

MARITIME INSTITUTE OF MALAYSIA

**ENTER THE DRAGON :
CHINA'S ENTRY INTO
THE WTO AND
ITS IMPACT ON
ASIAN ECONOMIES**

NAZERY KHALID
Research Fellow

3rd Trans Asia 2006 China
Dalian, 25-26 April 2006

Advancing the Frontier of Maritime Knowledge



Presentation outline



- China's economic ascent and the factors behind the rise.
- Effects on Asian economies and their competitiveness.
- China's entry into WTO and its impact on Asian economies and competitiveness.
- Overheating signs and countermeasures.
- Future outlook.

China's economic ascent



- China is now the fourth largest economy, approx. US\$2 trillion or 13% of world GDP.
- For the last decade, its GDP has been growing steadily close to 10% per annum.
- 9.9% GDP in 2005, 10.2% in 1Q 2006.
- Its rapid rise had lifted 220 mil. Chinese out of poverty.
- In 2005, its forex reserves rose to US\$875 bil. from US\$610 bil. in 2004.

China's economic ascent



- Consumers, MNC and retailers have prospered on Chinese exports and trade.
- China's appetite for commodities have pushed prices up.
- At current rate, China will overtake Japan as the 2nd largest economy and rival US as the biggest in 2040.
- World Bank forecast 8.7% growth for China in 2006.

Factors behind the rise



- Reforms and opening of the economy have spurred market economy.
- Rapid growth powered largely by FDI, fixed-asset investments and exports.
- Global trend of outsourcing has benefited China's low-cost and skilled labor.
- Inflation is low, consumer spending rising.
- Increased bank lending & trade surplus have stimulated growth in money supply.

Factors behind the rise



- Accession into WTO in 2001 brought it into the mainstream global economy.
- Political and diplomatic climate conducive to China's dependence on FDI, open markets, secure borders & non-ideological ties with its neighbors.
- Professed "peaceful rise" policy striking a positive chord with neighbors and partners.

*China's maritime muscle

* (ex-Hk / Figures as at 1/1/2005)



- China is the fourth most important maritime nation, with 2,612 vessels of 56.8 mil DWT (6.8% of world total).
- Capacity to rise to 5 bil. tons of cargo/ 130 mil. TEU by 2010 (versus 4 bil . / 62 mil. in 2003).
- Shanghai is set to become the world's busiest port by 2010.

China's maritime muscle



- China is third in terms of share of world trade generated (in values term) at 6.2%, after US (12.6%) and Germany (8.8%).
- China has 7 of the world's top 20 ports.
- Cargo boom from river throughput barged from Pearl River resulting in faster growth of South China ports like Shenzhen over Hong Kong port.

China's maritime muscle



- COSCO & China Shipping are among the world's top 10 container service operators.
- Shanghai is slated to become the world's busiest port by 2010, handling 25 mil. TEU and doubling current capacity.
- Ningbo port notched the highest growth in TEU traffic, growing 44% b/w 2003-04.

China's impact on maritime sector



- China, the world's 3rd largest trading nation, is a global shippers' haven.
- Its economic rise has buoyed freight rates.
- It has to import oil, iron ore & metals to keep its factories running.
- Its exports of toys, clothes, electronic gadgets account for 40% of its GDP.
- Explosive trade has fueled port expansions and shipping boom.

China's impact on maritime sector



- Fuelled by China, freight rates have peaked but container rates have slid.
- Current slide in rates suggest capacity may exceed demand and good times are coming to an end.
- Global shipping volume is expected to rise 10% annually in the coming years.
- Shipping capacity is expected to increase 15%, hence limiting shippers' charge.

China's impact on maritime sector



- Container ship calls at China's ports soared 30%, compared to 10% rise in global calls in 2005.
- Demand for ships on Chinese routes helped powered the sector.
- Aims to be world's largest shipbuilder by 2015 (24 mil DWT / 35% global capacity).

China's impact on maritime sector



- Caution : if these capacity rest idle, shipping rates worldwide will suffer.
- Rise goes up when cargoes are tied at congested ports.
- Baltic Dry Index has halved from its peak of 76,172 in Dec 2004.
- China's supply-driven maritime capacity build-up is ahead of pace of growth.

China and WTO



- China's entry into WTO has helped catalyze its economic boom.
- China granted PNTR status by US in 2000, paving the way to its WTO entry.
- With WTO status, the floodgate was opened for FDI to pour into China.
- Many MNCs use China as final assembly point in their global production networks.

China and WTO



- China applied admission into GATT 1986.
- China granted PNTR status by US in 2000, paving the way to its WTO entry.
- China's entry into WTO in Nov 2001 has helped catalyze its economic boom.
- With WTO status, China adapted rules-based trade regime & market economy.
- Floodgate was opened for FDI to pour in, import barriers & trade restrictions cut.

China and WTO



- Active involvement in globalization and regional integration have boosted growth.
- Between GATT and its entry into WTO in 2001, China learned much about economic globalization and trade liberalization.
- It entered APEC in 1991, its first regional grouping, and joined many others since.

China and WTO : Positive impacts on Asia



- Trade with China in WTO helped SEA countries to get out of economic crisis.
- Access of Asian goods improved to huge Chinese market.
- Asian investors poured into China.
- Many MNCs use China as final assembly point in their global production networks.
- Many distorted trade policies rectified.

China & WTO : Positive impacts on Asia



- WTO membership increases China's buying power for Asian goods and access to its market, hence boosting their exports.
- Stronger Yuan, helped by WTO accession, reduces the need for regional central banks to sell their currencies to maintain competitiveness.

China & WTO : Negative impacts on Asia



- China is sucking up FDI in manufacturing destined for SEA.
- China's low cost goods have replaced goods of competitors in several markets.
- Flood of manufactured exports can potentially spark trade friction like with US, Europe, Brazil and Mexico.

China & WTO : Negative impacts on Asia



- The 'China factor' prolongs Asia's exports dependency, leading to trade imbalance & stagnant domestic growth / demand.
- The 'produce goods cheaply and ship them to rich nations' model renders the region's economies vulnerable.
- Regional currencies rising on Yuan factor may make Asian exports uncompetitive.

China's approach in WTO



- WTO meet in HK demonstrated China's 'quiet approach' instead of muscle flexing.
- It's seen as taking a stand of negotiating its economic interests on the sidelines.
- China's clout in WTO seems restricted amid growing signs of protectionism. US & EU introduced quotas to limit Chinese textile exports.

China's approach in WTO



- Prior to joining WTO, China championed the cause of developing poor nations.
- In WTO, China prefers bilateral negotiations over universal ones.
- But as its trade with the world reached US\$1.2 tril. in 2005, China would be more keen in freer trade.
- Eventually, China's WTO focus would be centered around self-interest rather than pushing the developing countries' cause.

China in WTO and Asian competitiveness



- WTO meet in HK proposed tariff elimination imposed by rich nations on exports from poor countries.
- Despite this, poor Asian nations will continue to struggle against China.
- They will still face weak transport links, unskilled labor & poor credit markets.
- Many torn between walling off domestic interests & tearing down barriers.

China in WTO and Asian competitiveness



- WTO dismantling of quotas on textile favored China. Other countries have been told to promote other exports in which they are competitive.
- Extra costs faced by manufacturers in poor Asian nations illustrate difficulty of competing with China.
- Productivity in Laos still poor vs China. Competitive edge in labor negated by low productivity.

China in WTO and Asian competitiveness



- Poor Asian nations are worried that failure of further WTO talks would lead to proliferation of bilateral trade negotiations.
- They see powerful nations like China taking on their trade partners one by one and force lopsided deals that undermine their competitiveness.
- More than ever, Asia needs the WTO shield to protect against bullying tactics.

Enhancing Asian competitiveness



- Focus on harnessing competitive advantage i.e productivity & resource-based industries.
- Shift from labor-intensive industries to high-tech applications.
- Diversify growth beyond manufactured exports i.e. in services.
- Encourage R&D and tech innovation activities in business and industries.
- Improve logistics, delivery & supply chain.

In between the statistics



- Evolving supply chain is out of step with global trade figures.
- China's trade position may well be inflated.
- China's trade surplus tripled to US\$102 bil. in 2005. Exports up 20%, imports 23%
- China's revision that its output was a sixth higher suggests better need for economic management.
- China is seen as 'smoothing out' growth stats to portray stability and avoid raising alarm over its pace of growth.

Warning signs - Finance



- China has struggled to keep Yuan value down as billions of US\$ in speculative money have flooded its financial system.
- This has forced the Central Bank to absorb the foreign inflows.
- Despite revaluation of Yuan against US\$ by 2.1% in 2005, its trade partners still say it is undervalued and making its exports cheap.
- To ease the pressure, more capital outflow must be allowed out of China.

Warning signs - Transport



- Railroads lack capacity to carry coal from the north to power plants in the south.
- Port congestions used to result in delay for up to a month for bulk cargo like iron ore.
- Roads are choking – cars in China projected to surpass US by 2030.
- Logistics is an Achilles heel in China's supply chain, taking up 23% of its GDP (8% in US).
- Manual processing and bureaucracy add to delays and costs.

Warning signs - Energy



- China is now the second largest consumer of oil after US. Demand is growing 7.5% per year, 7 times more than US.
- China's energy needs accounted for 40% of total growth in global oil demand over the last half decade.
- It currently imports 1/3 of its oil, 58% from Middle East and 15% from Africa, and is projected to import 2/3 by 2025.
- Its continued dependence on energy sources might have strategic implications.

Warning signs – Income



- Widening rural-urban income gap due to static wages of farmers-turned-laborers and low price of agro products.
- Wages of migrant workers slow to increase compared with rapid rise in urban wages.
- Rural per capita income expected to reach 3,500 Yuan in 2006, rising >5% over 2004.
- Urban per capita income grew 9.6% in 2005 over 2004.
- Farmers' consumption capacity to stay low.

Addressing the signs



- Rising reserves – gradually allow market forces to dictate Yuan value to ease reserves build-up, allow more companies to invest overseas, introduce forex OTC.
- Transport bottlenecks - continue development and investments in transportation networks and logistics.
- Energy dependence – manage its energy and resource requirements better.
- Spending billions a year on equipment and new processes to tackle logistics delays.

China's economy : 'Overheating' or just 'hot'?



- Is China's economy really 'overheating'? Prices spiraling? Demand-supply choking?
- Measures have been taken to cool off 'hot' sectors like steel and cement.
- Economy has been diversified to rely less on manufacturing (46.2% of GDP in 2004) and exports and more on services (40.7%)
- Awareness of huge investment growth and money supply will lead to meaningful countermeasures.

China's economy : 'Overheating' or just 'hot'?



- Tightening of monetary policy i.e. restricting easy credit access to state-owned banks, raising reserve requirement ratio, clearing NPLs.
- Capital adequacy ratio of banks have been raised to 8% in line with Basel Accord.
- Setting official target of 8% growth in 2006 as a pace for provinces to follow.
- Development in ports, railroads and roads have eased bottlenecks.

Future outlook



- Market economy has taken root in China and is all set to power the global economy.
- China is content to let its GDP to be high.
- Economy will be more balanced, and so will investment growth and inflation.
- Income per capita to double by 2010.
- Tackling social agenda and rural poverty will be crucial.
- It must accelerate the pace of economic reform, restructuring and opening up.

Future outlook



- China will let Yuan to gradually appreciate despite pressure for faster gains.
- Growth policy to favor domestic consumption over exports.
- China must move up the value chain beyond being the 'world's factory'.
- China's 11th Five-Year Development program 2006-2010 will be a litmus test.
- Transparency is needed to curb financial risk and increase economic efficiency.

Future outlook



- China is expected to be more actively engaged with Asia via trade and economic groupings, and Africa for energy sources.
- China is set to become a more important export destination, esp. for Asian nations.
- While China has benefited from WTO and made key changes, compliance will present a real challenge.
- The rise of the dragon is set to continue and will sustain international trade growth in the years to come.

The world expects China to...



- Promote 'peaceful, open, cooperative, harmonious development'.
- Accelerate the pace of economic reform, restructuring and opening up.
- Work out a long-term regional economic development strategy.
- Continue promoting regional economic cooperation to bring much needed capital, technology and soft skills.
- Foster friendship, stability and security with its neighbors.

MARITIME INSTITUTE OF MALAYSIA

"Let a hundred flowers bloom"
(Mao Zedong)

谢谢

nazery@mima.gov.my
www.mima.gov.my

MIMA
MARITIME INSTITUTE OF MALAYSIA
INSTITUT MARITIM MALAYSIA