



TOWARDS A RETURN OF INDUSTRIAL POLICY?
ARTNet SYMPOSIUM
25-26 JULY 2011
ESCAP, BANGKOK

China and the GMS: Interdependence of Investment and Industrial Policies

**Presented at: ARTNET SYMPOSIUM, UNCC,
Bangkok**

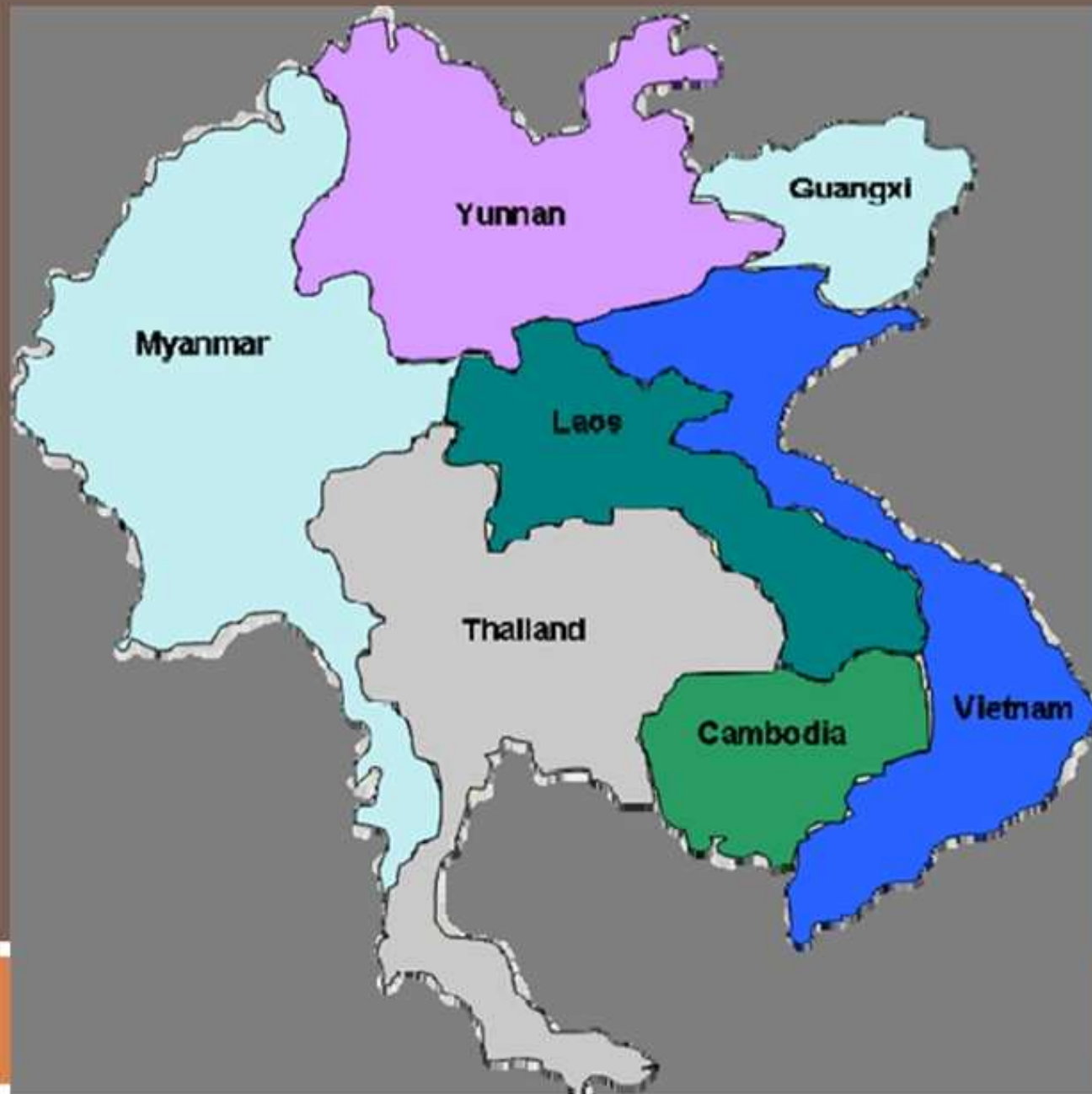
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What is this paper about?

1. China's growing interest in the Greater Mekong Sub-Region.
2. Why Chinese firms are investing outside China?
3. How China stands to gain from this decision?

Greater Mekong Sub-Region (GMS)

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China's Interest in the GMS

- ⌚ Protectionist measures against China
- ⌚ Higher input cost in China
- ⌚ Appreciating, and a volatile Renminbi
- ⌚ Political dominance in South China Sea

Protectionist Measures Against China

“The main risk is that G20 members will continue to cede ground to protectionist measures, even if gradually, particularly as unemployment continue to rise.”

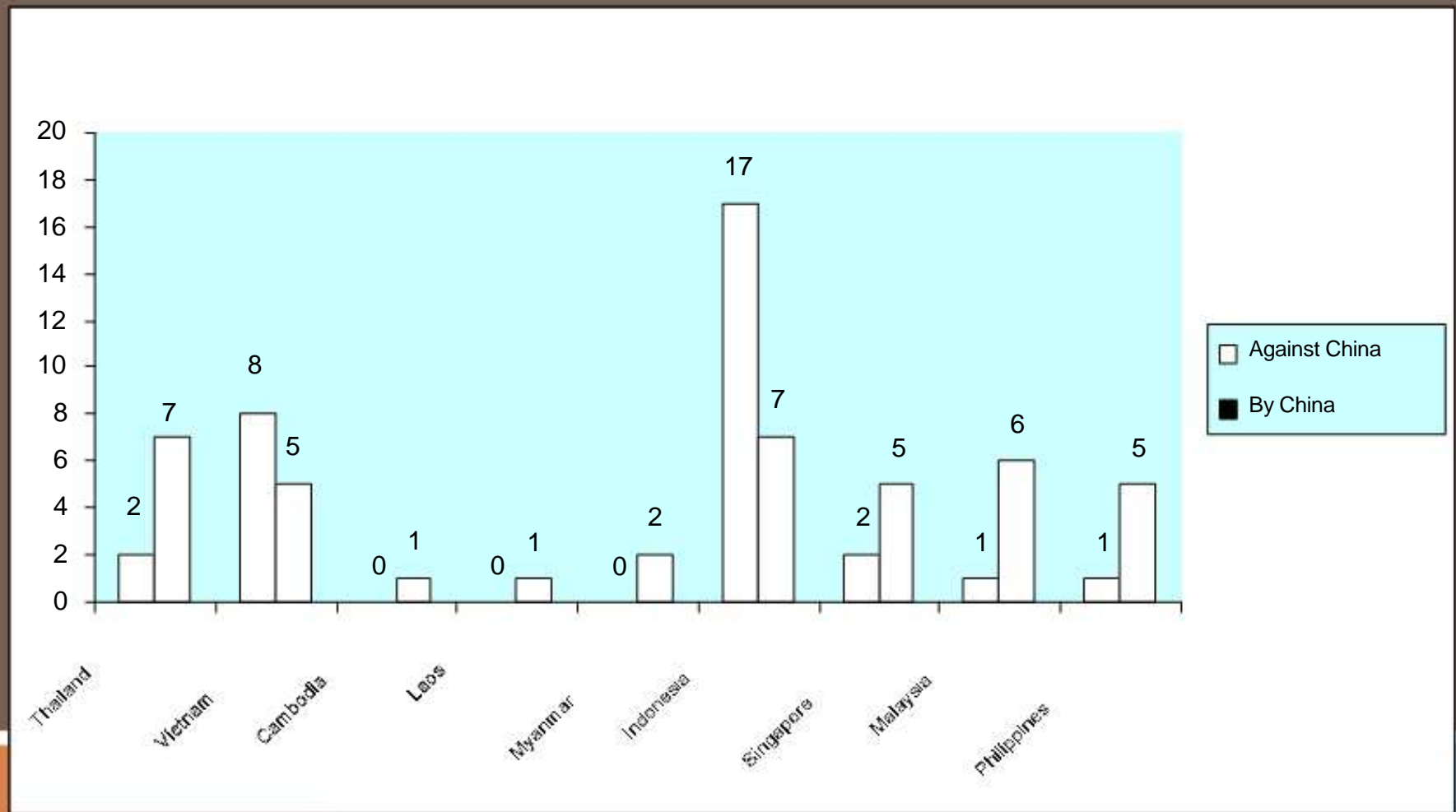
Source: G 20 Report on Trade and Investment Measures 2009, pp. 6.

Non-Tariff Barriers (since November 2008)

	China	Thailand	Viet Nam	Cambodia	Laos	Myanmar
India	35	17	7	4	0	5
Russia	51	29	13	0	0	0
Brazil	20	3	5	1	0	0
France	17	7	4	0	0	0
Germany	18	5	3	0	1	1
Indonesia	17	14	10	2	1	4
UK	17	6	3	1	0	0
USA	9	3	3	1	1	0
Italy	15	6	3	0	0	0
South Korea	8	6	4	2	0	2
Japan	5	4	2	0	0	1

Source: Global Trade Alert, November 2010

Number of Measures Against, and By China (since November 2008) ⁷



Source: Global Trade Alert, November 2010.

Examining the Trade Dynamics: China, and the GMS 5 (Figures are in Billion US \$)

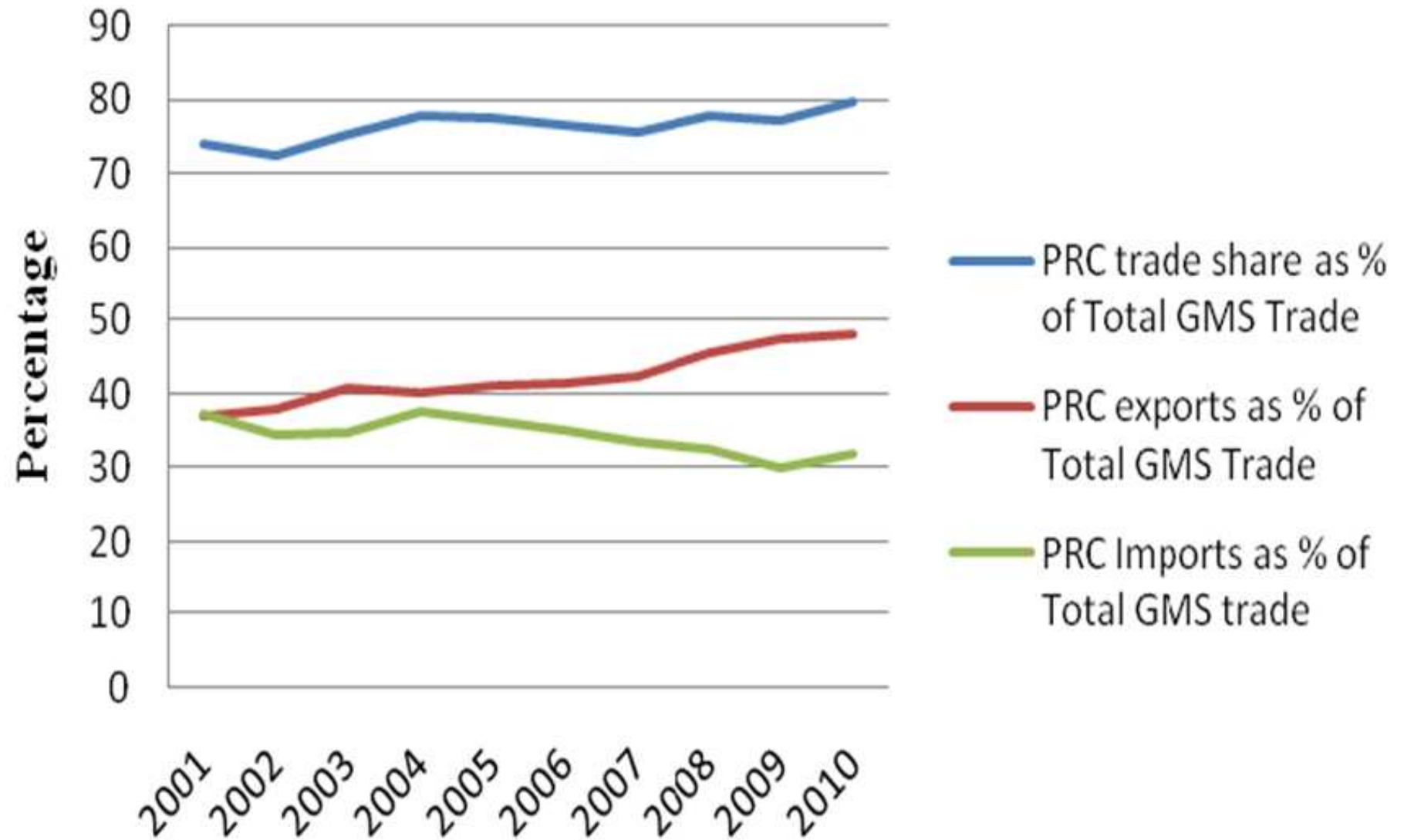
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Year	Exports by PRC to GMS 5	Exports by PRC to ROW	Exports by GMS 5 to PRC	Exports by GMS 5 to ROW
2000	4.5	244.7	4.5	82.5
2001	4.9	261.2	4.4	79.9
2002	6.1	319.5	5.2	84.8
2003	8.3	429.9	7.8	97.5
2004	11.6	581.8	10.2	118.6
2005	15.0	746.9	12.7	136.9
2006	19.3	949.6	15.4	164.8
2007	26.7	1193.4	19.0	194.5
2008	34.1	1396.6	21.6	229.3
2009	33.2	1168.5	21.9	200.5
Annualized Growth	24.9	19.0	19.2	10.4

Source: United Nations Commodity Trade Statistics Database.

China and the GMS Trade

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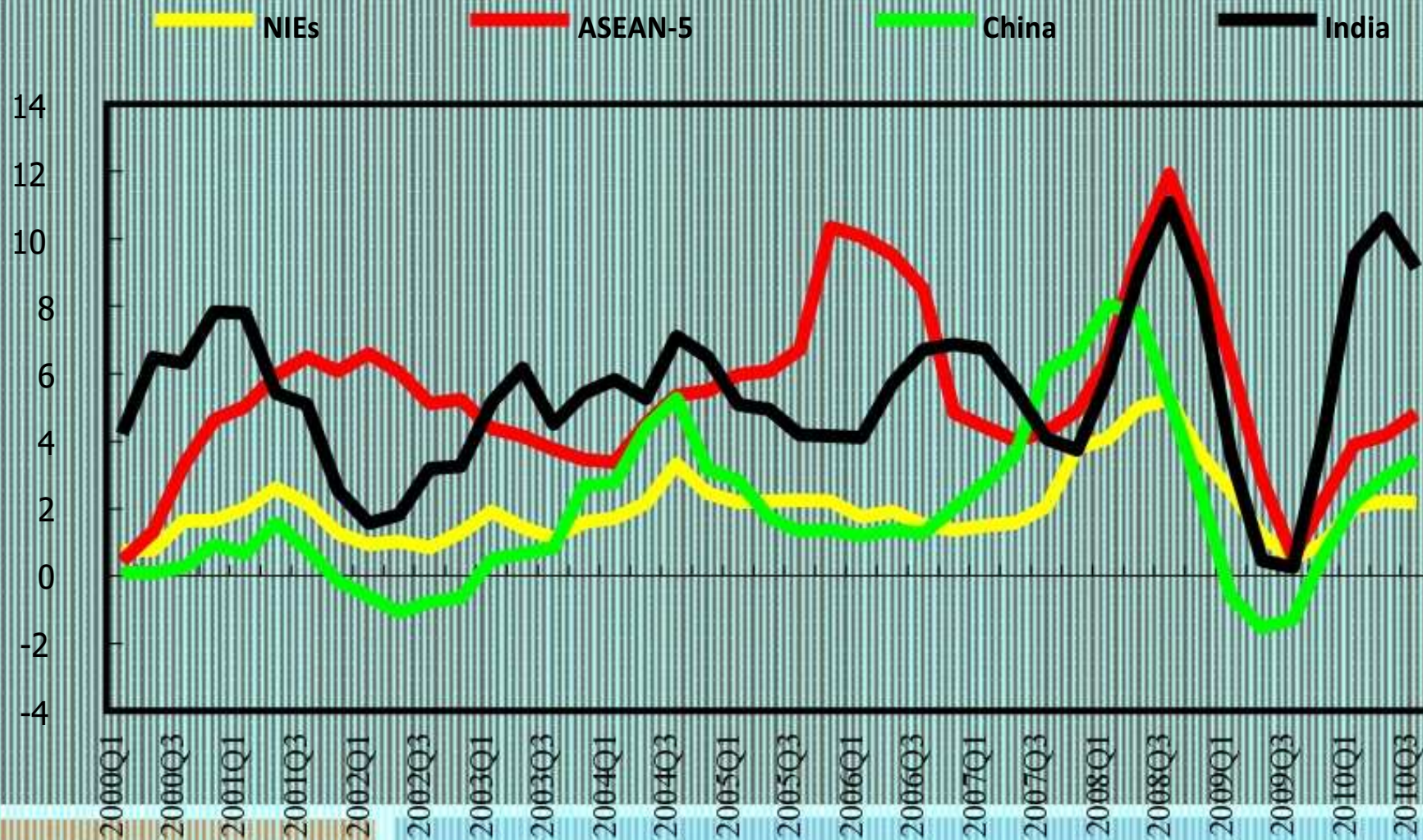


Higher Input Cost

- ⌚ Measured on year to year basis, as of November 2010, labor costs has gone up by 21 percent, and home price by 7.7 percent.
- ⌚ Annual average wage Rates for Cambodia, Laos, and Viet Nam are US\$ 600, US\$ 434, and US\$ 1350, respectively.
- ⌚ The corresponding figure for China is around US\$ 2000 (Devonshire-Ellis, 2010).

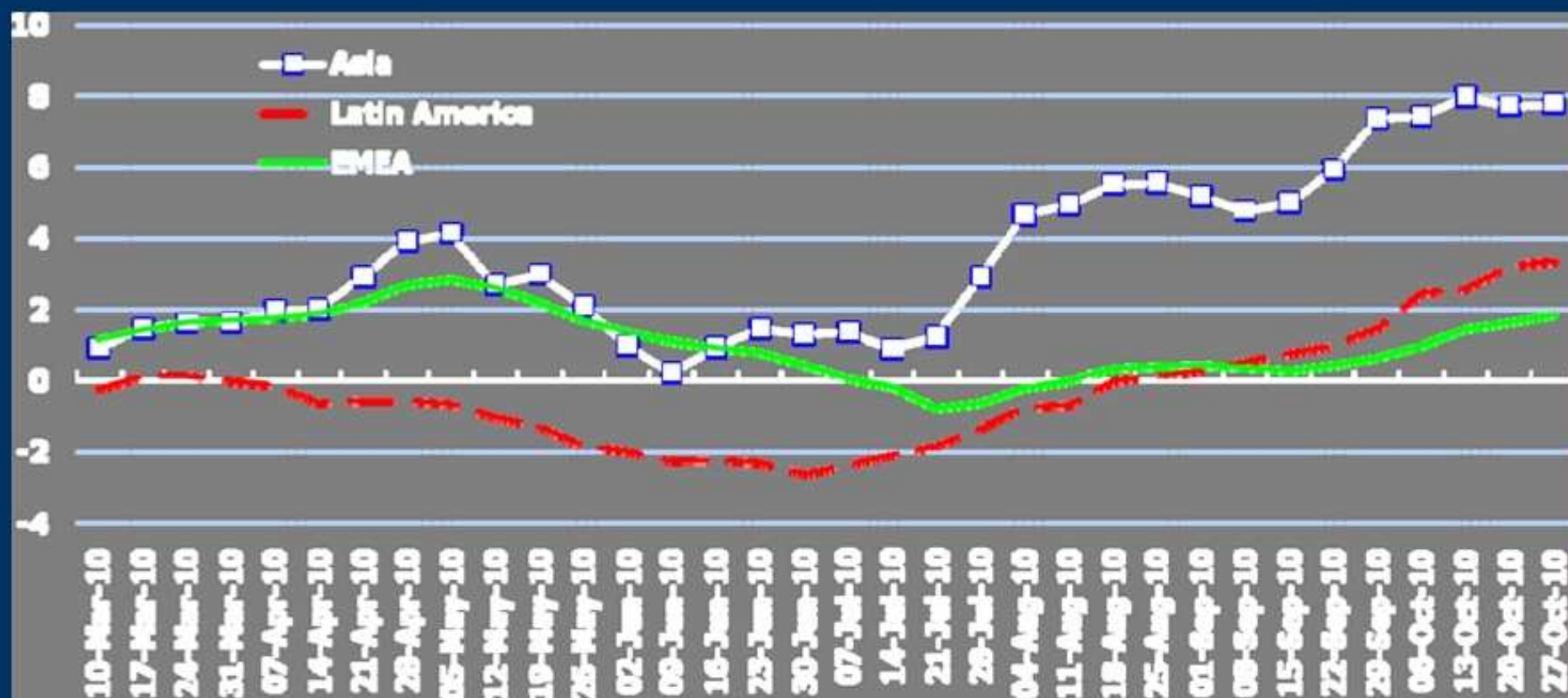
Inflation in Asia (Excluding Japan): Headline Consumer Price (Year on Year Per Cent Change)

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Source: International Monetary Fund (IMF) Regional Economy Outlook, October 2010.

Emerging Market Equity Funds Flow (Billions of US \$; 12 months rolling window)

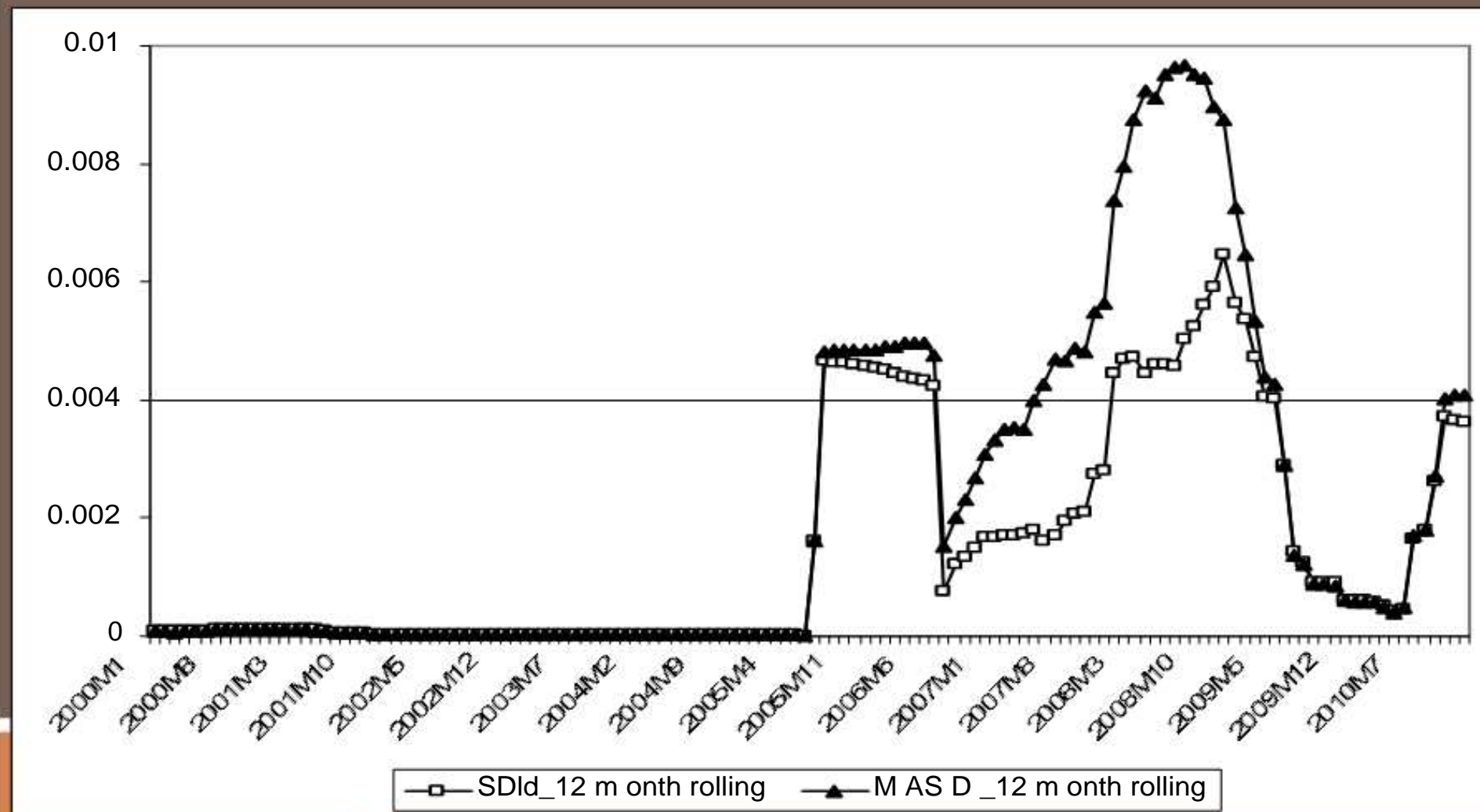


Source: EPFR Global.

Volatile Exchange Rate

- ⑤ Chinese exchange rate has shown volatility in recent years, especially after, July 2005, when it was allowed to float.
- ⑤ The currency appreciated by about 20 percent against the US dollars over the three subsequent years.
- ⑤ Rise in interest rates in China has hasten this inflow.

Volatility of RMB-Dollar Exchange Rate



Other factors?

- ⑤ Political Dominance
- ⑤ Access to Bigger Market
- ⑤ Balanced Regional Growth
- ⑤ Captive Resources

Investment and Trade (2000-2009)

China → Thailand (Average annualized growth of 22%)

- ⑤ Office machines and automatic data processing machines; telecom and sound equipment; and electrical apparatus, contributing to 30% of exports value

Thailand → China (Average annualized growth of 21%)

- ⑤ Office machines and apparatus; electrical apparatus; and crude rubber; contributing to 35% of exports value.

Investment and Trade (2000-2009)

China → Viet Nam (Annualized average growth of 30%)

- ⑤ Textile Yarn Fabrics; Iron and Steel; Road Vehicles; and petroleum products contributing to 35% of exports value.

Viet Nam → China (Annualized average growth of 13%)

- ⑤ Coal coke; petroleum products; and crude rubber, contributing to 50% of exports value.



Investment and Trade (2000-2009)

China → Cambodia (Annualized average growth of 21%)

- ⑤ Textile Yarn Fabrics, contributing to 58% of exports value.

Cambodia → China (Annualized average growth of 5%)

- ⑤ Cork wood and cork wood manufactures; garment, contributing to 60% of exports value.

Investment and Trade (2000-2009)

China → Laos (Annualized average growth of 30%)

- ⑤ Office machines and automatic data processing machines; telecom and sound equipment; road vehicles; and electrical apparatus, contributing to 50% of exports value

Laos → China (Annualized average growth of 57%)

- ⑤ Cork wood and cork wood manufactures; non-ferrous metal; metaliferous ores; contributing to 50% of exports value.

Investment and Trade (2000-2009)

China → Myanmar (Annualized average growth of 18%)

- ⑤ Office machines and automatic data processing machines; telecom and sound equipment; road vehicles; and special industrial machines, contributing to 50% of exports value

Myanmar → China (Annualized average growth of 20%)

- ⑤ Cork wood and cork wood manufactures, contributing to 60% of exports value.

Complementarities in Trade and Investment

- ⑤ Laos, and Cambodia, has been supplying power to China.
- ⑤ China is investing in Myanmar with money, and technical expertise, to build infrastructure.
- ⑤ China is exporting raw materials such as textiles to Cambodia, and Myanmar, which are re-exported as garments.
- ⑤ Evidence of intra-industry trade among China, Thailand, and Vietnam.

Conclusion

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- ⑤ Continuous price rise in China, protectionist measures against Chinese exports, and appreciating value of Chinese Renminbi are motivating Chinese firms to move into GMS.
- ⑤ A fall in trade costs, complementarities in trade and investment relation, have resulted in greater synergy in trade and investment relation.

Questions and Discussion

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THANK YOU!!!