International Journal of China Studies
Vol. 8, No. 2, August 2017, pp. 161-182

The Changing Pattern of China's Trade and Implications for Southeast Asia

Sarah Y ***Tong***** and Tuan Yuen* ***Kong*******
East Asian Institute, National University of Singapore

Abstract

Since 2008, when a global financial and economic crisis erupted, the Chinese economy has encountered increasing difficulties and, in recent years, experienced considerable growth deceleration. Meanwhile, the structure of China's trade has undergone significant changes. The structural changes in China's trade are consistent with the country's objectives in post-2008 development. China aims to transform the economy from investment-driven and export-oriented toward technology-driven and domestic consumption oriented. More importantly, since 2013, the government has also formulated accommodating policies to support the transformation. These include a strong emphasis on innovative development, as well as policies to further enhance economic opening, including setting up Pilot Free Trade Zones and promoting the "Belt and Road" initiative. These will have important implications for Southeast Asia. China's economic interaction with Southeast Asia has grown rapidly and significantly, even during the rather turbulent post-2008 period. Although bilateral trade is still unbalanced, structural changes in China's economy and trade are expected to narrow the gaps by generating more opportunities for ASEAN countries. Understandably, given the differences among ASEAN countries regarding their level of development, the impact of China's changing dynamics will differ considerably. For example, China's efforts to upgrade its industry and trade will benefit the relatively less developed ASEAN members, while intensifying competitive pressure on those at a similar development level.

Keywords: *China's transformation, China's trade, economic interaction, Southeast Asia*

1. China's Trade Experiences Dramatic Changes

Economic opening constitutes an essential part of China's overall development strategy since the late 1970s and, consequently, contributed considerably

to the country's remarkable growth and transformation. Since 2008, when a global financial and economic crisis erupted, the Chinese economy has encountered increasing difficulties and, in recent years, experienced considerable growth deceleration.

In 2016, China's economy grew by 6.7%; a further decline from 6.9% in 2015, 7.3% in 2014, and 7.7% in 2013 and 2012. As global economic recovery remains weak and uncertain, China's economic deceleration is accompanied by considerable contraction in total trade, amounting to 8.1% in 2015 and 6.8% in 2016. Indeed, world economic recovery has been slow and lopsided. In 2016, exports fell by 7.7% and imports by 5.5% (General Administration of Customs of the PRC, 2016). Since rich countries still accounted for a large majority of the world economy and overall export demand, their poor growth prospects cast doubt on the strength and the resilience of the world economy. According to the World Trade Organisation (WTO), world trade is expected to expand by a mere 1.7% in 2016 (WTO, 2016a). This is a key constraint to China's trade growth.

Being the world's largest trading nation and largest exporter (13.8% of the world total in goods exported and 10.1% in goods imported in 2015) (WTO, 2016b), China's further export expansion above the world average would naturally face challenges. In fact, Chinese products are facing growing competition from both the advanced and developing countries. Chinese products also face various restrictions imposed by importing countries. Between 1995 and June 2016, nearly 1,200 anti-dumping complaints were initiated against Chinese products (23% of world total). In 2016, China's trade partners launched 119 investigations in its exports, according to China's Ministry of Commerce.

On the one hand, investment-driven expansion is no longer sustainable due in part to over-capacity in many industries and the slump in the housing market. On the other hand, increase in consumption is insufficient to serve as the new engine for growth. The poor demand for China's exports in turn affects China's import demand, a considerable portion of which is used for export processing.

Nonetheless, sustaining trade development remains important for the country's economy. While net exports form part of the final demand, trade and trade-related activities also contribute to the economy by stimulating investment and generating employment. In recent decades, trade and trade-related foreign investment have cultivated the emergence of key exporting industries and enhanced the overall competitiveness of Chinese products. Continued development of these sectors is essential for the country's future growth and employment.

Meanwhile, the structure of China's trade has undergone considerable changes. At the aggregate, growth in total trade has decelerated since 2008.

Meanwhile, the trade surplus in goods dropped significantly, but has since 2014 rebounded strongly. This is due partly to the relative decline of process trade, indicating a reorientation by exporters toward domestic sourcing for parts and components. The importance of state-owned enterprises and foreign investment enterprises have also gradually declined. Another important trend is the rising significance of trade in services. Having become sizable in total amount and in its deficit, service trade helps to offset China's large trade surplus in goods. Trade in the so-called mechanical and electrical products and high-tech products have performed somewhat better than those of low-end labour-intensive products.

The structural changes in China's trade are consistent with the country's objectives in post-2008 development. China aims to transform the economy from investment-driven and export-oriented toward technology-driven and domestic consumption oriented. More importantly, since 2013, the government has also formulated accommodating policies to support the transformation. These include a strong emphasis on innovative development, as well as policies to further enhance economic opening, including setting up Pilot Free Trade Zones (FTZ) and promoting the Belt and Road Initiative.

These will have important implications for Southeast Asia. China's economic interaction with Southeast Asia has grown rapidly and significantly, even during the rather turbulent post-2008 period. Indeed, China and countries in Southeast Asia have become significant economic partners as the regional production network in Asia has strengthened and have grown both in size and in scope. Although bilateral trade is still unbalanced, structural changes in China's economy and trade are expected to narrow the gaps by generating more opportunities for ASEAN countries.

Understandably, given the differences among ASEAN countries regarding their level of development, the impact of China's changing dynamics will differ considerably. For example, China's efforts to upgrade its industry and trade will benefit the relatively less developed ASEAN members, while intensifying competitive pressure on those at a similar development level.

2. Economic Growth is No Longer Driven by Trade Expansion

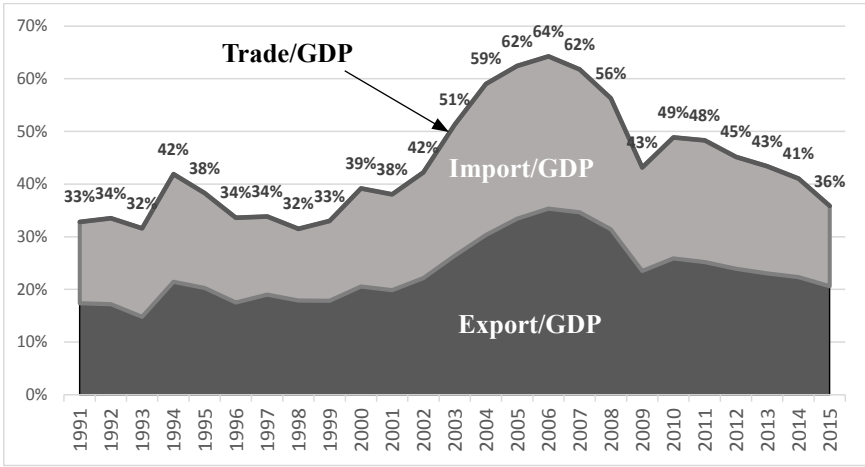
Economic opening and the resulting trade expansion had contributed significantly to China's phenomenal growth of the past three decades, both directly and indirectly. China has become one of the most open among the world's large economies, measured by trade dependency. The economy grew at nearly 10% a year on average between 1978 and 2015, thanks to the rapid growth in the secondary sector that also facilitated trade expansion, especially the processing trade (Table 1). From 1978 to 2015, total trade expanded by 15.3% a year in nominal terms, with the highest percentage from 1998

Table 1 Growth and Economic Opening are Closely Linked

	Economic Growth (%, in real terms)		*Trade Expansion (%, in nominal terms)*
	GDP	*Secondary Sector*	
1978-1988	10.1	11.0	17.4
1988-1998	9.6	12.4	12.2
1998-2008	10.1	11.0	23.0
2008-2015	8.5	9.0	6.4
1978-2015	9.7	11.0	15.3

Source: CEIC Data Manager.

Figure 1 Trade to GDP Ratio 1991-2015

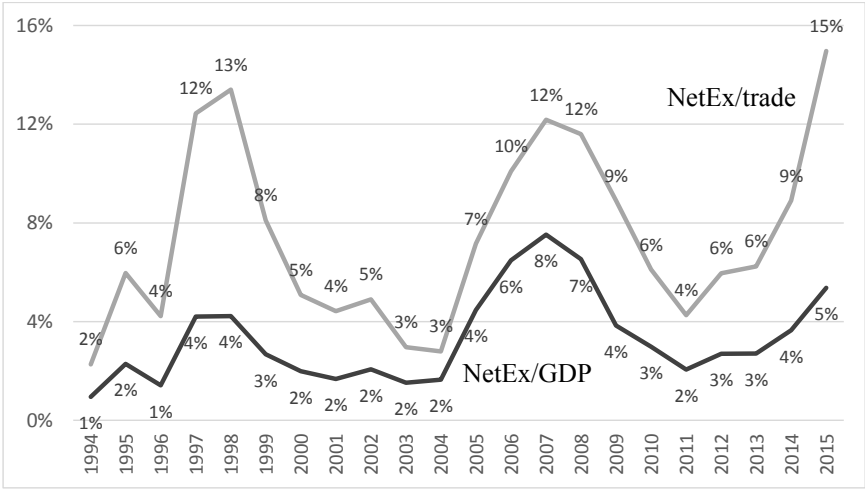


Source: CEIC Data Manager.

to 2008. It dropped to 6.4% in the post 2008 period while growth in gross domestic product (GDP) also decreased to single digits.

Meanwhile, China's trade to GDP ratio rose from below 10% in the late 1970s to 30% in the 1990s and over 60% in the mid-2000s. This is considerably higher than those of the other two large economies of the United States and Japan. China's trade to GDP ratio has since declined considerably, to less than 40% in 2015. This primarily reflects two trends: first, growth is less dependent on trade expansion; and second, China's trade is facing difficulties and challenges.

Figure 2 Trade Imbalance, 1991-2015



Source: CEIC Data Manager.

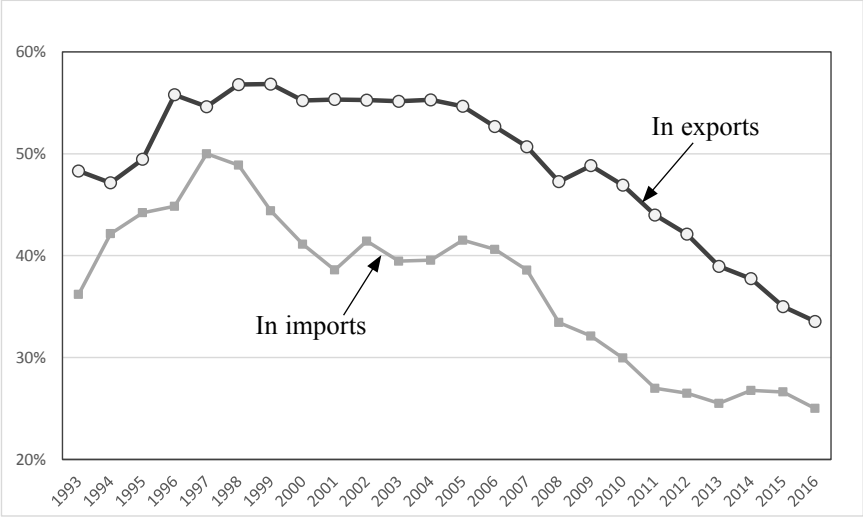
3. Structural Changes in China's Trade

Obviously, China has experienced various structural changes in trade after 2008. First of all, trade imbalances fluctuated. Trade surplus in goods declined significantly between 2008 and 2011, its ratio to total trade falling from 12% to 4% (Figure 2). This is mainly due to the weakness in world economy and the demand for Chinese products. However, its trade surplus rose to reach 15% of total trade in 2015, probably the outcome of two developments. The first is the depressed commodity price in recent years. The second is a shift by Chinese exporters from offshore to onshore in input sourcing.

Second, China's export sectors depend substantially on process trade, which requires large and efficient flows of parts and components to sustain production and growth, but the share of process trade in total trade has been continuously declining since 1997 (Figure 3). Between 1996 and 2007, process trade in exports accounted for more than half of China's total export but declined to about one-third in 2016. Similarly, the share of process trade in imports also fell considerably since the mid-2000s, from over 40% in 2005 and 2006 to about one quarter in recent years.

Third, the importance of state-owned enterprises (SOEs) and foreign investment enterprises (FIEs) in trade have both declined (Table 2). The share of SOEs in exports fell sharply from two thirds in the mid-1990s to about one fifth in the mid-2000s, and further to around one tenth in recent years. That in imports also dropped, though to a lesser extent, from 50% in 1995 to 23% in 2016. Meanwhile, the contribution of FIEs to China's trade varied over time.

Figure 3 Shares of Process Trade in Total Trade



Source: CEIC Data Manager.

Table 2 SOEs and FIEs in China's Trade, 1995-2016

% of total

	Export			*Import*			*Trade Surplus*		
	SOEs	*FIEs*	*Other*	*SOEs*	*FIEs*	*Other*	*SOEs*	*FIEs*	*Other*
1995	67	32	2	50	48	3	203	-96	-7
2000	47	48	5	44	52	4	73	9	18
2005	22	58	20	30	59	11	-28	56	72
2008	18	55	27	31	55	14	-32	57	75
2010	15	55	30	28	53	19	-84	68	116
2015	11	44	45	24	49	26	-28	29	98
2016	10	44	46	23	49	29	-28	29	100

Source: CEIC Data Manager.

Its share in exports rose from the 1990s to the mid-2000s but then declined to about 44%. That in imports followed a similar pattern, is now about 50%, as a result, FIEs' significance in generating trade surplus decreased, contributing less than 30% of the total, down from 60% in the mid- to late 2000s.

It meant that the dominance of SOEs and FIEs in China's trade had been diminishing and enterprises of other ownership types, such as domestic private firms, were playing an increasingly important role. Their shares in

Table 3 Trade in Goods and Services, 1998-2014 (billion US$ and %)

	Exports + Imports					*Balances*		
	Total	*Goods*	*Services*	*Goods (%)*	*Services (%)*	*Goods (A)*	*Services (B)*	*A + B*
1998	375	324	51	86	14	47	-3	44
1999	418	361	57	86	14	36	-5	31
2000	540	474	66	88	12	34	-6	28
2001	582	510	72	88	12	34	-6	28
2002	707	621	86	88	12	44	-7	37
2003	952	851	101	89	11	44	-9	35
2004	1,288	1,154	134	90	10	59	-10	49
2005	1,579	1,422	157	90	10	134	-9	125
2006	1,952	1,760	192	90	10	218	-9	209
2007	2,428	2,177	251	90	10	316	-8	308
2008	2,868	2,563	305	89	11	361	-12	349
2009	2,495	2,208	287	88	12	250	-30	220
2010	3,336	2,974	362	89	11	254	-22	232
2011	4,061	3,642	419	90	10	244	-55	189
2012	4,263	3,792	471	89	11	322	-90	232
2013	4,618	4,078	540	88	12	360	-119	241
2014	3,713	3,109	604	84	16	303	-160	143

Source: CEIC Data Manager.

exports and imports rose from 20% and 11% in 2005 to 46% and 29% in 2016, respectively. These firms are also key in generating trade surplus. The ratio of trade surplus by non-SOEs, non-FIEs firms to overall rose from 72% in 2005 to 100% in 2016.

Fourth, while trade in goods experienced a sharp growth slowdown, that in services expanded consistently, particularly in imports. From 2003 to 2008, service imports accounted for less than 12% of China's total imports, but the share rose to 16% in 2014 (Table 3). More significantly, the deficit in China's service trade went up rapidly. Before 2008, China's trade deficit in services was mostly less than US$10 billion. The trade deficit in services expanded by more than 10 times between 2008 and 2014, while that in goods trade remained roughly the same. The trade deceleration seemed broadly based and affected China's major trade sectors. As prices for China's imports declined more than its exports, China incurred its largest trade surplus in goods. The rise in service trade and its rising deficit were important to offset China's large trade surplus in goods.

Fifth, the mechanical and electrical (ME) products and hi-tech products have become more and more important in China's trade composition (Table

4). The net export ratio to total trade for ME products was only 10% in 2000 but quickly shot up to 95% in 2008 and 151% in 2010. That for hi-tech products was still negative in 2000 but increased to 25% in 2008 and 44% in 2010.

Table 4 Rising Importance of Mechanical & Electrical (ME) Products and Hi-Tech Products, 1993-2015

% of Total

	Exports		*Imports*		*Net Exports*	
	ME	*Hi-Tech*	*ME*	*Hi-Tech*	*ME*	*Hi-Tech*
1993	25		48			
1995	30		45		-92	
2000	42	15	46	23	10	-64
2005	56	29	53	30	75	20
2008	58	29	48	30	95	25
2010	59	31	47	30	151	44
2015	58	29	48	33	85	18

Source: CEIC Data Manager.

Table 5 China's Trade: Total and Share of Coastal Regions, 2001-2015

	National (US$ bil)			*% of coastal regions*		
	Export	*Import*	*EX + IM*	*Export*	*Import*	*EX + IM*
2001	267	244	510	88.1	83.3	85.8
2002	326	295	621	89.1	86.0	87.6
2003	438	413	852	89.4	86.7	88.1
2004	594	561	1,154	89.7	87.0	88.4
2005	762	660	1,423	89.8	86.9	88.5
2006	969	792	1,761	89.5	86.4	88.1
2007	1,218	956	2,174	89.1	86.0	87.7
2008	1,429	1,132	2,561	88.0	85.3	86.8
2009	1,202	1,004	2,206	89.6	85.0	87.5
2010	1,578	1,394	2,972	89.8	84.7	87.4
2011	1,899	1,741	3,641	88.7	84.0	86.4
2012	2,050	1,817	3,867	87.1	83.8	85.6
2013	2,211	1,949	4,160	86.4	83.8	85.2
2014	2,343	1,963	4,306	85.2	81.9	83.7
2015	2,282	1,681	3,963	85.7	81.8	84.0

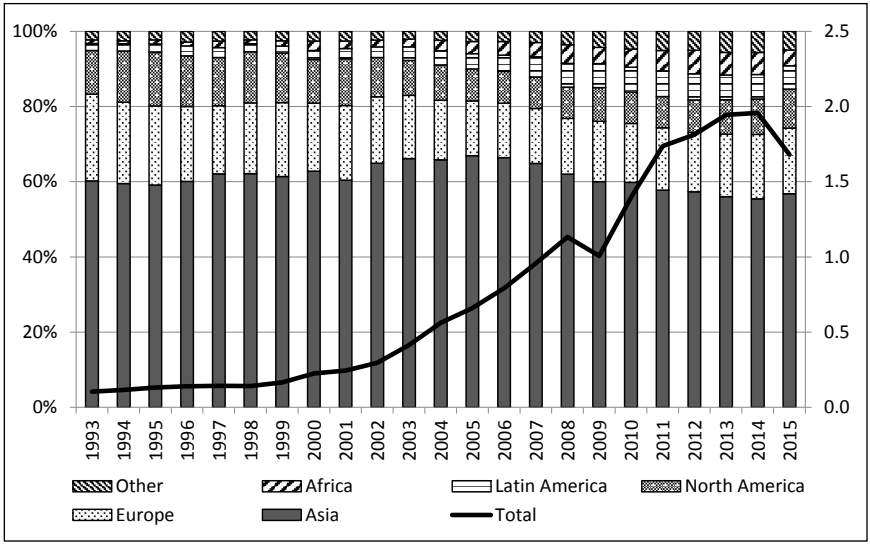
Source: CEIC Data Manager.

Sixth, China's trade in the coastal regions has declined, albeit only modestly. In 2015, exports from and imports to China's coastal regions accounted for 86% and 82% of the country's total, only a slight drop each from 88% and 85% in 2008, respectively (Table 5).

Seventh, there have been visible changes in the distribution of China's trade with its trading partners. Overall, Asia remains China's primary trading partner, accounting around half of China's total exports and close to 60% of its imports (Figures 4 and 5). This is followed by Europe and North America. It should be noted that, in recent years, countries in the developing areas of Latin America and Africa have gained in relative importance for China's trade.

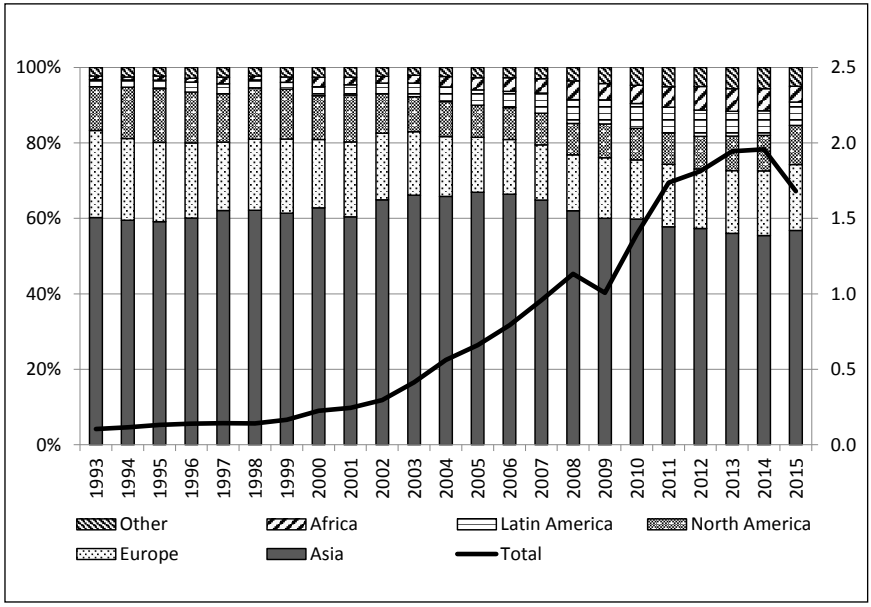
Within Asia, East Asian countries are the main trading partners of China, but the percentage has gradually decreased. In exports, Hong Kong, Japan, Taiwan and South Korea accounted for about 80% in 1993 but decreased to about 60% in 2015 (Figure 6). Imports from them also showed a drop of more than 20 percentage points (Figure 7). On the other hand, ASEAN countries, especially Malaysia and Thailand, have gradually increased their percentages in China's total trade. It is worth noting that the percentage of other Asian countries in China's trade, mostly the Central Asian countries, has increased from below 10% in 1993 to over 30% in 2015. It means that China's trade has become more diversified among the Asian countries in recent years.

Figure 4 China's Export with Major Countries, 1993-2015



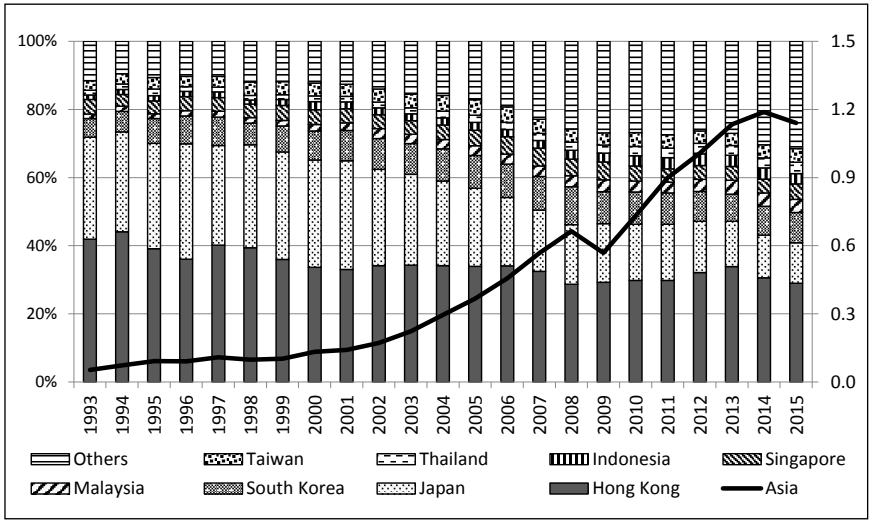
Source: CEIC Data Manager.

Figure 5 China's Import with Major Countries, 1993-2015



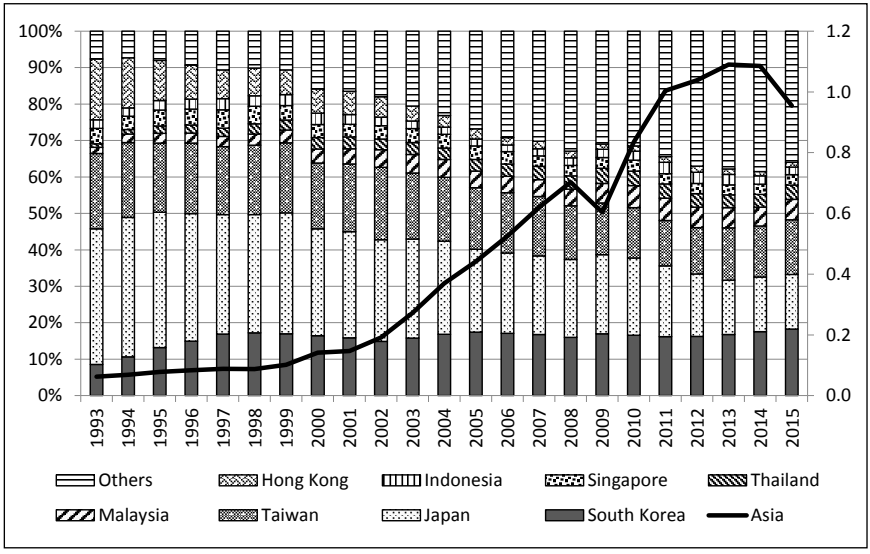
Source: CEIC Data Manager.

Figure 6 China's Export to ASEAN Countries, 1993-2015



Source: CEIC Data Manager.

Figure 7 China's Import from Asian Countries, 1993-2015



Source: CEIC Data Manager.

4. Trade and Economic Opening Remains Essential

Yet, trade and trade-related economic activities, exports in particular, remain essential to sustain China's growth. Although net export constitutes a small portion of the overall final demand, the absolute amount is huge given the size of the economy. Between 2011 and 2015, the amount of net exports, ranging from RMB1.2 trillion to RMB3.7 trillion, showed an increasing trend, especially in the last two years that were even better than in the period from 2006 to 2008. Even in relative terms, measured as shares to gross domestic product (GDP), it is generally higher than those of the early 2000s (Table 6).

Moreover, expansion in the trade sector and the associated investment are significant to support growth. Indeed, export-oriented industries have achieved faster growth in not only sales, revenues and employment, but also value-added. This is particularly true between the early 2000s and 2008 prior to a serious financial and economic crisis that hit the world economy.

Industries that focus more on export thus attracted higher investment and achieved stronger growth. Indeed, trade expansion and surging inward direct foreign investment facilitate the emergence and rapid expansion of industries such as the manufacturing of "computer, communication and other electronic equipment" and "electrical machinery and equipment". Meanwhile, employment in export production and in other trade-related activities is important to provide jobs, especially for the millions of relatively low-skilled

Table 6 China's GDP and Balance of Trade, 2001-2015

	GDP (RMB trillion)	*Balance of Trade*	
		Amount (RMB trillion)	*Share (%) in GDP*
2001	11.1	0.2	2.1
2002	12.2	0.3	2.5
2003	13.7	0.3	2.2
2004	16.2	0.4	2.6
2005	18.8	1.0	5.4
2006	21.9	1.7	7.6
2007	26.9	2.3	8.7
2008	31.7	2.4	7.6
2009	34.6	1.5	4.3
2010	40.7	1.5	3.7
2011	48.1	1.2	2.4
2012	53.5	1.5	2.7
2013	59.0	1.5	2.5
2014	64.0	1.7	2.7
2015	68.8	2.4	3.4

Source: *China Statistical Yearbook 2016*.

migrant workers. Employment growth of an industry is found to be positively correlated with its export propensity, particularly in the years between 2001 and 2007.[1] Hence, as export-oriented industries grow stronger and are likely more labour intensive, they contributed significantly more to employment.

Conversely, the importance of trade is also reflected in the negative drag of poor trade performance on growth. For example, the large negative shock in external demand in late 2008 led directly to China's economic deceleration. The regions most exposed to trade, such as Guangdong province, experienced the sharpest drop in growth. Similarly, in recent years, China's growth dropped to around 7.5% as net exports contributed negatively to growth.

5. Trade Development Key to China's Overall Policy Agenda

Trade policies formed an important part of China's overall economic policies, in particular its industrial policies. Since 2008, when China experienced a sharp decline in external demand and growth, the government had devised numerous policies to support trade. Policy objectives have shifted over time, from a relatively narrow approach of supporting the exporters and exporting industries in the early years to a broader approach of liberalization and trade facilitation. To support exports, the government may implement policies to

enhance price competitiveness of Chinese products. These could include efforts to maintain a relatively low and stable exchange rate for China's currency. The government also uses export tax rebates to alleviate exporters' tax burdens and enhance their competitiveness.

More broadly, various economic liberalization policies such as measures to improve trade financing and streamline administration, as well as currency swap arrangements between trading partners, can help to reduce cost and facilitate trade. Trade-related direct investment may also facilitate trade. The Chinese government is also promoting trade by pursuing bilateral and multilateral free trade arrangements. This has become especially important in recent years when free trade and the associated global trade regime have been threatened by growing protectionist tendencies.

Since 2013, China's trade policies have seemingly shifted to become more market accommodating. The most obvious example is the establishment of Shanghai Free Trade Zone (FTZ) in September 2013. Championed by China's Premier Li Keqiang, the Shanghai FTZ is expected to become "a model of China's upgraded economy" and "a vehicle to further integrate China with the rest of world". In addition to experimenting with pre-entry national treatment and negative-list approach towards foreign investors, the Shanghai FTZ also includes measures to streamline investment administration and trade facilitation.

In May 2014, as it became evident that China's trade was experiencing many difficulties in achieving the government's goal for annual growth of around 7.5%, the State Council announced *Opinions*. These *Opinions* were later substantiated by policies and measures formulated by other relevant government agencies. On 23 May 2014, China's General Administration of Customs issued "20 Measures to support the steady growth of foreign trade" (General Administration of Customs of PRC, 2014). On 11 June 2014, the People's Bank of China announced its "Guidance on implementing the *Opinions*" (People's Bank of China, 2014). In early June, the State Tax Authority announced measures to support trade growth (State Tax Authority, 2014).

While the overriding objective of these government publications is to support trade growth, the government emphasized the importance of the restructuring in trade, including enhancing imports, upgrading traded commodities, advancing trade in services, and facilitating trade-promoting outbound direct investment. The government aims to improve the business environment through trade facilitation and supporting Chinese firms' efforts to respond to trade restrictions imposed by importing countries.

The government has further instituted measures to improve trade financing, through exchange rate liberalization, expanding currency swap arrangements, improving financial services, enhancing export credit insurance support, improving export tax rebates, and supporting the development of

various trading firms including small and micro-sized firms. China has also enhanced its efforts to form closer economic ties with its trading partners. In addition to negotiating bilateral investment treaties, China had set up two Free Trade Areas (FTAs) in 2014, one with Australia and the other with Korea. China has also become more active in driving the agenda for regional and multilateral economic grouping, such as the Free Trade Area of Asia and the Pacific (FTAAP).

China's overall trade development was well below the target set by the government. Yet, the policies and measures of the year to support trade had remained largely neutral and market-oriented. Of note is whether such policy orientation can become the norm for the new leadership, if trade growth and restructuring remain slow. The progress in the Shanghai FTZ has been slow. The government had announced in September 2013 a long and complex negative list for the zone, which included 190 investment restrictions that closely resemble the catalogue of China's restrictions on foreign investment. In June 2014, Shanghai FTZ authorities issued a revised list that reduced the number of items to 139. Although part of the reduction was the rearranging and combining of items, the revision did open further sectors to foreign investors such as financial services, medical services and entertainment fields. The government has also extended nationally some of the successful reforms.

As such, more market-oriented reforms in both trade facilitating and extending FTZs could be expected. In December 2014, the State Council announced initiatives to further economic opening, including deepening reforms in the Shanghai FTZ, extending some reforms nationally, and establishing three more FTZs in Guangdong, Tianjin and Fujian. On 3 February 2015, the State Council released a circular, "Implement the 'three interoperability'[2] and advance the reform in building a grand custom clearance system" (State Council, 2014), that aimed to promote the implementation of China's custom clearance reform plan.

6. Economic Ties with Southeast Asia Central to China

Trade between China and Southeast Asian countries is fundamental for a strong bilateral economic relation. From a relatively small starting point, bilateral trade has begun to grow substantially since the 1980s, along with the establishment or resumption of diplomatic relations with ASEAN members. This coincided with China's efforts to expand its economic relations with the rest of the world after the country adopted a grand reform agenda in 1978. Bilateral trade has expanded further since the early 1990s when China opened its economy further, following Deng Xiaoping's *Nanxun* (Southern Tour) in 1992. China's accession to the World Trade Organisation in 2001 marked a

Table 7 China-ASEAN Bilateral Trade Growth, 1981-2014

	Exports	*Imports*	*Total*	*Balance*
ASEAN's trade with China (annual growth %)				
1981-1991	19.4	11.7	13.9	6.0
1991-2001	17.7	13.4	15.2	2.9
2001-2008	27.0	28.3	27.7	33.9
2008-2014	10.8	13.9	12.6	22.7
1981-2014	18.8	16.0	16.8	13.4
China's trade with ASEAN (annual growth %)				
1997-2001	11.5	17.4	14.6	
2001-2008	29.6	26.0	27.7	
2008-2014	15.6	10.1	13.0	
1997-2014	20.1	18.2	19.2	

Source: Calculated by the authors based on IMF's *Direction of Trade* of ASEAN countries, and CEIC Data Manager.

new beginning of China's expansion of trade with the world and ASEAN. China has been ASEAN's largest trading partner since 2009 and ASEAN China's third largest since 2010 (*China Daily*, 2014).

Table 7 summarizes the increase in China-ASEAN bilateral trade ties. Information based on ASEAN sources are listed in the upper panel, and those using China's official sources are in the lower panel. According to ASEAN sources, bilateral trade rose by 17% a year on average between 1981 and 2014. There are a few characteristics in this bilateral trade. First, growth in ASEAN's exports to China outpaced that in ASEAN's imports from China for the entire period of 1981 to 2014, at 19% and 16% a year, respectively. Second, the relative speed of expansion between export and import varies over time. ASEAN's export to China grew faster than its imports from China between 1991 and 2001, but the trend reversed since then. Third, growth in bilateral trade decelerated sharply since 2008, reflecting a worldwide trend. Meanwhile, export deceleration, from 27% to 11% is more significant than that in import, from 28% to 14%.

China reports trade with ASEAN since 1997. Between 1997 and 2014, total trade with ASEAN grew by 19% a year on average, compared to an annual growth of 16% for China's total trade. Annual growth in bilateral trade increased from 15% between 1997 and 2001 to 28% in the years between 2001 and 2008, followed by a deceleration to about 13% a year in recent years. Since 2001, China's exports to ASEAN grew faster than its imports from ASEAN, while the reverse is true for the years of 1997 to 2001.

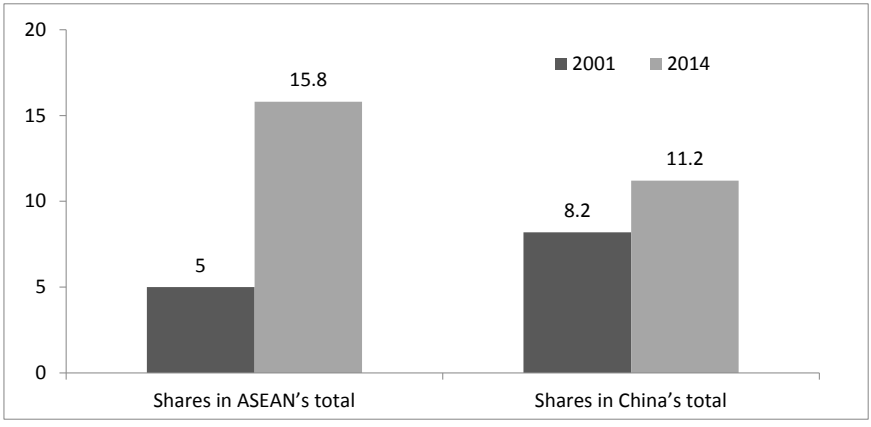
Although there are gaps between the values reported by the trading partners, the two sets of trade data have shown similar trends over time.

While total bilateral trade between China and ASEAN has expanded strongly over the past decades, there are several different tendencies in the trade relations. First, China's relative importance as a trading partner for ASEAN rose faster than ASEAN's for China. In the period of 2001-2014, the shares of ASEAN's trade with China in ASEAN's total increased from 5% to 15.8%, while the shares of China's trade with ASEAN in its total rose by only three percentage points, from 8.2% to 11.2% (Figure 8).

The trend shows that before 2000, ASEAN was a more important trading partner to China compared to China's relative importance to ASEAN. This has been reversed since then and now trade with China constitutes a larger share in ASEAN's total trade compared to ASEAN's share in China's total trade. According to China's Ministry of Commerce, China-ASEAN trade rose to US$472.16 billion in 2015 from US$7.96 billion in 1991, growing 18.5 percent annually. In 2015, as in the previous 6 years, China has been ASEAN's biggest trading partner, while ASEAN is China's third biggest (*Xinhua*, 2016).

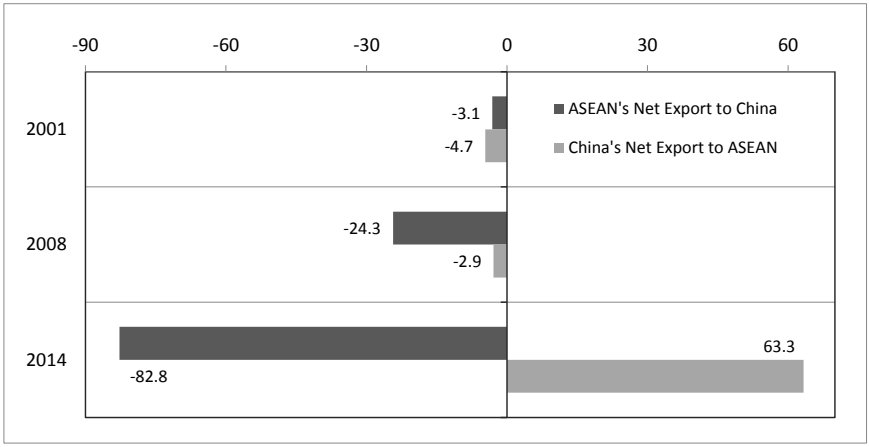
Second, bilateral trade has become increasingly unbalanced. According to data reported by ASEAN countries, the region had a relatively small trade deficit with China in 2001. The trade deficit rose sharply since then, by 26% annually between 2001 and 2014. ASEAN's trade deficit with China amounted to US$83 billion in 2014 (Figure 9). Data from China shows that the country mostly had a small trade deficit with ASEAN for the years from 2001 to 2008.

Figure 8 Shares of Bilateral Trade in Total Trade, 2001 and 2014 (%)



Source: Calculated by the authors based on IMF's *Direction of Trade* of ASEAN countries, and CEIC Data Manager.

Figure 9 Trade Balances between China and ASEAN, 2001-2014



Source: Calculated by the authors based on data from IMF's *Direction of Trade* of ASEAN countries, and CEIC Data Manager.

However, it reported trade surpluses of US$63.3 billion in 2014, roughly 13% of total bilateral trade. The emergence of this pattern of trade suggests that as trade relations between China and ASEAN intensify, ASEAN countries have become more closely tied to a China-centred regional production network and global supply chain. Meanwhile, ASEAN has also become an important market for Chinese products. Although China's economy has grown significantly and its products become globally competitive, together with its Asian neighbours, it has yet to become a major market for imports, including those from its neighbours.

Third, within ASEAN, China has increased its trade with newer ASEAN members while the combined share of ASEAN's six initial members, Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand in China's trade had declined from 94% in 1997 to 76% in 2014. Within this group, Singapore saw the sharpest drop, from 36% to 17%. In 2008, Malaysia surpassed Singapore to become China's largest trading partner within ASEAN. Further in 2014, Vietnam overtook Singapore to become China's second largest trading partner in ASEAN (Table 8). Between 1997 and 2014, the share of Indonesia in total China-ASEAN trade decreased from 19% to 13%. Meanwhile, the shares of Malaysia, Philippines and Thailand increased between 1997 and 2008, but declined thereafter. Among ASEAN's four newer members, Cambodia, Laos, Myanmar and Vietnam, China's trade with Vietnam has grown the fastest. The share of China-Vietnam trade in total China-ASEAN trade rose from 6% in 1997 to 17% in 2014.

Table 8 Shares of ASEAN Members in China's Total Trade with ASEAN, 1997-2014 (%)

	1997	*2001*	*2008*	*2014*
Brunei	0.1	0.4	0.1	0.4
Indonesia	18.6	16.1	13.7	13.3
Malaysia	18.2	22.6	23.2	21.2
Philippines	6.8	8.5	12.4	9.3
Singapore	35.9	26.2	22.7	16.6
Thailand	14.5	17.3	17.8	15.1
Sub-total: ASEAN6	94.1	91.0	89.8	75.9
Cambodia	–	0.6	0.5	0.8
Laos	–	0.1	0.2	0.8
Myanmar	–	1.5	1.1	5.2
Vietnam	5.9	6.7	8.4	17.4

Source: CEIC Data Manager.

In summary, Malaysia has been China's largest trading partner within ASEAN since 2008. Bilateral trade hit US$102 billion in 2014, a fivefold increase from that in 2003. Exports to and imports from China accounted for 12% and 17% of Malaysia's total, respectively (Table 9). Malaysia has long maintained a trade surplus with China. Machinery, electronics, plastic and fuels accounted for more than 50% of Malaysia's export to China. Bilateral economic ties are expected to be further strengthened.

Singapore has the most sophisticated and dynamic economy, and one of the wealthiest in the region. It is also one of the world's most open economies and the traditional trading hub in Southeast Asia, with a trade-to-GDP ratio of around 300% (Lim, 2013). Singapore was China's most important trading partner in ASEAN until 2008 when it was nudged down by Malaysia and taken another notched down by Vietnam when it became China's top trading partner in 2014. In 2014, exports to and imports from China accounted for 13% and 12% of Singapore's total, respectively. China's trade with Singapore recorded US$80 billion in 2014, more than half of which consisted of machinery and electrical products (Salidjanova et al. 2015). Nonetheless, Singapore remains significant to China as its second largest market for exports and the third largest source of imports within ASEAN.

Indonesia is ASEAN's most populous country, constituting more than 40% of its population. China is Indonesia's top trading partner and total bilateral trade hit US$63.58 billion in 2014. In that year, exports to and

Table 9 ASEAN's Trade with China: Shares in Total Trade (%)

	Brunei		*Cambodia*		*Indonesia*		*Laos*		*Malaysia*		*Myanmar*		*Philippines*		*Singapore*		*Thailand*		*Vietnam*		*ASEAN*	
	EX	*IM*	*EX*	*IM*	*EX*	*IM*	*EX*	*IM*	*EX*	*IM*	*EX*	*IM*	*EX*	*IM*	*EX*	*IM*	*EX*	*IM*	*EX*	*IM*	*EX*	*IM*
1985		2.0		2.0	0.5	2.4			1.0	2.0	1.2	3.2	1.8	5.4	1.4	8.6	3.8	2.4			1.3	5.0
1990		2.7	0.4	5.9	3.2	3.0		10.7	2.1	1.9	8.1	20.6	0.8	1.4	1.5	3.4	1.2	3.3	0.3	0.2	1.8	2.9
1995		3.0	1.5	3.6	3.8	3.7	2.8	3.7	2.6	2.2	11.4	29.0	1.2	2.3	2.3	3.2	2.8	2.7	6.4	3.9	2.7	3.1
2001	4.0	1.4	1.1	6.0	3.9	6.0	1.8	8.3	4.3	5.2	4.4	20.5	2.5	2.9	4.4	6.2	4.4	6.0	9.4	9.9	4.3	5.9
2007	3.1	5.6	0.3	17.7	8.5	11.5	5.8	9.3	8.8	12.9	7.0	33.3	11.4	7.2	9.7	12.1	9.6	11.6	7.5	20.3	9.2	12.6
2010	7.0	12.9	1.2	24.2	9.9	15.1	23.3	14.7	12.5	12.6	13.5	38.5	11.1	8.4	10.4	10.8	11.1	13.2	10.5	24.0	10.9	13.6
2012	2.7	21.3	2.3	30.6	11.4	15.3	21.5	16.2	12.6	15.1	14.3	36.6	11.8	10.8	10.8	10.3	11.7	14.9	11.2	25.8	11.4	14.8
2014	1.8	27.0	4.3	23.2	10.0	17.2	34.9	25.6	12.0	16.9	63.0	42.6	13.0	15.0	12.6	12.1	11.0	16.9	12.4	35.3	12.7	18.9

Source: Calculated by the authors based on data obtained from IMF's *Direction of Trade*.

imports from China made up respectively 10% and 17% of Indonesia's total with the world. China-Indonesia trade currently resembles a pattern of resources-for-manufactures. More than half of Indonesia's imports from China are machinery and electronics. Meanwhile, energy, coal, raw materials and agricultural products make up three-quarters of Indonesia's exports to China, compared to 45% of its exports to the world (Salidjanova et al., 2015). Leaders of the two countries agreed to further develop their bilateral trade to reach US$80 billion by 2015 (Fu Peng, 2013). They also committed to develop a more balanced, sustainable and strong two-way trade.

Thailand is the second largest economy in ASEAN. It is also highly export-oriented, with an export to GDP ratio of 65% in 2014. Thailand not only is an automobile-manufacturing hub in the region, but also has significant comparative advantage in agricultural products. In 2013, Thailand's top export market was China (12% of the total), followed by Japan (10%) and the United States (10%) (*Trading Economics*, 2016). In 2014, exports to and imports from China made up 11% and 17% of the country's total exports and imports, respectively. Thailand's trade with China is quite distinctive. In 2013, machinery and electrical products, plastic or rubber, and chemicals accounted for two-thirds of Thai exports to China. A unique feature of Thai trade is the export of services, particularly tourism, which allows the country to have a positive trade surplus in term of goods and services with China.

Bilateral trade between China and Vietnam has developed strongly in recent years despite their territorial disputes in the South China Sea. Since 2003, Vietnam's trade with China has an average increase of 30% annually from US$4.64 billion in 2003 to US$84 billion in 2014. China is Vietnam's largest trade partner, and Vietnam has a trade deficit with China amounting to nearly US$44 billion in 2014, up from US$31.7 billion in 2013. In 2014, Vietnam's exports to and imports from China constituted respectively 12% and 35% of the country's total. Vietnam mostly exports raw materials to China and imports manufactured products, such as garment, equipment and machinery. Vietnam also imports large quantity of electricity to power its northern provinces.[3]

7. Summing Up

Responding to both external dynamics and domestic structural changes, China's trade will continue to evolve. China will likely be more proactive in outward economic ventures, including trade and investment, as well as in global economic cooperation and governance. These will have significantly implications for ASEAN, China's close neighbor and key trading partner. Bilateral economic ties will continue to be strengthened, but benefits will not

be equally distributed across the region. Relatively less developed and more resource abundant members may gain more while those with a similar level of development will likely face more intense competition. Political mistrust could also drag on economic cooperation. It is hopeful that China-ASEAN could in another decade develop into a larger, more integrated, and more affluent economic area which will provide a strong foundation for the region's common development and prosperity.

Notes

* Dr. Sarah Y Tong is Senior Research Fellow at the East Asian Institute. She obtained her PhD in Economics from the University of California at San Diego and held an academic position in the University of Hong Kong before joining the National University of Singapore. Her research interests include international trade, foreign direct investment, economic reforms and industrial restructuring. Her publications have appeared in journals such as *China: An International Journal*, *China and the World Economy*, *China Economic Review*, *Global Economic Review*, *Journal of International Economics* and *Review of Development Economics*. In addition to contributing over dozens of book chapters, she co-edited several book volumes including most recently *China's Great Urbanization* (2017) and *China's Evolving Industrial Policy* (2014) by Routledge and *China's Economy in Transformation under the New Normal* (2017) by World Scientific. She is editor for *Trade, Investment and Economic Integration* (*Globalization, Development, and Security in Asia*, Volume 2) by World Scientific in 2014. She can be reached at <eaityt@nus.edu.sg>.

** Dr. Kong Tuan Yuen received his PhD in industrial economics from the National Central University, Taiwan. He had taken part in Taiwan's economic research projects during his postdoctoral fellowship at the Research Centre for Taiwan Economic Development. He joined the East Asian Institute in 2015. His current research interests include China's economics, especially China's industrial development, and China-ASEAN relations. Some of his works have been published in *Review of Global Politics*, *Applied Econometrics and International Development* and *Journal of Overseas Chinese and Southeast Asian Studies*. He has also frequently contributed commentaries for *Lianhe Zaobao* and *Today*. He can be reached at <eaikty@nus.edu.sg>

1. Correlation coefficient between export propensity and employment growth was above 75% between 2001 and 2012, and over 85% between 2001 and 2007 (Source: calculated by the authors using data from CEIC Data Manager).
2. The so-called "three interoperability" refers to information exchange, mutual recognition of regulatory regimes and mutual aid in law enforcement among relevant border agencies.
3. The Electricity of Vietnam, the country's power utility, imports several billions of kWh of electricity from China to ensure supply for 13 provinces in the north according to the Vietnam News Agency (*Tuoitrenews*, 2015).

References

China Daily (2014), "China-ASEAN Trade, Investment has Room to Deepen", 9 August, available at: <http://www.chinadaily.com.cn/world/2014-08/09/content_18278923.htm> (accessed on 14 July 2016).

Fu Peng (2013), "China, Indonesia Aim for 80 Bln Dollars in Bilateral Trade by 2015", *Xinhua*, 3 October, available at: <http://news.xinhuanet.com/english/china/2013-10/03/c_132770911.htm> (accessed on 18 May 2016).

General Administration of Customs of the PRC (2014), *20 Measures to Support the Steady Growth of Foreign Trade*, 23 May, available at: <http://www.customs.gov.cn/publish/portal0/tab65602/info707366.htm> (accessed on 5 February 2015).

General Administration of Customs of the PRC (2016), *China's Customs Statistics: Monthly Exports and Imports*, No. 12/2016, Beijing, China.

Lim, Regine (2013), "Singapore's Merchandise Trade Performance 2003-2012", *Statistics Singapore Newsletter*, 1/March.

People's Bank of China (2014), *Guidance on implementing the Opinions*, available at: <http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2014/20140611191050127890297/2014061/1191/050127890297_.html> (accessed on 5 February 2015).

Salidjanova, Nargiza, Iacob Koch-Weser and Jason Klanderman (2015), *China's Economic Ties with ASEAN: A Country-by-Country Analysis*, US-China Economic and Security Review Commission, Staff Research Report, Vol. 7, available at: <http://origin.www.uscc.gov/sites/default/files/Research/China's%20Economic%20Ties%20with%20ASEAN.pdf> (accessed on 30 May 2016).

State Council (2014), *Announcement of Three Mutual Advancement of the Construction of Customs Clearance Reform*, available at: <http://www.gov.cn/zhengce/content/2015-02/03/content_9448.htm> (accessed 9 April 2015).

State Tax Authority (2014), *Providing Measures to Boost the Growth of Foreign Trade*, available at: <http://www.chinatax.gov.cn/n810219/n810724/c1111567/content.html> (accessed on 5 February 2015)

Trading Economics (2016), "Thailand Exports", available at: <http://www.tradingeconomics.com/thailand/exports> (accessed on 30 May 2016).

Tuoitrenews (2015), "Vietnam's Trade Deficit with China Widens to $5.17bn in Jan-Feb", 13 March, available at: <http://tuoitrenews.vn/business/26720/vietnams-trade-deficit-with-china-widens-to-517bn-in-janfeb> (accessed on 18 May 2016).

WTO (2016a), "Trade in 2016 to Grow at Slowest Pace since the Financial Crisis", *2016 Press/779, Trade and Statistics and Outlook*, 27 September, available at: <https://www.wto.org/english/news_e/pres16_e/pr779_e.htm> (accessed on 23 January 2017).

WTO (2016b), "Trade Profiles 2016", *Statistics*, available at: < https://www.wto.org/english/res_e/booksp_e/trade_profiles16_e.pdf> (accessed on 28 January 2017).

Xinhua (2016), "Boom in China-ASEAN Trade Weakens", 20 July, available at <http://www.shanghaidaily.com/business/finance/Boom-in-ChinaASEAN-trade-weakens/shdaily.shtml> (accessed on 20 July 2016).

International Journal of China Studies
Vol. 8, No. 2, August 2017, pp. 183-197

The Impact of China's Economic Restructuring on Southeast Asia: An Investment Perspective

Zhang** Miao* and **Li** Ran
Institute of China Studies, University of Malaya, Malaysia

Abstract

China's economic growth in 2015 has fallen to 6.9% from an unrivalled average of 10% between 2002 and 2014. While the global economy is feeling the impact of China's economic restructuring, a change of such a magnitude in China has created a great impact on Southeast Asia, which is intensively involved in trade and investment with China. By analyzing macroeconomic data, we find no indication that China's outward investment in Southeast Asia was immediately shocked by China's New Normal. Instead, in an economically challenging era after 2007, Chinese OFDI in ASEAN has increased significantly. Though Chinese OFDI in Southeast Asia is distributed unevenly in geographical and industrial terms, the analysis of regional and sectorial distribution has reflected a paradigm shift of China's economy from an export oriented to an investment driven growth. The rising wave of Chinese investment in ASEAN can be understood by China's dilemma of over-capacity in some manufacturing sectors. Given the increasing production cost which has significantly reduced cost advantages of Chinese manufacturing, the rapid growth of Chinese outward investment is not only a result of a single firm's strategic shift to relocate to seek higher returns. It is rather a collective reaction of Chinese firms to the challenging business environment in China's domestic market.

Keywords: *Outward investment, China, Southeast Asia*

1. Introduction

China's economic growth in 2015 has fallen to 6.9% from an unrivalled average of 10% between 2002 and 2014. The global economy is feeling the impact of China's re-imbalance. It has spawned competing theories of what is happening to China's economy previously featured by miraculous growth since its economic reforms in 1978 (Rasiah et al., 2013). The heated debates can be divided into two schools, one of which believes the slowdown to be a

result of a deliberate attempt by the government to restructure its economy, whereas the other predicts the economy has slid into a hard landing which sees China entering a lost decade of stagnation or recession *à la* Japan (Powell, 2009; Lai, 2015). Whatever the explanation, a change of such magnitude in China will undoubtedly impact the rest of the world, including Southeast Asia, which is intensively involved in trade and investment with China in the past decades.

Understanding this impact requires knowledge of the nature and structure of China's investment in the region. Although a number of studies have examined a series of issues regarding China's outward FDI in general, including the trend and driving forces of China's outward FDI (Morck et al., 2008; Rui and Yip, 2008), the major focus of the previous research was the determinants and motivations of Chinese companies' in investing overseas (e.g. Buckley et al., 2007), FDI location choice of Chinese firms (Kang and Jiang, 2012) and FDI entry mode decisions of Chinese multinational enterprises (Cui and Jiang, 2009). Nevertheless, the growth in China's outward FDI in Southeast Asia has so far attracted little attention from scholars in mainstream research publications. There is still a dearth of regional studies on what attracts Chinese capital, especially to Southeast Asia which has received a great deal of investment from Chinese investors in recent years. Further, the impact of China's economic slowdown on its overseas investing activities in the region has not received sufficient attention.

Therefore, this paper aims to examine the impact of China's economic rebalancing on its outward investment to Southeast Asia. More specifically, this paper considers two sets of issues. Firstly, what impact has China's economic slowdown created on its outward investment in Southeast Asia? China has witnessed an unprecedented leap forward in investing in Southeast Asia since the 2008 global financial crisis despite its real GDP growth having undergone a significant slowdown. Whether this inverse relation between GDP growth and outward investment in Southeast Asia signifies China' transition from an export-oriented economy to an investment-led model remains as a core topic that we aim to address in the first part of this paper. Secondly, what is the nature and feature of Chinese investment in Southeast Asia as a whole as well as in specific individual sectors and countries in the region? To answer this question, we aim to capture the changes of regional and sectoral distribution of the investment in the face of the Chinese government's call for supply-side restructure reforms. We explored further on whether such an investment pattern shift is reflective of overall economic rebalancing, especially when the comparative advantages used to leverage rapid growth in the past (e.g. by relying on vast amounts of relatively low-wage labour and massive inflow of foreign direct investment) are viewed as lacking the power to sustain future growth.

The paper is organized as follows. After the introduction, section two presents methodology and analytical framework underpinning the analysis of this paper. Section three analyses the impact of China's economic slowdown on the pattern of its outward investment in Southeast Asia. Section four examines the nature and features of Chinese investment in Southeast Asia. Emphasis would be given to the changes of investment pattern in the face of China's recent economic restructuring. The paper ends with conclusions in section five.

2. Methodology

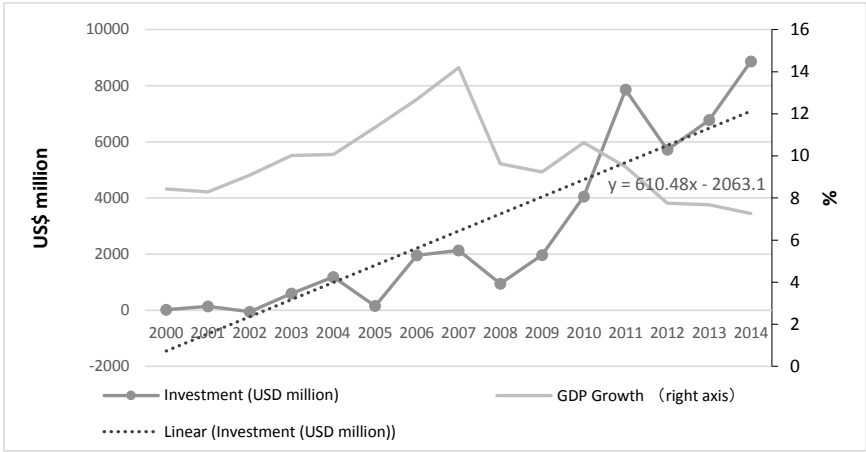
This research adopts a mix mode methodology. Complemented by descriptive quantitative analysis, qualitative evidences are collected from interviews and secondary sources such as government documentaries (Patton, 1990; Johnson et al., 2007). The combined use of qualitative and quantitative techniques enables the benefits of both approaches in research which offers greater validity to the results and analysis. By leveraging on the strengths of both approaches, corroborative results from mixed methodologies strengthen the robustness of research. By using contextual analysis of typical events in certain policy environments, the case study is used when necessary to interpret how firms' choice is influenced by government policy direction. An analysis of institutional players' behaviour is also necessary to reflect the role of specific institutional frameworks.

The quantitative data is extracted from various secondary sources, including the ASEAN Secretariat, China Global Investment Tracker and Global Investment Report by UNIDO. Specifically, investment data from the ASEAN Secretariat provides a sufficiently long time period which enables analysis of the investment from 2000 to 2014. While the China Global Investment Tracker covers a shorter period from 2005 to 2015, its strength lies in its featuring project-based data which allow sector-specific and region-specific analysis of China's investment in ASEAN. Out of 1,761 Chinese mega investment projects across the world from 2005 to 2015, we identified 238 projects in ASEAN. Despite the presence of established local partners, all projects have Chinese multinational corporations (MNCs) as major shareholders (over 50% ownership), and hence serve as a good indicator of MNC's investment in the region.

3. Chinese investment in Southeast Asia in an Economic Slowdown

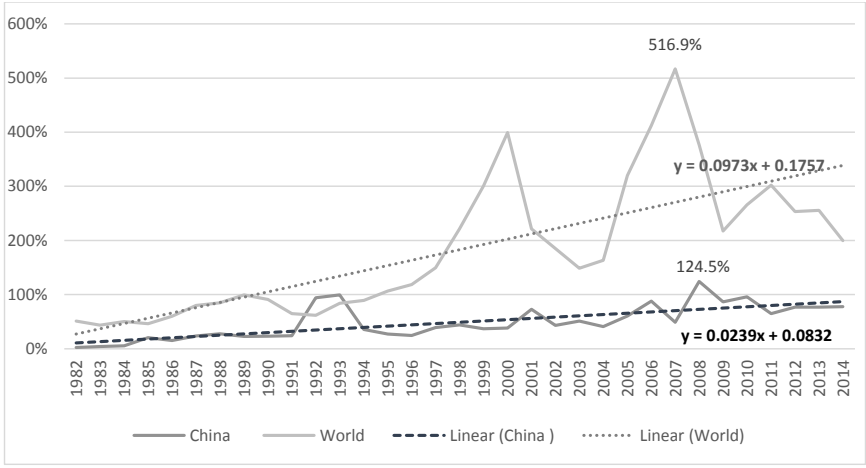
Although the share of outward investment in GDP of China has grown dramatically from 2.2% in 1982 to 77.7% in 2014, China's outward investment by and large remains much lower than the average share of the world (Figure 2). The exceptions in 1992 and 1993 whereby the share of

Figure 1 China's Investment Flow to ASEAN, 2000-2014



Source: ASEAN Secretariat (2015).

Figure 2 Outward Investment over GDP, China & World, 1982-2014 (%)



Source: World Bank (2015).

China's outward investment exceeded the world average is largely due to a jump in absolute value (from US$913 million in 1991 to US$4 billion in 1992, and US$4.4 billion in 1993 before returning to US$2 billion in 1994 and afterwards). The world share peaked at 516% in 2007 when investors' confidence gained from strong economic growth drove capital flow worldwide before the Global Financial Crisis struck in 2008. In 2007, China's share of outward investment in total GDP remains at a low 48%. Ironically, when crisis

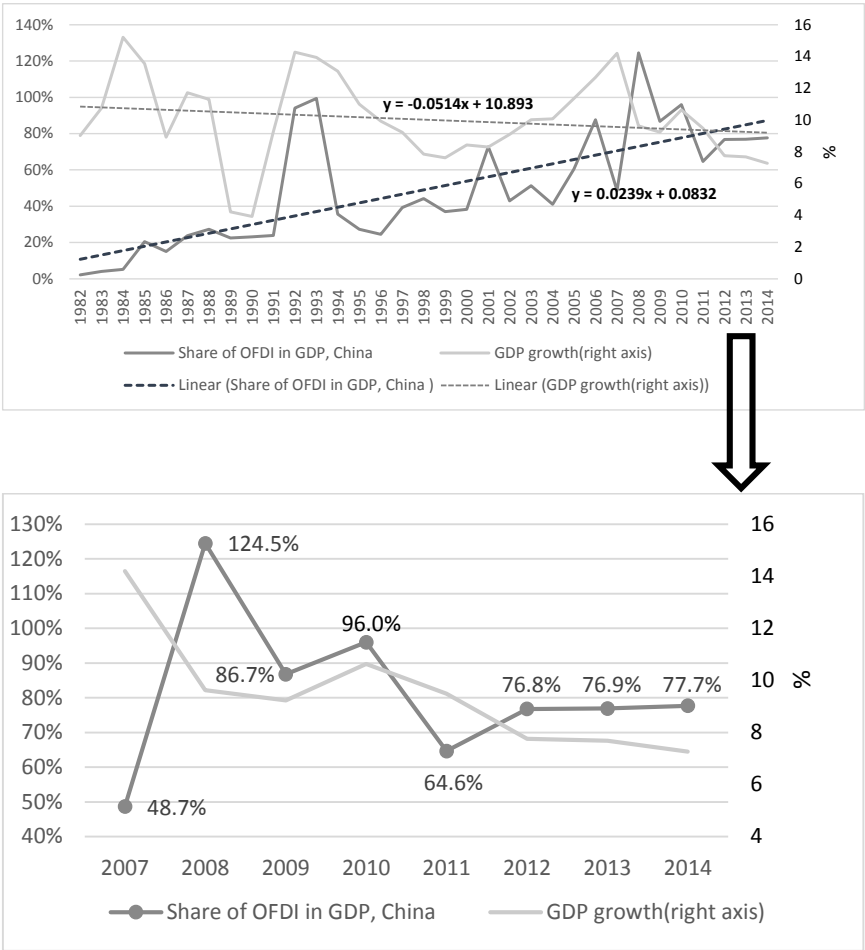
hit the world economy in 2008, China saw a surge of outward investment level to 124% whereas the world level drops significantly to 376% in 2008 from 516% in previous year. In general, while the world share of OFDI in GDP grows at an annual average of 9.7% from 1982 to 2014, China grew at a slower pace of 2.3% every year. Therefore, China's early outward foreign direct investment fell behind world average in terms of growth and level (Morck et al., 2008).

Though the scale of China's OFDI is quite small, a continuous growth trajectory from 1982 to 2014 indicates a promising outlook. Unlike international trade which is rather sensitive to economic turbulence in nature, the growth of China's outward investment demonstrates an inverse relation with its economic growth rate over the period of 1982 to 2014 (Figure 3). Over the last three decades, the share of outward investment in GDP saw a rather steady rise at 23% annually on average, whereas the country's GDP growth shows a general decline from 1982 to 2014. Nevertheless, when China's miraculous two-digit GDP growth slows down from 14% in 2007 to 7% in 2014, the investment share in GDP ranged between 64% in 2011 and 215% in 2008. Admittedly, the contraction could be partly understood as a consequence of the decelerating economic growth since 2007. It is, however, problematic to conclude that there existed a linear relation between the two, as the limited data of only seven years does not allow a decent period for proper statistical calculations.

In fact, China's outward foreign direct investment, despite occurring in an economically challenging era after 2007, is biased towards Southeast Asian countries. China's investment flow to ASEAN rose from US$948 million in 2008 to US$8.9 billion in 2014, while the same period saw China experienced a continuous growth deceleration from 9.6% to 7.2%. In contrast with general investment to the world, China's investment to ASEAN records a robust growth at 45% annually on average during 2008 to 2014 when its economy enters a "New Normal" period.

China's investment in Southeast Asia growing rapidly during this economically challenging period could be explained by the long-lasting close trade relations between the two. China-ASEAN bilateral trade volume recorded an average annual growth rate of 19.8% from 1994 to 2013. China has been ASEAN's largest trading partner since 2009, while ASEAN has been the third-largest trading partner of China since 2011, largely thanks to the complementary role of each in product structure and resource composition which enables an interdependence relationship between the two. Hence, Zhang and Daly's (2011) argument that China's outward FDI is largely attracted to countries with high volumes of exports from China is confirmed in Southeast Asia. In addition, the natural endowment and large market size enjoyed by ASEAN member states collectively attracts China's investment

Figure 3 China: GDP Growth and Share of OFDI in GDP, 1982-2014



Source: World Bank (2015).

which is both market-seeking and resource-seeking in nature (Kolstad and Wiig, 2012; Ramasamy et al., 2012).

In addition, the growing OFDI is echoed by China's transition from an FDI absorbing country to a global capital giver actively promoting its investment activities across the borders. Apart from the "Going-out" policy in 2001, the newly launched "Belt and Road Initiative" with a series of favourable measures has significantly boosted Chinese investment overseas. Previous studies have shown that institutional factors play a significant, complex and diversified role in determining FDI location choice in com-

parison with economic factors, while both types of factors influence the FDI location choice of Chinese multinational firms (Kang and Jiang, 2012).

Indeed, China has seen a boost in outward FDI in the region in the past decade, making use of its large foreign exchange reserves and seeking to solve its domestic problem of overcapacity. The fact that most MNCs have state ownership or control has given Chinese SOE access to cheap credit from state-controlled banks for overseas expansion. Adding to it is the highest enterprise savings rate that Chinese SOE having achieved which further propelled it overseas expansion (Morck et al., 2009). Though this surge is also due, in part, to increasingly favourable measures introduced by the host governments in emerging economies, such as Malaysia, it is by a larger extent of the push factor from China that act as a main driver shaping international expansion behaviour of most Chinese firms in Southeast Asia (Cheung and Qian, 2009).

4. Chinese FDI in ASEAN

4.1 Regional Distribution

Although Chinese investment in ASEAN remains still relatively low with projects of limited economic scale[1], the past few years have seen a robust growth in Chinese FDI in the region. FDI flow to ASEAN has recorded a 61% average annual growth from US$157 million in 2005 to US$7.27 billion in 2013 (Table 1). Growing capital inflow raised the Chinese FDI stock from US$1.2 billion in 2005 to US$35 billion in 2013, achieving a promising average growth of 51% annually.

Among the ten ASEAN member states, Singapore remains the hottest destination for Chinese outward FDI in 2013. Its share in total Chinese investment in ASEAN grew from 25% in 2005 to its highest 51% in 2008. Despite a slight decline to 41% in 2013, the city-state is still far ahead of the other ASEAN member states as the No. 1 recipient of Chinese investment from 2005 to 2013 (Figure 4). Indonesia maintains a relatively stable position in receiving Chinese investment, as indicated by its share stabilizing around 11% throughout the entire period. While Malaysia has become less attractive to Chinese investors as its share dropped from 15% in 2005 to 4% in 2013, Myanmar headed in the opposite direction, receiving 13% of Chinese FDI in the region in 2013 from a very low level of 2% in 2005, recording an impressive average annual growth of 10% during the period.

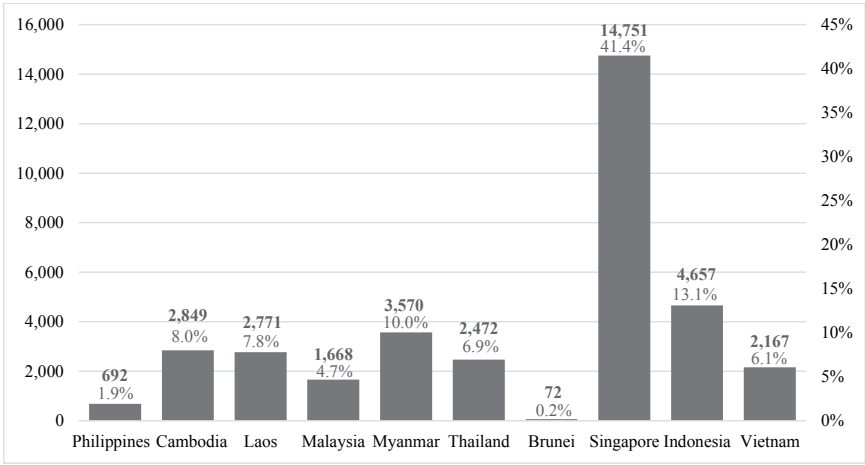
Coupled with encouraging investment stock growth, net investment flow to ASEAN witnessed a promising increase from US$157 million in 2005 to US$7.27 billion in 2013 with a 61% annual growth on average (Table 1). Singapore and Indonesia are still the major destinations for Chinese investment, accounting for about half (49%) of the total investment flow in

Table 1 China's Outward FDI Flows to ASEAN Countries, 2005-2013 (US$ million)

Country/Region	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*Average Annual Growth Rate (%)*
Brunei	0.02	–	1.18	1.82	5.81	16.53	20.11	0.99	8.52	113.15
Cambodia	5.15	9.81	64.45	204.64	215.83	466.51	566.02	559.66	499.33	77.14
Indonesia	11.84	56.94	99.09	173.98	226.09	201.31	592.19	1,361.29	1,563.38	84.11
Lao PDR	20.58	48.04	154.35	87	203.24	313.55	458.52	808.82	781.48	57.56
Malaysia	56.72	7.51	-32.82	34.43	53.78	163.54	95.13	199.04	616.38	34.75
Myanmar	11.54	12.64	92.31	232.53	376.7	875.61	217.82	748.96	475.33	59.17
Philippines	4.51	9.3	4.5	33.69	40.24	244.09	267.19	74.9	54.4	36.51
Singapore	20.33	132.15	397.73	1,550.95	1,414.25	1,118.50	3,268.96	1,518.75	2,032.67	77.82
Thailand	4.77	15.84	76.41	45.47	49.77	699.87	230.11	478.6	755.19	88.34
Vietnam	20.77	43.52	110.88	119.84	112.39	305.13	189.19	349.43	480.5	48.09
ASEAN	157.71	335.75	968.08	2,484.35	2,698.10	4,404.64	5,905.24	6,100.44	7,267.18	61.41

Source: Statistical Bulletin of China's Outward Foreign Direct Investment (2013).

Figure 4 China's Outward FDI Stock in ASEAN by Countries, 2005-2013 (US$ million)



Source: Statistical Bulletin of China's Outward Foreign Direct Investment (2013).

2013. With a small economies of scale, Brunei recorded a high growth rate of 113% over the period despite the fact the investment amount still remained very low at US$8.5 million in 2013. Overall, Chinese outward FDI net flow into ASEAN grew rapidly with all member states recording a two-digit average annual growth from 2005 to 2013.

Compared to inward FDI, outward investment has just started its engine. Those less developed provinces in China have also benefited from some capital that might have gone abroad. The national campaign such as "West's Great Development" and "The Rise of the Central" have made policy towards central and western China more attractive than ASEAN in attracting the capital. Although Chinese MNCs have taken first steps to invest in the ASEAN market, China's transition from an FDI recipient to investor requires a while before it can become an important international capital exporter such as the US and Japan. Meanwhile, an uneven distribution of outward investment exists among provinces of China. Richer coastal urban provinces and municipalities in the Eastern region report much larger investment stocks aboard than those in the Central and the West. This internal heterogeneity has made economic cooperation between China and ASEAN challenging but complementary. While divergent local policies towards FDI are different from one another, the variation in economic structure and socio-economic development level among eastern, central and western China and among different ASEAN countries requires greater attention for policy formulation to meet different stakeholder demands.

Table 2 China's Investment* in ASEAN by Sectors until 2015 (US$ million)

Sector	*Value*	*Share of total (%)*
Energy	17490	33.87
Basic metals manufacturing	12910	25.00
Real Estate	9730	18.84
Transport Sector^	3870	7.49
Technology product and services	2750	5.33
Finance	2030	3.93
Others	2860	5.54
Total	51640	100.00

Notes: * Only those projects valued above US$100 million.
^ Including aircraft lending and shipping.
Source: The China Global Investment Tracker (2015).

4.2 Sectorial Distribution

The analysis in this section is based on the data of 83 mega projects[2] with Chinese investment in the ASEAN region. The total investment for the 83 projects is valued at US$51.64 billion, taking up 95% of the total Chinese FDI stock in ASEAN by 2015 (US$54.32 billion). The fact that these 83 Chinese investors are MNCs reinforces the view that MNCs have taken the lead in investing in ASEAN.

By disaggregating the investment by sector, we found that Chinese investment is largely concentrated in the energy- and metal-related sectors which together absorbed two-thirds of total Chinese investment from 2005 to 2015 (Table 2). The pattern in ASEAN has not been very much different from that in other economies (Kolstad and Wiig, 2012). As ASEAN is rich in natural resource such as iron ore and petroleum, investing in natural and energy resources helps China hedge against future increases in commodity prices. Following the energy sector (33.87%) and metal-related industry (25%), lucrative real estate business becomes increasingly appealing to Chinese investors, attracting the third largest investment amounting US$9,730 million in ASEAN by 2015. Ranking as the fourth largest, transport equipment manufacturing has received US$3.87 billion in investment, accounting for 7.49% of total investment by 2015. In general, except for the real estate sector, Chinese MNCs' FDI in ASEAN has shown a strong tendency towards heavy industry.

In the manufacturing sector, Chinese investment has totalled US$15.2 billion by 2015, taking up 29.4% of total investment in ASEAN (Table

Table 3 Accumulated Investment in Manufacturing Sector from China to ASEAN, 2005-2015 (US$ million)

Sector	*Value*	*Share of total investment (%)*
Metals	12910	84.93
Transport Equipment*	1560	10.26
Textiles	420	2.76
Paper and Paper Product	200	1.32
Chemicals and chemical products	110	0.72
Total	15200	100.00

Note: * Excluding shipping and aircraft lending.
Source: The China Global Investment Tracker (2015).

3). The bulk of the investment in manufacturing went to sectors where China has comparative advantages, such as metal and transport equipment manufacturing. Among all the manufacturing activities, metal manufacturing accounts for 89.3% of total investment in ASEAN's manufacturing. Following metal fabrication, the transport equipment manufacturing sector attracted 10.2% of the total investment in manufacturing. In a nutshell, Chinese enterprises are investing heavily in producing heavy industrial products, such as steel and copper making, whereas the manufacture of light industrial products takes up only approximately 5% of the total by 2015.

The low investment level of textile and paper product manufacturing is possibly caused by the absence of data on small-scale investment which the current database is unable to capture. Due to the fact that light industry is not capital-intensive in nature (e.g. metal fabrication and energy industry), the sample has limited capability to capture the investment in light industry. Despite this shortcoming, the analysis using 83 mega investment projects provides considerable insights into Chinese MNC investment in ASEAN, as the strong capital capacity of most MNCs have made their investment large-scaled in nature.

Notably, over half (53%) of Chinese MNCs in ASEAN reported incorporating local partnerships. With an eye on developing markets where Chinese investors have to face challenges in understanding different policies, consumption behaviour and socio-cultural background, Chinese MNCs were inclined to collaborate with local partners to overcome difficulties and hurdles in local culture and market conditions. While they continued to forge joint ventures (some to establish wholly-owned overseas entities), Chinese MNC managers tend to launch local businesses through mergers and acquisitions (M&A), which offer the investors a quicker access to dealership

and local business networks. The strategy of having a local partner helps MNCs to adapt to the local environment quickly by not only managing good relationships with government and media, but also to quickly integrate with the local business community. Among these, collaboration with host country businessmen provides a feasible solution to engage local buyers and suppliers.

Both greenfield (establishment of new factory or plant) and brownfield (cross-border merger and acquisition) investments can be found as forms of China's OFDI in ASEAN. According to the report of China Global Investment Tracker from January 2005 to December 2015, 37% of the number of total investments (40 out of the 83 China-funded mega projects) was recorded as Greenfield. In general, China's greenfield investment in ASEAN is found mostly in the energy-related sector and infrastructure projects, in both of which China has a competitive advantage and which also helps to reduce its over-capacity in steel and concrete production. Singapore is perhaps the only exception where out of the 18 China-funded projects, only 1 project (taking up 0.8% of total value) was considered as greenfield investment while the remaining are all brown-field in nature. China's strategic intent of going global to acquire technology and know-how has driven China's capital into sectors which China does not have advantages in. Also, the expensive labour and land costs in Singapore has turned out to be a deterrent for Chinese SOEs who are also conscious of profit-maximizing.

5. Conclusion

China's economic growth in 2015 has fallen to 6.9% from an unrivalled average of 10% between 2002 and 2014. While the global economy is feeling the impact of China's economic restructuring, a change of such a magnitude in China has created a great impact on Southeast Asia, which is intensively involved in trade and investment with China.

By analyzing data from the China Global Investment Tracker, we find that China's investment in ASEAN has witnessed a significant growth in defiance of China's economic slowdown. Unlike international trade which is rather sensitive to economic turbulence, China's outward investment shows no immediate shock from the country's economic slowdown. Instead, in an economically challenging era after 2007, Chinese OFDI in Southeast Asian countries has increased significantly.

An analysis of regional and sectoral distribution of China's investment has captured a changing pattern of Chinese OFDI in Southeast Asia which reflects the paradigm shift of China's economy from an export-oriented to an investment driven growth. Chinese OFDI in Southeast Asia is distributed

unevenly in geographical and industrial terms. While Singapore, Indonesia and Malaysia remain hot destinations for Chinese OFDI, CLMV countries have caught up quickly in attracting Chinese capital especially in those sectors where Chinese companies have comparative advantage such as infrastructure, energy- and metal-related sectors. Though Chinese FDI in the region has shown a strong tendency to be in heavy industry by 2015, the lucrative real estate business has become increasingly attractive to Chinese investors buying overseas houses in the region.

The rising wave of Chinese investment in Southeast Asia can also be understood through the dilemma facing China's manufacturing which is heavily crippled by its redundant capacity. The strong currency in addition to increasing production costs, such as land and labour, has significantly reduced cost advantages of Chinese manufacturing in the international market. Therefore, the decelerating return rate in domestic China has driven a growing number of enterprises to move their domestic production overseas in search of higher returns. Southeast Asia, especially the CLMV countries with the advantages of having cheap labour with favourable policies towards foreign investment, has thus attracted large Chinese investment. The overall increase of Chinese OFDI is not only the result of a firm's strategic shift to relocate to seek higher returns, but also a necessary choice of Chinese firms to be adaptive to the worsening business environment in China's domestic market. Policy makers have to be cautious about the latter development, if not addressed, the Chinese economy may lose its glamour to not only domestic but also international investors. Necessary capital controls should be considered as an option, as uncontrolled capital outflow may eventually generate a disastrous impact on the domestic economy given the massive scale of capital which has been in place in the global market.

As with most studies, this study is not bereft of limitations. As argued by evolutionary economists, location, timing and sectors matter in institutional change (Nelson, 2008). Given the existence of huge diversity in socio-economic conditions among different ASEAN countries, in-depth country studies on a specific sector should be undertaken to better understand the intricacies faced by Chinese OFDI much better than the broad review undertaken in this paper. While a concrete regional study by using quantitative data should shed light on the overall development of Chinese OFDI in the region, qualitative in-depth studies should be conducted in future to garner deeper understanding on the impact of China's economic slowdown on firms' decision to relocate in Southeast Asia. Finally, the very nature of Chinese OFDI and ASEAN host country conditions are evolving. Down the road, the story of China-ASEAN investment links may well look different from what has been described in this paper.

Notes

* Dr. Zhang Miao is Research Fellow at Institute of China Studies, University of Malaya. She obtained her PhD in Economics from the University of Malaya in 2014. She has been studying institutional economics and state theory. Her research spectrum also extends to the fields of industrial policy and technology innovation. Her previous writings have appeared in a number of international journals such as *Journal of Contemporary Asia*, *Habitat International*, *Cities*, *Journal of Asia Pacific Economy*, *International Journal of China Studies*, *Institutions and Economies* and *Asia Pacific Business Review*. She has undertaken several consultancies for international agencies, including the United Nations Development Programme (UNDP) and Economic Research Institute for ASEAN and East Asia (ERIA). Dr. Zhang has also frequently contributed commentaries for *Sin Chew Daily* and *Oriental Daily*. She can be reached at <miao@um.edu.my> or <September870922@hotmail.com>.

** Dr. Li Ran is Research Fellow at the Institute of China Studies, University of Malaya. She obtained her doctoral degree in Economics from the University of Malaya in 2014. Dr. Li has been studying the Chinese state and state enterprises, development economics, Chinese overseas investment, China-ASEAN relations, and urban economics. Her previous writings have appeared in a number of international journals such as *China: An International Journal*, *Engineering Economics* and *Cities*. She can be reached at <liran@um.edu.my> or <ellieliran@hotmail.com>.

1. Compared to other major investors, China still remains a latecomer in investing in ASEAN. With a total investment of US$8,869 million flowing to ASEAN in 2014, China apparently has a long way ahead to compete with other leading investors in the region, such as the European Union ($29,268 million), Japan ($13,381 million) and the US ($13,042 million).
2. Mega projects refers to projects with investment above USD100 million.

References

Buckley, P.J., Clegg, L.J., Cross, A.R., Liu, X., Voss, H. and Zheng, P. (2007), "The Determinants of Chinese Outward Foreign Direct Investment", *Journal of International Business Studies*, Vol. 38, No. 4, pp. 499-518.

Cheung Y.W. and Qian, X.W. (2009), "Empirics of China's Outward Direct Investment", *Pacific Economic Review*, Vol. 14, No. 3, pp. 312-341. doi: 10.1111/j.1468-0106.2009.00451.x

Cui, L. and Jiang, F. (2009), "FDI Entry Mode Choice of Chinese MNCs: A Strategic Behaviour Perspective", *Journal of World Business*, Vol. 44, No. 4, pp. 434-444.

Johnson, R.B., Onwuegbuzie, A.J. and Turner, L.A. (2007), "Toward a Definition of Mixed Methods Research", *Journal of Mixed Methods Research*, Vol. 1, No. 2, pp. 112-133. https://doi.org/10.1177/1558689806298224

Kang Y.F. and Jiang, F.M. (2012), "FDI Location Choice of Chinese Multinationals in East and Southeast Asia: Traditional Economic Factors and Institutional Perspective", *Journal of World Business*, Vol. 47, No. 1, pp. 45-53. https://doi.org/10.1016/j.jwb.2010.10.019

Kolstad, I. and Wiig, A. (2012), "What determines Chinese outward FDI? *Journal of World Business*, Vol. 47, No. 1, pp. 26-34. https://doi.org/10.1016/j.jwb.2010.10.017

Lai, P.Y. (2015), "Growth Slowdown in China since 2008: Will There Be a Hard Landing in the Near Future?", *China & World Economy*, Vol. 23, No. 3, pp. 42-58. doi: 10.1111/cwe.12113

Morck, R., Yeung, B. and Zhao, M. (2008), "Perspectives on China's Outward Foreign Direct Investment", *Journal of International Business Studies*, Vol. 39, No. 3, pp. 337-350.

Nelson, R. (2008), "Economic Development from the Perspective of Evolutionary Economic Theory", *Oxford Development Studies*, Vol. 36, No. 1, pp. 9-21. doi: 10.1080/13600810701848037

Patton, M.Q. (1990), *Qualitative Evaluation and Research Methods* (2nd ed.), Newbury Park, CA: Sage Publications.

Powell, B. (2009), "China's Hard Landing", *Fortune*, 16 March, pp. 114-120.

Ramasamy, B., Yeong, M. and Laforet, S. (2012), "China's Outward Foreign Direct Investment: Location Choice and Firm Ownership", *Journal of World Business*, Vol. 47, No. 1, pp. 17-25. doi: 10.1016/j.jwb.2010.10.016

Rasiah, R., Zhang, M. and Kong, X.X (2013), "Can China's Miraculous Growth Continue?", *Journal of Contemporary Asia*, Vol. 43, No. 2, pp. 295-313. http://dx.doi.org/10.1080/00472336.2012.740940

Rui, H. and Yip, G.S. (2008), "Foreign Acquisition by Chinese Firms: A Strategic Intent Perspective", *Journal of World Business*, Vol. 43, No. 2, pp. 213-226. https://doi.org/10.1016/j.jwb.2007.11.006

Zhang, X.X. and K. Daly (2011), "The Determinants of China's Outward Foreign Direct Investment", *Emerging Markets Review*, Vol. 12, No. 4, pp. 389-398. https://doi.org/10.1016/j.ememar.2011.06.001