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**'Chasing Competitiveness: China's investments in Southeast Asia'**

**Speaker**: Aravind Yelery

**Chair**: Prof. Patricia Oberoi

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**Venue: ICS**

Much has been said and settled about the flexing of Chinese economic muscle and how it managed to bring many a neighbor and counterpart to its negotiating table. It involves a discourse woven around competitiveness, especially with regard to trade and finance. In this talk, Dr. Aravind Yelery, Associate Fellow and Assistant Director, ICS, attempts to provide an incisive analysis, in light of recent developments and trends in macro level data. Offering counter narratives to various aspects of this discourse – trade, finance and new economy, he attempts a critique on the nature of Chinese competitiveness in its engagement with South East Asia.

Chinese economic engagement with ASEAN amounting to US$ 400bn (four times that of India's engagement) gained traction ever since the Chiangmai Initiative which, when first introduced, as a response to the Asian financial crises of '97, was met with stiff resistance from many quarters, surprisingly, including China. Nevertheless, it's BCS (Bilateral Currency Swap) arrangement now is the fundamental component that consolidates China's engagement with ASEAN, facilitating 70% of its trade.

Hinged upon this are further complementarities that have forced China to develop a more positive relation with ASEAN, including the ease of access that China can gain to the global market on account of these countries, say Vietnam, which sits close to China's doorstep relatively open to the global economy when compared to its ASEAN counterparts, and scoops manufacturers as they exit China (on account of rising wages; 35% in 15 years and aging dividend). Also China's new ostensible maritime posturing in its connectivity strategies have drawn worries from many ASEAN quarters, raising palpable wariness regarding many pre-existent arrangement in the ACFTA (ASEAC-China Free Trade Agreements), including Singapore which comprises of 52% of Chinese investment in Southeast Asia.

Here, the crucial role played by overseas Chinese, though total only 5% of ASEAN's population (approximately 3 million), accounts for more than one third of Fortune 500 companies operating out of the region, and most importantly, controls US$1.2 trillion out of US$3.9 trillion of China's total global assets also need noting, as they can also be used as vehicles for enhancing trade and cultural associations. This explains China's willingness to cede them greater roles in the realization of its Maritime Silk Road (MSR) strategies.

Dr. Yelery presented another counter narrative by drawing certain observations from the recent UNCTAD data that presents the loss of this perceived 'Chinese bandwidth'. It comes from the usually expected quarters – Japan, whose FDI in the region is five times that of China's, an increasingly eager Taiwan, whose FDI is half that of China's, and the US, whose FDI in Singapore alone is almost three times than that of China's total investment in the entire ASEAN region. China manages itself to be the largest source of FDI only to the so called 'lower brackets', comprised of the CLM countries (Cambodia, Laos & Myanmar) and that too, with political overtones further mired by a hotchpotch of lending rates.

Thailand serves as an illustration for the above case. Where the Japanese seeing it as more than a mere market place have been successful in establishing R&D centres, through which they were able to wrestle markets from Chinese automobile companies (even Korea, after Samsung's failed R&D venturing into India, is doing likewise in Thailand). Chinese firms also lose ground as they progressively move up the high value markets. But compared to trade, it is the institutional arrangements in Yelery's observation, especially in terms of finance, that reveal more about the nature of engagements.

It is through financial arrangements that China hedges its centrality in the Southeast Asian region but, at present, going by the statistics, he argues that though profitability may have increased nominally for Chinese banks, they are under increasing stress on account of their non-performing assets, an example to capture a semblance of this larger picture would be the Overseas Chinese Banking Corporation (OCBC) which has 2% profitability and 54% NPA. This is also exacerbated by the fact that, post 2008, Standard Chartered, Citibank and other local banks are offering better equity and lending options to Southeast Asia vis-à-vis the Chinese banks which are, when it comes to lending rates – a 'madhouse'. For their lending rates vary from 4.6% for Malaysia, 5.4% for Singapore and goes as high as 22.6% when it comes to Laos. This is where the Qualified ASEAN Banks (QAB) under the ASEAS Financial Integration Framework (ASIF) is brought in, in order to restore some sanity into the so called 'madhouse' of lending rates. It could end up playing a counteractive role against the Chinese financial entities.

Dr.Yelery subsequently attempted to shed light into what he perceives as a looming 'bloodbath' when it eventually comes to production for high value added markets in the region. Low standard cheap products, which stand as of now, will no longer be the fundamental variable to dominate the world market. In this context, given the recent readiness of countries such as Vietnam, Thailand, Indonesia & Malaysia to accept the high standards stipulated in the TPP (Trans Pacific

Partnership), compounded with the stiff competition from Japan, Korea and Taiwan, who also have greater heft when it comes to potential investment and doesn't paint a healthy future for the due course of Chinese engagement.

Though Chinese companies outperform its Indian counterparts when in come to the 'New Economy', including online businesses (business to customer solutions, online brands et.al), stiff competition is becoming increasingly visible when it comes to ASEAN (in most cases, either USA or Thailand). Subsequently, Chinese engagement, outmaneuvered in aspects of trade and finance, may be forced to narrow itself to acquiring these fast growing ASEAN companies, e.g. Alibaba's acquisition of Lazada in Philippines.

To conclude, Dr. Yelery attempted to stir the almost sedimented narrative of Chinese competitiveness by analysing the various aspects related to trade, finance, institutional arrangements and the new economy. He traces forward the due path of the discourse, which is contrary to what many optimists hold.

*Report prepared by Cidarth Sajith, Research Intern, ICS*

**About the Speaker:**

Aravind Yelery is Assistant Director and Associate Fellow at the Institute for Chinese Studies, Delhi. Previously, he was associated with Shanghai Ji-Ou (Sino-European Commerce Ltd.) as a Sr. Corporate Consultant (Research). He holds a PhD in Chinese Studies from the School of International Studies, Jawaharlal Nehru University, New Delhi. Yelery's research interests include China's foreign policy, Chinese business, Chinese manufacturing trends, urbanization and Chinese government and politics. He has recently submitted an Indian Council of Social Sciences Research-sponsored research project on WTO, anti-dumping and China's market economy status. He has been actively involved in conducting workshops on doing business in China and conceptualizing immersion programmes for Indian executives in China. He contributes on China-related issues in a number of Indian newspapers.