

China-ASEAN Trade Relations: Now and Beyond

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First of all, I would like to thank The Habibie Center for inviting me to speak at the Talking ASEAN Webinar.

It is indeed an honour for me to speak at this webinar and I would like to take this opportunity to share with you my views on China-ASEAN trade relations, now and beyond, and where does ASEAN stand amidst escalating US-China strategic competition.

I would like to start my talk with a quick recap of the relationship between China and ASEAN.

China's official engagement with ASEAN countries began in 1972 when Malaysia became the first ASEAN country to establish diplomatic relations with China. Singapore was the last. It established formal diplomatic ties with China as late as 1990.

After the Cold War, China's relationship with ASEAN countries got off to a fresh start. China was invited to the 1991 ASEAN Summit in Kuala Lumpur and became ASEAN's full dialogue partner in 1996.

China was the first to accede to the Treaty of Amity and Cooperation in Southeast Asia in 2003 and upgraded its relationship with ASEAN to "strategic partnership for peace and prosperity".

The ASEAN-China Free Trade Agreement or AFTA which took effect in January 2010, laid the foundation for accelerating trade and investment between China and ASEAN. China became ASEAN's largest trading partner in 2009 and overtook EU to become China's largest trading partner in 2020.

In November 2021 at the special summit to mark the 30th anniversary of bilateral dialogue between China and ASEAN, both parties agreed to elevate the relationship to Comprehensive Strategic Partnership.

Trade between China and ASEAN countries skyrocketed from USD8.36 billion in 1991 to USD878.207 billion in 2021, an increase by more than 100 times in 30 years. Among the ASEAN countries, Vietnam, Malaysia, Thailand, Singapore, Indonesia and the Philippines accounted for 94.8% of ASEAN's total trade with China in 2020.

Despite the COVID-19 pandemic, China-ASEAN bilateral trade increased by 6.7% in 2020 and 28.1% in 2021, reflecting the resilience of China-ASEAN trade relations. And all the 10 ASEAN member states were the early supporters of the Belt and Road Initiative launched by Present Xi Jinping in 2013, signifying the close trade ties between China and ASEAN.

Chinese foreign direct investment (FDI) and construction projects in ASEAN countries have increased by 85% and 33% respectively since the start of BRI, with Indonesia, Malaysia, the Philippines, and Vietnam receiving the most FDI from China.

As of the end of June 2021, the cumulative two-way investment between China and ASEAN has exceeded USD310 billion. ASEAN was China's third largest source of foreign investment and one of the fastest growing regions for China's foreign investment. In 2020, China ranked the fourth largest source of foreign investment in ASEAN.

China's trade with ASEAN totaled US\$685 billion in 2020, accounted for 20% of ASEAN's total export and 31% of ASEAN's total import.

A unique feature of the trade relationship between China and ASEAN is that intermediate goods constitute a high percentage of ASEAN's export to China.

As shown in the chart, over 80% of ASEAN's export to China from 2012 to 2018 were intermediate goods, while during the same period, less than 60% of ASEAN's export to the US were intermediate goods. More than 80% of China's 5 largest ASEAN trading partners' export to China were intermediate goods.

Intermediate goods from ASEAN are inputs to China's manufactured products for export to other countries. A real RMB appreciation will reduce Chinese exports, and thus lower its imports from ASEAN, rather than increase them.

According to a study by the ISEAS–Yusof Ishak Institute of Singapore, a USD strengthened by 1% induces an increase of 1.06% in the US's imports from ASEAN, whereas a real appreciation in the RMB by 1% decreases China's imports from the region by 0.35%.

The COVID-19 pandemic, Ukraine war and China's Zero-Covid policy have caused serious disruptions to the global supply chain. To mitigate geopolitical risks, supply chain disruptions and uncertainties, multinationals and possibly some Chinese companies are adopting "China Plus One" strategy by moving some of their manufacturing facilities out of China while maintaining the primary production base in China.

ASEAN countries will benefit the most from this global supply chain adjustments as they are likely be the preferred choice for the relocation of the new production facilities or offices, due to the geographical proximity to China, which will translate into lower transportation costs and faster delivery, facilitated by the cumulative rules of origin under RCEP.

The Covid-19 pandemic has accelerated digitalisation of the global economy and more people are now shopping online. The new found popularity of live streaming e-commerce could help to spur cross-border trade between China and ASEAN, in particular the mainland ASEAN countries, as the newly opened China-Laos railway and the China-Thai railway now under construction will reduce the time taken to transport goods between China and Indochina ASEAN countries. This no doubt will help to promote cross-border trade in agriculture products, especially food items such as vegetables and fruits between China and ASEAN.

In fact, there is a huge potential for China-ASEAN trade in agriculture products. At the special summit to mark the 30th anniversary of bilateral dialogue between China and ASEAN in November 2021, President Xi said China would buy \$150 billion worth of agriculture products from ASEAN countries during the next five years.

The growing middle class population in China has pushed up demand for tropical fruits such as durian, mangosteen, mango, rambutan, dragon fruit, and other products from ASEAN. The popularity of durian is a strong indication of the booming demand for ASEAN fruits in China.

To meet the logistic needs for fruit import from ASEAN, China has implemented multiple supportive measures such as easing the inspections of fruit transport vehicles and setting up of an international cold-chain logistics park in Guangxi.

At the special ASEAN summit last year, President Xi also announced that China will launch the China-ASEAN Science, Technology and Innovation Enhancing Program, and will provide 1,000 items of advanced and applicable technology to ASEAN and support an exchange program for 300 young ASEAN scientists in the next five years.

The Biden Administration's relentless and extensive efforts to stifle China's technology advancement could incentivize China to assist ASEAN countries in developing their homegrown technologies as the technology world may turn bipolar. This will inadvertently create strategic opportunities for ASEAN's homegrown technologies as China endeavours to reduce its technology dependence on the US. ASEAN should capitalise on the China-ASEAN Science, Technology and Innovation Enhancing Program.

Now, I would like to share my observations on the impact of US-China strategic competition on ASEAN.

China's rise has changed the global power dynamics, relatively speaking. The U.S. which has been the sole superpower since the collapse of Soviet Russia, deems China's rise as a challenge to its global supremacy and regards China as the "only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system."

Due to its geostrategic and economic importance in the global system, ASEAN has now become the battlefield of big power rivalry, with the US and China competing to gain influence over the region.

Biden launched the Indo-Pacific Economic Framework in May this year consisting of 14 participating founding members, of which 7 are ASEAN

member countries. The IPEF has four policy pillars, namely: 1. Connected Economy 2. Resilient Economy 3. Clean Economy and 4 Fair Economy. Evidently, this is not a free trade agreement but the US effort to reassert its economic domination in the Indo-pacific to counter China's increasing influence in the region. In fact, it is the economic component of US Indo-Pacific Strategy, motivated by geopolitical considerations.

As ASEAN's close neighbour, China's geographical proximity to ASEAN is the inherent advantage China has which the US can't remove. Geographical proximity could translate into savings in shipping costs, quick response and fast delivery which is crucial to a country's standing in the global supply chain.

ASEAN's total trade with China is double that of its trade with the US. As I have explained earlier, ASEAN has a higher degree of economic complementarity with China as compared to the US. ASEAN countries are open economies with export accounting for more than 50% of their GDP. It is, therefore, not surprising that notwithstanding the South China Sea dispute, ASEAN countries tend to lean towards China economically.

China's huge and growing consumer market is projected to double by 2030. According to a McKinsey Report, China's consumer market is expected to grow by about USD6 trillion from 2019 through 2030, which is equivalent to the US and Western Europe combined, or double that of India and ASEAN combined.

China contributed close to 30% to global growth annually in the past decade. Despite external turmoil and visible domestic headwinds due to the sluggish property market, local government debts, and disruptions caused by the zero-Covid policy, China has not been derailed from its economic growth track.

To reduce its dependence on export for growth, China has implemented the "Dual Circulation" development strategy by placing greater emphasis on its huge domestic market to spur growth. As neighbours and with RCEP serving as a facilitator, ASEAN countries could well be integrated into China's "Dual Circulation" to tag on its continued, albeit slower growth.

US is a country thousands of mile away from Southeast Asia. Its interest in ASEAN is mainly geopolitical, thus its relationships with SEA countries are transactional.

As Professor Robert Sutter at George Washington University pointed out, “Despite the Biden government garnering support in its competition with China from Australia, India, Japan, South Korea and Taiwan as well as European and NATO allies and partners, the competition is unwelcome or viewed warily in Southeast Asia. It adds to reasons explaining the recent US decline relative to China in Southeast Asia.”

For China, ASEAN countries are its immediate neighbors; its interest in Southeast Asia is comprehensive, both economic and strategic, and must necessarily be long term.

China has plenty of room for growth as its GDP is approximately 77% of that of the US while its per capital GDP is only about 18% of the US's. Given the size of its economy and growth potential, China's rise unquestionably will bring about both challenges and opportunities for ASEAN.

Going forward, as China continues to grow, it is likely to become economically dominant in ASEAN but certainly not domineering. ASEAN must learn how to live with a giant as its neighbour.

Note: Speech delivered at Webinar “Talking ASEAN – Durian Diplomacy in ASEAN: Future China’s Dominance or a New Door of Opportunities?” Organised by The Habibie Center, Indonesia on October 12, 2022.