

The Implications of Emergence of China towards ASEAN-5: FDI-GDP Perspective

Chin-Hong Puah, Jerome Swee-Hui Kueh and Evan Lau
Universiti Malaysia Sarawak, Sarawak, Malaysia

ABSTRACT

The relationship between Foreign Direct Investment (FDI) and Gross Domestic Products (GDP) had become the centre piece of recent researches in identifying the short run and long run implications between the two variables. Using the hypotheses of FDI led GDP and GDP led FDI as theoretical framework, this study intends to analyze the implications of the rise of China towards the ASEAN-5 countries, namely Indonesia, Malaysia, the Philippines, Singapore and Thailand from the perspective of FDI and GDP. The cointegration and vector error correlation estimate test results showed that there is a significant positive long run relationship between FDI of China and GDP of ASEAN-5. However, we failed to detect any short run causal relationship among the variables under study.

INTRODUCTION

Foreign Direct Investment (FDI) has become the fundamental instrument of economic growth in 1990s especially in the Asia region. In fact, ASEAN and China had undergone a progressive economic growth in the last decade and referred as the most dynamic economies in the world (Zhang and Ow, 1996). ASEAN and China share a vital cohesion where both have high dependency on FDI as a tool of export-led growth. Generally, China had recorded immense net inflow of FDI that increased from average annually increment of US\$3 billion from 1990 to over US\$40 billion between short period of 1996 and 2000 (see Table 1). The FDI inflow into China is showing a tremendous upward trend from 2001 onwards and reached US\$60.6 billion in 2004 (UNCTAD, 2002 and 2004).

[Insert Table 1 here]

In relative, the performance of FDI inflow into ASEAN countries indicating favorable increment by 48% from US\$13.7 billion in 2002 to US\$20.3 billion in 2003 (ASEAN Statistical Yearbook, 2004). Correspondingly, ASEAN-5¹ had successfully attracted high volume of FDI prior 1990s where recorded US\$25.4 billion in 1997 but the volume declined to US\$18.8 billion due to Asian Financial Crisis in 1997 (see Table 2). Nevertheless, the FDI inflow into ASEAN-5 remained favorable with progressive performance and reached US\$23.6 billion in 2004 (ASEAN Statistical Yearbook, 2004).

[Insert Table 2 here]

Although ASEAN and China become rivalry from the perspective of FDI recipient in the region, there is a significant bilateral relationship exist between ASEAN and China. The bilateral trade between China and ASEAN amounted US\$105.9 billion in 2004 with annual growth of 38.9% between the periods of 2002 to 2004 (Xinhua, 2006). Therefore, this study aims to address the issue of whether the emergence of China would leave favorable impact from the huge market and potential trading partner to ASEAN or acts as rival to ASEAN countries in attracting FDI inflow into the region from the perspective of FDI and GDP.

The economic growth of ASEAN and China has shown robust trend commencing year 2000 although facing severe implication from Asian Financial Crisis in 1997. Table 3 indicates the real GDP growth rate of ASEAN-5 where ASEAN-5 countries had recorded impressive high growth rate prior 1998. The stability and vigorous economic growth especially contributed by liberalization of foreign investment had stimulated favorable GDP growth in ASEAN-5. Nevertheless, the Asian Financial Crisis in 1997 leaves severe implications to the ASEAN-5 countries where majority of the countries achieved contradict GDP growth rate. Although ASEAN-5 countries gradually recovered from the

¹ ASEAN-5 refers to Indonesia, Malaysia, the Philippines, Singapore and Thailand.