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China's Economic Rise
Implications for ASEAN Trade Flows

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This paper evaluates the debate over whether China's emergence as an economic superpower has been a complement or threat to ASEAN by examining data in the eleven 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 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, increased Chinese demand for ASEAN imports has more than offset this effect. The result is that ASEAN exports and GDP have grown despite shifting trade patterns in the short run.

Keywords: Trade growth, export competitiveness, foreign direct investment, Asian economic development.

I. Introduction

China joined the World Trade Organization (WTO) in 2001. 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 Southeast 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 the Chinese market more freely" (Xinhua News Agency 2001). Despite this, the ASEAN response to China's WTO entry — which was to begin negotiations on a free trade agreement (FTA) with the country — 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

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cannot defeat you [in global markets] we will join you" (China Daily 2011).

There are two reasons why many ASEAN countries were leery about China's WTO accession. First, throughout the 1990s, the Chinese economy was growing at roughly 10 per cent 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.[1] Second, the 1997–98 Asian Financial Crisis (AFC) 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 by 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 destinations for ASEAN exports, as well as a new country from which to attract foreign direct investment (FDI).

The debate over whether China will complement 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 costs. Additionally, as the former WTO Director General Michael Moore has stated, there are tremendous benefits to 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" (BBC News Online 2001).

Both the economic and legal reasons offer a convincing argument for why China's rise and entry into the WTO should not be seen as a threat to ASEAN countries. 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 political risks. 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 complement or threat to ASEAN by examining data in the eleven 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 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 modelling 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 the economic situations in ASEAN countries have evolved alongside China's increasing dominance since WTO accession.

The paper is organized as follows: section II examines the literature regarding whether China and ASEAN are complements or competitors in the global economy. Section III 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 IV 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. Section V offers conclusions and policy recommendations.

II. Predicting the Effects of a Rising China

As was stated above, upon China's accession to the WTO a debate ensued over whether a growing Chinese economy would act as a competitor or complement to other Asian economies. A 2001 study by Lall and Albaladejo (2001) 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. 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 (2003, p. 182) argued that as the Chinese economy has opened up and taken off, "its positive multiplying effect on the neighboring economies significantly magnified". 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 to 2001, Ahearne et al. (2003) 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 that growth in Asian country exports are positively correlated with Chinese export growth. In a 2004 paper, Weiss offers similar conclusions suggesting that China's growth has not only 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 and Southeast Asia and the large markets in the United States and Europe.

Taking a more balanced approach, Kui (2007) 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 resource producers. Additionally, ASEAN is increasingly playing a complementary role in Chinese manufacturing networks.

In what is perhaps the most comprehensive study on the evolving trade and investment flows in the Asian region, Eichengreen (2005, p. 11) 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 effect will only be for certain goods. 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 (Eichengreen 2005, p. 12). Building upon these findings, a 2005 study by Eichengreen and Hui 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 higher-income countries benefiting more than low-income counterparts.

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. More than a decade has 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 complemented or crowded out its ASEAN neighbours.

III. Changing Tides in ASEAN Trade Flows

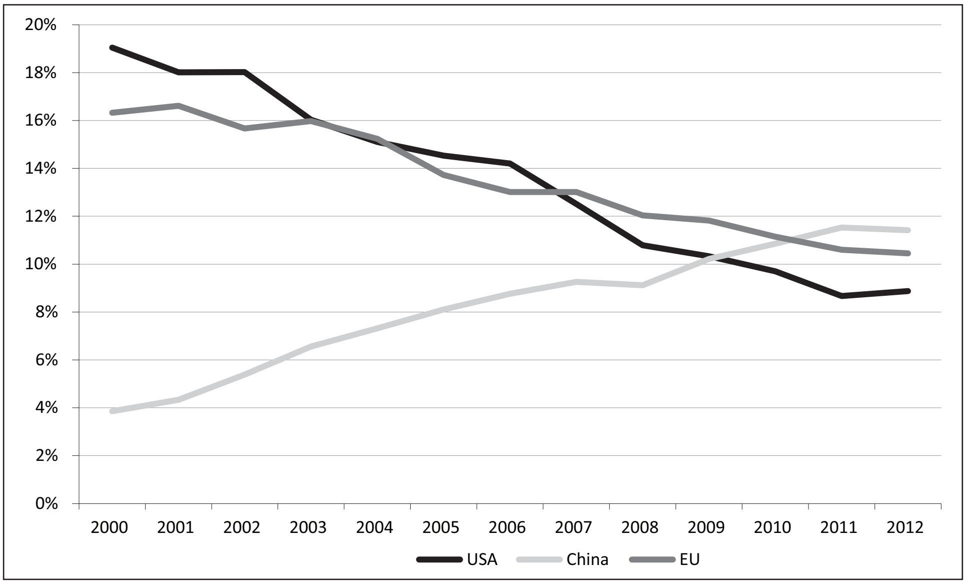
More than a decade has passed since China's entry into the WTO. During that time, from the perspective of ASEAN countries, some significant changes have occurred in the international economic order. First, there appears to be a clear relative shift of ASEAN exports away from developed country markets.[2] In the year 2000, roughly 56 per cent of all ASEAN exports (including intra-ASEAN exports) were sent to OECD countries.[3] By 2012, that figure had dropped to 40 per cent, suggesting that developed countries had lost relative significance as destinations for ASEAN exports over the decade. Regarding ASEAN's most significant trade partners, Figure 1 shows that the reduction in relative trade away from the United States and EU has been picked up by China. As the figure shows, roughly 19 per cent of ASEAN exports went to the United States, while the EU received roughly 16 per cent of ASEAN exports in 2000. By 2012, exports destined for the United States and EU dropped to 9 per cent and 10 per cent respectively, while ASEAN's exports bound for China increased from 4 per cent to 11 per cent. It should be noted that, while Chinese consumption has risen significantly in the past decade, a large portion of Chinese imports from ASEAN are used as inputs for manufactured products and are re-exported to Western markets.

It should be noted that, in absolute terms, a similar tale is seen. Between 2000 and 2012, ASEAN exports to the EU and United States grew from US$118 billion to US$211 billion, an increase of roughly 80 per cent. By contrast, between 2000 and 2012, ASEAN exports to China increased from US$16.2 billion to US$140.4 billion, an increase of 765 per cent.

From China's perspective, trends are similar. In 2000, roughly 48 per cent of Chinese exports were sent to the United States and EU collectively. In 2012, that figure dropped to 35 per cent. Despite this, the relative importance of China as an exporter to both the United States and EU increased substantially. As Table 1 shows, 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 2012, China's exports to the EU were more than triple ASEAN's.

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 very much in line with the country's growth rates of overall exports. The same cannot

FIGURE 1
Share of ASEAN Total Exports Sent to US, EU and China between 2000 and 2012



SOURCE: Own calculations; UN Comtrade Database (2014).

TABLE 1
The Importance of China as an Exporter to the US and EU

US Goods Imports, US$ billions			*US Goods Imports, US$ billions*		
Country	*2000*	*% Total*	*Country*	*2012*	*% Total*
World	1,258	100	World	2,334	100
Canada	233	18	China	444	19
EU	219	17	EU	376	16
Japan	151	12	Canada	327	14
Mexico	137	11	Mexico	280	12
China	108	9	Japan	150	6
ASEAN	91	7	ASEAN	127	5
EU Goods Imports, US$ billions			*EU Goods Imports, US$ billions*		
Country	*2000*	*% Total*	*Country*	*2012*	*% Total*
World	913	100	World	2,358	100
USA	190	21	China	375	16
Japan	85	9	Russia	276	12
ASEAN	69	8	USA	265	11
China	69	8	Switzerland	137	6
Russia	59	6	Norway	130	6
Switzerland	58	6	ASEAN	129	5

SOURCE: Own calculations; UN Comtrade (2014).

be said for ASEAN countries. Not only has overall export growth been much less, the importance of Western markets has also declined, meaning that the region is increasingly geared away from these traditional demand centres.

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 US$20 billion. During that same period, FDI stocks in ASEAN countries increased by 4.2 times from the larger base of US$64 billion. Since 2001, however, ASEAN's increase in FDI stocks has outpaced China's, growing by 5.1 times (from the large base of US$257 billion) compared to China's 4 times (from the smaller base of US$193 billion). The result is that despite China's rapid economic growth, ASEAN's FDI inflows have outpaced the former's, suggesting that it is a more favourable destination for FDI (Figure 2).

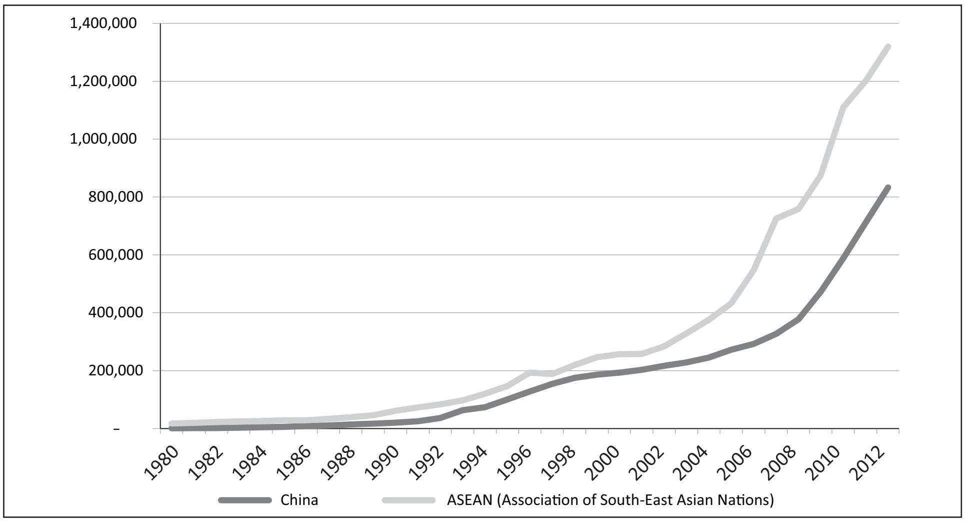
IV. Examining the Effects of China's Rise

While China may be dominating Western export markets, the effect of this on other countries is not necessarily bad. As was stated above, while free trade might result in changes in the economic structures of countries, by definition no country can have a comparative advantage in *all* types of 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's "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.

IV.1 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 Chinese economic growth rates are

FIGURE 2
FDI Stocks in China and ASEAN, 1980–2012



Source: UNCTAD Statistics (2014).

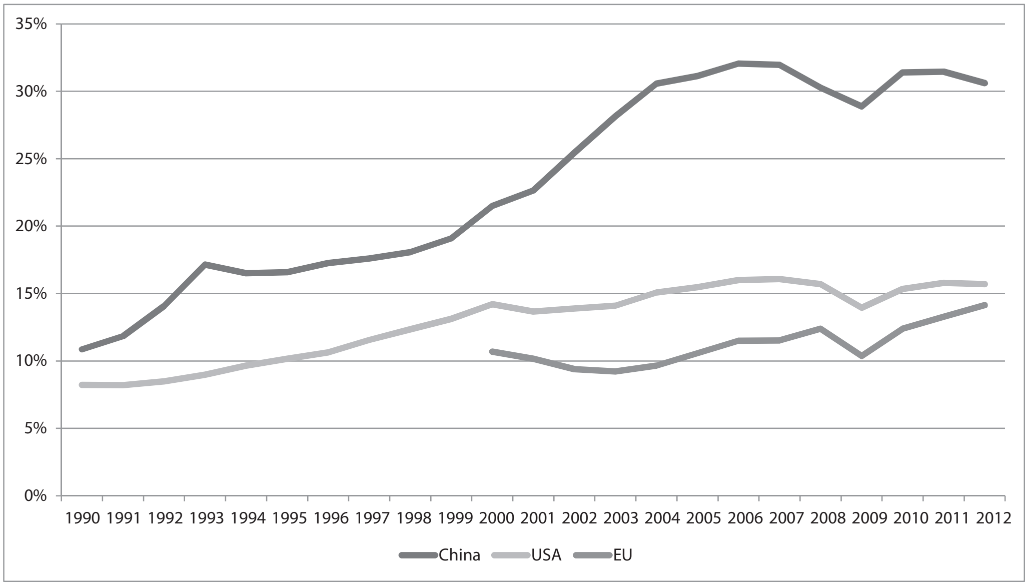
much higher, the potential for ASEAN to benefit from Chinese growth will depend on the country's openness to trade. As Figure 3 shows, despite the conventional wisdom that China is a closed, export-oriented economy, the ratio between its imports and GDP — perhaps the most useful indicator of a country's 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 grew from 20 per cent to 32 per cent, only falling slightly in 2008, presumably as a result of the Global Financial Crisis (GFC). 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 this country's export-led growth strategy does not appear to come at the expense of imports from third parties.

The findings above are corroborated by other research that finds China has opened its market to imports over the past 20 years (Wei 2002; Yan 2011). 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.

IV.2 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 increased by roughly 765 per cent in the last twelve years), because demand is finite and markets are rivalrous, only the most

FIGURE 3
Trade Openness Indicator: Imports/GDP (%)



SOURCE: Own calculations; UN Comtrade (2014).

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's FTAs with ASEAN countries will offer market access beyond WTO commitments, to date, countries are still in the negotiation stage. Given this, the EU's FTAs with ASEAN countries are omitted from the analysis. While China's growth has certainly caused changes in trade flows amongst countries, its effect on actual growth and competitiveness in ASEAN is 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 Table 2 shows, average real GDP growth in ASEAN countries has remained relatively steady in the 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.

Similarly, export growth in the largest ASEAN traders has remained, for the most part, stable since China's accession to the WTO. As Table 3 shows, the average growth in exports has remained relatively stable in Indonesia, Malaysia, Singapore and Thailand. Unfortunately, for Cambodia, the Philippines and Vietnam, reliable data does not exist for the period 1991–2000. Even so, Cambodia's and Vietnam's average export growth has been 17 per cent and 21 per cent respectively from 2001 to 2012. This suggests that even if China is crowding these nations out of Western markets, this has not come at the expense of their overall export growth. By contrast, there is less certainty with the Philippines, which has had mediocre average export growth of 5 per cent since 2001. While the lower export growth figures could cause concern, average real GDP growth increased from 2.9 per cent to 4.9 per cent in the country (see Table 3). This suggests that, despite sluggish growth in exports, the country's GDP is growing faster than it was prior to 2001.

TABLE 2
Average Real GDP Growth (%)

	1991–2000	*2001–2012*
Cambodia	6.3	7.9
Indonesia	4.8	5.4
Malaysia	7.4	4.8
Philippines	2.9	4.9
Singapore	7.5	5.3
Thailand	5.3	4.4
Vietnam	7.4	7.0

SOURCE: Own calculations; IMF WEO Database (2014).

TABLE 3
Average Yearly Increase in
Total ASEAN Exports of Goods (%)

	1991–2000	*2001–2012*
Cambodia	n/a	17
Indonesia	8	13
Malaysia	11	10
Philippines	n/a	5
Singapore	9	13
Vietnam	n/a	21
Thailand	10	13

SOURCE: Own calculations; UN Comtrade (2014).

The data in Table 3 indicate that the export competitiveness of most ASEAN countries has not greatly diminished since China's accession to the WTO. In the case of Malaysia, there was only a slight decline in average growth in exports. Despite this, Malaysia was the second largest ASEAN exporter to China in 2012, and its annual increase in exports to the country between 2001 and 2012 was a healthy 21 per cent (see Table 4).

Interestingly, in terms of composition, Figure 4 shows that the composition of ASEAN exports to the world changed only marginally between 2000 and 2012. Despite the shift in exports from the West to China, the majority of ASEAN exports were still Appliances (HS84) and Machinery (HS85). The small relative decrease in Machinery and Appliances exports were picked up by exports in Organic Chemicals and Rubber, and this was

TABLE 4
ASEAN Exports to China

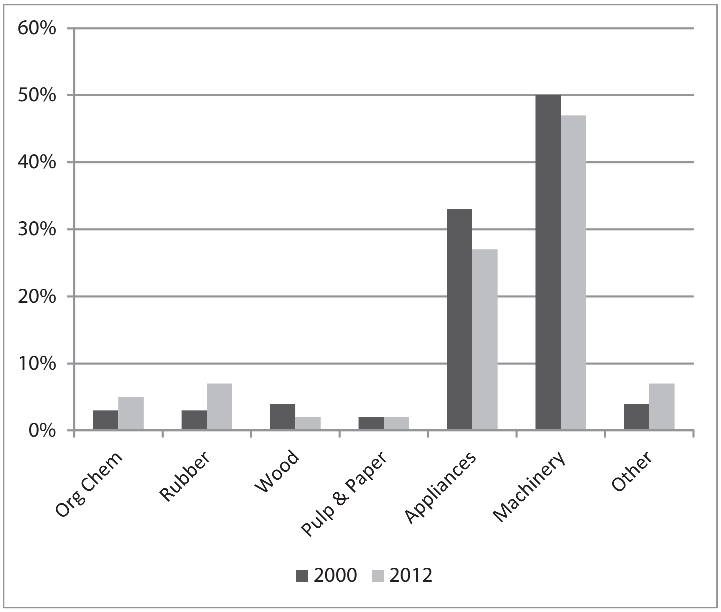
Country	*2012 Exports to China (US$ millions)*	*Ave. Annual Increase 2001–2012 (%)*
Cambodia	182.90	40
Indonesia	21,659.50	20
Malaysia	28,742.90	21
Philippines	6,159.11	26
Singapore	43,912.05	21
Vietnam	12,835.98	21
Thailand	26,899.63	22

Source: Own calculations; UN Comtrade (2014).

due to increase in demand for these products from China. In 2000, 9 per cent of ASEAN organic chemicals (HS29) exports were destined for China. By 2012, this figure was 22 per cent, and while total ASEAN organic chemicals exports to the world increased by 5.5 times, exports of these products to China increased 12.5 times. Similarly, in 2000, 8 per cent of ASEAN rubber products (HS40) exports were sent to China. By 2012, this figure was 28 per cent, and while total ASEAN rubber exports to the world increased sixfold, rubber exports to China increased twenty-two times. In fact, in the case of ASEAN rubber exports, roughly 33 per cent of the total increase between 2000 and 2012 is explained by increases in exports to China.

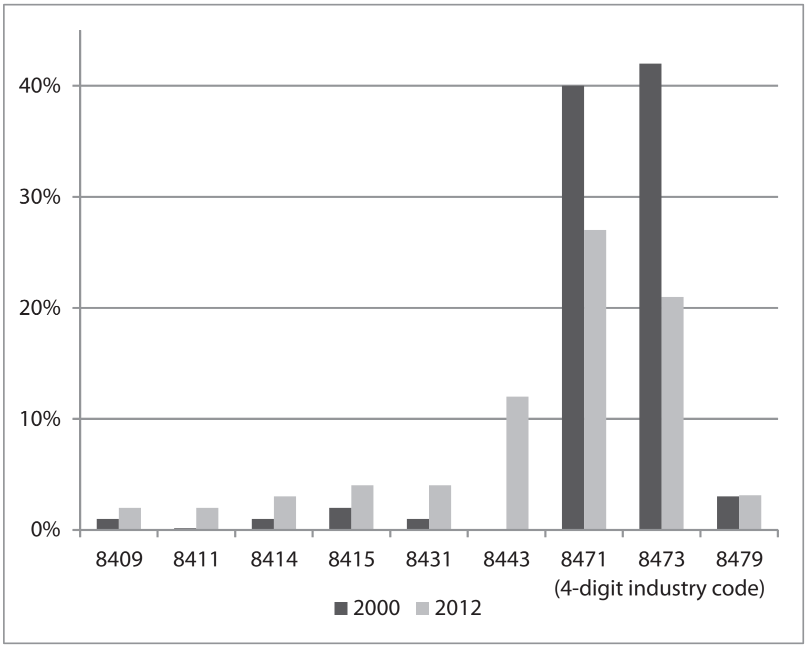
When one drills down to the 4-digit level, however, certain shifts are seen. Within the Appliances sector, the relative importance of HS8471 (Automatic Data Processors and Computer Hardware) and HS8473 (Computer Accessories) decreased, while there was a relative increase in many of the other important export areas, notably HS8443 (Printing Machinery) (Figure 5). Despite these changes in trade flows, it is unlikely that the shift in export destinations

FIGURE 4
Composition of ASEAN Exports to the World (%)



Source: UN Comtrade (2014).

FIGURE 5
Composition of ASEAN Appliances (HS84) Exports to the World (%)



SOURCE: UN Comtrade (2014).

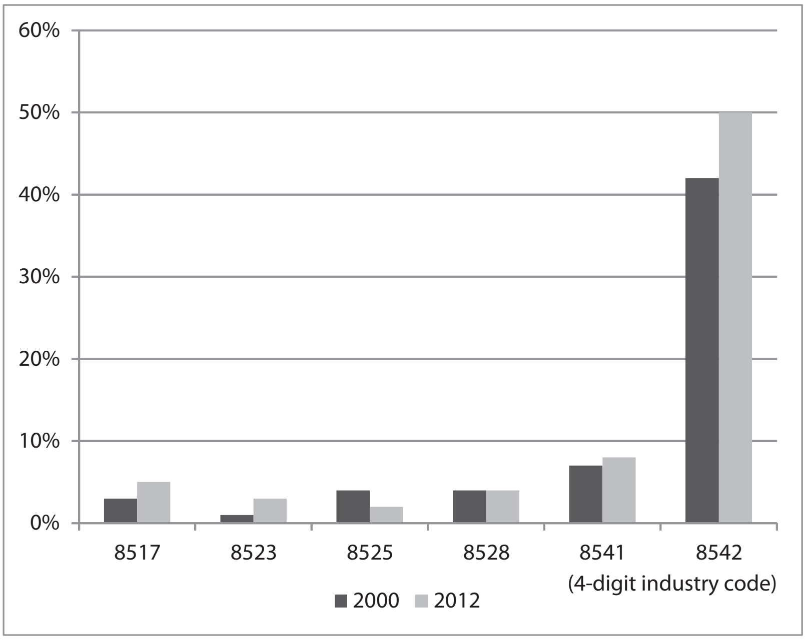
away from the West towards China has resulted in an increased diversification of Appliances exports from ASEAN countries. This is because ASEAN exports to China in both HS8471 and HS8473 have significantly outpaced the growth of these sector's exports to the world: between 2000 and 2012, HS8471 exports by ASEAN to China increased fourteenfold compared to increases in ASEAN exports of the same product to the world of only 9 per cent. Similarly, HS8473 exports from ASEAN to China increased 175 per cent between 2000 and 2012 compared to global export *decreases* of 42 per cent over the same period. Given these trends, it is more likely that increased demand from China has helped maintain the current structure of ASEAN exports, rather than caused shifts in their composition.

For Machinery, the trends are similar in that demand from China has increased exports in areas where ASEAN countries were already active. The relative importance of ASEAN's most significant Machinery export, HS8542 (Electronic Integrated Circuits), increased by 8 percentage points, 42 per cent of which can be explained by increases in exports to China. Similarly, 27 per cent of the increase ASEAN exports of HS8523 (Sound Recorders) is explained by China. See Figure 6.

Thus, the export destination shift away from the West has been accompanied by only marginal changes in the composition of exports.[4] More importantly, China appears to demand products that ASEAN has historically exported in large quantities, and thus presumably has developed a strong comparative advantage. An interesting question that warrants further study is whether the marginal changes in the composition of exports represent shifts up the value chain for ASEAN countries.

One final way to examine how changes in export patterns affect competitiveness is to look the trends in revealed comparative advantage (RCA) in countries (Balassa 1965). RCA is equal to the

FIGURE 6
Composition of ASEAN Machinery (HS85) Exports to the World (%)



SOURCE: UN Comtrade (2014).

ratio of a country's exports of a certain commodity with total exports divided by the global ratio of that commodity's trade with total global trade, as articulated in the equation below:

$$\left(\frac{X_{ij}}{X_{it}}\right) \Big/ \left(\frac{X_{nj}}{X_{nt}}\right)$$

where X_{ij} is equal to the exports by country i of commodity j, X_{it} is equal to all of country i exports, X_{nj} is equal to the exports by the world n of commodity j, and X_{nt} is equal to all of world n exports. If the RCA for an export is greater than 1, then the country is seen to have a global comparative advantage in the production of that export. Table 5 compares the 2000 and 2012 RCA in ASEAN countries for the two most significant export groups: Appliances (HS84) and Machinery (HS85). As shown below, ASEAN's RCA for Appliances increased immensely from 0.52 to 2.69 from 2000 to 2012, suggesting the region significantly improved its global comparative advantage in Appliances production and trade over that period. For Machineries trade, ASEAN's

TABLE 5
RCA for Appliances and Machinery Trade in 2000, 2012

	Appliances (HS84)		*Machinery (HS85)*	
	2000	*2012*	*2000*	*2012*
ASEAN	0.52	2.69	2.08	1.76
Cambodia	0.01	0.03	0.00	0.04
Indonesia	0.19	0.61	0.67	0.47
Malaysia	0.72	2.07	2.48	2.17
Philippines	0.62	2.69	3.49	3.28
Singapore	0.84	2.65	2.57	2.40
Thailand	0.52	3.07	1.46	1.05
Vietnam	0.12	0.97	0.26	1.63

SOURCE: Own calculations; UN Comtrade (2014).

RCA decreased somewhat between 2000 and 2012 from 2.08 to 1.76. Despite this decrease, as the RCA value remained significantly greater than 1, therefore, one can conclude that ASEAN as a region has also maintained a comparative advantage in Machineries production despite shifting export markets to China.

IV.3 Investment Flows in ASEAN Countries

As was stated above, ASEAN has outpaced China with regard to growth in FDI stocks over the past decade. Within ASEAN, however, it should be noted that there is much diversity among the beneficiaries of FDI. As Table 6 shows, Singapore has traditionally enjoyed by far the largest amounts of FDI. In 1990, the next largest recipients were Malaysia, Indonesia and Thailand respectively. By 2012, however, a shift had occurred, as Indonesia became the second largest recipient of ASEAN FDI followed by Thailand and then Malaysia. While certain smaller recipients like Cambodia and Vietnam saw very large increases in their FDI stocks 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 2000s.

It should be noted that much of the increase in FDI to ASEAN has come from China. Between 2003 and 2008, Chinese FDI into ASEAN increased eleven times (from US$587 million to US$6,487 million); and the percentage of China's total FDI received by ASEAN jumped from 1.77 per cent to 3.53 per cent (Kubny and Voss 2010). While the largest recipients of Chinese FDI are Singapore, Indonesia and Vietnam, all ASEAN countries have been significant recipients of Chinese FDI in the 2000s. See Table 7.

V. Conclusions and Policy Recommendations

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 or commodities).

More than ten years have passed since China's accession to the WTO. In that time the country has continued to grow at an astounding rate. This paper has employed a qualitative framework to try and understand how the economic situations in ASEAN countries have evolved alongside China's

TABLE 6
Country Share of ASEAN FDI and Total FDI Increases

Country	*1990*	*2000*	*2012*	$\frac{FDI_{2000}}{FDI_{1990}}$	$\frac{FDI_{2012}}{FDI_{2001}}$
Cambodia	0%	1%	1%	41.9	3.0
Indonesia	14%	10%	16%	2.9	13.5
Malaysia	17%	21%	10%	5.1	3.9
Philippines	5%	5%	2%	4.2	3.0
Singapore	49%	43%	52%	3.6	5.0
Thailand	13%	12%	12%	3.8	4.6
Vietnam	0%	6%	5%	60.7	4.5

SOURCE: UNCTAD (2014).

TABLE 7
Chinese FDI in ASEAN

Country	$\frac{FDI_{2008}}{FDI_{2003}}$	*Total 2008, US$ millions*
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

SOURCE: Kubny and Voss (2010).

increasing export dominance. 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 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.

The second observation this paper has made is that, despite losing the West, export competitiveness and GDP growth rates in ASEAN countries have not decreased. For every ASEAN country, real GDP growth rates between 2001 and 2012 have been similar to those seen between 1991 and 2000. Likewise, growth in ASEAN exports to the world has remained strong throughout the 2000s. In both cases, the reason exports have not reduced may be that the increase in ASEAN exports to China has more than offset any losses in Western market share. 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 and GDP growth 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 2012. 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.

Given the observations above, this paper offers three policy recommendations. First, due to China's increasing importance as a trade and investment partner for ASEAN countries, ASEAN should work to deepen economic integration with China. To date, certain positive strides have already been made. In 2010 the China-ASEAN FTA (CAFTA) came into effect, eliminating tariffs on 93 per cent of products traded between China and the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand). In the case of Vietnam, Laos, Cambodia and Myanmar, the FTA will result in zero tariffs on 90 per cent of imports from China by 2015 (Flick and Kemburi 2012). Despite this, further removal of trade barriers in services and investment, specifically in telecommunications, financial services, tourism and energy would be beneficial for both parties. In these service areas, government-linked companies in both ASEAN and China continue to be shielded from foreign competition despite the FTA. The mutual reduction of trade barriers and harmonization of standards in these sectors would not only reduce costs for domestic producers (that rely on these services for production), but would enhance opportunities for international expansion for ASEAN and Chinese service providers. Given China's large, rapidly growing market and increasing consumer demand, further integration of service and investment would be highly beneficial for ASEAN firms.

Second, as noted above, many countries in ASEAN are leading destinations for FDI. This is likely due in part to the region's rapidly growing economy, property rights enforcement, and low corporate and income taxes. In fact, the 2014 World Bank "Ease of Doing Business" survey has ranked Singapore and the world's most business-friendly country, with Malaysia earning the number 6 spot and Thailand the number 18 (World Bank 2014). ASEAN would become an even larger recipient of FDI if its members achieved the objective of completing the single market by 2015. Due to the slow adoption of reforms by many countries — ASEAN members have adopted less than 50 per cent of the Pillar II single market policy provisions to date (ASEAN Secretariat 2012) — this goal is unlikely to be achieved by its anticipated date. Strictly speaking, ASEAN cannot create a true single market by 2015, as this would require the creation of a common external tariff on imports, which is not even being discussed by members, yet there are many areas where the bloc could improve integration. For example, deep integration of capital markets, such as harmonization of standards on capital controls, tax policy and rules for institutional investors would increase capital mobility, thus reducing the cost of capital for investors. While large economic disparities among ASEAN members mean that the region is unlikely to create a single financial market like that of the EU, ASEAN should seek to create the conditions whereby issuers are free to raise capital from anywhere in the region, and investors are encouraged to invest throughout the region (Singh 2009). Doing this would further heighten ASEAN's attractiveness as a destination for FDI.

Third, given the decreasing importance of the EU and the United States as trading partners for ASEAN, one must question the efficacy of pursuing FTAs with these regions. This is particularly significant given that ASEAN members are pursuing bilateral agreements with the EU. In recent years, not only have trade flows reduced, so have tariff barriers to trade. A study by Boumellassa, Decreux and Fontagné (2006) has shown that since bilateral protection between ASEAN countries and the EU are rather balanced, an FTA would result in no significant effect on terms of trade. The main benefits from an FTA would be an increase in allocation efficiency, meaning the dislocation of resources from protected sectors in the economy to unprotected, more productive sectors. But the study states that significant increases in allocation efficiency would only be realized in a deep FTA that included services — in fact, 76 per cent of gains are expected to come from services liberalization. Deep services liberalization, however, is unlikely given the political sensitivity of the industries involved.

In addition to low expected gains, the trade negotiations are made more complex due to the EU's requirement for countries to also adopt a supplemental Partnership and Cooperation Agreement in which countries agree to commit to certain social and environmental policies. The low prospects for gains and political hurdles has made the EU a markedly different negotiating partner for ASEAN members compared to China, where trade barrier reductions have proven easier, and there is a willingness to separate trade from non-trade issues. Assuming government resources for trade negotiations are finite, ASEAN members would perhaps be wise to shift resources away from the West, and concentrate on China. The importance of this recommendation is heightened given the slow predicted growth in coming years in the EU and the United States due to the sovereign debt crisis and fiscal woes.

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, Chinese demand has resulted in increased ASEAN exports. Given this, ASEAN trade and investment policy should increasingly be focused inward to ensure the completion of the single market, and towards China where larger gains from trade integration can be made.

NOTES

1. For the purpose of this paper, "Western markets" refers to developed country markets, namely the United States and European Union.
2. Note that unless otherwise indicated, this paper only considers Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam in its ASEAN trade calculations due to poor data availability in Brunei Darussalam, Myanmar and Laos. For FDI calculations, all ASEAN countries are included in the calculations.
3. Note that unless indicated, all trade data refers to trade in goods only (i.e., not services trade).
4. It should be noted that further disaggregation of the trade data would be beneficial for the trend analysis. Unfortunately, this was not possible given the UN Comtrade data available for ASEAN countries over the period studied.

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