

# Between a rock and a hard place: Asia-pacific amid Sino-US tension

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# China-US trade war put Asian economies in a straitjacket

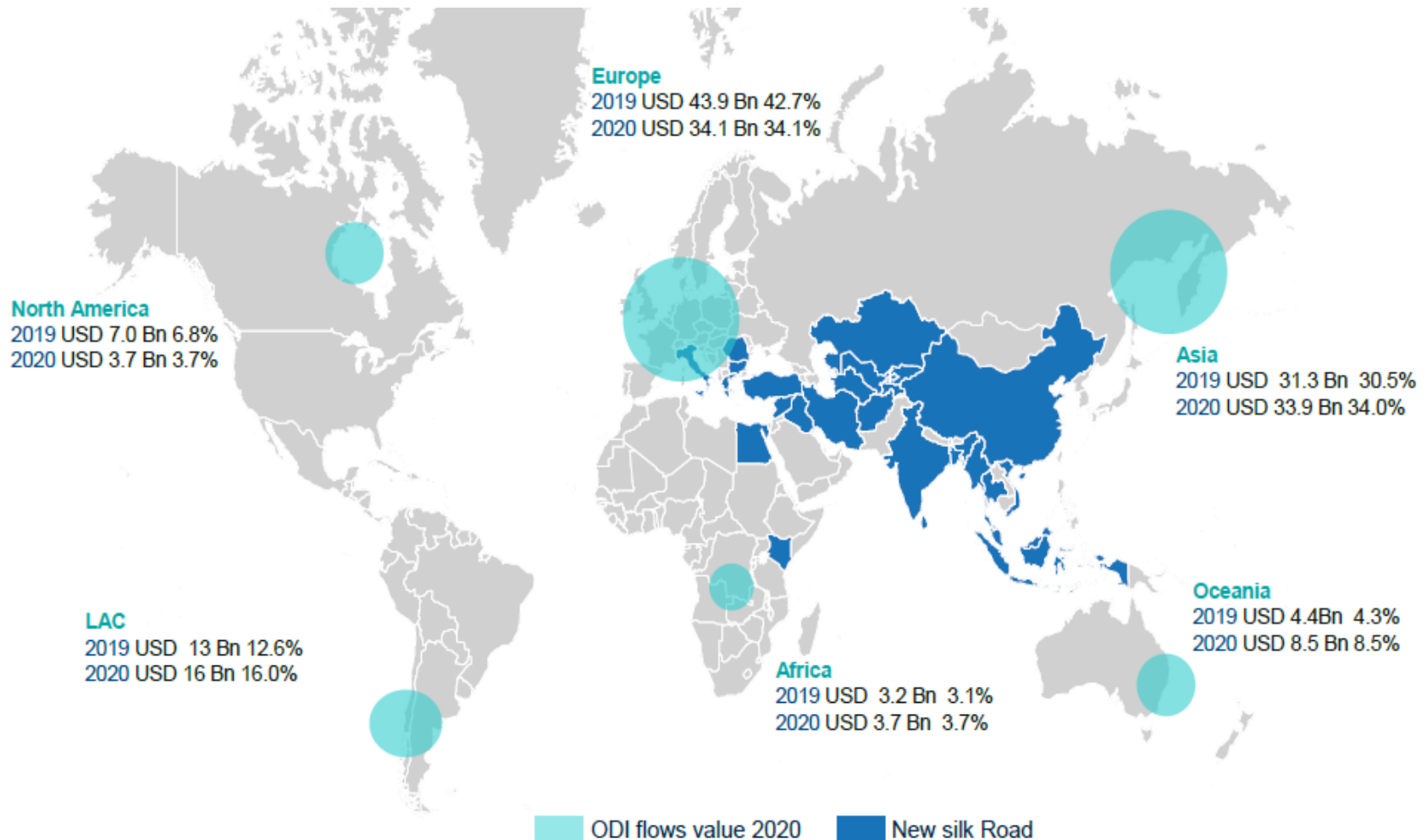
Many Asian Economies show a great trade dependence on China and the US

Export markets/ Import suppliers  Asia	China		US	
	Export	Import	Export	Import
Hong Kong	55.2 (1**)	44.8 (1)	8.10 (2)	--
Taiwan	28.0 (1)	19.3 (1)	11.6 (3)	11.7 (3)
Korea	26.8 (1)	19.9 (1)	12.1 (2)	11.0 (2)
Japan	19.5 (1)	22.4 (1)	19.1 (2)	10.8 (1)
India	5.10 (3)	14.5 (1)	16.0 (1)	6.50 (2)
Indonesia	15.1 (1)	23.7 (1)	10.3 (3)	--
Malaysia	14.5 (1)	20.1 (1)	8.80 (3)	7.10 (4)
Philippines	12.9 (4)	19.6 (1)	15.7 (1)	7.20 (4)
Singapore	12.3 (1)	13.4 (1)	--	11.4 (3)
Thailand	12.0 (1)	19.9 (1)	11.1 (2)	6.70 (3)
Vietnam	16.9 (3)	27.6 (1)	19.5 (1)	5.40 (4)

\* \* : The figures in the brackets stands for its ranking among all the trade partners

Source: CEIC and BBVA Research

# China's ODI flows tilted towards Asia during the pandemic



Note: The bubbles are indicative and do not exactly represent the size of ODI flows and stocks.

Source: AEI, MOFCOM and BBVA Research

# Financial linkages among the US, China and ASEAN

- The trade and investment linkages have been amply analysed and unanimously verified, but it begs the question of any significant impact of China's financial markets on ASEAN financial market and its comparison with that of the US.
- By analysing higher frequencies financial market data based on Sign Restriction SVAR model, we observe that equity markets in ASEAN are growingly synchronised with China, while the RMB exchange rate also shows strong synchronisation with ASEAN FX market. The synchronization between China and the ASEAN stock and FX markets are comparable with the US impact during tranquil time but less during the crisis time.
- For stock market spillover, worsening expectations of China's economic outlook, which does have a significantly impact on the economic outlook of Latam countries, particularly commodity exporters, as a result, also impacts ASEAN stock markets.
- For exchange rate market spillover, the risk of currency (mis)management which has the potential to trigger currency wars and beggar-thy-neighbour global dynamics, thus, ASEAN adjusts exchange rate to maintain export competitiveness.
- However, bonds in China show no co-movement with ASEAN bonds due to the closed capital account in China.

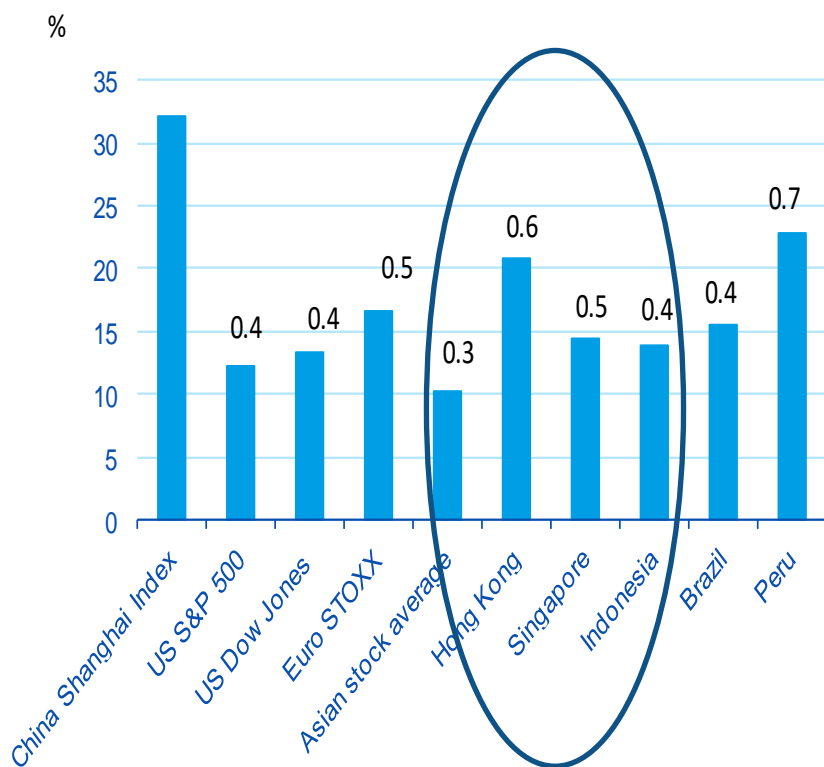
## References:

- (1) Dong He, Chang Shu, Jinyue Dong and Honglin Wang (2017), "Asian Financial Market Interactions with US and China", *Journal of International Money and Finance, Elsevier, vol.87 (C), page 112-132*;
- (2) Dong He, Chang Shu, Jinyue Dong and Honglin Wang (2015): "Asian Financial Market Interactions with US and China"; *Bank for International Settlements working paper and Hong Kong Monetary Authority working paper*; <https://www.bis.org/publ/work579.htm>
- (3) Jinyue Dong and Alejandro Neut (2016), *Economic Watch, BBVA "Global prominence of China's financial markets", April 7, 2016, BBVA Research*

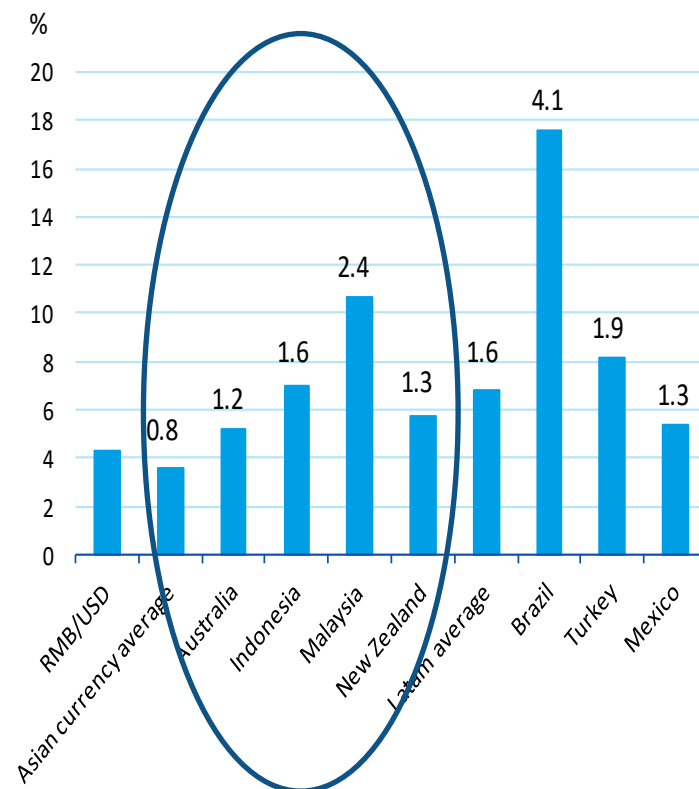


# Some stylized facts of China's financial markets linkages with ASEAN

**CHINA'S STOCK MARKET HAS STRONG SPILLOVER EFFECT TO ASEAN STOCK MARKET (Black figures indicate elasticity)**

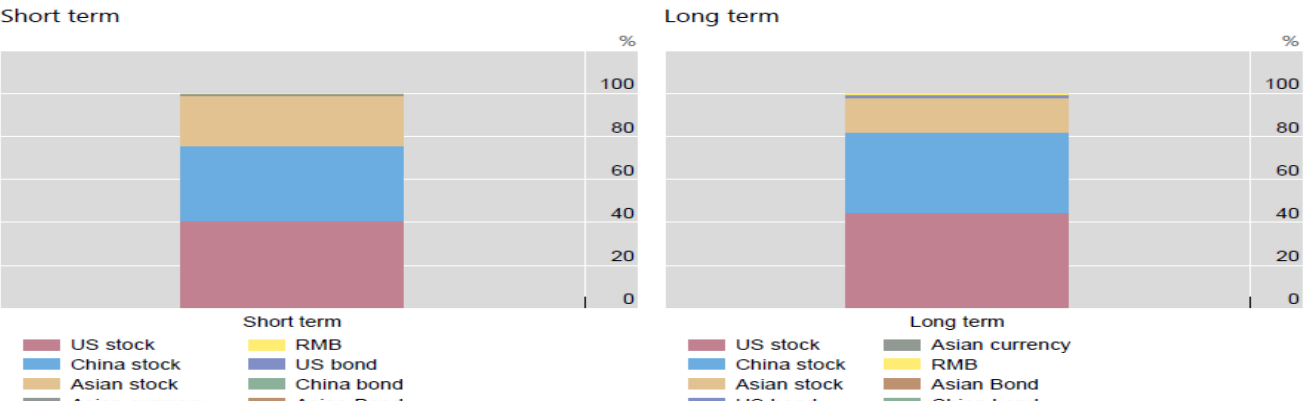


**RMB EXCHANGE RATE CHANGE ALSO TRIGGERED THE ASEAN FX MARKET VOLATILITIES (Black figures indicate elasticity)**



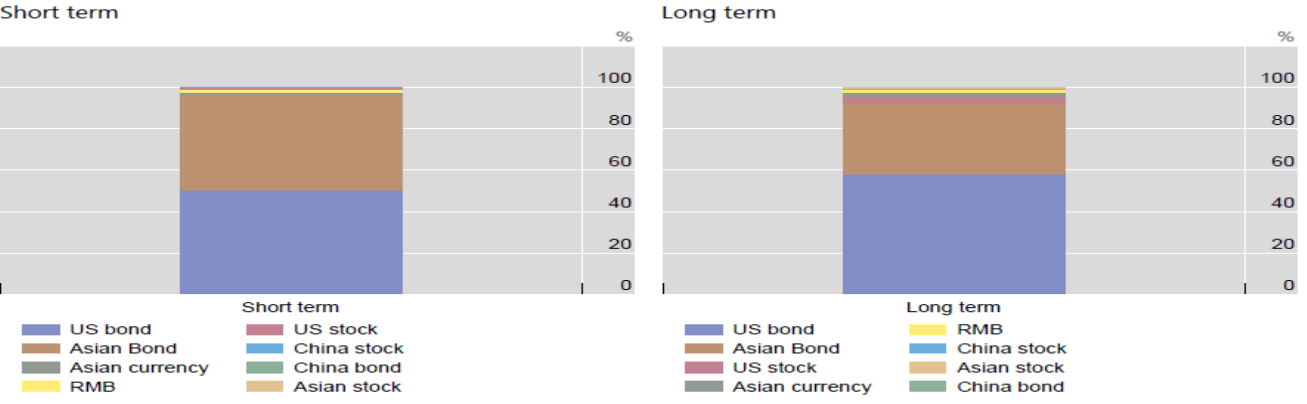
Asian stock market: variance decomposition

Graph 4



Asian bond market: variance decomposition

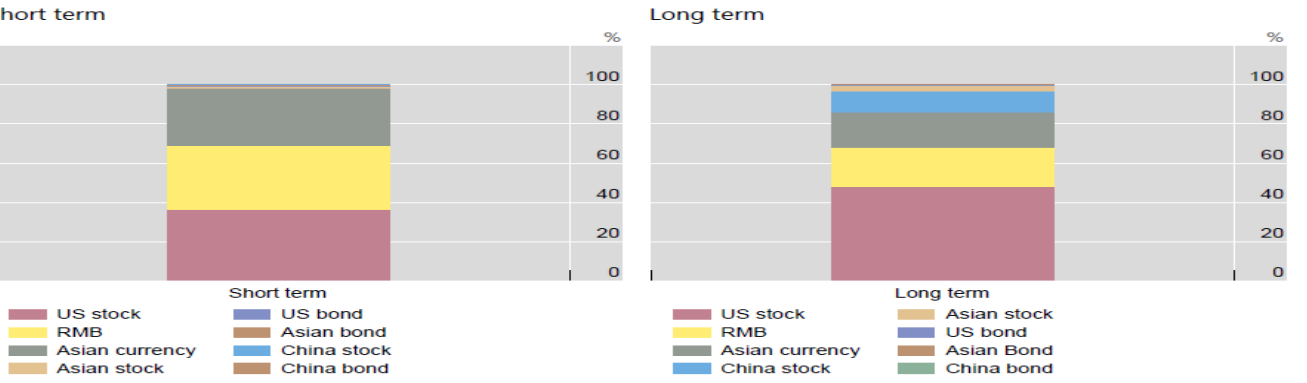
Graph 5



Source: authors' estimates.

Asian currency: variance decomposition

Graph 6



Source: authors' estimates.

## Sino-US relations: what's next?

- Key words from Biden Administration: “Compete, Confront, Cooperate”; “extreme compete”; “compete not conflict”
- US new strategies against China: emphasizing the value difference; trying to find more allies globally with similar value
- China's new strategies against US: selective “tit-for-tat”; separation between economy and geopolitics
- The change of China's attitudes towards the potential US allies: from “any one but the US” to “cut the tail to feed the dog”
- The extreme competition between China and the US could last as long as 15 years from now on: some triggers could change the situation, including (i) leadership change in China or the US; (ii) the change of relative power in economy or military capacity; or (iii) in face of a common threat.
- Which side will win the competition? Depending on which can better handle their domestic affairs



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