



China's Rise & New Regional Growth Paradigm

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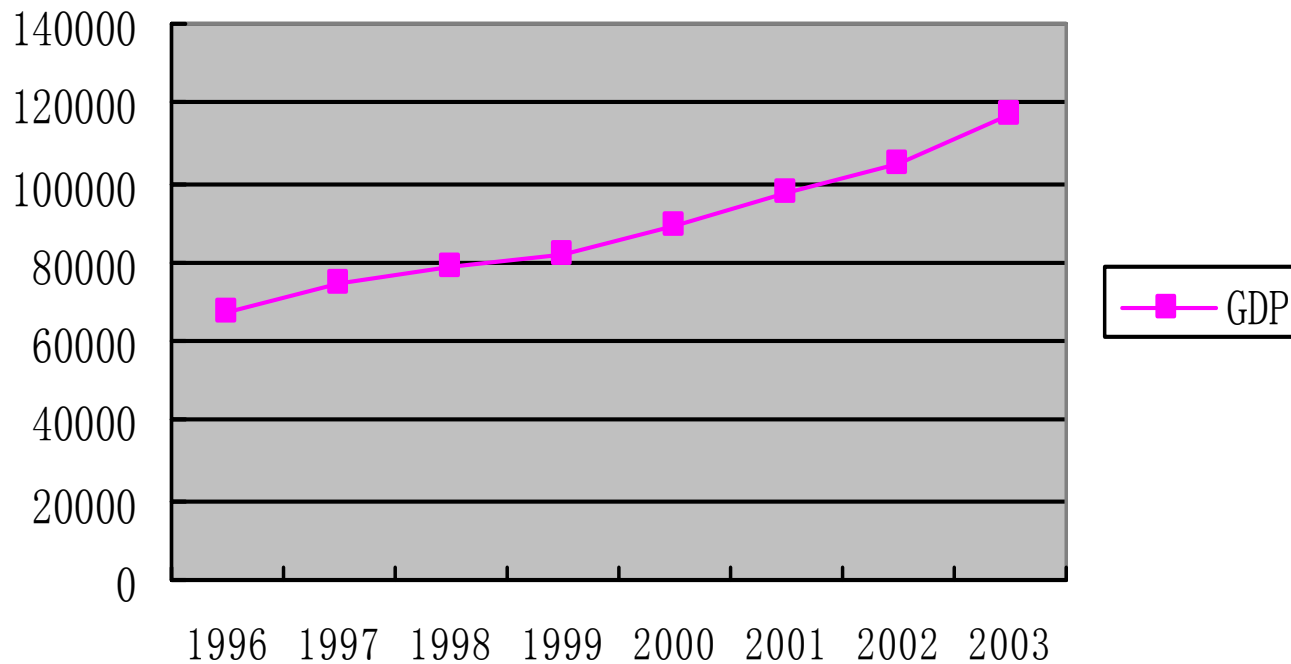


I. China's rise: figure tells

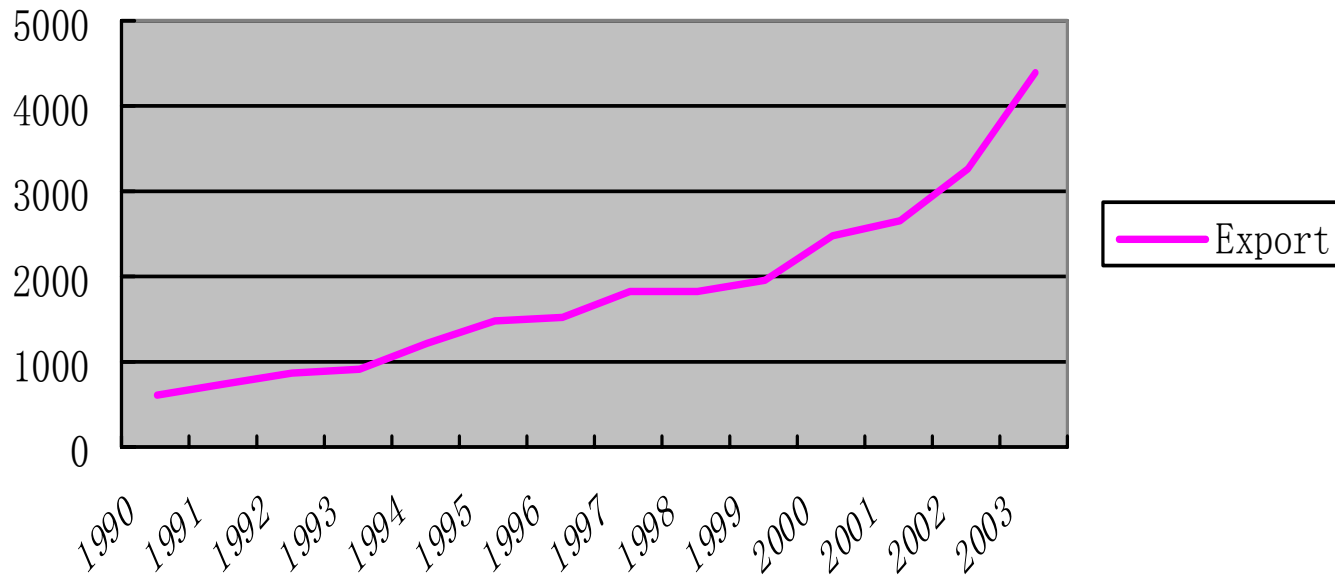
- Chinese GDP annual growth is as high as 9.4% from 1979-2002, more than two decades
- Keeping high growth trend after 1997 financial crisis, sharp comparison to many others
- Despite SARS, 2003 showed stronger growth, to unexpected 9.1%, 2004 still optimistic
- GDP/P exceeds 1000 US dollars

China's GDP growth trend

(In 100 mil. RMB)

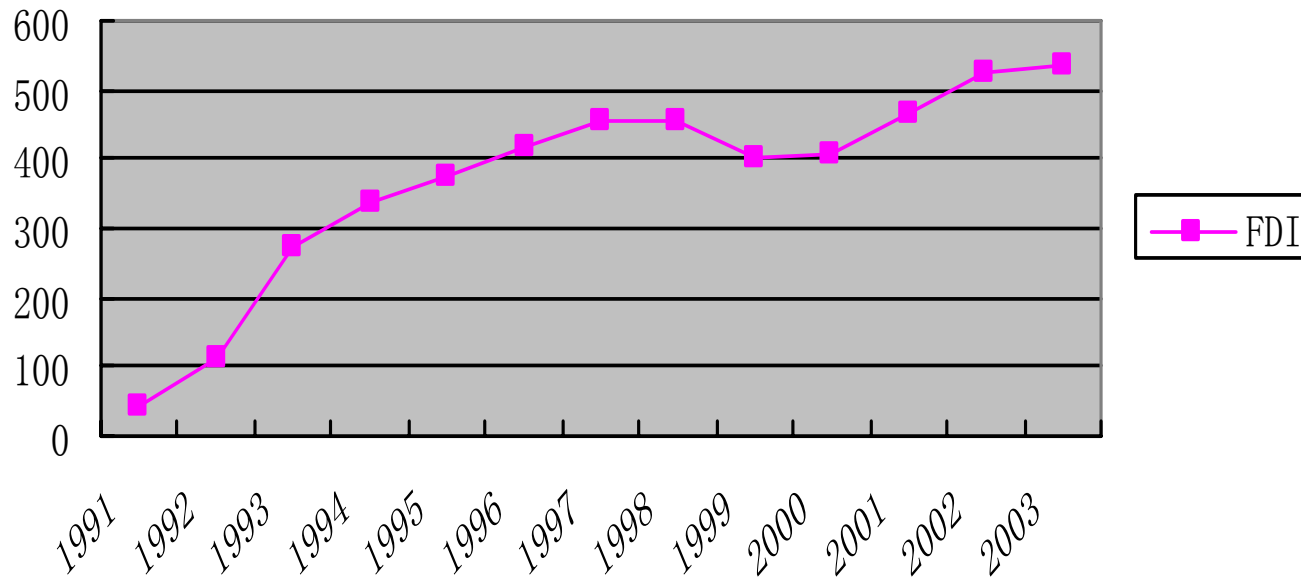


Growth trend of Exports



FDI flow to China

(In 100 mil. US \$)





II. China's rise: “a polyhedron”

- Dual faces-- competition and opportunity, big potential, but with uncertainties
- Too fast and too sizable— never happened, not well prepared



China's Rise as an Opportunity:

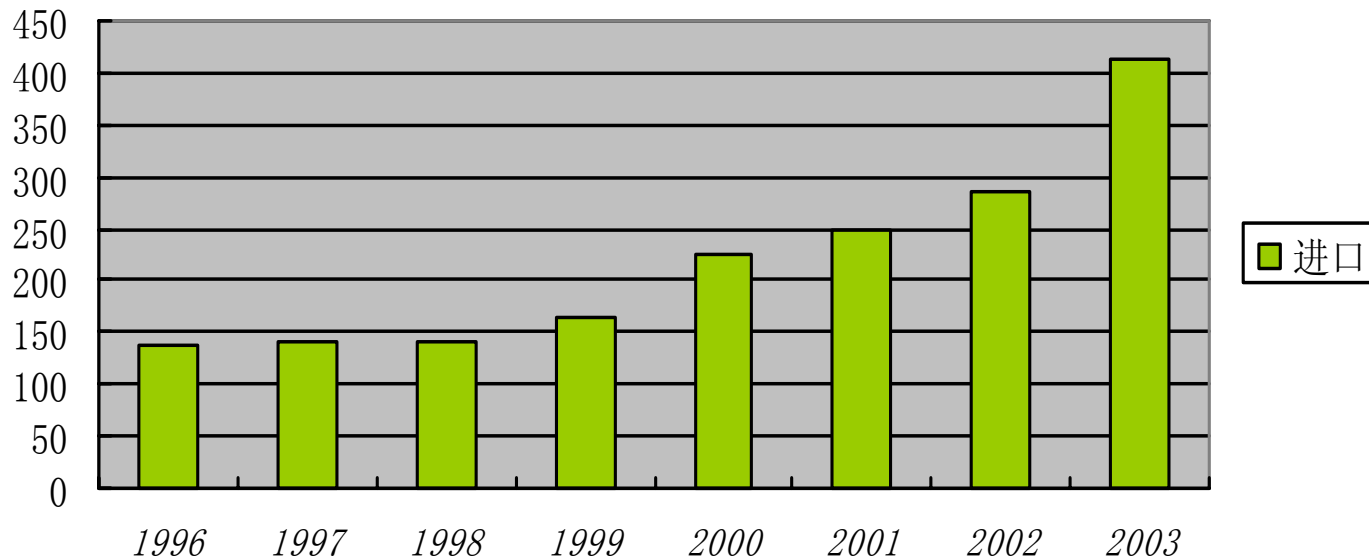
A growth engine and a big market

- China makes greater contribution to world growth—a big incremental factor
- China's imports increase significantly
- ***Import strength:***
 - Imports for exports
 - Domestic consumption
- ***As a result:***

Providing increasing market share for others' exports — largest increase of exports is to China for many economies

China's import surge

(In 100 mil. \$)





China as a Growing Competitor

- Due to its size and potential, FDI's more flow to China
- China becomes the largest producer for increasing goods
- China enjoys special advantage in cheap and abundant labors, but not just that
- Surging demand for energy, raw materials



Real Challenges to and by China

- ***Development challenges:***

Growth: bank bad loans—prepare for a slowdown?

Transition: growing gaps, migrant labors

Political reform: how, when & model

- ***How to use its power:***

“Back to the middle kingdom”?

China-US conflict: can avoid?

Taiwan issue: difficult choice



Good News from New Leaders

- Emphasize a “balanced development”, dealing with emerging problems along with high growth
- Adopting a “realist” foreign policy: emphasizing consultation and cooperation



III. A New Regional Growth Paradigm?

- China's rise is different from Japan and 4 dragons: FDI creates horizontal network
- Due to its size and potential, China will become a major market for the region
- China needs to change its growth pattern, a very high export growth not sustainable



The Old Growth Chain: Flying Geese

Flying geese model:

60s Japan ➤ 70s four dragons ➤ 80s
ASEAN4 ➤ 90s...China?

Capital flow:

Japan to ASEAN after 1985

Four dragons to ASEAN after early 90s



Missing Market

East Asian economic growth highly relied on US market:

Japan ➤ US: No1. export market, surplus

4 dragons ➤ US: surplus

ASEAN ➤ US: surplus

Japan as the 2nd largest economy fails to provide a growing market

ASEAN ➤ Japan: deficit

4 dragons ➤ Japan: deficit



97 financial crisis:

Another explanation

- ***“Market traffic”:***

More exporters, fierce competition: trade balance worsened—as a result, confidence of currencies shacked

- ***“Broken Growth chain”:***

Japan become a “fallen leader goose”
China is not a simple extended chain link

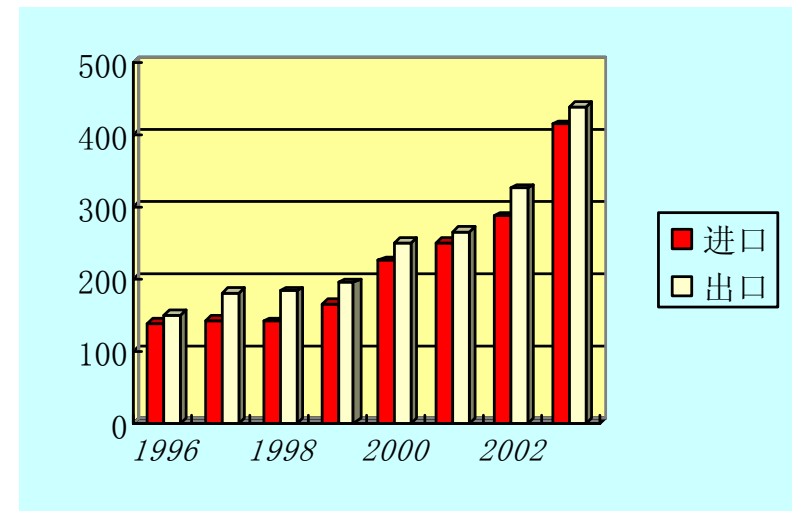
Network building: A new structure



- FDI to China create a new network of production and service: China becomes a hub for MNCs in the region
- A new trade-investment relation emerges: intra-regional transactions increased

China's import surge

- In 2003, China's imports increased 12.6 bil.\$, exports 11.3 bil.\$
- China's imports from E. Asia in 2003 250 bil. \$, 7.5 bil. more than 2002.

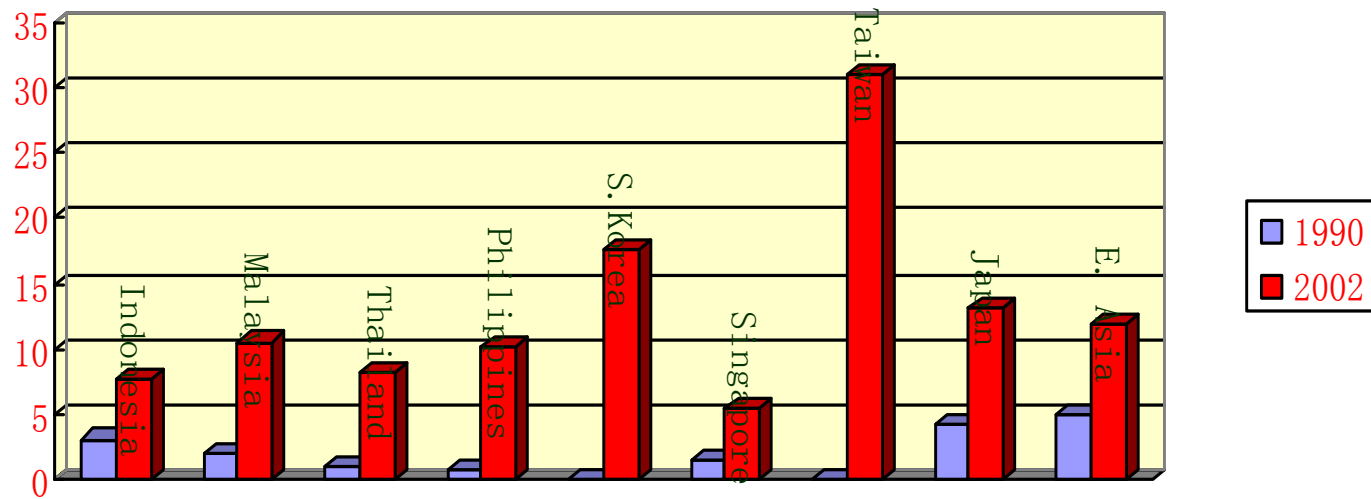




China's new role

- Re-allocating exports and trade surplus (especially for 4 dragons)
- As a hub for production network (not just for exports, but also for local sales)
- A growing market for the region due to re-exports and domestic increased demand (1/3 of world increased energy demand from China)
- An emerging investor (2 bil.\$ in 2003)

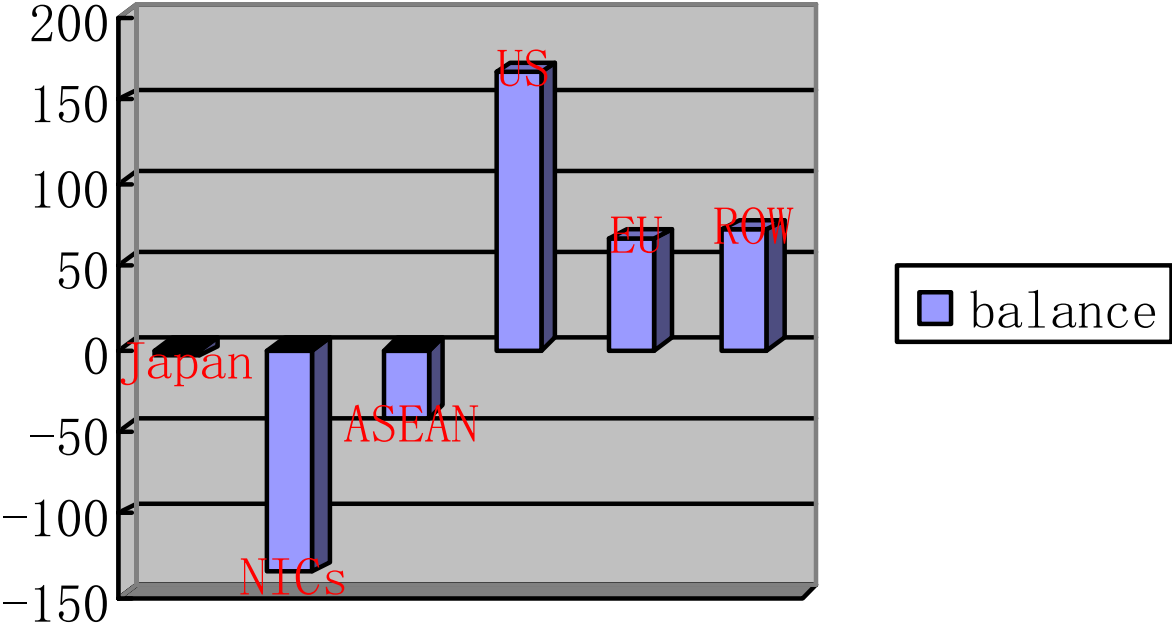
Changing Export Shares to China



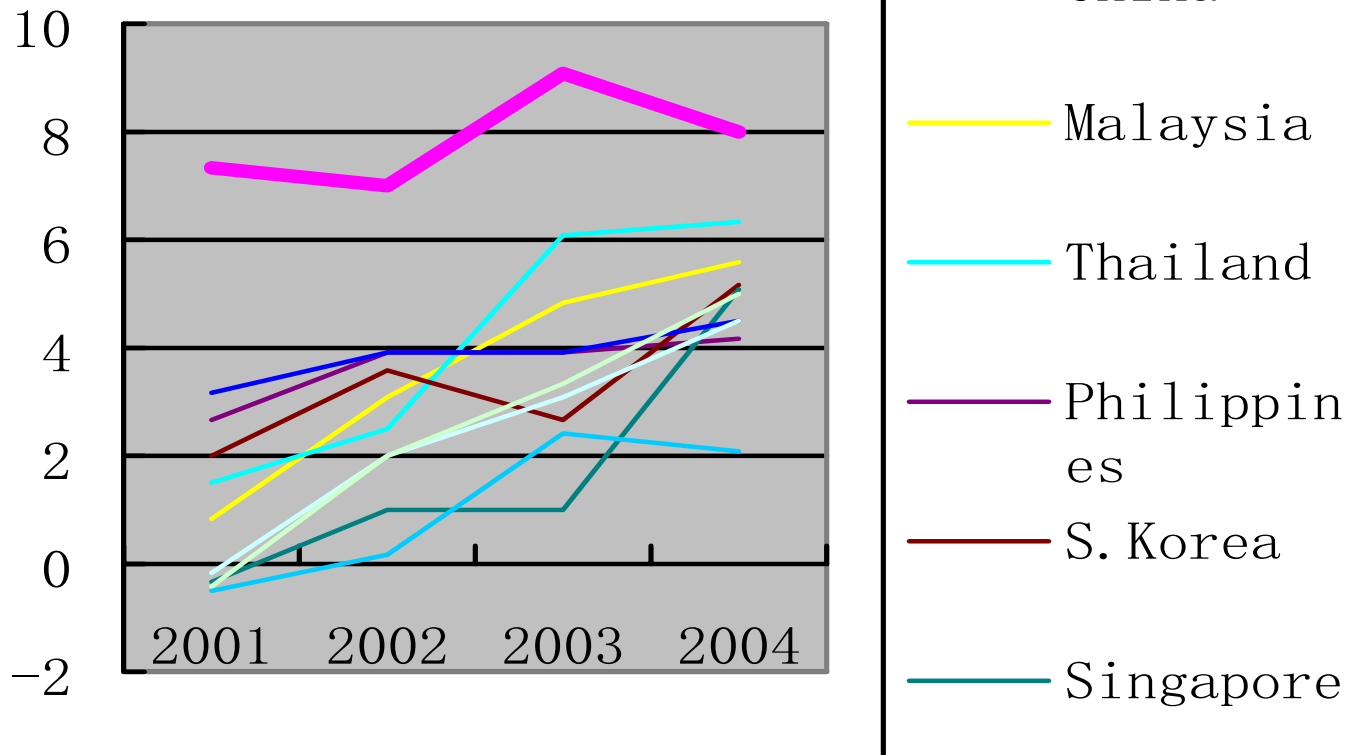
China's Trade Balance:

Capital contribution to the region

(2020, ADBI)



A Clear linear: Growth of China and the Region





Does a New Pattern Emerge?

- US market is still important, but exports to it stagnated and even declined
- New FDI network creates a stable and increasing market for the region
- China emerges as a big market for exporters with huge potential
- If China's current trend continues, Asia may establish a new growth paradigm



Nature of New Growth Pattern

- Network model is different from traditional “top-down” model:
 - FDI horizontal network division of process creates “multi-processes” among many economies
 - Wealth distribution decentralized, “parallel development”, or “bamboo economy”
 - Intra-regional trade and investments grow



Does Regionalism Help?

- Intra-regional trade and investment in E. Asia will be further enhanced if RTA formulated
- E.Asian FTA follows “new open regionalism”, not an exclusive bloc.
- The key is converge current multi-layered RTAs into a consolidated one.