The Research of the Impact from China-ASEAN Financial Cooperation on the Development of Bilateral Trade

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Abstract. In this article we first introduce the development of financial cooperation between China and ASEAN. Then we apply the method of panel data analysis by utilizing STATA to find out which financial factors we select significantly influence the trade volume between China and ASEAN and the conclusions are FDI as well as international reserve. After the empirical analysis we further explain the economic meanings of the model and discuss the policies that may promote the bilateral trade volume in the future by controlling those significant financial factors effectively.

Keywords: ChiangMai Initiative, International Reserve, FDI.

1 Introduction

During the two decades since 1990, with the financial cooperation between China and ASEAN deepened, the bilateral trade volume increases rapidly except the year 1998 and 2009 when the global financial crisis affected international trade severely. However, even in 2009 when the world’s economy suffered a lot from the subprime crisis, bilateral trade volume, though decreased to 213 billion $ as compared with 2008, still accounted for 9.7% on the total external trade volume of China while ASEAN kept the fourth trade partner, the fourth export market as well as the third import market of China.

1.1 CMI

In May 2000, ASEAN and China, Japan as well as Korea formally signed ChiangMai Initiative in the annual meeting of ADB, and reached broad agreement on consolidating CMI in the following finance ministers’ meeting. CMI has become a foundation stone in the financial cooperation between China and ASEAN. From the aspect of building up currency swap net to stabilize regional finance market, CMI advocates enlarging the scale of currency swap among ASEAN and calls on the member countries to establish bilateral currency swap agreement in order to provide the relieving foreign exchange fund for each other in case of emergency. CMI puts forward the idea of regional financial cooperation in form of currency cooperation. Later on, governments among eastern Asian continues try relevant affairs based on CMI so as to
make foundational arrangement for further financial cooperation. CMI includes two important contents: First, perfect ASA (ASEAN Swap Arrangement) and make it cover all the member countries of ASEAN. The total money of ASA was added from 0.2 billion $ to 1 billion $(in 2005 this number increased to 2 billion$). Second, build up BSA (Network of Bilateral Swaps and Repurchase Agreements) among “10+3” countries and promise to provide appropriate amount of money to member countries when it is necessary to help them solve the problem of short term international payments imbalance as well as capital flowability. So far, all of the member countries have participated the ASEAN multilateral swap arrangement and China has set up swap agreements with some of the ASEAN members respectively. By the end of November 2008, the total scale of CMI has reached 85.5 billion $(including the 2 billion $ of ASA) and China has signed several bilateral swap agreements with Thailand, Malaysia, Philippines, Indonesia respectively, totaled 9.5 billion $.

1.2 E.A. Forex Reserve Pool

In March 2010, Chiang Mai multilateral agreement took effect formally. According to this agreement, the establishment of a multilateral foreign exchange (Forex) reserve not only helps to integrate East Asian financial resources and improve the regional common response to financial risks, but is also important in maintaining the steady growth of regional economy and spurring the multilateral process of East Asian cooperation. The 10 member countries of ASEAN plus China, Japan and the Republic of Korea (ROK) altogether collected 120 billion$ to establish Forex reserve, with 38.4 billion$ from China, the same contribution as Japan, which accounts for 32%, 19.2 billion $ from ROK, accounting for 16% and 24 billion $ from ASEAN, accounting for 20%. Along with the institution of 120 billion dollars regional Forex reserve, the East Asian financial cooperation was escalated from a bilateral to multilateral leap.

2 The Empirical Analysis

In this section we utilize the method of panel data analysis by STATA to establish econometric model with the relevant financial indexes in order to find out the indexes that impact bilateral trade volume significantly, then we theoretically explain the transmission mechanism of the indexes. The data are selected mainly from the ASEAN statistical Year Book 2008 and IMF’s publication International Financial Statistics as well as the World Bank’s publication World Development Indicators 2009. On the basis of proofreading we processed the data collection into panel data with the time span from 2000 to 2008. The 11 countries here include China and 10 ASEAN member countries.

2.1 The Introduction of Indicator System

i. In_gdppc

GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any