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What explains Chinese 'aggression' PREMIUM

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China's growing interest in the South-East Asian region has been in the news recently. However, its actions are, in fact, quite rational from its standpoint, and are an outcome of a combination of factors, such as protectionist measures in the US and the EU against Chinese exports; unabated price rise in China, including higher labour costs, energy prices and land rents; and the appreciation of the renminbi. In this scenario, the South-East Asian region promises access to a bigger market.

China also stands to gain by tapping into captive resources of this region, especially, minerals and energy.

CHINA AFTER 2008

The financial crisis since 2008 has seriously affected world trade, with some governments resorting to protectionist measures such as anti-dumping and countervailing measures to protect their domestic industries. Such protectionist measures are hurting China the most. During 2008, Chinese exports to the EU and the US fell by 19.4 per cent and 12.5 per cent, respectively.

Global Trade Alert (a database tracking number of protectionist measures imposed around the world) has indicated that as many as 659 measures were initiated against Chinese exports after 2008. Most of these measures originated from Russia (31), Germany (18), France (16), United Kingdom (17), Spain (16), Italy (15), Netherlands (15), Sweden (13), Austria (13), Belgium (13), Finland (13), in Europe, and USA (9). China's trade surplus fell from US\$ 298.12 billion in 2008 to US\$ 195.84 billion in 2009.

Chinese firms are looking for alternative production bases to evade such protectionist measures. Given its geographical proximity to mainland China, the South-East Asian region becomes a natural choice.

Higher Input Cost

The China growth story is still intact, making it a favoured destination among foreign fund managers. Last year, China has received more foreign funds than any of the other BRIC economies. The expectation about future appreciation of Chinese renminbi has also been an influential factor enhancing the inflow of foreign funds.

The Chinese central bank has been frantically trying to keep renminbi from appreciating further, by actively intervening in the foreign exchange market. However, such active intervention and increase in incomes in China, have resulted in overheating of the economy. Wages of migrant workers, land, property rents, and power prices, have all registered an increase.

On a year-on-year basis, as of November 2010, labour costs were up by 21 per cent, and the home prices across 70 cities in China have gone up 7.7 per cent. Estimates made in 2010 suggest minimum annual wage rates in Cambodia, Laos and Vietnam are \$600, \$434, and \$1200-1500, respectively. If one were to add the mandatory welfare allowances to the minimum annual wage rates, then the Chinese labour costs are at least double compared with other regions in South-East Asia.

Property prices are also on the rise. What is worrisome is that property prices are rising despite the government's ownership rights on land – indicating a possible real estate bubble. China has also imposed stricter pollution control norms on its industries, raising the marginal cost of producing goods in China.

Hence, Chinese firms stand to gain by shifting production bases to the neighbouring south-east Asian region. Also, since the Chinese currency has been appreciating since 2005 and is expected to appreciate further, there is a feeling Chinese exports will become more expensive as well.

Chinese firms can gain by importing raw material and using this to produce finished goods outside China.

Access to a bigger market

Trade and investment measures undertaken in the South-East Asian region are non-discriminatory and complementary in nature.

These nations are increasingly driving down tariff barriers and other border costs. Most of the items are traded at zero tariffs among the member countries. Thailand, Laos, Cambodia, Vietnam, and Myanmar are all part of Asean. As on January 1, 2010, duties on 99.65 per cent of all tariff lines under the Common Effective Preferential Tariff Scheme for the Asean Free Trade Area have been eliminated.

For the newer Asean member-states — Cambodia, Laos, Myanmar and Vietnam — 98.96 per cent of total tariff lines are within the tariff range of 0-5 per cent.

Since October 2003, China and Thailand have taken the lead in implementing zero tariffs on agricultural products, covering 200 types of fruit and vegetables. China has also granted zero tariffs treatment to Cambodia (83 products), Laos (91 products) and Myanmar (87 products). Free market access for Chinese exports into this region means a larger market for their manufacturers.

When compared with the other provinces like Shandong, Guangdong, Hainan, Jiangsu, Beijing, Shenzhen, and Tianjin, the provinces of Yunnan and the Guangxi (bordering south-east Asia), are relatively underdeveloped. Given their geographical proximity to South Asia and the Asean markets, China can gain substantially by developing these two regions and improving their linkages with Asean neighbours.

Since 1996, Chinese firms have constructed six hydro-power plants and one thermal power station in Myanmar. China has also invested in power transmission, and copper processing activities in Vietnam. Dongfang

Electric of China has won a contract to construct a coal-fired thermal plant at Hai Phong, Vietnam.

At present, there has been ownership issue over the Spratly Islands, and the Paracel Islands in the South China Sea. Brunei, China, Indonesia, the Philippines, Malaysia, and Vietnam, each has notified United Nations about their share of claim.

The US wanted to mediate using the Asean forum, which China has been opposing. So what the Indian media calls Chinese aggression appears to be quite rational on the part of China.

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