

China---the stabilizer of Asia economy of 21st century

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Abstract: A few days ago, Britain “Financial Times” said: Europe represents the past of global economy, America stands for the present of global economy, and the future of global economy belongs to the Asian economy leading by China. China has gotten great achievements over the past two decades since the reform and opening up. Experiencing the two economic tests of the financial crisis of Southeast Asian and SARS in 2003, China has already become “stabilizer” of Asian Economy even the world economy, which has been approved unanimously. This article collects and analyses many figures and data to reveal the great role of China in Asian Economy. And the data have proved that China continuous and stable development can offer more opportunities to other countries.

Key words: Asia China Import-Export Investment Stability

1. China's performance in Asia

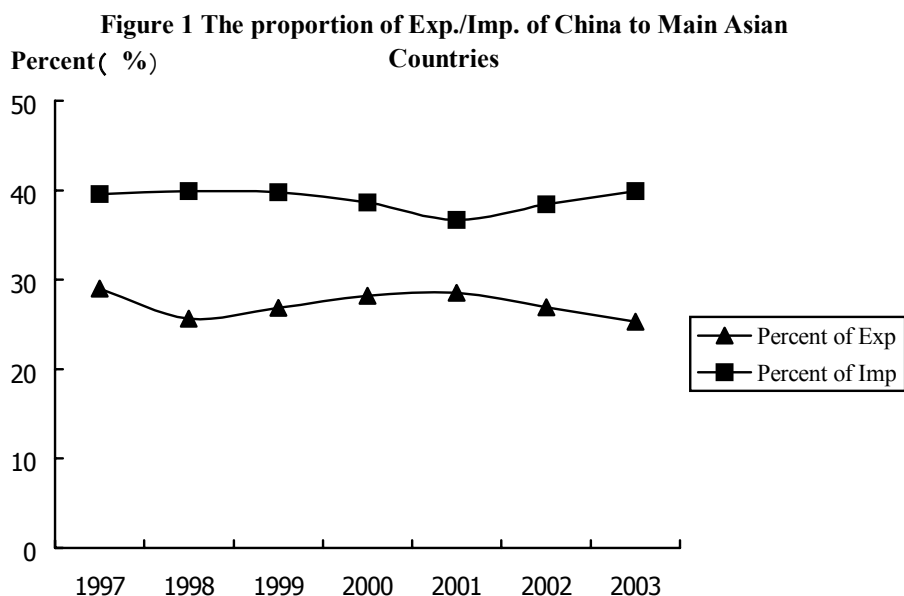
In recent years, the trade, brought-in FDI and the scale of economy of China have risen gradually in Asian market and even in the world. The sustained and high degree of developments in China make the country shares upgrade of international market constantly. According to the WTO statistics, China's turnover of foreign trading raises one ranking from the 6th to the 5th in 2002. And China is the 6th largest trading nation in terms of import turnover in all over the world.

1.1 Import & Export trading

Since the reform and opening up, the trading volume of China has been constantly expanded, and China has become a trading partner in world market that cannot be overlooked.

Someone has point out that China is one of few big markets of 21st century. Every year, China imports goods at several ten billions dollars from such highly developed trading partners as USA and European Union. In 2002, the Sino-America value of trade was 971.8 hundred million dollars, the trading value of the Sino-Europe was 867.6 hundred million dollars. Besides these countries and areas, China has been keeping steady trading relationship with Asia over the past ten years. Some relevant materials show, since 1990s, the bilateral trading of China and Japan, Sino-South Korea, China and Russia, Sino-Korea and China and Mongolia has been steadily growing. The importance of trading among their partners has been promoted day by day. Since 1993, Japan has been the largest trading partner of China, and China has been the second largest trading partner of Japan; S. Korea is the fourth largest trading partner to China, and China is the third largest to S. Korea; China is the second largest of Mongolia. The three countries and regions, Japan, S. Korea and Hong Kong are always among top ten Imp.& Exp. partners.

And there are Southeast Asia areas, which are neighbors of Chinese from generation to generation. These countries and areas become important economy ally of Southeast Asia.



Material Resource: Calculating based on Ref1 and Ref 2 of past years

Note: Calculating method $\text{Exp/Imp percent (\%)} = (\text{sum of Exp/Imp value of China to Japan, Korea S. and ASAN}) / \text{the total Exp/Imp of China}$

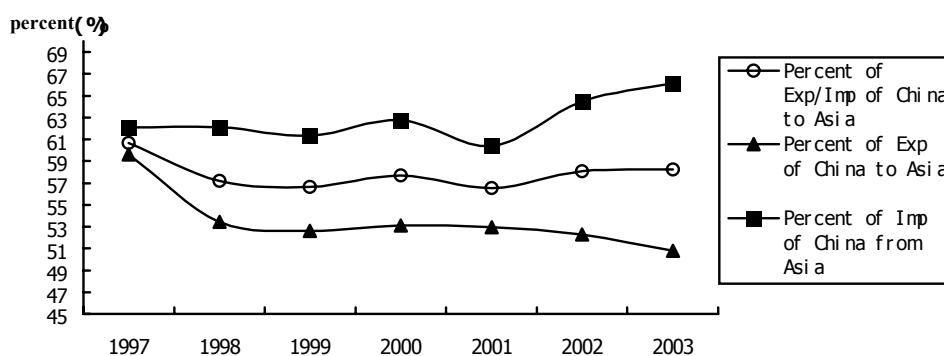
The figure 1 shows the trading contacts of China and Japan, Sino- S. Korea and China and the Association of Southeast Asian Nations.

Figure 1 shows that, from 1997 to 2002, China has been constantly optimizing and adjusting its trading partners. In addition to her traditional old partners (USA and EU), most of trade of goods of China, concentrates still in Asian areas, of which the most representative ones are Japan, S. Korea and the Association of Southeast Asian Nations. China's trading volume with them had been keeping about 45% of total trading volume, and recently 2 or 3 years, this proportion even has reached 55%. These data indicate that China has provided guarantee for the stability of Asian economy, China is stable "big customer" which the Asian countries can depend on.

During the Financial Crisis of Southeast Asia, China, with her outstanding behavior, has won trust and favorable comments from Asian countries and become the Asian stable market approved unanimously.

After this, a lot of Asian countries including China have already realized that they must strengthen the economy exchanges and set up firm economy alliance in the area, and that only do this, could they correspond together to the crisis happening suddenly. The variation tendency in figure 2 has explained this change too.

Figure 2 The Exp/Imp of effect of China on Asia



Material Resource: Calculating based on Ref1 and Ref2 of past years

Note: Calculating method $\text{Exp/Imp percent (\%)} = (\text{sum of Exp/Imp value of China to Japan, Korea S. and ASAN}) / \text{the total Exp/Imp of China}$

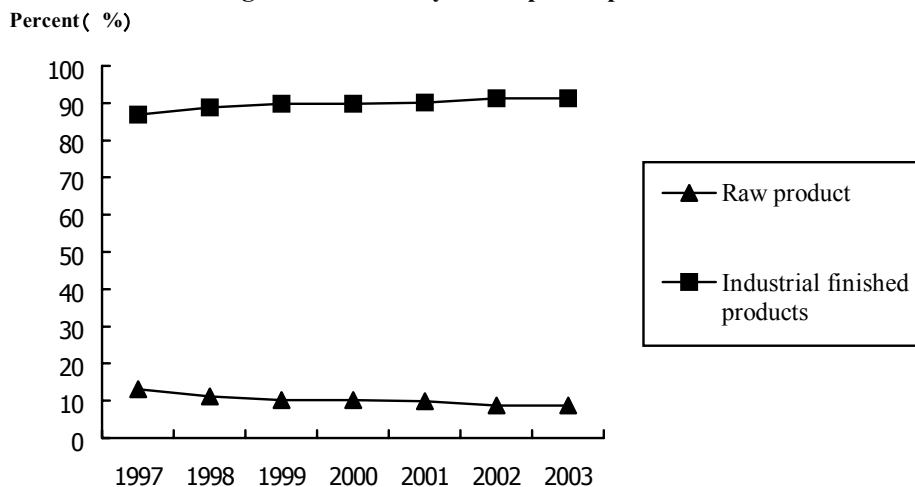
The figure 2 indicates that the trade volume between China and the rest of Asia has always been a quite great proportion. In Asia, China has function that can't be underestimated. Especially by the end of the 1990s, China "contributed" half of its trade volume to Asia, which accounted for over half of its total trade, even reached 60.7% in 1997, which has played an important role on the stability of economy and trade of Asia. As the influences of financial crisis of Southeast Asia, China's export to the rest of Asian country has appeared gliding in a short time, and in the following few years, it is always about 50%. But we can know from the picture above, within the past several years, China's importing proportion has been more than 60% of its total import volume, which offer the most reliable guarantee for the trading development of other Asian countries and areas. And in 2002, the import & Export between China and Asia accounted for 63% of China's trade turnover. Just as MorganStanly's chief economist, Stephen Rochy, said: "About 40% of China's import comes from adjacent countries and regions, which indicates that

China has already become the engine of economic growth of Asian-Pacific.

As for the goods structure, China changes its old situations of exporting mainly labor-intensive products, with its economic quickly developing, China industrial structure and its Imp.& Exp. structure are adjusted time to time, and the proportion of the industrial manufactured goods has been improving constantly.

During the middle and later of 1990s, the country had greatly carried structure adjustment on industrial. Economist of many countries all believe that China have already become a new developing industrialized country. From the high growth of production capacity of industry, we can see the trend of the changing. At present, from industrial raw materials such as steel and chemical fiber, motorcycle, to household appliances including washing machine, refrigerator, air conditioner and color TV sets, China is the first producing country over the world. The production of PC machine and ancillary equipment, developed sharply recently, is only inferior to USA and Japan and rise to the top third in the world. Which is the reason for that China is known as the “World Factory”. The progress of industrialization is the struts strengthen of these changes demonstrated in the figure 3.

Figure3 Commodity makeup of Exp of China

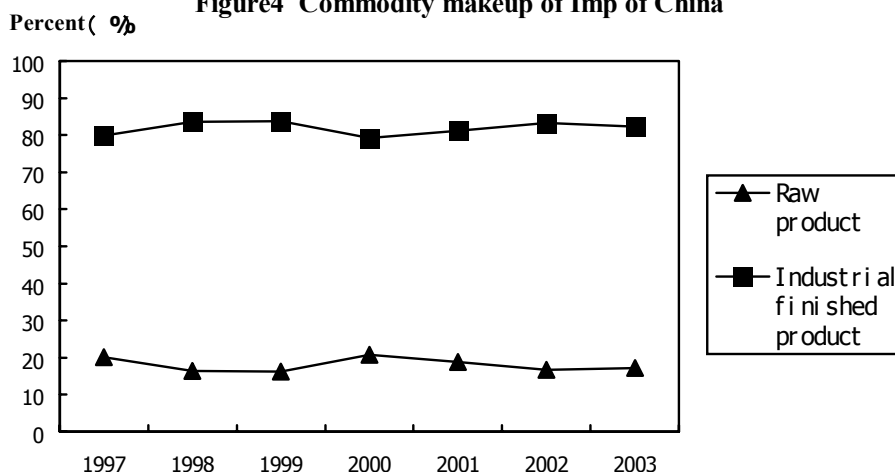


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Meanwhile, with the enhancement of the national economy strengthen and the improvement of the disposable income of the people, the demand coming from consumers of various levels (from our government, enterprises to individuals) for foreign commodity increases. And some consuming goods, known as middle and top ones before, such as automobiles, cameras, laptop computers and etc., become ordinary items of biggest consuming market in the world.

These enormous changes of demanding structure is also influencing the mix of import of our country please see figure 4 as following.

Figure4 Commodity makeup of Imp of China



Material Resource: www.mofcom.gov.cn

1.2 The investment absorbed

Since the early 90s, China has become the largest FDI inflow country among developing countries. The trend will still be continued after entering into 21st century. Through researching the causes, we find out that it is the most important factor that China enters the WTO. A more open and transparent market environment will attract more investment into China.

Before the 1990s, the Asian countries absorbing foreign capital concentrated on Southeast Asian area. Entering the 1990s, especially after the economic crisis of Asia, the absorption of FDI of the Association of Southeast Asian Nations slowed down to some extent. But in 2000, China absorption of FDI exceeded the growth of the year before 2000, and the disparity was expanded. In recent years, the foreign capital companies' shifts to China accelerate. It is because there are immense domestic market and the ratio of performance to price in China. Looking forward the future, China competing advantage in absorbing FDI won't change in a short time. Through absorbing FDI actively, China has been changing its exporting products' structure. The export of engineering goods developed over the past ten years, such as household appliances, computer, electronic element and motorcycle, is the change brought by the investment absorbed.

Roxy thinks: China offers two big chances for the world. The first one is that China offers a sub-contract market of low cost and high efficiency for high quality products; the second is China offers a potential market with 1,300 million people for the world. Unless the crisis takes place to the financial market or economy in China, certainly I do not hope to see that, otherwise, there are more trans-corporations regarding China as their strategic choice.

Like goods trade, Japan, S. Korea, the Association of Southeast Asian Nations and Hong Kong of Asia invest their most capital to China. The general tendency, no matter the amount of direct projects or investment, is rising all the way.

The data, announced at Japan financial province Website and Japan trade-promoting Union Website, show that, in 2002, there are more than 25,000 Japan enterprises investing in China, and about US\$3.64 billion dollars put in China markets. Up to the end of 2002, there are 25,147 items added-up to China direct investment, and the contractual value is US\$49.53 billion and US\$36.34 billion was already put in the Chinese market.

The S. Korean investment to China has been experienced four stages: exploring, failing, renewing and increasing quickly. In 2002, S. Korea' 4008 investment projects was approved to established in China, valuing US\$5.282 billion in contract, and actually put US\$2.721 billion in the Chinese markets. Now, China has already become the most preferable one of S. Korea' investment markets. The total investment turnover from S. Korea is always keeping at 45% of the general investing turnover from overseas to China.

Table 1. S. Korea's investment to China vs. abroad

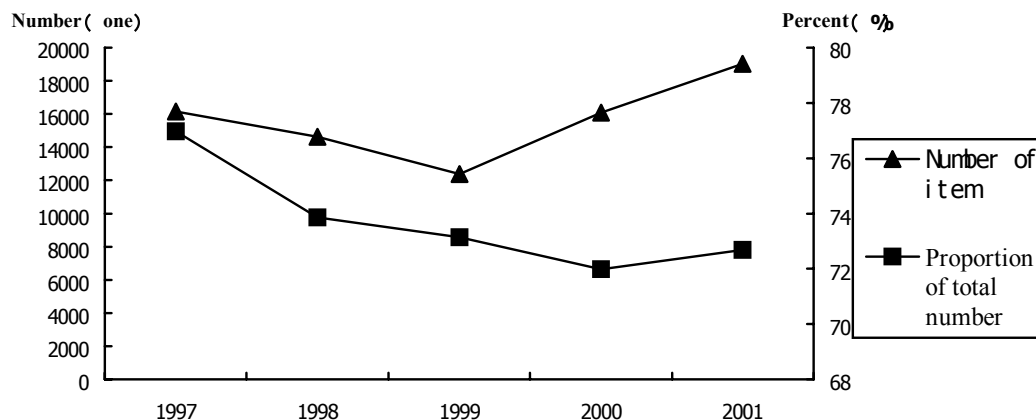
Unit: Hundred million dollars

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total	12.19	12.62	23	30.72	42.49	32.30	38.95	25.49	32.73	43.80
To China	1.19	3.74	7.23	10.43	13.58	21.42	18.03	12.75	18.76	19.73

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The annual report, published in 2002 by the Bank for International Settlements, pointed out, China economy increases quickly and incorporates with international economy day by day, which makes its influence larger and larger on the areas of Asia. In 1991, China doubled her shares in Asian GDP and the total exporting turnover, and the shares reached 17% and 20% respectively in 2002. We can find from the data provided above, the Imp & Exp. trade accounts for 40% always, so there is little space to promote the foreign trading between China and Asian areas. Under this situation, it will develop new trading chances for investors to attract the investment of Asian areas. Thus, the majority of the foreign investment flows into China instead of other Asian areas. And the tendency of the investment value of Asian countries and areas to China is rising, although it falls some time. We can get the tendencies of these years from picture 6&7. In 2001, China achieved a new high value of FDI agreement projects from Asia; it was US\$40.5 billion, accounting for 58.63% of the total value. The number of FDI projects China signed with Asia has always been maintaining above 70%, even reached 76.79% in 1997, and it was 16,164. These simple data have stated the heavy reliance on China from Asian countries and areas.

Figure5 Asian contratual FDI number to China vs. The total number to China

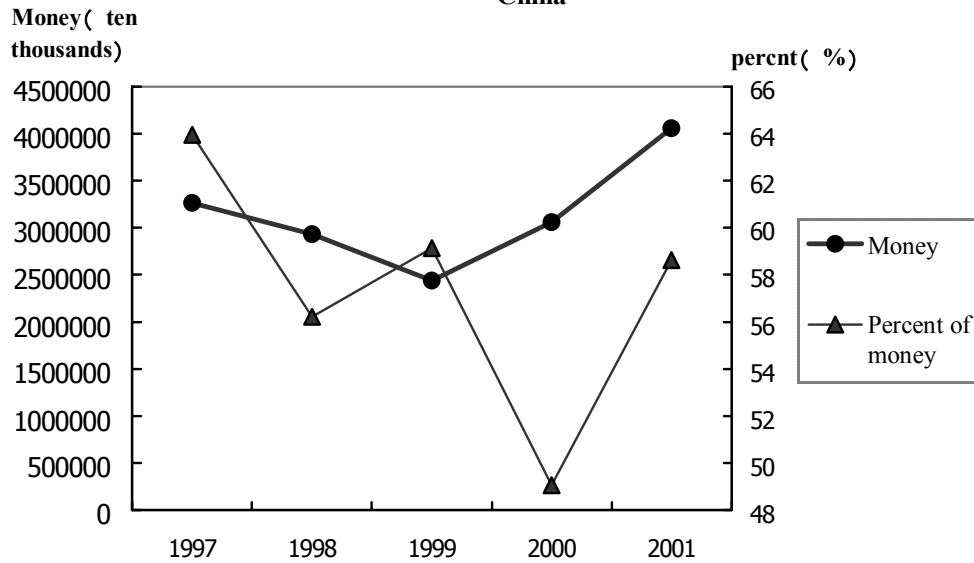


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Calculating Method: Percent (%)= Asian countries' investment contractual number to China/The total

investment contractual number to China

Figure 6 Asian investment contractual money vs. total item money to China



Material resource: www.fdi.gov.cn

Calculating Method: Percent (%)= Asian countries' investment contractual value to China/The total investment contractual value to China

2. The positive role of China to Asian economic stability

2.1 China is a positive anticipator of area economic cooperation

Nowadays, the contact among the global regional economy groups and themselves are becoming strengthened. Asia is not an exception. Strengthening cooperation, promoting development and realizing win-win are the only way to emerge and revitalize Asia. And these thoughts have already been the common understanding of Asian countries. The 10+3, Association of Southeast Asian Nations and China, Japan and Korea S., and APEC of the Asia-Pacific area are in different economy developing level, but these organizations of economy are all striding forward the blueprint delineated. China is playing an irreplaceable role in different organizations.

At the meeting of Association of Southeast Asian Nations, China claimed to join “the Agreement of friendship and cooperation of the Southeast” formally. China, as a non-Southeast country, joining the agreement enhanced the mutual trust, and marked that the bilateral relation between China and Association of Southeast Asian Nations had stepped a new height, and which has positive meaning to the peace and the stability of local politics and economy. Goh Chok Tong, Singaporean Premier thinks: “this has shown the trust between China and Association of Southeast Asian Nations”. A series of concrete suggestions have been put forward at the meeting, such as the annual volume of trade of both sides strive for and reach 100 billion dollars by 2005, a yearly “China-ASAN” exhibition be hold at China Nanning from 2004, China will give more investment to river Meigong and etc., all these show that China has sent out the convinced signal of the stability and developing of Asian areas, and China has been supplying the Asia great markets and wonderful developing opportunity.

The top 3 countries in Asia, China, Japan and Korea S., have published, “joint declaration of

advancing the tripartite cooperation” together. This is a file with important significance. The declaration thinks the cooperation of China, Japan and Korea S. has good growth momentum. And to coordinate and make plan on their cooperation, and make research about setting up free trade zone, these three countries determined to establish “tripartite committee” as soon as possible. All these show that the cooperation among the three countries entered a new era. What is the most important is that some has researched about establishing East Asia free trade zone including China, Japan, Korea S. and Association of Southeast Asia Nations, which will have more members and trading turnover. And if this comes to true, there will be tripod along with EU and Northern America Free Trade Zone, and it will become an important regional economic system.

2.2 China is the driver in the economic gaining-in of Asian region

On the “Boao Asia Forum”, chief economist of MorganStanly, Stephen Rochy pointed out that China will become more and more the center of Asia economy. He said, according to the statistic method of IMF, the contribution rate of china economy to the increase of the global has reached 12.7 percent in 2003, and Japan is 7.1 percent, India is 4.8 percent. China has become the engine of Asia economy.

Actually, the other Asian countries pay much more attention to the economic relationship with China at the present. They have noticed the chances that China fast-developing economy brings to them, and hope to share the mutual benefit of China economic growth.

As a big country in Asia, China maintains her own stability and economic development, which is a great contribution to Asia. However, we find China not only keeps her own stability and prosperity these years, also she is proactive in promoting regional economic cooperation and helping the economic growth. The New York Times Comments: “All that Asia want to sell, China will buy. And those include petroleum, natural gas and aluminum. China large markets and scale of purchasing offer peace and coexist everyone needs the foundation.” In recent years, China has gradually been growing into a largest demand-centre in Asia, and it gives other Asian countries wide market. From January to October of 2003, China import turnover from East Asia increased by 42.8%. Thus, China has become the 6th top trading partner of ASAN, the 2nd top exporting market of Japan and Korea S., and the top one trading partner of Singapore replacing the USA.

“The Forecast of Asian development (new edition)”, announced recently by Asian Development Bank, believes: it is estimated that the economy of the Asian-Pacific area will increase by 6.1% in 2004, and the main basis is the continuous and powerful growing---Expected to be close to 8% at present, and the situations of some countries in Asia, especially Singapore and Thailand, will be greatly improved. An annual economic publication of the Asian Development Bank, analyzing and predicting the tendency of Asian-Pacific regional economy, has great confidence in the economic growth of Asia in the following year, and even adjusts Asian economic growth rate from 5% to 6.1%, depending on its enough confidence in China economy after SARS.

Ivor Ali, chief economist of Asian Development Bank, said: “The main reason of Asia keeping good situation includes the improvement of global economy prospect, China stable macroeconomic management and powerful economic growth, and the growth of trade in the area.”

Ali thinks, the most positive factor is that begins to serve as the role of trade engine in the area, especially that China wins USA and becomes the very largest partner of Korea S. this year. In the first 7 months of 2003, S. Korea’s export to China increased by 47%.

2.3 China is the main investor in Asian area

As we all know, China begins its opening to the outside world from “introducing”, and relies mainly on “introducing” for a long time. And certainly, this is absolutely essential. If we don’t introduce fund, technology, management and talent in foreign countries, we can’t improve and strengthen our economic technology and practices. Through the development in these years, our economic technology has been improved greatly, and we have got some competing advantage in technology, producing management and talent, and we have already possessed the primary condition of “walking out”. In his speech at “international investment forum in 2002” of 6th investment and trade negotiation meeting of China, Shi Guangsheng said, while continuing “introducing” positively, China is accelerate implementing “walking out” strategy, encouraging Chinese enterprises with good conditions to develop projects contract oversea, to make an investment in a factory, and to exploit natural resources in cooperation. After entering WTO, with the gradual opening up of Chinese market, other members of WTO will also open their market and offer investment facility to Chinese enterprises, so these can supply preferable advantage for Chinese enterprises to “walk out” and develop transnational investing

It is reported, by the end of June 2002, our country had invested and set up 6,758 non-financial organizations outside the border. The total contractual investment value is 13.2 billion dollars, and there are 10 billion dollars put in the overseas market. We have signed foreign contracted project valued US\$105.3 billion; US\$75.2 billion have been paid.

The result of the annual national competitiveness in World Economic Forum (IMD) announced shows, the stock actual rate of the foreign direct investment of China will be 34.78% in 2002, Hong Kong of China is 24.85%, and Japan and Korea S. are 7.85% and 7.52%, and China mainland ranked the top one in 12 sample countries of Asia.

As the nearest neighbor of China, Association of South-east Asian Nations becomes the first destination of Chinese enterprise’s “walks out” strategy. Only 2000, there are 56 investment projects of Chinese enterprise in the ASEAN countries, 170 million dollars of agreed capital, put into 120 million dollars actually. The director of “Beverage giant” group of China said our government hopes that the Chinese enterprise moves towards the world, So our group determine to walk out too. The first place we choose is Southeast Asia. Because there are many Chinese people in this region, they know the Chinese culture. Some observers point out, in the past dozens of years, first the Japanese company, Then a S. Korean enterprise, carry on a large amount of investment to the manufacture of Association of South-east Asian Nations in succession. Expect that the Chinese enterprise will follow this kind of mode of making the investment, during 20 years in the future, Hopeful to carry on enormous investment to Association of South-east Asian Nations, brands of China become the famous brands of the area after one year.

3. Conclusion

During the last two decades, since the economic revolution and opening up of Chinese market, its economy has been developing speedy, and its scales of foreign trade and foreign investment have been expanding quickly. Thus, the Chinese role in the world economy has been becoming more important; and China holds a key point of the balance in the developing and stability of Asian economy. China is great trading partner to Asian main countries, especially to Korea S., Japan and ASAN. The speedy developing of China economy drives the demand

increasing of resource raw product (such as energy, semi finished products and raw and processed materials) and components and half finished products of some engineering and electricity products. The enlargement of importing of China provides a wide market and favored chance to the exporting of other Asian countries' commodity. According to the report from Australian Foreign Trading Ministry, China in becoming the main market of Asian countries. On the "product line" of Asian area, China's activities becomes necessary. Strengthened Chinese industries offer new opportunities to Asian region; China has been another great economic impetus of Asia following Japan. The rising of China's economy catalyzes the economic development of the whole Asian area. Factually, the developing conditions of many Asian countries are in order, which owes partly to the swelling of China market. China has very important significance to the prosperity and stability of Asian economy.

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