



# ASEAN-China Economic Relations

EDITED BY  
Saw Swee-Hock

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**Institute of Southeast Asian Studies  
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# **ASEAN-China Economic Relations**

The **Institute of Southeast Asian Studies (ISEAS)** was established as an autonomous organization in 1968. It is a regional centre dedicated to the study of socio-political, security and economic trends and developments in Southeast Asia and its wider geostrategic and economic environment.

The Institute's research programmes are the Regional Economic Studies (RES, including ASEAN and APEC), Regional Strategic and Political Studies (RSPS), and Regional Social and Cultural Studies (RSCS).

**ISEAS Publishing**, an established academic press, has issued more than 2,000 books and journals. It is the largest scholarly publisher of research about Southeast Asia from within the region. ISEAS Publishing works with many other academic and trade publishers and distributors to disseminate important research and analyses from and about Southeast Asia to the rest of the world.

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# Preface

Under the ASEAN-China Study Programme launched in 2003, the Institute of Southeast Asian Studies (ISEAS) organized the ASEAN-China Forum: Realities and Prospects on 23–24 June 2004. From this forum, a book entitled *ASEAN-China Relations: Realities and Prospects* edited by Saw Swee-Hock, Sheng Lijun and Chin Kin Wah was published in the following year to provide a more permanent source of useful information for a wider audience. Under the same Programme, the Institute of Southeast Asian Studies and the East Asian Institute (EAI) of the National University of Singapore jointly organized the Conference on Southeast Asian Studies in China: Challenges and Prospects on 12–14 January 2006, and a book bearing the title *Southeast Asian Studies in China* edited by Saw Swee-Hock and John Wong was published jointly by the two institutions in late 2006.

The third event under the ASEAN-China Study Programme was the ASEAN-China Economic Forum: Economic Cooperation and Challenges Ahead on 20–21 April 2006. This forum was designed to evaluate the present status, challenges and prospects with regard to the economic linkages and cooperation between ASEAN and China. This book on *ASEAN-China Economic Relations* incorporates not only the revised version of the conference papers in eleven separate chapters, but also four specially commissioned chapters appearing as Chapters 1, 6, 8, and 12 to provide a greater insight into the dynamics of the economic relations between ASEAN and China. The book discusses the economic relations in terms of many important topics such as trade, the ASEAN-China Free Trade Agreement (ACFTA), investments, services trade, energy cooperation, cooperation in developing the Mekong sub-region, China's aid to Southeast Asian countries, developing stronger business networks, and the political dimensions of China's economic relations

with ASEAN. The book, with contributions from specialists intimately familiar with their topics, will be useful to businessmen, analysts, academics, students and policy-makers.

I would like to thank the chapter writers for their excellent cooperation, Mr K. Kesavapany, Director of ISEAS, for his encouragement in the organization of the conference and the publication of the book, and Mrs Triena Ong of ISEAS Publications Unit for overseeing the expeditious publication of the book.

*Saw Swee-Hock*  
*August 2006*

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# 1

## ASEAN-China Economic Relations: A Review

**Saw Swee-Hock**

### **BACKGROUND**

The China phenomenon hardly needs any introduction, except that it is amazingly unabated, growing from strength to strength economically, politically, even socio-culturally. In time to come, some technological breakthrough may happen. By its geographical proximity and historical ties, it is inevitable that the Association of Southeast Asian Nations (ASEAN) is tied to the China factor. To capture the multi-dimensional aspects of ASEAN-China economic relations, the Institute of Southeast Asian Studies hosted the “ASEAN-China Economic Forum: Economic Cooperation and Challenges Ahead” on 20–21 April in Singapore. This edited volume of fourteen chapters contains the eleven revised conference papers and three additional non-conference essays to give it the well-rounded balance.

An overview in this chapter is meant to tease out the main findings and perceptions of each chapter, the details of which deserve the readers’ perusal. It also aims to draw together the common denominators and issues in ASEAN-China economic relations, identifies the areas and topics which deserve continuing research efforts and work in the Institute of Southeast Asian Studies and beyond. The dynamism in both ASEAN and China in the global economy context requires a constant pre-emptive mapping of emerging trends and developments for the future research agenda.

## MAIN FINDINGS

John Wong's insightful consideration of "China's Economy in Search of New Development Strategies" is backed by statistical portrayals from 1990 to 2005. Readers are brought up to speed on China's new spurt of high growth, the present state of the Chinese economy, the need to change gears and re-orient with China's rising international economic profile, sources of growth and need to fix many growth problems. Since China's first debut in the world economy in the early 1990s, the current high growth trajectory has witnessed the "WTO effect" and domestic investment impetus. While the rest of Asia was mired in the 1997 financial crisis, China's 2005 gross domestic product (GDP) almost trebled that of the early 1990s, a testimony of apparently unassailable growth. Garnered with chronic trade and capital surpluses translated into the world's largest foreign reserve holding of US\$854 billion in February 2006, China has gained more than respectability among the advanced First World countries.

Wong sees 2005 as a "curious" turning point. It was no longer the overheating concern of 2004; no landing was required as the "political imperative of high economic growth" for political legitimacy became an overriding aim. Implicitly, urban-rural social issues and more balanced regional development, possible only with high growth, is the unstated agenda. The gear change suggested by Wong is patently clear. More of the same cannot ensure "sustainable growth". A domestic implosion from the peasantry and regions may well arrest the seemingly unstoppable growth phenomenon, while it might have been more a case of institutional and big corporate plots which imploded in Japan. The plight seems inescapable for all leading economies when internal indigestion more than external factors disrupt their economic resilience. China has yet to institute automatic built-in measures for effective "redistribution with growth". For its own sake, it has to pay attention to sustainable growth in terms of its impact on environmental degradation, and also before the negative pollution externalities incur the wrath of the international community.

Whereas China is clearly the growth engine, Linda Low's chapter on "ASEAN in Introspect and Retrospect" views the ASEAN engine with a population of half a billion, as inadequate. Internally, ASEAN's schemes remains unfulfilled, reactive rather than proactive in response. It is challenged in terms of identity and middle-age crisis, both as an organization and as individual states attain industrial maturity and development. Internal issues are glossed over, and considered secondary to external challenges. Yet, ASEAN has to deliver on its many integration dreams tangibly before meeting with China on more equal terms.



ASEAN had some three decades in a region *sans* China and India to plod along and grow, buffered by a generally favourable global economy, fast-tracked by information communication technology. Its expansion into ASEAN-10 is accepted both economically and politically. But its integration and deepening cannot be indefinitely excused by its widening. Low warns that neither the ASEAN monopoly-hegemony nor its buffer role to the West and other East Asian states can persist as ASEAN's birthright. One scenario is ASEAN morphs, but "disappears" into the East Asian Summit even before ASEAN+3 blossoms in full. Another scenario may have ASEAN stand up and punch its weight *vis-à-vis* China, with implicit support from the rest of East Asia and, even the United States. Another scenario adds South Asia and the Middle East to the equation, with both regions going in the same direction of looking East in pursuit of the China market or to recycle petrodollars since the 11 September 2001 terrorist events.

Low concludes that the new China phenomenon plus oil and Islamic economics in the mix is an opportunity for ASEAN, with caveats. ASEAN cannot remain too mired in its domestic issues. It must put more proactive initiatives to both billion-populated China and India. Small city-state Singapore is doing that and recognizes the Middle East signal in warm gestures. It always takes two hands to clap. Government initiatives in economic cooperation are only the bridges which the private sector must cross, and business builds more bridges.

Sarasin Viraphol's "Developing Stronger Business Networks Between ASEAN and China" seconds the role of business. ASEAN business can contribute to the evolution of business enterprises. A case study of Charoen Pokphand (CP) is a study in comprehensive connectivity with China, from its agri-business to big, organized retail business. The CP Group has distinguished itself as the first, and still only ASEAN business involved in China's rural reform. It has both the distinctions of a typical overseas Chinese capital mobilization tradition and a Thai multinational corporation (MNC) in China. Both the CP's traditional culture and nature of agri-business are suited to China's rural drive through private business enterprises. CP seized the opportunity to grow into an integrated, value-added food production system, extending the supply chain into organized retail. China's urban growth, consumerism and rising per capita income commensurate with quality of life makes the CP hypermarket business almost a no-brainer, except that remarkably, it is not only the first, but surprisingly remains the only, comer.

Projecting CP's success onto other ASEAN MNCs to jumpstart China's lagging MNCs is encouraging. ASEAN MNCs are internationally experienced and can be useful allies for China. Besides the overseas Chinese connection,