The Middle Kingdom and its neighbours (part II): two case studies

In the Focus «The Middle Kingdom and its neighbours (part I): a geo-economic perspective», in this same report, we can see how China has become the centre of gravity of Asian value chains in recent decades and also how this has affected the trade flows of the countries around it. Focusing on the ASEAN bloc, its exports to the rest of the world increased by 50% in the last decade, accompanied by increasing technological specialisation, and its trade flows have been changing course, resulting in greater concentration in China and the US and a loss of importance on the part of Japan. However, there are important nuances between countries, as the cases of Vietnam and Malaysia illustrate well. Vietnam has seen its exports of goods to the rest of the world multiply 19-fold over the past two decades (versus an average 4-fold increase for ASEAN as a whole, and 10-fold for China), transforming it into the largest exporter in the ASEAN bloc. Meanwhile, Malaysia's exports of goods have tripled over the same period.

Recent developments in Asian value chains: lessons from ASEAN

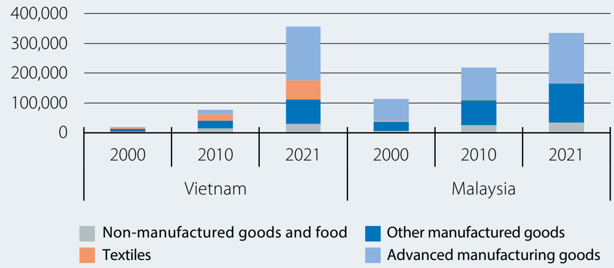
The destination and composition of trade flows from Vietnam and Malaysia have been transformed since the beginning of the century. Vietnam previously exported mostly mining products, refined products and textiles to Asia (over 50% of its exports went to Asian countries, particularly Japan, which accounted for almost 20%). In contrast, in 2021 30% of Vietnamese exports went to the US and more than half are electronics and machinery products.[1] On the other hand, 60% of Malaysia's exports at the turn of the century were electronics and machinery products, especially to the US (21%), and half also went to Asia (especially Singapore and Japan). In 2021, less than half of exports were electronics and machinery products, and they were mainly concentrated in Asia (accounting for two-thirds of Malaysia's exports, with Singapore and China as the top destinations).[2]

The value chains of these two countries have also diverged over time. In the second chart, we can see how Vietnam has become increasingly open to the outside, accompanied by greater integration into the entire Asian value chain, in particular with China and South Korea, while the weight of other advanced economies (such as Japan, the US and the EU) has remained relatively stable. On the other hand, in Malaysia there has been a gradual decrease in the foreign value added in its exports, with the likes of Japan, the US and the EU losing a notable share (see third chart).[3] One notable exception to this trend is the growing integration of Malaysian manufacturing with China, particularly in sectors such as electronics or machinery, which accounts for 10% of the GVA of exports (in Vietnam, this figure stands at 16% in electronics and 21% in machinery).

The evolution of trade with China (the second biggest trading partner for both countries) is particularly interesting. Exports of goods from Vietnam to China have gone from around 7 billion dollars in 2010 (30% mining and refined oil products) to 58 billion in 2021 (60% electronics and machinery). On the other hand,

Vietnam and Malaysia: annual exports of goods

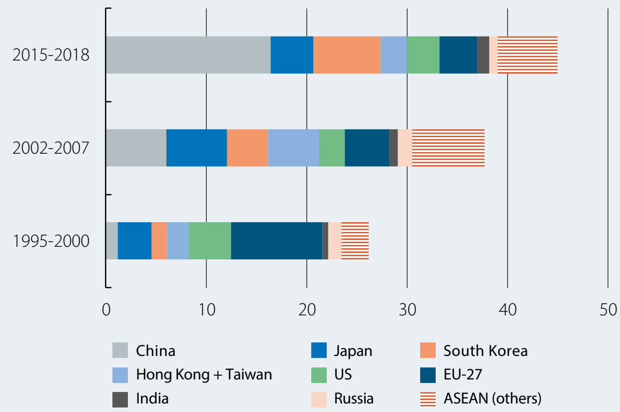
(USD millions)



Notes: *Other manufactured goods include wood and paper products, chemicals and pharmaceutical products (including mineral products, such as refined oil) and metals. Advanced manufacturing products include electronics, machinery and transportation equipment. Methodological note: the data reported by the OEC are based on the BACI database (Base pour L'Analyse du Commerce International) of the CEPII research centre (Centre d'Études Prospectives et d'Informations Internationales), which harmonises annual international trade data from the United Nations Statistics Division (UN Comtrade) for more than 150 countries, disaggregated at t he level of more than 5,000 products. For further details on these data sources, see G. Gaulier and S. Zignago (2010): «BACI: International Trade Database at the Product-Level. The 1994-2007 Version», CEPII Working Paper, 2010-2023.*
Source: *CaixaBank Research, based on data from the Observatory of Economic Complexity (OEC) and UN Comtrade.*

Vietnam: geographical origin of the gross value added (GVA) of manufacturing exports

(% of the total GVA)



Source: *CaixaBank Research, based on data from OECD TiVA.*

1. Asia still accounts for 50% of Vietnam's gross exports, with China as the main destination accounting for 16% of the total, while exports to Japan account for less than 6%.
2. According to the Observatory of Economic Complexity, the three most exported products by Vietnam in 2010 were crude oil (7%), rice and leather footwear (4% each). In 2021, the sum of these products accounted for less than 3% of the total, and the most exported items were transmission equipment (14%), telephones (7%) and integrated circuits (5%). In the case of Malaysia, in 2010 its most exported products included integrated circuits (12%), gas and palm oil (6% each), while in 2021 the country's top three exports were integrated circuits (21%), refined oil (9%) and palm oil (5%).
3. In fact, in the last decade there has been a decrease in the absolute value of the value added in exports of Malaysian manufacturing products originating in these three markets and in ASEAN countries.

Malaysia exported 27 billion dollars to China in 2010 (over 50% of which was machinery and electronics), while in 2021 it exported around 48 billion, with a lower proportion of advanced manufacturing (less than 40% corresponds to machinery and electronics) and a greater proportion of mining and refined products (mainly oil and gas) and metals, which went from less than 3% to 15%. The data for China's imports of electronics (one-sixth of the total, on par with mining and refined products) confirm the structural transformation of Vietnam's trade pattern: today, 10% of these imports come from Vietnam (a figure similar to that of Japan or the EU, and only surpassed by South Korea and Taiwan), compared to 5% in the case of Malaysia. A decade earlier, 7% came from Malaysia and less than 1% from Vietnam.[4]

Where are ASEAN countries headed?

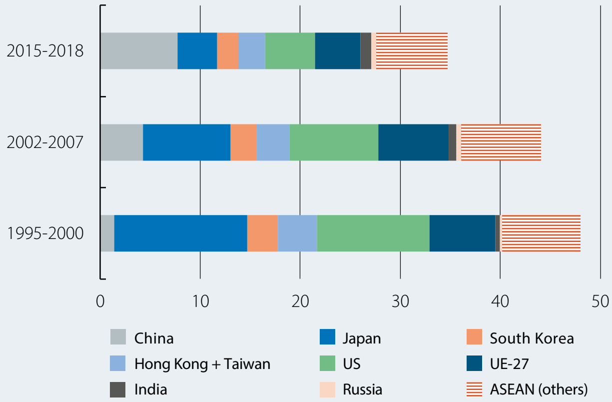
Behind these differences in the recent patterns of international trade, it is important to underscore the differing economic, geographical and political conditions among ASEAN countries.[5] In the case of Vietnam, we see a period of economic boom and increasing specialisation, accompanied by a diversification of trade flows. Malaysia, which at the outset was already one of the most developed economies in the region, saw a concentration of its value chain in Asia, particularly in China, whose strong demand for commodities and metals has gained prominence in the country's trade flows. On the other hand, although China's rise in the global market has served to hoist up the export sectors of some of these countries (such as Vietnam or Thailand), which has generated benefits throughout the value chain, it has also resulted in greater competition in the more cutting-edge sectors, and this has a greater impact on the more advanced economies of the region (such as Malaysia, Singapore and Japan).

But the case of Vietnam is not just one of economic convergence and positive side effects from the economic development of China. Vietnam is often cited for the quality of its education system, which has generated a supply of labour that is able to meet the country's growing demand for more specialised skills and has contributed to the rapid expansion of sectors such as electronics. Added to this is the demographic factor, with a growing and young labour force, at a time when other Asian neighbours are facing a population decline. Investment in infrastructure has also helped, as has geography: its capital, Hanoi, is now less than 17 hours' drive from China's leading technology cluster, Shenzhen, and the country's 3,000 kilometres of coastline facilitate global maritime connections.[6] The ingredients behind Vietnam's success, which replicate the experience of the «Asian tigers», thus offer several lessons in development for other countries in the region. Finally, Vietnam may already have been one of the first winners of the US-China trade tensions. Between 2018 and 2021, its exports of electronics to the US have tripled, while China's have practically stagnated.

4. Vietnam has also become the third largest exporter of electronics to the US (accounting for 8% of total imports, behind only China, with 33%, and Mexico with 19%, and above the EU as a whole), compared to 5% for Malaysia. A decade earlier, it accounted for less than 1% of total US imports of electronics.
5. Vietnam had a GDP per capita of approximately 500 dollars in the year 2000 (considered a low-income country, according to World Bank indicators) and since then it has grown annually by 7% on average. Malaysia, meanwhile, had a GDP per capita at 4,500 dollars in 2000 and maintained a growth rate at 5% in the period. Currently, Vietnam has a GDP per capita of 4,500 dollars and Malaysia, 13,000 dollars, placing both countries in the high-middle income range.

Malaysia: geographical origin of the gross value added (GVA) of manufacturing exports

(% of the total GVA)



Source: *CaixaBank Research, based on data from OECD TiVA.*

Vietnam is now among the most open economies in the world and is a member of more than a dozen trade agreements, including the RCEP, considered to be the largest regional trade agreement in the world,[7] and, since 1995, the ASEAN group. Despite their dissimilarities, perhaps the greatest achievement of the ASEAN countries has been to bring peace and dialogue to a region devastated by conflicts just a few decades ago. But the bloc could still be more ambitious. Intra-regional trade still accounts for only 20% of total trade in the region (compared to more than 60% in the case of the EU, or 40% for the USMCA, the successor to NAFTA), a rather modest figure considering the high level of tariff-free trade barriers in the region. On the other hand, in a context of growing geopolitical tensions, the virtual non-existence of common institutions makes it difficult to take advantage of the favourable geo-economic environment and threatens the defence of regional priorities, such as the stability of the South China Sea. Like Vietnam in the 1980s, in order for the ASEAN bloc to continue to drive development in the region, it needs a *doi moi* reform plan.

Luís Pinheiro de Matos

6. According to data from the World Bank, foreign direct investment in Vietnam has reached 5% of GDP between 2000 and 2021. This figure is higher than most of its Asian neighbours, such as Malaysia (at 3%), as well as the average for high-middle-income countries (also at 3%).
7. The RCEP (Regional Comprehensive Economic Partnership) was established in 2022 and includes all 10 ASEAN countries, as well as China, South Korea, Japan, India, Australia and New Zealand. Together, it accounts for 30% of global GDP and has a population of over 3 billion people.