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China's Emerging Economic Relationship with Southeast Asia

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Historical Legacies

The structure and pattern of China's economic relations with the countries in Southeast Asia which now constitute the Association of Southeast Asian Nations (ASEAN), have been shaped by a range of complex forces. Apart from such trade-inducing structural factors as rapid economic growth and economic complementarity, history and geography have played a distinctive part in China's economic relations with the ASEAN region. Traditionally, "Southeast Asia" as a broadly defined geographical region lying to the south of China across a wide expanse of the South China Sea, was referred to as *Nanyang* (or literally "south sea") by the Chinese. China's relations with the individual states in the *Nanyang* have naturally been extensive, with a strong root in the past.

China's early contacts with the individual states in the ASEAN region can be traced back to ancient times, even though significant relations in terms of more substantive trade flows were to occur much later, after the influx of Chinese migrants into the region. Numerous historical records can serve to show that by the Sung Dynasty (960–1280) Imperial China had already established firm tributary relations with many states in the region, with Chinese traders frequenting Java, Borneo, Malacca and the Philippine archipelagoes. Chinese maritime activities in the *Nanyang* culminated in the famous expeditions by Admiral Zheng He (Cheng Ho) in the 15th century [Ho Ping-Yin 1935; Purcell 1965].

Much of the early Chinese commercial involvement with the *Nanyang* stemmed directly or indirectly from the traditional tribute system which was in fact the main diplomatic vehicle by which Imperial China conducted its inter-state relations with the non-Chinese societies in accordance with its concept of "Chinese world order."[1] The tribute-bearing missions were also convenient "cloak for trade" [Fairbank 1953: 32]. They were, however, never intended to be a device with which China would seek to impose political and economic domination over its weaker Southern neighbours. There was simply no political incentive nor the economic imperative for the Chinese Imperial Court to mount such costly

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1) See Fairbank [1968], especially Wang Gungwu [*ibid.*].

colonizing undertaking. It is therefore no coincidence that historically none of the present six ASEAN states had ever been under Chinese rule. Except for Singapore by virtue of the preponderance of its ethnic Chinese population, these societies did not even fall into the so-called Chinese culture area in the sense of being influenced by the mainstream Chinese civilization as contained in the Confucian system of government, as did Korea or Vietnam.

It is not only that China's early contacts with the various states in the *Nanyang* did not lead to outright Chinese domination of the region. But also, Chinese early commercial activities in the region, though brisk at times, were basically small in scale and represented largely uncoordinated individual efforts, nothing comparable to the level of operations later mounted by the much more enterprising European powers, which sought to systematically colonize the region for the purposes of controlling raw materials supplies and securing market outlets for their manufactured products. In contrast, traditional China, with a static economy of high self-sufficiency (the so-called "high-level equilibrium trap"[2]) and reinforced by the anti-commercial prejudice of Confucianism, was simply not oriented towards any serious economic interaction with the outside.

By the middle of the 19th century Western imperialism spread to the shore of China, which was itself forced to open its door to Western trade and influence. Meanwhile, the Chinese, mainly from the coastal provices of Guangdong and Fujian, began to flock to Southeast Asia in large numbers in order to escape political chaos and economic hardship at home.

To be sure, Chinese settlements were already well established in various parts of Southeast Asia before the arrival of the Europeans. As the Europeans later colonized the Southeast Asian states and developed their mining and plantation sectors, a large number of hard-working labourers were in demand, which could not be met by indigenous sources. This operated as a "pull" force for the influx of the Chinese immigrants to the region. The Chinese immigrants were usually put in the intermediate position under the Western colonial structure (e.g. the Dutch "Culture System" in Indonesia), being segregated from both the ruling elite and the indigenous population. While the Chinese were barred from participating in the modern sector activities such as plantation agriculture, mines, finance and export trade, which were dominated by the Europeans, they were also prohibitated from owning and cultivating land. The openings left for them were in retail trade, money-lending and other middleman roles, which did not endear them later to the local people once they obtained their independence. The nationalists, in particular, tended to view the ethnic Chinese as handmaidens of Western colonialism. The problem was further aggravated by the slow process of assimilation of the Chinese into their

2) For further discussion of this concept, see Elvin [1953].

host countries, partly because of the strong propensity of the Chinese to maintain their cultural identity and partly due to some religious obstacles, e.g. the difficulty of the Chinese to adopt the Muslim religion.[3]

Admittedly, an exception can be made for the Chinese in Thailand which, not being a colony before and having introduced no colonial policy of polarizing the Chinese from the local population, had therefore been much more successful in integrating its ethnic Chinese into the mainstream of the Thai society. The process of assimilation was also facilitated by the closer racial and religious affinity between the Chinese and the Thai. Nonetheless, it is true that Thailand is almost alone among the ASEAN states today which does not face a "problem" from its Chinese minority mainly because it has not subjected them to prolonged economic and social alienation.

Suffice it to say that the conspicous presence of the ethnic Chinese communities in Southeast Asia today constitutes the most lasting legacies of the centuries-old contacts between China and various states in the region. Historically the ethnic Chinese had made a distinct contribution to the economic progress of the states in Southeast Asia. As mostly merchants and entrepreneurs, the Chinese in Southeast Asia were also instrumental in the development and expansion of the two-way trade between China and Southeast Asia. But in modern times they had also presented problems to China by complicating its overall relations with the region. During the 1950s and the 1960s, the "overseas Chinese" issue frequently cropped up to precipitate a diplomatic confrontation between China and Indonesia. Today it is still a thorny problem that could potentially poison China's existing relations with Indonesia and Malaysia. Particularly in Indonesia, anti-Chinese sentiments have been so deep-seated that outbreaks of anti-Chinese riots were frequently touched off by small incidents, and the last one to flare up was as recent as in the early 1980s. In fact, Jakarta has often made use of the "overseas Chinese" issue as one of the official excuses to rationalize its delay in normalizing relations with Beijing.[4]

By comparison, the Philippines and Thailand have successfully tackled their ethnic Chinese problem through assimilation so that it no longer stands in the way of their bilateral relations with China. Over the years China has also taken serious steps to defuse the "overseas Chinese" issue as a political liability in its foreign policy. Chinese leaders visiting the ASEAN region have always urged the ethnic Chinese to take up citizenship of their residence and abide by local laws. In setting up diplomatic relations with the individual ASEAN countries, Beijing has also made a point of stressing that Chinese government would no longer consider those ethnic Chinese

3) For further discussion of the overseas Chinese in Southeast Asia, see Purcell [1965]. This is still the best work on this subject. See also, Lim and Gosling [1983].

4) For a good discussion of the Chinese in Indonesia, see Mackie [1976: introduction]. Also, Suryadinata [1978].

who have taken up local citizenship to be Chinese nationals. More significantly, the Chinese National People's Congress passed a new citzenship law in September 1980, to the effect that "no dual nationality will be recognized for any Chinese national."[5] In legally preventing overseas Chinese from retaining Chinese citizenship, Beijing has seriously attempted to lay to rest the "overseas Chinese bogey" once for all. Nonetheless this is an historical burden not just on China but also on the states in Southeast Asia, and more time is needed to take it off from their back.

Political and Ideological Dimensions

Foreign economic relations even among states based on similar economic and social systems are seldom confined to pure economic affairs alone. They are likely to be the outcome of politics interacting with economics [Spero 1985]. The elements of politics are even stronger in a relationship involving a socialist and a non-socialist economy because the state apparatus in the socialist economy is involved in every aspect of its external operations.[6]

In its dealing with the smaller states to its south, China is apt to be influenced by some dominant geo-political considerations. But such considerations were not apparent in China's traditional relationship with the ASEAN states in the past because China was then too weak to conduct its independent foreign economic policy. Following the formation of the People's Republic of China in 1949, however, the pattern of Sino-ASEAN relations took a radical turn as complex political and ideological factors came into play. The New China, marked by a strong revolutionary impulse and the proselytising Marxist-cum-Maoist ideology, soon came to be perceived by some ASEAN countries as threat, real or imagined, to their own security. This gave rise to two decades of Cold War relations between China and ASEAN, with a lot of twists and turns. Their trade patterns and other forms of contacts were accordingly distorted. It was not till the early 1970s with the advent of detente to the region, sparked off by President Nixons's visit to Beijing, that individual ASEAN countries started their long and often tortuous course of normalization of relations with China.

Apart from international detente, domestic developments in China has also contributed to the drastic change in China's overall relations with ASEAN. After the fall of the "Gang of Four" in 1975, Beijing started to re-emphasize economic growth and launched the Four-Modernization Programme. Accordingly, economic and social liberalization measures were introduced. The most important shift was the move from the Mao's autarkic line of "self reliance" to the "open-door" policy in order to allow the Chinese economy to enter into greater

5) See "China to Bar the Holding of Dual Nationality," *Straits Times*. Singapore. September 3, 1980.

6) See, e.g., Wiles [1968]; and Wilcznyski [1969].

interaction with the world economic forces in terms of foreign trade and foreign investment. After the return to power of Mr. Deng Xiaoping in 1978, the open-up process was further intensified, culminating in the introduction of vigorous economic reforms in late 1984 and the extension of the "Special Economic Zone" sector in early 1985.[7] But the transformation in recent years was not just confined to the economic sectors: it has indeed spilled over to every aspect of life in China. In fact, the changes have been so drastic as to touch off student unrest in December 1986, leading to the downfall of the Chinese Communist Party's General Secretary, Mr. Hu Yaobang. The event signalled for a slower tempo of reforms and liberalization rather than a return to the old Maoist policy line. The reforms have simply gone so far that it is not possible for China to reverse them. Such sentiments were amply reflected in the Sixth National People Congress held in April 1987.

Suffice it to say that China today has gone a long way in its political, economic and social liberalization, providing it with the flexibility needed to engage in constructive dialogue, or to enter into serious development cooperation, with the ASEAN states on a non-ideological basis. Accordingly the evolving Sino-ASEAN economic relationship has all the promises of operating on fresh assumptions to be largely free from their past political-cum-idological implications. How will the ASEAN states respond to the new trends in China? What will be the shape of China's emerging relationship with the ASEAN region? It is necessary to go back into the historical background of China's bilateral relations with the individual ASEAN states from 1949 onwards, when the New China began to exert its geo-political influence on the region.

Among the ASEAN countries, Indonesia has certainly had the unique experience with China spreading over three decades. Indonesia was the first country in the region to recognize the People's Republic of China right after it was proclaimed in October 1949. During Sukarno's "Guided Democracy," China had developed a close relationship with Indonesia, marked by frequent visits of dignitaries as well as exchange of visits by Heads of State from both sides. In fact, China and Indonesia at the zenith of their intimate relationship in the middle of 1965 actually came close to forming a sort of "Beijing-Jakarta Axis."[8]

But Beijing little realized that its apparent solidarity with the Sukarno regime was actually built upon a soft foundation, which had all along been plagued by the continuing rivalry between the Indonesian Communist Party (Partai Kommunis Indonesia, or PKI) and the Indonesian army. China also had to deal with the ethnic Chinese in Indonesia, which

7) For brief backgrounds to the recent economic reforms in China, see Xu Dixin *et. al.* [1982]; Feuchtwang and Hussain [1983]; and Wang [1982].

8) For an excellent analysis of Sino-Indonesian relations during this period, see Mozingo [1976].

became a political liability for both Beijing and Sukarno. In the event, the Beijing-Jakarta alliance was brought to a violent end by *Gestapu*, the September 1965 coup in Indonesia. The coup provided the Indonesian army an excellent chance to seize power and liguidate the PKI by force; but it also led to the suspension of the formal diplomatic relations between China and Indonesia.

Today, some two decades on, Indonesia has not re-opened its severed diplomatic ties with China. In 1971, following the first signs of Sino-American rapproachement, Indonesia's then Foreign Minister, Adam Malik, declared that Indonesia would also welcome restoration of relations with China and was taking certain initiatives towards that end. During the past decade and a half, there were a number of occasions when Jakarta could have mended ties with Beijing; but each time the chance was deliberately allowed to slip by.[9] The latest occasion for such a rare opportunity to arise was in April 1985 when Chinese Foreign Minister, Wu Zueqian, went to Indonesia for the 30th Anniversary Commemorative meeting of the Bandung Conference. But Indonesia's President Suharto chose only the resumption of direct trade with China, not the re-establishment of diplomatic relations.[10] By early 1987, even the powerful security quarter, which hitherto was most vocal in opposing to the normalization of relations with China for its alleged complicity in the 1965 abortive coup, conceded that the time was ripe for such normalization.[11] But President Suharto is still adamant on this issue.[12] Consequently, Indonesia remains virtually the only major Third World country without an official representative in Beijing, which is a kind of anomaly by itself.

In July 1985 the Indonesian government issued the Presidential Decree (*Inpres* No. 9/1985) to officially endorse the resumption of direct trade between Indonesia and China which was negotiated by the Indonesian Chamber of Commerce and Industry (KADIN) and the China Council for the Promotion of International Trade (CCPIT).[13] Jakarta's move was in part a response to the economic need of diversifying its non-oil exports, including the development of new markets with the socialist economies. According to the Indonesian figures, Indonesia officially exported US$8 million in goods to China in 1984 and imported $224 million, largely through Hong Kong. But the actual total two-way trade for 1984 could be $500 mil-

9) For a detailed analysis of the Sino-Indonesian diplomatic impasse, see Wong [1984].

10) See "Wu-ing Suharto." *Far Eastern Economic Review*. May 23, 1985.; also, *Asian Wall Street Journal*. May 22, 1985.

11) See "Indonesia Will Not Renew China Ties." *Straits Times*. Singapore. March 28, 1987.

12) During the recent election campaign, officials of the small Democratic Party of Indonesia demanded government to review its China policy. But the chairman of Indonesia's ruling Golkar, Mr. Sudharmono, declared that the new cabinet to be appointed in 1988 would not change its existing China policy. *Straits Times*. April 18, 1987.

13) For more discussion of the recent trade relations between China and Indonesia, see Hadi Soesastro [1986].

lion.[14] After the exchange of trade missions in the middle of 1985, both sides agreed on the further increases in their direct trade. Sino-Indonesian relations have now developed in the direction where economic relations are taking precedence over political relations, with the importance of formal diplomatic links being relegated.

In contrast, the Philippines and Thailand took a different approach to China. Both have strong historical ties with China, and both are geographically closer to China. But both took a hard-line policy towards China after its Communist revolution. As a truly close anti-Communist ally of the United States during the Cold War period, the Philippines had refused to have any form of contact with any socialist country. Prior to 1971, the Philippines showed no records of direct trade with China. The detente, though slow in coming, actually moved fast. In 1971, President Marcos signed the Presidential Executive Order No. 384 to legalize trade with socialist countries. Scarcely four years later, China rose to become one of the top ten trade partners of the Philippines. The final impetus for the Philippines to conclude rapprochement with China came from the drastic change in Indochina. Less than two months after the fall of Vietnam, Marcos was in Beijing to formalize diplomatic ties with China. Ever since the Philippines have been on cordial terms with China.[15]

In recent years, there has been hardly even a ripple in the Sino-Philippine relationship, in part because the Philippines was too preoccupied with its own internal crises due to economic recession and political transition.

Thailand was another "late developer" of detente with China; but the normalization process, sparked off by China's "Ping Pong Diplomacy," also produced quick results on trade. All through the 1950s and the 1970s, Thailand, which played host to the Southeast Asian Treaty Organization, was a firm supporter of the American policy of "containing China." Trade with China was officially banned by Field Marchall Sarit Thanat's 1958 Decree No. 53. The single most important event that had precipitated Thailand's decision to finalize diplomatic ties with China was also the political transformation of Indochina. Following the steps of Marcos, Thailand's Prime Minister Kukrit Pramoj went to Beijing to conclude diplomatic relations with China on July 1, 1975.[16]

Thailand of all the ASEAN countries currently enjoys the best relations with China. As a frontline state facing the expansionist Vietnam, Thailand happens to share China's similar strategic apprehension over Vietnam. Apart from sending arms to Thailand, China even pledged to defend Thailand should she be attacked by Vietnam.[17] On the

14) See "Jakarta Ponders Push for Peking Trade." *Asian Wall Street Journal.* August 23–24, 1985.

15) See Wong [1984] for detailed discussion of Sino-Philippine relations.

16) See Wong [1984] for detailed discussion of Sino-Thai relations.

17) Chinese Army Commander General Yang Dezhi made such a statement during his recent visit to Thailand. "Pledge from China to Defend Thailand." *Straits Times.* January 19, 1987.

economic front, however, Thailand's trade with China in recent years has hit a snag, not just because its growth has come near to the saturation point in its present context, but also because it has run into structural imbalance for Thailand. With the exception of 1977 and 1982, when China imported large amounts of Thailand's foodstuffs, the trade balance has been consistently in China's favour, mainly as a result of Thailand's importation of the high-valued petroleum products from China.[18]

In a different way, both Malaysia and Singapore have their own distinctive features in their past relations with China. Malaysia was the first ASEAN country to begin thawing its Cold War relationship with China, a process started soon after its politically perceptive Prime Minister Tun Abdul Razak put forth in 1970 his celebrated concept of establishing Southeast Asia as a zone of peace and neutrality. This can be seen from the fact that Malaysia established full diplomatic relations with China in 1974, ahead of the Philippines and Thailand, and independent of the political developments in Indochina. Malaysia's initiative towards China was all the more significant if it were put in the context of their past mutual suspicion, recrimination and antagonism, including a short-lived ban on Chinese imports. It may be remembered that Malaysia had been the direct target of the armed Communist insurgency, which was indirectly supported by Beijing.

However, Malaysia's overall relations with China after normalization have not really taken off into the "warm" level which has presently characterized China's relations with the Philippines and Thailand. This is mainly because the Sino-Malaysian relationship has often been unfortunately drawn into the context of Malaysia's internal security concerns, with Kuala Lumpur still harbouring suspicion on Beijing for not cutting clean its party-to-party links with the banned Communist Party of Malaya. China has long ceased to provide material support for the CPM but is still relunctant to officially withdraw the remaining *moral* support for the CPM. Chinese leaders visiting Kuala Lumpur have repeatedly defended the Chinese position that such moral support is not on an official government level.[19]

Singapore was part of Malaysia until their separation in 1965. All along, Singapore's overall relations with China have been and will continue to be influenced by a set of conflicting forces. As a globally-oriented city-state, dependent on open trade for its main livelihood, Singapore has to be pragmatic in its approach to foreign policy. It is therefore inclined to cultivate good working relationship with any country of any ideological shade, provided it could lead

18) See "Solution Sought to Sino-Thai Trade Gap," *Nation*. Bangkok. July 1, 1985.

19) The latest statement by high-level Chinese official to this effect was made by China's Vice-Premier Tian Jiyun during his visit to Malaysia in October 1986. "Beijing Will Not Interfere, KL Told." *Straits Times*. October 16, 1986.

to further trade growth or wider business contact for Singapore. This has shaped Singapore's commercial policy on China, as it has on other socialist countries. On the other hand, as a predominantly Chinese city-state, Singapore has to be wary of the political sensitivity of its ASEAN neighbours in its dealings with China. Politically, insofar as bilateral relations with China is concerned, Singapore cannot be ahead of the other ASEAN countries. Hence the Singapore government has openly declared that it will be the last ASEAN country to recognize Beijing. In July 1981, Singapore only exchanged trade representatives with China, thus technically confining the relationship to a kind of "half-relations." In deliberately limiting its political relations with China to less than the full ambassodorial level, Singapore was clearly acting "out of respect for Indonesia,"[20] which has not yet resumed full diplomatic links with Beijing.

In the area of economic relations with China, Malaysia and Singapore present an even sharper contrast to the other ASEAN countries. For the past three decades, Malaysia and Singapore have been the mainstay of China's overall trade with the ASEAN region. There were times in the past when China's trade with the region was virtually confined to only Malaysia and Singapore, as direct trade with the other ASEAN countries was either banned or reduced to a trickle by the Cold War politics. In 1985, long after China has resumed direct trade with the individual ASEAN countries, the combined share of Malaysia and Singapore still accounted for some 70% of China's total trade with the ASEAN region as a whole.

Specifically for Singapore, uninhibited by political and ideological rigidity, it has responded swiftly to the recent resurgence of the Chinese economy. Since 1984 the Singapore government has been taking measures to clear the deck for a more prominent economic involvement with China. Thus travels to China were relaxed, and trade and investment in China encouraged, with a number of government-controlled companies aggressively pushing into the China market.[21] Recent economic recession in Singapore has also provided a "push" factor for the Singapore businessmen to look to China for the new opportunity. It was reported that since 1979 Singapore businessmen have been involved in about 100 investment projects in China, variously estimated to amount to some S$900 million.[22] Singapore, taking advantage of its cultural and linguistic affinity, is seeking to develop itself as another gate-

20) See *Business Times*. Kuala Lumpur. July 9, 1981.

21) E.g. Intraco, Keppel, Sembawang, and the Port of Singapore Authority are now involved in the China market. See "Singapore to Get More Chinese Business." *Straits Times*. May 1, 1985.

22) See "Singapore Pushes to Raise China Trade." *Asian Wall Street Journal*. September 7, 1985. But according to the official figures recently released by BG Lee Hsien Loong, Minister of Trade and Industry, about 90 Singapore-based companies had committed about US$ 200 million in China by the end of 1986. *Straits Times*. March 25, 1987.

way to China after Hong Kong.

Economic Foundation

As can be seen from the above, history and politics have been powerful agents in the growth and change of the overall Sino-ASEAN relations in the past. For the future, however, the underlying economic and structural factors will exert greater influence on the pattern of Sino-ASEAN economic relations. This has already become a clear trend. China's relations with most countries are already normalized, and her international relations are conducted increasingly on a pragmatic basis. The emerging Sino-ASEAN economic relationship will therefore depend more on the structural characteristics of both Chinese and ASEAN economies.

In many ways the Chinese economy stands in sharp contrast to the ASEAN economies. China is a vast, continental-sized country with one billion population. China operates a socialist system and its economy is supposed to be based on central planning. The Chinese economy is also inherently inward-looking, a feature partly due to its vast physical size and partly due to its socialist economic structure. Consequently, China has never been a great trading nation, despite its apparently huge market potentials. In 1984, for instance, China's world share of exports amounted to only 1.2%; its trade-GNP ratio, 18%; and its per-capita trade turnover, US$49, which were among the lowest in the Third World and certainly well below the ASEAN's levels.

In contrast, the ASEAN countries, with the exception of Indonesia, are generally small- to- medium-sized countries, with their economies primarily functioning on the free enterprise basis. The ASEAN economies are also open and outward-looking by nature, with foreign trade and foreign investment playing a crucial role in their economic growth. The ASEAN economies, except for the city-state Singapore, are generally known to be resource-based, with primary products constituting the mainstay of their exports. Further, the ASEAN economies have established close linkages with the advanced capitalist economies and this has made it possible for ASEAN to capture the forces of international capitalism for its own economic growth.[23]

Table 1 summarizes the basic economic performance indicators of China and ASEAN. It can be seen that both China and the ASEAN economies except the Philippines have enjoyed high economic growth during 1973–84, caused, among other factors, by their high savings and investment rates. But the per-capita income of China, at US$ 310, is by far lower than that of all the ASEAN countries. It may be stressed that the conventional GNP measures are inherently biased against a socialist economy with a large segment of non-market activities and an undervalued service sector, so that the real material content of the Chinese GNP should be much higher

23) For a further discussion of the structure of these economies, see Wong [1979].

Table 1 Basic Economic Performance Indicators of China and ASEAN

	Population (million) Mid-1984	Area (1000^2 km)	GNP per-Capita US$, 1984	Average Annual Growth Rate (%), 1973–84				Real GNP Growth (%)		Distribution of Domestic GDP, (%), 1984		Merchandise Trade in 1984, (US$ million)		Total Trade as % of GDP, 1984	Per-Capita Trade Turnovers, 1984 (US$)
				GDP	Agri-culture	Manufac-turing	Services	1985	1986	Invest-ment	Savings	Exports	Imports		
China	1,029.2	9,561	310	6.6	4.9	8.7	5.0	12.3	9.3	30	30	24,822	26,150	18.1	49
ASEAN															
Brunei	0.2	5.8	20,000	—	—	—	—	—	—	—	—	—	—	—	—
Indonesia	158.9	1,919	540	6.8	3.7	14.9	8.6	1.0	1.8	21	20	21,888	13,822	44.3	222
Malaysia	15.3	330	1,980	7.3	4.2	8.3	8.1	−1.0	0.5	31	32	16,407	14,060	104.1	1,999
Philippines	53.4	300	660	4.8	4.0	4.3	4.8	−4.0	0.2	18	18	5,391	6,355	35.8	220
Singapore	2.5	1	7,260	8.2	1.4	7.6	8.1	−1.8	1.9	47	43	24,055	28,565	288.8	20,845
Thailand	50.0	514	860	6.8	3.7	10.0	7.5	4.2	3.8	23	21	7,413	10,518	42.7	327

Sources: *World Development Report 1986, Asia 1987 Yearbook* and Key Indicators of Developing Countries of ADB (July 1986).

than it is indicated in Table 1. The point nonetheless remains that the Chinese economy during the Maoist era has not emphasized economic growth as much as other non-economic goals. In fact, the recognition of this very fact has actually prompted the post-Mao Chinese leadership to step up the economic modernization drive. Furthermore, the pro-growth strategy adopted by China is bearing results, as manifested in China's impressive growth performance in recent years: 12.3% for 1985 and 9.3% for 1986. This contrasts sharply with the recent stagnation of the ASEAN economies, which were hit by the primary commodity slump.

If China continues to pursue the open-door economic policy, it is bound to alter the structure and pattern of the Sino-ASEAN economic relationship. An economically resurgent China could offer new opportunities to ASEAN as well as produce negative economic spillovers on the region as a whole, especially in the short run. This means that the evolving Sino-ASEAN economic relationship is going to be a "dynamic" one based on the interaction of the competitive and complementary forces.

The way by which the Chinese economy interacts with the ASEAN economies is manifested in their respective world trade patterns as tabulated in Table 2. It can be seen that the share of ASEAN in China's total trade in 1985 was quite important: 10.3% for exports and 6.8% for imports. The proportions should be higher if the re-exports via

Table 2 Trade Patterns of China and ASEAN, 1985 (% Distribution)

Exports	Grand Total		Industrial Countries				China	ASEAN	Asian‡ NICs	Other Socialist Countries	Rest of the World	ASEAN minus Singapore
	US$ million	%	Total	USA	Japan	EEC						
China	27,329	100	41.7	8.5	22.3	8.4	—	10.3	27.1	7.4	13.5	2.8
ASEAN												
Indonesia	18,330	100	80.0	22.7	49.1	6.6	0.8	7.9	4.8	0.5	6.0	—
Malaysia	15,408	100	54.6	12.8	24.6	14.4	1.0	25.6	7.2	1.4	10.2	—
Philippines	4,614	100	73.7	36.2	19.0	14.0	1.8	11.5	5.7	0.8	6.5	—
Singapore	22,808	100	46.5	21.2	9.4	10.6	1.5	21.9+	7.7	1.3	21.1	—
Thailand	7,170	100	56.4	19.6	13.4	18.9	3.8	6.5	5.9	1.4	26.0	—
Brunei	2,534	100	68.3	*	67.0	1.2	1.6	20.8	7.1	—	2.2	—
Imports												
China	42,534	100	70.1	12.2	35.7	14.5	—	2.7	11.3	5.0	10.9	2.1
ASEAN												
Indonesia	9,321	100	77.2	14.4	28.1	21.7	2.0	6.8	3.7	0.2	10.1	—
Malaysia	12,301	100	61.5	15.3	23.0	14.4	2.0	22.4	3.9	0.4	9.8	—
Philippines	5,351	100	53.8	25.1	14.0	8.5	5.4	11.0	7.9	0.3	21.6	—
Singapore	26,237	100	49.0	15.2	17.1	11.3	8.6	18.0+	3.5	0.2	20.7	—
Thailand	9,409	100	59.7	11.2	26.0	16.4	2.4	17.9	3.1	0.7	16.2	—
Brunei	749	100	43.3	7.5	13.4	18.6	*	49.3	2.3	—	5.1	—

Note : * Amounts not significant

‡ Asian NICs here only include Hong Kong and S. Korea

+ Excludes Singapore's trade with Indonesia

Source: IMF, *Direction of Trade Statistics Yearbook*, 1986.

Hong Kong were taken into consideration. But even at this level the trade is quite important for China, especially since the balance of this trade is invariably in China's favour. The ASEAN markets have always been a significant outlet for Chinese merchandise, from traditional foodstuffs to various kinds of household goods and tools, low-priced garments, and textile piece-goods.

For ASEAN, the share of China in its total *direct* trade (minus re-exports via Hong Kong and Singapore, etc.) in 1985 ranged from 3.8% for Thailand to 0.8% for Indonesia for exports, and from 8.6% for Singapore to 2.0% for Indonesia for imports. For some ASEAN countries, their China trade is no longer small. In future, it can also play a potentially important role in meeting their efforts of diversifying their excessive dependence on the industrial countries.

Table 3 brings out the special feature of heavy commodity concentration in the Sino-ASEAN trade. ASEAN's exports to China are understandably made up of

Table 3 Commodity Structure of China's Trade with ASEAN Countries Showing Primary-Product Concentration

	Indonesia's Imports from China					Indonesia's Exports to China		
	1974	1977	1978	1984		1982	1983	1984
Rice	55.0	41.2	19.2	—	Coffee	99.3	96.3	4.0
Sugar & honey	40.0	0.3	7.1	—	Plywood	—	—	60.0
Oil seeds	—	—	—	16.8	Rubber	—	—	25.0

	Malaysia's Imports from China					Malaysia's Exports to China			
	1975	1978	1982	1984		1975	1978	1982	1984
Ford	47.2	49.7	38.3	40.4	Rubber	94.1	90.6	91.3	65.4
(Rice)	(27.6)	(27.0)	(3.2)	(3.1)					

	Philippine's Imports from China					Philippine's Exports to China			
	1976	1977	1982	1985		1976	1977	1982	1985
Petroleum	89.4	90.7	69.9	83.0	Sugar	58.6	65.9	59.3	38.5

	Singapore's Imports from China					Singapore's Exports to China			
	(Quite diversified)					1976	1980	1984	1985
					Rubber	39.0	41.6	29.7	6.9

	Thailand's Imports from China					Thailand's Exports to China			
	1976	1979	1982	1985		1976	1979	1982	1985
Petroleum	38.3	64.2	36.7	33.9	Rice	47.7	29.0	36.7	—
					Sugar	33.4	15.7	43.6	41.2
					Rubber	—	—	—	15.9

Sources: For Indonesia, *Impor* and *Ekspor*; for Malaysia, *Perdagangan Luar*; for the Philippines, *Foreign Trade Statistics of the Philippines*; for Singapore, *Singapore Trade Statistics*; for Thailand, *Trade Statistics of Thailand*; all relevant years.

predominantly primary commodities. For years, Malaysia's exports to China have consisted of virtually nothing but rubber. Sugar is an important item in the Philippines' and Thailand's exports to China, and so on. To be economically more closely integrated with the ASEAN region, China needs to meet the market requirements of ASEAN by importing more of its primary products. So far primary commodities have dominated Chinese imports from ASEAN. In future, further industrialization progress in China should increase the Chinese demand for more primary commodities from the region. This appears to be happening now.

It may be noted that China is also an important primary-exporting country, e.g., petroleum to the Philippines and Thailand, and rice to Malaysia. In general, Chinese exports of these primary commodities do not constitute any menace to ASEAN's own primary exports on the whole, as ASEAN has a stronger comparative advantage over China in the natural resource area. Rather, it is more in the area of trade in manufactured products that ASEAN is apt to be apprehensive of rising competitive pressures from China. Currently both China and ASEAN are intent on stepping up their industrialization processes and potential competition in their manufactured exports is therefore likely to be the most sensitive issue in the future Sino-ASEAN economic relations.

In future, as China's new industrialization efforts bear fruit, there will be rapid increases in Chinese manufactured exports, with two serious implications for ASEAN. First, there are concerns in ASEAN over the possibility of China flooding its low-priced manufactured products into the region. This would present serious direct competition to the local industries in ASEAN, some of which have barely emerged from the import substitution phase of industrialization. Secondly, China could appear as an even more serious threat to ASEAN by competing indirectly in a third country market, be it a developing country or an industrial one. As latecomers, both China and ASEAN (excepting Singapore) tend to specialize in the simple, labour-intensive manufactures (e.g., textiles and clothing), and hence compete with each other in the slowly expanding or, in some cases, even contracting export markets. Attempts by China to enlarge its market shares for manufactured exports in the industrial countries will, in the short run, produce some displacement effects on ASEAN's own manufactured exports in those markets, particularly for such labour-intensive manufactures as textiles, clothing, and footwear.[24]

This is, however, a "static" way of interpreting competition. In a "dynamic" context, the world market is not really a "zero sum game" in which the expansion of one country's exports is necessarily made at the expense of the other's. The

24) Using the constant market share analysis, Christopher Findlay has shown how China has intensified its competitive pressures on the ASEAN economies in their labour intensive manufactured exports. See Findlay [1986].

industrialists in ASEAN have to learn to be efficient and competitive against new comers: if not China, perhaps India. In the long run, the ASEAN economies will still have to adapt themselves to the shifting comparative advantage in the world economy by making the transition to more capital-intensive exports, as it is taking place now in the NICs (newly industrializing countries).

A balanced picture should also take into account some of the long-term positive effects. A China intent on the pursuit of orderly domestic economic development will be politically a stabilizing factor to the benefit of the whole Asia-Pacific region. A prosperous China, with a market of one billion consumers, need not be exclusively exploited only by the industrial countries or by some Asian NICs like Singapore or Hong Kong. Some ASEAN countries could also capture a share of the potential China market for their resource-based manufactures. Such increased mutual economic gains will provide stability to the emerging Sino-ASEAN relations.

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