

Book Review*

ELLEN H. PALANCA, editor, 2002. *China's Economic Growth and the ASEAN*. Philippine APEC Study Center Network and Philippine Institute for Development Studies, Manila. ISBN 971564032X

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China's rapid integration into the global economy from the late 1970s has been a landmark development in the postwar international economic order. *China's Economic Growth and the ASEAN*, a compilation of six studies arising from a research project launched by the Philippine APEC Study Centre Network (PASCN), provides the first comprehensive study of the implications of China's involvement in the global economy for the five major members of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, Philippines, Singapore and Thailand.

The editor's opening chapter summarizes the key findings and policy inferences of individual contributions in the context of a lucid overview of China's policy reforms and economic transformation over the past three decades. In Chapter 2, Joseph Lim examines China's growth record in the 1990s and its implications for foreign trade and foreign direct investment (FDI) in the ASEAN member-countries. Raul Fabella (Chapter 3) undertakes a theoretical analysis of the 'great dragon effect'—the regional economic ramifications of China's emergence as an economic powerhouse—in the context of the standard Heckscher-Ohlin-Samuelson framework. Ellen Palanca (Chapter 4) analyses patterns of trade between China and ASEAN and the policy options available for the latter to deal with the great dragon syndrome. Rosalina Tan (Chapter 5) writes on trends and patterns of FDI flows to and from China and the effects of these flows on four ASEAN countries. Aileen Baviera (Chapter 6) studies the political and security underpinnings of China's economic relations with ASEAN. Finally, Benito Lim (Chapter 7) undertakes an in-depth analysis of the political economy of Philippine-China

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economic relations with a focus on factors contributing to Philippine's failure to benefit fully from China's economic expansion over the past two decades.

The theoretical analysis in Chapter 3 predicts that the emergence of China (a labor-abundant and capital-scarce country) as an economic powerhouse is likely to crowd out prospects for export-oriented industrialisation for ASEAN countries with similar factor endowments. However, the empirical evidence on trade and investment patterns presented in the relevant later chapters runs counter to this prediction. The failure to come up with a convincing explanation of this discrepancy between theory and reality is a glaring gap in this volume. Rather than shed light on the debate, the editorial overview adds more heat to it by suggesting 'competitive advantage rooted in specialization through horizontal division of labour' (pp. 20-21) as a major factor in the resilience of ASEAN countries to China competition. No empirical evidence is presented in support of the hypothesis, but those with some understanding of the commodity composition and ownership structure of the trade pattern of these countries know that this 'business school' approach is of little use in explaining the phenomenon at hand.

Unfortunately, two credible explanations arising from recent analyses of trade patterns in the region as to why China's trade expansion has not crowded out exports from ASEAN countries have been overlooked in the book. First, as Lardy (2002) has vividly demonstrated, rapid growth of labor-intensive exports from China largely reflects the displacement of supplies from the first-tier newly industrialized countries in East Asia (Hong Kong, Taiwan and South Korea). Second, 'splicing of production' (product fragmentation) within high-tech industries (electronics, electrical equipment and motor vehicle in particular) has opened up new and rapidly expanding opportunities for vertical specialisation within these industries in the region (Yeats 2001).

The absence of direct competition from China for FDI inflows to ASEAN countries can, to a significant extent, be explained by the fact that a large share of FDI inflows to China (over 70%) originates in 'Chinese-based' sources such as Hong Kong, Taiwan, Macao and Singapore. It is unlikely that China's absorption of these (unique) flows is detrimental to other investment-receiving countries in the region. Moreover, a significant part of reported FDI inflows from Hong Kong to China (accounting for over 60 per cent of China's total official inflow) is in fact capital that originates on the mainland and returns to it disguised as Hong Kong investment ('round-tripping' capital) to take advantage of tax, tariff and other benefits allowed to foreign-invested firms (Wei 2000).

China's Economic Growth and the ASEAN seems to be the unfortunate victim of a long publication lag. The time coverage of the analysis in most chapters ends in the mid 1990s. Two important recent developments

conspicuous for their omission are China's accession to the World Trade Organization in October 2001 and the creation of the 'ASEAN + 3' regional economic grouping, which aims to promote economic cooperation between ASEAN and the three major economies in Northeast Asia-China, Japan and South Korea.

Despite these shortcomings, on balance, the reader of this book would gain considerable insights into the regional and global economic implications of China's steady integration into the global economy.

References

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