

China's Advance into Emerging Markets: a Focus on ASEAN, Latin America and Africa

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China's Go Global Policy

In 2001, China adopted "Go Global" as its official policy agenda, which pertains to Chinese businesses in overseas. The policy was set as the primary means of foreign economic cooperation in the 10th 5-year plan(2001–2005). Consequently, <Measure for Overseas Investment Management> in 2009 and <Administrative Regulation on Contracting Foreign Projects> in 2008 were legislated. Moreover, the Export-Import Bank of China and the China Development Bank provide policy loans and preferential loans for financial

support. In line with this, the Chinese government's flexible diplomatic and political stance contributes to Chinese businesses in emerging markets.

Trade, Construction Contract and Natural Resources

The proportion of trade between China with ASEAN countries, Latin America, and Africa has been constantly increasing from 11.7% in 2003 to 20.0% in 2012. In spite of the recent reduction in China's total exports, China's exports in emerging

countries have increased. With this, China has consequentially taken an aggressive part in their import markets as well.

Since 2010, China has been the top contractor in international construction projects, showing remarkable performance particularly in transportation, housing, and electric power utility structures. China is very much dependent on energy resource in emerging economies—China depends on Southeast Asia(34.7%), Latin America (44.7%), and Africa (37.0%) for petroleum, coal, and iron ores.

Table. China's Export Growth Rates

(Unit: %)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total	–	35.4	28.4	27.1	25.7	17.3	– 15.8	31.3	20.3	7.9
To Emerging Markets	–	41.6	30.2	36.5	36.5	28.9	– 10.9	38.1	26.8	16.0

Sources: IMF DOT.

Table. Share of China and Korea in Emerging Countries' Import Markets

(Unit: %)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Korea	4.57	4.94	5.02	5.10	4.94	4.60	5.02	5.25	5.06	4.85
China	4.44	4.98	5.65	6.52	7.42	7.86	8.69	9.08	9.25	9.79

Sources: IMF DOT.

China in Southeast Asia

China's overseas expansion in Southeast Asia can be characterized in the following ways. First, China associates its Southwest regional development with Southeast Asian strategies. In order to achieve this, China employed the “One Axis & Two Wings” and the “Two Corridors & One Circle” strategies. Second, many efforts are put into securing mineral and ener-

gy source along with electric power utilities construction. Third, China connects aid and business especially in Cambodia, Laos, Myanmar, and Vietnam(CLMV countries). Fourth, China has employed strategies to turn Myanmar as land a bridge to gain access to the Indian Ocean and South Asia. Fifth, China actively pursues RMB internationalization to neighboring countries. Sixth and lastly, in terms of diplomatic security, China tries to eliminate fear brought about by the “China threat” and seeks to check the expansion of the United States' influence. However, recently, vigilance against China is growing as seen in the halt in the construction of the Myitsone dam project in Myanmar.

China in Latin America

Expansion of China in Latin America can be characterized as follows. First, unlike what is commonly known, China's focus for expansion is not only on resource acquisition. Recently, Chinese companies showed a growing trend of investment on securing market, rather than resource development given that companies made remarkable advances especially in the automobile industry. Expansion through building of shopping malls also stands out. Moreover, China's strategy is to make Cancun in Mexico as a distribution center for Latin American markets.

The characteristics of China's expansion in construction fields can be summarized in three ways. First, China obtains construction projects by providing loans. Second, harbors are developed for transporting natural resource to China. Third and lastly, the construction of electric power systems, such as hydropower systems, is booming.

In developing natural resources, China tries to make Latin America as an alternative source

for energy. For this, China engaged in the “loan for oil” strategy. Instead of developing by itself, China employed a strategy to take the shares of existing mines. When providing loans, China provides a procurement condition that assures the participation of its downstream service firms. Lastly, China is involved in co-operation with Spanish enterprises to be able to extend to Latin America.

China in Africa

China's scale of expansion in Africa is currently incomparable. The Chinese government supports its firms' advances into Africa through high-level diplomatic visits, holding forums that are as large as those of the UN and providing loans. However, the China-Africa relationship today is not just for financial assistance as it is more of a cooperation that has lasted for half a century. China's investment in Africa does not focus on resources alone. Construction, manufacturing, and banking sectors account for half of the investment. China invests in industrial projects and in projects that positively affect people's livelihood, such as construction of schools and hospitals. With this, China has also experienced a lot of failures. Loan offer, which requires resource as mortgage, is faced with limitations and its immature global bidding and safety accidents have caused condemnation by the international community. In some parts, there is growing hostility toward exports of Chinese industrial products and imports of resources from Africa. However, those transitional events cannot explain the whole picture of China's advance into Africa and it is reasonable to anticipate that China's expansion in Africa is expected to increase further.

China and Korea in Emerging Markets

To analyze trade competition between Korea and China, this study selected 32 countries by the amount of export and the target items are as follows. For consumer durables, white goods, black goods, and automobiles accord to HS 4-digit codes; for whole items, 32 goods according to HS 2-digit codes. In comparing the Revealed Comparative Advantages (RCA) of four-digit items, it shows that Korea still has the higher position in washing machines, cars, vans, trucks, and refrigerators while vice versa in tractors, special vehicles, mobile phones, TVs, digital cameras, and air conditioners. In 2-digit measure, Korea's advantage has risen in 12 items and fallen in 20 during last 10 years. On the other hand, China's advantage has risen in 21 items and fallen in 11. China's rapid catching-up is an irreversible tendency.

To investigate Korea's priority items and regions, we calculated the market shares (MSs) of each item in different regions. To compare them with RCAs, this study created the 2×2 RCA-MS matrix. The matrix reveals that without fundamental competency, higher market shares are hardly produced. In other words, local conditions hardly make a difference. In items with lower RCA, one should improve the core competency first. In some items with lower RCA and higher MS, Korea should analyze the local condition and keep the advantage related to it. The most effective strategy involves the items with higher RCA and lower MS. If a certain item shows different MSs in countries within a region, it could be further explored and focused on. If, for instance, there are no items with higher MSs in Myanmar and Cambodia while vice versa in Vietnam and Thailand, those items with higher MSs in other countries have higher possibili-

ties to gain more market. Such benchmark markets include Venezuela in Latin America and South Africa, Nigeria, and Côte d'Ivoire in Africa.

Another strategy could be to increase MSs in mature markets within each region, namely, Vietnam, Indonesia, and Thailand in ASEAN, Brazil, Mexico, and Chile in Latin America, and South Africa, Nigeria, and Ghana in Africa. Marketing expertise in these countries could be easily expanded to other countries within the region because it is possible that they will share a similar growth pattern and observe similar consumer behavior.

To select the regions of comparative advantage, this study referred to Engineering News-Record's *Top 225 International Contractors*. In doing so, it is revealed that Korea shows evident advantages in the Middle East since 2006. Asia is also identified as the largest and fastest growing market in which Korea possesses 20% share comparing with China. Korea's share stands at only 10% in Africa, while it continues to increase in Latin America since 2008 when it was able to reach 40% after its long stay at 10%.

To select construction areas of comparative advantage, we referred to Korea's *International Construction Contract Statistics* and China's *International Contracting Development Report*. Korea holds a dominant position in *Petrochemicals* but this dominance continues to decrease. In *Electric Power Plant* and *Industry Plant*, Korea's performance is as much as 60–80% to China. In *Construction*, *Transportation Infrastructures*, and *Water and Sewage*, however, China shows a much higher performance. This is especially the case in *Electronics and Telecoms* and *Mining Development* given that Korea has no contracting records.

After analyzing regional contracting performances, this study suggests the following.

First, political position does make difference in some countries, such as Iran and Venezuela, so Korea is required to show a more flexible political and diplomatic stance. Second, Korea should raise its competency in *Industry Plant*, *Petrochemical Plant*, and *Thermal Power*. Third and lastly, in *New Town Development* and *High Value-Added Constructions*, Korea has potential to make a difference to China.

To conclude, Korean firms can create synergy in cooperating with Chinese firms as private firms in China are still inexperienced in overseas business and Korean firms could be cooperative partners to them. In Venezuela, Korean and Chinese firms have established a joint venture and have built a refinery in mutual cooperation. To support these kinds of cooperation projects, a financial scheme could be introduced. A reciprocal risk participation agreement between the Export-Import Bank of Korea and of China and the Global Cooperation Fund of the KoFC could be examples for this.

China continues to involve itself in various cooperation programs and an example of this is the China-ASEAN Expo in which Japan, Taiwan, and Hong Kong actively participate. Knowing this, Korea could also participate in this program or create its own cooperation program with its partners in emerging economies. **KIEP**