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China's Economic Ties with ASEAN: A Country-by-Country Analysis

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Executive Summary

The Association of Southeast Asian Nations (ASEAN) is a pillar of the postwar order in East Asia. Founded in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand, principally to coordinate security policy during the Cold War, the bloc was significantly enlarged in the 1990s, when it took in low-income countries Burma (Myanmar), Cambodia, Laos, and Vietnam. At the height of the 1997–1998 Asian financial crisis, China and ASEAN forged a closer relationship. The two sides subsequently launched a currency swap initiative (the Chiang-Mai Initiative) and began negotiations on an ASEAN-China Free Trade Area (ACFTA), which entered into force in 2010.

Today, the complex relationship between China and ASEAN combines aspects of cooperation and tension. China's aggressive posturing in the South China Sea illustrates its increasing naval capabilities and willingness to deploy them, whether to secure offshore hydrocarbons and fisheries or to exact leverage over its smaller neighbors to the south. At the same time, China's rise exerts a powerful pull on ASEAN economies, from component manufacturing in Malaysia to banking in Singapore and copper mining in Burma. At once a manufacturing hub and an important source of capital, China has the potential to buoy the ASEAN economies, but also to create structural imbalances that damage the region in the long run.

This paper assesses China's relative significance for individual ASEAN economies. It starts with an overview of China's trade and investment relations with ASEAN as a whole. The paper then provides descriptive statistics on each ASEAN country's composition of foreign trade by product and top trade partner, as well as foreign direct investment (FDI) flows. It also provides a brief analysis of commercial disputes and bilateral cooperation with China.

While each country's relationship with China is unique, trade and investment data reveal some noteworthy trends:

- China, the world's second-largest economy, consistently appears among the top five trade partners for ASEAN members. But the degree of dependence on China as a source of exports, imports, or both varies. Where wealthier ASEAN countries have a diverse set of trading partners, poorer ASEAN countries depend heavily on China, especially as a source of imports. Vietnam's share of Chinese export and import flows with ASEAN has increased substantially, while Singapore's share has dropped.

- Since full enactment of the ACFTA in 2010, ASEAN's goods trade with China has gone from surplus to a deficit that reached $45 billion in 2013. Thailand and Malaysia were the only countries that ran a goods trade surplus with China in 2013. The causal link between ASEAN's deficit and ACFTA merits scrutiny.

- Manufactured goods, particularly machinery and electronics, are still a major source of ASEAN-China trade, illustrating the extent and durability of regional production networks. In terms of manufactures imports from China, Cambodia is the exception, due to its outsize reliance on Chinese textiles. On the export side, Indonesia and Burma are outliers, as their shipments to China are concentrated in fuels and minerals.

- Although its outbound direct investment has been rising rapidly, China is still marginal to ASEAN's overall FDI receipts. According to data from China's Ministry of Commerce (MOFCOM), China contributed a mere 2.3 percent of ASEAN's total FDI inflows in 2013. FDI flows are also small relative to China's trade with ASEAN. ASEAN in 2013 accounted for 10.7 percent of China's total trade, but only 6.7 percent ($35.7 billion) of China's global outbound investment stock. Even allowing for the possibility that MOFCOM may be undercounting actual flows (for example, by not factoring in investment originating in Hong Kong), the fact remains China is not yet a major investor in ASEAN.

- Singapore, according to official statistics, is China's major FDI partner in ASEAN, making substantial direct investments into China ($7.2 billion in 2013, or over 6 percent of the world total) and also receiving the lion's share of Chinese FDI to ASEAN (41 percent of stocks by the end of 2013). This likely overestimates actual flows, since Chinese companies may invest in ASEAN via subsidiaries in Singapore. Even so, it is clear that Singapore plays a unique role as a financial hub linking China to ASEAN, in lieu of mature capital markets in the rest of the region.

Overview of ASEAN-China Economic Relations

Trade

ACFTA is part of ASEAN's broader push toward signing preferential trade agreements outside the multilateral framework of the World Trade Organization (WTO), in line with the global proliferation of preferential trade agreements outside the WTO. ASEAN countries have signed dozens of individual free trade agreements (FTAs) within and beyond the Asia region, including with major economies in Europe and North America. Over the past four years, ASEAN has led an initiative to combine five of its individual agreements (with Australia and New Zealand, China, India, Japan, and Korea, respectively) into the so-called Regional Comprehensive Economic Partnership (RCEP). RCEP negotiations were launched in November 2012, and are slated for completion by year-end 2015.

Proponents of RCEP argue it could deepen economic integration in Asia, the region that has been the focal point of global trade growth over the past decade. Detractors counter that RCEP, like ACFTA, is likely to be a shallow agreement amenable to ASEAN's heterogeneous member states, and as such will not make a major impact on regional economic ties. RCEP excludes many of the advanced trade provisions promoted by the United States, such as those governing regulatory convergence, digital goods and services, and intellectual property. Skeptics also argue that despite China's official policy to defer to ASEAN as the leader in regional integration,[1] China may come to dominate the development of RCEP.

Four ASEAN countries—Brunei, Malaysia, Singapore, and Vietnam—are party to the Trans-Pacific Partnership (TPP), a high-standard, "mega-regional" trade agreement the United States is negotiating with 11 other countries (including Australia, Canada, Chile, Japan, Mexico, New Zealand, and Peru) throughout the Asia Pacific region.[2] TPP sets itself apart from RCEP in terms of the scope and depth of its provisions, and does not include China. Although TPP has many purposes, most of which are exclusively economic, it could also have an indirect bearing on the balance of power in the Asia region, in terms of solidifying U.S. partnerships in the face of China's growing influence. The primary challenges to completing a meaningful TPP agreement are Japan's reluctance to open its agricultural sector and the failure of the U.S. Congress to pass a new Trade Promotion Authority (TPA) bill to grant the president fast-track negotiating authority.

The majority (75.8 percent) of ASEAN's trade in 2013 was with countries outside the bloc, a testament to the region's trade openness.[3] China was the largest individual trading partner (14 percent share of ASEAN trade), while the United States was the fourth largest (8.2 percent share).[4] Several ASEAN members have established integrated supply chains with both China and Northeast Asia, largely as a function of China's emergence as the world's manufacturing and assembly hub. ASEAN's share of China's trade with the world has also been increasing (see Table 2).

Although ACFTA suggests mutually beneficial economic relations, the reality is that since full enactment of the agreement in 2010, ASEAN's goods trade with China has gone from surplus to a $45 billion deficit in 2013 (see Table 1). In terms of individual trade partners, it is notable that Vietnam's share of Chinese export and import flows with ASEAN has increased substantially over the past decade, while Singapore's share has dropped.

Table 1: China's Bilateral Trade with ASEAN Countries

(US$ billions)

		US$ million				Share of ASEAN (%)			
		1998	2003	2008	2013	1998	2003	2008	2013
ASEAN Total	Exports	10,919	30,935	114,139	244,133	100%	100%	100%	100%
	Imports	12,589	47,350	117,012	199,402	100%	100%	100%	100%
	Balance	(1,670)	(16,415)	(2,873)	44,731	100%	100%	100%	100%
High-Income									
Brunei	Exports	560	34	130	1,704	5.1%	0.1%	0.1%	0.7%
	Imports	0	311	83	87	0.0%	0.7%	0.1%	0.0%
	Balance	560	(277)	47	1,617				
Singapore	Exports	3,901	8,873	32,325	45,886	35.7%	28.7%	28.3%	18.8%
	Imports	4,226	10,486	20,092	29,969	33.6%	22.1%	17.2%	15.0%
	Balance	(325)	(1,613)	12,233	15,918				
Middle-Income									
Indonesia	Exports	1,172	4,482	17,210	36,947	10.7%	14.5%	15.1%	15.1%
	Imports	2,462	5,754	14,387	31,479	19.6%	12.2%	12.3%	15.8%
	Balance	(1,290)	(1,272)	2,823	5,469				
Malaysia	Exports	1,594	6,142	21,383	45,941	14.6%	19.9%	18.7%	18.8%
	Imports	2,675	13,998	32,131	60,068	21.2%	29.6%	27.5%	30.1%
	Balance	(1,080)	(7,856)	(10,748)	(14,128)				
Thailand	Exports	1,170	3,829	15,521	32,738	10.7%	12.4%	13.6%	13.4%
	Imports	2,423	8,829	25,636	38,518	19.2%	18.6%	21.9%	19.3%
	Balance	(1,253)	(5,000)	(10,116)	(5,780)				
The Philippines	Exports	1,499	3,094	9,088	19,836	13.7%	10.0%	8.0%	8.1%
	Imports	517	6,309	19,508	18,205	4.1%	13.3%	16.7%	9.1%
	Balance	982	(3,215)	(10,420)	1,631				
Low-Income									
Burma	Exports	n.a.	908	1,979	7,349	n.a.	2.9%	1.7%	3.0%
	Imports	n.a.	170	645	2,810	n.a.	0.4%	0.6%	1.4%
	Balance	n.a.	738	1,335	4,540				
Cambodia	Exports	n.a.	295	1,095	3,411	n.a.	1.0%	1.0%	1.4%
	Imports	n.a.	26	39	361	n.a.	0.1%	0.0%	0.2%
	Balance	n.a.	268	1,056	3,050				
Laos	Exports	n.a.	98	268	1,721	n.a.	0.3%	0.2%	0.7%
	Imports	n.a.	11	149	1,021	n.a.	0.0%	0.1%	0.5%
	Balance	n.a.	87	119	701				
Vietnam	Exports	1,024	3,180	15,139	48,599	9.4%	10.3%	13.3%	19.9%
	Imports	217	1,455	4,343	16,886	1.7%	3.1%	3.7%	8.5%
	Balance	806	1,725	10,797	31,714				

Source: China Ministry of Commerce, via CEIC database.

Table 2: China's Trade with ASEAN and the Rest of the World

(US$ billions; share %)

	Imports			Exports			Total		
	2003	2008	2013	2003	2008	2013	2003	2008	2013
World (US$ bn)	$ 413	$1,132	$1,949	$ 438	$1,429	$2,211	$ 852	$2,561	$4,160
ASEAN	11.46%	10.34%	10.23%	7.06%	7.99%	11.04%	9.19%	9.03%	10.66%
Non-ASEAN Asian economies	*45.07%*	*36.88%*	*32.06%*	*39.22%*	*30.19%*	*32.07%*	*42.06%*	*33.15%*	*32.06%*
Hong Kong	2.70%	1.14%	0.83%	17.41%	13.35%	17.41%	10.27%	7.95%	9.64%
New Zealand	0.25%	0.17%	0.42%	0.18%	0.18%	0.19%	0.21%	0.17%	0.30%
Taiwan	11.95%	9.13%	8.03%	2.06%	1.81%	1.84%	6.86%	5.05%	4.74%
Korea	10.45%	9.91%	9.39%	4.59%	5.17%	4.13%	7.43%	7.27%	6.59%
Australia	1.77%	3.21%	5.05%	1.43%	1.56%	1.70%	1.59%	2.29%	3.27%
Japan	17.96%	13.32%	8.33%	13.56%	8.13%	6.80%	15.70%	10.42%	7.52%
China's Largest Trade Partners	*21.06%*	*18.94%*	*19.12%*	*37.54%*	*38.15%*	*31.97%*	*29.54%*	*29.66%*	*25.95%*
United States	8.20%	7.20%	7.83%	21.10%	17.66%	16.67%	14.84%	13.03%	12.52%
EU	12.86%	11.74%	11.29%	16.44%	20.50%	15.30%	14.70%	16.63%	13.42%
Rest of World	*22.40%*	*33.84%*	*38.60%*	*16.19%*	*23.67%*	*24.92%*	*19.20%*	*28.16%*	*31.33%*

Source: China Ministry of Commerce, via CEIC database.

Foreign Investment

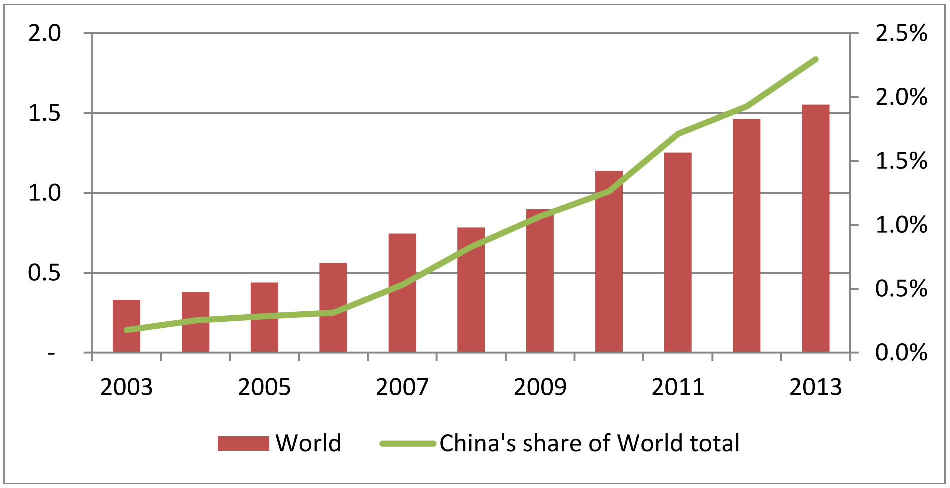
China is becoming a prominent outbound investor, making use of its large foreign exchange reserves and seeking to reduce its excessive levels of investment in the domestic market. Chinese global outbound investment flows grew from just over $34 billion in 2003 to $525.7 billion in 2013.[5] The combination of rising outbound FDI and a slowdown in foreign investment into China has led to a rapid reduction in China's net FDI surplus, from $46 billion in 2006 to $11 billion last year.[6] At the same time, global FDI in ASEAN has been on the rise, increasing from just over $300 billion in 2003 to over $1.5 trillion in 2013 (see Figure 1).

However, China contributed a mere 2.3 percent of total FDI into ASEAN in 2013. According to MOFCOM, ASEAN accounted for 6.7 percent of China's global outbound investment stock at year-end 2013, a total of $35.7 billion. The actual rate is likely quite a bit higher when taking into account investments not notified to the Chinese authorities in order to avoid administrative red tape; investments originating in Hong Kong; reinvestments by companies already based overseas; and other technical issues regarding investment reporting.* For several countries, the value of certain deals is already much larger than the totals reported by MOFCOM. Even so, it is fair to say Chinese outbound investment in ASEAN is still early-stage.

* China's Ministry of Commerce (MOFCOM) publishes FDI figures that differ from the investment flows recorded by the State Administration of Foreign Exchange (SAFE), a subsidiary of the central bank that publishes China's international investment position (IIP) on a quarterly basis. MOFCOM's FDI statistics have been problematic because they are based largely on administrative project approvals and often only track the first (predominately Hong Kong), and not final, destination for outflows. For further discussion, see Daniel Rosen and Thilo Hanemann, *New Realities in the U.S.-China Investment Relationship* (Rhodium Group, April 29, 2014). *http://rhg.com/notes/newrealities-in-the-us-china-investment-relationship*.

Figure 1: World and Chinese FDI Stock in ASEAN

(US$ trillions; share %)



Source: Chinese FDI in Asia figures from China Ministry of Commerce, via CEIC database; world FDI in ASEAN from the United Nations Conference on Trade and Development statistics (UNCTAD STAT).

In many respects, Singapore is an outlier. As Table 3 demonstrates, the city-state has received the lion's share of Chinese FDI (41 percent by the end of 2013). As a global financial powerhouse with a sophisticated economy, it is also the only ASEAN member that (according to official Chinese statistics at least) has made substantial investments in mainland China. In 2013, Singapore FDI in China was $7.2 billion (over 6 percent of the world total). Table 4 shows cumulative FDI in China by ASEAN members for the 2002–2013 period. With the exception of Singapore, ASEAN investment flowing into China is very small, and in the case of low-income countries, barely noticeable.

Table 3: Stock of Chinese FDI in ASEAN Countries

(US$ millions)

	2003	2008	2013
High-Income			
Brunei	$ 0.1	$ 7	$ 72
Singapore	$ 165	$ 3,335	$ 14,751
Middle-Income			
Indonesia	$ 54	$ 543	$ 4,657
Malaysia	$ 101	$ 361	$ 1,668
Thailand	$ 151	$ 437	$ 2,472
The Philippines	$ 9	$ 87	$ 692
Low-Income			
Burma	$ 10	$ 500	$ 3,570
Cambodia	$ 59	$ 391	$ 2,849
Laos	$ 9	$ 305	$ 2,771
Vietnam	$ 29	$ 522	$ 2,167

Source: China Ministry of Commerce, via CEIC database.

Table 4: Estimated Cumulative Utilized FDI to China, 2002–2013

(US$ millions)

		share of World total	share of Asia total
High-Income			
Brunei	$ 2,535.7	0.24%	0.37%
Singapore	$ 47,152	4.39%	6.91%
Middle-Income			
Indonesia	$ 1,290	0.12%	0.19%
Malaysia	$ 4,082	0.38%	0.60%
Thailand	$ 1,761	0.16%	0.26%
The Philippines	$ 1,845	0.17%	0.27%
Low-Income			
Burma	$ 74	0.01%	0.01%
Cambodia	$ 141	0.01%	0.02%
Laos	$ 39	0.00%	0.01%
Vietnam	$ 37	0.00%	0.01%

Source: China Ministry of Commerce, via CEIC database.
Note: Cumulative data are the sum of annual data and do not reflect disinvestment or current value.

Future Prospects

The coming years could mark a turning point in the ASEAN-China relationship. ASEAN members are shifting from complementing to competing with China's economic activity, expanding their exports to Western markets while attracting foreign investment from multinational corporations that in the past turned to China as their preferred site for low-cost manufacturing. China's real wages are increasing, in tandem with an aging society, a byproduct of the One-Child Policy. In parallel, ASEAN's developing members will experience the rise of a consumer-oriented middle class, which could shift economic activity from export-oriented manufacturing toward domestic consumption.

ASEAN could also become a leading service provider to China's rising middle class. Tourism is an important source of services exports for many ASEAN countries, particularly Thailand. In 2012 (latest data available) Chinese tourists made up the second-largest group visiting ASEAN countries, totaling just under ten million visitors (10.4 percent of total tourism), while the United States was seventh with just under three million visitors (3.3 percent).[7]

Any benefits from trade must be weighed against tensions in the security realm. China is involved in territorial disputes in the South China Sea with five ASEAN members: Brunei, Indonesia, Malaysia, the Philippines, and Vietnam.[*] At the same time, through new initiatives and institutions, the Chinese leadership has revealed a bold new vision for the Asia Pacific. First, China has spearheaded the establishment of two institutions that might change the calculus for foreign investment in ASEAN: the New Development Bank (NDB), and the Asian Infrastructure Investment Bank (AIIB). The NDB has an initial capital of $50 billion, and may prove to be highly beneficial to developing countries if it provides funding for basic services, emergency assistance, policy lending, and funding to conflict-affected states. The NDB aims to improve electricity, transport, telecommunications, and water and sewage—areas of major shortage in many developing countries.[8] The AIIB will have a mandate to fund infrastructure projects to promote regional connectivity and economic cooperation.[9]

China has a much larger say in the workings of both banks than in other multilateral lending institutions such as the World Bank—which can have far-reaching implications for the future of ASEAN-China relations. Nine ASEAN members have joined the AIIB, with Indonesia, the lone holdout, expected to join soon. Some observers expect the NDB to follow Chinese investment practices and focus less on improving environment, social development, and governance in a lender country—ultimately propagating corruption in countries such as Burma and Cambodia.[10]

China wants to develop two massive, interconnected trade and infrastructure networks: the land-based "Silk Road Economic Belt," stretching from Xi'an to Venice, Italy, and the "21st Century Maritime Silk Road," which swings

[*] For more information, see U.S. China Economic and Security Review Commission, *2013 Annual Report to Congress*, November 2013, pp. 266-269. *http://www.uscc.gov/Annual_Reports/2013-annual-report-congress*.

in a giant loop from Venice through the Indian Ocean, ultimately reaching China's southeastern Fujian Province via the Taiwan Strait. The success of China's plan depends on support from its Asian neighbors, ASEAN in particular. This makes resolving the maritime territorial disputes a pressing matter, and China has been using its vast financial resources to reassure its neighbors and win support. For example, in 2010, China launched the China-ASEAN Investment Cooperation Fund ("CAF"), which has a mandate to support infrastructure projects. And most recently, at the November 2014 China-ASEAN Summit held in Burma, Chinese Premier Li Keqiang announced $20 billion in loans for regional infrastructure development.[11] At the same summit, Premier Li dubbed the next ten years a "diamond decade" for China-ASEAN relations.[12]

At the November 2014 Asia-Pacific Economic Cooperation (APEC) Summit, China also got all APEC members to officially endorse the Free Trade Area of the Asia-Pacific (FTAAP). Although FTAAP demonstrates China's commitment to a free trade area that includes the United States, it is unclear whether China would accede to the high standards the United States has required of its TPP counterparts. Indeed, China's pursuit of FTAAP could detract from U.S. efforts to complete TPP, as most key economies in the region would be involved in both negotiations.

If FTAAP does proceed, China's strategy in those talks could be shaped by the numerous bilateral agreements it is currently pursuing. Whereas ACFTA is a basic trade agreement that does little beyond reducing tariffs and rules-of-origin requirements for goods shipments, China's recent agreements with advanced economies do significantly more. Last year, China completed bilateral FTAs with South Korea and Australia, providing these countries with preferential access to its market in specific areas, such as information technology and retail services.[*] The U.S.-China bilateral investment treaty (BIT) talks, which commenced in summer 2013, could also give some indication to whether and how China will accede to the high-standard provisions under negotiation in the TPP. The China-Canada BIT, signed in September 2012, does not include certain provisions the United States would like to see, such as pre-establishment national treatment of foreign companies entering China.[13]

An emerging domain of ASEAN-China trade, less influenced by trade agreements, is fuel and mineral resources. Singapore, located between the Indian Ocean and Northeast Asia, serves as a hub for the Asian energy market, with substantial port and refinery infrastructure. Indonesia is not a major oil producer, but is able to service China's growing demand for liquefied natural gas, high-quality coal, and biofuels. For several other countries in the bloc, fuels account for a significant share of goods shipments to China; some of these statistics may reflect processed fuels originally imported as crude oil from the Middle East and Africa. The bloc is also home to a range of nonferrous metals, such as nickel and copper, of which China is now the largest consumer. Mining activity is taking place in some of ASEAN's poorest regions, such as Cambodia and Burma.

A key challenge for ASEAN is that it is a very loose agglomeration of countries at different levels of development. For example, the average gross domestic product (GDP) per capita for ASEAN as a whole was $12,254 in 2013, but ranged from Cambodia ($1,008) at the low end to Singapore ($55,182) at the high end (see Table 5). The World Bank classifies Singapore and Brunei as high-income economies, and the remaining eight ASEAN members as developing economies.

The structure of ASEAN economies—measured as either GDP by sector of origin[†] or expenditure GDP[‡]—is also very diverse (see Table 6). For low-income countries in particular, the industrial sector is much less significant than in middle-income countries, while in the city-state of Singapore, the role of services is much greater. As Figure 2 shows, the level of connectivity to global shipping networks also varies widely.

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[*] For more information, see the December 2014 edition of the *USCC Monthly Trade Bulletin*. *http://www.uscc.gov/trade_bulletins*.

[†] The GDP by sector of origin is presented as the percentage contribution of agriculture, industry, and services to total GDP, and will total 100 percent of GDP if the data are complete. Agriculture includes farming, fishing, and forestry. Industry includes mining, manufacturing, energy production, and construction. Services cover government activities, communications, transportation, finance, and all other private economic activities that do not produce material goods.

[‡] The expenditure method calculated GDP by adding together consumption, investment, government spending and net exports. It is the most common method of calculating GDP.

Table 5: GDP per Capita by ASEAN Country

(current US$)

	2003	2008	2013
High-Income			
Brunei	18,542	37,094	38,563
Singapore	23,574	39,722	55,182
Middle-Income			
Indonesia	1,076	2,178	3,475
Malaysia	4,427	8,460	10,514
Thailand	2,212	4,118	5,779
The Philippines	1,016	1,921	2,765
Low-Income			
Cambodia	360	743	1,008
Laos	360	887	1,646
Myanmar	n.a.	n.a.	n.a.
Vietnam	531	1,165	1,911

Source: World Bank.

Table 6: ASEAN Country GDP Composition

	Agriculture	Industry	Services
High-Income			
Brunei	1%	71%	28%
Singapore	0%	29%	71%
Middle-Income			
Indonesia	14%	47%	39%
Malaysia	11%	41%	48%
Thailand	12%	44%	44%
The Philippines	11%	32%	57%
Low-Income			
Burma	38%	20%	42%
Cambodia	35%	24%	41%
Laos	25%	32%	37%
Vietnam	19%	39%	42%

Source: U.S. Central Intelligence Agency (CIA).
Note: Estimates for 2012 or 2013, depending on country.

Figure 2: Liner Shipping Connectivity Index: China, ASEAN, and Major Asian Economies

(2004 maximum average = 100)*

Source: World Bank.

Adding to ASEAN members' economic heterogeneity are their political differences. ASEAN members present a mix of democratic and authoritarian regimes. They are far from achieving the common borders, mutual defense, fiscal pacts, and monetary union that Europe enjoys through the European Union (EU), eurozone, and North Atlantic Treaty Organization (NATO). ASEAN's consensus-based approach to diplomacy—referred to as the "ASEAN way"—often results in agreements that are diluted or ineffectual. This begins to matter more as China's economic and strategic engagement with ASEAN deepens; China prefers to resolve territorial disputes and other difficult issues either bilaterally or through "divide and conquer" tactics. Nonetheless, ASEAN members united in May 2014 to jointly express "serious concerns" about China's aggressive behavior in the South China Sea.[14]

* The Liner Shipping Connectivity Index captures how well countries are connected to global shipping networks. It is computed by the United Nations Conference on Trade and Development (UNCTAD) based on five components of the maritime transport sector: number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in a country's ports. For each component a country's value is divided by the maximum value of each component in 2004, the five components are averaged for each country, and the average is divided by the maximum average for 2004 and multiplied by 100. The index generates a value of 100 for the country with the highest average index in 2004. The underlying data come from Containerisation International Online.

High-Income ASEAN Countries

Brunei

Although Brunei is a small country, it has strategic importance. China has emphasized the millennia-old relationship between the two countries, and has sought to leverage economic ties to secure the Brunei sultanate's backing of Chinese interests in Southeast Asia.[15] Maritime territorial disputes present a challenge to the bilateral relationship, as Brunei and China both lay claim to the Louisa Reef, a small atoll in the South China Sea. However, Brunei's sultanate has not occupied any of the territory and, according to some experts, tends to downplay the issue with Beijing by focusing on multilateral mechanisms for dispute resolution.[16]

Brunei's oil-based economy has created one of the wealthiest populations in the world. The country's nominal GDP per capita ranked 27th in the world in 2013, and fifth in terms of purchasing power parity (PPP).[17] According to World Bank data, from 2003 to 2013, Brunei recorded average real GDP growth of 0.90 percent, akin to advanced economies and far below the overall ASEAN pace. Net exports account for 45 percent of Brunei's GDP, a higher share than either consumption (40 percent) or fixed investment (15 percent).[18] Crude oil and natural gas production comprise 60 percent of Brunei's GDP and more than 90 percent of its exports.[19]

In terms of energy security, Brunei could become a significant provider of oil and gas to China's energy-intensive economy. China became the world's largest net oil importer in 2013, and is actively seeking ways to diversify its imports and secure energy closer to home. Energy shipments from Brunei do not pass through the Malacca Straits, a maritime chokepoint for China-bound shipments from the Middle East and Africa.

Outside the energy sector, the two countries have taken preliminary steps to strengthen the commercial relationship in agriculture. China and Brunei signed a Memorandum of Understanding (MOU) on agricultural cooperation in 2012, and in 2014, Brunei and Guangxi Province inked an MOU to supply halal-certified foods into the Chinese market.[20] The latter agreement reflects China's growing interest in purchasing premium meat products from overseas.

Brunei ran a bilateral trade deficit with China in 2013 after enjoying a surplus for most of the preceding decade (see Table 8). But counter to China's importance for other ASEAN countries, it is not among Brunei's top trade partners, as Table 7 demonstrates. Japan and South Korea, like China major energy consumers, together account for over half of Brunei's total goods exports. Even among import partners, China ranks only fourth, behind Malaysia (21.9 percent), Singapore (19.1 percent), and the United States (11.9 percent). This likely reflects Brunei's exclusion from the regional production networks that form the backbone of China's trade with the ASEAN region.

Table 7: Brunei Top Export and Import Partners, 2013

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 Japan	$ 4,553	39.8%	1 Malaysia	$ 792	21.9%
2 South Korea	$ 1,867	16.3%	2 Singapore	$ 690	19.1%
3 India	$ 864	7.5%	3 US	$ 431	11.9%
4 Australia	$ 836	7.3%	4 China	$ 406	11.2%
5 Vietnam	$ 602	5.3%	5 Japan	$ 209	5.8%
Other	$ 2,725	23.8%	Other	$ 1,084	30.0%
Total	$ 11,447	100.0%	Total	$ 3,612	100%

Source: World Bank.

Table 8: China's Goods Trade with Brunei

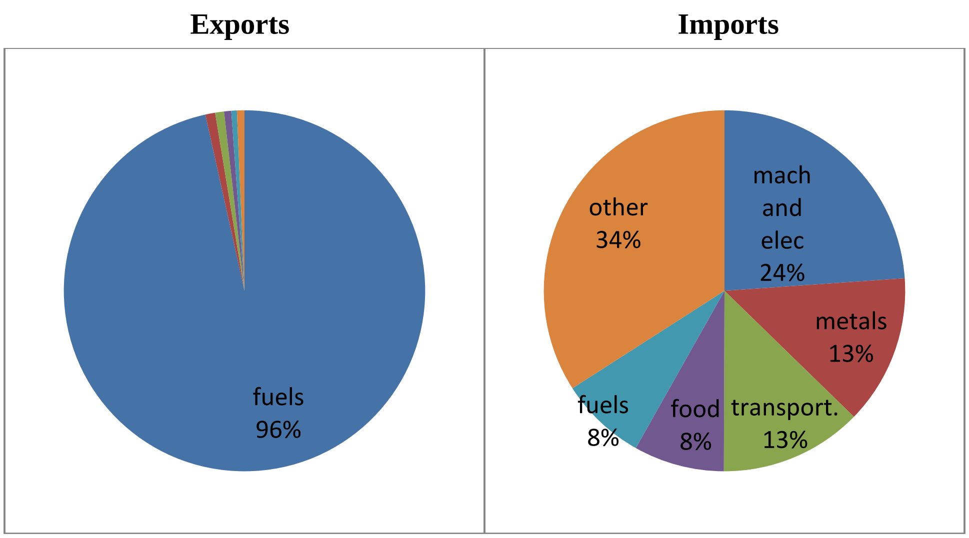
(US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	34	48	53	100	113	130	248	368	744	1,252	1,704
import	311	251	208	215	242	83	282	639	562	356	87
balance	-277	-204	-155	-116	-129	47	-34	-272	183	897	1,617

Source: China Ministry of Commerce, via CEIC database.

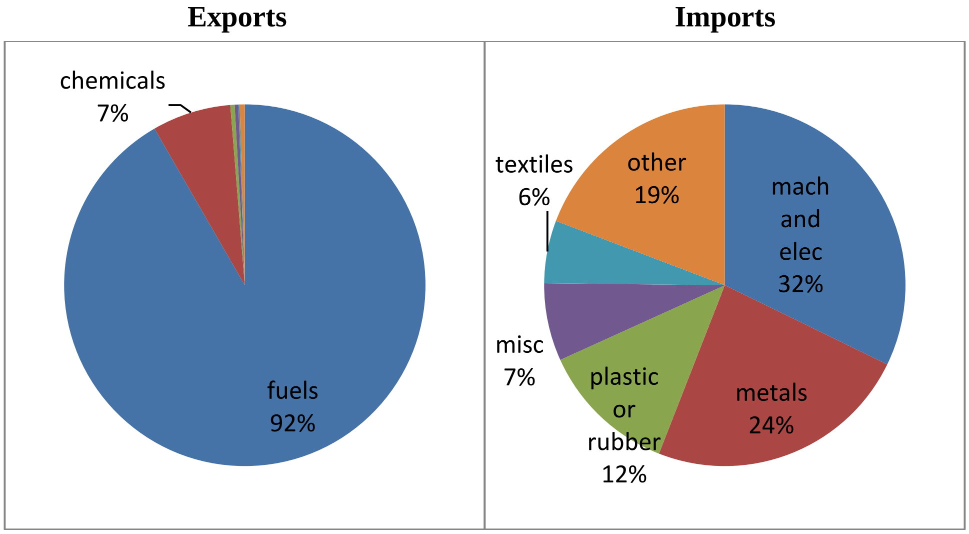
Fuels accounted for 96 percent of Brunei's exports to the world in 2013 (see Figure 3), and likewise, for 92 percent of the country's exports to China. On the import side, Brunei relies disproportionately on China as a source of basic manufactures. The country's top imports from China in 2013 were mechanical and electric goods (32 percent), metals (24 percent), plastic or rubber (12 percent), and textiles and clothing (6 percent). Brunei's imports from other countries include a larger percentage of transport equipment, food, and other miscellaneous goods.

Figure 3: Breakdown of Brunei's Trade with the World, 2013



Source: World Bank.

Figure 4: Breakdown of Brunei's Trade with China, 2013



Source: World Bank.

Chinese data show Chinese FDI in Brunei has increased from $130,000 in 2003 to over $72 million in 2013 (see Table 9). However, Chinese FDI still accounted for less than 1 percent of total FDI in Brunei in 2013. The only investment of note came in February 2014, when petrochemical giant Zhejiang Hengyi Group Co. formed a 70-30 joint venture with Damai Holdings Limited, a wholly owned subsidiary of Strategic Development Capital Fund (SDCF), a Brunei government trust sub-fund to undertake the Oil Refinery and Aromatics Cracker Plant Project at Pulau Muara Besar. According to China's Xinhua news agency, Hengyi Industries is planning the investment, construction, operations and maintenance of an Integrated Oil Refinery and Aromatics Cracker plant on Pulau Muara Besar. The investment for Phase 1 of the project is expected to amount to approximately $4 billion, creating about 780 job opportunities in the country.[21]

Table 9: Stock of Chinese FDI in Brunei

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
0.1	0.1	2	2	4	7	17	46	66	66	72

Source: China Ministry of Commerce, via CEIC database.

Singapore

Like Brunei, Singapore is a small and wealthy ASEAN member. At just over 5.3 million people, it has the bloc's second-smallest population, and with GDP per capita of $55,182 in 2013, well above the World Bank's high-income group threshold. At the same time, Singapore's economy is more dynamic and diversified than Brunei's. Real GDP growth averaged 6.2 percent from 2003 through 2013, among the highest rates in the Asia region.

With a trade-to-GDP ratio around 300 percent, the city-state relies heavily on commerce. It is one of the largest trading centers in the world, as well as an important transit site for energy shipments from the Middle East to Northeast Asia. Singapore's container port is the world's second-largest behind Shanghai.[22] Singapore is a prolific signatory of trade agreements, and was among the first countries to sign a bilateral FTA with China. Inked in 2008, it complemented the ACFTA, to which Singapore is also a party, underscoring the strength of the Singapore-China commercial and diplomatic relationship.[23] At the same time, Singapore has transitioned toward services, which contributed 71 percent of GDP in 2013.[24] Singapore specializes in wealth management and is a leader in human resources, though it still exports certain electronics and chemicals manufactures.

Unlike most ASEAN members, Singapore is a substantial investor in China, a trend that dates back to the early period of China's market opening in the 1980s. Between 2003 and 2013, cumulative Singapore FDI in China stood at $44 billion, accounting for fully 41 percent of all ASEAN investment. In 2013 alone, Singapore invested $7.2 billion, 6 percent of China's total inflows. Singapore is investing in China across various industries: Logistics, finance, electronic information, equipment manufacturing, chemicals, automobiles and motorcycles, consumer services, and pharmaceuticals. As China's industrial activity migrates inland, Singaporean firms are also shifting their investments toward western Chinese cities such as Chengdu and Chongqing.[25]

Singapore is collaborating with China on important infrastructure projects as well. In 2007, for example, the two countries initiated the Sino-Singapore Tianjin Eco-city project, intended to serve as an example of sustainable, eco-friendly urbanization.[26] They have collaborated to build up Datansha Island in the provincial capital of Guangzhou, and to develop the Sino-Singapore Guangzhou Knowledge City, which seeks to attract knowledge-based industries to China.[27]

Though Singapore keeps a diverse portfolio of trade partners, China is its second-largest export and largest import partner (see Table 10). Malaysia is the other major trade partner, largely as a function of geographic proximity. The United States is Singapore's fifth-largest export partner, accounting for nearly 6 percent of exports, valued at $23.9 billion.

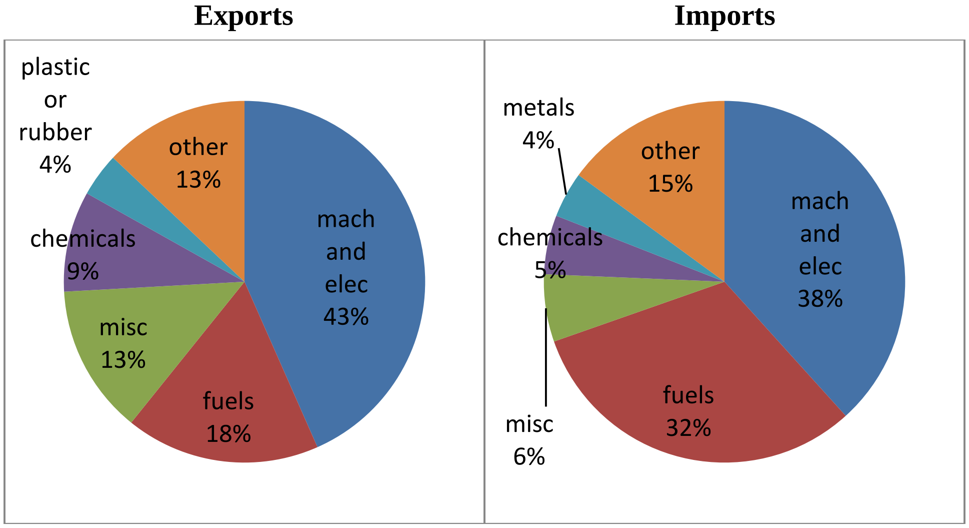
Table 10: Singapore Export and Import Partners, 2013

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 Malaysia	$ 49,912	12.2%	1 China	$ 43,689	11.7%
2 China	$ 48,369	11.8%	2 Malaysia	$ 40,829	10.9%
3 Hong Kong	$ 45,829	11.2%	3 US	$ 38,856	10.4%
4 Indonesia	$ 40,546	9.9%	4 Other Asia	$ 28,987	7.8%
5 US	$ 23,945	5.8%	5 South Korea	$ 24,030	6.4%
Other	$ 201,649	49.2%	Other	$ 196,625	52.7%
Total	$ 410,250	100%	Total	$ 373,016	100%

Source: World Bank.

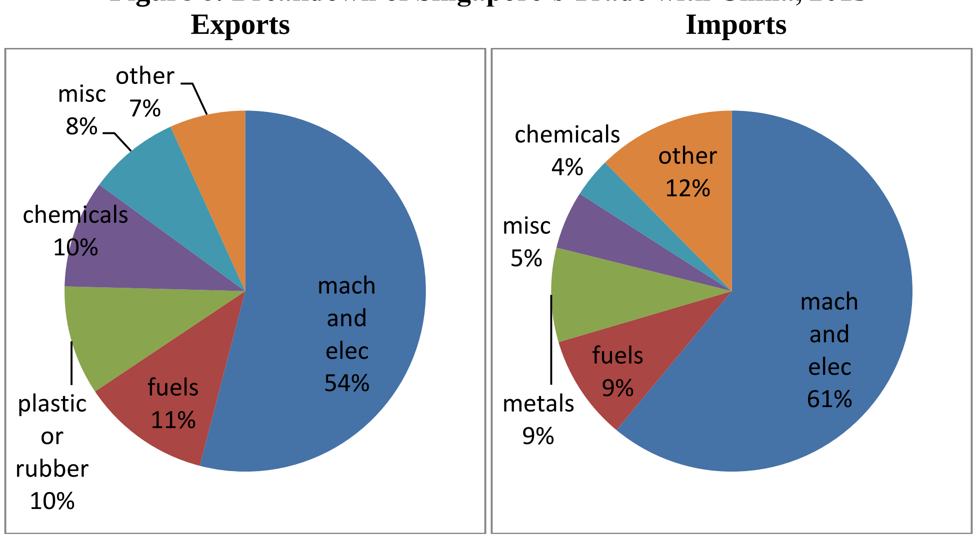
Due to Singapore's role as an energy transit hub, about one-third of its imports and exports consist of fuels and petrochemicals (see Figure 5). These products, however, play less of a role in Singapore's trade with China, over half of which—on both the export and import sides—consists of machinery and electrical products (see Figure 6), mirroring Singapore's overall trade composition.

Figure 5: Breakdown of Singapore's Trade with the World, 2013



Source: World Bank.

Figure 6: Breakdown of Singapore's Trade with China, 2013



Source: World Bank.

Singapore temporarily reduced its growing goods trade deficit with China during the global financial crisis in 2009–2010. Since then, however, its bilateral deficit has expanded at a rapid rate, to a new high of $15.9 billion in 2013 (see Table 11).

Table 11: China's Goods Trade with Singapore

(US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	8,873	12,695	16,716	23,188	29,680	32,325	30,089	32,374	35,586	40,874	45,886
import	10,486	14,002	16,531	17,675	17,520	20,092	17,737	24,680	27,859	28,517	29,969
balance	-1,613	-1,306	186	5,513	12,159	12,233	12,353	7,694	7,727	12,357	15,918

Source: China Ministry of Commerce, via CEIC database.

As Table 12 shows, from 2003 through 2013, Chinese FDI in Singapore grew from just under $165 million to over $14 billion. Though China still accounted for a fraction of total FDI in Singapore in 2013, the upward trend is impressive, as Chinese FDI in Singapore more than tripled from 2009 to 2013. In addition, it is very likely that some FDI flows registered by Chinese authorities as going to Singapore are actually destined for other ASEAN countries.

Table 12: Stock of Chinese FDI in Singapore

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
165	233	325	468	1,444	3,335	4,857	6,069	10,603	12,383	14,751

Source: China Ministry of Commerce, via CEIC database.

Data from the Heritage Global Investment Tracker suggests that China's initial investments in Singapore, dating from 2006 to 2011, were concentrated in energy, transport, and shipping. More recently, the biggest deals have been in the real estate sector. Commercial property developers China Vanke and Shandong Bright Ruby, as well as the internet services giant Alibaba, acquired properties in 2013-2014. [28] As one of the safest places in Asia to invest capital, Singapore has become an attractive means for wealthy Chinese individuals to diversify their assets beyond the Mainland's volatile property and stock markets. Singapore is central to the boom in China's outbound real estate investment, which is also manifest in cities such as Hong Kong, London, Los Angeles, and New York.[29]

As a center of Asian and global finance, Singapore is an attractive destination for Chinese companies seeking to list on the Singapore stock exchange.[30] Singapore's two sovereign wealth funds, Temasek Holdings and Government of Singapore Investment Corp., have made several investments in coordination with China's sovereign wealth fund, China Investment Corp.[*] The Monetary Authority of Singapore completed a massive RMB 300 billion ($48.3 billion) bilateral currency swap agreement with the People's Bank of China (PBOC) in 2010, one of the first such swaps between the PBOC and a foreign government.[31]

Middle-Income ASEAN Countries

Indonesia

Of ASEAN's 602 million residents, roughly 250 million live in Indonesia, the most populous country in the bloc. In nominal GDP terms, Indonesia is the largest economy in ASEAN. Together with China and India, Indonesia is one of only three developing economies in Asia that are members of the Group of 20 (G20). The country's real GDP growth averaged 5.8 percent from 2003 through 2012, the fourth highest of all ASEAN members.[32] However, Indonesia remains a relatively poor country: According to World Bank, GDP per capita was $3,475 in 2013, placing it on the higher end of lower-middle-income countries. Indonesia struggles with poverty and unemployment, inadequate infrastructure, corruption, a complex regulatory environment, and unequal resource distribution among regions.[33] At 13 percent of GDP, agriculture retains a large share of overall economic activity, while services account for smaller share of GDP than industry.[34]

Indonesia's trade-to-GDP ratio of 43 percent is one of the lowest in the ASEAN bloc. Unlike most of its neighbors, Indonesia runs a goods trade deficit with the world. China represents Indonesia's second-largest export market and its largest source of imports (see Table 13). Along with Japan and Singapore, it is the primary contributor to Indonesia's trade deficit. This was not always the case: Table 14 shows the transition of Indonesia's trade balance

[*] For additional analysis, see Iacob Koch-Weser and Owen Haake, *China Investment Corporation: Recent Developments in Performance, Strategy, and Governance* (U.S.-China Economic and Security Review Commission, June 2013). *http://www.uscc.gov*.

with China from a surplus to a deficit, starting in 2007. Imports from China rose steadily from over $4 billion in 2003 to $12.6 billion in 2007, and increased to almost $37 billion in 2013.

Table 13: Indonesian Export and Import Partners, 2013

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 Japan	$ 27,086	14.8%	1 China	$ 29,849	16.0%
2 China	$ 22,601	12.4%	2 Singapore	$ 25,581	13.7%
3 Singapore	$ 16,686	9.1%	3 Japan	$ 19,284	10.3%
4 US	$ 15,741	8.6%	4 Malaysia	$ 13,322	7.1%
5 India	$ 13,031	7.1%	5 South Korea	$ 11,592	6.2%
Other	$ 87,407	47.9%	Other	$ 87,001	46.6%
Total	$182,552	100%	Total	$ 186,629	100%

Source: World Bank.

Table 14: China's Goods Trade with Indonesia

(US$ millions)

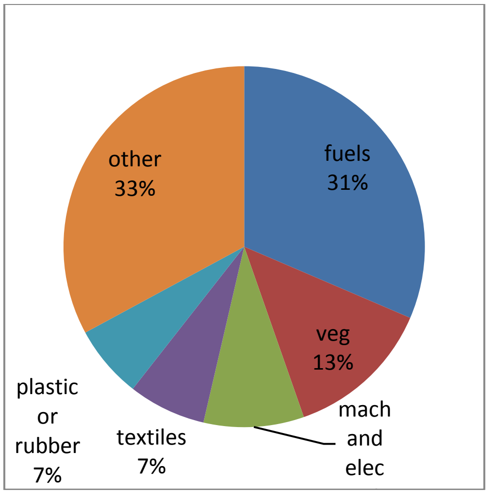
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	4,482	6,257	8,349	9,453	12,609	17,210	14,744	21,978	29,263	34,293	36,947
import	5,754	7,212	8,430	9,610	12,380	14,387	13,538	20,760	31,323	32,033	31,479
balance	-1,272	-955	-81	-157	229	2,823	1,206	1,219	-2,059	2,260	5,469

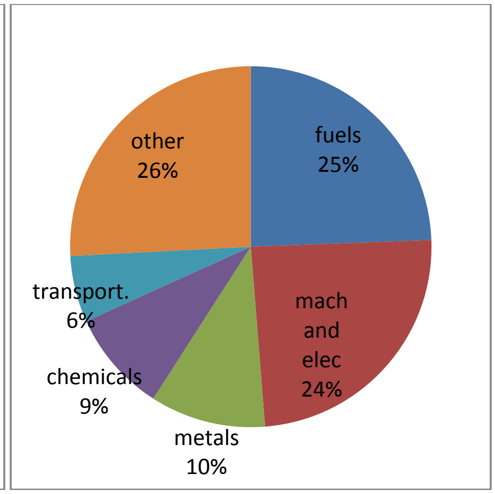
Source: China Ministry of Commerce, via CEIC database.

The composition of trade between China and Indonesia resembles a resources-for-manufactures pattern. Nearly half of Indonesia's imports from China are machinery and electrical products, to the extent that China constitutes one-third of Indonesia's foreign purchases in this category. Conversely, fuels, metals, wood, and vegetable products make up three-quarters of Indonesia's exports to China, compared to 45 percent of its exports to the world. Along with Australia, Indonesia is a key supplier of coal and liquefied natural gas to China's energy-intensive coastal areas, which have difficulty accessing fuel inputs from China's northwestern regions. One could also group Indonesia with China's principal commodity suppliers in Africa and Latin America.

Figure 7: Breakdown of Indonesia's Trade with the World, 2013

Exports **Imports**

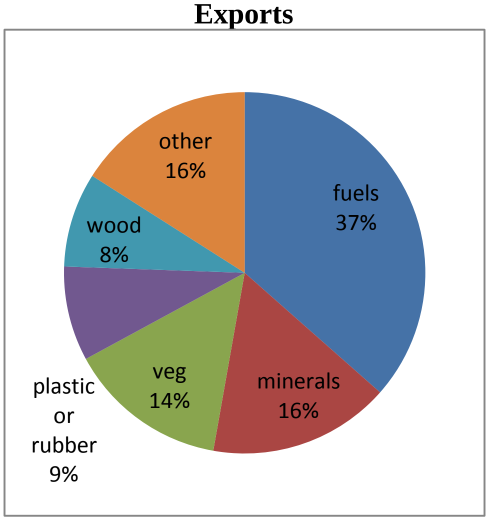


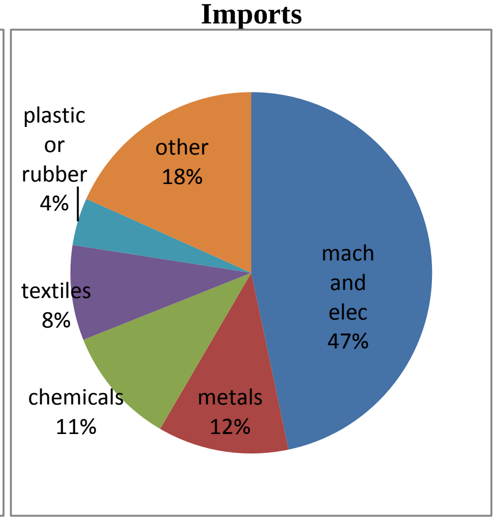


Note: Veg = Vegetables.
Source: World Bank.

Figure 8: Breakdown of Indonesia's Trade with China, 2013

Exports **Imports**





Note: Veg = Vegetables.
Source: World Bank.

Indonesia has taken a mixed approach to economic diplomacy with China. On one hand, it has signed bilateral trade agreements with South Korea and Japan but not with China, suggesting—like India—a preference for closer trade relations with China's wealthier neighbors. When the United States, the EU, and Japan filed separate WTO dispute cases against China in March 2012 concerning its export restrictions on rare earth minerals, tungsten, and molybdenum, Indonesia joined each of these complaints as a third party.[35] Concurrently, Jakarta has signed numerous MOUs with Beijing, including bilateral cooperation in the energy and mineral sectors (2006), intellectual property rights (2013), and a fishery partnership (2013).[36]

Chinese outbound FDI into Indonesia has growth over the past decade (see Table 15), as China went from a net receiver to a net sender of FDI to Indonesia. The Heritage Global Investment Tracker, which traces individual Chinese investments, identifies dozens of Chinese investments and contracts in Indonesia between 2005 and 2014, with a combined worth of some $31 billion.[37] That is far in excess of the investment values MOFCOM has recorded.

Of this value, approximately $12 billion went into the coal, gas, and oil sectors, and a further $6.6 billion into the steel sector, demonstrating the resource-seeking motives of Chinese investors in Indonesia.[38]

Table 15: Stock of Chinese FDI in Indonesia

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
54	122	141	226	679	543	799	1,150	1,688	3,098	4,657

Source: China Ministry of Commerce, via CEIC database.

In conjunction with direct investment, China is becoming an important lender to Indonesia, a net debtor country. In 2009, when a crash in coal prices nearly sunk Bumi Resources, one of China's largest coal producers, China's sovereign wealth fund CIC stepped in with a $1.9 billion loan.[39] Rumors circulated in 2011 that CIC would disburse $4 billion in additional loans to Indonesian infrastructure projects, though it appears this money was not transferred.[40] During President Xi's visit to Indonesia in October 2013, however, Indonesian firms secured deals worth some $33 billion. That included a $1.8 billion loan from China Development Bank, China's policy bank, to PT OKI Pulp & Paper Mills to build a mill in Sumatra, as well as funding for five Boeing 777-300ER planes for PT Garuda Indonesia.[41]

Malaysia

Malaysia's economy has performed well over the past decade. Real GDP growth averaged 5 percent between 2003 and 2013, catapulting the country to the higher end of upper-middle-income countries, and behind only Singapore and Brunei in terms of wealth among ASEAN members. Trade has been an important part of Malaysia's success—the country's trade-to-GDP ratio is over 150 percent, and net exports contributed 8.9 percent of GDP in 2013.[42]

With top-five trade partners making up less than half of the country's total goods trade, Malaysia is not reliant on any one trade partner. The United States is a top-five partner, but two-thirds of Malaysian trade takes place in the Asia region. Once integral to Japan's "flying geese" manufacturing operations in Southeast Asia, Malaysia now trades considerably more with China than with Japan (see Table 17). Whether or not Malaysia runs a trade surplus with China depends on the data one references. According to MOFCOM, Malaysia was one of only two ASEAN members to achieve a surplus with China in 2013 (the other was Thailand), and as Table 16 shows, Malaysia's surplus with China grew from $7.8 billion in 2003 to $14 billion in 2013. World Bank data, on the other hand, indicates Malaysia registered a goods trade deficit with China of nearly $3.3 billion in 2013 (see Table 17).

Table 16: China's Goods Trade with Malaysia

(US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
exports	6,142	8,085	10,618	13,540	17,702	21,383	19,636	23,820	27,910	36,529	45,941
imports	13,998	18,162	20,108	23,577	28,737	32,131	32,224	50,396	62,026	58,253	60,068
balance	-7,856	-10,077	-9,490	-10,037	-11,036	-10,748	-12,589	-26,577	-34,115	-21,723	-14,128

Source: China Ministry of Commerce, via CEIC database.

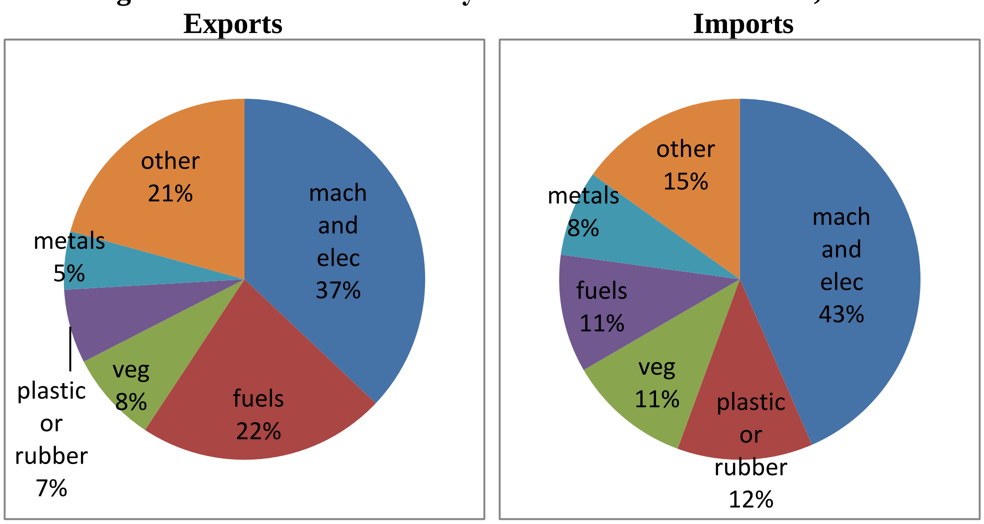
Table 17: Malaysia Export and Import Partners, 2013

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 Singapore	$ 31,872	13.9%	1 China	$ 33,774	16.4%
2 China	$ 30,785	13.5%	2 Singapore	$ 25,459	12.3%
3 Japan	$ 25,318	11.1%	3 Japan	$ 17,913	8.7%
4 US	$ 18,461	8.1%	4 US	$ 16,204	7.9%
5 Thailand	$ 16,675	7.3%	5 Thailand	$ 12,294	6.0%
Other	$105,404	46.1%	Other	$100,606	48.8%
Total	$228,515	100%	Total	$206,250	100%

Source: World Bank.

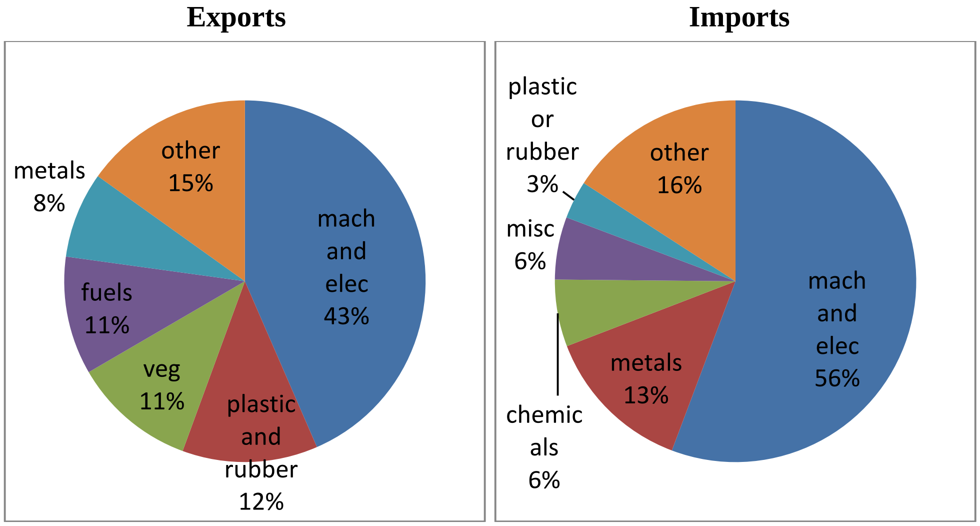
Malaysia is deeply integrated into regional supply chains. Machinery and electrical products accounted for 48 percent of its exports and 57 percent of its imports in 2013 (see Figure 9). This pattern is magnified in Malaysia's trade with China. An interesting aspect of Malaysia's trade is its export of fuel products. The country only produced 640,000 barrels per day (bpd) in 2013, less than 1 percent of global supplies. By comparison, neighboring Indonesia produced 942,000 bpd, and China 4.46 million bpd. Yet, fuels accounted for 22 percent of Malaysian exports to the world, and 11 percent of its exports to China.

Figure 9: Breakdown of Malaysia's Trade with the World, 2013



Source: World Bank.

Figure 10: Breakdown of Malaysia's Trade with China, 2013



Source: World Bank.

Malaysia has been among China's top ASEAN trading partners since 2008, and the two countries' leaders have pledged to deepen trade and economic cooperation. During the November 2014 APEC leaders' meeting in Beijing, China's President Xi Jinping called for the two sides to build industrial parks in Qinzhou (a city in China's Guangxi Province) and Kuantan (the capital of Pahang, the third-largest state in Malaysia) as "flagship projects" for China-Malaysia cooperation and models for China-ASEAN cooperation.[43] President Xi further called for enhanced bilateral cooperation on law enforcement and safety, and people-to-people exchanges. To facilitate bilateral trade and investment, Malaysia and China extended their bilateral currency swap agreement in 2012, increasing the total value from RMB 80 billion ($12.7 billion) to RMB 180 billion ($28.6 billion).[44]

Chinese FDI stock in Malaysia, according to official statistics, is much smaller than in Indonesia, and has grown at a lower rate (see Table 18). This trend is substantiated by data from Heritage Global Investment Tracker: Chinese investments and contracts in Malaysia are fewer in number and amount to only about half the value ($16 billion in Malaysia, versus $31 billion in Indonesia).[45] Nonetheless, China is making some investments in Malaysian steel, aluminum, and palm oil processing plants, and is also expanding a port in a new industrial zone on the Malaysian east coast.[46] Other ventures include Chinese state-owned conglomerate Greenland Holding Group's plan to invest $3.25 billion in two property projects.[47]

Table 18: Stock of Chinese FDI in Malaysia

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
101	123	187	197	275	361	480	709	798	1,026	1,668

Source: China Ministry of Commerce, via CEIC database.

For years, Malaysia was one of the few ASEAN countries that invested more in China than China invested in it. Flows of Malaysian FDI into China grew from $251 million in 2003 to over $400 million in 2009, at which point the trend reversed. By 2013, flows of Malaysian FDI in China stood at $280 million, while flows of Chinese FDI into Malaysia reached a new high of $616 million. One of Malaysia's major deals in China took place in 2011 in the telecommunications sector, where Malaysia's Digi Telecommunications supplied network infrastructure to ZTE Corp., a state-owned telecommunications giant that competes with Huawei Technologies Co. Ltd.[48]

Thailand

Thailand, the fourth most populous country and second-largest economy in ASEAN, is classified by the World Bank as an upper-middle-income country. According to World Bank, its GDP per capita of $5,779 was the fourth highest among ASEAN countries in 2013. And yet, Thailand over the past decade recorded the second-lowest GDP growth rate of all ASEAN members (only Brunei was lower). The Thai economy has been particularly susceptible to external economic shocks. The 1997–1998 Asian financial crisis precipitated bank runs and enormous capital outflows. Buoyed by strong exports and a prudent monetary policy, Thailand regained economic stability in the early 2000s, but the global economic recession severely cut Thai exports, with most sectors experiencing double-digit drops. In late 2011, Thailand's recovery was interrupted by severe flooding in the industrial areas in Bangkok and its five surrounding provinces, to the detriment of the manufacturing sector.[49]

With a trade-to-GDP ratio of 139 percent in 2013, Thailand—like Malaysia—is a very open economy.[50] A unique aspect of Thai trade is the export of services, particularly tourism. This likely explains why Thailand runs a trade deficit in goods with the world, but according to the World Bank and CIA World Factbook, achieves net exports of goods and services (as measured by expenditure GDP).

Thailand has a diversified group of trading partners, as Table 19 demonstrates. The United States is actually a more significant export destination for Thailand than for other ASEAN countries. Nonetheless, China was Thailand's top export destination (11.9 percent) and second-largest source of imports (16.4 percent) in 2013. As with Malaysia-China trade, different sources disagree about the exact goods trade balance: China's MOFCOM claims that China is running a worsening trade deficit with Thailand (see Table 20), to the tune of $5.7 billion in 2013; in contrast, World Bank data for 2013 show Thailand running a $10 billion deficit with China.

Table 19: Thailand Export and Import Partners, 2013

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 China	$ 27,238	11.9%	1 Japan	$ 41,082	16.4%
2 US	$ 23,017	10.1%	2 China	$ 37,726	15.0%
3 Japan	$ 22,235	9.7%	3 UAE	$ 17,286	6.9%
4 Hong Kong	$ 13,188	5.8%	4 US	$ 14,706	5.9%
5 Malaysia	$ 13,014	5.7%	5 Malaysia	$ 13,247	5.3%
Other	$129,835	56.8%	Other	$126,661	50.5%
Total	$228,527	100%	Total	$250,708	100%

Note: UAE = United Arab Emirates.
Source: World Bank.

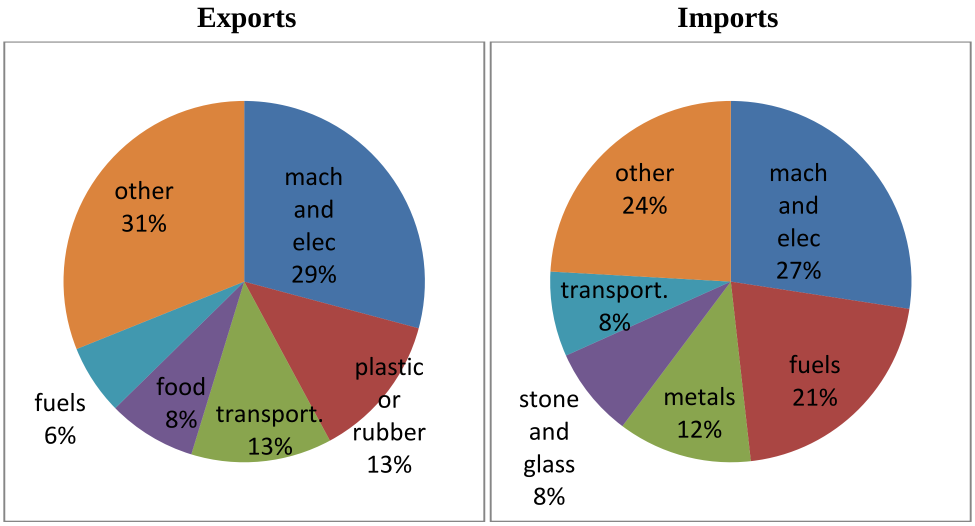
Table 20: China's Goods Trade with Thailand
(US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	3,828	5,800	7,818	9,763	11,978	15,520	13,326	19,758	25,702	31,223	32,737
import	8,828	11,537	13,993	17,961	22,652	25,636	24,845	33,201	39,040	38,456	38,517
balance	-5,000	-5,737	-6,175	-8,198	-10,673	-10,115	-11,519	-13,442	-13,337	-7,232	-5,780

Source: China Ministry of Commerce, via CEIC database.

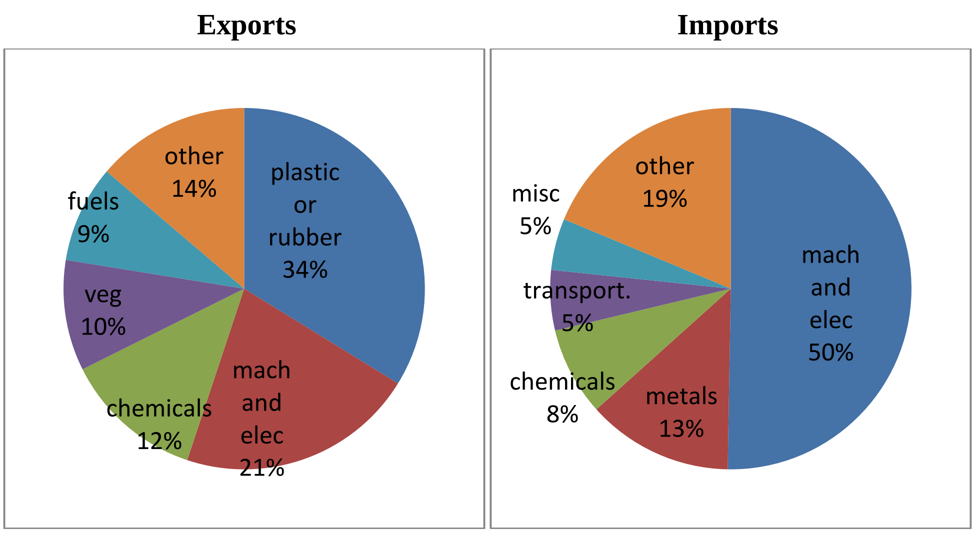
Thailand's trade with China is quite distinctive. Taken together, machinery and electrical products, plastic or rubber, and chemicals accounted for fully two-thirds of Thai exports to China in 2013, compared to scarcely 45 percent of its exports to the world. On the other hand, transport equipment plays almost no role in Thai exports to China, even though it is an important component of its shipments to the world.

Figure 11: Breakdown of Thailand's Trade with the World, 2013



Source: World Bank.

Figure 12: Breakdown of Thailand's Trade with China, 2013



Source: World Bank.

Thailand's large agricultural sector should provide it with commercial opportunities as China's new urban consumer class develops a taste for higher-quality fruits and vegetables from overseas. However, China's own agricultural interests constitute an impediment to free trade between the two countries. China signed a special agreement with Thailand in 2003 to eliminate tariffs on fruits and vegetables under the Early Harvest program within ACFTA.[51] However, the agreement also includes numerous exemptions and phase-outs that protect both Thai and Chinese farmers, who are each wary of being outcompeted in specific subsectors.

Thailand has acted as a third party to eight WTO trade disputes involving China. Of the eight disputes, however, only five involved claims against China. Thailand has twice supported Chinese claims regarding steel products: a 2002 complaint against the United States concerning safeguard measures against imports of certain steel products; and a 2006 claim against some European communities on antidumping measures on certain iron or steel fasteners from China. Thailand also supported China's 2011 complaint regarding U.S. antidumping measures on shrimp and diamond sawblades from China.[52]

The five cases in which Thailand supported complaints against China involved a diverse array of industries.

- U.S. complaint against China regarding imports of automobile parts, and Canada's same claim against China, filed a few weeks after the original U.S. complaint (2006);
- U.S. complaint against China on lack of protection and enforcement of intellectual property rights (2011);
- EU complaint against China on antidumping duties on x-ray security inspection equipment from the EU (2011);
- U.S. complaint on Chinese antidumping and countervailing duty measures on broiler products from the United States (2011).[53]

The official stock of Chinese FDI in Thailand, as recorded by MOFCOM, is relatively small, increasing from $150 million in 2003 to slightly over $2.5 billion in 2013 (see Table 21). This general trend is supported by the Heritage Global Investment Tracker, which lists fewer than ten large Chinese investments and contracts in Thailand since 2009, adding up to less than $4 billion.[54]

Table 21: Stock of Chinese FDI in Thailand

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
151	182	219	233	379	437	448	1,080	1,307	2,127	2,472

Source: China Ministry of Commerce, via CEIC database.

There have been some important Chinese deals, however. In 2014, China Mobile bought an 18 percent ($880 million) stake in one of Thailand's leading telecom companies, True Corp.[55] Chinese firms have also applied to the Thai government to invest in industries such as agriculture and agricultural products, chemicals and paper, electronics and electrical appliances, metal products and machinery, services, mining, and ceramics.[56] To date, most large Chinese projects in Thailand were in electricity, natural rubber products, and the auto parts industry.[57]

Thailand as a vacation destination could also attract China's growing population of international tourists and vacation home buyers. For example, the Royal Decree on Tour Operators and Tour Guides 2008 directed the Tourism Authority of Thailand to work closely with the Thai-Chinese Tourism Association to promote "quality tourism."[58]

In 2014, Thailand and China signed an MOU to allow China to invest in a railway project with an estimated cost of $10.6 billion.[59] As with Malaysia, the People's Bank of China has a currency swap agreement with the Bank of Thailand. At RMB 70 billion ($11 billion), however, the sums involved are considerably smaller.

The Philippines

The Philippines, the second-most-populous nation in ASEAN after Indonesia, is more important to China in the political than the economic realm. Classified by the World Bank as lower-middle-income, it was one of ASEAN's poorest countries, and its trade with China amounted to just $16.3 billion in 2013. Maritime territorial disputes, on the other hand, are a key source of bilateral tensions. The Philippines is arbitrating against China under the United Nations Convention on the Laws of the Sea.[60]

Nonetheless, the two countries have signed a multitude of MOUs and other agreements spanning over 20 sectors, including in defense, energy cooperation, and maritime issues.[61] In a 2004 MOU, China and the Philippines agreed to intensify the level of exchanges of their defense official and military officers, and to strengthen cooperation on defense and military security issues.[62]

The Philippine economy is driven by consumption, which accounted for 84.1 percent of GDP in 2013 (close to the United States' high levels). The Philippines ran a goods trade deficit equivalent to 9 percent of total trade in 2013, a high figure by ASEAN standards. According to the World Bank, the industrial sector accounted for only 32 percent of Philippine GDP in 2013, considerably lower than for fellow middle-income countries Indonesia, Malaysia, and Thailand.

Unlike in most ASEAN countries, Philippine exports are quite concentrated among the top-five trade partners (64.5 percent), and Japan remains a larger trade partner than China (see Table 22). The Philippine balance of trade with China deteriorated in 2013, going from a decade of surplus to a $1.6 billion deficit (see Table 23). This stands in contrast to the country's surplus with the Asia region as a whole.

Table 22: Philippine Export and Import Partners, 2013

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 Japan	$ 11,423	21.2%	1 China	$ 8,554	13.1%
2 US	$ 7,832	14.5%	2 US	$ 7,081	10.9%
3 China	$ 6,582	12.2%	3 Japan	$ 5,586	8.6%
4 Hong Kong	$ 4,418	8.2%	4 Other Asia	$ 5,120	7.9%
5 Singapore	$ 4,014	7.4%	5 South Korea	$ 5,026	7.7%
Other	$ 19,709	36.5%	Other	$ 33,730	51.8%
Total	$ 53,978	100%	Total	$ 65,097	100%

Source: World Bank.

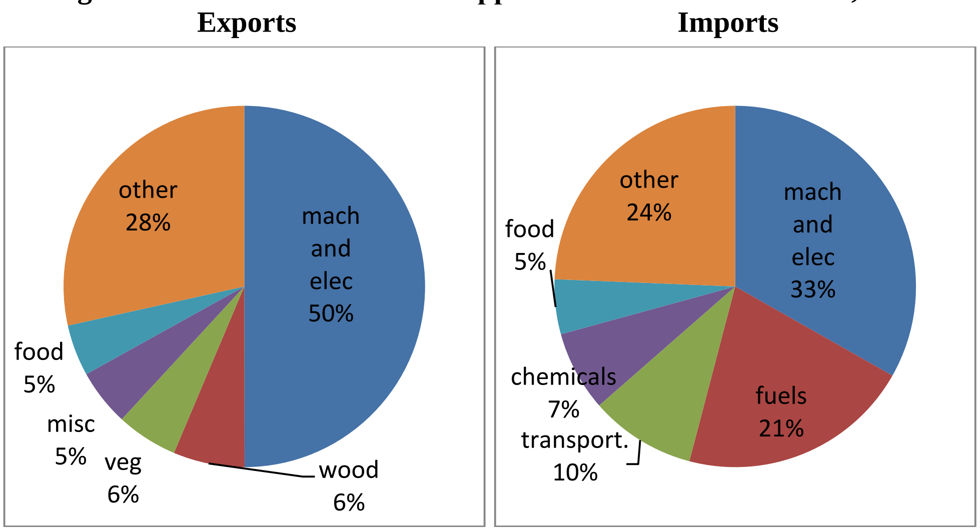
Table 23: China's Goods Trade with the Philippines
(US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	3,094	4,264	4,689	5,737	7,505	9,088	8,590	11,564	14,259	16,772	19,836
import	6,309	9,062	12,870	17,676	23,128	19,507	11,935	16,199	17,995	19,677	18,204
balance	-3,215	-4,797	-8,181	-11,938	-15,623	-10,419	-3,345	-4,634	-3,736	-2,905	1,631

Source: China Ministry of Commerce, via CEIC database.

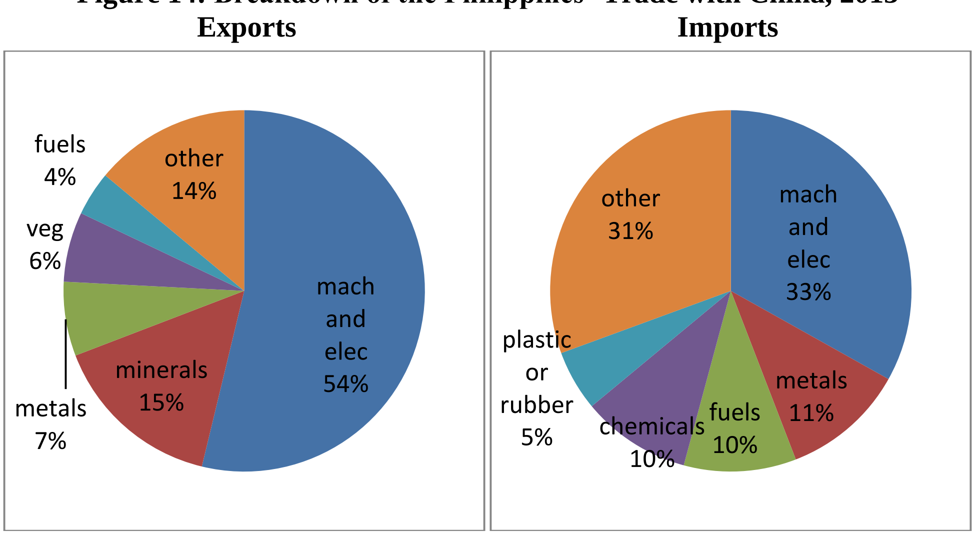
Metals, minerals, vegetable products, and fuels account for 32 percent of Philippine exports to China, a higher share than for its exports to the world. Ascribing a resources-for-manufactures pattern to Philippine-China trade, however, is exaggerated. Machinery and electrical products accounted for the largest portion of Philippine exports in 2013, followed by shipments of food, agriculture, and wood products. This same pattern was reflected in its trade with China (see Figures 13 and 14), though China is unique for its large purchases of Philippine minerals.

Figure 13: Breakdown of the Philippines' Trade with the World, 2013



Source: World Bank.

Figure 14: Breakdown of the Philippines' Trade with China, 2013



Source: World Bank.

According to China's official data, Chinese FDI in the Philippines totaled only $692 million in 2012 (see Table 24). However, individual deals suggest far more investment is actually flowing into the country. For example, China invested $4.9 billion in the Philippine agriculture sector in 2012. The two countries are also in talks to set up ethanol and bioethanol plants, with China's Fuhua Group investing $3.8 billion to develop one million hectares to cultivate high-yielding strains of rice, sorghum, and corn for ethanol production. To facilitate the export of these crops, China National Construction & Agricultural Machinery Import & Export Corp. (CAMC) plans to build an ethanol plant in the southern Philippine province of Palawan, as well as a cold-storage facility and a shipyard.[63]

Table 24: Stock of Chinese FDI in the Philippines

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
9	10	19	22	43	87	143	387	494	593	692

Source: China Ministry of Commerce, via CEIC database.

Considering its status as a lower-middle-income country, the Philippines has actually made investments in mainland China. The investors include the snack food company Oishi, the San Miguel brewery, and real estate businesses like Ding Feng Real Estate Co., which specializes in mixed-use developments such as condominiums, shopping malls, and hotels.[64]

Low-Income ASEAN Countries

Vietnam

Vietnam, ASEAN's third-most-populous nation, is a lower-income country. The GDP share of agriculture is still quite high at 19 percent, and the industrial sector accounts for only 39 percent of GDP.[65] But Vietnam is poised to break into the middle-income group and mature into a manufactures-based economy. The country achieved robust growth averaging 6.4 percent between 2003 and 2013, the fourth highest among ASEAN countries. In 2013, real GDP grew by 5.4 percent.[66]

The diplomatic relationship between China and Vietnam has suffered due to China's aggressive territorial claims in the South China Sea and memories of the 1979 Sino-Vietnamese War. At the same time, the two governments share an affinity as socialist market economies, in addition to deep cultural ties. In late 2013, Hanoi and Beijing signed an MOU to increase trade and economic cooperation by creating four new economic zones along the Vietnam-China border by 2020. Other Vietnam-China MOUs cover such topics as human trafficking, educational exchanges, and nuclear exchanges. The Vietnam National University of Agriculture, in particular, has more than 15 agreements with Chinese universities on student exchange and educational programming.[67]

Vietnam's trade with China is very imbalanced by ASEAN standards. On the export side, China was only Vietnam's third-largest partner in 2012 (11 percent) (latest data available, see Table 25). The United States (17 percent) and Japan (12 percent) accounted for a much larger share. On the other hand, China is by far Vietnam's largest import partner, comprising 26 percent of Vietnamese imports in 2012, well ahead of South Korea (14 percent) and Japan (10 percent). Thus, while Vietnam runs a trade surplus with the rest of the world, it has a large and growing trade deficit with China, which amounted to $31 billion in 2013 (see Table 26).

Table 25: Vietnam Export and Import Partners, 2012

	Exports Value (US$ m)	Exports Share (%)		Imports Value (US$ m)	Imports Share (%)
1 US	$ 19,680	17.2%	1 China	$ 29,034	25.5%
2 Japan	$ 13,064	11.4%	2 South Korea	$ 15,535	13.7%
3 China	$ 12,835	11.2%	3 Japan	$ 11,602	10.2%
4 South Korea	$ 5,580	4.9%	4 Other Asia	$ 8,534	7.5%
5 Malaysia	$ 4,500	3.9%	5 Singapore	$ 6,690	5.9%
Other	$ 58,870	51.4%	Other	$ 42,385	37.3%
Total	$114,529	100%	Total	$113,780	100%

Source: World Bank.

Table 26: China's Goods Trade with Vietnam
(US$ millions)

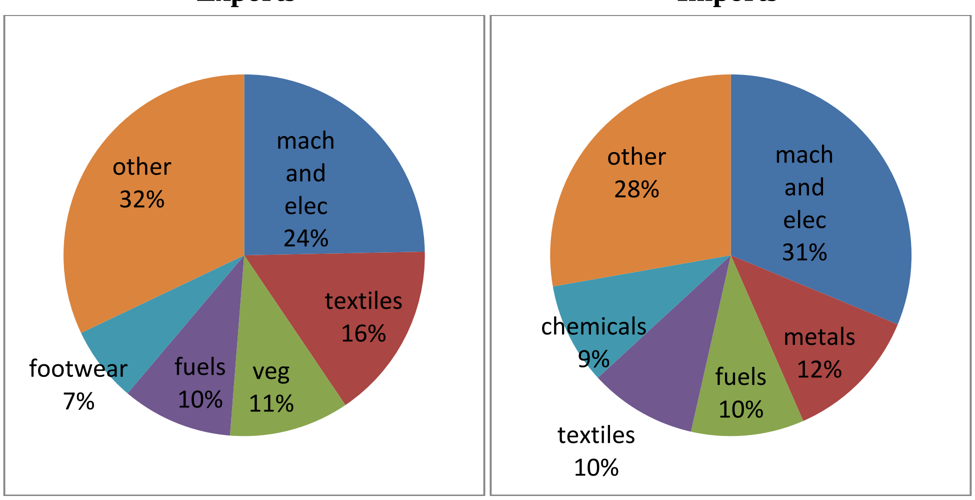
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	3,180	4,260	5,639	7,468	11,906	15,139	16,303	23,122	29,091	34,225	48,599
import	1,455	2,478	2,549	2,486	3,214	4,343	4,741	6,970	11,108	16,230	16,886
balance	1,725	1,782	3,090	4,982	8,691	10,797	11,562	16,151	17,983	17,995	31,714

Source: China Ministry of Commerce, via CEIC database.

Vegetable products and fuels account for 40 percent of Vietnamese exports to China, versus 21 percent to the world. Not surprisingly, textiles and footwear account for less than 10 percent of exports to China, versus 23 percent to the world. Conversely, machinery and electronic products and textiles account for a larger share of Vietnamese imports from China than from elsewhere.

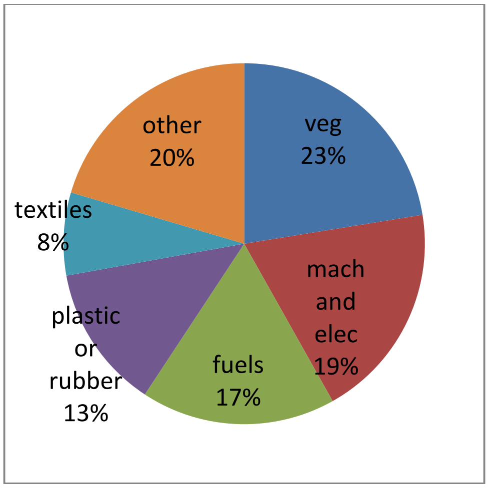
Figure 15: Breakdown of Vietnam's Trade with the World, 2012

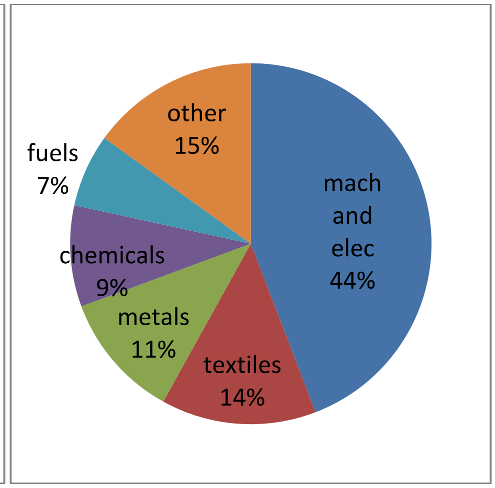
Exports **Imports**



Source: World Bank.

Figure 16: Breakdown of Vietnam's Trade with China, 2012





Source: World Bank.

In spite of the bilateral trade imbalance, Vietnam has on several occasions supported Chinese complaints in the WTO as a third party. In all, Vietnam has been involved as a third party to five dispute cases against China, and in five dispute cases supporting Chinese claims.[68] Vietnam has joined China in:

- A 2009 complaint against the United States on measures affecting imports of certain passenger vehicle and light truck tires from China;
- A 2010 complaint against the EU on antidumping measures on certain footwear from China;
- A 2011 complaint against the United States on antidumping measures on shrimp and diamond sawblades from China;
- A 2012 complaint against the United States on countervailing and antidumping measures on certain products from China;
- A 2013 complaint against the United States concerning certain methodologies and their application to antidumping proceedings involving China.

Vietnam acted against China in the United States' 2012 complaint concerning countervailing and antidumping duties on grain oriented flat-rolled electrical steel from the United States, and the aforementioned triple complaint by the United States, Japan, and the EU concerning measures related to China's export restrictions on rare earths.

Vietnam is careful to avoid the impression that it is becoming dependent on the Chinese economy. Minister of Finance Dinh Tien Dung contended in June 2014 that Vietnam was not very dependent on Chinese loans, and that Chinese investments account for less than 1 percent of Vietnam's total market capitalization.[69] Indeed, given the size of Vietnam's economy, it is noteworthy that Chinese FDI stock in the country stood at just $2.2 billion in 2013, less than China's FDI stock in Burma, Cambodia, and even Laos (see Table 27).

Table 27: Stock of Chinese FDI in Vietnam

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
29	160	229	254	397	522	729	987	1,291	1,604	2,167

Source: China Ministry of Commerce, via CEIC database.

Chinese investments in Vietnam are concentrated in the garment, textile, and real estate sectors. In 2013, Jiangsu Julun Textiles Group Co. Ltd. constructed a $68 million manufacturing facility in Vietnam.[70] The Hong Kong-based real estate company Sunwah Group recently invested around $200 million in an apartment building project in Ho Chi Minh City's Binh Thanh District, and China's Texhong Group invested $215 million in a project to develop infrastructure in Quang Ning Province's 660-hectare Hai Ha Industrial Park.[71]

Burma

In 1962, Burma (also known as Myanmar) came under the control of a military dictatorship, leading to international isolation. In November 2010, the Union Solidarity and Development Party (USDP), a military-backed political party, held Burma's first election in over 20 years. Burma became a member of ASEAN in 1997, and in 2014 assumed the rotating chairmanship over ASEAN—an historic departure for a state long considered an international pariah.[72]

Burma is classified as low-income by the World Bank (GNI per capita of $1,035 or less in 2012).[73] Its real GDP growth reached double-digits in the mid-2000s, dropped sharply after the global financial crisis, and then recovered in recent years, to an estimated 6.8 percent in 2013.[74] Agriculture amounts to 38 percent of the economy, reflecting a lack of industrial development. The service sector, accounting for 42 percent of GDP, is centered on mineral extraction. Trade is a relatively small part of Burma's economy, equivalent on average to less than 50 percent of GDP from 2003 through 2011—significantly less than the ASEAN average of 119.2 percent. Starting in 2008, however, the trend shifted upward, likely owing to Burma's market opening and ratification of a new constitution that year.[75]

Burma runs a very large trade deficit with the world (equivalent to nearly half of its total trade). It also relies heavily on regional trading partners: Eighty-one percent of its exports and 87 percent of its imports are with partners in Asia. China is Burma's largest import partner and second-largest export partner. As bilateral trade has grown, Burma's trade deficit with China has expanded from $738 million in 2003 to over $4.5 billion in 2013 (see Table 29). China accounted for 58 percent of Burma's total trade deficit in 2013.

Table 28: Burma Top Export and Import Partners, 2013

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 Thailand	$ 4,033	37.9%	1 China	$ 7,339	39.9%
2 China	$ 2,857	26.9%	2 Thailand	$ 3,789	20.6%
3 India	$ 1,366	12.8%	3 Singapore	$ 2,245	12.2%
4 Japan	$ 759	7.1%	4 Japan	$ 1,057	5.7%
5 South Korea	$ 488	4.6%	5 India	$ 743	4.0%
Other	$ 1,137	10.7%	Other	$ 3,234	17.6%
Total	$ 10,640	100%	Total	$ 18,407	100%

Source: UN Comtrade.

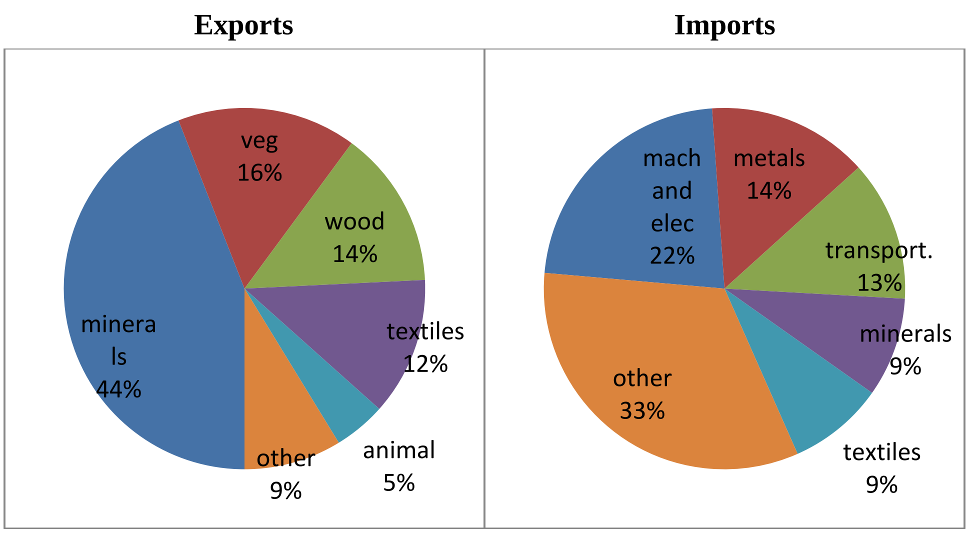
Table 29: China's Goods Trade with Burma
(US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	908	939	935	1,207	1,692	1,979	2,279	3,481	4,825	5,675	7,349
import	170	207	274	253	371	645	646	963	1,677	1,299	2,810
balance	738	732	660	955	1,321	1,335	1,634	2,518	3,148	4,376	4,540

Source: China Ministry of Commerce, via CEIC database.

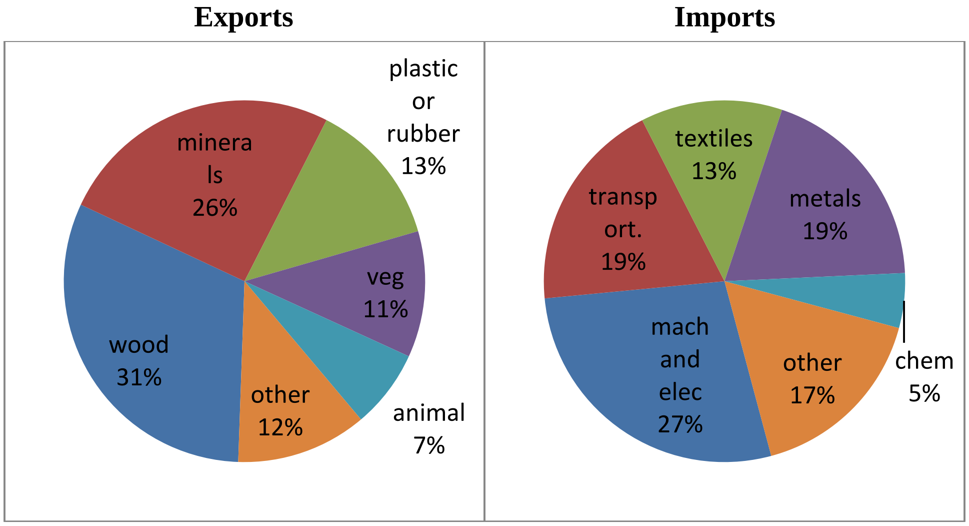
In 2011 (latest data available), Burma's largest global exports were minerals (44 percent), vegetable and animal products (21 percent), and wood (14 percent) (see Figure 17). Its exports to China are similarly resource-driven, though wood accounts for a larger share of the basket. Timber smuggling into China presents a serious threat to Burma's virgin forests.[76] While Burma depends on foreign markets for most manufactured goods, its imports from China are concentrated in industrial products, led by machinery and electrical goods (27 percent), transport equipment (19 percent), textiles (13 percent), and chemicals (5 percent). Whereas textiles account for 12 percent of Burma's exports to the world, they barely play any part in its goods shipments to China.

Figure 17: Breakdown of Burma's Trade with the World, 2011



Source: UN Comtrade.

Figure 18: Breakdown of Burma's Trade with China, 2011



Source: UN Comtrade.

Burma approved $44 billion in inbound foreign investment between 1988 and 2013. The largest share went toward electricity infrastructure ($19 billion), oil and gas ($13.6 billion), and mining ($2.3 billion).[77] Contrary to its marginal status in most ASEAN countries, China's outbound FDI is quite pronounced in Burma, accounting for over 25 percent of the country's total inflows in 2012 and for a third of all foreign investment Burma approved between 1988 and 2013.[78] MOFCOM records lower figures of Chinese FDI, but nonetheless shows Chinese FDI stock in Burma doubling from $900 million in 2009 to $1.9 billion in 2010 and over $3.5 billion in 2013 (see Table 30).

Table 30: Stock of Chinese FDI in Burma

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
10	20	24	163	262	500	930	1,947	2,182	3,094	3,570

Source: China Ministry of Commerce, via CEIC database.

Chinese companies have invested extensively in large-scale infrastructure projects in Burma. In the process, they have incited local opposition on environmental grounds and concerns about the net benefits to local communities. In 2011, Burmese President Thein Sein halted the construction of a Chinese-backed $3.7 billion hydropower dam project due to opposition by local Burmese. The dam was to supply electricity to China. In November of the same year, protests took place to temporarily stop a Chinese-backed copper mine project.[79] Talks regarding a multibillion-dollar railway linking Burma's west coast with Kunming, a provincial capital in southwest China, have also have been put on hold.[80]

A cornerstone of Chinese investment in Burma is the Sino-Burmese pipeline project, which is to ferry Middle Eastern and African oil and gas overland to China from the Indian Ocean. As part of the project, China agreed in 2010 to loan Burma $2.4 billion.[81] However, the project has encountered a number of obstacles, including tensions between Burmese and Chinese workers and opposition from local communities that feel unjustly compensated for their loss of land and livelihoods.[82]

Recently, Sino-Burmese relations have regained momentum. The two countries signed seven MOUs in 2013 concerning hydroelectric dam the construction, which contained provisions on knowledge and technology sharing.[83] Other recent MOUs include a clean development management project and an agreement to allow Burmese workers to work legally in China.[84] In 2013, the Burmese Parliament approved a $100 million loan from China to fund a cooperative program to support Burmese farmers and the urban poor.[85] Chinese Premier Li Keqiang paid an official visit to Burma last November, leading to twenty new trade deals worth $8 billion, including a $200 million microcredit loan targeting poverty reduction.[86]

Cambodia

Demographically and economically, Cambodia is one of the smallest countries in Asia. From 2003 through 2012, its economy averaged 8 percent growth a year, one of the highest rates in ASEAN, fueled by tourism and the garment industry. Textile and garment-related industries employ some 400,000 people (in a country of 15 million) and constitute around 70 percent of Cambodia's total exports.[87] Home to the Angkor Wat temple complex, a UN World Heritage site, Cambodia typically welcomes over two million tourist visitors per year, and according to the World Bank, tourism accounted for 23 percent of Cambodian goods and services exports in 2012.

Cambodia is still among the poorest countries in Asia, however, with GDP per capita of $1,008 in 2013.[88] It ranks 136 out of 187 countries captured in the United Nations Human Development Index, just ahead of Laos (137) and Burma (150).[89] Economic development is stifled by corruption, income inequality, and lack of employment and education opportunities.[90] The Cambodian government relies on foreign donors for more than half its fiscal budget.[91] Agriculture accounts for over one-third of GDP and 56 percent of total employment. Only 23 percent of the economy is composed of industry—the labor-intensive textile industry generates jobs but adds limited value to GDP.[92]

Although similar to Burma in terms of level of development, Cambodia's trade with the world is quite different. Of all ASEAN members, Cambodia is the least reliant on regional ties, as almost 60 percent of exports go to countries outside Asia. Indeed, the United States is its top export destination, primarily due to textile shipments (see Table 31). Like most ASEAN members, Cambodia has a steadily growing trade deficit with China, which increased from $268 million in 2003 to over $3 billion in 2013 (see Table 32).

Table 31: Cambodia Top Export and Import Partners, 2013

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 US	$ 2,174	23.5%	1 China	$ 3,004	32.6%
2 Hong Kong	$ 1,587	17.2%	2 US	$ 1,125	12.2%
3 Singapore	$ 793	8.6%	3 Thailand	$ 1,095	11.9%
4 UK	$ 718	7.8%	4 Vietnam	$ 987	10.7%
5 Germany	$ 615	6.7%	5 Hong Kong	$ 668	7.2%
Other	$ 3,361	36.3%	Other	$ 2,348	25.4%
Total	$ 9,248	100%	Total	$ 9,227	100%

Source: World Bank.

Table 32: China's Goods Trade with Cambodia

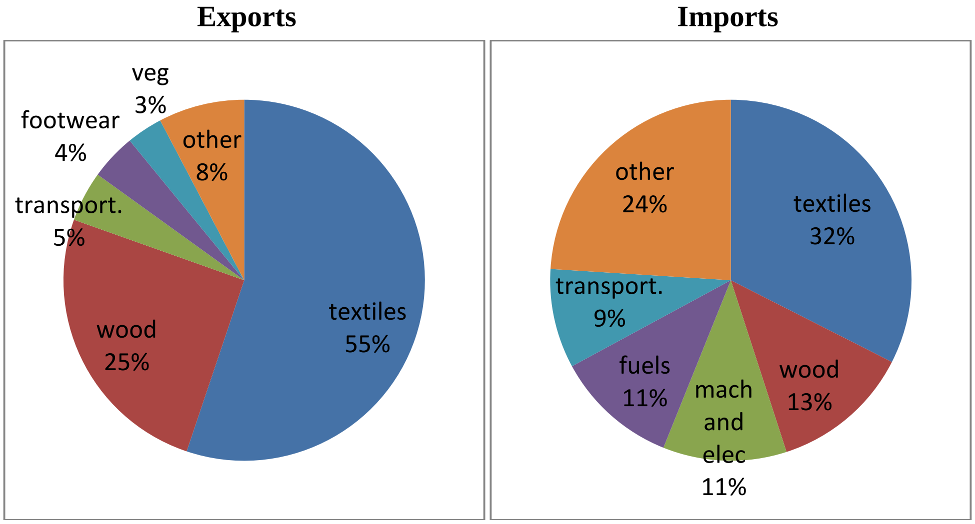
(US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	295	452	536	698	881	1,095	905	1,347	2,319	2,706	3,411
import	26	30	27	35	51	39	36	95	185	215	361
balance	268	423	509	663	830	1,056	869	1,253	2,134	2,491	3,050

Source: China Ministry of Commerce, via CEIC database.

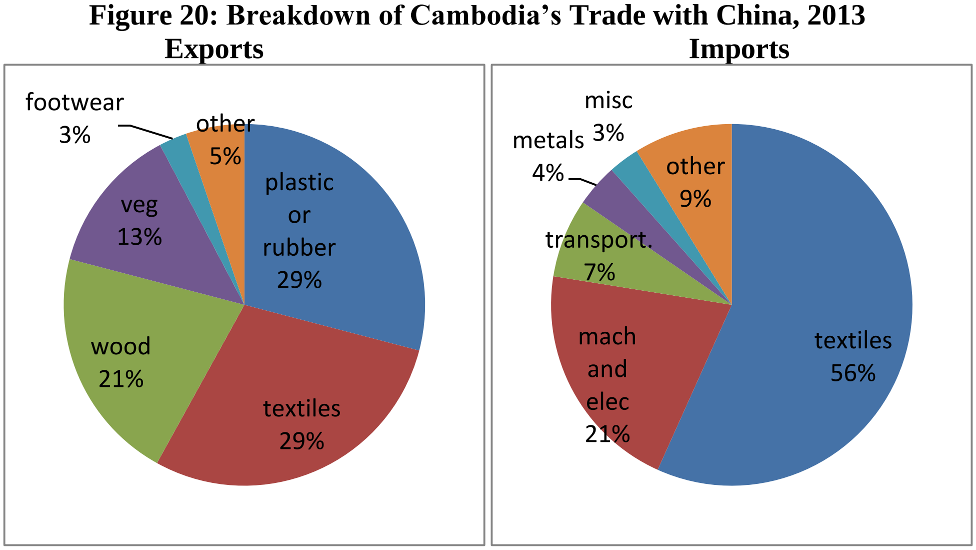
Textiles and timber products dominate Cambodia's global exports, with an 80 percent share in 2013 (see Figure 19). Because China has little demand for Cambodian textiles, Cambodian exports to China are quite different; wood, plastic and rubber, and agricultural goods combined account for 63 percent of the total (see Figure 20). Conversely, over half of Cambodian imports from China are textiles, a product in which Cambodia should have a comparative advantage (though there is likely some intra-industry trade here as well). China is also an important source of Cambodian machinery and transport equipment purchases from abroad.

Figure 19: Breakdown of Cambodia's Trade with the World, 2013



Source: World Bank.

Figure 20: Breakdown of Cambodia's Trade with China, 2013



Source: World Bank.

As Table 33 demonstrates, the amount of Chinese FDI in Cambodia has grown from over $59 million in 2003 to $2.9 billion in 2013, putting Cambodia in the middle of the ASEAN pack in terms of receipts from China. In addition to offshoring of labor-intensive textile production, there has been heavy investment in infrastructure projects and the steel industry. Guangxi Nonferrous Metal Group began construction on a steel mill in the province of Preah Vihear in 2012.[93] The following year, Cambodia Iron & Steel Mining Industry Group and the China Railway Group, Ltd. made a deal worth $9.6 billion to construct a railway line with 11 stations.[94]

Table 33: Stock of Chinese FDI in Cambodia
(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
59	90	77	104	168	391	633	1,130	1,757	2,318	2,849

Source: China Ministry of Commerce, via CEIC database.

China's increased interest in its neighbor has been increasing, as apparent proliferation of MOUs, including a 2003 memorandum on defense cooperation that directs China to upgrade a Cambodian military airfield and build barracks and officers' quarters[95] and a 2010 MOU to enhance economic and trade cooperation between Xi'an (the capital of Shaanxi Province in northwest China) and Cambodia.[96] Recently, Cambodia's Power Partner Profit Group has signed ten MOUs with Chinese counterparts to cooperate in agricultural, electronic, and mineral resources.[97] In February 2014, the Deputy Chief of China's Civil Aviation Administration of China signed an MOU with Cambodia's State Secretariat of Civil Aviation to strengthen exchanges between their agencies.[98]

China has granted Cambodia millions of dollars in loans and aid. By 2012, China's infrastructure loans and grants to Cambodia added up to $2.7 billion.[99] In 2013, China agreed to fund an interest-free loan of $33 million to Cambodia for social and economic development projects.[100] Last year, China sent military trucks and uniforms to supply the Cambodian Army,[101] and during a meeting between Cambodian Prime Minister Hun Sen and President Xi in November, informally pledged $500 to $700 million of new aid disbursements.[102]

Laos

Like Cambodia, Laos is one of ASEAN's smallest and poorest countries, with hopes of sustaining a high-growth, industrializing trajectory. Its real GDP growth averaged 7.6 percent between 2003 and 2013, second only to Cambodia. The industrial sector increased its share of producer GDP from 20 percent in 2003 to 32 percent in 2013. Although Laos has only 6.8 million people, over 61 percent are of working age, making the country an attractive destination for labor-intensive manufacturing. The Japanese electronics company Nikon and the Danish garment company MASCOT are among foreign investors who opened new factories there in 2013.[103] Tourism is also becoming a growth driver, accounting for 16 percent of goods and services exports in 2013 according to the World Bank.

Laos' trade volumes are quite small. Its primary trading partners—China, Thailand, and Vietnam—are all countries with which it shares a border, and 80 percent of its exports and 83 percent of its imports originate in the region (see Table 34). With the exception of the 2009–2011 stretch, Laos has been running trade deficits with China for the past decade (see Table 35).

Table 34: Laos Export and Import Partners, 2011

	Exports			Imports	
	Value (US$ m)	Share (%)		Value (US$ m)	Share (%)
1 China	$ 788	33.5%	1 Thailand	$ 2,710	66.1%
2 Thailand	$ 667	28.4%	2 China	$ 461	11.2%
3 Vietnam	$ 429	18.3%	3 Vietnam	$ 262	6.4%
4 Japan	$ 96	4.1%	4 South Korea	$ 154	3.8%
5 India	$ 67	2.8%	5 Japan	$ 77	1.9%
Other	$ 303	12.9%	Other	$ 436	10.6%
Total	$ 2,350	100%	Total	$ 4,100	100%

Source: UN Comtrade.

Table 35: China's Goods Trade with Laos

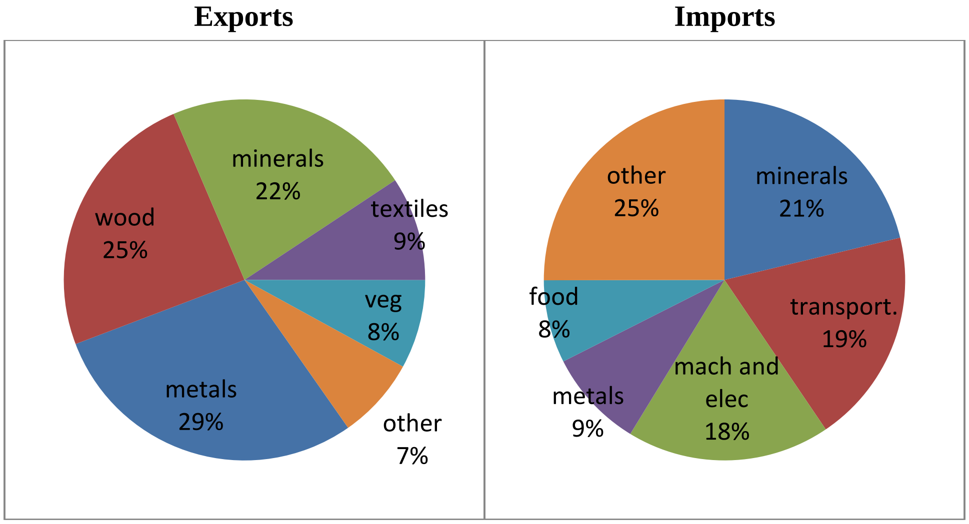
(US$ millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
export	98	101	105	169	177	268	268	482	478	934	1,721
import	11	13	26	50	85	149	337	562	803	785	1,021
balance	87	88	80	119	92	119	-68	-80	-326	149	701

Source: China Ministry of Commerce, via CEIC database.

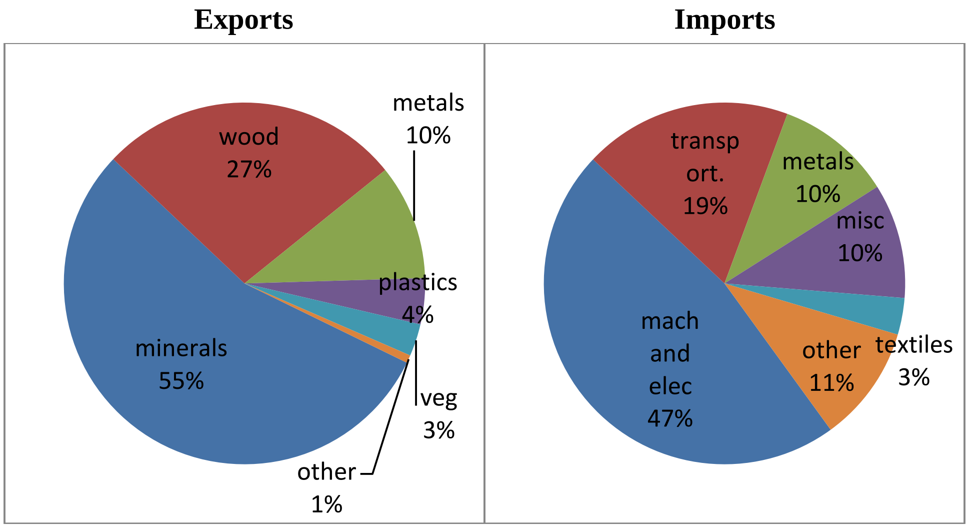
Laos's primary global exports are natural resources—metals, minerals, and wood—which comprised 76 percent of the country's total exports in 2011 (see Figure 21). Natural resources occupy 87 percent of Laos's exports to China as well, though within this category, minerals account for an inordinate share (see Figure 22). As in the case of Cambodia, Laos ships almost no textiles to China, even though this is clearly a sector in which it enjoys a comparative advantage. As an import partner, China is a dominant provider of heavy manufactures: s machinery and electrical products and transport equipment make up 37 percent of Laos's imports from the world, but 66 percent of its imports from China.

Figure 21: Breakdown of Laos's Trade with the World, 2011



Source: UN Comtrade.

Figure 22: Breakdown of Laos's Trade with China, 2011



Source: UN Comtrade.

The stock of Chinese FDI in Laos has grown in the past decade from $9 million in 2003 to $2.8 billion in 2013 (see Table 36). In 2003, Chinese investment contributed just under 1.5 percent of total FDI in Laos; by 2012, it contributed 77 percent. China has been investing in major commercial, residential, and tourist ventures such as the That Luang Lake development project, valued at $1.6 billion.[104] Chinese companies are building a railroad between Yunnan province in the southwest and Vientiane, the capital of Laos. The project, funded by a loan from China to the Laotian government, is expected to cost $7.2 billion—equivalent to 75 percent of Laos's GDP.[105]

Table 36: Stock of Chinese FDI in Laos

(US$ millions)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
9	15	33	96	302	305	536	846	1,276	1,928	2,771

Source: China Ministry of Commerce, via CEIC database.

China has made other goodwill gestures toward Laos. In 2013, China agreed to provide Laos $49 million in grant aid, and $32.6 million in interest-free loans.[106] In early July 2014, Laos and China agreed to upgrade the Boten-Bohan cross-border area into an economic cooperation zone.[107] A pressing concern for both countries is human and drug trafficking in the Golden Triangle. Laos was party to a 2004 human trafficking MOU signed between China and Burma.[108]

Note on Data

This paper relies on two primary sources of data:

- Data for countries' top trading partners and the breakdown of their trade with the world and China (by product and commodity type) comes from the World Integrated Trade Solution (WITS) database, which integrates data from the World Bank and the United Nations. In most cases, 2013 was the last year when comprehensive data was available for all countries.
- Data on Chinese FDI and Chinese bilateral trade with each country comes from China Ministry of Commerce.

Different accounting practices and lagged collection of data have resulted in some discrepancies between official Chinese government statistics and data available from World Bank or its partners in the WITS database. Every effort has been made to make note of such discrepancies in the paper. Where necessary, official data has been supplemented with data from private sources, including research institutions and business consultancies.

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