FEA Working Paper No. 2010-2

Crisis as Opportunity: China’s Role in the Asian Crisis and Its Impact on Southeast Asia

Cheong Kee Cheok

Department of Economics
Faculty of Economics and Administration
University of Malaya
50603 Kuala Lumpur
MALAYSIA

Email: keecheok1@yahoo.com

August 2010

All Working Papers are preliminary materials circulated to promote discussion and comment. References in publications to Working Papers should be cleared with the author to protect tentative nature of these papers.
Abstract

The Asian Financial Crisis came upon an East Asia flushed with over a decade of economic success, sending its economies scrambling to cope, and causing many to question if the so-called ‘East Asian miracle’ was real. Its impact varied across economies, depending on, among other factors, the conditions in the respective domestic economies at the time the Crisis hit, and the structure of their economies, including openness to trade and investment. Responses to the Crisis were likewise influenced by the severity of impact and the robustness of the respective economies.

For China, the Crisis arrived in the midst of its own economic and political transition from a planned to a market economy. This paper argues that because the impact of this Crisis on China was relatively muted, China’s actions were more focused on managing its transition than on responding to the Crisis. In any case, its strong macroeconomic position, reflected in large and growing external reserves and low debt, gave the country considerable policy leeway. Indeed, far from being simply reactive to the Crisis, China was able to leverage its actions to gain greater mileage in its relations with Southeast Asian countries.

For their part, Southeast Asian countries not only had to cope with the severe impact of the Crisis, but also to China’s actions. This is because economic ties between them and China had escalated after the Cold War ended. These ties had generally been beneficial economically to Southeast Asia, the only region in the world with which China has a current account deficit. Warming relations were also attributable to strategic-security considerations. From the Chinese perspective, they included the need to secure its southern borders and keep U.S. hegemony at bay, while from the Southeast Asian perspective; it was the pragmatic need to engage a rising giant at its doorstep. China’s holding steady the value of its currency to give Crisis countries breathing space and aid to these countries, though relatively modest, should be seen in this light.

Taken in its larger context, China was not only lightly impacted by the Asian Crisis but also was able to leverage this Crisis to push through reforms at home while cementing closer ties with Southeast Asia. For the latter’s part, China’s limited initiatives were welcomed, although the real impetus for recovery came from continued prosperity in the West, which offered little by way of assistance.

Keywords: Asian Crisis, bilateralism, exchange rate, export strategy, financial sector, geopolitics, multilateralism, transition
1. Introduction

The Asian Financial Crisis of 1997-98 was a defining moment for East Asia, its significance for Southeast Asia lying not only in its immediate impact on countries of the region, but also in changing permanently the economic and strategic environment facing these countries after the Crisis was over. Indeed, it has been argued (Hellman, 2007) that the Crisis was a threshold event in the shift of international economic power. Occurring shortly after the World Bank lauded East Asia in its East Asian Miracle, the Crisis evoked much debate about whether this miracle was a myth, if not whether it was over, and whether it was the globalization of capitalism that was really to blame. The role of international organizations, especially the IMF, came in for critical review. More pertinent to the present, the structural imbalances that have emerged and are being linked to the current Global Crisis can be traced to the Asian Crisis.

The Crisis impacted different economies differently. Several countries – Indonesia, Malaysia, South Korea and Thailand – bore the brunt of its assault. Other economies, the so-called ‘strong economies’ of Singapore, Hong Kong and Taiwan (China), were also buffeted by the shocks, while transition economies like Vietnam received some protection from their partially closed economic systems. For China, which is more advanced than Vietnam along the transition path, the Crisis occurred when significant policy shifts were taking place.¹ These shifts, together with the country’s policy and strategic responses to the Crisis itself, have major consequences for countries in Southeast Asia attempting to cope with the Crisis.

This paper examines the implications of China’s actions around the period of the Crisis for the countries of Southeast Asia.² This requires answers to several questions. First, what was the political, economic and strategic context for China when the Crisis struck? Second, to what extent was China directly impacted by the Asian Crisis? Third, what actions did China take in relation to the Crisis? Fourth, were these actions a response to the Crisis or to the larger domestic and external environment of which the Crisis is only a part? Fifth, what are the consequences of these actions for Southeast Asia, itself having to cope with the negative impact of the Crisis? Finally, were China’s actions, altruistic or otherwise, helpful to Southeast Asia’s recovery in the short-run and to resumption of long-term growth?

¹ Ku (2006) discussed China’s relations with Southeast Asia in the more general context of its strategies of ‘open door’, ‘good neighborliness’ and ‘going global’, but made few references to the Asian Crisis. This paper, while generally consonant with Ku’s, argues that the Asian Crisis was a seminal event in the evolution of China’s strategic and economic relations with Southeast Asia.
² Although Hong Kong was returned to China in 1997, this paper’s discussion of ‘China’ refers to mainland China. Southeast Asia refers primarily to the ASEAN 5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand).
In posing these questions, the view is taken that the magnitude and nature of the Chinese response depends critically on the issues China was grappling with when the Crisis struck, the materiality of the Crisis for China in relation to its other challenges, and the resources China can bring to bear if a response was needed. Similar factors apply to Southeast Asia, which, thanks to China’s growing regional role, has also to cope with China’s actions during that Crisis. To what extent have Southeast Asian nations been able to leverage China’s actions to alleviate the Crisis’ negative impact?

2. The Asian Crisis in Context: China’s Great Transformation

The Asian Crisis arrived in a China undergoing momentous change, the result both of its transition from a centrally planned towards a market economy and of a realignment in geopolitics. Three major developments, one domestic and the other two external, challenged China’s policy makers during this period.

First, the period around the Asian Crisis saw two major interrelated transitions, one economic and the other political. Economically, China had experienced rapid growth since the trauma of Tiananmen Square in June 1989. Recognizing the potential damage from international sanctions as a result of the event, Deng Xiaoping moved quickly to spur growth through market liberalization that culminated in his southern visit (nanxun) to Guandong in 1992. The immediate result had been spectacular growth, 9.2 percent in 1990 compared to 3.8 percent in 1989 and a spectacular 14 percent in 1993, fuelled by rampant credit and an investment boom. However, this was accompanied by a surging inflation rate that reached 23 percent in 1993 and that remained high for the next two years (Eckholm, 1998; Kwan, 2003). Zhu Rongji was brought in by Deng as executive deputy prime minister to manage the economy in 1993. His strategy of market consolidation cooled the economy, bringing inflation down to 6 percent in 1996 and 1 percent in 1997. With strong exports thanks to de facto devaluation of the yuan in 1994, China had achieved a ‘soft landing’, with economic growth at 8.8 percent in 1997, before the onset of the Asian Crisis. Hence, it is not strictly correct to argue that ‘China adopted distinctive domestic policy responses to recessionary pressures from the East Asian Crisis.’ (Garnaut, 1999: 2)

This economic reorientation could not have occurred without a political transition – leadership change at the top. Although Zhu was well-liked by Deng, who was responsible, albeit indirectly, for his political rehabilitation, Li Peng was still the prime minister.

3 Cast out into the political wilderness by Mao after he expressed frank views about the Party during the ‘let a thousand flowers bloom’ campaign, Zhu was brought back to a senior position in the Ministry of Petroleum Industry in 1982 and brought to the attention of Deng by its minister (Eckholm, 1998).
minister. However, Li was discredited by the Tiananmen incident that was attributed to his management of the economy in 1988, and suffered a heart-attack in 1993\(^4\), opening the door for Zhu to take full control of the economy. Firmly convinced that the economy was heading for a repeat of the overheating in 1988-89, Zhu was thus able to immediately set to work to cool the economy. By that year, Deng had turned 89 and succession was on the cards. When Jiang Zemin, Deng’s anointed successor, became President upon Deng’s death in February 1997 and Zhu replaced Li Peng as prime minister in March 1998, the leadership transition was completed.

Second, China had been consistent in its adoption of an export strategy from the early days of its transition to a market economy. As part of its ‘Open Door’ policy to welcome, albeit gradually, trade and foreign investment, it opened its first Special Economic Zones (SEZs) in 1980, and their success led to the designation of Open Cities and Open Economic Zones.\(^5\) More followed with Hainan designated an SEZ in 1988 and Pudong adjacent to Shanghai city in 1990. These zones helped to nurture an export culture that was key to China’s export competitiveness. The success of these experiments was reflected in the much more rapid growth of the provinces where these zones were located (see Ota, 2003: Table 1).

Geographical targeting was complemented by a slew of initiatives. Industrial policy targeted broad sectors – light industry, textiles, machinery and electrical goods – for export. Production networks were supported through subsidies for technological upgrading, guaranteed supplies of raw materials and power, preferential access to transportation, attractive purchase prices for their goods, and higher exchange-retention rights than other enterprises in the same industry (Panagariya, 1995). A liberal FDI environment encouraged the establishment of joint ventures, while an elaborate system of duty exemptions on imported inputs lowered costs. Export financing was liberally provided.

As much as specific initiatives, it was this policy consistency and clarity that produced spectacular results that China enjoyed. Panagariya (1995) noted that policy consistency extended beyond the trade sector to include the promotion of non-state (though initially not private) enterprises – the township and village enterprises (TVEs), that helped spearhead exports. Also, provincial and local governments bought into this export culture, courting, unfortunately often competing for, FDI. Finally, Hong Kong, which was returned to China in 1997, played a major role in providing investment capital,

\(^4\) Yang (1999: 165) reported that Li’s heart-attack was brought on by an argument with Zhu over economic policy.

\(^5\) SEZs were an important part of Deng’s ‘four modernizations’ program. The first four SEZs were established in 1980 – Shenzhen, Zhuhai and Shantou in Guangdong, and Xiamen in Fujian. In 1984, 14 open coastal cities were opened to foreign investment, with further areas and cities designated in 1985, 1990 and 1992 (Ota, 2003).
entrepreneurial skills, as well as commercial links with the outside world, to the coastal provinces, especially in the early years of China's opening up.

With the manifest benefits of trade and investment, export promotion as a key strategy had become firmly entrenched among the Chinese leadership by the late 1980s. This strategy coincided with the wave of neo-liberalism-driven globalization unleashed by the Reagan-Thatcher years and the collapse of the Soviet Union that swept the globe. To better integrate with the world economy, negotiations to join the General Agreement on Tariff and Trade (GATT), the precursor to the WTO, were initiated as early as 1987, when a Working Party was established to review China's trade regime as part of the accession process. But after 1990, the impetus to advance these negotiations came both from within and outside China. Domestically, policy-makers were hoping that opening up to foreign competition would weed out the inefficient state enterprises, a key objective of Zhu Rongji's policies (Fensmith, 2001: 574). Externally, China's pattern of trade was also changing, and by the 1990s, the U.S. was becoming an increasingly important export destination (see Liu and Ng, 2006; Rumbaugh and Blancher, 2003), but China's Most-Favored-Nation status was hostage to the US Congress' annual review before renewal. Accession as a member of WTO would obviate this hurdle. Thus in 1995, the Working Party was converted to a WTO Working Party and its scope broadened to include trade in services, and rules relating to intellectual property rights. These negotiations, mainly bilateral with the WTO's major members, had begun in earnest when the Asian Crisis arrived.

Third, the end of the Cold War with the collapse of the Soviet Union not only reduced the security threat that this 'War' posed, especially in Asia, the only part of the world where the Cold War turned 'hot', but also opened up policy space for its former protagonists. For China, this space made possible a shift of policy towards its neighbors, including Southeast Asian nations. Prior to 1990, Cold War alignments had meant that China would see any Asian grouping, including any sponsored by ASEAN, all part of the US led 'free world', having the ability to 'gang-up' on it should it join. It was also involved in several territorial claims, leaving other claimants in no doubt that it would defend these claims militarily. But by Cold War's end, China's leadership was increasingly preoccupied with the country's economic growth, recognizing pragmatically that confrontation with its neighbors was inimical to this objective. While debate continues as to China's real

---

6 Zhu was also credited with the push to join the WTO (Kahn, 2003).
7 Aside from Taiwan, China had laid claims to the Diaoyu Islands (referred to as the Senkaku Islands by Japan, the rival claimant) and part of the Spratleys (referred to as Nansha Islands by China), and Paracel Islands (referred to as the Xisha Islands by China, which had them administered by Hainan). See, for instance, Fravel (2008).
8 Shirk (2004), citing her experience with the Northeast Asia Cooperative Dialogue, an unofficial forum for government officials, military officers, and scholars from the United
motives for moving towards multilateralism (see for instance, Goldstein, 2003; Johnston, 2003; Lee, 2008; Xin, 2006), this strategic shift is consistent with its announced ‘peaceful development’, which accords priority to achieving prosperity as a long-term strategy.9

China’s strategic shift in foreign relations was also evident from its appointments to international organizations. For instance, in 1994, Zhang Shengman, a fluent speaker of English, replaced Wang Liansheng, who spoke little English, as China’s executive director at the World Bank. Completely at ease in negotiations with other counterparts, he became the Bank’s Managing Director within 3 years of his appointment, the highest position held by a Chinese national in the Bank. He was the first of a succession of English speaking Chinese executive directors at the Bank.

China’s embrace of multilateralism was manifested through several initiatives. Once was the cultivation of ASEAN as a power center along with the US, Japan and Russia (Yuan, 2000). This initiative was not founded solely to ensure security of its southern borders but also on perceived common interests in response to attitudes regarding matters like democratic institutions and human rights pushed by the West. China also sees its role in ASEAN as an effective way of countering US hegemony through the US-Japan alliance, with perhaps a China-friendly ASEAN as one pole of a multi-polar world (Yuan, 2000: 5). Thus, high level representation at ASEAN meetings, visits by top leaders to ASEAN member countries, subscription to ASEAN’s principle of non-interference in countries’ internal affairs, and a pledge of shelving territorial disputes and joint exploration of maritime resources10 were China’s means for engaging ASEAN (Cheong, 2008). These contacts escalated after 1994 (Table 1).

It also participated in regional forums, in the case of Southeast Asia, the Asia Pacific Economic Cooperation Forum (APEC), ASEAN Regional Forum (ARF) and ASEAN Plus Three (APT). Initially lukewarm to APEC when it was founded in 1989, China progressively moved to a leading role even as US interest waned. However, recognizing its potential for strengthening its influence without having to contend with the U.S., China was a strong sponsor of APT from its start in 1997. In this, it was helped by a U.S. that was perceived by Southeast Asians to be inattentive to their needs during the Asian Crisis. In 1996, China joined with Russia to form its first international multilateral organization, the Shanghai Cooperation Organization (SCO), from which the U.S. was excluded.

States, Russia, China, Japan, South Korea and North Korea to discuss regional security issues, dated this change of attitude at 1993.

9 Endorsement of multilateralism did not mean abandonment of the pursuit of bilateral relations. Wu (2001) saw these two approaches as contradictory, but Xin (2006) viewed China’s multilateralism as representing a balancing of domestic and external interests.

10 This call was made by President Jiang Zemin during the first China-ASEAN Summit in December 1997. See Table 1.
3. Impact of the Asian Crisis on China

It was in the context of these major developments in China that the Asian Crisis arrived on the scene, devastating very rapidly in succession Thailand, Malaysia, Indonesia, and South Korea (the ‘Crisis countries’), but also Hong Kong, Singapore (the ‘Strong economics’) and the Philippines. How did the Crisis affect China? Because of the many similarities between China’s economy and those of the Crisis countries – export orientation, trade in labor intensive manufactured goods, substantial foreign investment inflows, a managed exchange rate that is pegged to the US dollar, a weak financial sector, non-transparent governance – alarm bells were sounded (e.g., by Dornbusch and Giavazzi, 1999; Hai and Zhong, 1999; He, 1999; Yang, 1998). Just as for the Crisis countries, there would be several transmission channels of impact for China. They are through trade, investment and exchange rates.

Foreign exchange issues took center stage. Indeed, the unification of the Yuan exchange rate through abolition of the official rate in January 1994 was cited a cause of the Asian Crisis while major currency devaluations signaled the onset of the Crisis in each of the Crisis countries (e.g. by Huh and Kasa, 1998; Khan and Islam, 2008). Steep devaluations of the currencies of the Crisis countries relative to the Yuan, estimated to be 12-24 percent in terms of the real effective exchange rate (MAS, 1998: iii) would have made the Crisis countries’ exports, for which there was considerable overlap with China’s, much more competitive against China’s exports. This erosion of competitiveness constitutes what is referred to as a price effect on China’s exports.

But just how large were these price effects? The answer was: not very large for several reasons. First, China’s export growth did fall from 20.5% in 1997 to virtually nil in 1998 (Table 2). However, export growth of that magnitude the year before the Crisis was clearly unsustainable. Second, closer examination also reveals this deterioration to be largely the result of a fall in exports to Japan, while exports to China’s main markets, the ASEAN-5 accounted for only about 6 percent of China’s exports (MAS, 1998: Table 2a). At the same time, exports to the US and Europe were rising, both absolutely and as shares

---

11 For a timeline of the Asian Crisis, see: www.phs.org/wgbh/pages/frontline/shows/crashetc/cron.html.

12 However, there is considerable debate as to whether this was the case. See MAS (1998: p. ii).

13 Yang (1998: Table 3) calculated the Finger-Kreinin Index of similarity between China’s and ASEAN’s exports as 46, suggesting that they were quite close substitutes.

14 In a study of Chinese exporting firms during the Asian Crisis, Park et al. (2009) found that while firms, whose export destinations experience greater currency depreciation have slower growth in exports, exporting firms were nevertheless able to enhance firm productivity as well as other areas of firm performance. Those that export to developed countries also performed better.
of total exports. As a result, export growth to destinations outside Asia outpaced that to Asia between 1990 and 1996, and with import growth from Asia about the same as from elsewhere, China’s intra-Asian trade share was falling, the only country in Asia to exhibit this trend (Yang, 1998). Exports also amounted to no more than 20 percent of China’s GDP in 1997, a figure much smaller than those of the Crisis countries. Third, the enhanced export competitiveness of the Crisis countries did not translate immediately into higher exports, to China or elsewhere (MAS, 1998: 6). Southeast Asian countries’ exports had quite high import content, so that devaluation of their currencies also raised the cost of their exports. They also faced liquidity problems thanks to the difficulties faced by their respective countries’ financial sectors.

In addition, there would also have been an ‘income effect’ brought about by a sharp contraction in the Crisis economies which reduced their ability to buy Chinese goods. However, Southeast Asian countries were not a major importer of Chinese goods. Hence, any income effect would have had limited impact on China. Also, as explained earlier, China’s growing internationalization meant a gradually reducing dependence on the Chinese Overseas in Southeast Asia.

Even as export growth moderated, so did import growth, the result in part of a slowing of economic growth. The result has been large trade surpluses (Table 2). Together with continued inflows of significant amounts of foreign direct investment, this has enabled China to accumulate quite rapidly its external reserves. While only $30 billion, or the equivalent of 8.5 months of imports, in 1990, these reserves had risen to $143 billion, or the equivalent of 12.6 months of imports, by 1997 (Table 3). Coupled with modest levels of external debt, most of which were long-term, this has given China a great deal of leeway in the use of fiscal policy.

In terms of foreign investment, direct investment (FDI) was expectedly not much affected by the Crisis (Table 2). FDI depends on such longer-term economic considerations as domestic market size, factor costs, institutional capacity and overall business environment. About 80 percent of foreign investment in China was FDI. Falls in FDI from Japan and

---

15 In fact, exports from the Crisis countries actually contracted in 1998 (Table 2), although this contraction was compensated by even sharper contraction of imports. Compared to China’s imports being practically unchanged between 1997 and 1998, Indonesia’s fell by 34.4 percent, Malaysia’s by 26.2 percent, South Korea’s by 35.6 percent and Thailand’s by 31.4 percent (ADB 2003).

16 World Bank World Development Indicators data reported China’s debt to GDP ratio to be 14 percent and debt service ratio, i.e. debt as a proportion of exports to be just 9 percent in 1998. These numbers compare with 159 percent and 32 percent respectively for Indonesia, 58 percent and 7 percent respectively for Malaysia and 94 percent and 18 percent respectively for Thailand.
Korea were offset by increases from other countries (MAS, 1998: Table 3).17 Thanks to the controls still in place in China's stock markets, portfolio flows were small compared to FDI and the expected declines in China's still small financial markets as a result of the Crisis did not have a material impact on total capital flows.

What about China's financial sector, alleged to be 'the worst banking system in Asia' (Economist 1998)? Poorly performing as the sector was, the existence of tight capital controls prevented Chinese financial institutions from borrowing abroad, thus helping the sector avoid the fate that befell Indonesia, South Korea, and Thailand. Also, the underdeveloped financial markets meant that any crashes in these markets did not have a major impact on the real economy.

Overall, then, the economic impact of the Crisis on China has been relatively light. The lower growth of 9 percent in 1997 and 8 percent in 1998 (Table 2) clearly reflects the 'soft landing' engineered by Zhu and his team as much as the effects of the Crisis. That said, provinces more heavily dependent on foreign trade and investment suffered greater damage. Thus, Guangdong which depended heavily on Chinese Overseas investment from neighboring Hong Kong saw FDI from them, and from Japan and South Korea fall by about 50 percent in 1998 (Huang, 1998). Other more export oriented provinces Shanghai, Tianjin, Fujian and Beijing suffered similar reverses (MAS, 1998: 14). However, there were compensatory increases in FDI from other sources, while the fact that these provinces also experienced the fastest economic growth meant that their impact on the overall economy remained modest.

Arguably the most significant impact of the Crisis is the lessons it offered in the eyes of China's leaders. One is clearly that growth through uncontrolled liberalization poses high risks. That China had avoided the worse of the Crisis would not have suggested that the 'Asian model' did not work, merely that weaknesses needed to be eliminated before liberalization.18 This meant reform of the financial sector and strengthening corporate governance, measures that were on the cards but now required acceleration. That rampant growth could get out of control strengthened the leadership's conviction that market consolidation was the right strategy (Bottelier, 2000: 67). As a result, there was an attempt to stimulate the economy fiscally only insofar as the targeted growth rate of 8 percent could be maintained (Zhang, 1998). The third is the importance of exports as a means of generating surpluses as a defense against crises (Zhang, 1998). Current account surpluses would also obviate the need for external debt, which sank Indonesia, South

---

17 Nevertheless, some provinces suffered greater investment declines than others. Huang (1998) described the impact of investment shortfalls in Guangdong, which depended heavily on Chinese Overseas in Hong Kong.

18 Even before the onset of the Asian Crisis, such a view was professed by Yotopoulos (1996). For similar views, see Gottschank (2001) and Yoshitomi (2005: 7).
Korea and Thailand during the Crisis. That her exports were minimally impacted also would not have suggested a shift away from trade to domestic consumption to drive growth.

4. China's Actions during the Asian Crisis

Given the above developments related to China’s transition that serve as the backdrop to the Asian Crisis, it remains a matter for debate whether the country’s policy actions during the Crisis period were responses to the Crisis itself or to these developments. Without entering this debate, it seems plausible that what happened to economies severely affected by the Crisis served as a ‘wake-up call’ to China, warning of the possible consequences if she did not press ahead or even accelerate her reforms. Its timing was certainly propitious—China was led by leaders—Jiang and Zhu—who were committed to reform.

This is amply demonstrated by the sweeping state-owned enterprise (SOE) reforms pushed through by the Jiang-Zhu leadership that produced unemployment in the millions. Documenting in detail the path of SOE reforms, Yusuf, Nabeshima and Perkins (2006: 79) estimated that 20 million SOE employees were laid off in 1998, with another 30 million lay-offs over the next five years. This occurred simultaneously with the streamlining of the bureaucracy and the People’s Liberation Army. Lardy (2000b) estimated that through selling off small- and medium-size state companies and reducing the ranks of the large SOEs like the state railroad system and the state-owned banks, Zhu reduced state-sector employment in cities by 30 percent during his first four years in office. That all this painful restructuring occurred at the height of the Asian Crisis demonstrates the Chinese leadership’s focus on this particular transition strategy rather than on the Crisis.

The one lesson that China would have learned from the Crisis was the need to quicken the pace of financial reform before opening up this sector to international competition. The large portfolio of non-performing loans had meant that households’ high savings were supporting the loss-making SOEs. Prior to the onset of the Asian Crisis, Zhu had begun to throttle rampant bank lending, cancel wasteful projects, and recentralize lending authority to Beijing, while transferring policy lending to three newly created ‘policy banks’. And in 1995, the Central Banking Law gave the People’s Bank of China (PBC) powers of supervision over other financial institutions. The Crisis motivated the government to

recapitalize the shaky capital base of 4 state banks, reorganize the branch structure of the
PBC, strengthen its supervisory role, close insolvent financial institutions and force
commercial banks to operate on a commercial basis (Lardy, 2002: 18). Non-performing
loans were removed from the state-owned banks and placed under four newly created
asset management companies much like the Resolution Trust Company in the U.S.

China’s efforts to join the WTO gained momentum with the onset of the Asian Crisis. Did
the Asian Crisis help bring this about? Lardy (2002: 11-15) had argued that China’s
growth prior to the Crisis had been overstated, thanks to the inefficiencies of the SOE
sector that dominated the economy. His view was that this unsatisfactory performance
that spoke to the need to reform the enterprise and financial sectors, together with the
onset of the Asian Crisis and Taiwan’s efforts to join the WTO, led China to be more
accommodative in its negotiations for WTO membership.20 However, that China surprised
the American negotiators by agreeing to all their stringent terms, over the objections of
many senior officials and SOE managers (as described by Yusuf, Nabeshima and Perkins,
2006: 83) and despite the vulnerability of its transition economy, suggests a proactive
rather than a reactive policy stance from the Chinese leadership. It also remains unclear if
the Asian Crisis was a factor. In Supachai and Clifford’s (2002) detailed narrative of
China’s accession process, the Asian Crisis was not even mentioned.

Even as it pursued membership of the WTO in earnest, China was dealing with the
slowdown in exports brought about by the Crisis. It had ample ammunition to do so. The
measures it deployed included increasing export rebates, removing export quotas,
reducing export licensing requirements, reforming state trading to make it easier for firms
to export, and increasing export financing.21 Just as it was able to pay unemployment
benefits to the millions laid off, it was well able to fund these initiatives from its rising
external reserves.

There had been much speculation as to whether China would use its exchange rate as to
revive export growth, given the salutary effects of its 1994 de facto devaluation through
currency unification. China’s response, much to the relief of Crisis-hit Asia, was to hold

20 Lardy (2002: 20) noted a changed attitude articulated by Zhu Rongji between June 1998
and January 1999 as signifying an evolving attitude towards greater competition and
private sector activity. However, public statements by China’s leaders have always been
for domestic as for foreign consumption. Supachai and Clifford (2002) noted a change in
domestic sentiment during the period that could have explained the change in attitude
equally well.

21 From 1998 to early 1999, rebates were increased for textiles, electronics and light
engineering, machinery equipment and tools, chemical products, and all other products
with a tax refund rate of 6 percent. Export quotas were removed for 26 products, and the
number of products subject to export licenses was reduced from 115 to 59 (Hai and
Zhong, 1999).
the line on the Yuan. In proclaiming this, it earned the gratitude of hard-hit Southeast Asian and other nations. In fact, China must have calculated that there was not that much to gain and more to lose by devaluing. Devaluation would have put pressure on the Hong Kong currency's US Dollar peg, impacting adversely the island's economy, but probably more importantly from China's perspective undermining the confidence of the island's residents in the Chinese government, soon after its return to the mainland.\(^{22}\) Also, as already indicated, Southeast Asian currency devaluations would not have made these countries' exports that much more competitive; given the high import content of these exports, devaluation would have simultaneously raised input costs. The same would have applied to China should it choose to devalue. Additionally, there was virtually no risk of capital flight given the capital control in place. Besides, China had an array of other measures, including export tax rebates, which could have been used to counter the export slowdown. Indeed, just as with the liberalization under WTO, China's refusal to devalue its currency would have forced exporters to increase their productivity, a key objective of the reformist leadership.

China's only direct response to the Asian Crisis came from its use of fiscal expenditure and easy monetary policy to preempt any adverse impact that the Crisis might have on its engineered soft-landing. In August 1998, it announced fiscal outlays, largely for infrastructure, that amounted to about 2.5 percent of the country's GDP. Simultaneously, it implemented cuts in nominal interest rates as part of its easy monetary policy.

In summary then, China's actions during the period of the Asian Crisis were part and parcel of its perceived policy priorities in restructuring its economy so that it can drive long-term growth. To the extent they addressed the challenges of the Asian Crisis they were more preemptive than reactive, consisting mainly of accelerating reforms that, for a variety of reasons, might have taken longer to put in place.

5. China and Southeast Asia in the Asian Crisis

China's rapid economic development has major implications for Southeast Asian countries, opening up opportunities for both bilateral as well as regional relations that were not available during the days of the Cold War. These ties were, however, colored by historical relations that were none too cordial. The Asian Crisis afforded China an

\(^{22}\) During the Asian Crisis, an attack on the Hong Kong dollar and the Hong Kong Monetary Authority's defense of the peg, its sole mandate, sent overnight rates soaring, damaging not only the territory's financial market but also economic activity.
opportunity to change this image and play a more decisive role in Southeast Asian affairs.\(^{23}\)

From China’s perspective, its economic relations with Southeast Asia were shaped as much by its domestic agenda as by history. Despite its many doubters and for whatever motives, its overarching long-term strategy is that of economic catch-up, what it refers to as ‘peaceful development’.\(^{24}\) This strategy shapes all the reform measures discussed earlier and was clearly germane to China’s economic relations with Southeast Asia. Its prickly political relationship with Southeast Asia during and immediately after the Cold War meant that while these economic relations were growing, they were not yet vital to China’s economy at the time of the Asian Crisis. China-ASEAN trade and investment, while growing, were still only modest shares of the respective parties’ total trade and investment. Nevertheless, China saw Southeast Asian countries as rising sources of raw materials (e.g. petroleum from Indonesia and palm oil from Malaysia) while multinational production networks boosted the trade in parts and components, with China being the point of final fabrication (Table 4).

China’s regional initiatives must also be seen in the context of its bilateral relations with ASEAN member states. This is because until China’s embrace of multilateralism, relations with Southeast Asian states were primarily bilateral and overwhelmingly political. These bilateral relationships continued to be important after the Cold War ended, with growing economic ties an added dimension to political-security relationships. Thus, although formal diplomatic relations were not established until 1990, China’s economic ties with Singapore were the most advanced. China’s positive perception of Singapore derived both from its overwhelmingly ethnic Chinese population as well as a political system that, though labeled ‘democratic’, resembled China’s authoritarianism. Singapore signed a plethora of commercial agreements with China in the 1980s but its investments in China took off only after 1990 while Chinese firms also had the most significant presence in Singapore among ASEAN member states. Despite being aligned in opposite camps during the Cold War, China’s economic ties with Thailand were arguably the longest standing, although always as part of strategic cooperation (Bavier, 1999: 26). Since normalization of relations, China had made purchases of Thai produce to help out the country when needed. Two-way trade between China and Thailand expanded rapidly in

\(^{23}\) It is a matter for debate whether China’s leaders were intent on dominating Asia (Halloran, 1998), but clearly it saw U.S. hegemony in the region as at best an impediment to it playing a larger role, and at worst an attempt to contain it.

\(^{24}\) Around 2003, Chinese leaders, recognizing that China’s growing economic role and voice in the international community might cause concern, promoted the slogan of ‘peaceful rise’ (heping jueqi). Further debate on whether the word ‘rise’ itself was too suggestive of confrontation resulted in the slogan ‘peaceful development’ (heping fazhan), which was used for the first time by President Hu Jintao at the Boao Forum for Asia in Hainan in May 2004 (Medeiros, 2004).
the years just prior to the Crisis. This story was repeated in China’s economic relations with Malaysia, the result of Prime Minister Mahathir’s ‘Look East’ policy in general and resentment of US criticism in particular. But this escalation of relations had to wait not only until China pledged non-interference in Malaysia’s internal affairs, which was important for Malaysia given the Chinese Communist Party’s support of the outlawed Malaysian Communist Party in the past, but also Malaysia felt confident China did not pose a threat. Finally, although China recognized the strategic importance of Indonesia, Indonesia was among the last ASEAN-5 country to normalize relations with China. China has supported the Indonesian Communist Party which tried to seize power in the 1960s. Although trade grew, resentment against the Chinese Overseas community persisted well into the Crisis.

For Southeast Asian countries, fears were expressed during and after the Asian Crisis, in Western media as well as by the rhetoric of some Southeast Asian leaders themselves, of the ‘Chinese economic threat’. 25 This threat allegedly came from Chinese exports that were directly competitive with Southeast Asian countries’ exports (Liu and Ng, 2006) and from FDI being diverted to China. The bases for these arguments appear to have been the much slower growth of Southeast Asian exports compared to Chinese exports and the sharp decline in FDI to Southeast Asian countries after the Asian Crisis while FDI flows to China continued unabated (Liu and Ng, 2006). However, despite the use of terms like ‘hollowing out’ (Phar, 2002), no direct evidence showing FDI diversion has been cited. ‘Threat’ arguments were built around the assumption that FDI was a zero-sum game, with no attempt at the dynamics of the Southeast Asian countries themselves as a result of and after the Asian Crisis.

Others, notably Chantisasawat et al. (2004) and Wong (2003), have disputed this argument, providing evidence that not only did exports and FDI from China and Southeast Asian countries move in tandem around the time of the Asian Crisis but that trade between Southeast Asia and China was increasing, thanks to significant intra-industry trade from international supply chains located in these countries. At an aggregate level, there can be little doubt that this economic relationship was beneficial to Southeast Asia – while China ran trade surpluses with the rest of the world, it ran trade deficits with Southeast Asia. This was particularly true during the Asian Crisis, when Southeast Asian countries’ strategy to recover was to drive exports.

China’s economic relations with Southeast Asia were inseparable from her political-security needs. From the point of view of security, China also requires, at a minimum, a degree of accommodation with its southern neighbors. Unlike the US, which was surrounded by ocean or friendly countries, China is bordered by the East China Sea to its

25 Acharya (2003, p. 7) cited articles from the Asian Wall Street Journal and the New York Times, as well as from other writers, that spoke to this threat. See also Phar (2002).
East, with countries to the north, south and west. It was acutely aware of its geography as it sought to keep US hegemony, uncontested when the Cold War ended, as far from its doorsteps as possible. Although Chinese strategists considered U.S. alliances with Japan and South Korea a challenge if not a threat to China’s security and even long-term growth, China’s economic ties with them were growing. With countries to its north and west, it established the Shanghai Cooperation Organization in which the U.S. was not represented. It needed a friendly Southeast Asia.

In Southeast Asia, in addition to securing its southern borders, China saw opportunities to further its interests in several ways. First, it could play a dominant, if not decisive, role in ASEAN. Second, it could, by standing with the Crisis countries with whom the Chinese state-led system had some affinity, counter Western neoliberal ideology typified by the ‘Washington Consensus’ and exercised through Western controlled multilateral institutions (Gill, 1999). And third, it could contest the leadership of Southeast Asia with Japan. To this end, its embrace of multilateralism, discussed earlier, helped allay fears of China’s intentions in ASEAN, while its refusal to devalue its currency was held by Southeast Asian countries as a positive gesture. In sharp contrast to the U.S., it also provided prompt emergency assistance to both Indonesia and Thailand and contributed to the IMF’s rescue packages to these countries during the Crisis (Baviera, 1999; Vaughn and Morrison, 2006). However, though with much less Chinese fanfare, China joined the U.S. in opposing Japan’s proposal to set up an Asian Monetary Fund (AMF) to assist the Crisis countries, echoing the U.S. line that the IMF was the appropriate channel of assistance.

To a large extent, China’s strategy received inadvertent help from both Japan and the U.S. Japan’s receding role in Southeast Asia was first brought about when it was plunged into recession in 1990, and then again when the Asian Crisis savaged Japanese financial institutions (Halloran, 1998). In any case, Japan was preoccupied with domestic problems, including a gridlocked political system with strong lobbies that obstructed reform and abetted distorted fiscal spending, political scandals that led to arrests at the Ministry of Finance and Bank of Japan, and a weak financial system that the government continued to bail out (Pettway, 1999). The U.S., likewise, was less than forthcoming in coming to the rescue of Crisis-hit Asia, offering little more than advice. Even as it

---

26 Chu (1999) documented China’s concern over the security alliances between the U.S. and Japan and South Korea and also the reasons why it was sympathetic to the ‘ASEAN way’. Yu (1999) referred to these alliances as ‘containment by stealth’.

27 The AMF would have allowed those nations badly hit by the Crisis to gain access to funds on less stringent terms than was imposed by the IMF, but it would also have strengthened Japan’s standing in the region (Gill, 1999). However, its defeat signaled to South-east Asian countries the degree to which the U.S. held sway over Japan.
insisted that all assistance be channeled through the IMF, partisan Congressional politics held up funds for the institution (Kiersey, 1998: 27).

While China opposed Western-backed security alliances, it had warmed to ASEAN for several reasons. Although the original ASEAN-5 countries were part of the so-called ‘free world’, with the Philippines and Thailand even providing military facilities to America during the Vietnam War, its membership consisted of members who adopted neutral policies that stressed independence (from American influence). The ‘ASEAN Way’ was attractive to China in its emphasis on resolution of conflict through negotiation, in its upholding the principle of non-interference in member countries’ internal affairs, and in its promotion of mutual understanding through frequent contacts (Chu, 1999: 10-11). China also saw in the political structures of ASEAN nations the leading role played by the state, models that were much closer to the Chinese state-led model than the neoliberal model pushed by the West through multilateral institutions. Finally, ASEAN’s pragmatism, for instance in opening the door to Vietnam at the end of the Cold War, and its adherence to neutrality, at least in principle, did not go unnoticed. Thus, although driven by self-interest, its pledge not to devalue during the Asian Crisis was also astutely targeted at cementing relations with ASEAN.

Southeast Asian nations’ attitudes towards China, though not uniform, were pragmatically positive. They had received repeated assurances from China about its peaceful development, were placated by the prominence China gave to ASEAN’s activities, manifested by the attendance of top leaders at ASEAN meetings, state visits by China’s top leadership (Ku, 2006: 121-127; Lee, 2001: 64-66), and were beneficiaries of a growing economic relationship, especially important in the context of the Asian Crisis. Although concerned about China’s military build-up and modernization, especially given the history of China’s territorial claims in the South China Sea, they also feared provoking Chinese antagonism, whether from its political leadership or from rising Chinese

---

28 China did not wait long before signaling this shift of policy. As early as 1989, Chinese premier Li Peng, on a visit to Bangkok, proposed four principles for Sino-ASEAN relations: (1) peaceful coexistence despite different socio-political systems, (2) absence of hegemonic ambitions, (3) strengthening of economic relations, and (4) support of regional cooperation through ASEAN (Baviera, 1999: 9). Ryu (2008: 8-12) argued that in ASEAN, this principle of non-intervention did give way to one of ‘enhanced interaction’ which allowed limited intervention to deal with issues of regional significance.


30 Despite its common strategic alignment during the Cold War, Vietnam’s attitude was probably the least favorable at the time of the Asian Crisis, thanks to the 1979 border war that cost both sides thousands of lives. It was not until December 1999 that both sides signed a treaty that settled all disputes over their common land border (Chin and Pang, 2000: 9).
nationalism as the country grew in strength and confidence. Countries hewing towards a more neutral stance, such as Malaysia, also welcomed China as a counterweight to U.S. hegemony, although even these countries saw the need for the continued presence of the U.S.

Warming relations between ASEAN and China were manifested through several milestones, even before the onset of Crisis. In 1991, ASEAN, recognizing its diminishing significance with the end of the Cold War, invited China to become a consultative partner. This was followed by membership in the ASEAN Regional Forum (ARF), the mandate of which was to promote 'open dialogue in political and security cooperation'\(^\text{31}\) when it was launched in Bangkok in July 1994. Building on this institutional tie, China and ASEAN established in 1995 a separate political consultative forum at vice foreign ministerial level to discuss regional political-security issues. And in 1996, China became a full 'dialogue partner' of ASEAN, joining the U.S., Japan, the EU and others. In 1997, the establishment of the ASEAN-China Joint Cooperation Committee was the precursor to the First informal ASEAN-China Summit in Kuala Lumpur in December that year (Baviera, 1999).

6. Concluding Remarks

Although the Asian Crisis did not have much of an adverse impact, it was nevertheless important to China, but not, unlike the Crisis countries, in the way of a threat to its economic advance but rather as creating major opportunities both for China itself and for its relations with the rest of Asia, especially Southeast Asia. Domestically, it allowed China's reformist leadership to push through major enterprise reform. For these reforms to work, greater competition in industry had to be fostered. Again, the Chinese leadership opportunistically accelerated the ongoing WTO negotiations to bring this about. Both sets of reforms carried considerable risks, but the lessons offered by the Asian Crisis offered some mitigation of these risks while also muting opposition to these reforms. Hence, the actions taken by China's leaders were proactive rather than, as many believe, reactive. They were also taken primarily in the larger context of China's long-term development priorities.

Nowhere is the nature of China's response better illustrated than in reviewing its strategy towards Southeast Asia. Although China was already moving in the direction of a greater role in international affairs, the Asian Crisis afforded China an opportunity to make its presence felt in the region more rapidly than would have been otherwise possible. And it was able to achieve this with relatively modest resources and effort, although its 'strategic

\(^\text{31}\) See the ASEAN Regional Forum Website at:
competitors', to use President Bush's term, the U.S. and Japan had inadvertently helped China's effort.

This leaves a final question, raised at the beginning of this paper, to which an answer is needed. This is: were China's actions helpful to Southeast Asia's recovery in the short-run and to resumption of long-term growth? To the extent that China's policies were directed at enabling it to continue its high growth trajectory, while its immediate actions sought not to make things worse for countries badly affected by the Crisis while making available a modest amount of financial assistance, Southeast Asian countries undoubtedly received some much needed boost in the short-term, although the extent of this help, compared with the prosperity in the West, where Southeast Asia's main markets were still located, is difficult to ascertain. With the benefit of hindsight, the short duration of this Crisis, which lasted barely two years, may have meant that not much else was needed. In the longer run, whether Southeast Asian countries were able to benefit from China's actions is a much harder question to answer. Those who see the much slower growth of Southeast Asian countries worst affected by the Asian Crisis might be tempted to answer in the negative. But these countries hold at least part of their destinies in their own hands, and the search for answers to this reduced growth, just as for explanations of the drop-off of FDI, must begin with the policies followed by and structural changes in these countries in the face of growing competition from globalization. Certainly, among Southeast Asian countries, Vietnam has been able to continue its impressive growth, while Indonesia, for years the growth laggard, have shown itself remarkably resilient in the current Global Crisis.

Finally, how China responded to the Asian Crisis and its interface with Southeast Asia makes for fascinating comparisons with earlier (the Great Depression) and subsequent crisis (the 2008- Global Recession). How robust was China's political economy, which groups were most vulnerable, the role of the Chinese Overseas, and the geopolitical space in which China's interactions with Southeast Asia and indeed the rest of the world were set were among the important factors explaining China's and Southeast Asian nations' interactions.
References


Asian Development Bank (ADB) (various years) Key Indicators for Asia and the Pacific, Manila.


Annex Table 1: A Chronology of China-ASEAN Official Contacts, 1990 - 2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>China and Indonesia normalized relations after mutual visits by Chinese premier Li Peng and Indonesian President Suharto.</td>
</tr>
<tr>
<td>1991</td>
<td>China was invited to be a consultative partner of ASEAN.</td>
</tr>
<tr>
<td>1994</td>
<td>Chinese President Jiang Jemin visited Malaysia and Singapore.</td>
</tr>
<tr>
<td>1994</td>
<td>China became a member of the ASEAN Regional Forum, which is an ASEAN-initiated regional security dialogue mechanism, the only one involving all the major powers of the Asia-Pacific.</td>
</tr>
</tbody>
</table>
1995  China and ASEAN established a political consultative forum at vice-foreign minister's level to discuss political-security issues affecting the region and their relations.

1996  China a full dialogue partner of ASEAN at 29th ASEAN Ministerial Meeting in Jakarta.

1997  Chinese Premier Li Peng visited Malaysia and Singapore.

1997  Chinese President Jiang Jemin and ASEAN leaders held 1st informal summit (ASEAN+1).

1999  December, China and Vietnam signed the Land Border Treaty, which was ratified by the two countries’ parliaments in 2000.

2000  At ASEAN+3 Summit, Chinese Premier Zhu Rongji proposed creation of expert group to explore feasibility of FTA.

2000  China and Vietnam signed the Agreement on the Delimitation of the Territorial Seas, Exclusive Economic Zones, and Continental Shelves in the Gulf of Tonkin and the Agreement on Fishery Cooperation in the Beibu Gulf. Both agreements were ratified by the two countries’ legislatures in 2004.

Sources: ASEAN Official Website at www.aseansec.org, Baveira (1999); Sheng (2003); Yuan (2000).

Table 2: GDP Growth Rates, Exports, Resource Balance and FDI in China and Crisis Countries, 1995 – 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-1</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8</td>
<td>8</td>
<td>5</td>
<td>-13</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Korea, S.</td>
<td>9</td>
<td>7</td>
<td>5</td>
<td>-7</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>-7</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Thailand</td>
<td>6</td>
<td>6</td>
<td>-1</td>
<td>-11</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>148</td>
<td>151</td>
<td>182</td>
<td>183</td>
<td>194</td>
<td>249</td>
</tr>
<tr>
<td>Indonesia</td>
<td>45</td>
<td>50</td>
<td>53</td>
<td>49</td>
<td>49</td>
<td>62</td>
</tr>
<tr>
<td>Korea, S.</td>
<td>125</td>
<td>130</td>
<td>136</td>
<td>132</td>
<td>144</td>
<td>172</td>
</tr>
<tr>
<td>Malaysia</td>
<td>74</td>
<td>78</td>
<td>79</td>
<td>73</td>
<td>84</td>
<td>98</td>
</tr>
<tr>
<td>Thailand</td>
<td>57</td>
<td>56</td>
<td>58</td>
<td>54</td>
<td>58</td>
<td>69</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-1</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-2</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Korea, S.</td>
<td>-1</td>
<td>-3</td>
<td>-1</td>
<td>13</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>22</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>Thailand</td>
<td>-7</td>
<td>-7</td>
<td>1</td>
<td>16</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>---------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Net Foreign Direct Investment (US$ billions)</td>
<td>35.8</td>
<td>40.2</td>
<td>44.2</td>
<td>43.8</td>
<td>38.8</td>
<td>38.4</td>
</tr>
<tr>
<td>China</td>
<td>4.3</td>
<td>6.2</td>
<td>4.7</td>
<td>-0.2</td>
<td>-1.9</td>
<td>-4.6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.8</td>
<td>2.3</td>
<td>2.8</td>
<td>5.4</td>
<td>9.3</td>
<td>9.3</td>
</tr>
<tr>
<td>Korea, S.</td>
<td>4.2</td>
<td>5.1</td>
<td>5.1</td>
<td>2.2</td>
<td>3.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.1</td>
<td>2.3</td>
<td>3.9</td>
<td>7.3</td>
<td>6.1</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Sources: Exports data from Asian Development Bank’s *Key Indicators for Asia and the Pacific;* all other data from World Bank’s *World Development Indicators* database.

Table 3: China: Trade and Foreign Reserves 1995-2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade (as % of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>25</td>
<td>20</td>
<td>22</td>
<td>20</td>
<td>20</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Imports</td>
<td>23</td>
<td>18</td>
<td>17</td>
<td>16</td>
<td>18</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>38</td>
<td>39</td>
<td>36</td>
<td>38</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>ASEAN trade share (%)*</td>
<td>5.6</td>
<td>7.0</td>
<td>7.5</td>
<td>7.2</td>
<td>7.5</td>
<td>8.3</td>
<td>8.3</td>
</tr>
<tr>
<td>Foreign exchange reserves ($b)</td>
<td>52.9</td>
<td>75.4</td>
<td>107.0</td>
<td>142.8</td>
<td>149.2</td>
<td>146.2</td>
<td>165.6</td>
</tr>
</tbody>
</table>

Sources: For trade: *Almanac of China’s Foreign Economic and Trade Relations* (Beijing: China Foreign Economic Relations and Trade Publishing House, various issues). In 2003, *The Almanac of China’s Foreign Economic and Trade Relations* was renamed *the Yearbook of China’s Foreign Economic Relations and Trade*, which was renamed again the *China Commerce Yearbook* in 2004. (from Ku 2006, Table 1, p.130)
For foreign exchange reserves: State Administration of Foreign Exchange, People’s Republic of China.