

The Emergence of China and ASEAN Revitalization

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Presentation Outline

- Emergence and Impacts of China
- China's Impacts on Thailand
- The China-ASEAN FTA
- Revitalizing ASEAN Through Deeper Integration
- The Role of Japan in Revitalizing ASEAN
- Conclusions

Emergence and Impacts of China

- With population of 1.3 billion and workforce of 700 million, integration of China into world economy bound to have significant impacts.
- Exports and Imports increased by about US\$ 250 billion between 1990 and 2002

	Exports	Imports	Share in World Export
1990	62,091	53,345	1.80%
1996	151,048	138,833	2.80%
2003	438,370	412,840	5.86%
Average Growth Rate per Annum, 1990-2003	16.22%	17.05%	

Emergence and Impacts of China (2)

- China's emergence creates both opportunities and major challenges for ASEAN.

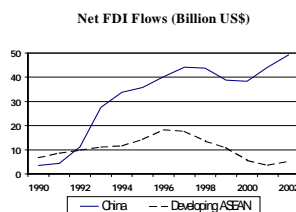
Exports of China and ASEAN (Billion US\$)

	China	ASEAN
1990	62.1	144.1
1996	151.0	340.7
2003	438.4	451.8

- Changes in exports between 1990-96 and 1996-2003 very different.
- ASEAN finding it much more difficult to compete with China.
- ASEAN may not have yet felt full impacts, mainly because ASEAN currencies have depreciated by about 27% compared to Yuan.

Emergence and Impacts of China (3)

- FDI flows also show the greater competitiveness of China

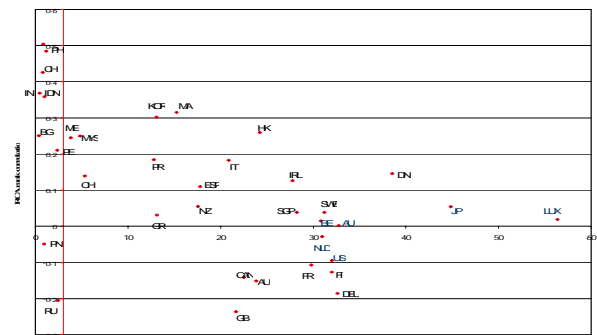


- Although many opportunities in emergence of China, for ASEAN to exploit these ASEAN will need to carry out significant upgrading and integration to increase competitiveness.

China's Impacts on Thailand

Thailand's rank correlation of RCA with various countries.

Figure 1 Thailand's RCA rank correlation with various countries



China's Impacts on Thailand (2)

- Rank correlation with China within some product groups.
- Those with relative high rank correlation and accounting for fairly significant share of Thai exports are:-

Product Group	Rank Correlation	No. of Product Items	Share in Thailand's Export (%)
ISIC1	0.32**	372	6.75
ISIC31	0.43**	381	10.56
ISIC32	0.17**	863	10.48
ISIC38	0.33**	1317	46.91

** Correlation is significant at the .01 level (2-tailed).
 ISIC1 = Agriculture, Hunting, Forestry and Fishing.
 ISIC31 = Food, Beverages and Tobacco.
 ISIC32 = Textile, Wearing Apparel and Leather Products.
 ISIC38 = Fabricated Metal Products, Machinery and Equipment.

China's Impacts on Thailand (3)

- Intra-industry Trade Index (IIT) to look at intra-industry trades.
- $IIT = (1 - (X_{ij} - M_{ij}) / (X_{ij} + M_{ij})) * 100$

Product Group	Rank Correlation	No. of Product Items	Share in Thailand's Export (%)	Intra-Industry Trade Index (IIT)
ISIC1	0.32**	372	6.75	0.3
ISIC31	0.43**	381	10.56	0.1
ISIC32	0.17**	863	10.48	0.9
ISIC38	0.33**	1317	46.91	18.9

ISIC1 = Agriculture, Hunting, Forestry and Fishing.
 ISIC31 = Food, Beverages and Tobacco.
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China's Impacts on Thailand (4)

- Sectors with Recent Declining Thai Shares and Increasing Chinese Shares by Markets.

US Market	EU Market	Japanese Market
Shoes and Accessories	Garments	Animal Feed
Telecommunications Related	Textiles	Garments
Printed Circuits	Air Conditioners and Parts	Furniture
Electrical Appliances and Parts	Video and Audio Equipments	Plastic Products
	Television and Parts	Television and Parts
		Refrigerators and Parts

Source: Data from PC-TAS, 2002.

China's Impacts on Thailand (5)

However, also tremendous opportunities in China for Thai businesses.

- Almost one million tourists now from China.
- Exports to China have increased very rapidly.
- Also much opportunities for investment in China. CP Group is a major investor in China; chicken, animal feed, motorcycles, and wholesale and retail trades ("Super Brand Mall" in Shanghai).

China's Impacts on Thailand (6)

- Export data by Destinations (Million US\$).

	2001		2002		2003		2004	
	H1	H2	H1	H2	H1	H2	H1	H2
ASEAN	6.329	6.270	6.632	6.937	7.835	8.702	10.141	
NAFTA	7.030	7.387	6.819	7.998	7.070	7.898	7.950	
Japan	5.159	4.835	4.731	5.217	5.494	5.902	6.499	
EU	5.533	5.019	4.866	5.351	5.744	6.018	6.843	
Other E.Asia	3.250	3.217	3.339	3.717	4.055	4.449	4.670	
China	1.364	1.509	1.456	2.099	2.640	3.051	3.267	
Middle East	1.113	1.075	1.214	1.269	1.342	1.572	1.775	
Australia	600	762	713	930	995	1.166	1.160	
Others	2.393	2.389	2.381	3.149	3.041	3.263	3.972	
Total Exports	32.772	32.464	32.151	36.667	38.216	42.021	46.277	
Growth (Y-o-Y)								
ASEAN			4.8%	10.6%	18.1%	25.4%	29.4%	
NAFTA			-3.0%	8.3%	3.7%	-1.3%	12.4%	
Japan			-8.3%	7.9%	16.1%	13.1%	18.3%	
EU			-12.1%	6.6%	18.0%	12.5%	19.1%	
Other E.Asia			2.7%	15.5%	21.4%	19.7%	15.2%	
China			6.7%	39.1%	81.3%	45.4%	23.8%	
Middle East			9.0%	18.1%	10.5%	23.9%	32.3%	
Australia			18.9%	22.0%	39.6%	25.4%	16.6%	
Others			-0.5%	31.8%	27.7%	3.4%	30.6%	
Total Exports			-1.9%	12.9%	18.9%	14.6%	21.1%	

China's Impacts on Thailand (7)

- Import data by Origin (Million US\$).

	2001		2002		2003		2004	
	H1	H2	H1	H2	H1	H2	H1	H2
ASEAN	5.102	4.912	5.135	5.683	5.494	6.996	7.477	
NAFTA	4.177	3.456	3.383	3.297	3.591	4.067	3.853	
Japan	7.073	6.699	6.643	8.160	8.385	9.690	10.992	
EU	3.929	3.653	3.347	3.692	3.633	3.873	4.507	
Other E.Asia	2.805	2.723	3.117	3.181	3.259	3.890	4.536	
China	1.747	1.952	2.305	2.594	2.820	3.182	3.697	
Middle East	3.210	2.755	2.695	2.977	3.647	3.792	5.011	
Australia	644	704	661	833	707	860	977	
Others	2.940	3.282	3.103	3.437	3.471	3.665	4.595	
Total Imports	31.618	30.136	30.389	33.854	35.007	40.015	45.645	
Growth (Y-o-Y)								
ASEAN			-0.6%	15.7%	7.0%	23.1%	36.1%	
NAFTA			-19.0%	-4.6%	6.1%	23.4%	7.3%	
Japan			-6.1%	21.8%	26.2%	18.8%	31.1%	
EU			-14.6%	1.1%	8.5%	4.9%	24.1%	
Other E.Asia			11.1%	16.8%	4.6%	22.3%	39.2%	
China			31.9%	32.9%	22.3%	22.7%	31.1%	
Middle East			-16.0%	8.1%	35.3%	27.4%	37.4%	
Australia			2.6%	18.3%	7.0%	3.2%	38.2%	
Others			5.5%	4.7%	11.9%	6.6%	32.4%	
Total Imports			-3.9%	12.3%	15.2%	18.2%	30.4%	

The China-ASEAN FTA

- China-ASEAN FTA was signed on November 4, 2002 in Phnom Penh, less than two years after the idea was introduced by China.
- Seems surprising given high competitiveness of the Chinese economy.
- Clearly, good growth performance of the Chinese economy and great opportunities for trade and investment in China are important factors.
- There are, of course, downside risks. However, full negative impacts on ASEAN economies may not have been fully felt at the current time, especially with ASEAN currency depreciation from the crisis.
- Inclusion of "Early Harvest Programme" attractive for many ASEAN economies as they have some comparative advantage in agriculture.

The China-ASEAN FTA (2)

- Early Harvest Programme makes China's proposal stand out from what could be offered by Japan (or S. Korea), and took leadership role away from Japan in area of regional economic cooperation.
- Important spill-over effects on other economic superpowers.
- Japan had to respond quickly. Joint Declaration on ASEAN-Japan CEP was announced on November 5, 2002, in Phnom Penh, and agreement signed on 8 October 2003 in Bali. Without China-ASEAN FTA, very unlikely that Japan would have moved so fast.
- United States also introduced Enterprise for ASEAN Initiative (EAI) that opened the window for possible bilateral FTAs between the United States and members of ASEAN along the lines of the Singapore-US FTA.
- Thus, China-ASEAN FTA initiative provided stimulus for Japan and the US to focus attention on greater economic cooperation with ASEAN. This is of great benefit to ASEAN, as FTA with richer countries more beneficial. So even with the risks from the China-ASEAN FTA, net benefits for ASEAN likely to be positive.

Revitalizing ASEAN Through Deeper Integration

- Message from the emergence of China is clear: Size Does Matter. ASEAN needs to integrate more and more quickly to reduce costs of doing business in ASEAN and become more attractive to foreign investment. Unless ASEAN becomes more serious about this, each ASEAN economy could become marginalized.
- With deeper integration, many opportunities as ASEAN is quite big as a group; about half the size of China.
- ASEAN leaders paying more attention to the need for further ASEAN integration. Views an ASEAN Economic Community as end goal for ASEAN vision 2020; reaffirmed in "Bali Concord II" (October 2003).
- 2020 too far away. May have already lost too much competitiveness and production bases by then. Singapore and Thailand tries unsuccessfully to get commitment to speed up process. Still much more continual efforts needed to push ASEAN more quickly along the path of integration.

Revitalizing ASEAN Through Deeper Integration (2)

- Prior to the 1997 crisis, most ASEAN economies were growing well, so need to think much about integration beyond AFTA.
- With crisis, depreciated ASEAN currencies helped to prolong ASEAN export growth. This is likely to be over now.
- ASEAN now much less competitive or attractive for investment compared to China. So appropriate time to push ahead with deeper regional integration beyond AFTA, particularly as tariff reductions under AFTA for most products have already been carried out.
- This can make ASEAN an integrated trade and production region and increase competitiveness by allowing full exploitation of scale economies.
- However, moving to an ASEAN Economic Community will need strong Push Factors. No comparable historical push factors for integration as for Europe.
- China's emergence is an important push factor, but the role of Japan is also very important.

The Role of Japan in Revitalizing ASEAN

- Japan is a very important trading partner of ASEAN. Still much more important than China.

ASEAN Exports and Imports

	Exports			Imports		
	1993	1997	2001	1993	1997	2001
World	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
ASEAN	21.1%	24.9%	22.8%	17.4%	18.2%	20.8%
Japan	15.0%	12.3%	13.1%	24.9%	20.0%	16.9%
China	2.5%	2.8%	8.5%	1.9%	3.8%	7.4%
S.Korea	3.0%	3.1%	4.0%	3.2%	4.2%	4.2%
ASEAN+3	41.5%	43.1%	48.4%	47.4%	46.1%	49.4%
USA	20.3%	20.4%	16.8%	15.1%	17.3%	14.6%
EU	15.2%	13.4%	15.3%	14.3%	14.3%	12.6%

The Role of Japan in Revitalizing ASEAN (2)

- ASEAN is also an important trading partner of Japan.
- Japan's exports to ASEAN affected by the crisis. Still, ASEAN share in 2-way trade about 12%. China largest source of imports for Japan.

Japan Exports and Imports

	Exports			Imports		
	1985	1995	2002	1985	1995	2002
World	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
USA	37.1%	27.3%	28.5%	20.0%	22.4%	17.1%
EU	13.0%	15.8%	14.7%	7.8%	14.5%	13.0%
ASEAN6	6.4%	17.3%	10.2%	15.6%	13.9%	14.5%
China	7.1%	5.0%	9.6%	5.0%	10.7%	18.3%

The Role of Japan in Revitalizing ASEAN (3)

- Large Japanese presence in ASEAN.
- Post Plaza Accord Japanese investment in ASEAN boosted ASEAN exports and growth.
- Although more attention now on China, Japanese presence in ASEAN is still bigger than in China.

Japanese FDI Assets and Japanese Nationals Overseas

	FDI Assets (Billion Yen)		Nationals Overseas (Persons)	
	1996	2002	1981	2001
ASEAN 5	6,143	3,487	30,542	79,949
Indonesia	1,994	667	6,792	12,254
Malaysia	667	470	3,539	11,653
Philippines	332	355	4,365	10,137
Singapore	1,323	1,245	9,078	23,174
Thailand	1,827	750	6,768	22,731
China	939	1,481	6,601	53,357

The Role of Japan in Revitalizing ASEAN (4)

- Given the strong ASEAN-Japan economic relationships, there is a common interest for ASEAN and Japan for each to recover from past economic difficulties.
- Without a vibrant ASEAN, value of Japanese investment and business networks in ASEAN that have been built up over the past couple of decades would decline significantly.
- Although AJCEP took longer than ASEAN-China FTA, AJCEP more important for bringing about a more integrated ASEAN.
- Major difference is that Japan has a very large production base in ASEAN and China does not.
- Implicit behind the AJCEP is the need for further ASEAN integration to increase efficiencies and competitiveness. Various facilitation and cooperation areas as well as liberalization measures in AJCEP can help accelerate ASEAN integration process.

The Role of Japan in Revitalizing ASEAN (5)

- Important for Japanese companies with large production presence in ASEAN to protect competitiveness of their investment. Need to shift from country production strategy to regional production strategy to exploit scale economies. Only possible with a more integrated ASEAN.
- Many barriers to regional efficiency at present.
- Still some key "sensitive" sectors in AFTA, such as automobiles. Delay by Malaysia means that auto parts shipped from Malaysia to Thailand pays tariff of 30-42%. Creates major problems for Japanese manufacturers who want to ship parts from Malaysia to Thailand to use in Thai assembly plants.
- Also many barriers that increase costs of sourcing for parts and supplies among ASEAN countries, such as customs procedures and other trade facilitation related areas as well as transportation issues.

The Role of Japan in Revitalizing ASEAN (6)

- Goal is to make ASEAN as integrated and competitive as possible. Also a common goal for Japan.
- Major Japanese multinationals are influential with ASEAN governments. Can add weight to persuade ASEAN governments of the need for quicker integration.
- Successful completion of AJCEP will require adjustments on both sides.
- ASEAN countries need domestic adjustments to increase efficiencies and competitiveness, and also to give more weight to a regional perspective and integrate more quickly.
- For Japan, agriculture is of course very sensitive. However, ASEAN and Japan partly complimentary in agriculture, so should look in detailed on a product by product basis.

The Role of Japan in Revitalizing ASEAN (7)

- ASEAN countries need to retain foreign partners that had helped to develop the region in the past.
- For Thailand, Japan has been a very important partner, and Japan's role, whether through investment or assistance during the financial crisis, is greatly appreciated in Thailand.
- Need for deeper ASEAN integration also driven by inevitable trend of greater regional economic integration in East Asia.
- ASEAN dominated in terms of size by China, and in terms of technology by Japan. Only by integrating more closely to become a single trading and production region will ASEAN have sufficient clout to take full advantage of East Asian integration.

Conclusions

- China's emergence has been very significant for the world economic system in general and for ASEAN and East Asia in particular.
- While there are many economic opportunities arising from China's emergence, the competitive challenges from China are also very real.
- To revitalize its competitiveness, ASEAN needs to integrate much more deeply to become a unified trading and production region.
- The role of Japan in this is very important, given the large economic presence of Japan in ASEAN, particularly Japanese production assets.
- Japanese multi-nationals are influential with ASEAN governments, so Japan can provide a crucial impetus for ASEAN economies to overcome domestic resistances and move more quickly toward a fully integrated economic region.