

ANALYSIS / ASEAN-CHINA PARTNERSHIP

A blossoming relationship

To mark the 15th anniversary of the Asean-China dialogue, a series of international meetings are being convened in Beijing, leading to the Asean-China Commemorative Summit on Oct 30-31 in Nanning.

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The dialogue between the Association of Southeast Asian Nations and China began in 1991. Few would have then predicted the regional financial crisis or China's becoming an economic powerhouse in the world within a short decade. Fewer would have imagined the blossoming relationship between Asean and China which now spans the strategic, political, security, economic, financial and socio-cultural spectrum.

What are the notable developments in Asean-China economic cooperation and integration?

Exceptional performance: Growth among Asean economies, heady up to the 1997-98 financial crisis, has since been more moderate. China's economic development, meanwhile, has broken virtually all records. Gross domestic product (GDP) of China and Asean was largely comparable in size in the early 1990s. At US\$1,910 billion in 2005, however, China's GDP was more than twice that of Asean's US\$849 billion.

The spillover effects of China's growth have been substantial for the world and regional economies. The prices of many commodities such as gold, mineral oils, copper, iron and steel, rubber, etc, reached record-high levels. China has become the third largest importer (behind the US and the EU) of developing countries' goods. The total import bill was US\$660 billion in 2005, compared to US\$225 billion in 2000 and a mere US\$53 billion in 1990.

Competing problems: But globalisation and the intensified competition for markets and resources inevitably carry risks and tensions, even among friends and partners. China's powerful economic performance, in fact, has given rise to dire predictions of China as a global and regional competitor.

Against that backdrop, Asean and China leaders met in November 2000 to consider the regional implications of China's accession to the World Trade Organisation; China became a WTO member in December 2001. The possibility of establishing a free trade area (FTA) to foster greater cooperation and integration was also examined.

As part of confidence and trust building, Asean and China issued in November 2002 a joint Declaration on the Conduct of Parties in the South China Sea. China became a full dialogue partner of Asean in 1995 but was

the first dialogue partner to accede in October 2003 to the Treaty of Amity and Cooperation in Southeast Asia. This treaty is Asean's concrete showpiece for regional security and stability.

Domino effect: Equally important was the Asean-China Framework Agreement on Comprehensive Economic Cooperation of November 2002. The agreement provides for an Asean-China Free Trade Area (ACFTA) within a decade, the first FTA between Asean and a dialogue partner.

The proposed ACFTA has a domino effect. Asean subsequently entered into other Framework Agreements, including provisions for FTAs, with the Republic of Korea, Australia and New Zealand, Japan and India. Additional FTAs with other trading partners are also on the cards.

The centrality of Asean is thus reaffirmed. So is the imperative of a dynamic and integrated Asean economic region as a player at the centre-stage of regional linkages, including the Asean Plus Three and the East Asian Summit processes.

Dynamic trade: ACFTA is now a reality. The Early Harvest Programme lowers and eliminates import tariffs on selected agro-products during 2004-2006. Tariff reduction or removal under the Asean-China Trade in Goods Agreement started in July 2005 for completion in 2010 by China and Asean-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand), and in 2015 by Asean-4 (Cambodia, Laos, Myanmar and Vietnam).

Mutual inter-dependence is obvious. If sustained, this will make China the largest trading partner of Asean within a decade, another historic milestone in the two-way partnership.

Asean trade with China, at US\$35.3 billion (equivalent to 4.4% of total Asean trade) in 2000, reached US\$114.3 billion (or 10.9%) in 2005. China became Asean's third largest trading partner (after Japan and the EU) in 2005 and Asean China's fifth largest (behind the US, the EU, Japan and Hong Kong Special Administrative Region).

Changing composition: Asean exports to China increased on average by over 46% a year from 2000 to reach US\$52.4 billion in 2005. That was much higher than the annual growth rate of 4.3% in Asean exports to all markets outside China.

Production sharing boosted the value of electronics equipment and parts from 35 to 49% of Asean exports to China between 2000 and 2005. Meanwhile, slower growth reduced the earlier dominance (in the 1990s) of resources-based exports (such as fuels, edible oils, rubber, and forestry and mineral products) from 32 to 28% in those respective years.

Between 2000 and 2005, a rising share in Asean exports to China was

recorded by Singapore, from 34 to 38% (worth US\$19.8 billion) and by Malaysia, from 16 to 18% (US\$9.5 billion). Thailand accounted for a relatively stable export share of just below 18% (US\$2.8 billion in 2000 and US\$9.2 billion in 2005). Despite higher absolute gains, however, Indonesia's export share fell from 18% in 2000 to 13% (US\$6.6 billion) in 2005.

Widening deficits: Data at the Asean Secretariat show a trade surplus in Brunei Darussalam, Indonesia and the Philippines in recent years. Other countries, however, have a variable but growing trade deficit. The overall deficit in Asean trade with China totalled US\$3.8 billion in 2000 and US\$9.6 billion in 2005.

During 2004-2005, Malaysia accounted for almost one-half of the regional deficit, followed by Thailand and Vietnam (around a quarter each). The trade deficits among the less developed Asean members are small in absolute terms but are nevertheless significant relative to their exports to China.

Upgraded capabilities: Electronics and other high-tech products are subject to constant technological and design improvements. They have also enjoyed the fastest growth in an expanding global and Chinese market.

Major firms in China, now the export platform to industrialised countries in the West, account for two-thirds of total research and development (R&D) expenditure. R&D spending in China is to be lifted from 1.34% of GDP in 2004 to 2% in 2010. (R&D outlays in many developed countries are around 2.5% of GDP.)

Product and process innovations in Asean are constrained by limited R&D spending, less than 0.5% of GDP except in Singapore. Meanwhile, ongoing upgrades in technological and business training and incubation have become even more pressing in, and challenging to, the less developed regional economies. Typically, their resources-based and labour-intensive exports are subject to stiffer competition in both the global and Chinese markets.

Surging tourism: Long a major services export of Asean, inward tourism can partly compensate for the merchandise trade deficit. In 2005, Asean hosted 3 million tourists from China, or just 6% of the total of 51.3 million arrivals. According to the World Tourism Organisation, out-bound tourists from China would reach 100 million by 2020. Asean's well-developed and diversified tourism sector should be able to cater to a much larger slice of this huge market.

Singapore, Thailand and Vietnam shared almost equally the 80% of Chinese tourists in Asean in 2005. Malaysia received another 12%. Again, the less developed countries would face a more difficult hurdle in their efforts to attract more Chinese visitors. These made up just 3-4% of all the tourists in Cambodia, Laos and Myanmar in 2005.

Equalizing investment: China's foreign direct investment (FDI) in Asean was modest but trending upward to average US\$210 million annually during 2003-2004. In comparison, global FDI in Asean averaged US\$31.5 billion a year during 2004-2005.

Asean (especially Singapore) is a net investor in China, with annual FDI of US\$3,000 million during 2002-2005. But the investment balance will change. FDI is primarily driven by trade expansion. Besides, China has experienced strong wage pressures and a shortage of experienced workers in several major export industries in the recent years.

Therefore, both Asean-6 and Asean-4 will likely host much larger FDI from China, for example, in natural resources development, manufacturing for the home and export markets, and tourism-related facilities. Some relocation of export-oriented, labour-intensive manufacturing activities from China to Asean can be anticipated as well.

Keystone for progress: In sum, the broadening and deepening of economic relationships between Asean and China will continue to yield plenty of opportunities. These can be charted and nurtured for attractive and sustained commercial returns to both sides.

It would be simplistic, however, to assume a two-way development and integration process which is totally smooth sailing. But political goodwill and a forward-looking approach will remain effective in managing mutual problems in trade and investment liberalisation, domestic structural adjustments and upgrading, and competition in home and third-country markets.

The evidence suggests a strong political commitment at the top leadership level to maintain the centrality of Asean and the vibrant Asean-China partnership as the keystone of regional peace and prosperity. The future is bright with such a common endeavour.

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