PART I

The Context
Since the dawn of the industrial revolution, and the ushering in of an era of global economic relations, the United States and Europe have been the core poles of economic power. However, China along with India and a select group of other rapidly developing (and mostly East Asian) countries are increasingly challenging the traditional economic hegemony. Such is the level and significance of this challenge that Gu, Humphrey and Messner (2008, p. 275) are moved to assert that this generation is “witnessing a fundamental shift in power centres in the global economy”. Indeed, in 2010, in a moment laden with symbolism, China eclipsed Japan to become the world’s second largest economy, cementing its position as one of the globe’s foremost economic powerhouses.

An issue of great importance is how this shift in the global economic balance of power will affect developing economies, and in particular the poor residing within them. Developing countries will be offered
opportunities by China’s growth, but also face challenges. It is important to identify the likely routes of impact so policy can be designed to optimize opportunities and lessen the potential for negative impacts. Nowhere are these issues more relevant than in the transition economies of the Greater Mekong Subregion (GMS),¹ which are located in China’s backyard and deeply integrated into its economy through regional supply chains. This volume examines the relationship between transition economies and the rise of China through presenting empirical case studies from the GMS. In doing so, it offers insights into the effect of China on developing countries in general, and offers practical policy directions for the place-specific economies of the GMS.

This chapter starts by giving an overview of the Chinese economy and the key routes through which its rise may affect developing countries. It then focuses on the relationship between China and the GMS, and highlights the key issues that may arise from economic interaction. A method to analyse China’s impacts on poverty in the GMS is then forwarded; which informs the empirical studies that follow. The results of the case studies presented in this volume are then surmised, and the organization of the following chapters is detailed.

1. KEY ISSUES

1.1 China and Developing Countries

From an economic perspective, the speed and strength of China’s growth trajectory is as sobering as it is well documented. With the ascension of Deng Xiaoping in 1978, China embarked on a state-led transition to capitalism. Since then the country has progressed inexorably up the global economic hierarchy, its strong and consistent GDP growth resultant of high levels of investment and ever-growing participation in world trade.

Since the late 1970s China has consistently averaged around 9–10 per cent GDP growth (Figure 1.1). Political factors have greatly influenced China’s growth trajectory: between 1960 and 1980, China’s GDP grew from US$63 billion to US$189 billion, and then, following the economic reforms that began in the late 1970s, it exploded to US$4.9 trillion in 2009. Stiglitz (2001, p. 18) does not overstate the significance of these figures when he says that “China’s recent experience is one of the greatest economic success stories in history”. In the 2000s China’s economy has continued to exceed
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FIGURE 1.1
China's GDP Growth

expectations, growing phenomenally to become the second largest in the world; if current trends persist it will be the largest in the world before the middle of this century.

Although there is no such thing as a “sure thing” in economic history, the structure of the Chinese economy seems to indicate it is built to last. A recent United Nations Development Programme (UNDP 2010) report praises the solid foundations underlying the shining statistics. While exports and foreign direct investment (FDI) have contributed to China’s GDP, growth has been underpinned by domestic investment funded by domestic savings, suggesting a stable long-term economic outlook (Prasad 2009). Building on these foundations, the government hopes to rely less on exports for generating future growth, and instead tap huge potential domestic demand. Diversifying its growth in this way will mean the economy will be less vulnerable to shocks resulting from falling external demand for manufactured products.²

The aspect of China’s growth that makes it unparalleled in history is the size of the population experiencing it in tandem with its high rate. Stigliz (1998, p. 2) notes:

If China’s 30 provinces were treated as separate economies — and many of them have populations exceeding those of most other low-income countries — the 20 fastest-growing economies between 1978 and 1995 would all have been Chinese provinces.

China’s East Asian neighbours Taiwan, South Korea and Japan have shown equal or more impressive rates of growth, but on a global scale China’s growth is more significant. Illustrative of this fact is the impact of China’s domestic growth on the structure of the global economy, its contribution to global GDP increasing from 1.8 per cent in 1978 to 6.42 per cent in 2008 (World Bank 2010 cited in UNDP 2010, p. 8). This growing prominence has increasingly meant that domestic economic conditions have large effects globally. This has been especially noticeable in the current global economic recovery: while the advanced economies of Europe, the United States and Japan are stagnating, China’s consistently strong growth figures are buoying the global economy.

Because of its huge population, it is China’s growth in per capita GDP that could have the largest effect on the future structure of the global economy. Wage rises across China and increased consumerism could
Benefit both advanced and developing countries by opening a huge and potentially highly lucrative market for them. Per capita GDP increased from around US$330 in 1990 to around US$950 in 2000 — an almost threefold increase in just ten years. Since 2000 this growth has been even stronger, and in 2009 per capita GDP stood at US$3,744 — an elevenfold increase in less than twenty years (Figure 1.2). These per capita increases have been spread across a population of over 1.3 billion people.

As China’s consumption patterns change, demand for products — both manufactured and those used in manufacturing processes — will soar. To take a striking example of this potential for growth in domestic consumption, the prominent neo-Malthusian scholar Lester Brown (2005, p. 45) notes that “if automobile ownership in China were to reach the USA level of 0.77 cars per person, China would have a fleet of 1.1 billion cars in 2031 — well beyond the current world fleet of 795 million“. The knock-on effects of these changes would manifest globally, potentially affecting economies and government policies around the world, which would adapt both to take advantage of emergent opportunities, but also to try and mitigate threats arising from issues such as global warming. Increases in per capita GDP will stimulate other processes, such as increased rates of saving, financial sector development and FDI that will also have significant impacts far from China’s own shores.

The place-specific impacts of China’s ascension will depend on the individual and regional structure of economies as well as geopolitical considerations. In general it is thought China’s rise may have both positive (complementary) and negative (competitive) effects on the economies of developing countries (for example, Jenkins and Edwards 2004). It is in this context that the ADB-GMS initiatives aim to increase interaction between the GMS and China and also to develop policies that enable these interactions to have beneficial outcomes. However, the potential for negative outcomes must also be acknowledged. In assessing and identifying complementary and competitive impacts in developing economies resulting from China’s economic growth, it is necessary to examine the main spheres of economic interaction between China and developing counties in general, and the GMS in particular. These spheres of economic interaction are trade, FDI and overseas development assistance (ODA), and increasingly, impacts arising from China’s growing participation in global economic governance.
FIGURE 1.2
GDP per capita in China

1.2 Trade

China’s growing participation in world trade has been a defining trait of its transition. During the period 1985–2005, exports rose from US$50 billion to US$798 billion (Kaplinsky and Messner 2008, p. 199): China is now the third largest exporter of goods in the global market place, behind the United States and Germany. In addition, China has seen huge increases in imports, which have mirrored exports and been largely driven by demand for materials used for production in the manufactured products export sector. This trend has been particularly apparent in the past decade (Figure 1.3), and is primarily seen as a result of a surge of manufactured output driven by the huge growth of small- and medium-sized enterprises and careful management of state-owned enterprise.

The growth of China’s manufacturing sector has provided a huge potential market for the goods of developing countries, particularly those that rely heavily on export revenues derived from primary products. Davies (2009, p. 23) observes that China’s “imports have grown rapidly, increasing from 6 per cent of GDP in 1980 to 29 per cent of GDP in 2006 and increasing by 90 per cent in real (US) dollar terms between 2003 and 2006”. A large proportion of this import demand has been in primary products such as raw materials or minerals for use in manufacturing and industrial activities, resulting in a surge in demand, which has had the effect of pushing commodity prices up.

Many least developed countries have gained in the short term as a result of this facet of China’s economic structure. In particular the sub-Saharan African (SSA) countries, being reliant on primary product export revenues, have seen their export volumes grow quickly in response to China’s growth (Figure 1.4). SSA export profile mirrors China’s surge in imports and exports starting in the early 2000s, helping satiate its demand for materials used in the production of manufactured products. In the long term, this increase in demand for primary products may encourage primary product dependency in some least developed nations and hence, heighten vulnerability to shocks and stifle industrial development.

For countries trying to get a foothold on the industrial ladder, competition from Chinese goods in domestic and third markets could be a potential cause for concern. In particular, China’s global dominance in the textile industry, which is traditionally seen as the first rung of the industrial ladder, is often considered a core challenge to many countries.
FIGURE 1.3
China’s Imports and Exports

FIGURE 1.4
Growth (%) of Total Exports to China from SSA against Primary Commodities

Source: Goldstein et al. (2006, p. 24).
seeking to industrialize. Collier (2008), for example, sees the rise of China as a constraint to many SSA countries developing garment industries; China is established, well connected to supply chains and has access to a large pool of cheap labour. As Kaplinsky and Morris (2008, p. 269) assert “the blunt reality is that SSA clothing and textile exporters cannot compete with Asian producers in general and Chinese exporters in particular”.

It does not seem likely in the short to medium term that as China develops, and the structure of the Chinese labour market changes, its labour-intensive industrial exports (particularly garments) will become uncompetitive and shift to less developed countries. Akamatsu’s (1962) flying geese model predicts that as a country moves up the industrial ladder from labour- to capital-intensive industrial processes, less developed countries fill the void and start utilizing their labour advantage to produce labour-intensive industrial products. But Shenkar (2005, p. 134 cited in Kaplinsky and Messner 2008, p. 200) contends that

China’s enormous labour reserves, with pay scales radically lower in the hinterland than the coast and urban areas (the average income on the farm, where more than half the Chinese population lives, is less than US$25 per month), create the equivalent of a country within a country; so instead of Vietnam or Bangladesh replacing China as a labour-intensive haven, Yunnan province will replace Guangdong.

Thus China is able to support and remain competitive in both capital- and labour-intensive industries. This is a major barrier to many countries nascent attempts to industrialize.

1.3 Capital Inflows: FDI and ODA

A second potential route of impact of China’s rise on developing countries is through changes in the structure of their capital inflows. In regards to the “competitive” outcomes of China’s growth there is the possibility that its correspondingly increased attractiveness to investors may have diverted FDI destined for other developing markets, and thus reduced their FDI inflow. Indeed, it is true that China has become an increasingly attractive proposition for foreign investors — the explosion in township village enterprises (TVEs) in particular has attracted a lot of FDI to China, rendering it a significant driver of these industries (for example, Fu and Balasubramanyam 2003). But as Figure 1.5 shows, though the
FIGURE 1.5 Inflow of FDI and Developing Countries (1990=100)

rate of increase of FDI to China has risen rapidly over the last two decades, FDI has also increased to other developing countries in the same period, albeit at a slower rate. Given the inherent complexity of factors underlying FDI inflows, it is very hard to say whether FDI to other developing countries would increase if China’s economy was not growing at such a fast rate.

China’s rise has meant that an increasing volume of FDI coming from it is destined for developing countries. In general a defining trait of China’s FDI has been its strategic and coordinated nature. A case in point is the garment industry: in light of the quotas put on Chinese exports to Western markets, Chinese FDI destined for garment factories has been seen from SSA (Lall 2005 on Lesotho) to Southeast Asia (Jalilian and Reyes 2010 on Cambodia). Other FDI has been used to secure natural resource supplies, such as minerals, rubber plantations, and land for crops, etc., from developing nations in SSA, Latin America and Asia, for China’s future needs (WB 2010).

Like FDI, official development assistance (ODA) from China has been forthcoming, but has often been tied to conditionality and has been seen as strategically serving China’s interests rather than that of the host country. For example, referring to Chinese aid in SSA, Zafar (2007, p. 120) notes its strategic nature in combining “financial assistance and funding of construction projects to build influence in exchange for oil and create a network of reliable allies and suppliers”. The planning element, and the ever-present role of the state, that has proved so successful in China’s transition from communist to capitalist state, is also the hand guiding outflows of capital in the form of FDI and ODA.

1.4 Global Governance

A final route of impact is the Chinese government’s role in constructing the agendas of global governance institutions. Figure 1.6 indicates just how much China has increased its participation in global forums. A good example of this can be found in China’s participation in the Dispute Settlement System of the World Trade Organisation (WTO) as a third party mediator. Through this system it has gained knowledge of the institutional and regulatory apparatus of the WTO and has become active “in the making and application of WTO rules” without becoming directly involved in trade disputes with member countries (Gu, Humphrey and
FIGURE 1.6
China’s Membership of International Organizations

Messner 2008, p. 284). Thus, strategically and relatively silently, China has been able to strengthen its position in the WTO and use its knowledge to get the decisions that serve its interests.

China’s increasing prominence in the mechanisms of global — particularly economic — governance has the potential to greatly affect developing countries. On a global scale, if one uses the binary distinction of “developed” and “developing” world, then China’s participation in global governance bodies, particularly the WTO, is of great significance in altering the global balance of power potentially in favour of developing regions. However, the specific impacts will again vary between countries and regions. As China’s actions are motivated by self-interest, regions that compete in markets such as textiles could lose out, for example, those in SSA. There is the potential for those integrated into China’s regional supply chains to benefit; having an economic superpower representing the interests of the region could be particularly beneficial to low- and middle-income Asian countries.

1.5 China and the GMS

The countries of the Greater Mekong Subregion (GMS) in many ways face the same opportunities and challenges resultant of China’s ascension as other transition economies. A key difference, however, is that China is closely integrated with the region and shares some common interests. The GMS-4 share a key attribute that set them apart from most developing countries in that they are China’s backyard: their political and socioeconomic stability, and indeed development and prosperity, can have direct impacts on China. As Krongkaew (2004, p. 980) notes, the “GMS economic zone should provide an excellent ‘southern gateway’ that could bring greater economic prosperity to the south and southwestern provinces of China”.

The relative poverty of western China is a major issue for the government. While the east coast of China is prosperous, areas such as Yunnan province are land locked and far from markets and the coast. A prosperous GMS would be beneficial to China, and in particular the inland provinces bordering the GMS countries.

To take advantage of the opportunities afforded by close geographical proximity and geopolitical circumstance, a number of ADB projects aimed at fostering increased regional integration between the GMS and China have been initiated since the early 1990s. The main focus of these programmes
has been the development of Economic Corridors that link the GMS and China. Economic corridors consist of many facets, including hard infrastructure such as roads and railway — including a project that seeks to connect Kunming in China to Singapore via the GMS — electricity and water supply and communications. In addition to upgrading hardware, programmes have focused on institutional and policy reform to better facilitate increased trade and investment. For example, there have been reforms of customs procedures to encourage cross-border trade and the development of regional institutional mechanisms to enhance private sector participation in policy making (Krongkaew 2004).

A key facet of the relationship between China and the GMS is trade. China relies on and is well integrated into regional production networks. To promote these interests, economic regionalism has become a strong trait of a modern China; as McDonald, Robinson and Thierfelder (2008, p. 210) assert, China is “an integral part of the regional trading bloc in East and South East Asia … with regional production characterised by cross country value chains”. Agreements to foster increased economic interaction between China and GMS countries are already in place. Indeed, the GMS countries included in this volume (Cambodia, Laos, Thailand, Vietnam) are part of the ASEAN Free Trade Area (AFTA) and in the near future are to be part of the ASEAN-China Free Trade Area (ACTFA). The province of Yunnan is now a part of this agreement. Resultant of this, trade between China and the GMS has steadily increased over the past decade, though China’s exports to the GMS have risen at a faster rate (Figure 1.7).

While the GMS countries share common traits, it should be noted that the GMS is not a homogeneous group, and thus outcomes of a growing China and increased interaction with it are likely to vary from country to country. In particular, the GMS-4 (i.e., excluding Yunnan and Myanmar), vary greatly in their level of economic development. For example, in 2009 Thailand had a GDP of over US$263 billion, Vietnam of around US$97 billion, Cambodia at US$10.4 billion, and Laos at US$9.7 billion (Figure 1.8). Thailand, the most developed of the four countries, has sophisticated infrastructure, electricity provision, public services, financial and banking sectors, and exports a wide range of products including high value-added electronics — it is the only one of the four that the World Bank classifies as middle income. Also within this group is Laos — a country with a GDP more than twenty-five times smaller than Thailand, with an economy based mainly around the export of primarily commodities, and with limited
FIGURE 1.7
China’s Trade with GMS-4

FIGURE 1.8
GDP of the GMS-4

infrastructure. With such diversity within the GMS, there is potential for a variety of economic interactions with China.

Eichengreen, Rhee and Tong (2007) note that while China’s imports have a great diversity, they are mainly made up of either primary products or capital goods. Exports to China are likely to increase among the more advanced ASEAN countries that export capital goods, or the lesser developed countries that export primary products. Those that rely on export revenues from consumer goods are unlikely to see such returns and may face significant challenges from China in third markets. There could also be negative long-term effects for primary product exporting countries, which could see resources diverted from industrial pursuits and suffer overvalued currencies as a result of primary product exports making manufactured products uncompetitive in export markets. As Devadason (2010, p. 660) asserts, ACTFA could prove challenging to the smaller ASEAN countries (i.e., GMS-4 excluding Thailand) “given their weak industrial structures … ACTFA will render domestic markets swamped by better quality, cheaper Chinese goods”.

Flows of Chinese FDI and ODA into the GMS have been increasing as a result of ever-closer economic relations (Figure 1.9). The total amount of Chinese FDI to the GMS increased from US$92.9 million to US$456.9 million in 2008. This, however, still accounts for a tiny fraction of China’s total FDI (less than 1 per cent). The distribution of China’s FDI in the GMS reflects the diversified nature of the economies of the GMS, and also the profile of Chinese FDI, which is generally geared towards garment manufacturing or natural resource extraction in developing economies. Indeed, it is for this reason that most of China’s FDI is going to lesser developed GMS countries where these industries operate.

2. ASSESSING CHINA’S IMPACT: METHODOLOGIES

The country studies following this introduction provide a poverty-centred analysis of the effects of China on the GMS-4, and the effects of the GMS-4 on Yunnan province of China. Principally they look at how China’s rise has affected the economies of the GMS-4 in general and the poor located within the GMS-4 in particular. The volume utilizes the overarching analytical framework for assessing the impacts on developing countries posited by Jenkins and Edwards (2004).
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Figure 1.9: FDI Outflow to GMS-4

The Jenkins and Edwards (2004) model is useful for analysis of the GMS because it provides a universally applicable framework for analysing China’s impact on developing countries that is both country specific and poverty focused, allowing comparisons to be made between and within regions. The framework represents “a disaggregated approach to analysing the impact of China on national economies and … to tracing through the effects on poverty, with some recognition of broader issues of vulnerability” (ibid., p. 10). It is able to capture the effects of potential factors such as integration into regional supply networks that are present in the economies of GMS nations, but less apparent in other developing regions, such as Latin America or SSA. Following the Jenkins and Edwards tradition, this volume contributes to the emerging literature analysing the impact of the rise of China on developing economies by focusing on the GMS-4 and Yunnan province in China as distinct, but interlinked, entities.

The conceptual basis of the Jenkins and Edwards model rests on analysis of key attributes of developing economies where China will have the biggest impact. Because it focuses on individual countries, it sidesteps more indirect issues such as China’s role in global governance and issues regarding environmental, trade and other global policies instigated through global institutional frameworks. For example, there is no analysis of China’s participation in the WTO which has better terms of trade for trade blocs of developing nations, or its role in securing better carbon emissions quotas for developing nations; instead the framework focuses on China’s impact on specific countries.

According to the Jenkins and Edwards’ model, areas where China’s impact is most direct, quantifiable and observable in developing countries are in the realms of trade, FDI and ODA. With regards to trade, China can affect developing economies through providing new export markets and/or through competing in domestic and third markets. Regarding investment, there is the threat of FDI destined for GMS countries being diverted to China; alternatively there is the potential for increased FDI flow from China to developing economies, including the GMS. Increases in Chinese ODA can have both positive and negative short- and long-term impacts on developing economies. In their study, Jenkins and Edwards (2004) apply this framework to a host of countries to analyse the potential impacts of China. In order to capture the impact of China on a particular country, Jenkins and Edwards distinguish between four different stages, which are summarized in Table 1.1.
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While the Jenkins and Edwards model provides the overarching conceptual and structural framework for this volume, it should be remembered that a key facet of their model is the recognition of variation between developing economies. With this in mind the various country chapters place emphasis on different sectors and use methodological approaches that best serve their case study research. For instance, in the case of Thailand an ODA section is absent because there is negligible effect on the economy through this mechanism. The research focuses mainly on trade, which has a massive impact on the Thai economy. The authors of this report use gravity models to predict the impact that future changes in the Chinese economy would have on Thailand’s trade profile.

| TABLE 1.1 |
| Jenkins and Edwards’ Analytical Framework |

**STAGE 1** Identify direct channels of impacts through:
- Export to China
- Competition with China in third markets
- Competition with China in domestic markets
- FDI
- ODA

**STAGE 2** Identify sub-channels through which poverty effects are likely to be transmitted:
- Export to China:
  - Agriculture, Extractive, Manufacturing
- Competition with China in third markets:
  - Labour intensity in products exported
- Competition in domestic market:
  - Competition with domestic or foreign producers
- FDI, ODA
  - Diversion to China or inflow from China

**STAGE 3** Consider effects on:
- Production
- Prices, and
- Government revenue

**STAGE 4** Consider effects on the Poor through changes in:
- Production by the poor
- Consumption by the poor
- Support received from government
- Spillovers effects affecting the poor.
The other key attribute of the Jenkins and Edwards model is its poverty focus. It assesses how China’s rise has influenced sectors, such as agriculture, where the percentage of households that live in poverty is highest. Improving the market for agricultural goods, for instance, may have a greater pro-poor impact than increasing markets for capital goods. Utilizing this poverty focus, the country chapters presented in this volume examine case studies of particular sectors where China has had greatest impact on rates of poverty. For instance, the Vietnam country study pays close attention to fruit and vegetable and fishery exports to China, which are sectors where workers involved in the production processes suffer high instances of poverty. Using a gravity model it is predicted that China’s future growth could significantly reduce poverty among workers and their dependent households in these sectors.

3. KEY FINDINGS

3.1 Trade

Because of the variance in the economies and tradable commodity profiles of the GMS-4, there has been a large amount of variance in how China has manifested in terms of bilateral trade. It is argued that China has a great elasticity of imports, but they are mainly either primary products or capital goods. Thus, those low-income countries that export neither will have limited opportunity in Chinese markets. This has been found to be the case with Cambodia, where the majority of exports are labour-intensive garments and the increasing potential of China as a new export market has not as yet had a highly significant impact on the economy. During the period 2000–08, the value of Cambodia’s exports to China has on average been a mere US$36.34 million a year, accounting for just 1 per cent of the country’s total exports.

Laos, though economically underdeveloped, has seen increases in exports to China from US$7 million to US$41 million in the period 2004–08, representing a rise in share of total exports from 1.8 per cent to 3.2 per cent. These have been mostly in the form of primary products: minerals such as coal and copper account for 75 per cent of exports to China. In Vietnam, which shares a border with China, exports provided significant revenues of US$4,010 million in 2009, again mostly derived from exports
of primary products such as oil, coal and, particularly, rubber. Thailand, the most developed of the GMS-4, has a profile that dwarfs the rest: total exports in 2009 stood at US$16,183 million. Indeed, this year (2010) China is expected to replace the United States as Thailand’s main export destination. For these countries, a growing Chinese market will mean real GDP growth in the future.

All of the GMS-4 countries have a trade deficit with China. The question is: do these imports hurt domestic production? In Laos the extraction of primary products is seen as environmentally damaging. Further, while Laos currently has no industries that directly compete with Chinese manufactured imports, the focus on primary product dependency could be negative for the country’s long-term industrial development. In Thailand, domestic producers have suffered as a result of cheap Chinese imports, particularly in the agricultural sector. In Vietnam and Cambodia, the country studies found no significant effect. In third markets, Cambodia is the only country to register any real competition from Chinese exports. This is mainly because its primary export is labour-intensive garments, which are similar to those exported from China.

The pro-poor effects of China’s growth have also varied across the region. From a pro-poor perspective, the changing profile of Cambodian goods exported to China is a positive development: labour-intensive textiles and garments rose from 3.2 per cent of all exports in 1992 to 28.2 per cent in 2008. This has contributed to poverty reduction through creating employment for unskilled workers from poor households. However, given the small value of exports, the contribution is small. Greater pro-poor benefits have been found in Vietnam where increased trading activity has benefited remote border regions, exports to China have boosted sectors which have high incidences of poverty, and imports from China have provided poor households with cheap consumer goods. Thailand’s export of rubber to China, it was found, has had the effect of creating employment for a staggering 465,836 unskilled workers, thus significantly reducing poverty. However, the competition from Chinese imports has put more unskilled people out of work, so the net result for poor households has been negative. Laos found that on a microscopic level, trade in sugar cane decreased poverty in the short term, but questions the environmental sustainability of the intensive farming methods used on sugar cane plantations.
3.2 Foreign Direct Investment and Overseas Development Assistance

From a Chinese perspective, the Yunnan study team found that FDI to the GMS-4 was relatively small in scale, accounting for just 0.032512 per cent of China’s outgoing FDI. Although small at the moment, the figure underscores the potential for growth in this sector in the future. Across the GMS-4, the Yunnan study found that, in general, Chinese FDI was limited to sectors that produced primary products, and was not concerned with environmental sustainability. In the long run this could damage the future stock of local primary products and energy that are needed to fuel the Chinese economy.

While FDI to the GMS-4 from a Chinese point of view is small, from the perspective of certain GMS-4 countries, it is a vital source of investment. In Laos for example, China is the third largest source of FDI after Thailand and Vietnam, accounting for 17.8 per cent of the country’s total FDI in the period 2004–08. The Thai study found, that while less significant than trade, FDI contributed to the creation of 43,363 jobs. In Cambodia, there has been significant development of the garment industry that has benefited from inflows of Chinese FDI.

There is some concern as to the structure of Chinese FDI. While FDI is always going to be profit orientated, and though it is clear that from a macroeconomic perspective there have been short-term benefits from Chinese FDI in many respects, the studies show a tendency to extract more on capital and resources with maximum haste rather than to invest in longer term, sustainable ventures. The Vietnamese study found that the majority of Chinese FDI in the country was destined for natural resource extraction, which did little to reduce poverty and degraded the natural environment.

Even in areas where Chinese FDI has contributed to poverty reduction, there has been a lack of skills transference. For example, the Cambodia study found that very little FDI went to research and human resource development. Thus, while Chinese FDI contributed to short-term declines in poverty, there was barely any evidence that it contributed to the long-term development and sustainability of the Cambodian garment industry. The Lao team found a similar effect in the mining sector: only low-skilled workers were employed from the local populace.
Perhaps because of the limited data on Chinese ODA, the findings of the country chapters regarding ODA and poverty reduction are mixed. Certain projects have yielded positive pro-poor outcomes. The Cambodia study found that from 2000 to 2009, ODA from China totalled US$465 million, furthermore, that this aid had pro-poor benefits: a Chinese-sponsored infrastructure project increased the poor’s access to markets, education and healthcare, and thus improved their standard of living. Similarly, the Lao study notes the importance of Chinese ODA to the country’s development and also found that infrastructure projects funded by Chinese ODA had pro-poor impacts.

The Vietnam chapter, however, finds a striking feature of China’s ODA is that it is not designed with social development first in mind: “very little linkage can be found from China’s implemented ODA projects to the poverty alleviation priority areas such as education, health, and employment creation. This is because the ultimate goal of the projects is either political or economic, not the purpose of social improvement i.e. enhancing people’s living standards.” Indeed, from this perspective, the poverty alleviation facets of Chinese infrastructure in Laos and Cambodia are more a by-product of Chinese political and economic interests than benevolent interventions. The end product, however, has been the same.

Finally, it should be noted that none of the country studies found any evidence of China diverting FDI flows from their economy.

4. ORGANIZATION OF THIS COLLECTION

This volume is split into three parts. The first part provides the context underlying the country studies. Following this introduction, a literature review by Lei Qin expands on and augments the themes highlighted here. She draws salient issues from the literature on five key points. First, she reviews literature on the possible effects of economic growth on poverty reduction: are policies that pursue aggregate growth inherently pro-poor or do interventions focusing on issues such as inequality need to be targeted? She explores the roles that sectoral composition and trade have on poverty reduction initiatives, focusing on agriculture as the key driver of sustainable development in developing economies. In the second and third sections, she assesses how China’s growth has affected Asian economies, expanding
on its “competitive” and “complementary” manifestations in the area of trade, and reviews methodological approaches to quantify this impact. Fourth, she gives a conceptual critique of FDI with special reference to the GMS and China, before finally noting the characteristics of Chinese ODA, and highlighting its often strategic nature.

The second part presents a study of China’s impact on the GMS-4 from the perspective of the Chinese study team and is divided into two chapters. First, how the GMS-4 has affected the Chinese province of Yunnan is overviewed, focusing on the effect regional cooperation has had on trade, economic growth and poverty reduction. Using a gravity model, it is shown that GMS cooperation and the implementation of related GMS initiatives have significantly promoted trade between Yunnan and most of the GMS countries. Further, the field survey and case studies on selected main export products show that Yunnan’s exports to the GMS countries have a direct and indirect impact on income growth in rural areas. However, there is little evidence to show that the income growth of poor people in the poverty-stricken areas is significantly related to trade expansion. The second chapter assesses China’s FDI and ODA to the GMS-4. The first section of this chapter deals with FDI from China, highlighting their changing distribution and function; namely diversifying from primary commodity extraction in Thailand and Vietnam to manufacturing in Cambodia. China’s key investment motives — to seek out natural resources, new markets, improve capital efficiency and promote regional economic networks — are identified. It is asserted that the outcomes have been mutually beneficial for both China and host countries. The results reveal that China’s investment in this region holds great potential. The second section of the chapter then analyses the motivations and goals of China’s ODA to the GMS countries, concluding that China’s aid is mostly politically oriented with the purpose of consolidating its good relations with neighbouring countries in the region and that it is used as a tool to help Chinese companies take part in the economic growth of emerging economies.

The third part examines China’s impact on poverty reduction from the perspective of each of the GMS-4 countries. First the Vietnamese study, uses a gravity model to predict that future rises in China’s GDP will decrease poverty through increasing exports from sectors with high instances of poverty. Using a computer general equilibrium (CGE) model, the effect of Chinese imports on poverty is estimated. It is also predicted that falling costs of imports from China will reduce poverty and may
even offset a scenario where exports to China decrease in value. Next the Thai study, similar to the Vietnamese report utilizes gravity models to predict the future impact that China’s growth will have on Thailand’s trade and FDI profiles. Bilateral trade is found to be the most significant “Chinese” factor affecting the Thai economy. Significantly, it is predicted that Thailand’s exports to China will rise as China’s GDP grows. Further, it is anticipated that this trend will be enhanced by China-ASEAN Free Trade in the longer term. From a pro-poor perspective, a net positive effect from trade with China was found as more unskilled jobs are created from exports to China than are lost from exports. The Cambodia chapter that follows next provides a macro and microscopic analysis of China’s impact on the economy, with particular reference to poverty. It provides a detailed analysis of bilateral trade, Chinese competition in third markets and how Chinese FDI and ODA have affected Cambodia in this respect. The study identifies a key line of effect through the garment industry. Garments have become Cambodia’s main export product to China, and Chinese FDI has underpinned the development of the industry. It is argued that there have been significant pro-poor benefits from this intervention, but that these would be more effective if policies were put in place to ensure knowledge and skill transfer to the Cambodian workers. Finally following the qualitative approach of the Cambodian chapter the Lao chapter pays particular attention to the microscopic aspects of China’s rise and poverty reduction in that country. Using detailed case studies of sugar cane production (for trade), mining (for FDI) and infrastructure development (for ODA), not only positive pro-poor short term impacts, but also issues of sustainability are highlighted.

Notes

1. The Greater Mekong Subregion (GMS) is a term coined by the ADB to refer to Cambodia, Laos, Myanmar, Thailand, Vietnam and Yunnan Province of China. Myanmar, however, is not included in this study.
2. This has been evident in recent years following the global financial and economic crisis of 2008. By relying on domestic demand, China, unlike the Western world, has so far avoided the negative impacts.
3. In this volume GMS refers to all of the states that constitute the ADB’s definition with the exception of Myanmar for which no study has been carried out.
4. In this volume, country studies analysing the impact of China on GMS countries include Cambodia, Laos, Thailand and Vietnam, or the GMS-4.
5. A separate case study in this volume deals with these and other similar issues.

References


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