

## **China-Southeast Asian Economic Relations in the 21st Century: Evolving Features and Future Challenges\***

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### **Abstract**

This paper introduces the evolving features of China-Southeast Asian economic relations since the beginning of the 21st century from the aspects of bilateral trade, cross-investment, and other forms of economic cooperation, and explores the driving forces of accelerating the economic relations of both sides from the different perspectives of global, regional and country level. It analyzes the problems that exist and predicts the opportunities and challenges brought forth to the Southeast Asian countries by China's economic adjustment and large-scale industrial restructuring and rejuvenation programme under the context of global economic recession.

**Keywords:** *China and Southeast Asia, economic relations, evolving features and challenges*

### **1. Introduction**

The 21st century has witnessed evolving characteristics of economic relations between China and its close neighbours – the ASEAN-10 member countries.

The bilateral economic relations between China and Southeast Asian countries have unprecedentedly increased in almost one decade of the 21st

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century from 2000 to 2008. In addition to the booming trade in both goods and services, mutual investment, particularly Chinese investment to its neighbouring countries is also increasing, hence changing the almost “one way” situation in the area. Some other types of economic cooperation, such as tourist cooperation and financial coordination have also been expanding. China is becoming a major source of foreign trade and foreign investment to ASEAN countries and even one of the major sources of foreign aid or assistance to the new ASEAN member countries, in particular Myanmar, Cambodia and Laos. Southeast Asian countries are becoming the tourist destination of the Chinese people, a phenomenon increasingly attracting worldwide attention from the political, academic and business circles.

Complex forces and multifarious factors are contributing to the gaining momentum of China’s growing economic contacts with ASEAN member countries. At the global level, the driving forces of “globalization from above”, as well as the driving forces of “globalization from below”, are recognized as the major impetus in promoting the bilateral economic contacts as China and most of the ASEAN countries are in the World Trade Organization (WTO). At the regional level, various kinds of regional economic cooperation are playing important roles with the implementation of the China-ASEAN Free Trade Area at the centre and the bilateral free trade agreement and sub-regional economic cooperation as the accessories. In addition, the “good neighbour” diplomacy implemented by the Chinese government has also brought about a direct and positive effect on closer China-ASEAN bilateral economic contacts, although this remains debatable since there have been widespread fears that the expansion of China-Southeast Asian economic relations symbolizes the rise of China’s “soft power” (Lum *et al.*, 2008 ), and China’s “charm offensive” (Percival, 2007), which will mostly benefit China, less for Southeast Asian countries, and does harm to US and Japanese economic interests in the region of Southeast Asia.

Facing the resurgence of global trade protectionism worldwide and particularly led by the US, China has set its mind to readjust its economic development and attach importance on two markets, i.e. both the home market and the foreign market, and two kinds of resources, i.e. foreign investment and domestic investment. At the same time, China is starting to launch a large-scale industrial restructuring and rejuvenation programme for ten key industries, and make energetic efforts for progress and innovation in science and technology to promote the development of high-tech industrial clusters and cultivate new economic growth areas. In addition to that, China will put job creation and people’s livelihood at the top of the agenda. The adjustment of China’s economic development strategies and policies will indubitably affect the trade and investment structures of China and Southeast Asian countries, as well as the overall economic cooperation of both sides

and will bring about both challenges and opportunities to the Southeast Asian countries.

This paper is divided into four sections. Section 1 is the introduction of the whole paper. Section 2 introduces the evolving features of China-Southeast Asian economic relations since the beginning of the 21st century from the aspects of bilateral trade, cross-investment, and other forms of economic cooperation such as trade in service, financial cooperation, tourist cooperation as well as China's aid and assistance to the new ASEAN member countries. Section 3 explores the driving forces of accelerating the economic relations of both sides from the different perspectives of global, regional and country level. Section 4 further analyzes the problems that exist and predicts the opportunities and challenges brought forth to the Southeast Asian countries by China's economic adjustment and a large-scale industrial restructuring and rejuvenation programme under the context of global economic recession.

## **2. Evolving Features of China-Southeast Asian Economic Relations in the 21st Century**

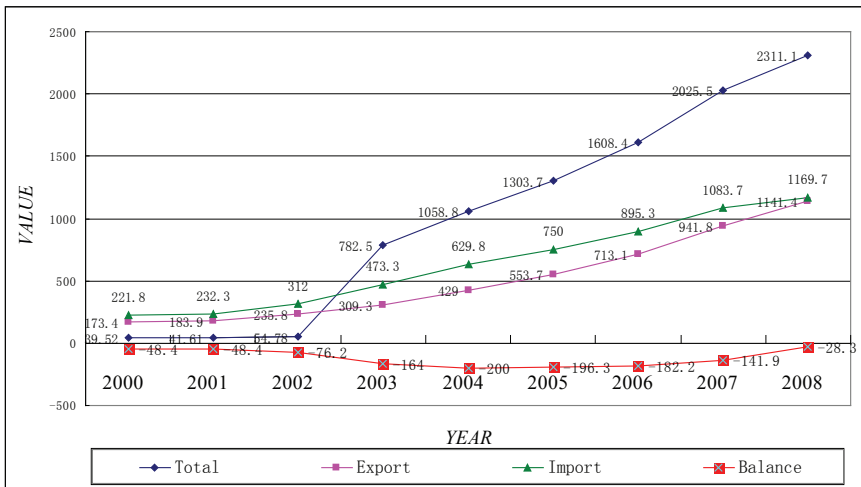
Although the official economic statistics provided by China and Southeast Asian countries are not in common, the booming of bilateral economic relations between China and Southeast Asian countries in the first nine years, from 2000 to 2008, of 21st century is apparent, and that is of great significance not only for both sides, but also for the East Asian region as well as the world.

### ***2.1. Trade in Goods Has Greatly Expanded and Trade Surplus Is on ASEAN's Side***

According to China's official figures, the annual average growth rate of China-ASEAN bilateral trade in the 21st century (from 2000 to 2008) reached 27.5 per cent compared with that of 17 per cent from 1991 to 2000. Figure 1 shows that the trade value expanded from US\$395.2 hundred million in 2000 to US\$2311 hundred million in 2008, with an increase of almost six fold. The ASEAN-10 member countries as a whole enjoyed a hefty trade surplus in their trade with China with rapidly increasing trade surplus from US\$48.4 hundred million in 2000 to a peak of US\$196.3 hundred million in 2005. The total value of bilateral trade exceeded US\$202.55 hundred million in 2007 which has three years in advance to reach the goal of US\$2000 hundred million when the original goal was the year of 2010.

However, affected by global economic recession, the growing momentum of trade has weakened, and it reached a 14.1 per cent increase only of the total value in 2008. The trade deficit on China's side has also diminished to US\$28.3 hundred million due to the worsening of the global economic

Figure 1 China-ASEAN Bilateral Trade, 2000-2008 (US\$ hundred million)



Source: Customs Statistics, National Bureau of Statistics of China, quoted from *China Commercial Yearbook*, 2004-2008.

situation caused by the “overspill” effect of the American financial crisis on the real economy of the Southeast Asian countries, and the bilateral trade of both sides has displayed the sign of sharp shrinking. The Chinese source shows that the total value of bilateral trade in January and February of 2009 reached US\$235.1 hundred million, a decrease by 32.2 per cent compared with the same period of the previous year. Of this, export decreased by 24.5 per cent, whereas import decreased by 39 per cent. Along with this, China’s deficit also fell to US\$0.97 billion.<sup>1</sup>

From ASEAN’s perspective, China is becoming a major trading partner. Using ASEAN data, China ranked as ASEAN’s 5th largest partner, its 5th largest export market and its 3rd largest source of its imports in 2005.<sup>2</sup>

Data from China’s Ministry of Commerce have indicated that ASEAN is China’s fourth largest trading partner after the European Union, United States and Japan in 2008. The share of China’s trade with ASEAN in China’s overall trade rose from 6.0 per cent in 1990 to 8.45 per cent in 2000 and 9.15 per cent in 2008.

## 2.2. Chinese Investment Flow to ASEAN Is Increasing and the Model of “Two Way” Investment Is Coming into Being

In addition to the booming trade, mutual investment of both sides is keeping a steady situation. In spite of the Southeast Asian economies being affected by the 1997 financial crisis for about 5 years till 2002, and suffering some

other tortures such as the avian flu in 2003 and the global economic slump in 2005, the investment of ASEAN member countries as a whole has been steadily growing due to China's sound investment environment and favourable policies, and reached the amount of US\$3.05 billion in 2006 (Table 1). Affected by the American financial crisis which was spreading widely to the world and had engendered strong negative impacts on the real economy of the Southeast Asian countries, investments flowing to China from Southeast Asian countries, particularly the five ASEAN old member countries, were also shrinking. The contract investments in 2007 and 2008 decreased, with those to Indonesia dropping to negative 43.87 per cent and negative 33.82 per cent respectively compared to the previous year. With the same items, those to Malaysia dropped to negative 15.18 per cent and 23.16 per cent, those to the Philippines dropped to negative 43.54 per cent and negative 38.55 per cent, those to Singapore dropped to negative 10.93 per cent and negative 28.52 per cent, and those to Thailand dropped to negative 26.85 per cent and negative 29.11 per cent respectively. Nevertheless, the utilized amounts of ASEAN-5's direct investment to China in 2007 and 2008 were all experiencing a slight increase with a little exception.<sup>3</sup>

With the implementation of China's reform and open-door policy, and encouraged by the "going out" policy of the Chinese government, Chinese investment to the neighbouring countries has apparently been increasing since the mid-1990s, reaching the figure of US\$136.73 million in 1995 – the highlight being 1998 when Chinese investment in ASEAN was US\$291.25 million. Owing to the deterioration of economic fundamentals caused by the financial meltdown and fluctuation of the Southeast Asian economy afterwards till 2002, massive Chinese investment fled away from the region. The statistics provided by the ASEAN secretariat revealed that Chinese FDI to ASEAN as a whole from 1999 to 2001 were only between US\$44.01 million and US\$60.86 million. The figure was even negative in 2002 when Chinese FDI fleeing away from the region reached the amount of US\$157 million.<sup>4</sup>

Under the guidance of the "good neighbour" policy and inspired by the preferential treatments provided in the China-ASEAN Free Trade Agreement, the Chinese companies and corporations are forging ahead to invest in the region with the State-owned corporations taking a lead, and China's FDI in the Southeast Asian countries increased to the amounts of US\$1.5 billion, US\$0.6 billion and US\$2.5 billion in 2004, 2005 and 2006 respectively, and the share of China's FDI in ASEAN was 4.3 per cent, 1.5 per cent and 4.9 per cent respectively.<sup>5</sup> According to China's official statistics, China's accumulated direct investment in ASEAN has reached US\$6 billion by April 2009.<sup>6</sup>

Global economic recession could be preventing for a time China's FDI from flowing to the Southeast Asian countries, but investing in Southeast Asia will inevitably be the primary goal, or the first step for many Chinese

Table 1 Southeast Asian Investment in China under Various Investment Incentive Policies, 1997-2006 (US\$ ten thousand)

Year	Total	Brunei	Myanmar	Cambodia	Indonesia	Laos	Malaysia	Philippines	Singapore	Thailand	Vietnam
1997	342523	9	269	545	7998	39	38183	15563	260641	19400	154
1998	421624	183	511	290	6897	112	34049	17927	340397	20538	1414
1999	327758	18	1101	248	12917	-	23771	11728	264249	14832	13
2000	284228	-	230	194	14694	307	20288	11112	217220	20357	56
2001	298159	10	226	930	15964	104	26298	20939	214355	19421	148
2002	322182	1736	1676	1374	12164	515	36786	18600	233720	18772	251
2003	286932	5260	351	1252	15013	40	25103	22001	205840	17352	331
2004	293570	9605	878	2069	10452	425	38504	23324	200814	17868	114
2005	294130	16039	374	276	8676	-	36139	18890	220432	9590	127
2006	304956	29421	736	212	10068	-	39348	13434	226046	14482	1366

Note: For paid-up capital.

Source: Customs Statistics, National Bureau of Statistics, China. <<http://www.stats.gov.cn/t.js.j/nds.j/>>

enterprises, both State and private, to run business abroad. The two-way investment is indeed taking shape.

### ***2.3. Other Forms of Economic Cooperation Are Vital to Bilateral Economic Growth and Development***

The expansion of economic relations between China and Southeast Asian countries can be seen not only with respect to trade in goods and investment, but also in other forms, including trade in services, financial coordination as well as tourist cooperation.

#### *Trade in services*

According to the Chinese statistics, ASEAN has become China's important destination of export in services, especially in the fields of contracted projects, labour cooperation and design consultation. Table 2 shows that although the turnover of China's trade in services with ASEAN from 2000 to 2006 was not very large, it showed an increasing trend. However, the percentage declined with the expansion of China's cooperation with the other parts of the world. China's export of services is concentrated in the field of construction involving highways, harbours, hydro-electric power plants, thermal power plants, power transmission lines, rural water supply, public markets and the others with the advantages of lower labour costs and high quality.

#### *Financial cooperation*

Financial cooperation of both sides is gaining momentum since the eruption of the 1997 Asian financial crisis which has manifested a new type of cooperation between the two sides. The scope of cooperation has not only concentrated on opening new banks and banks' branches in its counterpart with the aim to facilitate bilateral trade and investment, but also to enrich with providing aid or assistance, even expand to currency cooperation.

In order to avoid the over disturbance of currency such as that caused by the global economic meltdown originated from the American financial crisis, and to promote bilateral trade and investment to boost the economic growth and development of the two countries, the central banks of Malaysia and Indonesia have signed with the People's Bank of China (PBOC) a bilateral currency swap agreement respectively. The agreement allows PBOC and Bank Negara Malaysia to swap 80 billion yuan/40 billion ringgit in three years.<sup>7</sup> With the same aim, the Indonesian central bank also signed an agreement with PBOC for swaps of 100 billion yuan (\$14.65 billion) or 175 trillion Indonesian rupiah over three years, which could be extended by mutual agreement.<sup>8</sup>

Table 2 Turnover of China's Trade in Services with ASEAN, 2000-2006

Year	Turnover with ASEAN (US\$ billion)				ASEAN's Share in China (%)			
	Total	Contracted projects	Labour cooperation	Design consultation	Total	Contracted projects	Labour cooperation	Design consultation
2000	1.92	1.25	0.67	0.01	17.0	14.9	23.7	4.2
2001	2.10	1.27	0.80	0.02	17.3	14.3	25.1	37.8
2002	2.31	1.64	0.66	0.01	16.1	14.6	21.4	13.9
2003	2.30	1.76	0.53	0.01	13.3	12.7	15.9	11.0
2004	2.79	2.23	0.54	0.02	13.1	12.8	14.3	16.8
2005	3.35	2.86	0.47	0.02	12.5	13.2	9.8	7.5
2006	4.40	3.88	0.50	0.03	12.3	12.9	9.2	9.2

Source: *China Statistical Yearbook, 1999-2007*.



In addition to taking an active part in the regional financial cooperation and currency cooperation under the CMI initiative, China has promised to set up a \$10-billion China-Asian investment fund when Premier Wen Jiabao attended the Boao Forum on 19th April 2009 in the southern Chinese province of Hainan. With such encouraging signs, high-level officials and business leaders hope that Asia could ride out the worst financial crisis in decades and lead the recovery in the world.<sup>9</sup>

### *Tourist cooperation*

With the signing of various kinds of treaties or memoranda of understanding regarding tourist cooperation between the governments of China and Southeast Asian countries, the tourist industry between the two sides has been growing very rapidly since the beginning of the 21st century. The effect of the linkage of the tourist industry to economic expansion has already been recognized as an engine for economic growth, especially during the period of global economic recession. Table 3 provides the development of tourist cooperation between China and the five ASEAN member countries from 2003-2006.

With the Chinese yuan appreciation, China has declined as a tourist destination for the world including Southeast Asian countries. In recognition of the linkage effects on economic growth and development, the ASEAN countries have adopted various measures to attract Chinese tourists. The

Table 3 Bilateral Tourist Reception of China and ASEAN-5, 2003-2006  
(in ten thousand person-times)

	Chinese tourists to ASEAN-5				ASEAN-5 tourists to China			
	2003	2004	2005	2006	2003	2004	2005	2006
Malaysia	35.1	55.0	35.2	43.9	59.2	74.2	90.0	91.0
Singapore	56.9	88.0	85.8	103.7	5.0	6.4	75.6	82.8
Philippines	3.6	5.4	3.3	5.2	50.9	54.9	65.4	70.4
Thailand	62.4	77.9	76.2	103.0	38.6	46.4	58.6	59.2
Indonesia	4.1	5.1	11.2	14.7	27.5	35.0	37.8	43.3
Total	162.0	231.3	211.7	270.9	225.9	274.2	327.3	346.7

Sources: Constructed by author; data from China <<http://www.cnta.com>>, Malaysia <<http://www.statistics.gov.my>>, Singapore <<http://www.singstat.gov.sg>>, the Philippines <<http://www.census.gov.ph>>, Thailand <<http://web.nso.go.th/eng/index.htm>>, and Indonesia <<http://www.bps.go.id/index.shtml>>.

Philippine Department of Tourism (PDT) has targeted China as one of the priority markets. In order to catch up with its neighbours, PDT opened the first Philippine tourism office within the Philippine embassy in Beijing on July 18, 2004. The tourism attaché of the Philippine embassy in Beijing deals with tourism and travel-related services.

#### *Aid and assistance*

In addition to the above-mentioned areas of cooperation, China has provided various kinds of aid and assistance to the Southeast Asian countries with no conditions. For the less-developed ASEAN new member countries, China's aid or assistances are mostly devoted to the building of infrastructures such as railroads, highways and the facilities for market access, etc. China provides agricultural technologies and sends Chinese technical personnel to the Philippine-based International Rice Research Institute to provide volunteer training programmes and this has earned admiration of Filipinos.

### **3. Exploring the Driving Forces for the Expansion of China-Southeast Asian Economic Relations**

A proliferation of studies have ascribed the fast expansion of China-Southeast Asian economic cooperation to the Framework Agreement on Comprehensive Economic Co-operation to create the China-ASEAN Free Trade Area within 10 years signed in November 2002, and the Agreement on Trade in Goods and the Agreement on Trade in Services signed by both sides of ASEAN and China in November 2004 and January 2007 respectively afterwards (Zhao, 2007; Vaughn and Morrison, 2006; Lum, Morrison and Vaughn, 2008). Nevertheless, a painstaking study will find that much more important forces are boosting the advancement of bilateral relations.

#### ***3.1. "Globalization from Above" and "Globalization from Below" Are the Driving Forces in Boosting China-ASEAN Economic Relations***

The first and most important reason for the rapid growth in bilateral trade and investment is the fact that China and most of the ASEAN member countries are members of the WTO, World Bank and International Monetary Fund (IMF), and "globalization from above" and "globalization from below" are the driving forces in boosting China-ASEAN economic relations.<sup>10</sup>

After fifteen years of tough negotiations on terms and conditions of membership, China was finally admitted to the WTO in November 2001. George W. Bush, the former US president, spoke in a news conference in Beijing on 21st February 2002, "China, as a full member of the WTO, ...

will have the right and responsibility to fashion and enforce the rules of open trade” (Chan, 2002). China’s membership of the WTO carries heavy duties and responsibilities which were laid down in detail in a legal document some 900 pages long. There are some commitments directly related to the opening of foreign investment, cited as follows:

To allow all its enterprises to import and export all goods, and trade with them throughout the customs territory with limited exceptions, within three years of accession; to stop maintaining or introducing any export subsidies on agricultural products; many of the restrictions that foreign companies have at present in China will be eliminated or considerably eased after a three-year phase-out period. China has to adopt non-discriminatory practices and to increase transparency in business transactions in accordance with WTO rules and regulations.

As China has completed its transitional period as a WTO member at the end of 2006 after its five years in the WTO, China’s entrepreneurs (including the joint ventures, state corporations and small and medium enterprises) could have easy access to the world market, but China’s domestic market has also already been opened widely to the world. This has brought opportunities to merchants and entrepreneurs of China and the world, as the average statutory tariff rates in China dropped sharply after China’s accession to WTO with the tariff rates, simple and weighted, of all products dropped from 16.6 per cent and 12.0 per cent in 2001 to 9.8 per cent and 6.8 per cent respectively in 2006. Of these, primary products dropped from 21.6 per cent and 17.7 per cent to 13.2 per cent and 3.6 per cent respectively, and manufactures from 16.2 per cent and 13.0 per cent to 9.5 per cent and 6.9 per cent (Ianchovichina and Martin, 2004). Taking advantage of geographical contiguity, the trade of both sides increased.

Except Laos, the nine ASEAN member countries have all joined the WTO. Although Myanmar, Brunei and Cambodia have not been active in the WTO, the ASEAN-5 (Singapore, Malaysia, Thailand, the Philippines and Indonesia) are relatively well integrated into the WTO, and take an active part in WTO committees and working groups although in the multilateral track. They are also applying the tariff level which they have pledged while accepting as members of the WTO. The simple average applied rate for Singapore is zero, while those for Malaysia, Thailand, Indonesia and the Philippines are 9.2 per cent, 16 per cent, 7.3 per cent and 5 per cent respectively (Sally, 2004).

Benefiting from the liberalization and facilitation of trade and investment through the government’s efforts of de-institution, various kinds of corporations, including multinational enterprises (MNEs) and transnational corporations (TNCs) as well as national trading or investment corporations, whether big, small or medium, are plunging into cross-border economic

activities that increase rapidly the value of the bilateral trade and cross-investment between China and Southeast Asian countries. They are the major driving forces “from below” in boosting China-ASEAN economic relations in the process of searching for sites of sources and markets and in pursuit of the best and cheapest products throughout the region with an aim to get the maximum profit.

### ***3.2. Various Kinds of Regional Economic Cooperation Are Playing an Important Role in the Expansion of Bilateral Relations***

The first and foremost factor might be the implementation of the China-ASEAN Free Trade Area (CAFTA) mentioned by many scholars both at home and abroad (Zhao, 2007; Lum, Morrison and Vaughn, 2008; Vaughn, 2006). However, one might overestimate the efficiency of CAFTA if one gives attention to the regulation covering the Rules of Origin (ROO) in the China-ASEAN Free Trade Agreement, which is in fact a stumbling block, or a barrier in the facilitation of the bilateral trade between China and ASEAN at this moment.

As a vital component in bilateral economic treaties including CAFTA, the Rules of Origin is a measure that sets the condition under which a good is considered to have origin in a partner country with at least 40 per cent local content requirement, referring to both a single country and cumulative ASEAN content. If a product does not satisfy the ROO criteria then it is deemed to be originating from a third country and cannot be traded under the CAFTA. Though this is done to prevent non-members of CAFTA from taking advantage of differential external tariff rates imposed by both sides, it adds a lot of workloads and needs painstaking efforts to coordinate with the customs from both sides actually augmenting the costs of the enterprises. Some fieldworks and interviews did in China, particularly in Xiamen of Fujian Province, showed that Xiamen entrepreneurs have paid little attention to ROO. The latest figure from China’s Ministry of Commerce has also confirmed that though the number of forms regarding the ROO issued by China’s related institution and the contracts signed involving ROO have increased by 33.2 per cent and 12.1 per cent respectively from January to April 2009 in comparison with the same period of previous year, the value of Chinese exports to ASEAN covering ROO in 2009 was only 6.4 per cent, an increase of 1.9 per cent of that of 2008.<sup>11</sup>

Border trade and sub-regional cooperation actually play a key role in improving China-ASEAN economic relations. For instance, the cooperation of China with the other six Mekong countries started in 1992 under the mechanism of the Asian Development Bank has expanded to the construction of infrastructures, exploration and management of water conservancy,

agricultural cooperation, environmental protection, trade and investment cooperation, development of human resources, and tourist cooperation. GMS countries are the first choice for the Chinese investors from southern China to invest abroad.

Some new models of cooperation have greatly encouraged transnational investment, such as the China-Singapore Suzhou Industrial Park (CS-SIP), one of the bases of Singapore's trans-border industrialization which was officially launched on May 12, 1994. The Singapore model, as applied to CS-SIP, envisaged a large-scale project to facilitate institutional innovation, with autonomy from the aspects of local government control and investment in administrative practices or software development. After several years of construction, investments began to pour in. By the year 2006, CS-SIP has attracted over 1300 foreign companies and 6500 domestic companies, accounting for a cumulative contractual foreign investment of US\$15 billion and cumulative contractual domestic investment of RMB30 billion. Its tenant profile includes not only Singaporean and Chinese investors but also a significant proportion of American and European investors (including 50 Fortune 500 companies), with some 73 per cent of the investments directed into electronics, information technology and other high-tech segments.

### ***3.3. "Good Neighbour" Diplomacy Implemented by Chinese Government Has also Brought about Direct and Positive Implications for China-ASEAN Bilateral Economic Contacts***

At the first ASEAN+3 summit held in Malaysia in December 1997, China and the Southeast Asian countries agreed to "promote good neighborly and friendly relations, increase high-level exchanges, strengthen the mechanism of dialogue and cooperation in all areas to enhance understanding and mutual benefit."<sup>12</sup> Since that time, China has made great efforts to demonstrate its good neighbourliness and friendship to the countries of Southeast Asia. In the economic aspect, the Chinese government advanced and signed with ASEAN the framework of China-ASEAN Free Trade Area with the intention to let ASEAN countries enjoy economic benefits earlier than other developed countries after its WTO entry. With the reluctance of the small and medium private enterprises investing abroad, the State-owned companies and corporations or the private consortiums which have some official background or have close relations with the government are actually taking the lead in answering the call even at a loss while trading with or investing in China's neighbouring countries.

Taking Chinese investment in the Philippines as an example, except for the Manila Branch of the Bank of China and the China Commodity Inspection Corporation, there are 24 big State-owned or private corporations

breaking their way to invest in the Philippines in just the recent years, listed as follows:<sup>13</sup>

1. Geo-Engineering Corporation
2. China Kuang Ye Non-Ferrous Metal Ltd. Liability Co. Phil.
3. China Electric Power Technology Import & Export Corp.
4. China Harbour Engineering Company (Group)
5. China International Water & Electric Corp.
6. China CAMC Engineering Co. Ltd.
7. China National Technical Import and Export Corp.
8. China Non-Ferrous Metal Industries Foreign-Engng & Construction Co. Ltd.
9. China Road & Bridge Corporation
10. China Shipping Manila Agency Inc.
11. China Southern Airline.
12. China State Construction Engineering Corp.
13. China Wuyi Co. Ltd. (Phils)
14. COSCO Philippines Shipping Inc.
15. Dalian Bingshan Grp. Import & Export Co. Ltd.
16. Huaxia Motor MFG. & Trading Corp.
17. Harbin Power Engineering Corp.
18. Holley Int'l Phil. Office
19. Hunan Road & Bridge Construction Group Corp.
20. Huawei Technologies Phils. Inc.
21. Philippines Dong Yun Platemaking Corp.
22. TCL Sun Inc.
23. Xian Electric Engineering Co. Ltd.
24. ZTE Corporation

Chinese investment has made up the shortage of Philippine FDI caused mostly by its domestic political instability. COSCO Philippines Shipping Inc. is going to invest US\$3.6 billion in the Philippines as this might be the “political assignment” assigned by the central government of China. It is a fact that doubts would arise whether such kind of investment could be sustainable.

## **4. Problems and Future Challenges**

### ***4.1. Problems in China-Southeast Asian Economic Relations***

In spite of the rapid expansion of China-Southeast Asian economic relations, many problems exist and will continue to be discovered if more careful studies are undertaken.

Firstly, unbalanced structure exists in both the areas of trade and investment. Singapore, Malaysia and Thailand are the major trading partners of China; they occupied about 2/3 of the total value of China-ASEAN trade, with the percentages of 66.3 per cent, 65.6 per cent, 65.7 per cent and 63.3 per cent respectively in the years of 2004, 2005, 2006 and 2007. China's trade turnover with the rest of seven ASEAN member countries was only about 1/3 (Table 4).

Not only Southeast Asian investment in China, whether in the form of contracted amount or utilized amount, is small, the major source of investment actually comes from Singapore. Malaysia and Thailand are in the second and third places. The investments from other ASEAN countries are very small that can even be neglected according to China's official statistics (Table 5). Taking into account the investment-led trade, one can understand that the expansion of China-Southeast Asian bilateral trade is in fact brought about by the inter-trade within the corporations of Sin-Ma-Thai set in China.

Secondly, a lot of trade between China and the region is often double counted, and the value is exaggerated, especially for those intra-industrial goods containing electronic products, crossing borders more than one time. This double counting is estimated to be as high as 30 per cent of the total trade between China and the ASEAN member countries. In the China-Singapore trade, entrepot trade accounts for 46 per cent of China's export to Singapore, 40 per cent of Singapore's export to China (Sheng, 2007; Percival, 2007). Lacking training and good services in evaluating whether the products are 40 per cent using the native materials as required under CAFTA, some exporters took advantage of the low tariff rates, thus expanded illegally the bilateral trade. Adding to this, taking into account China's total trade expansion after its accession to the WTO, the percentage of the turnover of China-ASEAN trade in the total trade of China with the world has been stable at around 7.2 per cent to 7.7 per cent from 2002 to 2007<sup>14</sup>, and one could imagine that the bilateral trade which ought to be beneficial to the livelihood of the people is virtually decreasing.

Thirdly, analysis of the structures of China's imports and exports with ASEAN countries showed that the relationship is not the one of the colonial nature, which has shown the feature of horizontal division of labour. The five major imports of China from ASEAN are: integrated circuit, computers, plastic, crude oil or edible oil, and rubber in 2003, 2005 and 2007. In the same period, the five major exports of China are: textiles, finished oil products, steel or plastic, computers, grain or costume. Nevertheless, at least three major commodities overlapped in import and export will again raise the questions of sustainability when taking into consideration the interference by the Chinese government in trade with its neighbouring countries. Free trade pact of "earlier heavies" concluded by the government of Thailand in

Table 4 Trade Value of China and ASEAN-10 Member Countries, 2003-2008  
(US\$ ten thousand)

	2003			2004		
	Total	Export	Import	Total	Export	Import
China in total	85120729	43837082	41283647	115479162	59336863	56142299
Brunei	34616	3389	31227	29894	4789	25105
Myanmar	107724	90771	16953	114549	93859	20690
Cambodia	32065	29465	2600	48243	45250	2993
Indonesia	1022905	448075	574830	1348050	625686	722364
Laos	10943	9823	1120	11353	10088	1265
Malaysia	2012782	614115	1398667	2626112	808677	1817435
Philippines	940011	309381	630630	1332783	426893	905890
Singapore	1935228	886853	1048375	2668392	1268729	1399663
Thailand	1265529	382823	882706	1734321	580157	1154164
Vietnam	463432	317852	145580	674280	426084	248196
	2005			2006		
	Total	Export	Import	Total	Export	Import
China in total	142207194	76195341	66011853	176068645	96907284	79161361
Brunei	26087	5314	20773	31494	9963	21531
Myanmar	120925	93485	27440	146007	120742	25265
Cambodia	56333	53603	2730	73289	69780	3509
Indonesia	1678790	835037	843753	1905709	945031	960678
Laos	12893	10338	2555	21837	16872	4965
Malaysia	3070253	1060635	2009618	3711229	1353735	2357494
Philippines	1755765	468763	1287002	2341260	573833	1767427
Singapore	3314870	1663226	1651644	4085431	2318538	1766893
Thailand	2181116	781930	1399186	2772660	976417	1796243
Vietnam	819582	564390	255192	995054	746463	248591
	2007			2008		
	Total	Export	Import	Total	Export	Import
China in total	217383301	121801452	95581850	256163205	142854571	113308634
Brunei	35488	11273	24216	21843	12956	8887
Myanmar	206204	169098	37106	262601	197846	65755
Cambodia	93281	88173	5019	113335	109443	3891
Indonesia	2500895	1261143	1239752	3152141	1719162	1432978
Laos	26244	17741	8503	41552	26815	14738
Malaysia	4639808	1769058	2870750	5346945	2137527	3209419
Philippines	3061574	750005	2311569	2857957	907788	1950168
Singapore	4715686	2963805	1751882	5243661	3230021	2013540
Thailand	3463901	1197447	2266454	4125287	1560539	2564748
Vietnam	1511746	1190150	321596	1946450	1512151	434299

Sources: China Customhouse, data of 2003-2007 quoted from *China Commerce Yearbook*, published by *China Commerce Yearbook* Editor Committee in 2004, 2005, 2006, 2007, 2008; data of 2008 quoted from *International Trade* (Beijing), No. 2, 2009: 70.



Table 5 ASEAN-5's Investments in China, 2005-2008  
(US\$ ten thousand)

	2005					
	Number of Projects	Increase (%)	China's Total (%)	Utilized Amount	Increase (%)	Total (%)
China in total	44109	0.81	100	7240569	19.42	100
Indonesia	128	4.92	0.29	8676	-16.99	0.12
Malaysia	371	5.4	0.84	36139	-6.14	0.5
Philippines	190	-21.16	0.43	18890	-19.01	0.26
Singapore	1217	-4.85	2.76	220432	9.77	3.04
Thailand	147	-9.26	0.33	9590	-46.33	0.13
	2006					
	Number of Projects	Increase (%)	China's Total (%)	Utilized Amount	Increase (%)	Total (%)
China in total	41485	-5.76	100	6946761	-4.06	100
Indonesia	115	-10.16	0.28	10068	16.04	0.14
Malaysia	336	-9.43	0.81	39348	8.88	0.57
Philippines	147	-22.63	0.35	13434	-28.88	0.19
Singapore	1189	-2.3	2.87	226046	2.55	3.25
Thailand	108	-26.53	0.26	14482	51.01	0.21
	2007					
	Number of Projects	Increase (%)	China's Total (%)	Utilized Amount	Increase (%)	Total (%)
China in total	37892	-8.69	100	8352089	14.86	100
Indonesia	68	-40.87	0.18	13441	25.79	0.16
Malaysia	285	-15.18	0.75	39725	-11.96	0.48
Philippines	83	-43.54	0.22	19532	37.29	0.23
Singapore	1059	-10.93	2.79	318457	29.3	3.81
Thailand	79	-26.85	0.21	8948	-39.78	0.11
	2008					
	Number of Projects	Increase (%)	China's Total (%)	Utilized Amount	Increase (%)	Total (%)
China in total	27514	-27.35	100	9239544	23.58	100
Indonesia	45	-33.82	0.16	16725	24.43	0.18
Malaysia	219	-23.16	0.8	24696	-37.83	0.27
Philippines	51	-38.55	0.19	12687	-35.05	0.14
Singapore	757	-28.52	2.75	443529	39.27	4.8
Thailand	56	-29.11	0.2	12921	44.4	0.14

Sources: Data of 2005-2007 quoted from *China Commerce Yearbook*, published by *China Commerce Yearbook* Editor Committee in 2006, 2007, 2008; data of 2008 quoted from *International Trade* (Beijing), No. 2, 2009: 69.

2003 was considered an experimental arrangement of CAFTA, and both sides agreed that tariffs on more than 200 items of vegetables and fruits would be immediately eliminated. Under the agreement, Thailand would export tropical fruits to China while winter fruits from China would be eligible for the zero-tariff deal. The expectations of mutual benefit evaporated after a few months, however, with Thai and Chinese commentaries admitting that both China and Thailand got a bad deal.

Last but not least, due to the lack of knowledge of the political complexion of Southeast Asian countries, or the neglect of the natural order, some of the China's aid and assistances to Southeast Asian countries though without conditions and maintaining "non-interference in domestic affairs" have not reached the original goal of having good relations with, and bringing peace and prosperity to China's neighbouring countries. On the contrary, some foreign aid experts, non-government organizations (NGOs) and local people have criticized Chinese aid for failing to promote democracy, sustainable development and environmental conservation (Lum, Morrison and Vaughn, 2008). Chinese labour has somewhat not been very much welcome by its neighbouring countries, and has sometimes even been met with resistance of the local people in some of the Southeast Asian countries who regarded it as a threat to local employment. Some of China's State-owned companies could not accommodate well with local conditions while investing in Southeast Asian countries.

#### ***4.2. Opportunities and Challenges of China's Economic Adjustment and a Large-scale Industrial Restructuring and Rejuvenation Programme under the Context of Global Economic Recession***

Global economic meltdown has put China's economic growth and development in a critical moment confronting severe challenges. In facing the resurgence of global trade protectionism worldwide, particularly led by the US, China has set its mind to readjust its economic development strategies. While consolidating and strengthening the position of agriculture as the foundation of the economy, and accelerating and promoting energetically the transformation of the pattern of development, China is starting to launch a large-scale industrial restructuring and rejuvenation programme for ten key industries such as the automobile, steel, shipbuilding, petrochemical, textile, nonferrous metal, equipment manufacturing, information technology, modern logistics, and light industry. China decides to make energetic efforts for progress and innovation in science and technology to promote the development of high-tech industrial clusters and cultivate new economic growth areas.

The re-emergence of global trade protectionism led by the US, the former bugler of global trade liberalization and facilitation and the economic

calamity occurred due to the over innovation in finance have warned again the Chinese government should attach importance on two markets, i.e. both the home market and the foreign market, and two kinds of resources, i.e. the foreign and the domestic. The direct impact of the crisis on unemployment in an unprecedented scale has also urged the Chinese government to put job creation and people's livelihood at the top of the agenda.

The adjustment of China's economic development strategies and the launching of the industrial restructuring and rejuvenation programme for ten key industries will indubitably affect the trade and investment structures of China and Southeast Asian countries, as well as the overall economic cooperation of the two sides and will bring about both challenges and opportunities to the Southeast Asian countries.

## Notes

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1. China Ministry of Commerce, quoted from the Economic and Commercial Counselor's Office of the Embassy of Malaysia, 2009-03-19.
  2. Ranking for 2006 was not available.
  3. China's Ministry of Commerce, quoted from *International Trade*, No. 2, 2009.
  4. Data compiled from the respective ASEAN central banks and central statistics offices.
  5. Data compiled from the respective *China Statistical Yearbook*, 1994-2007, and *World Investment Report 2007*.
  6. China News Agency, April 10, 2009. <<http://news.sohu.com/20090410/n263303579.shtml>>
  7. "China's central bank signs currency swap agreement with Malaysia". <<http://waiyu.kswchina.com/jryy/zh/yd/459190.html>>
  8. Source: Xinhua, 2009-03-24.
  9. "Boao Forum for Asia wraps up" (*chinadaily.com.cn*). <[http://www.chinadaily.com.cn/china/2009-04/20/content\\_7695435.htm](http://www.chinadaily.com.cn/china/2009-04/20/content_7695435.htm)>
  10. The convergence pressures for liberalization and facilitation of trade and investment stemmed from three major international institutions, IMF, World Bank and WTO, as well as the US Treasury, could be regarded as the forces of "economic globalization from above". The forces of "economic globalization from below" stand for international market actors including transnational corporations and domestic enterprises.
  11. "China's enterprises using actively the preferential policies of China ASEAN Free Trade Area", *Global Business*, May 22, 2009. <<http://www.unsbiz.com>>

12. "Joint Statement of the Meeting of the Heads of State/Government of the Member States of ASEAN and the President of People's Republic of China", 17th December 1997.
13. Data from the Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in the Republic of the Philippines. <<http://ph.mofcom.gov.cn/static/column/zxhz/zzjg.html/1>>
14. With the exception of 2008, the percentage is 8 per cent.

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