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## The Rising Power of the Renminbi as a Trade Currency in the ASEAN Countries

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## **The Rising Power of the Renminbi as a Trade Currency in the ASEAN Countries**

A Capstone Project Submitted in Partial Fulfillment of the Requirements of the Renée Crown  
University Honors Program at Syracuse University

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## **Abstract**

This paper looks at the renminbi as a trade settlement currency in the countries that make up the Association of Southeast Asian Nations. The paper first looks at the trade picture in ASEAN, and how the old trade dynamics with the United States were broken down during the 1997 Asian financial crisis. In the ensuing power vacuum, China started to replace the United States as a trade partner, growing today to become even larger of a trade partner than the U.S ever was. The following section explores the role of the growth of the renminbi in use as a trade settlement currency in ASEAN, using the U.S. dollar as a foil.

By looking at Chinese policy in liberalizing the renminbi, this paper also draws conclusions about whether or not there's room for the renminbi to grow in ASEAN in use as a trade settlement currency. In concluding, this paper will look at the broader picture and whether or not the Chinese renminbi has the potential to become a currency as widely used and held as major currencies like the Japanese yen, British pound sterling, or Euro.

## Executive Summary

In a relatively small amount of time, China has become one of the world's most prominent superpowers. The country boasts a population of 1.3 billion people and currently runs the second largest economy in the world, according to the World Bank.

China is a big player in the international economy, but the question remains about whether or not China is capable of sustaining its remarkable growth. One way of measuring China's growth as a world superpower is by looking at its currency: the Chinese renminbi. If the renminbi can join the likes of the Japanese yen, British pound sterling and Euro as an international currency, there's a strong economic case for continued Chinese growth in the world economy.

The story of the renminbi in Southeast Asia as a trade settlement currency paints a clear picture about where the renminbi and China are headed. The steady rise in China's importance in the ASEAN economies not only dethroned the United States' historically strong ties in the region, but continues to grow year after year.

The Association of Southeast Asian Nations (ASEAN) has ten member countries (Brunei, Malaysia, Singapore, Philippines, Thailand, Cambodia, Vietnam, Laos, Myanmar, and Indonesia) and is geographically close with China. As such, the region is deeply rooted in historical and economic relationships with China, providing valuable insight into the true strength of China's economic power.

But it wasn't always that way. Prior to the 1997 Asian financial crisis, Southeast Asian countries had strong economic ties with the United States, who had a strong presence in the region because of the Vietnam War. During that time, Southeast Asian countries were also embroiled in a heated battle with China over territorial lines, strengthening a reliance on the U.S.

When Thailand's economic collapse caused a domino effect throughout Southeast Asia, China came to the rescue. The 1997 Asian financial crisis was a tipping point that saw the United States retract from the region as China filled in the vacuum. Today, ASEAN acknowledges the need to coordinate policy with its East Asian neighbors to avoid another financial collapse, which means closer ties with China.

ASEAN is also a valuable partner for China. The region has shown promising GDP growth that could reach \$4.7 trillion by 2020, and has already passed India in GDP. Indonesia, Malaysia, Philippines, and Thailand all have improved financial structures with the potential of earning "advanced market" status if they can get past political instability and weak monetary policy. Even poorer countries in ASEAN have shown promising signs of economic development, with GDP growth in Cambodia, Laos, and Myanmar averaging about 8%.

In the case of ASEAN and China, an important trade relationship exists. The trade picture in ASEAN shows China skyrocketing to the top of almost every country's trade partners in the last ten years. Additionally, trade between ASEAN and China has been steadily growing on a year-to-year basis, increasing the value of China's economic ties with the region.

For most of the Southeast Asian countries, trade has historically been invoiced in U.S. dollars. U.S. dollars have always been the common standard for international trade because it's considered a stable currency. But the liberalization of China's renminbi and a desire to decrease financial ties to U.S. economic risks have increased the use of the renminbi in ASEAN. In 2012, ASEAN settled the highest percentage of its trade in renminbi in comparison to any other region in the world.

The growth of China and ASEAN's relationship is reflected by trade statistics showing

an increase in renminbi invoicing for trade. Assuming China continues its healthy trade relationship with ASEAN, there's still a long way to go before the dollar is uprooted as an invoicing currency. But the impressively fast liberalization of the renminbi might increase international pressure to use the renminbi in trade settlement, which could possibly boost the renminbi's share of use. This is especially the case when considering China's growing relationships with African and South American countries.

The renminbi in ASEAN is a preview into the strength that China could leverage in other parts of the world. Holding all else equal, a more widely invoiced renminbi would signal a more prominent China in the global economy for continued years.

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## 1. Introduction

The Chinese renminbi, which translates to “people’s currency,” has grown to become a major player in the global economy. But it was not always that way.

In the interest of controlling the power of its currency, the Chinese government had levied strong rules and limits on buying and selling foreign currencies until 1997, when some convertibility was allowed. Since then, the government has slowly liberalized its currency in the global market.

In 2001, China joined the World Trade Organization and began loosening control over its currency. In 2009, China launched a trial program in select cities allowing companies to settle foreign trade in renminbi. The next year, China loosened the peg and instituted a managed float against a basket of currencies, effectively ending its peg to the U.S. dollar. By 2011, the renminbi had a 0.24% share in world payments, making it the 21<sup>st</sup> most used currency for trade transactions.<sup>1</sup> By February 2015, the renminbi had moved up to seventh place, with a share of 1.81%.<sup>2</sup>

The rise of the renminbi raises questions about just how international the currency can get. In a survey from State Street and the Economist Intelligence Unit, 53% of a pool of 200 institutional investors said they think the renminbi will one day surpass the U.S. dollar as the world’s major reserve currency.<sup>3</sup>

China itself is showing signs that it wants its currency to become more prominent in the global picture. China has requested that the International Monetary Fund add the renminbi to its

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<sup>1</sup> SWIFT (2011). *RMB Internationalisation: Implications for the global financial industry*. <http://goo.gl/1savsp> (Accessed 18 March 2015).

<sup>2</sup> SWIFT. (2015). *SWIFT RMB Monthly Tracker March 2015*. <http://goo.gl/ICCpgK> (Accessed 5 April 2015).

<sup>3</sup> The Economist. (2013). *Renminbi rising: Onshore and offshore perspectives on Chinese financial liberalization*. <http://goo.gl/ju5JZ2> (Accessed 5 April 2015).



basket of key currencies used to supplement IMF member countries' official reserves (Chen, 2015).

Still, China remains a developing country and the renminbi is far from earning global currency status in a U.S. dollar-dominated world. So in context of China's growth, is the renminbi on its way to becoming a currency as widely used as the Japanese Yen, British Pound Sterling, or Euro?

This paper will answer this question by focusing on the use of the renminbi in trade settlements between China and the member states of the Association of Southeast Asian Nations<sup>4</sup>.

The paper will begin with a historical analysis of the United States in ASEAN and how political and military involvement in Southeast Asia led to soft power and economic ties to the region from the Vietnam War to 1997. In section 3, the paper will look at the rise of China as an economic power and how it was financially prepared to be a savior and friend to ASEAN during the 1997 Asian financial crisis. Section 4 will use the historical context behind American presence in Southeast Asia as explained in section 2 to explain the prominence of the U.S. dollar in the region. Section 5 is paralleled with section 4 and uses the historical context behind China's economic growth to explain the increasing role of the renminbi in the region. The paper will then wrap up with a look into what the Chinese government is doing to further liberalize the currency and what can be expected from the renminbi in the future.

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<sup>4</sup> To be referred to in the rest of this paper as "ASEAN"

## 1.1 Money

Money has three basic characteristics: unit of account, store of value, and medium of exchange. These three basic functions translate into international uses for governments and private agents, as noted by Kenen (1983) in a taxonomy first noted by Cohen (1971) as illustrated in table 1.

Money serves in various roles, but this paper will focus specifically on money as a medium of exchange. In this function, a currency serves as a mutually accepted form of payment that can carry out foreign trade transactions. In the context of the renminbi, we will look at how the currency is being used in Chinese trade with the ASEAN countries.

## 1.2 Why Trade?

While there are many ways to measure the renminbi's growth as an international currency, we look at the currency in trade because it's generally the first step in earning global status. As Eichengreen (2012) notes in *Exorbitant Privilege*, international transactions are key to making a currency dominant in foreign exchange markets.

If, for example, Southeast Asian countries are trending towards using the renminbi more and more to settle their exports to China, there's substantial reason to believe that China does have some level of economic leverage and trust in their trade dynamics with those countries.

Eichengreen (2012) notes that there's also a snowball effect in foreign use of a currency spurred by use in trade. "Since it [currency] pays for exporters of financial services, like exporters of merchandise, to avoid confusing their customers, they, too, will price their products in the same currency as their competitors."

Considering the importance of trade, this paper will look at changing trends in the renminbi's use as a currency in trade to draw conclusions about the renminbi's potential to become as widely used as the euro, yen, pound sterling, or even the U.S. dollar.

This paper will use statistics from ASEAN, China, and third-party databases to examine these changes. It is important to note that there are reporting discrepancies between data from ASEAN and China, and those differences will be explained and noted where necessary.

Additionally, for the purposes of this paper it is important to note that ASEAN will refer to the ten member states of the Association of Southeast Asian Nations, which are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

There are sometimes mentions of ASEAN Plus Three, which add China, Japan, and South Korea to the mix for the purposes of regional economic integration. For this paper we will exclude mentions of ASEAN Plus Three.

The two ASEAN observer nations of East Timor and Papua New Guinea will also not be mentioned.

### **1.3 Why ASEAN?**

The relationship between ASEAN and China is complicated and laced with decades of political, economic, and at times, military conflict. But today, China's rise as a global superpower means that ASEAN has economic reasons to tighten its ties with its very close neighbor. Conversely, China has its own economic incentives to strengthen a trade relationship with ASEAN. This relationship has serious implications to the growing internationalization of the renminbi and its use as a trade settlement currency.

As a geographical region, ASEAN holds advantageous opportunities for China in terms of natural resources, agriculture, and various industries. China also sees consumer opportunities in ASEAN, and has increased investment in those countries.

These opportunities come from ASEAN's own growth. According to Morgan Stanley Capital International's most recent annual market classification, five of the ASEAN countries are classified as "emerging markets" or "frontier markets."<sup>5</sup>

Indonesia, Malaysia, Philippines, and Thailand are all "emerging markets," having improved their financial structures with stronger banks, equity markets, and currencies. These countries pose significant investment risks like political instability and irresponsible monetary policy, but can become decidedly "advanced markets" if they continue to develop their economies. S&P Dow Jones's Global Broad Market Index<sup>6</sup> also identifies these four countries as emerging markets as well, but based mostly on the performance of their stock markets.<sup>7</sup>

As a "frontier market," Vietnam has exhibited promising growth in market capitalization and liquidity. With stable regulation and apt monetary policy, frontier markets like Vietnam can progress and become an emerging market.

Even poorer countries of ASEAN have shown promising signs of economic development. Although Cambodia, Laos, and Myanmar are not included in the lists of S&P or MSCI, the three countries have had annual average GDP growth of almost 8% since the turn of the century. For this reason, Deutsche Bank has classified the three countries as "frontier markets" exhibiting promising growth and potential as players in world trade.<sup>8</sup>

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<sup>5</sup> Morgan Stanley Capital International, Inc. (2013). '2013 Annual Market Classification Review.' [https://www.msci.com/eqb/pressreleases/archive/2013\\_Mkt\\_Class\\_PR.pdf](https://www.msci.com/eqb/pressreleases/archive/2013_Mkt_Class_PR.pdf) (Accessed 23 December 2013).

<sup>6</sup> Shortened to "S&P BMI"

<sup>7</sup> S&P Dow Jones Indices. (2013). 'S&P Global BMI – Equity Indices.' <http://goo.gl/Z7L65g> (Accessed 23 December 2013).

<sup>8</sup> Deutsche Bank. (2012). 'New Asian frontier markets.' <http://goo.gl/04ps5I> (Accessed 23 Dec. 2013).

The emerging and frontier markets of ASEAN tell a story of a region with promising opportunities in terms of both exports and imports. A lot of these opportunities come from investors shifting their focus from China to Southeast Asia. More expensive labor and capital costs for manufacturing in China are encouraging cost-cutting entrepreneurs to move their industries to countries like Indonesia and Vietnam (Chu, 2013). China welcomes the migration in manufacturing. As the country continues to push growth towards a service-oriented and technological economy, the nation's leaders are welcoming gradual reduction in the manufacturing industry. Southeast Asia's improving efficiency, abundant labor, and close proximity to China are attracting new investors.

Amongst each other, ASEAN is improving as well. Cross-border investment is increasing as the nations engage each other in economic and political dialogue that has encouraged openness with fellow Southeast Asian countries. Although integration is not at European Union levels, ASEAN is on the whole showing promising GDP growth that could reach \$4.7 trillion by 2020. ASEAN has already surpassed India in GDP, and this is with about half of India's population (Khanna, 2013).

As a whole, ASEAN is getting wealthier and narrowing the development gap as foreign investors see greater opportunity in the region. With projected growth of around 5.5% from 2013-2017, short-term growth is promising a stable and sustainable future for the region.<sup>9</sup> In terms of total trade, ASEAN grew by 16.8% in 2010-2011, with some of the higher percentage growth coming from the frontier markets of Vietnam, Cambodia, and Myanmar.<sup>10</sup>

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<sup>9</sup> Organisation for the Economic Co-operation and Development. (2013). 'Southeast Asian Economic Outlook 2013.' *OECD Development Centre*. <http://goo.gl/sx59z6> (Accessed 23 December 2013).

<sup>10</sup> Association of Southeast Asian Nations. (2013). 'ASEAN Trade, 2010-2011.' <http://goo.gl/IHnH3j> (Accessed 23 December 2013).

Continuing growth in ASEAN looks promising but the region's governments must stay committed to stability and apt monetary policy. Maintaining these elements is key to attracting private consumption and investment, which is hugely responsible for economic growth in these emerging and frontier markets.

ASEAN's rise as a new frontier of global trade will be hugely influential in the future of currency exchange as consequently to the trajectory of the renminbi. China is well aware of this.

Since the 1997 Asian financial crisis, China has taken several measures to loosen barriers of trade with ASEAN and build a strong rapport with their neighbors. Bilateral trade between the countries not only brings regional support in the Asian economies, but also advances China's long-term economic interests. The historically complicated histories of ASEAN and China presented challenges in achieving strong bilateral relationships, but by turn of the millennium the foundation had been put in place to help China become ASEAN's favored trade partner.

## **2. The Trade Picture: ASEAN and the U.S.**

While China has made great strides in their relationship with ASEAN, the United States has actually held a historical advantage in the region. The United States benefited from a historically rooted influence in the region, as many of the ASEAN countries developed political and economic dependencies on America beginning with the Vietnam War.

China, on the other hand, had to overcome historically complicated relations with ASEAN. But China's economic growth made it an important ally to the ASEAN countries during the 1997 Asian financial crisis, which began a new chapter of economic integration that was helped along by geographical proximity.

Understanding the history behind the United States' trade relationship with ASEAN will contextualize the importance of China's rise in the region after the crisis and the consequential increase in the use of the renminbi in the region.

## **2.1 Statistics**

There are many sources for trade statistics between ASEAN and China. ASEAN has its own database, called ASEANstats while China reports its trade statistics in its annual China Statistical Yearbook. The United Nations also has its UN Comtrade Database. To avoid reporting biases from either ASEAN or China, I have decided to use the UN Comtrade Database. These biases are reflected in Table 2, which shows that in comparison to the UN Comtrade's numbers, trade volume was under-reported by an average of 2.8% between 2000 and 2013. China was shown to have over-reported trade by an average of 18.8% during that same period.

Some of the discrepancies in reporting come from accounting ambiguity as to whether or not the Hong Kong special administrative region is included in the calculation for China's trade statistics. Including Hong Kong would substantially increase the share of total exports, since Hong Kong generally records a trade deficit. For this paper, statistics regarding Hong Kong and the smaller trade region of Macao were excluded to keep the subject of the analysis on mainland China's trade dynamics in ASEAN.

The trade statistics pulled for the wide variety of tables and figures in this section also do not consider re-import and re-export numbers from the UN Comtrade Database. Only raw export and import data was pulled for the purposes of analysis.

Additionally, there are some holes in data because of a lack of reporting from some ASEAN countries at certain times. Trade statistics from Lao PDR are not reported and are

therefore not reflected in the following data. Myanmar has only reported once a year, while Brunei has a sporadic pattern of reporting. Vietnam and Cambodia only had trade statistics available after 2000.

## **2.2 The United States in ASEAN**

After World War II, the United States had embarked on aggressive anti-communist international relations policy. In Southeast Asia, the United States lobbied for the creation of a Southeast Asia Treaty Organization<sup>11</sup>, in which the countries would pledge anti-communist politics. But the United States' efforts only managed to court Philippines and Thailand. Some countries adopted Indonesia's anti-Western policy while others followed Burma's generally ambivalent foreign policy towards the U.S. and other world powers (Areethamsirikul, 2008).

American foreign policy then shifted towards money, and the U.S. began providing economic assistance in an effort to prevent the spread of communism in lieu of Mao Zedong's rise in China. By bringing capital to Southeast Asia, wealth and standard of living would increase, bringing political stability to the region. At that time in 1967, U.S. trade with Southeast Asia made up only 7% of total U.S. exports and 8% of total U.S. imports (Areethamsirikul, 2008). It was also in 1967 that ASEAN was founded.

ASEAN quickly became one of the fastest-growing regions in the world, with the United States as a growing trade partner. The gross domestic product<sup>12</sup> of the member countries grew at an average annual rate of 6.6% between the 1970s and 1995 (Setboonsarng, 1998).

In a 2000 speech by then Prime Minister of Singapore Goh Chok Tong, the United States was referred to as an important pillar of support during the turbulent days of the Vietnam War:

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<sup>11</sup> Or "SEATO"

<sup>12</sup> Or "GDP"



The US involvement in Vietnam bought precious time for the ASEAN countries to put their house in order and to lay the foundation for the grouping to develop into a cohesive organisation. ASEAN economies began to take off, spurred by US investments and a friendly American market.<sup>13</sup>

The 1980s saw a period of rapid industrial growth in ASEAN, with particular development in manufactured products industries. By 1987, 36% of ASEAN's exports to the United States were in manufactures (Naya, Sandhu, Plummer, and Akrasanee, 1989).

The United States' post-Vietnam War economic relationship with ASEAN realigned the region's key trade partners. Since the 1960s, Japan had been ASEAN's largest trade partner. In the mid 1970s, the United States started to chip away at Japan's share of trade. By 1986, the United States had surpassed Japan as ASEAN's largest export market (Naya, Sandhu, Plummer, and Akrasanee, 1989).

Economic success had also proven itself to be a strong political tool to stabilize the countries during the later parts of the Cold War. Indonesia, Malaysia, Philippines, and Thailand saw some level of government reform and liberalization following the increase in U.S. trade (Tan and Akrasanee, 1990). Singapore, which was widely considered a poor, politically unstable city-state in the mid-1960s, grew to become one of the world's most developed countries (Kreinin and Plummer, 2002).

### **2.3 The 1997 Asian Financial Crisis: Falling Faith in the U.S.**

In the 1990s, ASEAN showed no signs of slowing down. ASEAN had actually proved itself to be a relatively robust economic region, weathering both the collapse of the Bretton

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<sup>13</sup> Speech by Goh Chok Tong in New York on 7 September 2000. *ASEAN-US Relations: Challenges*. Full speech from Asia Society at: <http://goo.gl/wM09xl> (Accessed 7 April 2015).

Woods system and the early 1980s global recession without any substantial setbacks (Setboonsarng, 1998).

In 1990, ASEAN's resilience was tested again, as restrictive American monetary policy and the residuals of the 1987 stock market crash slowed down the global economy. But the ASEAN countries had posted impressive GDP growth rates from 1990 to 1991, growing as a region by 6.22% in 1991. The ASEAN countries didn't even lose momentum; GDP growth rates actually increased from 1993-1995 (Table 3).

During this period, the aggressive export-led economies of Southeast Asia continued to churn out manufactured goods. The importance of agriculture in ASEAN decreased while services increased, showing signs that the region might soon earn developed nation statuses (Kreinin and Plummer, 2002).

But to live by the sword is to die by the sword. Stronger economies meant stronger ASEAN currencies, which made their exports more expensive and consequently hurt export volumes in 1996. Total trade more or less flattened between 1996 and 1997, although Thailand and Indonesia actually experienced a decline in trade (Figure 1).

As a result, ugly trade deficits had piled up. With the exception of Singapore, which was running an advanced economy as a trade hub of Southeast Asia, the key ASEAN countries of Indonesia, Malaysia, Philippines, and Thailand were battling swelling trade deficits during the 1990s (Setboonsarng, 1998). In 1991, Malaysia was trying to control deficits of 8.8% of GDP, and successfully did so until it exploded again to 10% of GDP in 1995. Thailand had a deficit of 8.1% of GDP in 1995 (Table 4).

Slowing trade was the first domino to fall in the 1997 economic crisis that brought several Asian economies to their knees in what is now called the Asian financial crisis. In about

one year, the Asian financial ecosystem had spiraled down and reversed years of economic progress in developed countries with previously well-regarded financial strength. Indonesia and Thailand's economies shrunk by 13% and 10.5% respectively. Malaysia's economy, which comparatively didn't suffer as bad, still contracted 7% (Ramesh 2009).

But how did this happen? Until the crisis, most financial shocks happened in countries with weak trade and poorly managed monetary policy. By 1997, the Asian countries had developed strong export relationships and proven good financial management to substantiate their role in the global economy.

In hindsight the crisis showed that strong trade and GDP growth isn't always a good indicator of an economy's structural integrity. Thailand, one of the shining stars of ASEAN's economic growth, had actually gotten carried away with its wealth. Banks began making irresponsible investments in real estate abroad and loosely handing out large loans. With an appreciating Thai baht and slowing exports, Thailand found it hard to manage its debts and faced the scrutiny of foreign investors who started to grow wary of Thailand and ASEAN's economies (Lai, 2000).

As a result Thailand became the epicenter of the crisis, as speculators, knowing that Thai traders settled all of their transactions in the US dollar, began losing faith that the Thai baht could maintain its peg to the dollar. When investors sold their Thai baht for US dollars, the government's depleted reserves of greenbacks strong-armed the government into dropping the peg and the slip began (Lall, 1997). Figure 1 shows dramatic drops in 1997 in trade across all of the reporting ASEAN countries.

Fearing that a collapse of Southeast Asia would have crippling global consequences, the International Monetary Fund<sup>14</sup> and the World Bank started pumping austerity into the region. The IMF also followed the same model they employed in Latin America in the 1980s by enforcing revised fiscal and monetary policies to cut spending and control inflation. But as Joseph Stiglitz (2000), the chief economist and vice president of the World Bank between 1997 and 2000 said, the IMF's policies actually worsened the crisis:

I thought this was a mistake. For one thing, unlike the Latin American nations, the East Asian countries were already running budget surpluses. In Thailand, the government was running such large surpluses that it was actually starving the economy of much needed investments in education and infrastructure, both essential to economic growth...The problem was not imprudent government, as in Latin America; the problem was an imprudent private sector—all those bankers and borrowers, for instance, who'd gambled on the real estate bubble.

The actions of the IMF and the World Bank lost the faith of Southeast Asia, with some believing that the austerity was designed to save foreign investors instead of the countries themselves. Additionally, the United States lost favor in the eyes of Southeast Asians, as most of the speculator pullback in US dollars had come from the west.

Tong said it himself in his 2000 speech. “The US has lost some goodwill in the region since the Asian financial crisis. Fairly or unfairly, the US was perceived to be not forthcoming enough in helping the Southeast Asian countries” (2000).

With falling sentiment against the US, the IMF, and the World Bank, the ASEAN countries came to realize that regional economic cooperation was necessary to prevent another

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<sup>14</sup> or “IMF”

domino-effect economic collapse. That meant working with its East Asian neighbors to coordinate policy and create a liquidity support system (Lee and Park, 2014).

This had paved the way for China to become a new key trade partner for ASEAN.

### **3. The Trade Picture: ASEAN and China**

With the United States losing credibility in ASEAN, a power vacuum started to form. China's economic reform between the 1980s and early 1990s primed the country to be the perfect replacement for the United States when the crisis struck Southeast Asia.

The desire to create regional economic relationships to weather global economic risks gave China the opportunities to build long lasting relationships with ASEAN. Political and economic talks eventually broke down barriers to trade between ASEAN and China, and trade consequently bloomed.

The product of increased trade was a more utilized renminbi, as ASEAN and China began seeing benefits in settling trade in a regionally-based currency as opposed to the U.S. dollar.

#### **3.1 Pre-Crisis China-ASEAN Relations**

Had it been any earlier in history, China may not have had the resources or political strength to assist a struggling ASEAN in the 1997 Asian financial crisis. History shows that China and Southeast Asia had a complicated relationship prior to 1997, with Cold War politics and a reforming China at the root of uncertainty.

Until his death in 1976, China was at the hands of Mao Zedong, a principled leader who sought to install a modified brand of communism that involved a heavily planned economy. Mao Zedong's goal was to industrialize China through domestic economic sustenance.

The Maoist government took control of several industries during a period of time called the "Great Leap Forward." Having bureaucratic control of these industries, China was able to manipulate prices to create profits for state-owned enterprises and consequently the state (Lieberthal, 2004).

These companies were then transformed into communities where work became synonymous with lifestyle and nationalism became synonymous with all functions of life (Sullivan, 2007). At Anshan Iron and Steel Company, living quarters and schooling for children were provided along employee pay. Employees were told their purpose was to strengthen the party and further the progress of the proletariat.

The same general concept was applied to rural farming, where communes were constructed. Communes were communities where families lived, slept and worked. Crop yields were heavily regulated and accounted so that both the commune families and the country's industrial complexes like Anshan were well supplied.

Mao Zedong's brand of socialist planning fell to the natural mechanics of economics, and the unmotivated and unevenly distributed laborers of the country failed to produce to Mao's calculations. When drought struck the country, a terrible period of famine ensued in China that left millions dead (Huntington, 1983).

By the time Mao Zedong died in 1976, the Chinese people knew they wanted reform. Their new president, Deng Xiaoping, realized that a stronger China had to begin with a stronger economy. After taking power in 1978, he began working towards the installation of a "market

economy with Chinese characteristics.” Part of that plan involved reforming and opening China to trade through pragmatic economic policy.

Xiaoping zoned in on Southeast Asia, Hong Kong, Macao, and Taiwan as economic partners. Combined, they made up over 70% of China’s external trade and investment in the twenty years following Xiaoping’s rise to power (Viraphol, 2006). But beyond geographic proximity, Xiaoping cleverly took advantage of the high numbers of entrepreneurs of Chinese origin that lived in those countries. Ethnic Chinese business owners in Southeast Asian cities like Bangkok, Kuala Lumpur and Singapore became great links for China to create cultural links and facilitate trade (Stuart-Fox, 2003).

These economic initiatives also lined up with political efforts to normalize relations with Southeast Asia, although Chinese foreign policy more or less enabled the United States to pursue its post-Vietnam military, economic, and political involvement in the region. When Deng Xiaoping visited Southeast Asia, he emphasized the need for stability in lieu of a U.S. withdrawal from Vietnam in 1973. China was incredibly concerned with the growing presence of the Soviet Union because of the power vacuum that was growing as the U.S. gradually pulled military from the region. When America started using soft power to economically prop up the region, China stepped aside and allowed the U.S. to develop trade relationships with the region through the 70s and much of the 80s. (Sutter, 2005).

But China’s cry for political stability was undermined by their support of the Khmer Rouge, who sought to create a Maoist agrarian utopia and left about 1.7 million people dead in the experiment (Bezlova, 2009). When Soviet-backed Vietnamese troops overthrew Pol Pot and the Khmer Rouge regime, China threw military support behind the Cambodians and launched a failed campaign into Vietnam in 1979 (Sutter, 2005).

China's flirtations with communist guerrillas in Thailand and conflict with ASEAN states over ownership of islands in the South China Sea also hindered China's ability to better trade relationships with Southeast Asia (McCartan, 2009).

Despite all of this, China's domestic economic reform helped spur its economy as the 1980s rolled in. Industrialization had brought more jobs and a bigger population to be employed for those jobs. An increase in wealth also increased per capita private consumption, raising the overall price level (Ash and Kueh, 1996).

As a result, GDP growth soared as high as 15.2% in 1984. Figure 2 shows GDP mapped against trade patterns. In the 1980s, GDP averaged an impressive 9.75%, led by strong manufacturing output and an inflow of foreign direct investment after Xiaoping's economic opening (Table 5). Figure 2 does show a sharp decline in 1988 and 1989. That decline can be attributed to a rush of outflow of foreign direct investment amid concerns over the Tiananmen Square protests and high levels of inflation.

But by the 1990s, China had established itself globally as a huge trade partner. Average growth during the 1990s was at 9.99%, as total trade cracked \$300 billion. When the 1997 Asian financial crisis struck, China had positioned itself as one of the most up and coming economies in the world.

### **3.2 A Helping Hand: ASEAN and China Post-Crisis**

The 1997 Asian financial crisis had signaled the beginning of a shift in ASEAN trade dynamics in which China began replacing the United States as a major trade partner.

It helped that China had not been hurt by the 1997 Asian financial crisis. While Indonesia and Thailand's economies were contracting by double digits, in 1997 and 1998, China was



growing its GDP by 9.3% and 7.8%, respectively. Between 1997 and 1998, Chinese total trade contracted by a negligible \$1 billion (Figure 2).

As a result, China was able to provide ASEAN with over \$4 billion in aid. Some of that money had been passed through the IMF while other sums were provided bilaterally (McCartan, 2009). China gave financial assistance packages to the arguably most battered countries: Indonesia and Thailand. These packages included standby loans through the IMF (Morrison, 1999).

But perhaps the most supportive action from China was the government's decision to hold their fixed rate currency as ASEAN countries depreciated their currencies. In doing so, ASEAN exports became more competitive in the global market and restarted the regional economy (McCartan, 2009).

China's dovish attitude towards the Asian financial crisis helped to break down U.S. economic ties to the region. In a report to Congress, economic specialist Wayne Morrison (1999) warned that China's response to the crisis would displace the United States as a key trade partner:

However, many analysts have expressed concern that a deepening of the global financial crisis may induce China to devalue its currency, the yuan, in order to stimulate export throughout East Asia, which would further depress U.S. exports to the region.

China did exactly that. With more competitively priced goods, ASEAN was able to boost exports to China and the rest of the world. But China also benefited; since the country imports a lot of its raw materials and machinery from ASEAN, cheaper goods lowered costs for many Chinese manufacturing companies.

In December of 1997, Chinese President Jiang Zemin delivered a speech in Kuala Lumpur in which he noted the need to develop a bilateral relationship with ASEAN economically and politically. Zemin outlined his desire for a “good neighbor partnership,” using cultural similarities and geographic proximity as a foundation for common ground:

At the moment, China and ASEAN countries are seizing the historic opportunity to formulate development strategies in accordance with their own countries’ economic and social conditions to drive an increase in productivity and continue economic growth.<sup>15</sup>

Regional economic cooperation began with the creation of a currency safety net. In 2000, ASEAN, China, Japan and South Korea signed the Chiang Mai Initiative, which was a multilateral pact aimed at creating financial integration in the region. Under the agreement, the ASEAN member countries agreed to expand swap facilities so that countries facing liquidity problems could swap domestic currency for U.S. dollars from another country’s reserves with a promise to pay back at a later date (Sussangkarn, 2010).

Initiatives to ramp up trade followed soon after in 2001, when China was accessed into the World Trade Organization<sup>16</sup>. This was a huge move for China, not because they had been petitioning to join the organization since 1986, but because the country was eager to become a defined market economy and fully join the world economy as a competitive trading partner (Bader, 2002). From Southeast Asia’s perspective, China’s WTO membership held more clout as a trading partner and legitimized China as a trading gateway to the international markets.

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<sup>15</sup> Speech from Jiang Zemin in Kuala Lumpur on 12 December 1997. *Establishment of the 21<sup>st</sup> Century Good-Neighborly Partnership of Mutual Trust*. Full speech from Xinhua at [http://news.xinhuanet.com/ziliao/2002-10/28/content\\_610547.htm](http://news.xinhuanet.com/ziliao/2002-10/28/content_610547.htm) (Accessed 7 April 2015).

<sup>16</sup> Or “WTO”

Around this time, China began engaging ASEAN with talks of a trade agreement. In November 2000, ASEAN and Chinese officials agreed to start talks about improving economic integration and possibly creating a free trade area (Buckley, Hu and Arner, 2011).

Talks were held soon after that November meeting, and in October of 2001, a research committee commissioned by both ASEAN and China concluded research that concluded that a free trade agreement would benefit both parties. In 2002, an agreement was signed that would remove tariffs on about 90% of goods effective 2010, improving the fluidity of trade between ASEAN's ten members and China.<sup>17</sup>

The 2000s also saw China's growth in global trade as a result of economic reform in the 1990s. As part of their bid to join the WTO, China had cut tariffs from 47.2% in 1990 to 15.8% in 1999. The result was immediate; by 2000 China had climbed to sixth in the global trade ranking with trade volumes of \$474 billion (Li 2012).

During this time China had aggressively ramped up its export-led strategy. Figure 3 shows the widening current account surplus that began shortly after 2002. With membership in the WTO coming in 2001, China was able to almost exponentially grow their trade volumes as their credibility as a trade partner in the global economy increased. GDP also steadily increased during the early 2000s (Figure 2).

Seeing China's growth in the world economy, ASEAN business owners had more incentives to build trading relationships with firms in China. A dramatic free fall in U.S. share of ASEAN trade accompanied an increase in Chinese share, as business owners began strong trading rapport with businesses in China (Figure 4). In the period of 2003 to 2013, U.S. share of ASEAN Total Trade fell by 42.5% while Chinese share increased by 88.7%.

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<sup>17</sup> Xinhua News Agency. (2013). 'Backgrounder: ASEAN-China Free Trade Area.' *Global Times*. <http://www.globaltimes.cn/content/816206.shtml> (Accessed 23 December 2013).

Looking at individual countries, one can see the dramatic dynamic change in U.S. presence and Chinese presence in ASEAN in the period 2005 to 2012.

In 2005, most of the ASEAN countries still listed the United States as their biggest trade partner. Among the six ASEAN countries of Thailand, Cambodia, Indonesia, Philippines, Vietnam and Malaysia, the U.S. was the number one export destination for all countries except Indonesia. In Cambodia, exports to the U.S. represented a whopping 53.3% of Cambodian exports (Table 6).

By 2012, China had eroded away much of the U.S.'s hold on the region. China overtook the U.S. to become Thailand's number one export destination with 11.7% share of ASEAN exports. China also overpassed the U.S. as an export destination in Indonesia and Malaysia, despite not earning the top spot (Table 7).

These trends are impressive because both China and ASEAN have export-led economies. By these principles, the United States, as the biggest economy in the world running a very large current account deficit, should remain a top destination for exports from ASEAN. ASEAN favoring China as an export destination is a testament to the desire by both parties to foster a regional economic alliance.

It also shows that the alliance could be self-sustaining; imports from China also increased in ASEAN between 2005 and 2012, showing that the bilateral trade agreement was almost cyclical in nature. This makes sense because Southeast Asia is rich with raw materials and resources that could be exported to China to be turned into manufactured and refined goods and imported back into ASEAN.

By 2007, China and ASEAN had reached a finalized agreement that identified tariffs on 7,881 goods that would be lifted under the agreement<sup>18</sup>. These agreements had created the ASEAN-China Free Trade Area.<sup>19</sup> That year, China overtook the United States in share of ASEAN trade (Figure 4).

Under the agreement, the average tariff rate China charges on ASEAN goods decreased from 9.8% to 0.1%. The ASEAN states agreed to drop their tariffs from 12.8% to 0.6% (Coates, 2009). Brunei, Thailand, Indonesia, Malaysia, Philippines and Singapore had made the tariff changes by 2010, while Lao PDR, Cambodia, Vietnam, and Myanmar had until 2015 to make the changes.<sup>20</sup>

### **3.3 China and ASEAN: Today**

As talk of a slowdown in the Chinese economy continues, maintaining and growing a relationship with ASEAN remains a top priority for the Chinese government. As is, China's economic policy for continued growth involves three focuses: domestic growth, international growth, and regional growth. While China has certainly worked on improving its domestic economy, the country has also looked outwards to improve its relationship with its neighbors. For example, China donated a total of 65 billion US dollars into ASEAN programs that support ASEAN development projects and investment funds (Sutter, 2010). China is also continuing efforts to take advantage of the large population of ethnic Chinese business owners in Southeast Asian cities like Bangkok, Kuala Lumpur, and Singapore (Stuart-Fox, 2003). As economic

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<sup>18</sup> Ministry of Trade and Industry Singapore. (2011). 'Overview of ASEAN-China (ACFTA).' [http://www.fta.gov.sg/fta\\_acfta.asp?hl=2](http://www.fta.gov.sg/fta_acfta.asp?hl=2). (Accessed 5 April 2015).

<sup>19</sup> Or "ACFTA"

<sup>20</sup> U.S. International Trade Commission. (2011). *China Agricultural Trade: Competitive Conditions and Effects on U.S. Exports*. U.S. ITC, 8-7 <http://www.usitc.gov/publications/332/pub4219.pdf> (Accessed 13 April 2015).

relationships between China and ASEAN improve, this social link continues to prove useful to improving the flow of trade.

Optimism is abounding in both China and ASEAN's camps, and a joint statement predicts that their bilateral trade will reach 1 trillion dollars by 2020.<sup>21</sup>

Part of this optimism comes from anticipated growth from the final four ASEAN members – Lao PDR, Myanmar, Cambodia, and Vietnam – breaking down their tariffs in 2015. These four frontier markets, as defined by the MSCI, will be four new markets rife with growth potential for China to ramp up trade and eventually meet that 1 trillion dollar mark.

Lao PDR and Cambodia boast the highest GDP growth rates in 2013, at 8.5% and 7.4% respectively (Table 8). Although Myanmar does not report to The World Bank's database, the Asian Development Bank predicted that GDP growth in Myanmar was an estimated 6.3% in 2013, which would be the fourth highest GDP growth in ASEAN.<sup>22</sup>

Vietnam saw more modest GDP growth in 2013, at 5.4%. But China is by far Vietnam's largest import partner, at 25.5% share. Most of these imports are machinery and electronic products that can be easily shipped from the northeast Vietnamese border with China (Salidjanova and Koch-Weser, 2015). Expectations for an increased trade relationship with China come as Vietnam and China opened up the Noi Bai-Lao Cai expressway in September 2014, a road that connects Vietnam's capital Hanoi with China's Lao Cai province.<sup>23</sup> The road is expected to facilitate easier trade, since the expressway shortens travel times between Hanoi and Lao Cai from between 10 and 12 hours to between three and four hours.

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<sup>21</sup> Xinhua News Agency. (2013). 'Backgrounder: ASEAN-China Free Trade Area.' *Global Times*. <http://www.globaltimes.cn/content/816206.shtml> (Accessed 23 December 2013).

<sup>22</sup> Asian Development Bank. *Myanmar in Transition: Opportunities and Challenges*. ADB, 1. <http://www.adb.org/sites/default/files/publication/29942/myanmar-transition.pdf> (Accessed 12 April 2015).

<sup>23</sup> Xinhua News Agency. (2015). 'Road to China helps spur Vietnam's economic development.' *Xinhua*. <http://goo.gl/yPJDuo> (Accessed 13 April 2015).

China also holds the top spot in imports to Myanmar, at a share of 39.9%. As a frontier market, Myanmar runs a large trade deficit with the world and therefore relies on purchasing machinery and finished goods from China to sustain its economy. China is Myanmar's second largest destination behind Thailand, with most exports to China being natural resources, namely wood (Salidjanova and Koch-Weser, 2015).

Cambodia has averaged about 8% growth a year, but still remains among the poorer countries in ASEAN. According to the United Nations Human Development Index, Cambodia ranked 136<sup>th</sup> out of 187 countries in terms of economic development (Table 9). While the United States remains the top destination for Cambodian exports, Cambodia's number one importer is China, at a share of 32.6% (Salidjanove and Koch-Weser, 2015).

As one of the poorest countries in ASEAN, Lao PDR has a lot of room for growth, and tops the list of GDP growth among all the ASEAN countries. Part of their economic potential comes from their labor market, which is the product of a younger population where over 61% of people are of working age. China is Lao PDR's top export destination, at a share of 33.5%, and is the second largest importer to Lao PDR, at 11.2% as of 2011 (Salidjanove and Koch-Weser, 2015).

ASEAN hopes to use the economic potential of these four countries to draw in its other trade partners to build larger economic bloc. As is, ASEAN has separate free trade agreements with Australia, China, India, Japan, the Republic of Korea and New Zealand, but wants to merge the agreements into one Regional Comprehensive Economic Partnership<sup>24</sup> that would make trade conditions even more transparent.

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<sup>24</sup> Or "RCEP"

China has taken specific interest in getting the RCEP signed, believing that regional alliances will prop up ASEAN as a key player in the global economy and, consequently, help all other countries engaged in the free trade bloc. Chinese Foreign Minister Wang Yi said China wants to get the RCEP signed before the end of 2015 because “the development of ASEAN will benefit Asian integration.”<sup>25</sup>

#### **4. The U.S. Dollar in ASEAN**

ASEAN’s impressive trade growth lays a foundation for a discussion on trade settlement in ASEAN imports and exports, and the role that the renminbi has played in those settlements. Based on Eichengreen’s findings that trade is the first step to increased global use of a currency, we can use trends in ASEAN’s trade relationship with China to draw conclusions about how valuable the renminbi is in the region and whether or not there’s room for the renminbi to grow.

Much like the trade picture, the story of currencies in Southeast Asia begins with the mighty U.S. dollar, which initially had such a strong footing in ASEAN that some countries had entirely dollarized economies. After the 1997 Asian financial crisis, the ASEAN nations realized that a strong dependence on the U.S. dollar subjected the region to Western economic risks. When ASEAN’s economic priorities shifted to regional cooperation, many countries attempted to de-dollarize their economies and prop up their domestic currencies.

##### **4.1 Dollarized Economies in ASEAN**

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<sup>25</sup> CCTV. (2015). ‘Chinese FM: Hope to reach agreement on RCEP in 2015.’ CCTV. <http://goo.gl/yE67wM> (Accessed 10 April 2015).



Traveling to Southeast Asia, some American tourists are stunned to see that they can buy goods with U.S. dollars. In these dollarized economies, so many U.S. dollars are in circulation that everyday transactions can (and are sometimes preferred) in U.S. dollars over a country's domestic currency.

Cambodia is Asia's most dollarized economy, where nearly 90% of currency in circulation is US dollars instead of its domestic currency, the Cambodian riel (Hipsher, 2009). The ratio of riel deposits to GDP sits at around 1%. Comparatively dollarized economies in Vietnam and Lao PDR have far larger ratios of their domestic currencies to GDP, at 83% and about 8.5%, respectively (Duma, 2013). Cambodia's ratio of foreign currency deposits to total deposits has fluctuated between about 95% to 98% from 2008 to 2012, meaning that the riel is virtually missing from total deposits.<sup>26</sup>

Cambodia's parallel urban and rural economies describe the flow of two currencies. In urban sectors like tourism, foreign direct investment, and clothing, the flow of capital comes in the form of US dollars. For rural agriculture industries, Cambodian riels are used (Duma, 2013). Over time, Cambodia's urban sectors have made up the majority of the country's economy, meaning that the amount of transactions in US dollars outweighs the use of the Cambodian riel.

Additionally, trade between the United States and Cambodia reflects macroeconomic ties between the two countries. About 60% of Cambodia's garments exports head to the United States, motivating the Cambodians to continue using the US dollar to ease those transactions (Duma, 2013).

While having a dollarized economy can bring stability to a country's currency, there are several risks associated with using another currency alongside one's own. Much like a currency

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<sup>26</sup> International Monetary Fund. (2013). 'Cambodia: 2012 Article IV Consultation.' *IMF Country Report No. 13/12*. IMF. <https://www.imf.org/external/pubs/ft/scr/2013/cr1302.pdf> (Accessed 23 December 2013).

peg, a dollarized economy surrenders control of the country's monetary policy to the country owning the foreign currency.<sup>27</sup>

Reduced use of the domestic currency also strips the country of the opportunity to earn seigniorage, or revenue produced when the value of money exceeds the cost of producing money. Because the US dollar dominates as a payment currency in Cambodia, the National Bank of Cambodia loses money by printing riels, diverting the flow of revenue to the United States in doing so (Duma, 2013).

Dollarization in Lao PDR, ASEAN's poorest country, is far different than the dollarization experienced in Cambodia. Lao PDR's main trade partner is its western neighbor Thailand, meaning that there are a large amount of transactions carried out in Thai baht. The presence of Thai baht combined with the presence of the US dollar means that the economy in Lao PDR is dollarized with multiple currencies (Menon, 2007).

There are some benefits to having a dollarized economy with multiple foreign currencies. Large reserves of foreign currency for multiple countries means that trade can be fluidly maintained between Lao PDR and both Thailand and the United States, both of which are important trade partners. But the convenience of conducting transactions with these two countries is not enough to outweigh the costs of seigniorage and lack of control of monetary policy (Menon, 2007).

#### **4.2 The U.S. Dollar: Currency Pegs in the 1997 Asian Financial Crisis**

All of the ASEAN countries have their own domestic currencies. But looking west, many of the ASEAN countries instituted currency pegs to stabilize their economies. In doing so, the

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<sup>27</sup> International Monetary Fund. (2013). 'Cambodia: 2012 Article IV Consultation.' *IMF Country Report No. 13/12*. IMF. <https://www.imf.org/external/pubs/ft/scr/2013/cr1302.pdf> (Accessed 23 December 2013).

countries assumed unforeseen risks that would later severely harm themselves and others in the Asian community. Thailand learned this the hard way during the 1997 Asian financial crisis, when speculators attacked Thai reserves of U.S. dollars and forced the country into letting its domestic currency float.

The baht began heavily depreciating against the US dollar from 25 baht to one U.S. dollar to 55 baht to one U.S. dollar in under a year (Lai, 2000). Investors and commercial banks quickly pulled their assets out of the region, with lenders demanding that their loans be paid immediately. Thai banks went bankrupt, exports suffered, and in no time, countries like South Korea, Indonesia, and Japan experienced crippling economic downturns with extremely volatile market swings. Asian currencies across the board fell against the dollar (Sharma, 2003).

The Thai peg to the US dollar was ironically designed as a stabilizing mechanism for the emerging Thai market. The Thai baht speculative attack is an episode that illustrates how closely tied external conditions are to currency dynamics, as explained by Morris Goldstein (1998):

In Thailand and Indonesia, vulnerability was also heightened because banks and/or their corporate customers - in seeking to minimize their borrowing costs - agreed to shoulder rollover and currency risk...at the time this was not thought to be such a risky strategy because the Thai baht and the Indonesia rupiah had been stable with respect to the US dollar for many years and because the combination of weak economic activity, a huge stock of bad loans in the banking system, and a public antipathy to bailing out banks seemed to point to the continuation of low interest rates in Japan. Nevertheless, these liquidity and currency mismatches eventually took their toll - in moving speculative attacks, in magnifying the consequences of subsequent exchange rate changes, and in limiting the authorities' room for maneuver in crisis management.

Following the 1997 Asian financial crisis, economies in ASEAN began to depart from U.S. dollar-dependent monetary policies. But unlike the dramatic fall in U.S. trade with ASEAN, the 1997 crisis did not dismantle the prevalence of the U.S. dollar in ASEAN. As a more convertible and universal currency, the U.S. dollar was still the preferred currency over the renminbi, which wasn't even an option in the 1990s given government restrictions.

#### **4.3 Post-Crisis: De-Dollarizing**

Countries, still reeling from the crisis, began propping up their domestic currencies as trade volume growth resumed. For dollarized economies like those in Cambodia, Lao PDR and Vietnam, detaching their reliance on the U.S. dollar proved to be a difficult task.

One reason why economies have a tough time propping up its domestic currency is timing. Prolonged dollarization tends to deepen dependence on foreign currency denominated assets even during macroeconomic stability (Duma, 2013). Additionally, dollarized economies reduce the capability of the domestic government to implement effective monetary policy. Dollarization allows governments to base their monetary policy around the dynamics of another country's currency; when de-dollarization is attempted, many of these governments find that they're incapable of properly managing their domestic currency.

Lao PDR tried to implement their own economic reform aimed at de-dollarizing their economy. As of 2011, Lao PDR has an economy that is just under 50% dollarized, down from 80% in 2000. Most of the country's foreign money is Thai baht, although the US dollar is still used significantly (Duma, 2013).

In 1997, the government declared that only the domestically minted Lao kip could be used as a medium exchange in domestic transactions. The government hoped to standardize a

local currency and appreciate it against the Thai baht and the US dollar, both heavily used foreign currencies in Laos. But by forcing traders to accept the more volatile kip, the Lao people lost further confidence in the weak currency, depreciating the kip against the baht and dollar (Menon, 2007). The decrease in value had actually reduced the Lao kip's share in the country's money supply from about 50% to about 30% (Duma). This is one example of how forcing de-dollarization can have adverse effects.

Vietnam managed to implement its own de-dollarization reform relatively successfully, although their economy wasn't nearly as dollarized as Cambodia or Lao PDR. The country maintained a heavily monitored floating exchange rate to handle foreseeable inflation. Smart control of the exchange rate convinced Vietnam's citizens and foreign investors that Vietnam's macroeconomic outlook was positive and that their currency, the Vietnam dong, could be trusted as a store of value. The government's commitment to solidifying the dong as a broad money also involved implementing strict rules about foreign currency deposits, further proving to the Vietnamese people that the economy could rely on its own domestic currency (Alvarez-Plata and García-Herrero, 2007).

## **5. The Renminbi in ASEAN**

As Duma (2013) pointed out, inertia exists when countries heavily use the U.S. dollar. As a currency is established as a dominant vehicle for settlement in a country, a government, firm, or any agent using the currency has little incentive to settle trade in another currency.

With several frontier market ASEAN countries making moves to de-dollarize their economies, there's good reason to believe the dominance of the U.S. dollar is eroding and that the inertia of use of the dollar is slowing down.

The question now remains: will the renminbi now replace the U.S. dollar? In order to address this question it is necessary to look at the basics of currencies as a trade settlement.

When a country trades with another country, there are three options for settling the transaction. It can settle in its own domestic currency, in the currency of the country they're trading with, or in the currency of a third party country. There is no formula as to which method is the best; settling in one method over the other comes with different transaction costs and benefits that can vary depending on what goods are being traded and in what macroeconomic conditions.

Renminbi liberalization is fairly recent, but ASEAN has shown interest in increasing their renminbi reserves as China continues to grow in trade with the region.

### **5.1 Incentives for a Strong Renminbi in ASEAN**

Even with the dominant U.S. dollar, trade was and has always been strong between ASEAN and China. But an internationalized renminbi provides incentives to both China and ASEAN. For existing trade relationships, readily accessible renminbi in trade settlement lowers transaction costs for foreign companies operating in or buying from China. Additionally, wider access to renminbi opens up more businesses to cross border trade, as the barriers to currency exchange are broken down.

From an investing standpoint, renminbi availability provides a variety of hedging options as international trade increases. It also reduces foreign exchange hedging costs for foreign direct investment.<sup>28</sup>

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<sup>28</sup> Deutsche Bank. (2014). *At the Centre of RMB Internationalization*. Deutsche Bank, 6. <http://goo.gl/wcQAfR> (Accessed 9 April 2015).

For China, an internationalized and more readily utilized renminbi means less exposure to the U.S. dollar in its own reserves. China currently is the largest holder of foreign exchange reserves, most of which are in U.S. dollars. In order to move towards a more independent economy, China would want a more international renminbi to warrant the decrease in U.S. dollar reserves held (“RMB Roadmap” 6).<sup>29</sup>

## **5.2 Renminbi Liberalization and The Trade Settlement Scheme**

China began its campaign to liberalizing its renminbi in Southeast Asia.

The first step towards internationalization was dropping the peg against the dollar. In 2005, the Chinese government unpegged the renminbi from the dollar in favor of a closely managed float. The peg was reinstated between 2008 and 2010 to stabilize China’s economy during the global recession, but has since returned to a managed float based on a basket of currencies.

For the longest time, the renminbi was restricted from use in settlement of cross-border trade. With a flourishing trade relationship, China introduced a pilot program in June 2009 that would allow the use of the renminbi in settlement of trade between five select Chinese cities and three regions: Hong Kong, Macau, and ASEAN (Eichengreen and Kawai, 2014).

China has instituted a two option system for processing a transaction settled in renminbi, as represented in figure 5, which uses Hong Kong as an example, although the same general concept is employed in ASEAN. In the first option, a business doing trade with China would have to move funds through a designated offshore clearing bank. The bank then channels the funds to a domestic settlement bank in China, who then transfers the renminbi into the Chinese

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<sup>29</sup>ASIFMA. (2014). *RMB Roadmap: May 2014*. Asia Securities Industry & Financial Markets Association, 6. <http://www.asifma.org/uploadedfiles/resources/rmb%20roadmap.pdf> (Accessed 14 April 2015).

company's account. The process works vice versa for a Chinese company conducting trade with a foreign company.

The second option involves an agency agreement in which an overseas participating bank opens an on-shore inter-bank renminbi account with a domestic agent bank in China. Through a binding agreement, the domestic agent bank would process the cross-border transaction and report details of the transaction to the People's Bank of China, since the transaction did not pass through an official domestic settlement bank as in the first option.

In both options, offshore banks obviously need to be readily supplied with renminbi in order to process transactions settled in renminbi. Through bilateral currency swap agreements, the People's Bank of China swaps currencies at an agreed rate with the monetary authority of the target offshore country. The monetary authority then supplies their offshore clearing banks and overseas participating banks with renminbi. In the example with Hong Kong, the Hong Kong Monetary Authority would swap currencies with the People's Bank of China to get renminbi and supply offshore clearing banks like the Bank of China Hong Kong and overseas participating banks like Standard Chartered.

The system is tightly run, and overseas participating banks, onshore settlement banks, and domestic agent banks must earn the approval of both offshore monetary authorities and the People's Bank of China in order to earn eligibility in the scheme. Regardless, many banks have been deemed eligible since the start of the scheme. In Hong Kong, 208 banks were participating in the scheme as of March 2013, covering an estimated 1,500 renminbi accounts (Rhee and Sumulong, 2014).



### 5.3 Clearing Banks and Trade Settlements in ASEAN

ASEAN has not widely adopted the scheme, partially because the scheme is so new. In 2011, ASEAN and China agreed to amend the ACFTA to allow third party settling so that trade in other currencies could come through clearing centers like Hong Kong.<sup>30</sup> But the first offshore renminbi clearing bank in Singapore didn't open until May 2013. The Singapore branch of the Industrial and Commercial Bank of China<sup>31</sup> became the first renminbi clearing bank outside of Hong Kong and Taiwan.

Thailand was the next ASEAN country to set up a domestic renminbi clearing bank. In January 2015, the Bangkok branch of the ICBC earned clearing bank status.<sup>32</sup> Malaysia followed soon after in April 2015 and signed a minimum credit line of US\$20 billion to clear renminbi through the Bank of China Malaysia.<sup>33</sup>

Because of the lack of financial infrastructure in the frontier and developing markets of ASEAN, Singapore largely acts as the intermediary between the ASEAN traders and China. The entire region of ASEAN began pushing transactions through Singapore, allowing it to overtake London as the number one offshore renminbi payments center after Hong Kong.<sup>34</sup>

As of 2014, 20% of China's foreign trade is settled in renminbi, which is a dramatic change from 3% in 2010. Comparatively speaking, this is far smaller than the 50-60% of the eurozone's external trade that's settled in euro and 30-40% in yen for Japanese trade (Flint, 2014). The ASEAN countries' share of trade with China settled in renminbi is smaller - the

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<sup>30</sup> Ministry of Trade and Industry Singapore. (2011). 'Overview of ASEAN-China (ACFTA).' [http://www.fta.gov.sg/fta\\_acfta.asp?hl=2](http://www.fta.gov.sg/fta_acfta.asp?hl=2). (Accessed 5 April 2015).

<sup>31</sup> Or "ICBC"

<sup>32</sup> Industrial and Commercial Bank of China. 'ICBC Designated as RMB Clearing Bank in Bangkok.' *ICBC News*. <http://goo.gl/RnnaCx> (Accessed 5 April 2015).

<sup>33</sup> The Malaysia Insider. 'Bank of China mulls providing credit line to local derivatives exchange.' <http://goo.gl/yfK2NO> (Accessed 14 April 2015).

<sup>34</sup> ASIFMA. (2014). *RMB Roadmap: May 2014*. Asia Securities Industry & Financial Markets Association, 50. <http://www.asifma.org/uploadedfiles/resources/rmb%20roadmap.pdf> (Accessed 14 April 2015).

region averages 10-12%. Between Malaysia and China, only 1.3% of trade is conducted in renminbi.<sup>35</sup>

Indonesia, who is actively promoting renminbi settling in the face of rupiah depreciation, settles just fewer than 10% of its trade in renminbi. About 90% of its trade is still settled in U.S. dollars (“ICBC Indonesia to promote wider use of renminbi”).<sup>36</sup>

Other measurements put ASEAN use of the renminbi closer to its global average of 20%. Figure 6 says transactions in renminbi made up 11.5% of Chinese trade in 2012 and 18.2% of Chinese trade in 2013. It should be noted, however, that these numbers also account for Hong Kong, meaning that any transactions that were settled through Hong Kong’s clearing banks would have been accounted for.

#### **5.4 Bilateral Swap Agreements and Renminbi Deposits**

Because the ASEAN infrastructure for use of the renminbi as a trade settlement currency is so young, we can look at other indicators to project future growth of the renminbi in trade. One way is by looking at renminbi deposits. Because China’s trade settlement scheme involves the supply of renminbi to offshore clearing banks and overseas participating banks, renminbi deposits in a given country are a good way to tell if the country is readily welcoming the circulation of renminbi in its economy.

Bilateral swap agreements allow the Bank of China and banks in the ASEAN countries to inject offshore financial institutions with renminbi. These agreements require individual countries to take the initiative to sign their own bilateral agreements with China. As of August

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<sup>35</sup> Industrial and Commercial Bank of China. ‘ICBC Designated as RMB Clearing Bank in Bangkok.’ *ICBC News*. <http://goo.gl/RnnaCx> (Accessed 5 April 2015).

<sup>36</sup> The Jakarta Post. (2015). “ICBC Indonesia to promote wider use of renminbi.” *The Jakarta Post*. <http://goo.gl/pKSCTS> (Accessed 05 April 2015).

2014, Malaysia, Singapore, Indonesia, and Thailand had signed currency swap agreement with the People's Bank of China, with Singapore getting the largest credit line of 300 billion renminbi (Table 10).

These supplies are important because even though Indonesia does not have a clearing bank of its own, building up renminbi shows interest in getting a clearing bank in the future.

The best indicator of growth in renminbi settlement is Singapore, who as the hub of ASEAN has had to dramatically increase its renminbi deposits to handle the growing number of transactions. Between June 2013 and December 2014, renminbi deposits in Singapore doubled from 138 billion to 277 billion (Table 11).

## **6. Conclusion**

The renminbi as a currency for trade settlement in ASEAN is a fascinating case study into how much economic weight China really holds in the world. Although the trade statistics show that China is arguably the most important trade partner with ASEAN today, the renminbi indicates that the financial infrastructure in ASEAN is still adjusting to the idea of using China's currency in trade.

It would be too rash, given the relatively recent – and continuing – liberalization of the renminbi, to argue that the renminbi is on its way to becoming the most used currency in payment in ASEAN. Conversely, it would be too rash to argue that the renminbi is irrelevant in the region.

It's far more productive to look at what is being done to further internationalize the currency to project the trajectory of the currency in future trade.

## 6.1 The Future of the Renminbi in Trade

The trade settlement scheme employed by Hong Kong and some cities in ASEAN have worked relatively well, but the frontier and emerging markets in Southeast Asia present unique opportunities for renminbi financing.

Discussions are underway for the creation of a Regional Settlement Intermediary<sup>37</sup> which would allow cross-border bond transactions in addition to a regional trade payment settlement system. Because of the growing number of local currency bonds cross-border debt securities in Asia, it could make sense to create a model that would allow countries to enter bilateral agreements that would also include debt securities. Through this strategy, banks would be able to provide even more convertibility options for the renminbi (Rhee and Sumulong, 2014).

China is also moving fast to push use of the renminbi through more currency swap agreements. In 2011, China and ASEAN discussed the possibility of a regional bilateral currency swap agreement, which would effectively stabilize the renminbi in export and import trade and increase use of the renminbi (Ririhena and Fadillah, 2011).

China is also focused on opening up free trade zones to improve its credibility as a global currency. The country has opened up Shanghai as a free trade zone, where significant restrictions and regulations on foreign investment are eased (Sudworth, 2013). Hoping to become a reformed hub of international trade, Shanghai aspires to one day become a first-tier international financial center like London or New York, which is a necessary step if the renminbi wants to become an international vehicle currency.

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<sup>37</sup> Or “RSI”

## 6.2 Expectations for the Renminbi

Despite all of these measures, the renminbi has a long way to go before it can compare to the Euro and the US dollar, especially when the US dollar still commands 62.2% of foreign exchange reserves in the world and 57.6% in Asia.<sup>38</sup>

Part of the challenge comes from the need to de-dollarize the ASEAN economies, namely the poorer frontier countries of Lao PDR, Cambodia, Vietnam, and Myanmar. Other challenges come from a need for China to liberalize the availability of its currency and open up more avenues for trade partners to settle trade in renminbi, which China has only recently started to do.

By all standards, China is also itself still a developing nation and has not fully opened up its economy. The country still has strong restrictions on foreign investment and heavy regulations on several industries. The communist country also has control over the finance sector and does not allow a market-dependent interest rate. If the country wants its renminbi to compare to the likes of the Euro and the US dollar, the currency must become more liquid and convertible in a liberalized and open market.

China's politics have also soured ASEAN relations at times, although the trade data does not reflect so. Continuing arguments over ownership of islands in the South China Sea have brought heated debate to some ASEAN Summit meetings. Vietnam has specifically confronted China over the presence of an oil rig near their coast, but failed to rally the other ASEAN countries to speak out against China.

As of late, ASEAN's strategy towards the South China Sea dispute has been to ignore the issue entirely. No releases or statements were ever published that formalized ASEAN's stances

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<sup>38</sup> International Monetary Fund. (2012). *Appendix I. International Reserves*. IMF. <http://www.imf.org/external/pubs/ft/ar/2013/eng/pdf/a1.pdf> (Accessed 23 December 2013).

on China's presence in the South China Sea, which more or less enables China to continue any existing operations being conducted in the area (Tiezzi, 2014).

The fear therefore exists that China will leverage its size and economic magnitude to bully ASEAN, although relations for the time being are mutual. Part of this fear comes from the fact that ASEAN didn't really become more independent when it gradually reduced its dependence on the U.S. after the 1997 Asian Financial Crisis. If anything, ASEAN merely displaced its dependence on the U.S. to a dependence on China.

On the other hand, China's relationship with ASEAN has brought incredible economic growth to Southeast Asia. The focus on regional cooperation and financial integration is also proving to be a stable foreign policy for ASEAN and other East Asian countries.

As the economic focal point of Asia, or even the world, China and its renminbi are the crystal ball to ASEAN's future. By Eichengreen (2012)'s standards of an internationalized currency, trade between China and ASEAN is key to making the renminbi a more utilized currency and thus to eventually becoming a more prominent currency in loans, bonds, and currency reserves in Southeast Asia. Conversely, a stronger renminbi can make trade even more fluid and bring in more capital to Southeast Asia's lucrative frontier markets.

I believe that we are witnessing a China that is in the process of achieving this. An open Shanghai is the first step in breaking down some of these restrictions and regulations, and allowing free trade to improve the flow of investment in and out of China. This will consequently bring immediate trade changes to China-ASEAN relations, as the Southeast Asian regions are geographically close to China. If the renminbi can become more internationalized in the future, ASEAN will see much of the currency's surge in use given their close trade relationships.

Unlike Japan, which experienced growth in the 1970s but eventually fell to limited resources and labor, China is an enriched nation with many resources and a large population to facilitate continued growth. The United States, which has enjoyed strong relationships with ASEAN, will slowly see China chip away at its influence as the Asian economies become more integrated. This integration, in my opinion, is inevitable as historic data has shown.

In 2012, the renminbi was the 20<sup>th</sup> most used world payment at a share of 0.25% of total world payments. That was behind the Turkish Lira, Mexican Peso, and New Zealand Dollar.<sup>39</sup> Just three years later, the renminbi jumped up to the 7<sup>th</sup> most used world payment, at 1.81% share of total world payment, a six-fold increase compared to 2012.<sup>40</sup> The six currencies that have a larger share than the renminbi are the Canadian dollar, Swiss Franc, Japanese Yen, British Pound, Euro, and U.S. Dollar. These are all reserve currencies that have earned great respect in international trade. In many respects, the Chinese renminbi is already in the highest echelon of currencies in the world.

By this standard, it's only a matter of time before China and its renminbi join the likes of the Japanese yen, British pound sterling and Euro as widely used currencies around the world. If China commits itself to opening its economy and continuing healthy trade with ASEAN, the renminbi could become a more widely used currency in trade settlement and consequently in the world economy.

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<sup>39</sup> SWIFT. (2012). *RMB Payments Evolution*. <http://goo.gl/0bPLZJ> (Accessed 15 April 2015).

<sup>40</sup> SWIFT. (2015). *SWIFT RMB Monthly Tracker March 2015*. <http://goo.gl/ICCpgK> (Accessed 5 April 2015).

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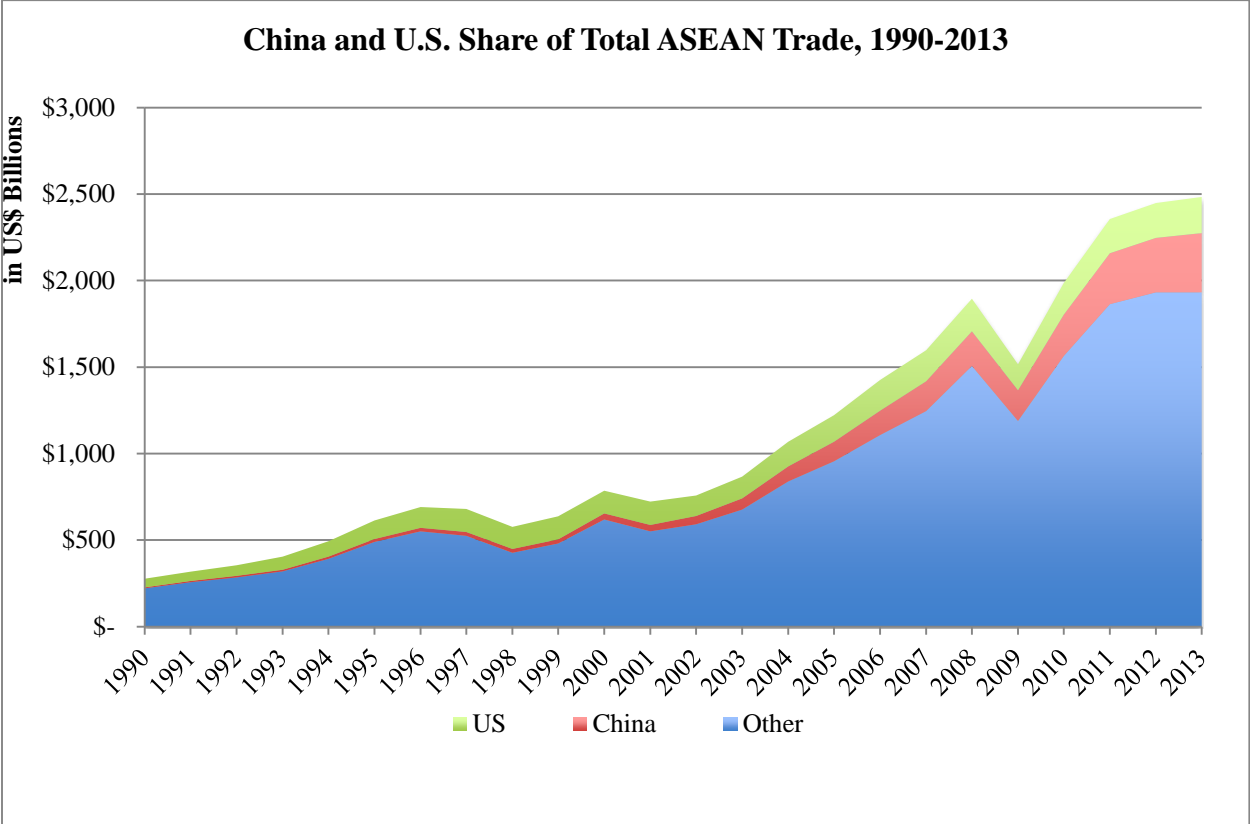
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# Appendix

The following chart shows total ASEAN trade, with the portion of U.S. and China trade highlighted accordingly. The U.S. held a steady share of ASEAN trade until the early 2000s.

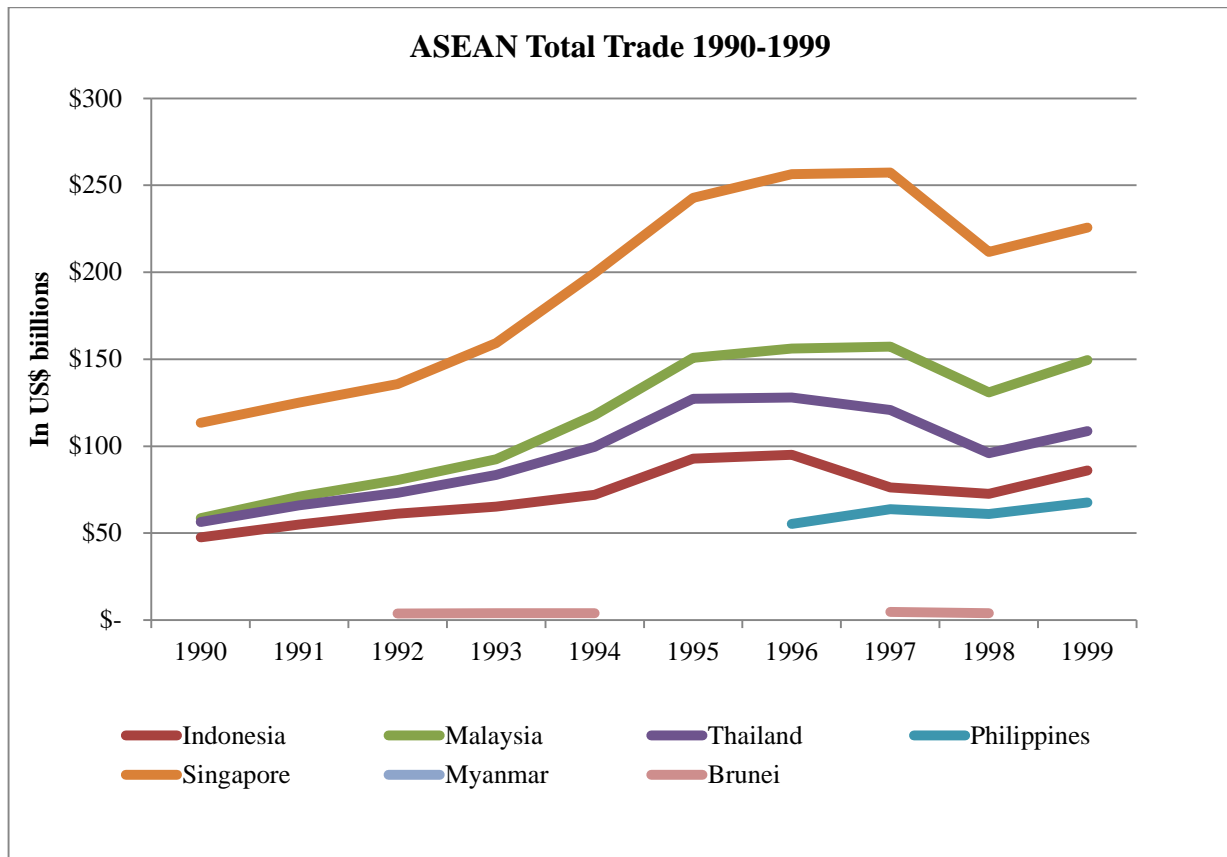


SOURCE: UN Com Trade Statistics Database

Figure 1: ASEAN Total Trade by Country, 1990-1999

Between 1990 and 1996, all the ASEAN countries saw substantial total trade increase. Some countries saw a doubling or almost tripling of trade during this period, as export-led economies continued to churn out products to the United States and other destinations around the world. Between 1996 and 1997, trade numbers started to stall as concerns amounted over the financial stability of ASEAN and other East Asian countries. The 1997 Asian financial crisis saw the dramatic drop in trade in 1997 and 1998.

Data for Philippines was not available prior to 1996. Data for Brunei was sporadically reported during this period.



SOURCE: UN Com Trade Statistics Database (Lao did not report, and some countries failed to report for some years)

Figure 2: **China GDP and Total Trade, 1980-2013**

Since 1980, China has impressively increased its role as a trade partner in the global economy. Chinese trade gradually increased between 1984 and 2000, but China’s accession into the WTO in 2001 began a period of soaring growth in trade. In the period between 2001 and 2007, Chinese GDP also rose dramatically as the country began overtaking other world powers in economic size. Today, China is the world’s second largest economy.

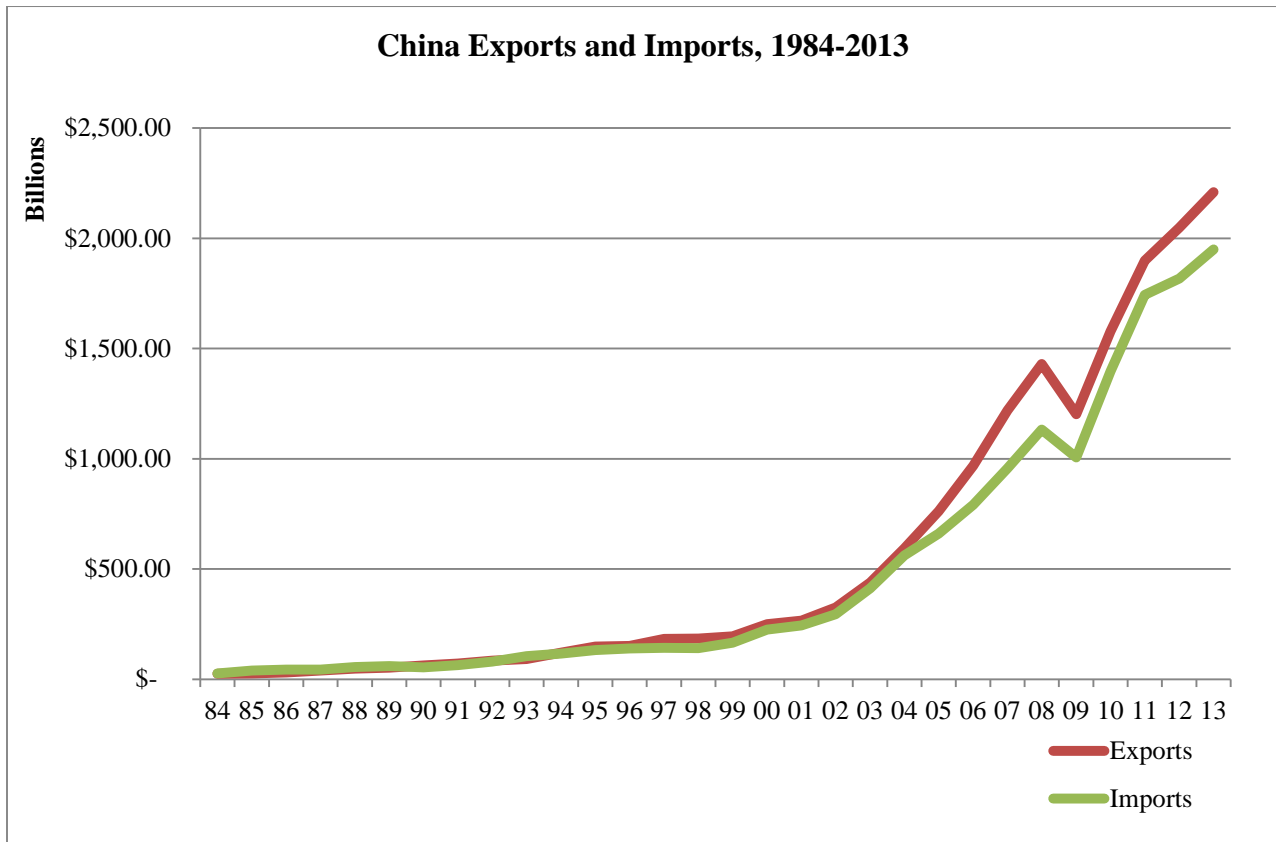


SOURCE: UN Com Trade, World Bank



Figure 3: **China Exports and Imports, 1984-2013**

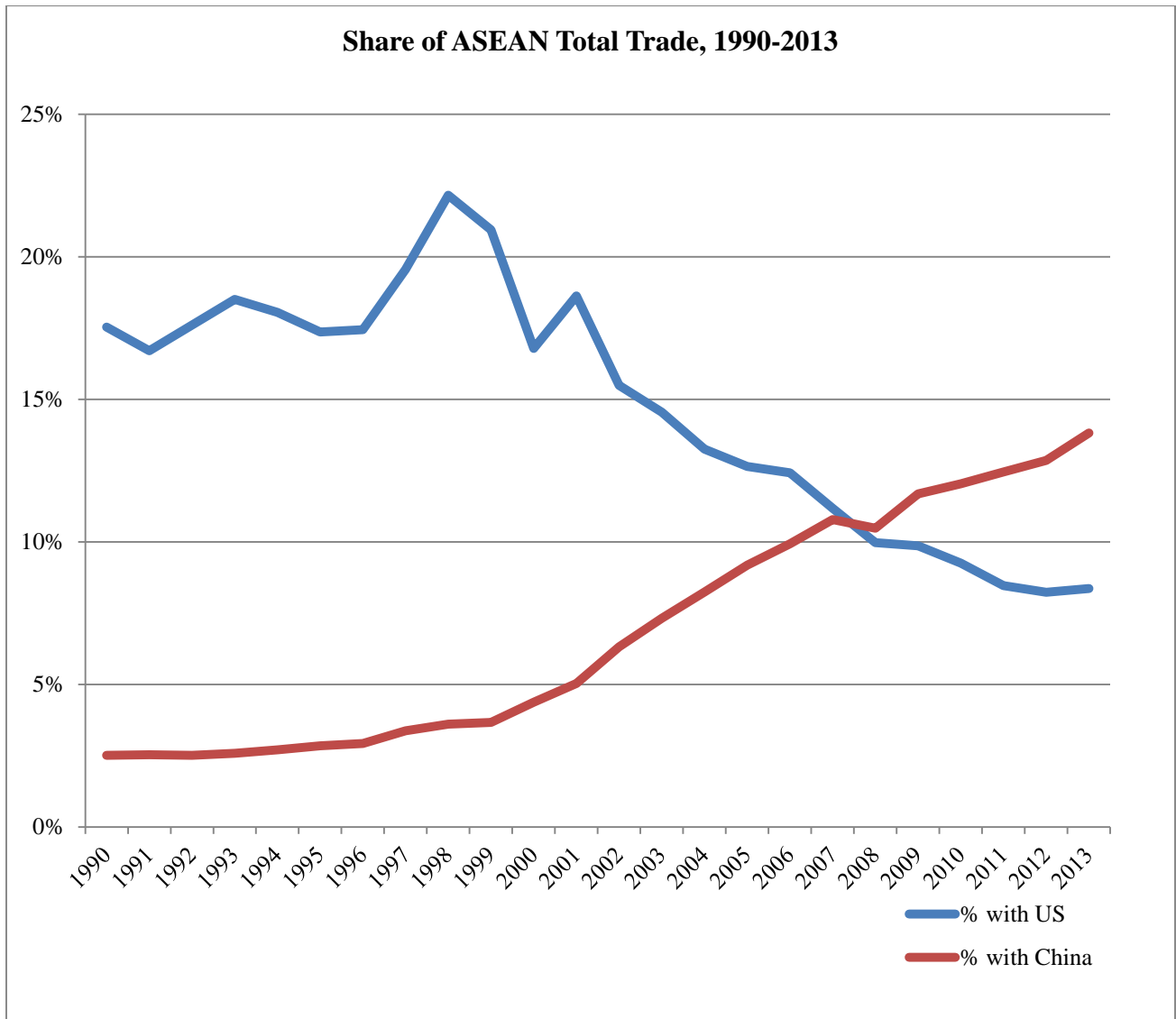
While exports and imports were generally balanced between 1984 and 2003, China started to pursue an export-led strategy after joining the WTO and increasing its manufacturing capacity. As a result, China began to increase its trade surplus. The sharp drop in 2008 reflects the global financial crisis, which China had bounced back from by 2010.



SOURCE: *UN Com Trade Statistics Database*

Figure 4: **Share of ASEAN Total Trade, 1990 to 2013**

Prior to 2006, the United States maintained a strong foothold as a trade partner in ASEAN. The peak of this relationship was in 1997, when the Asian financial crisis struck. Following the crisis, skepticism of U.S. involvement in ASEAN and a more powerful China encouraged ASEAN to form a mutual economic relationship with China. China surpassed the United States in share of total trade with ASEAN in 2006, and has distanced its gap in share with the U.S. since then.



**SOURCE:** UN Com Trade Statistics Database

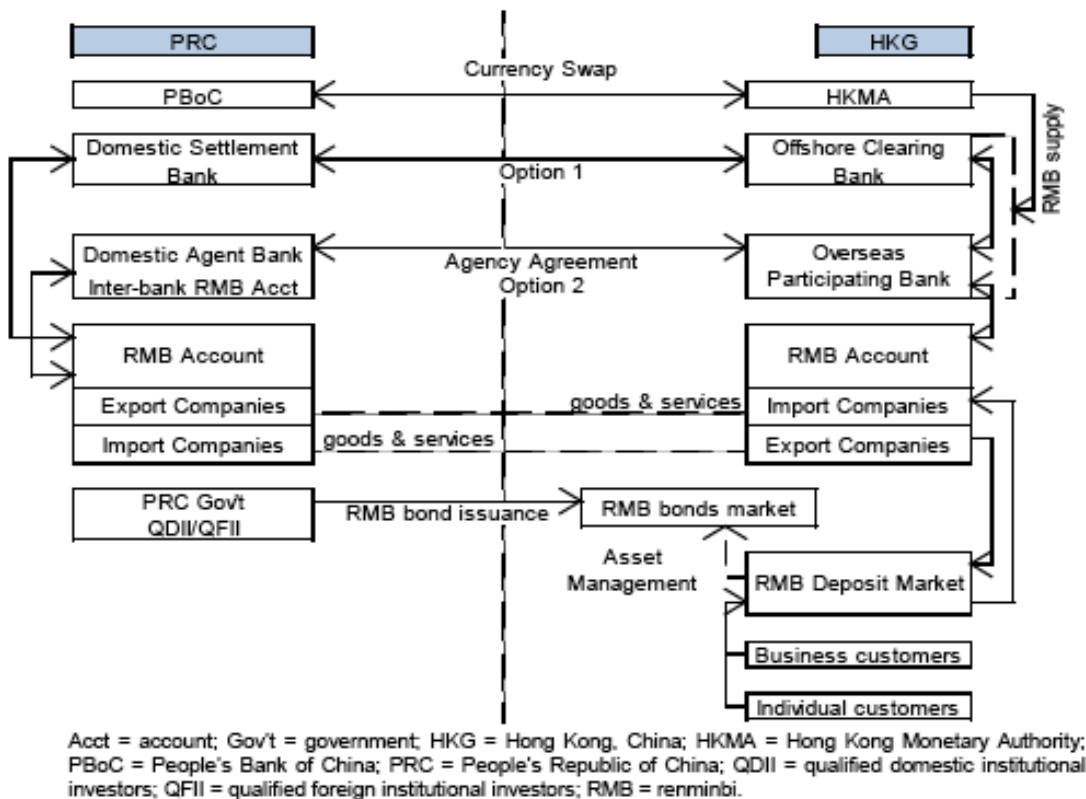
Figure 5: **The PRC-Hong Kong, China Renminbi Settlement Scheme**

In Hong Kong, China employs a scheme in which there are two options to settle a transaction in renminbi. The first option involves using an offshore clearing bank, certified by the People’s Bank of China, to process the transaction to a domestic settlement bank in China’s mainland. The domestic settlement bank then deposits or withdraws renminbi from the Chinese company’s account.

In a second option, an overseas participating bank, also certified by the People’s Bank of China, signs an agency agreement with a domestic agent bank that sets up a renminbi account for the specific purposes of cross-border transactions. That bank then deposits or withdraws renminbi from the account in the mainland.

In both cases, the People’s Bank of China supplies a monetary authority agency (like the Hong Kong Monetary Authority) with renminbi to pass along to offshore clearing banks or overseas participating banks. This supply of renminbi is established through a swap agreement.

**The PRC-Hong Kong, China Renminbi Settlement Scheme**



**SOURCE:** Rhee, C., Sumulong, L. (2014). *Regional Settlement Infrastructure and Currency Internationalization: The Case of Asia and the Renminbi*. ADBI Institute.

Figure 6: Use of the renminbi by trade corridor with China/Hong Kong

SWIFT’s analysis of the use of renminbi shows that in 2012, ASEAN used the renminbi in trade more than any other trade corridor in the world. In 2013, the Middle East and North Africa leapfrogged ASEAN as a user of the renminbi.

Use of the renminbi by trade corridor with China/Hong Kong



SOURCE: SWIFT (2014). *RMB Roadmap: May 2014*. Asia Securities Industry & Financial Markets Association. Compiled using MT103 transactions

**Table 1: The Roles of International Money**

Money has three functions: store of value, medium of exchange, and unit of account. Cohen (1971) organized a taxonomy to illustrate how each function translates into different international uses by government and private agents. Kenen (1983) also notes this taxonomy in his paper describing how the U.S. dollar has managed to become the undisputed king of international currencies.

<b>Function</b>	<b>Use by governments</b>	<b>Use by private agents</b>
Store of value	International Reserves	Foreign currencies become substitutes for a domestic currency because the latter is prone to inflation and volatility. In the extreme, foreign currencies can even become legal tender
Medium of Exchange	Vehicle for foreign exchange intervention	Settling trade and financial transactions
Unit of Account	Anchor for pegging local currency	Denominating/invoicing trade and financial transactions

**Table 2: Discrepancies in Reported Volume of ASEAN-China Trade**

Data for total ASEAN-China trade was pulled from three databases to illustrate discrepancies in reporting: United Nations' Comtrade Database, ASEANstats database, and the China Statistical Yearbook. The differences can be large, as noted by the 2012 numbers in which the China Statistical Yearbook reported \$80 billion more in trade than ASEANstats. To avoid biases towards either ASEAN or China in this statistical analysis, I've decided to use the UN Comtrade Database.

Year	Reported Volume of ASEAN-China Trade (in US\$ billions)				
	UN Comtrade Database	ASEANstats Database	% Difference From UN Comtrade Database	China Statistical Yearbook	% Difference From UN Comtrade Database
2000	34.4	32.3	-6.1%	39.5	14.8%
2001	36.3	31.9	-12.1%	41.6	14.6%
2002	47.8	42.8	-10.5%	54.8	14.6%
2003	63.5	59.6	-6.1%	78.3	23.3%
2004	88	89.1	1.2%	105.9	20.3%
2005	112.3	113.4	1.0%	130.4	16.1%
2006	141.6	139.7	-1.3%	159	12.3%
2007	172.2	171.1	-0.6%	202.5	17.6%
2008	198.6	196.9	-0.9%	231.3	16.5%
2009	177.2	178.2	0.6%	213	20.2%
2010	239.1	236.2	-1.2%	292.9	22.5%
2011	293.3	289.7	-1.2%	363.1	23.8%
2012	314.7	319.5	1.5%	400.1	27.1%
<b>Average</b>			<b>-2.8%</b>		<b>18.8%</b>

**Table 3. GDP Growth Rates in ASEAN, 1991-1996**

The period 1991 to 1996 marked the peak of economic growth up until the 1997 Asian Financial Crisis. During this period, the ASEAN countries saw average GDP growth rates as high as 7.59 in 1994, as an export-led strategy continued to keep ASEAN afloat in the global economy.

**(Percentages)**

<b>Country</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
<b>Brunei Darussalam</b>	4	-1.1	0.5	1.8	2	3.5
<b>Indonesia</b>	8.9	7.2	7.3	7.5	8.1	7.8
<b>Laos</b>	n.a.	7	5.9	8.1	7	7
<b>Malaysia</b>	8.6	7.8	8.3	9.2	9.5	8.6
<b>Myanmar</b>	n.a.	n.a.	n.a.	9.2	6.9	5.8
<b>Philippines</b>	0	0.3	2.1	4.4	4.8	5.7
<b>Singapore</b>	7.3	6.2	10.4	10.5	8.8	7
<b>Thailand</b>	8.5	8.1	8.3	8.8	8.6	6.6
<b>Vietnam</b>	n.a.	8.6	8.8	8.8	9.5	9.4
<b>Average:</b>	6.22	5.51	6.45	7.59	7.24	6.82

**SOURCE:** *ASEAN Macroeconomic Outlook, 1997-1998* (Jakarta: ASEAN Academic Press, ASEAN Secretariat, 1998).

**Table 4. Current Account Deficit in ASEAN, 1991-1996**

Looking at the five of the more advanced economies in ASEAN, there's a noticeable current account deficit that was maintained through the early 1990s. Indonesia, Malaysia, Philippines and Thailand were actually running on swelling current account deficits leading up to the 1997 Asian financial crisis. This means that creditors were continuing to make investments in the region, expecting production and exports to grow even more in the near future.

**Current Account Deficit as a Percentage of GDP, 1991-96**

<b>Country</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
<b>Indonesia</b>	-3.4	-2.2	-1.5	-1.7	-3.4	-3.4
<b>Malaysia</b>	-8.8	-3.8	-4.8	-7.8	-10	-4.9
<b>Philippines</b>	-1.9	-1.6	-5.5	-4.6	-4.4	-4.5
<b>Singapore</b>	11.2	11.3	7.5	17.1	16.9	15
<b>Thailand</b>	-7	-5.7	-5.1	-5.6	-8.1	-7.9

**SOURCE:** *ASEAN Macroeconomic Outlook, 1997-1998* (Jakarta: ASEAN Academic Press, ASEAN Secretariat, 1998).



**Table 5: Chinese Average GDP Growth, 1980s to 1990s**

Following Deng Xiaoping's rise to power as President of China, a series of economic and social reform sought to reorganize and industrialize the Chinese economy. During this period, average GDP growth soared as China began pursuing an export-led strategy with its newfound manufacturing capacity.

<b>Chinese Average GDP Growth (in %)</b>	
1980s	9.75
1990s	9.99
2000s	10.29

**SOURCE:** *The World Bank*

**Table 6: Share of Trade in ASEAN, 2005**

In the six ASEAN countries of Thailand, Cambodia, Indonesia, Philippines, Vietnam and Malaysia, the United States remained a key trade partner in 2005. Although China had taken over as a major importer to ASEAN, the United States was a larger export destination for all six countries. In Cambodia, the U.S.'s share was 50% larger than China's share of exports, at a negligible 0.3%. In Thailand, Cambodia, Philippines, Vietnam, and Malaysia, the United States also earned the title as the number 1 export destination.

These figures exclude the Hong Kong and Macao strategic administrative regions in calculation for "China." Data from Myanmar and Lao PDR were unavailable.

		<b>Share of Total Imports (As of 2005)</b>					
		<b>Thailand</b>	<b>Cambodia</b>	<b>Indonesia</b>	<b>Philippines</b>	<b>Vietnam</b>	<b>Malaysia</b>
<b>United States</b>		6.7%	1.0%	6.4%	14.0%	2.7%	10.8%
<b>China</b>		11.8%	17.7%	11.5%	7.3%	20.3%	12.9%

		<b>Share of Total Exports (As of 2005)</b>					
		<b>Thailand</b>	<b>Cambodia</b>	<b>Indonesia</b>	<b>Philippines</b>	<b>Vietnam</b>	<b>Malaysia</b>
<b>United States</b>		12.6%	53.3%	10.2%	17.0%	20.8%	15.7%
<b>China</b>		9.7%	0.3%	8.5%	11.4%	7.5%	8.8%

Shaded box = top trade partner

**Source:** United Nations comtrade SITC Rev. 2 classification statistics, 2005

Table 7: **Share of ASEAN Trade in ASEAN, 2012**

By 2012, China has grown to become a far larger trade partner in ASEAN. China had increased its lead as an importer to ASEAN, becoming the top importer in Cambodia, Indonesia, Vietnam and Malaysia. In exports, China has overtaken the United States as a destination for exports in Thailand, Indonesia and Malaysia, which is significant given just how small of a share China had in 2005 compared to the United States. While the United States managed to maintain a larger share in Cambodia, Philippines and Vietnam, its share shrunk considerably as China continued to liberalize trade barriers between itself and ASEAN.

These figures exclude the Hong Kong and Macao strategic administrative regions in calculation for “China.” Data from Myanmar and Lao PDR were unavailable.

		<b>Share of Total Imports (As of 2012)</b>					
		<b>Thailand</b>	<b>Cambodia</b>	<b>Indonesia</b>	<b>Philippines</b>	<b>Vietnam</b>	<b>Malaysia</b>
<b>United States</b>		5.3%	2.2%	6.1%	11.6%	4.3%	8.1%
<b>China</b>		14.9%	30.6%	15.3%	10.9%	25.5%	15.1%

		<b>Share of Total Exports (As of 2012)</b>					
		<b>Thailand</b>	<b>Cambodia</b>	<b>Indonesia</b>	<b>Philippines</b>	<b>Vietnam</b>	<b>Malaysia</b>
<b>United States</b>		9.9%	25.9%	7.8%	14.2%	17.2%	8.7%
<b>China</b>		11.7%	2.3%	11.4%	11.8%	11.2%	12.6%

Shaded box = top trade partner

Source: United Nations comtrade SITC Rev. 2 classification statistics, 2005

**Table 8: GDP Growth in % for ASEAN Countries, 2005-2013**

Between the ten ASEAN countries, GDP growth remained steady between 2005 and 2013, spurred on by a growing trade relationship with China. Higher GDP growth is coming from the developing and frontier markets of Vietnam, Cambodia, Lao PDR, and Myanmar.

GDP Growth in % for ASEAN Countries									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Brunei</b>	0.4	4.4	0.2	-1.9	-1.8	2.6	3.4	0.9	-1.8
<b>Cambodia</b>	13.3	10.8	10.2	6.7	0.1	6	7.1	7.3	7.4
<b>Indonesia</b>	5.7	5.5	6.3	6	4.6	6.2	6.5	6.3	5.8
<b>Lao PDR</b>	7.1	8.6	7.6	7.8	7.5	8.5	8	8	8.5
<b>Malaysia</b>	5.3	5.6	6.3	4.8	-1.5	7.4	5.2	5.6	4.7
<b>Philippines</b>	4.8	5.2	6.6	4.2	1.1	7.6	3.7	6.8	7.2
<b>Singapore</b>	7.5	8.9	9.1	1.8	-0.6	15.2	6.1	2.5	3.9
<b>Thailand</b>	4.6	5.1	5	2.5	-2.3	7.8	0.1	7.7	1.8
<b>Vietnam</b>	7.5	7	7.1	5.7	5.4	6.4	6.2	5.2	5.4

SOURCE: *The World Bank. Myanmar not reported*

**Table 9: Human Development Index Ranking, 2013**

The United Nations measures “human development indicators” that cross-examine life expectancy, education attainment (measured by expected and mean years of schooling), and income. The UN conducts this analysis across 187 countries. Out of the ten countries in ASEAN, the highest ranked country was the developed and advanced Singapore, at number 9 in the world. The lowest was Myanmar, at 150.

**Human Development Index Ranking, from UN Development Programme, 2013**

<b>Country</b>	<b>Rank (Out of 187 Countries)</b>
Brunei Darussalam	30
Cambodia	136
Indonesia	108
Lao People's Democratic Republic	139
Malaysia	62
Myanmar	150
Philippines	117
Singapore	9
Thailand	89
Viet Nam	121

Table 10: **China's Currency Swap Agreements**

As of August 2014, the People's Bank of China has four currency swap agreements with Malaysia, Singapore, Indonesia and Thailand in the total value of \$650 billion renminbi. This is providing a supply of renminbi to banks in these countries, signaling an increase in interest in using the renminbi as a trade settlement currency. Malaysia, Singapore, and Thailand all have clearing banks that have been authorized to handle renminbi. Indonesia is showing interest in getting its own clearing center.

**List of People's Bank of China currency swap agreements (as of August 26, 2014)**

<b>Earliest Agreement</b>	<b>Economic Partner</b>	<b>Max. value in foreign currency (including extensions)</b>	<b>Max value in renminbi (including extensions)</b>
2008	Malaysia	MYR 90 billion	180 billion
2008	Singapore	SGD 60 billion	300 billion
2010	Indonesia	IDR 175 trillion	100 billion
2011	Thailand	THB 320 billion	70 billion

**SOURCE:** Destais, C. (2014). *Central Bank Currency Swaps and the International Monetary System*. CEPII.

[http://www.cepii.fr/PDF\\_PUB/pb/2014/pb2014-05.pdf](http://www.cepii.fr/PDF_PUB/pb/2014/pb2014-05.pdf) (Accessed 15 April 2015).

Table 11: **RMB Deposits in Singapore**

Singapore has significantly ramped up its holdings of renminbi in the 18-month period between June 2013 and December 2014. By doubling its renminbi deposits, Singapore is seeing an increase in use of the renminbi in transactions. As the hub of Southeast Asia, an increase in renminbi deposits in Singapore could signal an increase in overall ASEAN interest in using the currency, since many ASEAN business will process transactions and trade through the port of Singapore.

<b>RMB Deposits In Singapore</b>	
<b>End of Period</b>	<b>(RMB bn)</b>
2013 Jun	<b>138</b>
2013 Sep	<b>154</b>
2013 Dec	<b>195</b>
2014 Mar	<b>220</b>
2014 Jun	<b>254</b>
2014 Sep	<b>257</b>
2014 Dec	<b>277</b>

**SOURCE:** *Monetary Authority of Singapore*