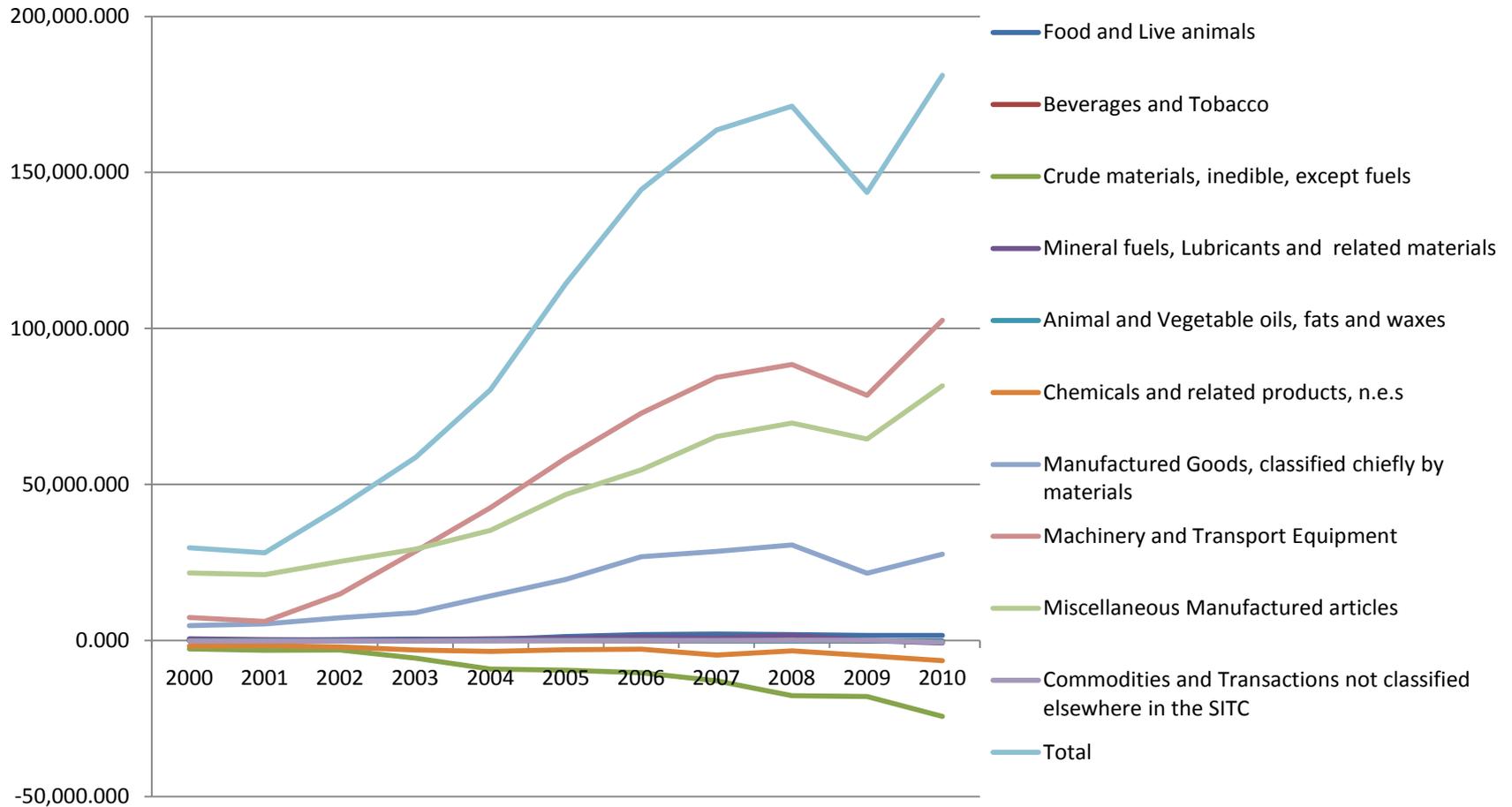
by group of commodity (% of S. Korea's export)



Source: UNcomtrade (2011)

China's Trade Balance with USA

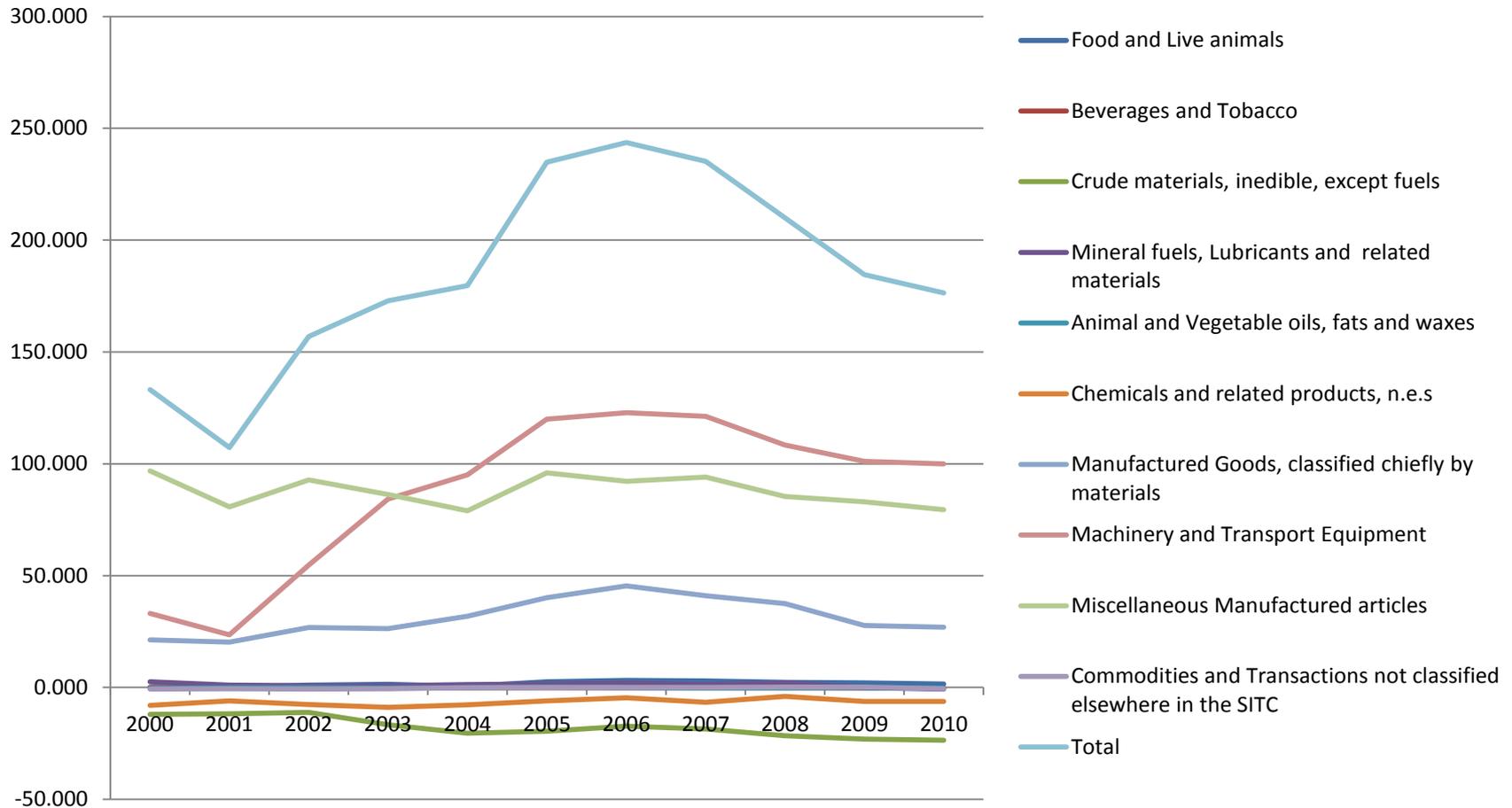
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with USA

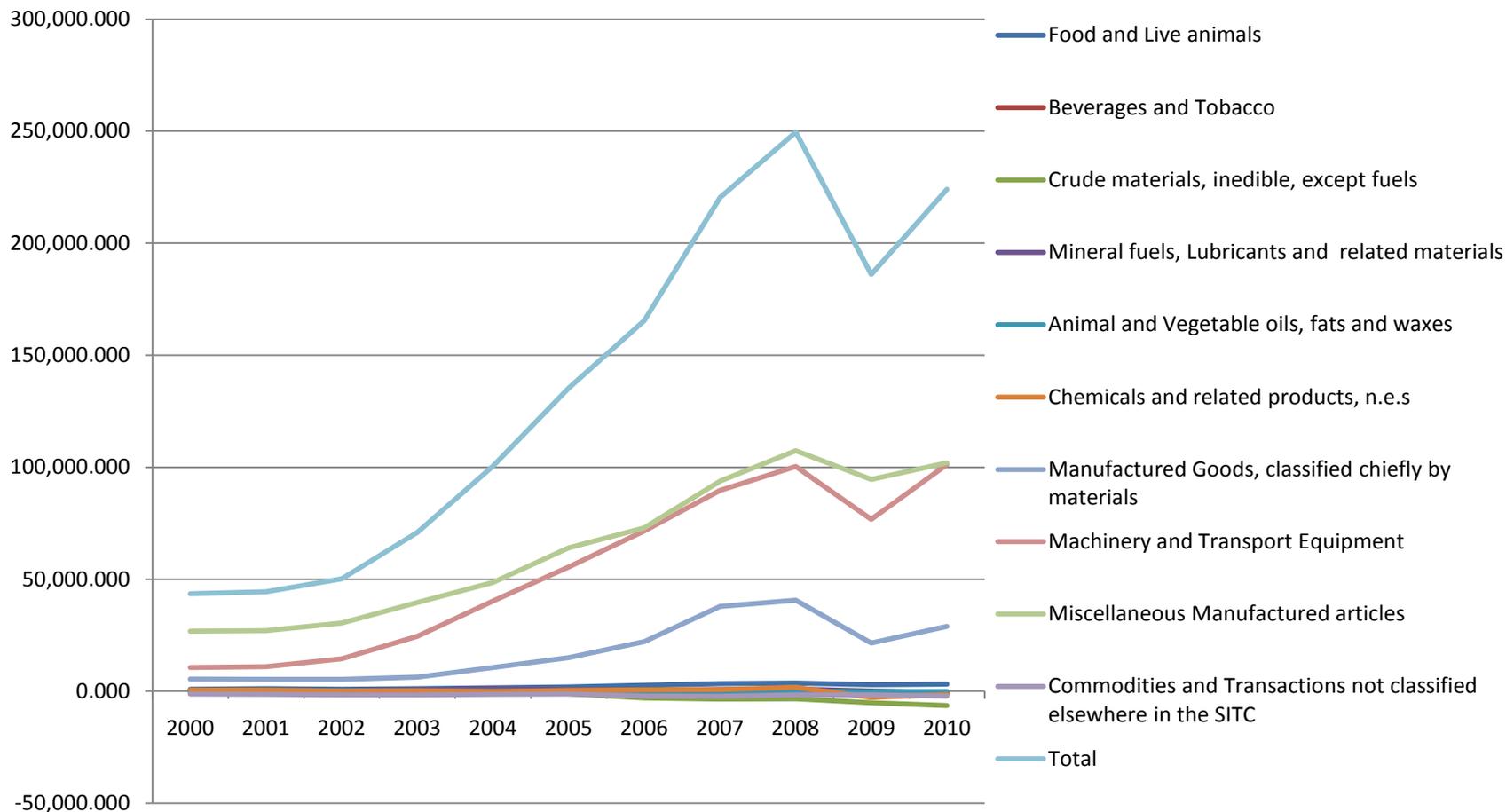
by group of commodity (% of USA's export)



Source: UNcomtrade (2011)

China's Trade Balance with EU-27

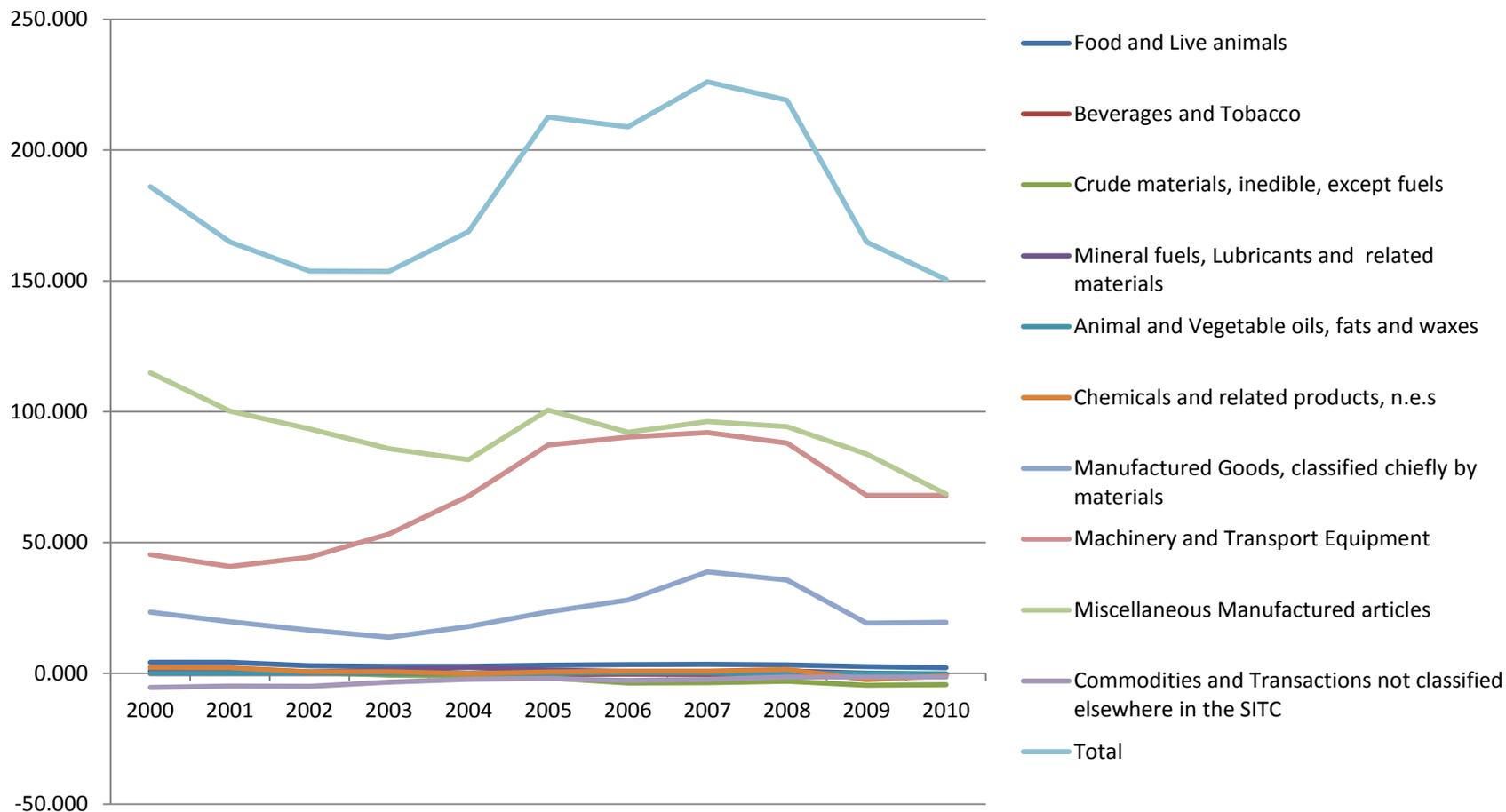
by group of commodity (USD mil.)



Source: UNcomtrade (2011)

China's Trade Balance with EU-27

by group of commodity (% of EU's export)



Source: UNcomtrade (2011)

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