



China in Asia☆

Randall Morck^a, Bernard Yeung^{b,*}^a University of Alberta Business School, Edmonton, AB T6E 2T9, Canada^b National University of Singapore Business School, Biz 2 Building Level 6, 1 Business Link, 117592, Singapore

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ABSTRACT

China's surge to become the world's second largest economy and largest trading nation contributes greatly to Asia becoming the world's largest economic system. China is the nexus of intra-Asian trade and direct investment flows. China's rapid growth in the recent decade relied on a state-directed investment model, akin to the state-run Big Push growth model. As in most big push experiences, intermediate term success leads to economic stresses. China's leaders can no longer ignore obvious signs of rising malinvestment, corporate debts, environmental degradation, and social disparity, all amid an aging population and tightening resource constraints. China's economic slowdown also forces economic adjustment upon its neighbors, rendered more difficult by China's policy ambiguity and volatility. Still, China can be a positive long term influence in Asia, especially as it carries its market reforms to completion.

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1. An increasingly Sinocentric Asia in an increasingly Asia-focused world

Asian economies have grown phenomenally. Using purchasing power adjusted exchange rates, China and India together matched the US or European Union economy in sheer size in 2015 or earlier.¹ Adding Japan, South Korea, Hong Kong-China, Taiwan-China, and Central Asia made Asia's the largest continental economy from 2005 on.

Asia has integrated internally. In 2012, over 51% of Asian exports were to other Asian countries. Only European trade – over 68% of which is to other European countries, is more intraregional. Asia's intraregional trade rose by almost 73% from 2007 to 2012, while European intraregional trade rose by less than 23%. Asia's intra-regional trade, as a fraction of total trade, and is likely to surpass Europe's in 2016.²

China is the emerging nexus of intra-Asian trade. The world's largest exporter from 2008 on, China is rapidly overtaking the US for the top importer position.³ Table 1 shows China's trade to be highly Asia-centric. Some 49% of China's exports are to other Asian economies, and some 57% of China's imports are from elsewhere in Asia.

Table 2 shows that exports to China now account for economically important fractions of many other Asian economies' total exports. That over half of Mongolia's trade is with China is perhaps unsurprising – Mongolia is landlocked and borders only China and Russia. North Korea's dependence on China is likewise unsurprising, given that country's political isolation. However, the positions of South Korea, Japan and Australia show how deeply those high-income countries have come to rely on a healthy

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* Corresponding author.

E-mail addresses: randall.morck@ualberta.ca (R. Morck), byeung@nus.edu.sg (B. Yeung).

¹ Sources: Conference Board Economic Outlook (2015) and Conference Board Total Economy database (Sept. 2014).

² Source: IMF, DOTs, and McKinsey Global Payments Map.

³ Source: World Development Indicators.

Table 1

An increasingly China-centered Asia.

Data source: National Bureau of Statistics of China; IMF.

	China's exports	China's Imports	Total
Africa	\$85B	\$113B	\$198B
Oceania	\$45B	\$92B	\$137B
Other Asian economies	\$1,007B	\$1,083B	\$2,090B
Europe	\$396B	\$286B	\$682B
Latin America	\$135B	\$126B	\$261B
North America	\$380B	\$156B	\$536B
Other	–	\$6B	\$6B
Total	\$2,048B	\$1,862B	\$3,910B

Table 2

China's imports from Asian country as percent of the country's total exports.

Source: World Integrated Trade Solutions database, World Bank.

Asian country	2005	2006	2007	2008	2009	2010	2011	2012	2013	Mean
Mongolia	40	71	58	45	51	67	53	51	50	54
North Korea	19	16	18	17	26	32	65	59	67	35
South Korea	32	31	33	31	35	36	36	37	39	34
Turkmenistan	1	1	2	1	1	18	57	91	96	30
Japan	19	20	21	23	28	30	27	24	23	24
Australia	12	13	15	18	23	29	32	32	39	24
Philippines	23	29	34	26	19	20	20	20	17	23
Malaysia	17	17	18	18	23	27	30	26	26	22
Kazakhstan	13	12	15	16	17	28	32	28	27	21
Thailand	13	16	18	18	21	20	20	18	19	18
Papua New Guinea	17	18	17	16	10	16	12	7	12	14
Indonesia	10	11	12	11	13	14	17	16	16	13
New Zealand	5	5	5	6	10	13	14	16	22	10
Laos	2	3	4	5	13	18	18	13	15	10
Myanmar	8	7	7	10	10	11	13	8	15	10
Brunei	13	11	6	3	11	20	9	5	1	9
Uzbekistan	11	11	5	3	4	13	7	9	13	9
Singapore	9	8	7	7	8	9	8	8	9	8
Russia	8	7	6	5	8	8	9	9	8	8
Vietnam	7	6	5	5	6	7	9	12	10	8
India	7	6	7	7	6	7	6	5	5	6
Pakistan	3	3	3	3	4	5	6	9	8	5
New Caledonia	3	6	11	3	4	1	2	4	3	4
Tajikistan	1	1	0	1	7	2	2	3	2	2
Kirgizia	5	3	2	1	1	1	1	1	1	2
Cambodia	1	1	1	0	1	1	2	1	2	1
East Timor	0	9	0	0	0	0	0	0	0	1
Bangladesh	1	1	1	1	1	1	1	1	2	1
Azerbaijan	0	0	0	1	1	1	1	1	1	1
Nepal	1	1	1	0	0	0	0	1	1	0
Fiji	0	0	0	0	0	0	0	1	2	0
Afghanistan	0	0	0	0	0	0	0	0	0	0
Bhutan	0	0	0	0	0	0	0	0	0	0

and prosperous China. The importance of China's markets to Kazakhstan, Turkmenistan and Uzbekistan shows that China's growth increasingly also matters to post-Soviet central Asia. China's market is also increasingly important to its East Asian neighbors: the Philippines, Malaysia, Thailand, Indonesia, Laos, and Myanmar.⁴ Somewhat more surprising is China's relative unimportance as a market for exports from South-Asian economies. Fig. 1 shows the steady growth of China's importance as a trading partner to the world as a whole with some unexpected volatility with regard to South Asia.

This means that, while China is heavily reliant on what happens elsewhere in Asia, much of the rest of Asia relies heavily on prosperous Chinese markets. This is true for investment as well as trade. While China has long been a major foreign direct investment destination, its outward foreign direct investment has surged in recent years, matching its inward foreign direct investment in 2014 (source: UNCTAD). Almost half of China's inward FDI comes from elsewhere in Asia, and China's outward FDI to the rest of Asia roughly equals its outward FDI to the all of Latin America.

⁴ The typical exports are crude materials, chemicals, textile, rubber products, light manufacturing, electronical and electronic products.

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