



Rebalancing of ASEAN's Relations with China

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Countries in ASEAN (Association of South-East Asian Nations) have strengthened their relations with China since the start of the 2000s. Especially in the last decade, inclination toward China, or moves to strengthen the ties with China especially in the economic field accelerated, although the degree varies, under the Najib administration (April 2009-May 2018) in Malaysia, under the Prayuth Interim Government (since August 2014) in Thailand, under the Duterte administration (since June 2016) in the Philippines and under the Joko Widodo administration (since October 2014) in Indonesia. However, led with the Mahathir administration established after the general election in May 2018, moves of “backswing” or “rebalancing” under which ASEAN countries try to break away from economic overdependence on China have started to be seen.

In this article, the author will review, after seeing their historical developments, the recent change and its background in the relations of major ASEAN countries with China, together with their future prospects.

1. ASEAN's Relations with China (Overview)

(1) Background

Since ASEAN was established in 1967 by the original members with anti-communism position (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), its relation with China

had been far from being a good one. However, since the 1970s, China started to gradually normalize its relations with the ASEAN countries and entering the 2000s the two countries and regions saw a rapid progress in their bilateral and regional relations both in terms of scope and closeness. The progress may have reflected China's willingness to mitigate the views of "China Threat" in the ASEAN countries, in addition to China's accelerated conclusions of the Free Trade Agreements (FTAs) with the ASEAN countries in a heightening expectation for market expansion that would be accompanied by their economic growth. China signed the "China-ASEAN Comprehensive Economic Partnership Framework Agreement"¹ in November 2002, which formed the basis of the ASEAN-China Free Trade Agreement (ACFTA), and in 2003 "Joint Declaration on Strategic Partnership for Peace and Prosperity" to promote cooperation in the extensive fields including politics, security, economy, social affairs and international relations².

At first, to pick up the characteristics of China's diplomacy toward ASEAN, China placed importance on strengthening bilateral relations with each ASEAN member state rather than the relation with the international organization called ASEAN. In doing so, China took the form of mutual cooperation on an equal footing toward the higher income countries like Thailand and Malaysia, while it took the form of economic cooperation toward relatively lower income countries such as Indonesia, the Philippines, and CLMV (Cambodia, Lao PDR, Myanmar and Vietnam).

The ensuing changes of ASEAN countries' relations with China show that their relations with China got closer in the past ten years centering on the economic field, albeit with variation of degree, not only in Cambodia and Lao PDR which had been long regarded as pro-China countries but also in Malaysia under the Najib administration (April 2009-May 2018), in Thailand under the Prayuth interim administration (since August 2014), in the Philippines under the Duterte administration (since June 2016) and in Indonesia under the Joko Widodo administration. There was a strong affinity between rapidly growing demand for infrastructure in each ASEAN country and large infrastructure construction projects of China based on the "One Belt One Road" Initiative. It is considered that China's financial assistance, together with expectation on its superiority in terms of costs and the speed to implementation, and positive attitude of Chinese companies toward investment in ASEAN pushed the closer attitude of the ASEAN countries to China.

¹ In 2004, the two concluded "Trade in Goods Agreement under the China-ASEAN Comprehensive Framework Framework Agreement", which took effect in July 2005.

² Further, in 2004, they drew up the "Strategic Partnership Action Plan" which was regarded as a concrete master plan for the five years from 2006.

However, since around 2018, phenomena like a departure from over economic dependence on China, or something like a backswing from over-inclination to China began to emerge among the ASEAN countries. A typical example is Malaysia. The Mahathir administration, which won the victory in the general election held in May 2018, started to review large infrastructure development projects like “East Coast Rail Link (ECRL)” that the former Najib administration had promoted in cooperation with China. The biggest factor for this review was that the new administration faced with the need to prioritize the fiscal consolidation after the existence of enormous debts problems related to the corruption of the Najib administration was revealed. Also in Indonesia and Thailand, it is considered the review was triggered by the gap between the “Ideal” and the “Reality” as is shown by the cases that the contents and conditions of China’s support fell below the expected values, in addition to the delays in the progress of projects that had been promoted by the support of China. Also it may have been not a little influenced by their recognition of problems of “debt trap” associated with the Chinese “One Belt and One Road” Initiative, as was shown by the case of Hambantota Port in Sri Lanka³.

(2) Economic Relations

In this section, I will review the economic relations with China, focusing on major ASEAN countries (Indonesia, Malaysia, the Philippines and Thailand).

First, on the trade side, the share of China in their exports continued to rise through the 2000s, reaching the level of the largest or competing with those of Japan, the US, and the EU (Figure 1) . On the other hand, China’s share in the imports of these countries far exceeds those of other major countries and regions. It may be said that coming into force of the ACFTA and construction of supply chains by companies against the background of continued expansion of the market in line with the economic growth led to an expansion of the trade between the two regions or individual partners.

China’s direct investment in the ASEAN countries is also on a rising trend (Figure 2). However, while the share of China and Hong Kong in the foreign direct investment outstanding in the ASEAN countries (as of 2017) represented more than 30% in Myanmar and Cambodia, it stood at 12% in Malaysia, 8% in Thailand and Philippines, and 6% in Indonesia, remaining at a

³ The Port of Hambantota in Sri Lanka, which was constructed as a project under China’s “One Belt One Road” Initiative, came under the Chinese control for an ultra-long term of 99 years due to the difficulty in its debt repayments

low level as compared to Japan, the US, Europe and Singapore where many multinational companies have their regional headquarters (Figure 3).

Figure 1 : Partners for Exports and Imports of ASEAN4

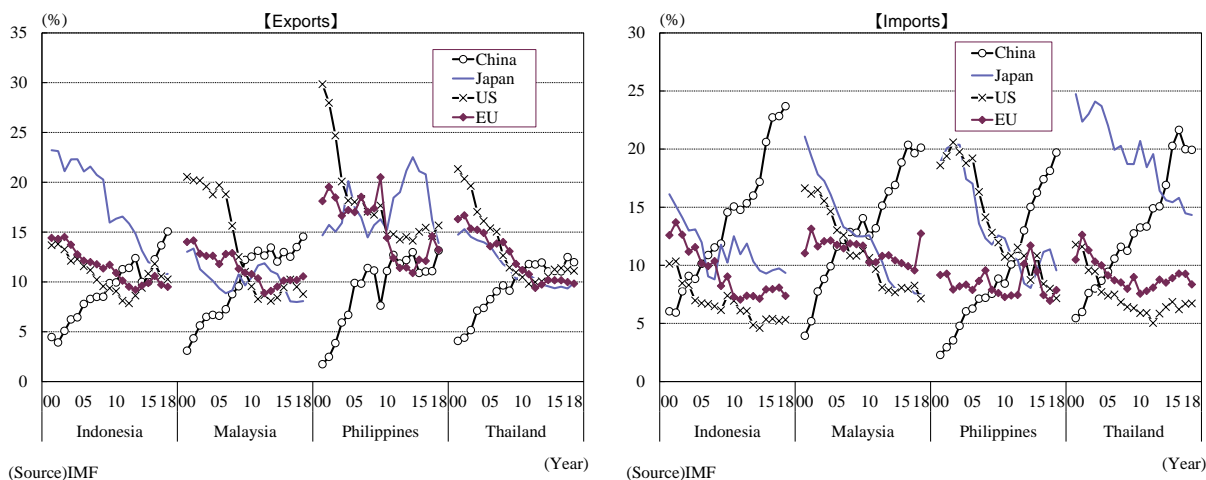
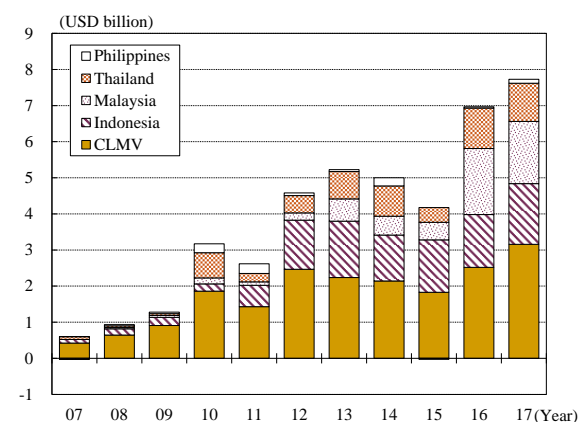
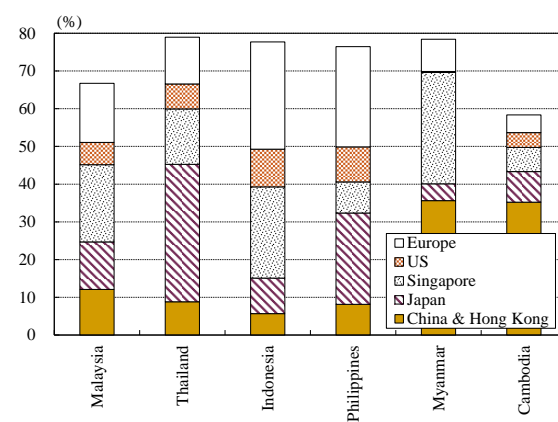


Figure 2 : China’s Direct Investment in ASEAN



(Note) CLMV indicates the sum of Vietnam, Cambodia, Lao PDR and Myanmar.
(Source) Ministry of Commerce of China

Figure 3 : Shares by country of Direct Investment in ASEAN (end of 2017)



(Note) Europe is the sum of UK, Netherland, Germany and France.
(Source) IMF

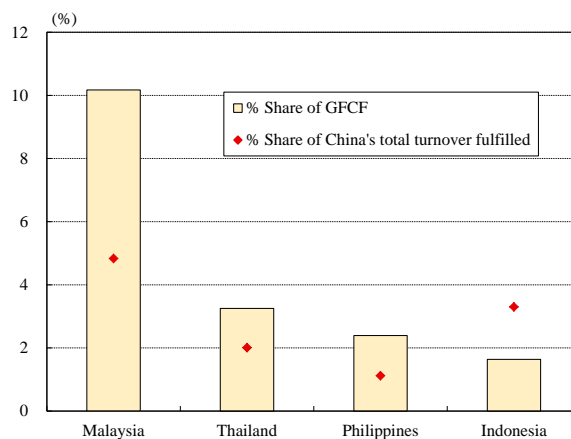
2. Developments by Country

(1) Malaysia: Keeping a good relation while correcting the excessive “inclination to China” kept under the former administration

In Malaysia, the Najib administration which took office in April 2009 strengthened its inclination to China. It is pointed out that the ruling party, faced with the decline in the supporting rate, promoted the projects related to One Belt One Road Initiative, partly expecting to win the support of the resident Chinese population that composes about a quarter of the entire

population, and also there was a possible influence of a bailout of ailing 1Malaysia Development Berhad (1MDB), a government owned investment company directly controlled by the Prime Minister Najib to which Chinese companies contributed⁴. In Malaysia, there were many large infrastructure projects, like the East Coast Rail Link (ECRL) and construction of pipelines, a high-speed railroad connecting Kuala Lumpur and Singapore, which were designated as projects under the “One Belt and One Road” Initiative and of which Chinese companies won the contract. The share of China’s construction contracts in Malaysia’s gross fixed capital formation accounted for 10%, the largest among the major ASEAN countries (Figure 4).

Figure 4 : Share of Chinese Construction Contracts in the ASEAN Countries (end of 2017)



(Source) National Bureau of Statistics of China, individual country statistics

The Mahathir administration that took office in May 2018, after the exposure of huge government debt associated with 1MDB, announced in July to freeze and review the large infrastructure projects including ECRL (Table 1). Yet, despite his strong criticism on the excessive inclination to China of the former Najib administration before the election, Prime Minister Mahathir himself is seen not to have a bad impression of China, since the then Chinese government expressed its support to the “East Asia Economic Caucus (EAEC)” initiative that the prime minister advocated at the end of 1990. When Prime Minister Mahathir visited China in August 2018 and met with Chinese leaders led by President Xi Jinping, he tried to get Chinese understanding by explaining that, despite his basic support of One Belt One Road

⁴ Chinese companies practically contributed to the bailout of 1MDB by acquiring 1MDB’s power unit and Bandar Malaysia, a mega urban development project under the 1MDB.

Initiative, he had to review large projects on the grounds of debt problems and fiscal burdens. At the same time he showed a positive attitude to maintain a good relation with China, by visiting Alibaba Group Holding Limited, the largest Chinese e-commerce company, and the head office of the Geely Automobile, which owns 49.9% of the stocks of Malaysian car maker Proton Holdings.

Table 1 : Major Infrastructure Projects under the Government Review

Projects	Outline	Gross Costs
East Coast Rail Link (ECRL)	Railroad project with total extension of 660km connecting the Thai border in the north through east coast to Kuala Lumpur (KL) to Port Klang on the west coast of Peninsular Malaysia (shortened to 648km by renegotiation)	(Originally planned) 55 billion ringgits (Published by the new government) 81 billion ringgits (After renegotiation) 44 billion ringgits
Construction of Pipelines	①MPP(Oil pipeline): 600km from Maracca to the state of Kedah	5.35 billion ringgits
	②TSGP(gass pipeline that travarses the state of Sabah) 662 km	4.06 billion ringgits
Bandal Malaysia Master Plan	Redevelopment project of the former airport of the Malaysian Air Force located in the south of Kuala Lumpur . Construction of office buildings and information and telecommunications bases, 10 thousands of low-cost houses planned.	-
High speed railway (KL-Singapore)	project for high speed rail connecting 350km from KL to Singapore in 90 minutes at the earliest	59.2 billion ringgits

(Source)Various reports

(2)Thailand: Possible return to a well-balanced diplomacy after the strengthened inclination toward China under the former military administration

Thailand, an ally of the US together with the Philippines, has had it a basic stance to conduct a balanced diplomacy among the big powers. However, after the military coup in May 2014, the Prayuth Interim Government was established and it was alienated from the western nations⁵, which promoted inclination toward China as a result.

In July 2016, the Prayuth interim government announced a national strategy “Thailand 4.0” which covered the coming 20 years with a development plan of “Eastern Economic Corridor (EEC)⁶” as a core project to realize the strategy. It anticipated investment of more than 1.6 trillion baht (10% of GDP) in the first 5 years for projects aimed at infrastructure development and fostering of targeted industries. More than 60% of the required fund is assumed to be financed by the Public Private Partnership (PPP), so how to attract private fund and overseas

⁵ After the coup d’etat in Thailand, the EU reviewed in June 2014 its diplomatic relation with Thailand and froze their mutual visits while suspending the FTA negotiations they started in 2013. The US also froze the military support to Thailand for three years from 2014.

⁶ The three provinces (Chachoengsao, Chonburi and Rayong) in the East of Bangkok that are covered by the EEC plan have been developed since the 1980s as the Eastern Seaboard Industrial zone, with high accumulation of industrial clusters led by petrochemical and auto. Aggregated Gross Provincial Product (GPP) of three provinces accounts for about 30% of total GDP of Thailand.

investment fund holds the key to realize the project. When Deputy Prime Minister Somkid visited China in September 2016, both countries agreed to mutually play a positive role in China's "One Belt One Road" initiative as well as in the EEC. In June 2017, Japan also signed a memorandum of cooperation on industrial sophistication and the EEC in Thailand. The EEC is led by the "EEC Policy Committee" which is chaired by the Interim Prime Minister Prayuth and by the "EEC Office", its practical operating body⁷, and it can be said that easiness of its project management that can be done in a top-down way, coupled with a positive attitude of Chinese companies that actively participate in the bidding helped to push the inclination of Thailand toward China. In addition, the Thai government exchanged a memorandum with the biggest Chinese e-commerce group Alibaba on the support of small and medium-sized companies and human resource development in the digital field, thus actively utilizing Chinese companies not only for improvement of its infrastructure but also for fostering growth industry like digital technologies.

However, there is a report that the first phase of construction of high-speed railway project (260 km between Bangkok and Nakhon Ratchasima) which China and Thailand jointly operate and aim to complete in 2020 has been delayed mainly due to a financing problem⁸, and it seems that Thailand faces not a small gap between the "Ideal" and the "Reality". As a result of the general election that took place in March, the new government after the restoration of civilian control is expected to gradually normalize the diplomatic relations with the western nations. It is expected that it will return to its "balanced diplomacy", by expressing its participation in the Trans-Pacific Economic Partnership Agreement (TPP) and reopening FTA negotiations with the EU.

(3) Indonesia: Moving to secure its economic interests while maintaining a certain distance

In Indonesia, negative image toward Chinese residents has not been dispelled due to some historical background and the government has maintained a certain distance in policy consideration to China. However, in order to accelerate, while taking account of the fiscal

⁷ In the Eastern Special Development Zone Act implemented in May 2018, it was clearly defined that the EEC Policy Committee was responsible for the development of the EEC and the EEC Office was assigned with the centralized authorities of permission or approval for investment in the EEC region.

⁸ At first, the government of Thailand asked China for an investment or concessional loans to finance the needed fund (179.4 billion baht) without success. Then the government planned to borrow the fund from domestic financial institutions. However, since it faced a difficulty in raising the fund from domestic financial institutions, it changed the policy in January 2019 to permit the borrowing from overseas.

burdens, the improvement of infrastructures which is its top economic priority, the government has taken gradual steps to strengthen cooperative relations with China in the economic field.

President Joko Widodo (commonly called Jokowi) attended the “Belt and Road Forum for International Cooperation” held in Beijing in May 2017 and got an agreement on the loan arrangement of \$4.5 billion for the high-speed railway project between Jakarta and Bandung. In 2018 he also agreed on the “One Belt One Road” projects of \$23 billion that include construction of two hydraulic power plants in Borneo Island and expansion of a coal-fired power plant in Bali Island. In addition, like Thailand, Indonesia also has actively utilized Chinese companies in the industrial field that uses internet and digital technology. In 2017, at the request of the Indonesian government Chairman Jack Ma of the Alibaba Group was appointed to adviser on e-commerce, and increased his presence by investing in two major e-commerce companies (Tokopedia and Lazada).

In regard to the high-speed railway project, the Jokowi administration decided in March 2015, as a result of a competitive bidding by Japan and China, to adopt the Chinese plan on the ground of its superiority in the length of construction period, cost, etc., but there has been a great delay in the progress due to problems relating to acquisition of construction permit and land appropriation⁹, which has invited some arguments whether or not the judgment to adopt the Chinese plan had been appropriate. In this regard, the Prabowo election office strengthened its attack against the incumbent Jokowi group through criticizing the One Belt One Road initiative in his populist slogan of “ownership of resources by Indonesians (resource nationalism)”, but it seems he could not succeed in changing the current of election.

(4) Philippines: Increasing “inclination toward China” giving priority to practical benefit but some move of “backswing” emerging in the face of election

The Philippines had a long confrontation with China over the territorial rights in the South China Sea, but after the launch of the Duterte administration in June 2016, the country shifted its diplomatic focus to China from the US, its longtime ally, increasing its “inclination toward China”. However, when he said on the occasion of his visit to China that he would make a clean break from the US, he explained that it meant his willingness to correct overdependence on the

⁹ Initially it was scheduled to be completed in 2018. It is reported that the land acquisition reached 92% as of March 15 2019. (<https://www.thejakartapost.com/news/2019/03/20/land-acquisition-process-for-jakarta-bandung-high-speed-train-to-conclude-in-april.html>).

US. In the comprehensive infrastructure program “Build! Build! Build!”, which makes a central part of his economic policy Dutertenomics, he aims to improve infrastructures like railways, airports, roads/bridges, ports with the investment fund of total 8.4 trillion Pesos by 2022, increasing the infrastructure-related expenditures to 7.4% of GDP by 2022. For this reason, he has given a priority to take practical benefit to secure funds needed for development, virtually putting the territorial issues on the shelf.

While the government came to put more focus on China in its foreign policy, there is a growing concern toward China among the citizens. According to an opinion poll, more than 80% of its people are against China’s move to construct military base in the South China Sea, and not a few people voice that “the Philippines should strongly urge against China its rights in the South China Sea.” Before the midterm election to be held in May, President Duterte was forced to give more consideration to the voice of the people, and in early April, upon the active operations by the Chinese ships and China’s moves to construct an artificial island near the Pag-asa Island in the South China Sea, the Ministry of Foreign Affairs of the Philippines published an unprecedented statement that these moves “violate international laws”, and President Duterte himself issued a warning to China, showing some steps of swings-back from an inclination toward China.

3. Future Prospects and Challenges

In recent years, many ASEAN countries strengthened its ties with China or an “inclination toward China” in the expectation for economic benefits like financial support from China and investment of Chinese companies to accelerate construction of large infrastructure projects that each government is engaged in as one of its priority issues. However, currently there have been seen moves to reconsider such inclination or a move of its “back-swing”. The situation may differ according to nations, but they have not a little faced the gap between the “Ideal” and the “Reality” in the contents and conditions of the infrastructure projects that China supports or the delays in their progress. In addition, unlike Lao PDR or Cambodia where projects can be easily implemented under the government leadership, the rethinking may reflect the fact that in major ASEAN countries there is a room where checking functions can work on their policies through procedural and institutional systems and through public opinions.

Looking ahead, it is none the less true that the needs for investment funds from abroad will be

high in these ASEAN countries since the improvement of their infrastructures is essential for an enhanced investment environment and industrial sophistication. However, in accepting the support for funds and technology, including those from Japan and western nations and international institutions, these countries will have to make careful judgment while taking fully into consideration their contents, conditions and mid-to long- term prospect of profit.

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