

The Impacts of China's
Accession to the WTO:
Opportunities to ASEAN,
China, and Hong Kong

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China as a New WTO Member

- admitted last November
- not a surprising result
- a web site with lots of information

<http://faculty.washington.edu/karyiu/WTO/links/>

Its Impacts

- no simple answers – a complicated issue
- controversial – different views

Economists' Position

- like the event – a big one: good for evaluating the impacts of trade liberalization
- like the conflicting views: opportunities to write more papers to support either side's views
- need to have more studies and research

China's Position

Why is it important to know about how SE Asia is affected?

- ✓ needs to have good relations with neighboring countries
- ✓ SE Asian countries are important trading partners
- ✓ is going to form a free trade area with ASEAN

Hong Kong's Position

Why is it important to know about how SE Asia is affected?

- ✓ a gateway for SE Asia to China
- ✓ likely to benefit a lot from more trade between China and SE Asia
- ✓ likely to receive more visitors from SE Asia to China and visitors from China to SE Asia

Objective of This Presentation

- to discuss about some of the existing views
- to present some of my views
- to talk about what Asian governments can do to seize the existing opportunities and to explore more opportunities
 - ✓ not all the answers and not conclusive: more studies need to be done
 - ✓ would like opposite views

Concerns about the Impacts

- the “wide elephant” view
- the “competitiveness” view
- the “giant sucking sound” view

The “Wide Elephant” View

- China is a wide elephant, big and powerful
- awake, not sleeping
- wide, difficult to control
- a wrong step may crush a small guy to death

Opposing Views

- In 1998, the sum of GNPs of ASEAN is about half of that of China.
- China is not, or not yet, a very big economic power.
- ASEAN is not a small guy, at least when combined together.
- Chinese strongly and repeatedly expressed their intention to be a good neighbor.
 - ✓ didn't devalue RMB during the financial crisis
 - ✓ very positive about forming a free-trade area with ASEAN

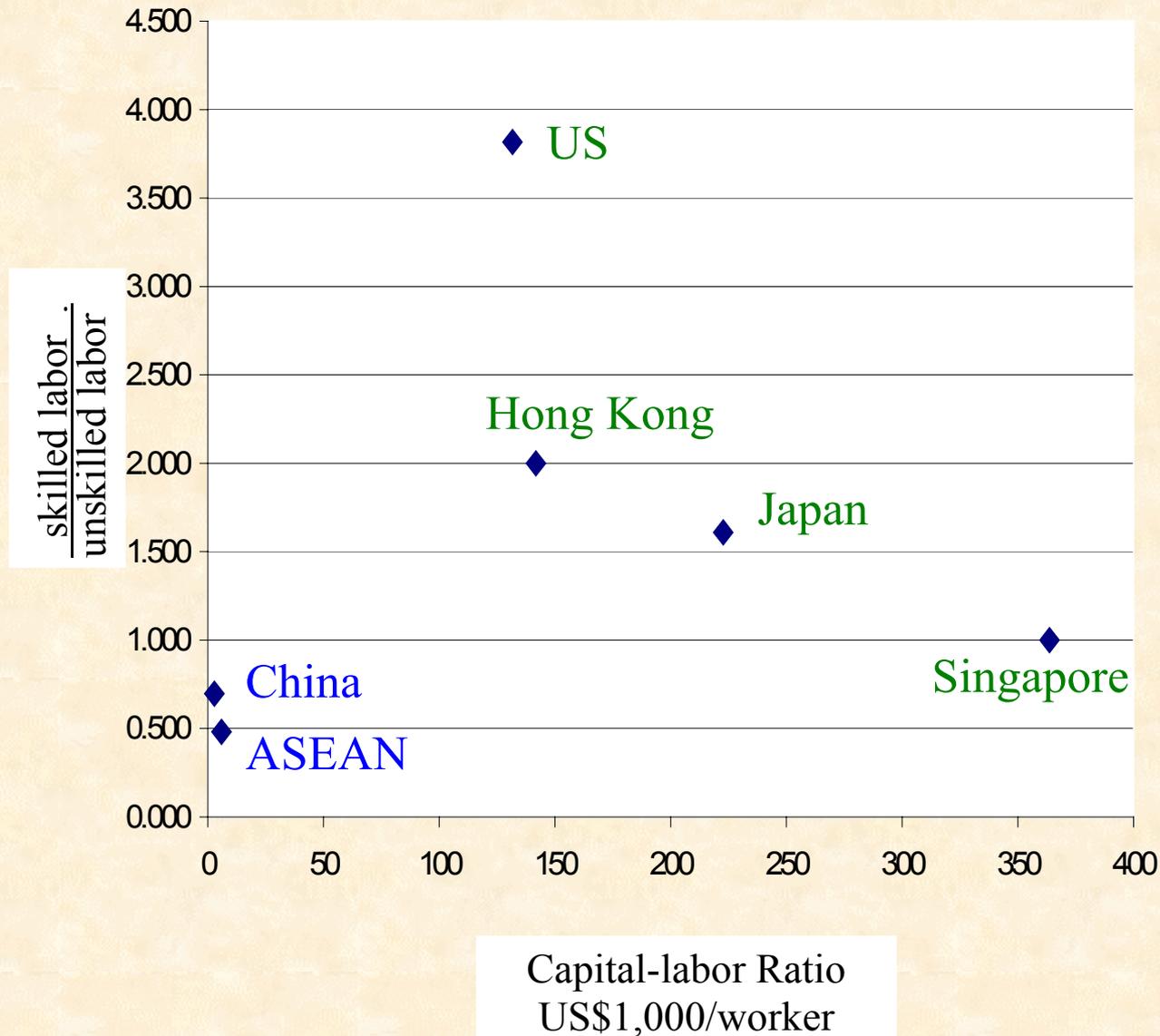
China's Commitments

- hosting the 2008 Summer Olympics
- joining the WTO already shows China's commitment to being a part of the modern world
- Chinese leaders being rational

The “Competitiveness” View

- Trade liberalization enables China to produce more goods for export.
- China and ASEAN have similar factor endowments.
- Their products compete fiercely in many other markets.
- Because China has much lower labor costs, ASEAN’s exports may lose their competitiveness.

Factor Endowments of Selected Countries



Missing Elements

- China and ASEAN export a wide range of products.
- mutual trade between China and ASEAN
- intra-industry trade

A Wide Range of Products

- China and ASEAN countries are at different stages of development.
- Some of their exports do not compete directly with each other.
- How adversely ASEAN's exports are affected is not clear – an empirical question!

ASEAN in China's Trade

- fifth biggest trading partner
 - ✓ ASEAN's export share in China's trade increased from 5.7 percent in 1991 to 6.9 percent in 2000.
 - ✓ ASEAN's import share rose from 6 percent in 1991 to 9.9 percent in 2000.

China in ASEAN's Trade

- sixth biggest trading partner
 - ✓ China's export share in ASEAN's trade increased from 2.2 percent in 1991 to 3.1 percent in 2000.
 - ✓ China's import share rose from 2.9 percent in 1991 to 5.2 percent in 2000.

Intra-industry Trade

- export and import of similar products at the same time
- tends to be beneficial to both countries
- By producing less varieties, firms can produce more, enjoying economies of scale and lowering costs.
- Consumers likely enjoy more varieties.

Thailand-China Intra-industry Trade

Table 3: The Five Thai Industries with the Biggest Indices of Intra-industry Trade versus China, 2000

Industry	M share (%)	E share (%)	Intra-I trade
(72) Iron and steel	6.2686	3.0149	0.9745
(29) Organic chemicals	3.5380	1.9716	0.9519
(55) Man-made staple fibres	3.7515	1.3889	0.8450
(84) Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	22.2760	20.6258	0.7068
(90) Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	1.5416	1.5160	0.6795

Note: The numbers in parentheses are the corresponding HS codes.

Source: *China Foreign Trade Statistics, 2000*, and author's calculation.

What to do?

- a lot of trading opportunities for ASEAN with China
- China is going to lower many of its trade restrictions on imports.
- Instead of worrying about losing competitiveness in other markets, ASEAN should look at and make use of these trade opportunities.

The “Giant Sucking Sound” View

- Both ASEAN and China depend on foreign direct investment (FDI) in the development of their economies.
- ASEAN has been a big recipient of FDI before the financial crisis.
- China has been receiving a lot of FDI, not much affected by the financial crisis.

China as a “Giant Sucker”

- China is already the biggest recipient of FDI among developing countries.
- expected to attract more because of
 - ✓ lower labor costs
 - ✓ huge domestic markets
 - ✓ liberalization after becoming a WTO member
- China’s gain is at the expense of ASEAN.

Two Assumptions in the View

- There is a fixed amount of direct investment to be sent to Asia in the rest of the world.
- This amount has to be allocated between China and ASEAN.

FDI to ASEAN after the Crisis

- Singapore and Hong Kong have the highest ratios of FDI to GDP, due to their open-door policies and favorable economic conditions.
- Malaysia registered a jump of FDI from US\$2 billion in 1998 to nearly US\$4 billion in 1999-2000.

Complementary and Non-Rivalry

- Nissan increased its production in China, but also increased its investment in Thailand and Indonesia.
- ASEAN and China are at different stages of development – foreign investors might choose to invest in both:
 - ✓ to exploit the local markets
 - ✓ to be closer to local suppliers
 - ✓ to take advantage of various features of different markets such as different types of workers

Mutual Investment

- currently insignificant
- In 1999, China's FDI in ASEAN was US\$136 million, less than one percent of the FDI ASEAN received in that year.
- ASEAN is a net but small investor in China.

Opportunities for ASEAN

- attract more investment from China
- invest more in China
 - ✓ production – to take advantage of the low labor costs in China – “If you cannot beat them, join them.”
 - ✓ sales – to take advantage of the huge consumer markets in China

Opportunities for Hong Kong

- can provide services such as banking and insurance as trades between China and ASEAN pick up
- can attract more visitors, including tourists and business people
- can increase its trade and investment relations with ASEAN

Concluding Remarks

- China's opening its economy and entering the WTO offers many new opportunities to ASEAN, China, and Hong Kong: trade and investment
- ASEAN: Worries about China as a possible threat do not help, and may cause one to miss many of these new opportunities.
- China: need to lessen ASEAN's worries; the proposed free trade area is a step in the right direction

Concluding Remarks

- Hong Kong: should take the initiative to promote trade and investment relations between China and ASEAN