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China-ASEAN Economic Relations: Retrospect and Prospect

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Abstract

China's and ASEAN's relationship goes all the way to the latter's formation in 1967, unfortunately on opposite sides of the Cold War. China itself was domestically focused and had little interest in Asian regionalism. But a series of political developments brought about warming relations between the parties. The last decade of the 20th century saw China participate in the ASEAN Summit and become ASEAN's dialogue partner. Economic ties also blossomed, with China launching the China ASEAN Free Trade Area. Within a decade, China would become ASEAN's top trading partner. But ASEAN is of value to China beyond economics. First it needs a friendly southern neighbour. And as a latecomer to Asian regionalism, China is happy to settle for ASEAN centrality. With the US-China trade war still unresolved, ASEAN will be unwilling to take sides. However, far from "decoupling," ASEAN will be drawn further into China's economic embrace.

Keywords: China, ASEAN, regionalism, centrality, liberalisation

Introduction

Cordial or otherwise, China's relationship with ASEAN goes back a long way. ASEAN was born in 1967 at the height of the Cold War primarily to resolve differences among several decolonized Southeast Asian countries but also as a bulwark against the West's perception of the advancing tide of Communism, the strategy being through economic development of the member states. The context for the so-called ASEAN Declaration, signed in Bangkok on August 8, 1967, was the effort by its members to contain the influence of Communism within their borders. Malaysia had to contend with the armed insurgency by the Malayan Communist

Party. Conflict between the Indonesian military and the growing Partai Komunis Indonesia (PKI) led to the mass killings of 1965–1966 and was eventually resolved by Suharto's "New Deal."[1] Earlier in the Philippines, the government had to deal with former *hukbalahap* militants who rioted in Luzon.[2] Of course the main story at the time was the ongoing Vietnam War and its threatened "domino effect."

But while dealing with the Communist threat dominated discussion around ASEAN's formation, it was but one of several milestones in China-ASEAN relations. This paper gives a fuller account of the evolution of these relations, arguing that the China-ASEAN relationship has become more important than ever in light of recent developments. It looks at the circumstances surrounding the improved relations between China and ASEAN and the impact especially on ASEAN. The inauspicious beginning was replaced by warming relationships in the last decade of the 20th century, with the improving relations continuing into the present century. Two recent developments, one the U.S. launch of its trade war against and threat of decoupling from China, and second the spread of the global pandemic that was first reported in China but was also brought under control first by China has given some hope of global recovery led again by China. These developments have brought about changing dynamics in the China-ASEAN relationship. This discussion is augmented by a look beyond economic relations and to suggest some lessons ASEAN can offer China's approach to regionalism.

An Inauspicious Beginning to China-ASEAN Relations

ASEAN came into being during troubled times. The newly independent nations of Southeast Asia lost little time in aligning themselves with either bloc during the Cold War. Of the countries that were to form ASEAN (the ASEAN6), the Philippines and Thailand allied themselves with the Western Bloc by hosting military and airbases from U.S. troops participating in the Vietnam War. Malaya, soon to become Malaysia in 1963, though not involved in the Vietnam War, had to deal with an insurgency led by the Malayan Communist Party, which opposed the negotiated independence with Britain, adopted from the outset a pro-West stance. This left Indonesia which laid claim to being "non-aligned" but conflict between the Indonesian Military and the PKI which led to the slaughter of several hundred thousand of PKI sympathisers, left-wing intellectuals, as well as innocent people. China must not have been pleased with these developments. Despite its "peaceful coexistence" pledge at the Bandung Conference in 1955, China had hoped that these newly independent countries would, if not align ideologically with it, adopt a "non-aligned" stance and not side with the West (He et al., 2019).[3]

But China should really not be too surprised at the stances adopted by these nations. Prior to the formation of ASEAN. Several attempts had been made to establish regional organisations that were anti-Communist. Arguably the first among these was the Association of Southeast Asia (ASA) established in July 1961 until superseded by ASEAN in 1967. Consisting of the Federation of Malays, the Philippines and Thailand, it was an organisation with an "ideological

alignment … with the West" (Pollard, 1970: 244). Two years later, in 1963, came Maphilindo, the Greater Malayan Confederation, an international defense organisation to unify the Malay peoples of Southeast Asia. However, it floundered because of significant problems among the three countries, one of which was the attempt by Indonesia and the Philippines to scuttle the formation of Malaysia (de Viana, 2015). Even prior to these arrangements, the Southeast Asian Treaty Organisation (SEATO) had been established as a defense pact with the primary objective of blocking any further Communist advance in Southeast Asia. Despite its name, most members were not Southeast Asian.

But Southeast Asian nations had more pressing challenges than the Communist threat. The Federation of Malaya effort to form a larger Malaysia was opposed by both Indonesia and the Philippines. Indonesia saw its creation as a British ploy to remain in control even after Malaya became independent, and then President Sukarno launched a series of low-key armed incursions mainly in East Malaysia (Mackie, 1974). For its part, the Philippines laid claim to Malaysia's Sabah (formerly British North Borneo) as the successor state of the Sultanate of Sulu on the basis that the territory was only leased to the British North Borneo Company. Malaysia disputed that claim, arguing that the Sultanate ceded the territory to Britain (Malindog-Uy, 2020). Two years after the formation of Malaysia Singapore in August 1965 left the Federation of Malaysia on account of political, economic, and racial differences between the ruling parties of Malaysia and Singapore to become the independent Republic of Singapore (Lim, 2015). It was primarily to resolve these differences as much as to halt the spread of Communism that ASEAN was formed.[4]

Whatever ASEAN's motives for formation, China's attention at the time was domestically focused. Since the establishment of the People's Republic, China was plunged into the Korean War that required the use of much of its material and human resources. That War ended in a stalemate in 1953. Domestically, challenges attended Mao's Great Leap Forward (1958–1962) and the Cultural Revolution (1966–1976) (Shimizu, 2011). With respect to Asia, its enthusiasm for regionalism was dampened by several factors. First, as indicated, China was disappointed with the failure of Southeast Asia's newly independent countries to align themselves ideologically with it or at least remain neutral or "non-aligned." It also harboured grave mistrust of the Chinese overseas who had overwhelmingly supported the Nationalist government both financially and even in terms of human resources in its pursuit of the anti-Japanese war. Further, as a latecomer to regionalism, all major multilateral institutions – the IMF, World Bank and Asian Development Bank – had been organised and their rules and regulations set by the Western powers; China's role was limited to being just a part of the system. Finally, with ASEAN nations themselves in the early days of diversifying their production and moving towards export promotion, there was little basis for economic engagement, even in the absence of Cold War barriers.

The Tide Turned

This lack of interest in the rest of the world had to end when Deng Xiaoping liberalized the Chinese economy. Deng side-lined Mao's "leaning to one side" strategy and launched his "opening up (to the world) policy". Liberalisation brought with it the drive for economic growth through exports. Global markets became areas of focus. But it was specific events that brought to the fore the importance of regionalism as a policy stance for China.

Around the time of Deng's liberalisation, an opportunity arose to China and ASEAN (then with 6 members) to share a policy stance. This was opposition to Vietnam's invasion of Cambodia. This common stance, several years after the U.S. departure from Southeast Asia, provided some policy space for a coming together between Chinese and ASEAN policy-makers.

Then, in 1989, the Tiananmen incidents during which China's military was deployed to suppress a demonstration saw international condemnation but especially the Western powers which also imposed sanctions. Were these measures imposed by all countries, China could have been isolated. Southeast Asian countries, by then members of ASEAN, did not join in this censure, which gave China some assurance that such criticism would not spread to its southern neighbours (Milner, 2018).

Another opportunity for China to co-ordinate with ASEAN arose during the Asian Financial Crisis which hit Thailand in July 1997. Among ASEAN countries, Indonesia, Malaysia, and Thailand were quickly overwhelmed; even economically robust Singapore was not spared. China with its economy still relatively closed to the outside world was not much impacted, but to offset falling exports, rumours were awash that it could devalue its currency. Such a move would have dire consequences for the exports of the crisis-impacted countries, whose currencies had already been decimated by the Crisis. Recognising the need for better co-ordination in times of crisis, and an opportunity to earn plaudits from crisis-hit countries, China moved quickly to assure these countries that it would not devalue, in the process earning it more gratitude than competitor Japan which actually volunteered, through the Miyazawa Plan, funding to stabilise crisis-hit economies (Richardson, 1999).

China Warms to ASEAN

This period began with diplomatic relations established between China and the remaining ASEAN member countries Indonesia and Singapore in 1990. With the Cambodian crisis almost over, China's ties with Laos and Vietnam were also normalised. China came to realise that it needed to have friendly relations with ASEAN, with U.S. allies Japan and South Korea located just to China's east. Cultivation of ties with ASEAN therefore proceeded with China's participation in various ASEAN fora. In 1991 China participated in ASEAN's Summit, and in 1996, it became ASEAN's Dialogue Partner. Ngeow (2019) reported on China's accession to ASEAN's Treaty of Amity and Cooperation and participation in ASEAN-led regional security structures like the ASEAN Regional Forum, ASEAN Plus Three (APT), and the East Asian Summit.

Further, in a region where "face" matters, China has also been careful to respect ASEAN's importance in regional affairs, as with the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) Agreement and APT, and in sending top leaders, invariably the Premier, to ASEAN-China Summits. This stands in sharp contrast to U.S. representation under various administrations that led Christensen (2015) to observe that during the George W. Bush administration the U. S. did not always attend at the highest level regional gatherings of which it was a full participant.

But it was during this period that the Asian Financial Crisis struck Indonesia, Malaysia, Thailand, and South Korea (Breslin, 2010). It became clear to China's leaders about the linkages between the Chinese and global economy. In addition, competitive devaluation of the Renminbi would have triggered further devaluations of local currencies. China holding the line on its currency earned considerable praise from the affected Asian economies, even though it was Japan, through its proposed Asian Monetary Fund, which offered actual financial resources. Finally, remedies imposed by the Bretton Woods institutions were seen by Asians as the West superimposing its neo-liberal ideology on Asian developmental states. For once, Asian, including ASEAN, states pushing back against U.S. hegemony resonated with Chinese unease over what it perceived as the U.S.-imposed unipolar world order. The Asian Financial Crisis therefore provided a strong impetus for Asian regionalism.

Equally significantly, China launched in 2002 the China-ASEAN Free Trade Area (CAFTA) in recognition of the growing volume of trade between China and ASEAN countries. This brought a response from Japan and Korea with the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) in 2008 and the ASEAN-Korea FTA (AKFTA) in 2010. But more than AJCEP and AKFTA, CAFTA is recognition of the growth of ASEAN-China trade, which far exceeds intra-ASEAN trade, as clearly shown in Table 1. China is among the top destinations for exports and imports of ASEAN countries. Taken together, China ranked as the top trading partner of 8 of the 10 ASEAN member countries in year 2017. China's economic relations with ASEAN finally emerged as major pillars of the relationship, both bilaterally and regionally.

Table 1
China's Importance in the Trade of ASEAN Countries, 2017

Country	Export destination	China's rank as Import source	Trading partner [a]
Brunei	>5	1	4
Cambodia [b]	>5	1	1
Indonesia	1	1	1
Lao PDR [b]	1	2	2
Malaysia [c]	2	1	1
Myanmar	1	1	1
The Philippines	4	1	1

Country	Export destination	China's rank as Import source	Trading partner [a]
Singapore [c]	1	1	1
Thailand [d]	1	1	1
Vietnam [b]	2	1	1

Notes: a. Trade refers to the sum of exports and imports.
b. Lao People's Democratic Republic (Lao PDR) 2016 data, from World Integrated Trade Solutions (WITS), World Bank Group.
c. 2018 data from government sources. The positions have not changed since 2017.
d. Based on United Nations COMTRADE database, reported in *Trading Economics*.
Source: Cheong and Yong (2019): Table 2.

In the area of foreign direct investment (FDI), China was not a major investor, its investment focus mainly in energy resources and technology. But this changed as China embarked on its Belt and Road Initiative (BRI) strategy in 2013. Thus, Table 2 shows that although Chinese FDI is but a small proportion of total FDI, it is rising fast, especially between 2015 and 2017, although dropping in 2018 and 2019. As a proportion of intra-ASEAN FDI, however, it amounted to 50% or more in 2017 and 2018. For some countries like Malaysia, it is the largest among all foreign direct investors (see Gomez, 2020). The same was true for Lao PDR and Cambodia where Chinese FDI accounted for 79% and 26% of total inbound FDI in 2018 (ASEAN Secretariat, 2019a). As the BRI recovers from the Covid pandemic and all countries make progress towards recovery, Chinese FDI is expected to recover, given the huge demand for infrastructural investment.

Table 2
Chinese FDI and as Shares of Total FDI, ASEAN, 2013–2019

	Inbound FDI ($ billions)			China FDI as % of:	
Year	China	Intra-ASEAN	Total	Intra-ASEAN FDI	Total FDI
2013	6.16	18.46	120.97	33.4	5.1
2014	6.81	22.18	130.11	30.7	5.2
2015	6.57	20.82	118.67	31.6	5.5
2016	11.27	24.99	114.59	45.1	9.8
2017	15.50	25.89	155.02	59.9	10.0
2018	12.24	24.25	153.12	50.5	8.0
2019	8.90	22.07	158.86	40.3	5.6

Source: ASEANStatsDataPortal, 2018

Beyond Economics

But China's relationship with ASEAN goes much further than economics. ASEAN figures prominently in China's current approach towards regionalism. This approach needs to take into account its attempt to play a major role as a latecomer to regionalism and the attendant challenges it faces in its quest for de facto if not formal leadership. These challenges include the pre-existing role of ASEAN and its attempt to retain its "centrality" through the many geo-political shifts and changes in recent times, a concept ASEAN deems vital to its existence.

In the early days of China's participation in the globalisation process, the country paid scant attention to regionalism, leaving the U.S., ASEAN and others to dominate that policy space. After all the organisational framework and "rules of the game" were all set by Western powers especially the U.S. But it soon realised that to be a part of the multilateral world was important. But multilateralism without playing a major regional role and making regional policy makes little sense. It needs to make its mark as a regional power. But as a latecomer regional power, it faces major challengers.

As China began to focus on its regional role, it found that the field was already filled with key actors all of which had some claim to lead the region. First, from outside Asia but as part of the Asia Pacific, the U.S., despite its exit from Vietnam in 1975, remains the reigning hegemon and unwilling to yield its mantle to any other power, especially China. It has sought to maintain its position through various means – including redefining the region through broadening its geographic coverage from East Asia to Asia Pacific as from the East Asia Summit to Asia Pacific Economic Cooperation (APEC) before it had its ally Australia to pick up the initiative (Akranasee, 2014). More recently, together with its allies Australia and Japan, together with India, it promoted the concept of "Indo Pacific" that Das (2019) characterised as "a construct of contested interpretation." It lumps together the Indian and Pacific Oceans, and is operationalised by agreements like the Quadrilateral Security Dialogue[5] (QUAD) that exclude China, with the intention to dilute China's influence.

Quite aside from this "ganging-up" of powers concerned with China's rise, Japan itself had legitimate claims in playing a leadership role in this part of the world. Just after it recovered from the Pacific War, its industries made major FDI first in South Korea and Taiwan, its former colonies, then to developing Southeast Asia, in the manner of Akamatsu's (1962) flying geese. Many of its industries, in electronics, automotive and textiles, still exist in these countries today. FDI by Japanese firms eventually tapered off as Japan entered its lost decade. But with China's surge of trade ASEAN, Japan would find it difficult to claim leadership, although it would not be happy to conceded leadership to China.

Then there the multilateral institutions operating in Asia, the IMF, the World Bank and the Asian Development Bank, which function on neo-liberal rules in an international order defined by the U.S. Until the establishment of the Asian Infrastructure Investment Bank in 2015, these institutions were the primary sources of multilateral project financing for the region.

And last but not least, there is ASEAN, which had been in existence since 1967. As a regional organisation, it had survived the U.S. withdrawal from Southeast Asia, the collapse of the Soviet Union, and the economic liberation of Communist regimes, making adaptations along the way and relying on diplomacy not only to survive but also expand from 6 to 10 nations. Composed of no more than middle powers, the organisation pushes its role of "centrality" in which it insisted to be part of any major developments that affected Asia. Insistence on its centrality necessarily means that ASEAN must be guaranteed a seat at the table in any big-power move. This insistence is not without reason, although its relevance is greater the more compact in the region. In expanding the region's definition, the U.S. and its allies are seeking to dilute its significance.

Of the members of the QUAD, while Japan is prepared to accept ASEAN centrality neither the U.S. nor India showed particular interest in the concept. Indeed, in minimising ASEAN's relevance, not just centrality, some even argued that the U.S. should just ignore ASEAN (Lohman, 2015). For its part, even India's concept of Indo-Pacific – that of both Indian and Pacific oceans occupying a single policy space – is at variance with ASEAN's which is two contiguous oceans with ASEAN at its centre (Sinderpal, 2021)

Unable to assume the role of regional leader and given the many contestants, none of which was acceptable to China, China readily endorses ASEAN's centrality, seeing that the ASEAN concept involves no outside powers especially the U.S. The best example of this recognition is to have ASEAN orchestrate the massive recently concluded Regional Comprehensive Economic Partnership (RCEP). But other countries in Asia are less respectful of this centrality. Thus, the countries of the QUAD have roped in external partners in their Quad Plus Dialogue, these partners being Indonesia, the Philippines, Singapore, Taiwan, France and Sri Lanka (Smith, 2020). Thus, if the QUAD has its way, not only would there be no centrality, even the existence of ASEAN would also come under threat. Realising this threat, ASEAN issued its policy statement "ASEAN outlook on the Indo-Pacific" in 2019 in which ASEAN centrality was stressed as a precondition for the group's endorsement.[6]

ASEAN's Lessons for China

Despite the disparity in size, ASEAN does offer some lessons for China, starting from the Shanghai Cooperation Organisation (SCO), in its quest to establish an international order different from what the West has to offer. This is on account of ASEAN's greater longevity as a regional organisation as well as the diversity of interests of its members, reflecting both historical and cultural differences that the organisation had to navigate in order to survive and grow. What emerged from these experiences was a blend of regionalism quite different from the rule-based regionalism of the European Union that has been held up as a shining example of success. Indeed, the ASEAN model has been unfavourably compared with its EU counterpart (Bara, 2014, Heydarian, 2019). Yet the same weaknesses had been touted as strengths (McCarthy, 2017).

Because of the diversity of historical and cultural experience, ASEAN has had to live with many compromises to ensure its survival. What has emerged is a flexible institutional system and soft diplomacy that, despite its time-consuming processes, is a strength instead of a weakness. Thus Milner (2018) concluded that its norms of peaceful resolution of differences, decision-making by consensus via the famous "ASEAN Way" and non-interference in members' internal affairs have helped ASEAN resolve many thorny issues, in particular managing the contentious South China Sea dispute and the opening up of Myanmar since 2008. On the South China Seas dispute, Milner complimented ASEAN on "the patient and sometimes skillful diplomacy" that had been employed.

China's adoption of ASEAN norms is reflected in the first regional organization, the SCO, that it co-sponsored with Russia. The "Shanghai Spirit" of resolving differences amicably mirrors "the ASEAN Way" of decision by consensus. Similarly, adherence to the principle of non-interference in countries' domestic affairs that is applied in the SCO mirrors what has been practised in ASEAN.

But China's behaviour is also in line with a theory proposed by Yan Xuetong (2019) of Tsinghua University – that of moral realism – in which, looking at China's history, political leadership by those who display high morality was more likely to meet with success and enjoy national prosperity (Krivokhizh and Soboleva, 2017).

Quite apart from being the next best alternative, ASEAN centrality is attractive to China in its own right. While as a region, ASEAN is not against the U.S. or major powers as members, the fact that ASEAN insists on "centrality," i.e., it being the pivotal organisation for Asia means that even with membership, major powers cannot dominate the Association. This suits China well as it is fully aware that it does not want a regional organisation closely allied to the U.S. at its southern doorstep to add to two U.S. allies, Japan and Korea, off its northeast coast. For this reason, China has been extremely careful in its diplomatic dealings with ASEAN to recognise its centrality. And to the extent that some proposed regional initiatives, such as the Indo-Pacific, may bypass ASEAN centrality, they are not likely to receive ASEAN endorsement.

A final attraction for China with respect to ASEAN is the importance of economic integration. As noted, ASEAN member states count China as among their top trading partners. Numerous supply chains link ASEAN countries with China. And with the coming of the BRI, ASEAN is also becoming a major FDI destination. Much more than strategic or diplomatic ties, economic ties offer considerable stability in regional relations. This is an area that China also relies on in establishing BRI relations.

Postscript – the U.S.-China Trade War

A final observation relates to what happens to China-ASEAN relations with the onset on the U.S.-launched trade war. Involving a broad range of trade, the trade war has the potential to affect China-ASEAN trade if not economic relations. In particular, the U.S. threat to "decouple"

from China signifies its intention to pull at least U.S. companies out of China. For ASEAN countries, this may mean the relocation of some U.S. companies or companies producing for the U.S. to ASEAN countries. It may also cause some Chinese companies to move their operations out of China to, say Cambodia. Given the rising wage costs in China, the question is: quite apart from those companies intending to relocate anyway, how likely are the trade-war induced relocations to occur? This is a question that is difficult to answer. Clearly, those companies with final markets in China will not move, nor will technology companies like Apple which are attracted by China's depth of human capital, especially in the Greater Bay Area.[7] Few areas in the world outside China can match the resource endowment of the Bay area. Companies that are likely to relocate are those planning to leave anyway and those where cheap labour costs matter. With talent pools that cannot match China's, ASEAN countries are likely to pick up the more labour-intensive companies that do not add much value added. In the longer run, home-bound Chinese talent will drive China's technology further ahead of ASEAN countries'.

As a postscript, a final question may be posed: what is the future of China-ASEAN relations? While ASEAN nations will continue to be unwilling to back one side of what promises to be a long-term contest, there is no question that ASEAN is gradually drawn into China's economic ambit. For China's part, ASEAN offers the promise of a potentially lucrative new market for its enterprises with strategies and the skills to take advantage of the domestic market into which to expand.

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Notes

1 See Bevins (2017) for an account of the US complicity in the 1965-66 killings.

2 The Hukbalahap was a socialist/communist guerrilla movement formed by the farmers of Central Luzon to fight the Japanese, but extended their fight into a rebellion against the Philippine government, known as the Hukbalahap Rebellion, in 1946 (Bautista, 1952).

3 This strategy did not outlast the Bandung Conference very long. China was soon to revert to its strategy of ideological struggle.

4 The media continues to stress the defense against Communism role (see for instance SCMP Reporter, 2019); China could only participate.

5 The Quad is an informal strategic forum between the US, Australia, Japan and India that is maintained by summits, information exchanges and military drills, the intention being contain China's economic and military expansion.

6 It is stated that "ASEAN leaders have agreed to further discuss an initiative that reinforces the ASEAN-centered regional architecture…" (ASEAN Secretariat, 2019b: p.1)

7 The Guangdong-Hong Kong-Macao Greater Bay Area consists of nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province. The total area is 56,000 square km and the total population is around 70 million in 2017.