

The rise of China: opportunities and challenges for ASEAN from a Vietnamese perspective

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Abstract

After nearly thirty years of instituting reforms, China has become a potent global economic force, and its emergence as a superpower has become a source of both anxiety and high hopes for countries constituting the Association of Southeast Asian Nations (ASEAN). On the one hand, the rise of China provides opportunities for ASEAN to increase exports and diversify export markets. On the other, there are territorial disputes between China and some ASEAN member countries in the South China Sea. This paper argues that the rise of China is inevitable and unstoppable. Nonetheless, ASEAN member countries can be better-off by strengthening cooperation with China. At the same time, however, ASEAN should strengthen its economic and political ties with other countries to provide a counterweight to China's growing influence in the region.

By instituting reforms and opening and integrating itself with the world economy, especially after accession to the World Trade Organization, China boosted its economic power. The rise of China has brought both opportunities and challenges for many countries in Asia and the world. This research paper focuses on opportunities and challenges for ASEAN and Vietnam in view of China's emergence as an economic power.

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1. The rise of China

The rise of China can be seen as follows:

- a. China has been one of the fastest growing economies in the world, with output expansion averaging some 9 percent annually over the past two decades.

In the period 1993-1997, China's average gross domestic product (GDP) growth rates were 11 percent per year, three times higher than the world average. From 1998 to the present, although Asia and the whole world faced many difficulties, China's economy has maintained high growth rates from 8 percent to 9.5 percent annually.

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Keeping high growth rates in many years, China's economic power increased at a steady pace. In 2004, China's GDP ranked as the sixth-largest economy in the world.

b. China is a world producer.

From a poor country with inadequate supply of food and consumer goods, China has become the world's top producer of many products like cereals (470 million tons, 2004), cotton (6.32 million tons, 2004), oil seeds (30.75 million tons, 2004), meat (41.2 million tons, 2004), cloth (24.87 billion square meters), cement (970 million tons, 2004), and television sets (36.4 million). China also ranked prominently in world total output of electricity (1135.6 billion kW), chemical fertilizer (28.2 million tons), and automobiles (5.2 million). From 1995 to 2004, China's proportion in world industrial production increased from 5 percent to 12 percent.

c. China is a world consumer.

With its huge population, China is fast becoming the world's biggest market. China's percentage in total world consumption for most commodities has been steadily increasing. From 1998 to 2005, the proportion of China in the world raw materials and energy consumption for industrial purposes increased very quickly (Table 2).

d. China is a world trader.

In 1978, China's total trade was only US\$ 20.6 billion, ranking 32th in the world. At the end of 2004, the amount reached US\$ 1154.7 billion, ranking 4th in the world (Table 3). In 24 years (1980-2004), China's share in world exports soared from 1.0 percent to 5.8 percent. In ten years (1993-2003), China's industrial machinery exports increased from US\$ 4.2 billion to US\$ 83 billion. China's exports of computer components and peripherals increased from US\$ 0.7 billion to US\$ 41 billion, while exports of electronics and telecommunications equipment increased from US\$ 12.3 billion to US\$ 89 billion [Gilboy 2004:39].

Table 1. China and reshaping the global economy
(Percentage of world GDP)

	<i>European Union</i>	<i>United States</i>	<i>Japan</i>	<i>China</i>	<i>India</i>	<i>Other</i>
2004	34	28	12	4	2	20
2025	25	27	7	15	5	21
2050	15	26	4	28	17	10

Source: *Business Week*, August 22-29, 2005: 44.

Table 2. China's percentage of the world consumption (%)

Commodity	1998	2003	2005
Aluminum	10.3	18.6	21
Beef and veal	9.8	12.6	
Cement			47
Coal	27.2	31.0	30
Cell phone user (mobile phone)	7.5	20.1	
Cigarette	30.8	34.8 (2002)	
Computer	3.3	6.1	
Copper	10.4	19.7	20
Cotton (raw)	22.2	32.7	37
Electricity	8.0	10.2	
Fish	22.1	32.3 (2001)	
Hair-care product	3.7	3.9	
Ice cream	14.1	19.1	
Microwave	7.9	12.1	
Petroleum (crude oil)	5.5	7.7	8
Pork	48.8	50.8	
Poultry	18.6	19.2	
Rice	34.5	32.8	32
Soda (drinks)	2.9	3.9	
Soybeans	14.2	19.6	
Crude Steel			26
Steel (finished)	16.2	26.9	
Television set	23.6	23.2 (2002)	
Vacuum cleaner	1.3	1.1 (2002)	
Washing machine	10.6	18.0 (2002)	
Wheat			16

Source: *Fortune*, October 4, 2004: 68, 69.

Imports from China in total imports of Japan increased from 1.4 percent in 1970 to 18.3 percent in 2002. At the same time, imports from China in total imports of the United States increased from almost 0 percent to 11.1 percent. Imports from China in total imports of the European Union increased from 0.6 percent to 7.5 percent (Tables 3 and 4).

Table 3. China's share in world exports (%)

	1980	1990	2000	2003*
China	1.0	1.9	3.9	5.8
Germany	10.5	12.1	8.6	9.2
Japan	7.1	8.5	7.5	6.4
US	12.0	11.6	12.1	10.4

Source: "China: international trade and WTO accession", IMF Working Paper No. 04/36: 15.

*January to June.

Table 4. Imports from China in total imports (%)

	1970	1980	1990	1995	2000	2002
Japan	1.4	3.1	5.1	10.7	14.5	18.3
United States	0	0.5	3.2	6.3	8.6	11.1
European Union*	0.6	0.7	2	3.8	6.2	7.5

Source: "China: international trade and WTO accession", IMF Working Paper No. 04/36: 15.

*Excluding Intra-EU trade.

In addition to large amounts of foreign investment flows to China, its trade balance was keeping surplus at a high level. As a result, China's foreign reserve increased to more than US\$ 200 billion in 2004, reaching US\$ 710 billion at the first half of 2005.

China's phenomenal rise has pushed it toward a higher position in world economy and brought many opportunities and challenges for the rest of the world in general, and ASEAN in particular.

2. Opportunities and challenges for ASEAN

ASEAN countries have been getting opportunities as neighbors of a fast-developing giant. This can be seen in the following aspects: first, both China and ASEAN are in the process of rapid development. After the financial crisis, ASEAN countries have been implementing some policy measures to restructure their economies, which have since improved. Strong liberalization in China has also brought to ASEAN many opportunities to increase trade with China. The ASEAN-China Free Trade Area (ACFTA) is important in promoting cooperation between China and ASEAN. On the one hand, ACFTA is a good opportunity for ASEAN products to enter the China market. On the other, as the Singapore trade and industry minister said:

"ACFTA means investors can come to ASEAN, put up their factories in ASEAN, and sell their products to the China market." Recently, more and more Chinese companies have been investing abroad. At the end of 2003, China's accumulated foreign direct investment (FDI) outflow reached US\$ 32.2 billion. ACFTA is also a favorable legal framework for ASEAN to absorb more FDI from China.

Second, reforms in the southwest of China have been expanding vigorously. In the past, trade between China and ASEAN was mainly through sea-lanes. Today more road and rail networks connect the two areas: both sides are currently conducting construction works connecting China and ASEAN, such as the international economic corridor from Kunming (Yunnan, China) to Ho Chi Minh City to Singapore; Naning (Guangxi, China)—Hanoi—Haiphong (Vietnam); Naning—Bangkok. The economic belt connects some cities and provinces and ports along the coast of Southern China with cities and ports of northern Vietnam. When these economic and transportation works are completed, the interaction in terms of trade, investment, and tourism between China and ASEAN will expand greatly, to the benefit of both China and ASEAN nations.

Besides accelerating the development of its West and Southwest Greater Area, China has been closely cooperating with five ASEAN nations—Vietnam, Laos, Cambodia, Thailand, and Myanmar—in exploiting natural resources and protecting the environment in the frame of the Greater Mekong Subregion (GMS) cooperation.

Third, the rise of China has created beneficial conditions for ASEAN economic recovery after the crisis. From 1990 to 2003, China imported more than US\$ 2,500 billion from all over the world. Now, China's imports accounts for one-fifth of Asian imports and one-nineteenth of world imports. In 2000, China imported only US\$ 14.1 billion from ASEAN, but this increased to US\$ 45.6 billion in 2004. A substantial amount of China's imports is considered a motivation for many economies in Asia (and the world) to recover and develop. China has been considered as the economic engine behind the development of many East Asian economies.

And fourth, Chinese experiences in such fields as trade liberalization and FDI absorption are useful and applicable for new ASEAN members.

2.2 Challenges for ASEAN

As developing economies, China and ASEAN have similarities in terms of trade sector structure and production structure for export. Both have advantages like cheap labor and rich natural resources. Both are looking at common potential markets, such as the European Union, the United States, and Japan, to expand their exports. At present, China has replaced ASEAN as the main producer and supplier of cheap manufactured goods for the region. In absorption of foreign capital, both sides are trying to get more investments from North America, Europe, and Japan and from other Asian economies, e.g., Korea, Taiwan, and Hong Kong. Thus, the competition

between them may even be fiercer in the near future. After WTO accession, China is clearly outstripping ASEAN. FDI inflows to ASEAN from 2001 to 2004 stood at US\$ 19.37 billion, US\$ 13.73 billion, US\$ 20.30 billion, and US\$ 26.5 billion, respectively. Meanwhile, China's figures were US\$ 49.6 billion, US\$ 52 billion, US\$ 53.5 billion, and US\$ 60.6 billion, respectively—much higher than ASEAN's. Exports from FDI sector accounted for 53 percent of China's total exports. More FDI means China gains an advantage over ASEAN in export. Clearly, ASEAN commodities are facing difficulty in competing with Chinese goods in the markets of China and Japan, as these have been produced by American or Japanese companies in China before they are exported back to American and Japanese markets.

**Table 5. China and ASEAN:
share of global manufactured exports (%)**

	<i>ASEAN</i>	<i>China</i>
1994	4.4	2.2
2003	4.4	5.3

Source: *Business Week*, February 28, 2005: 23.

China's economy from 1979 to the present seems to have gone through "cycles" in its development. In 1983, 1988, and more recently in 2004-2005, China found itself in "too hot" situations. Supply of many goods exceeded demand in the domestic market. In June 2005, according to the China Ministry of Trade, more than nine hundred kinds of goods were in oversupply. The situation is clearly seen in such goods as textiles, footwear, automobiles, cell phones, etc. Oversupply often leads to a rocket discount just to sell. The big gap between supply and demand in the Chinese market may have negative impacts on some ASEAN markets if local market organizers don't catch up with up-to-date information and the new situation in time for policy reactions.

China's furious development has been taking place along with sector changes. As more new-model and high-tech industries come to the East and Southeast, the comparatively less advantaged industries move from the East toward the West and Southwest. It is then possible that the relatively older technologies from China have been transferred to some new, less developed ASEAN members.

2.3. The "China threat" theory

Some ASEAN members have territorial disputes with China over the Spratly Islands. The expansion of the Chinese economy has increased energy demand for the industries' consumption. At the same time, China's expenditures for military purposes have ballooned in recent years. China's growing economic and military

might is sure to worry some: would China use military force to take over whatever territory it considers its own? This is a potential factor of instability in the region.

ASEAN companies find it too difficult to compete with their Chinese counterparts because of the following reasons:

- a. China is a huge country; the cost of land in China is more competitive.
- b. China has comparative advantage in terms of human resources. It can maintain lower labor costs for a longer time because labor can move elsewhere in search of higher income.
- c. China has a great potential market. It is a very attractive factor for FDI inflows.

However, many people think that ASEAN should not worry too much about China. Why? Its rapid growth has also made it increasingly dependent on foreign resources such as oil, coal, rubber, and other raw materials. To maintain its development, China must nurture better and closer relations with its ASEAN neighbors. This is why recently China adopted the following guidelines: "be friendly with neighbors", "keep peace with neighbors", "be in harmony with neighbors", and "get rich together with neighbors". To achieve common benefits, China has been looking for new methods to strengthen cooperation and build effective mechanisms to solve possible contradictions with ASEAN.

3. Opportunities and challenges for Vietnam

Compared to other ASEAN countries, Vietnam is geographically closer to China; it shares continental borders and coastal lines with China. Thus, the opportunities and challenges for Vietnam from the rise of China are more evident.

Between 1991 and 2004, Vietnam-China bilateral trade increased from US\$ 37.7 million to US\$ 7.191 billion (more than 190 times in 13 years). After accession to the WTO, the growth of China's international trade accelerated. It is estimated that total Vietnam-China trade will reach US\$ 8 billion in 2005, much more than US\$ 5 billion as projected. That is why in the state visit to China of Vietnam President Tran Duc Luong on July 18-22, 2005, both sides agreed to raise the 2010 Vietnam-China trade target from US\$ 10 billion to US\$ 15 billion.

In terms of investment, by August 2005, China FDI inflows to Vietnam reached US\$ 710 million, with 346 projects [Kawai 2004]. Besides the opportunities for increasing trade with and receiving more FDI from China, Vietnam must also face challenges from the rise of China.

Table 6. Vietnam-China trade balance, 2001-2004

<i>Year</i>	<i>Vietnam trade deficit*</i>	<i>(% changes)</i>
2001	211	-
2002	633	214.2
2003	1.373	107.2
2004	1.720	25.2

Source: Vietnam Ministry of Trade.

*In million US\$

First, in Vietnam-China trade, Vietnam suffered a large trade deficit. The increase in the total value of imports from China to Vietnam is much faster than the increase in the total value of exports. As a result, Vietnam's trade deficit with China increased from US\$ 211 million in 2001 to US\$ 1.721 billion in 2004. The proportion of deficit from China in total national trade deficit soared from 17.7 percent in 2001 to more than 30 percent in 2004. The reason for the deficit is that the main exports of Vietnam were only three kinds of raw materials: rubber, coal, and crude oil. Exports of such materials accounted for 71.7 percent of total Vietnam exports to China in 2004. Meanwhile, the main Vietnam imports from China are manufactured products like refined oil, machinery equipment, spare parts of motorbikes, etc.

Table 7. Exports of three kinds of raw material (rubber, coal, crude oil) from Vietnam to China, 2000-2004 (million US\$)

<i>Year</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Exports of three raw materials	823.3	661.3	819.6	1,043.70	1,963.20
Percentage from total exports	53.6	46.6	54.8	59.70	71.70

Source: Vietnam Ministry of Trade.

Second, after WTO accession, China has been carrying out some new policies that make it difficult for Vietnam traders. The new policies are as follows:

- a. Reducing some policy preferences in border trade (no 50 percent tax reduction for trading with Guangxi) while increasing quality control and food safety criteria for agricultural products [*Vietnam Economic Times*, September 21, 2005].
- b. Strengthening the nontariff barriers at border mouths. Until 2001, Yunan and Guangxi provincial governments had the power to issue licenses for tested goods, which was more efficient for Vietnamese traders. However, since 2002, the issuance of such licenses has been done by the central government.

in Beijing, making business in trade of vegetable and aquatic products more difficult.

- c. Step-by-step, China has abolished the policy of tax preferences in cross-border trades. From 2004, cross-border exports from Vietnam to Guangxi (China) received no tax preferences (50 percent value-added tax reduction). Moreover, to get tax preferences in the frame of the Early Harvest Program (EHP), Vietnamese traders need to secure a certification of original goods (C/O), and the two-sided trading contracts should be made by the central government rather than by the local government. The place of C/O issuance in Vietnam has been moved from some main border mouths to Hanoi and Ho Chi Minh City, and other procedures have jacked up costs higher than the benefit from EHP preferences. As a result, EHP did not lead to increase in exports from Vietnam to China.

4. Conclusions

The rise of China is an inevitable phenomenon. A long with this, China's progress in instituting reforms, opening up to and integrating itself with the world economy have pushed China-Asia relations into a new stage. Clearly, this has also brought opportunities and challenges for ASEAN in general and for Vietnam in particular. With the rise of China, ASEAN needs to be more active in finding solutions to difficulties and challenges ahead. A stronger ASEAN would play a more important role in the region. To consolidate its own strength, ASEAN must do the following:

- a. Institute reforms and open and increase trade and investment within the region.
- b. Participate and act actively in international and regional organizations to expand relations with other world superpowers to balance China's growing influence in the region.
- c. Unify idea and action to solve problems related to China when they arise. To solve any problems related to China, ASEAN should act collectively rather than individually.
- d. Strengthen ASEAN-China cooperation to share the risk with China.

As China's neighbor, ASEAN always desires to live with a stable China, a developed China, and a China respecting international regulations. ASEAN and China need to have more dialogues to increase mutual understanding. Through dialogues, ASEAN and China can continue to bank on each other, create good conditions for solving contradictions, promote cooperation, and altogether make East Asia one of the most peaceful, dynamic, developing, and prosperous regions in the world.

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