

Tightening ASEAN-China Ties: A Corner or A Corridor?

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Abstract—

This paper mainly focuses on the development process and future outlook of ASEAN-China relations. During the past 30 years, China and ASEAN have achieved political, economic, and cultural communication and cooperation, which have had a positive effect on the economic promotion of both sides and the Asia-Pacific region. Given the existing bilateral relations between China and ASEAN countries, there exist both opportunities and risks in tightening ties. China's growing economic and political power may bring low trust ratings in ASEAN, which may paint both sides into a corner. At the same time, ASEAN is also a corridor for Chinese markets and enterprises to reach out to the world. We are willing to witness that both sides will continue to cooperate and exchange ideas and innovations in the future, face the risks, actively seize the opportunities to promote economic development, and bring more benefits to the whole world.

Index Terms—ASEAN, Asia, China, International Political Economy

I. OVERVIEW

The year 2021 actually marked the 30th anniversary of the strong relationship between China and the Association of Southeast Asian Nations (ASEAN). Since the establishment of dialogue between ASEAN and China in 1991, the ties have made considerable progress. During the past 30 years, ASEAN-China relations have grown by leaps and bounds, with remarkable achievements that have brought tangible benefits to more than 2 billion people in 11 countries. The ties have been improved and a comprehensive strategic partnership has been established. With the formal entry into force of the RCEP, the new institutional dividend is further strengthening the economic and trade exchanges between China and ASEAN. In the first quarter of 2020, the import and export scale between China and ASEAN accounted for 47.2% of the foreign trade scale with RCEP trading partners, accounting for nearly half. ASEAN has become China's largest trading partner again.

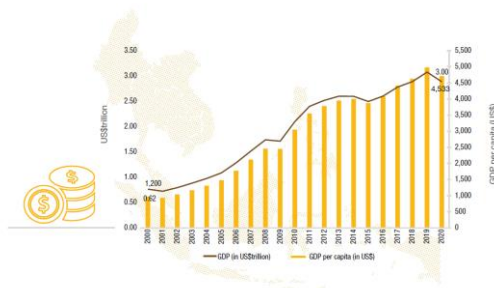
II. DEVELOPMENT PROCESS

ASEAN is a regional group composed of 10 countries in Southeast Asia, which promotes intergovernmental cooperation and economic, political, security, military, educational, and socio-cultural integration among member countries. In July 1991, the 24th ASEAN Foreign Ministers' Meeting initiated the China-ASEAN dialogue process. In 1996, China became a full dialogue partner of ASEAN. In 2003, China established a strategic partnership with ASEAN and took the lead in acceding to the Treaty of Amity and Cooperation in Southeast Asia as an ASEAN dialogue partner. In 2021, China established a comprehensive strategic partnership with ASEAN.

In 1991, the trade volume between the two sides was US\$7.96 billion, reaching US\$684.6 billion in 2020, an expansion of 85 times. Since 2009, China has maintained its position as

ASEAN's top trading partner for 12 consecutive years. And in 2020, ASEAN jumped to become China's top trading partner, forming China and ASEAN were each other's number one trading partners in a good pattern. In the same year, China was the fourth-largest source of foreign investment in ASEAN with US\$7732.62 million flows of inward foreign direct investment. On 1 January 2010, the China-ASEAN Free Trade Area was officially completed, marking the formal entry into the FTA period between China and ASEAN, and the economic and trade relations have been greatly enhanced. By the end of June 2021, the cumulative two-way investment volume exceeded US\$310 billion. ASEAN has become the third-largest source of foreign investment in China and one of the fastest growing regions for Chinese outward investment.

Latest news is that on 20 April 2022, the Shandong-ASEAN Two-Way Trade (RCEP) Online Exhibition was successfully opened. The exhibition would be held from April 20 to 29, with more than 300 enterprises from the province participating online and inviting more than 100 overseas businessmen from Singapore, Indonesia, and other ASEAN countries, covering a wide range of industries such as mechanical and electrical, agricultural products, building materials and consumer goods. Through precise matching, more than 300 one-to-one online negotiations were arranged.



Source: ASEAN Secretariat, ASEANstats database

Figure 1 ASEAN GDP (USD trillion) and GDP per capita (USD) 2000-2020

	GDP growth rate (%)						Annual average
	2000	2005	2010	2015	2019	2020	
Brunei Darussalam	2.9	0.4	2.6	-0.4	3.9	1.1	1.0
Cambodia	8.4	13.6	6.0	7.0	7.1	-3.1	7.2
Indonesia	5.4	5.7	6.2	4.9	5.0	-2.1	5.0
Lao PDR	5.8	7.3	8.1	7.3	5.5	3.3	6.8
Malaysia	8.9	5.3	7.4	5.0	4.4	-5.6	4.6
Myanmar	13.7	13.6	9.6	7.0	6.2	3.2	9.3
Philippines	4.4	4.9	7.3	6.3	6.1	-9.6	4.8
Singapore	8.9	7.5	15.2	2.2	1.3	-5.4	4.6
Thailand	4.5	4.2	7.5	3.1	2.3	-6.1	3.5
Viet Nam	6.8	7.5	6.4	6.7	7.0	2.9	6.4
ASEAN	6.0	5.8	7.5	4.9	4.7	-3.3	5.0

Source: ASEAN Secretariat, ASEANstats database

Figure 2 Real GDP growth rate 2000-2020



source: <https://data.aseanstats.org/trade>

Figure 3 Total visits by origin

ASEAN is growing at a rapid pace, while the relationship between China and ASEAN is getting increasingly stronger. Two sides have achieved tremendous cooperation in trade, tourism, transport, communication, and network (As shown in Fig. 1 and Fig. 2, ASEAN GDP has risen

significantly over the past 20 years. And Fig. 3 shows that in 2020, China became the largest source of tourism for ASEAN).

III. A CORNER IN ASEAN-CHINA RELATIONS

Given the existing bilateral relations between China and ASEAN countries, there exist both opportunities and risks in tightening ties. Diplomatic relations in the post-COVID-19 era are fraught with tension and caution. Of greatest concern is the possibility that China's economy and military could be used to threaten the interests and sovereignty of ASEAN countries, while the framework between ASEAN and China is seen as a "protective wall that prevents the direct exertion of China's massive influence on the small and medium-sized countries of ASEAN". Lower trust ratings among China and ASEAN could paint themselves into a corner. Additionally, coupled with barriers such as tourism and transportation in the post-COVID-19 era, the future development of China's relationship with ASEAN is facing many challenges.

The current state of power competition in the world landscape also poses challenges for ASEAN-China relations, which begs these questions: will the ties struggle to maintain a symmetry framework? Will ASEAN tilt towards China in its alignment? Will ASEAN be threatened by other powers? Not only for China but also for ASEAN countries, there exist trade-offs to be carefully made in the current international situation.

In addition, the implementation of the China Plus One strategy has also allowed ASEAN countries to squeeze out some of the Chinese manufacturing shares. Southeast Asian countries are increasingly striving to become the world's manufacturers of consumer goods. Due to rising labor costs and shortages in China, a China Plus One or China Plus Two strategy is definitely an important part of any major brand buying business. Many Asian countries have a growing middle class and therefore a growing consumer base, which makes it a smarter idea to establish manufacturing in these locations. Even though China Plus One may not pose an immediate and significant threat to mainland manufacturers. The fact that such strategies are discussed endlessly, but rather intensified, shows that the concerns of some companies about the business environment in China are very real.

IV. A CORRIDOR TO THE WORLD

ASEAN is also regarded as a corridor from the Chinese domestic market to the broader global market. This corridor is growing stronger, and the ties between ASEAN-China are getting tighter. Chinese companies can tap on competitive advantages from this corridor, such as manufacturing, retail, garment, and other sectors. For instance, it may be cheaper to produce clothing or footwear in ASEAN compared to that in Europe, the US, or other Western countries. Therefore, producers and businessmen are able to leverage on what has been built up in this corridor to further expand into other parts of the world, trying to enhance their operations to become more innovative and more able to catch up with the new age.

ASEAN is working on some innovations, leveraging on which as best practices replicating in Europe, China, and the whole world. For example, in ASEAN, Singapore has a very supportive regulatory framework, as known as the 'networked state', to communicate with various players and hold out FinTech clients. And in Malaysia, there exists a digital roadmap for the next 10 years. All these innovations and solutions that have been built up in ASEAN can be replicated and applied to the other Western through this corridor.

Due to the lower level of initial adaptivity and scale of Southeast Asia, its growth rate is therefore much faster than that of some western and other Asian economies. There are several macro characteristics in Southeast Asia, one of which is the significant increase in consumers and the growth of the middle class. Chinese enterprises have found that developing a new economy in Southeast Asia is an important way to captivate local consumers. As a result, more

and more Chinese e-commerce and fintech companies are pouring into expanding their business. Therefore, domestic business activities are increasingly growing, and the infrastructure, as well as the logistics industry, are also developing. ASEAN nowadays is regarded as a large economy, but it is obviously different from China or Europe. It is a very diversified market with great differences in internal rules, currency, culture, religion, and history, which is just one of the biggest characteristics of ASEAN's good business environment.

In addition, nowadays many Chinese customers have moved to Southeast Asia, including more traditional industries such as manufacturing, as well as the retail industry developed here for some time. Nowadays, more payment service providers, e-commerce platforms, and other new economy business companies have also begun to pay more attention to Southeast Asia area. The growing younger generation in Southeast Asia creates potential demand. They can use the app well. The growing middle class means more purchasing power. Last year, COVID-19's influence also spawned an e-commerce environment conducive to online shopping. Therefore, different payment environments, as well as regulations themselves, provide many opportunities for Chinese companies to enter the region.

REPORTER	YEAR 2020 DIRECTION		
		Export	Import
ASEAN	1 273 983.57	631 949.46	642 034.11
[99999] TOTAL SERVICES	636 991.79	315 974.73	321 017.06
[A0100] Manufacturing services on physical inputs owned by others	28 732.14	23 138.45	5 593.69
[B0200] Maintenance and repair services n.i.e.	8 518.52	6 363.97	2 154.55
[C0300] Transport	168 113.45	65 971.70	102 141.76
[D0400] Travel	58 373.18	32 642.75	25 730.43
[E0500] Construction services	5 959.03	2 845.54	3 113.48
[E0600] Insurance and pension services	20 571.44	7 614.08	12 957.36
[E0700] Financial Services	45 430.49	33 878.51	11 551.98

source: <https://data.aseanstats.org/trade>

Figure 4 Trade in Services, by Reporting Countries and Major Service Categories (in million USD)

Various markets of ASEAN also provide different advantages. Usually, in Singapore, enterprises can contact global and regional banking partners who know the local market, such as OCBC and DBS. As a special 'networked state' with effective and broad-based partnerships, Singapore's highly coordinated approach to governance is crucial in mediating policy diffusion and the exchange of cross-border resources with other economies, such as FDI and trade in goods and services. In Malaysia and the Philippines, multinational companies are establishing shared service centers, call centers, and logistics centers. Malaysia is a very prominent logistics center, which can well meet the demand for commodity distribution. Vietnam and other markets have a very strong manufacturing industry, and Malaysia also has advantages in the field of chips. Each market has different advantages. As shown in Fig.4, in 2020, ASEAN's total exports and imports exceed US\$600 billion and its role as a corridor to the world is getting stronger.

Last year, more Chinese new economy customers have moved to Vietnam, Indonesia, and other countries, because the latter has a large number of young people and contains business growth potential. In freer markets such as Singapore, there is a mature financial-related infrastructure and regulatory framework, which can provide high-quality guidance for foreign companies entering the region. This is why some Chinese companies are actually considering setting up a regional trade center in Southeast Asia.

On 1 January 2022, the Regional Comprehensive Economic Partnership Agreement, or RCEP, the world's most populous, largest economic and trade agreement with the greatest potential for development, entered into force. Under RCEP, more Chinese companies will enter the cross-market of ASEAN. Different countries have different advantages, and it is more important

to choose countries according to the industries they focus on.

V. FUTURE OUTLOOK AND CONCLUSIONS

Over the past 30 years, China has always firmly supported the unity of ASEAN and the building of the ASEAN Community, supported the central position of ASEAN in the regional architecture, and supported ASEAN to play a greater role in regional and international affairs. China's ASEAN relations have been leading regional cooperation and have become a model of cooperation in the Asia-Pacific region. ASEAN is also a priority direction for China's neighborhood diplomacy and a key region for the high-quality construction of the BRI, bringing benefits for both of them.

For Chinese companies, ASEAN is a region with more potential waiting to be unlocked than other regions. The entire ASEAN is constantly innovating and the financial markets and landscape are continually being renewed. This can be seen to be followed by a trend of bilateral links expanding to triangular and then to the rest of the region. ASEAN is evolving and innovating, which is very exciting, and Chinese clients are actually at the forefront of this and want to get a head start. We have witnessed the cooperation of both sides in trade, tourism, transport, culture, and communication, and we continue to look forward to a stronger and more flexible relationship in the future.

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