

# PERSPECTIVE

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## **Divergence and Displacement: Southeast Asia-China Trade, 2013-2018**

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### **EXECUTIVE SUMMARY**

- From 2013 to 2018, China's share of exports increased for each of the ten Southeast Asian economies. China's share of imports increased for 8 out of 10. Only Vietnam and Laos saw China's share drop.
- Over this period, China's trade with mainland Southeast Asia, outside Thailand, has become more balanced with impressive increases in exports to China from Cambodia, Laos, Myanmar and Vietnam.
- China's trade with maritime Southeast Asia has however become more unbalanced as imports to Brunei, Indonesia, Malaysia and the Philippines have surged.
- From 2013 to 2018, China and the USA became more important export markets for each of the ten Southeast Asian economies. The rest of Southeast Asia became a less important export market for each of the five mainland Southeast Asian economies and Singapore.

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## **INTRODUCTION**

Becoming the world's largest trading economy has been central to China's re-emergence as Asia's leading power. For optimists, this promises a new China-centred Asian Century of mutual benefit. For pessimists, growing economic dependence on China is reducing states' autonomy by enhancing China's leverage over them.

Southeast Asian economies – geographically close to China, bound to China by regional production chains and individually much smaller – have each seen their trading relations with China change significantly over the last six years. A close look at China aggregate trade figures with Southeast Asia over this period highlights China's growing importance as an export market and trading partner for all Southeast Asian states, and the different trajectories of China's trade with the poorer mainland Southeast Asian economies and the wealthier maritime Southeast Asian ones. A comparison with Southeast Asian economies' trade flows with the USA, Japan and Southeast Asia itself raises serious questions about the supposed displacement of the USA by China in the region, and the effectiveness of ASEAN-led efforts to deepen Southeast Asian economic integration and reduce the intra-regional development gap.<sup>1</sup>

## **CHINA (ALMOST) #1**

The oft-repeated claim that China is the top trading partner for each Southeast Asian economy is still a prediction presented as a reality. Brunei trades more with Japan than with China despite China accounting for almost two-fifths of Brunei's total imports in 2018. In 2018, Brunei's exports to Japan were ten times larger than to China. Thailand is Laos' largest export market and source of imports. In 2018, Laos' total trade with Thailand was twice as large as trade with China and Thailand's lead over China increased between 2013 and 2018 in dollar terms.<sup>2</sup>

In 2018, China was the largest source of imports for 9 of the 10 Southeast Asian economies. Last year, China was the largest national export market for four Southeast Asian economies – Indonesia, Myanmar, Singapore and Thailand; and the second largest for three – Laos, Malaysia (after Singapore) and Vietnam (after the USA). China was the third largest national export market for the Philippines, the fifth largest for Cambodia, and only the eighth largest for Brunei.

From 2013 to 2018, the importance for China as a trading partner increased significantly for each Southeast Asian economy. China's share of exports has increased over the last six years for each Southeast Asian economy, as shown in Table 1 below in the statistical annex. Singapore saw the lowest growth rate in exports, at only 4.3%, while Cambodia, from a low base, benefitted from growth of 251.1%. Vietnam's more substantial exports to China more than doubled.

In 2013, China had a trade surplus with nine Southeast Asian economies with Singapore being the only exception, as shown in Table 3. From 2013 to 2018, China's share of imports increased for eight Southeast Asian economies with Vietnam (at -0.3%) and Laos (at -4.7%) bucking this trend as shown by comparing Tables 5 and 7. For six of the ten Southeast Asian

economies, the share of Chinese imports has grown substantially more over the last six years than China's share of exports has shown by comparing Tables 1 and 2.

Over the last six years, the trade balance with China deteriorated for all Southeast Asian economies except Laos which saw a trade deficit transform into a trade surplus, as shown in Table 3. Singapore's trade surplus with China shrank by over 80% from 2013 to 2018, while the other eight Southeast Asian economies saw their trade deficits with China expand. For Vietnam, the deficit has only grown very slightly due to the sharp increase in exports to China whereas the Philippines and Brunei have seen their respective deficits expand by almost 6 times on the back of huge increases in imports from China, as shown in Table 2.

### **SOUTHEAST ASIAN DIVERGENCE**

While China is an increasingly important export market and trading partner for all ten Southeast Asian economies, the composition of this growing China trade is distinctly different for the region's six wealthier, more globally integrated economies and the poorer, emerging economies of Cambodia, Laos, Myanmar and Vietnam. From 2013 to 2018, these four economies saw exports to China boom as shown in Table 1 with exports from Cambodia growing by 251.1%, from Vietnam by 211.2%, from Laos by 99.2%, and from Myanmar by 82.1%. Brunei, from a very low base, came next with exports to China growing by 48.1% from 2013 to 2018 followed by the Philippines at 32.1%.

Not only did the exports to China from these four mainland Southeast Asian economies boom, they were the only four economies in Southeast Asia that saw the growth rate of exports to China outpace the growth rate of imports from China from 2013 to 2018, as shown by comparing Tables 1 and 2. Laos even experienced a decline in the dollar value of imports from China. For Brunei, Indonesia, Malaysia, the Philippines and Thailand, the story is very different. These five economies saw the rate of growth in imports from China from 2013 to 2018 far outstrip the rate of growth in exports to China, leading to growing and in some cases yawning trade deficits.

This surge in exports to China from Cambodia, Laos, Myanmar and Vietnam in absolute terms and relative to imports from China has benefitted the development of these economies and Southeast Asia. The growing openness of China to imports from these four economies supports their economic development and employment creation. This export surge also makes a positive contribution in reducing the development gap between mainland and maritime Southeast Asia, a particular concern for the ASEAN Economic Community.

However, greater exports to China and China's growing importance as an export market for these four poorer economies do make them more vulnerable to future Chinese economic coercion. Vietnamese lychee exporters suffered a sharp drop-off in sales to China, the dominant export market for Vietnamese lychees, in 2014 during a period of heightened political and security tensions between Vietnam and China.<sup>3</sup> For Indonesia and the Philippines in particular, the growing trade deficits with China can become a political problem when, as with the current Jokowi and Duterte administrations, incumbent administrations are labelled by their opponents as being too permissive of greater Chinese influence in their respective countries.

## CHINA COMPARED

Comparing China's trade figures with Southeast Asian economies from 2013 to 2018 with those of the USA, Japan and Southeast Asia (as shown in Tables 4, 5, 6 and 7) highlight four distinct differences:

- The comparison underlines the growing relative as well as absolute importance of China as a trading partner for Southeast Asia as a whole and for all Southeast Asian economies except Laos and Singapore. Trade with Thailand has become relatively more important to Laos than its trade with China over this period. The relative growth in Singapore's trade with the USA, particularly on the export side, has been greater than that with China over this period.
- The importance of the USA as a trading partner for Southeast Asian economies is growing and is not being displaced by China. The share of exports to the USA increased for each of the 10 Southeast Asian economies from 2013 to 2018, and the USA is the top export market for Cambodia, the Philippines and Vietnam. The US share of imports increased for six Southeast Asian economies and particularly for Cambodia. Increasingly frequent and loud assertions about the relative decline of the USA and the displacement of the USA by China in Southeast Asia are wrong in relation to trade flows.
- While the USA is neither declining nor being displaced by China, the figures suggest that this is Japan's fate. Japan's share of exports fell for six Southeast Asian economies from 2013 to 2018, while its share of imports fell in six Southeast Asian economies as well. For Brunei, Indonesia, Malaysia and Vietnam, Japan's share fell for both exports and imports. Only in Cambodia and Singapore did Japan's share increase for both exports and imports.
- While China's trade with Cambodia, Laos, Myanmar and Vietnam is becoming more balanced on the back of strong exports to China, the opposite is happening for these four economies when it comes to trade with the rest of Southeast Asia. From 2013 to 2018, the share of exports to Southeast Asia fell for each of these four economies and quite sharply for Cambodia (-8.2%) and Myanmar (-23.9%). At the same time, the share of imports from Southeast Asia increased significantly for Cambodia (+9.6%), Laos (+5.3%) and Myanmar (+11%). Southeast Asia's share of imports to Vietnam fell during this period. Vietnam is the only economy in Southeast Asia where Southeast Asia's share fell for both exports and imports.

The growing absolute and relative importance of China as a trading partner and export market for all Southeast Asian economies is good for each of them and for Southeast Asia as a whole. It is also good that this is occurring at the same time that the USA is becoming a more important export market for all Southeast Asian economies and a more important trading partner for all Southeast Asian economies except Brunei.

China is the most important trading partner for Southeast Asia but is far from being the dominant one.

**STATISTICAL ANNEX**
**Table 1: Southeast Asian Exports to China (\$mln)**

	<b>2018</b>	<i>share</i>	<b>2013</b>	<i>growth</i>
Brunei	234	<b>3.6%</b>	158	<i>48.1%</i>
Cambodia	983	<i>8.1%</i>	280	<b>251.0%</b>
Indonesia	27,127	<i>15.1%</i>	22,601	<i>20.0%</i>
Laos	1,918	<b>33.6%</b>	963	<i>99.2%</i>
Malaysia	34,390	<i>13.9%</i>	30,711	<i>12.0%</i>
Myanmar	5,560	<b>33.2%</b>	3,053	<i>82.1%</i>
Philippines	8,699	<i>12.9%</i>	6,583	<i>32.1%</i>
Singapore	50,619	<i>12.3%</i>	48,537	<b>4.3%</b>
Thailand	30,072	<i>12%</i>	26,806	<i>12.2%</i>
Vietnam	41,268	<i>17.3%</i>	13,259	<b>211.2%</b>

**Source: CEIC Database**
**Table 2: Southeast Asian Imports from China (\$mln)**

	<b>2018</b>	<i>share</i>	<b>2013</b>	<i>growth</i>
Brunei	1,636	<b>39.4%</b>	406	<b>303.0%</b>
Cambodia	6,761	<b>34.6%</b>	3,002	<b>125.2%</b>
Indonesia	45,538	<i>23.7%</i>	29,849	<i>52.6%</i>
Laos	1,553	<i>21.2%</i>	1,824	<b>-14.9%</b>
Malaysia	43,337	<i>22.6%</i>	33,740	<i>28.4%</i>
Myanmar	6,223	<b>32.0%</b>	3,663	<i>69.9%</i>
Philippines	21,394	<i>19.6%</i>	8,837	<b>142.1%</b>
Singapore	49,666	<i>13.4%</i>	43,685	<i>13.7%</i>
Thailand	50,158	<i>20.1%</i>	37,595	<i>33.4%</i>
Vietnam	65,438	<i>28.3%</i>	36,954	<i>77.1%</i>

**Source: CEIC Database**
**Table 3: Southeast Asian Trade Balances (\$mln)**

	<b>2018 China</b>	<i>2018 total</i>	<b>2013 China</b>	<i>2013 total</i>
Brunei	-1,402	<i>+2,415</i>	-248	<i>+7843</i>
Cambodia	-5778	<i>-7323</i>	-2722	<i>+29</i>
Indonesia	-18,411	<i>-11,864</i>	-7248	<i>-4077</i>
Laos	+365	<i>-1617</i>	-861	<i>-3465</i>
Malaysia	-8,948	<i>+55,732</i>	-3029	<i>+22,274</i>
Myanmar	-663	<i>-2,695</i>	-609	<i>-655</i>
Philippines	-12,696	<i>-41,489</i>	-2,254	<i>-14,036</i>
Singapore	+953	<i>+42,076</i>	+4,852	<i>+39,091</i>
Thailand	-19,786	<i>+1,234</i>	-10,790	<i>-25,140</i>
Vietnam	-24,169	<i>+7,559</i>	-23,695	<i>-515</i>

**Source: CEIC Database**

**Table 4: Shares of 2013 Southeast Asian exports**

	China	USA	Japan	SEA
Brunei	1.4%	0.1%	<b>39.8%</b>	23.2%
Cambodia	3.0%	<b>22.5%</b>	3.6%	14.0%
Indonesia	12.4%	8.6%	14.8%	<b>22.3%</b>
Laos	27.0%	0.8%	2.8%	<b>54.0%</b>
Malaysia	13.4%	8.1%	11.1%	<b>28.1%</b>
Myanmar	26.6%	0.1%	6.8%	<b>49.0%</b>
Philippines	12.2%	<b>21.2%</b>	14.5%	16.0%
Singapore	11.8%	5.8%	4.3%	<b>31.4%</b>
Thailand	11.9%	10.1%	9.7%	<b>26.0%</b>
Vietnam	10.3%	<b>18.5%</b>	10.6%	14.3%

**Source: CEIC Database**

**Table 5: Shares of 2013 Southeast Asian imports**

	China	USA	Japan	SEA
Brunei	11.3%	12.2%	5.8%	<b>54.2%</b>
Cambodia	<b>32.6%</b>	12.1% <sup>@</sup>	1.9%	30.5%
Indonesia	16.0%	4.9%	10.3%	<b>28.9%</b>
Laos	25.9%	0.4%	1.8%	<b>63.5%</b>
Malaysia	18.1%	7.9%	8.7%	<b>26.8%</b>
Myanmar	30.2%	0.9%	13.1%	<b>35.0%</b>
Philippines	11.8%	10.8%	8.4%	<b>21.8%</b>
Singapore	11.7%	10.4%	5.5%	<b>20.8%</b>
Thailand	15.1%	5.8%	16.4%	<b>16.7%</b>
Vietnam	<b>28.6%</b>	4.0%	9.0%	16.5%

**Source: CEIC Database**

<sup>@</sup> 2013 saw a sharp surge of US imports to Cambodia. 2014 Cambodian imports from the US were 76.5% lower.

**Table 6: Shares of 2018 Southeast Asian exports**

	China	USA	Japan	SEA
Brunei	3.6%	0.9%	<b>34.7%</b>	28.1%
Cambodia	8.1%	<b>23.1%</b>	8.3%	5.8%
Indonesia	15.1%	10.2%	10.8%	<b>23.4%</b>
Laos	33.6%	2.3%	2.6%	<b>52.0%</b>
Malaysia	13.9%	9.1%	6.9%	<b>28.6%</b>
Myanmar	<b>33.2%</b>	2.9%	8.3%	25.1%
Philippines	12.9%	15.7%	14.0%	<b>16.0%</b>
Singapore	12.3%	7.7%	4.9%	<b>29.5%</b>
Thailand	12.0%	11.1%	9.8%	<b>27.1%</b>
Vietnam	17.3%	<b>19.9%</b>	7.9%	10.4%

**Source: CEIC Database**

**Table 7: Shares of 2018 Southeast Asian imports**

	China	USA	Japan	SEA
Brunei	<b>39.4%</b>	8.6%	3.9%	32.4%
Cambodia	34.6%	1.1%	3.2%	<b>40.1%</b>
Indonesia	23.7%	5.3%	9.4%	<b>23.9%</b>
Laos	21.2%	0.2%	1.9%	<b>68.8%</b>
Malaysia	22.6%	8.2% <sup>&amp;</sup>	8.2%	<b>28.9%</b>
Myanmar	32.0%	1.7%	3.6%	<b>46.0%</b>
Philippines	19.6%	7.2%	9.7%	<b>25.0%</b>
Singapore	13.4%	11.4%	6.0%	<b>21.1%</b>
Thailand	<b>20.1%</b>	6.0%	14.2%	18.2%
Vietnam	<b>28.3%</b>	5.5%	8.2%	13.7%

**Source: CEIC Database**

& derived from using Malaysian Department of Statistics figure for 2018 as CEIC Database figure for 2018 Malaysian imports from the USA was unreliable.

<sup>1</sup> All of the figures cited in this Perspective come from the CEIC database and are presented in table form in the Statistical Annex

<sup>2</sup> In 2018, Laos' total trade with Thailand amounted to \$6.916 billion while total trade with China amounted to \$3.47 billion.

<sup>3</sup> <https://news.yahoo.com/china-woes-vietnams-lychee-farmers-head-markets-064527675.html>

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