

Economic Integration of ASEAN and China

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Abstract

International economic integration is the most sophisticated form of positive and active international interdependence in the development of the world economy. Based on the facts of various forms and levels of economic integration between China and Southeast Asian countries, the purpose of this article is to show a whole picture of the development of Sino-ASEAN economic integration, its characteristics, background, framework, significance, and its future. The natural basis of the Sino-ASEAN economic integration is that they are geographically connected. The common ground of this relation is the economic complementarity of the two areas. And the fundamental principle of this integration is reciprocity. Economic integration creates numerous win-win opportunities among partners that surmount the differences of ideologies and opposition of systems, and even disputes on territories. CAFTA is the first South-South regional economic community. It is the largest FTA, and the third largest economic unity in the world. It is extremely important to the unification of Asia and to the stability of the world. The function of integrated economy will eventually lead to a common goal of mankind, that is peace and prosperity.

Introduction

International economic integration is the most sophisticated form of positive and active international interdependence in the development of the world economy. There are various forms and levels of economic integration. Within the framework of international politics, the forms and levels of international economic integration can be grouped into North-North, South-South, North-South, or the sometimes called East-West economic relations. The international economic integration can also be classified as that between or among, developing countries, newly industrializing economies (young or mature), and developed countries. In the age of globalization, more activities of economic cooperation occur in regions, so the integration often appears as the overlap of different stages of economic development of participating countries. In the process of integration, the principle of competition plays less important role than before. Its importance is gradually surpassed by the principle of complementarities and a win-win mechanism.

Balassa (1961) classified regional economic integration into four stages—free trade area, custom union, common market and economic union—according to the extent to which members grant preferences to one another and coordinate policies among themselves. According to this classification, member countries remove intra-area obstacles to free trade but retain their national

tariffs against the rest of the world in a free trade area. In the stage of custom union, in addition to removing obstacles to free trade among members, the external tariffs are brought to the same level. In a common market, members not only agree to the same policies as under the custom union, but also remove obstacles to the free movement of labor and capital. Members surrender national sovereignty over their exchange rate, monetary and fiscal policies in the stage of economic union (in Kwan, 133).

The process of a regional economic integration is best shown in the history of the European Union. At first, the European Coal and Steel Community (ECSC) was set up for integrating coal and steel industries of the Western Europe in 1951. In 1957, the six members of ECSC created the European Atomic Energy Community (EURATOM) and the European Economic Community (EEC) to remove trade barriers and start the formation of a common market. The three communities were merged into one institution in 1967. Meanwhile, political integration started as the single Commission, then the Council of Ministers, and the European Parliament were established. However, it took another twelve years to complete this process, when the first direct elections were held in 1979. In 1992, the Maastricht Treaty created the European Union that makes common policies, and thus formally completed the formation of a single market. In 2002, the goal of a single European currency set ten years previously was realized. The members of EU started as six, and expanded to twenty-five in 2004. It is expected that the number of EU members will reach twenty-nine by 2007. As shown above, it took about thirty-five years for the EU to go through the four stages as Basalla described. Although the Sino-ASEAN economic integration will not reach Basalla's first stage until at least 2010 when a free trade area is finally formed between China and six of ASEAN's founding members, it worth of looking into its characteristics, background, framework, significance and future.

Characteristics

Economic integration between China and the Association of Southeast Asian Nations (ASEAN) was formally started when the two sides signed the "Framework Agreement on Comprehensive Economic Cooperation Between the ASEAN Nations and the People's Republic of China" in November of 2002, which aimed at establishing the Sino-ASEAN Free Trade Area (CAFTA). The process of CAFAT began with the program of "Early Harvest" in January 2004. The realization of CAFAT is divided into two steps, firstly between China and the original six ASEAN countries by 2010, and secondly including the less-developed four ASEAN members by 2015. On November 29, 2004, Southeast Asian nations and China signed a "plan of action" to formally start the process of creating the world's largest free trade zone and boost ties in security, politics, technology, medicine and transportation. This is the most comprehensive format of international economic integration in history. First, it is a regional economic integration. There are many actions of bilateral economic integration, which can exist between two North countries at the same level of economic and technology development, or between a North country and a South country exchanging mutual needs, such as exchange of capital, technology, and management with resources, labor and market.

However, the Sino-ASEAN economic integration is based on geographical location. So all the members have to be involved in the process. The bilateral integration and multilateral integration overlap. Various needs of members have to intervene. And the goal is the prosperity of the whole area.

Second, the Sino-ASEAN economic integration is a model of South-South regional cooperation. However, due to the discrepancy among members, it embraces all perspectives of the world economy and politics, such as South, North, East, and West, and it includes economies under various political systems. When EU reached its highest level of merger, it only included fifteen countries with similar economic and political systems. It did not include those former communist countries of Eastern Europe until 2004. But all the members of ASEAN, newly industrializing economies or developing economies, communism or capitalism, have been included at the very beginning of the process towards CAFTA.

Third, it consists of economies at various stages of development. Different from the European Union, the differences of economic levels are sometimes huge amongst ASEAN countries; for example, the GDP of Singapore is ten times that of Laos. Within this community, there are mature NIEs, young NIEs, and developing countries. As one of the four “Asian Dragons”, Singapore is the most developed country with high technology in certain areas. Brunei is a resource-rich country. Its economy is mainly based on trading its oil and gas with almost everything else from other countries. Malaysia and Indonesia are also rich in resources with some technology in electronic equipment and electrical appliances. Thailand and the Philippines’ economies are mainly dependent upon manufacturing, especially electronics. Myanmar, Cambodia, Laos and Vietnam are less-developed agricultural countries.

Fourth, CAFTA is the most important region in the world economy in the 21st century with the largest population, which includes 1.86 billion consumers, total trade estimated at \$1.23 trillions and \$2 trillions of world GDP with an average 7–9% of yearly growth. The commitment of CAFTA is both economic and political to nearly one third of the world population. It will become the third largest economic entity after the North American FTA and the European FTA. There are other economic communities and free trade areas, such as Economic Community of West African States, Economic Community of Central African States, Economic Community of Central Asia, and Economic Community of Euro-Asia. But their GDP proportion in the world economy is much less significant. The European FTA and the North American FTA both have high GDP proportion in the world economy, but the populations involved are no comparison to that of CAFTA.

Background

China has experienced fast economic development for last two decades. During this period, China became the third trade giant in the world and developed into a country that attracts the most foreign investment. The Chinese economy has been developing at an average 9% yearly growth. Based on purchasing power parity, China now has the second largest GDP in the world. With its entry into the WTO, China provides more opportunities for its neighboring countries as well as its

own people. China's choosing Southeast Asia as its first FTA partner is based on several considerations. First, Southeast Asia is a friendly neighbor of China. It is an area where the majority of overseas Chinese live, and are deeply involved in their countries' economy. According to Hodder (1996), ethnic Chinese accounted for 3% of Indonesia's population, but control more than 50% of trade, and own three quarters of domestic capital. In Thailand, 8–11% of the population is ethnic Chinese, owning nine-tenths of business and manufacture, and half of the bank capital. Less than 2% of Philippines' population is ethnic Chinese, yet they own 40% of domestic private banks, two-fifths of the 300 biggest companies, and 35% of sales. In Malaysia, 44.9% of companies are owned by ethnic Chinese. Second, it is in China's interest to see a prosperous and stable Southeast Asia that plays a more important role in the world. Many countries have now expressed their interests working with ASEAN, including Australia and New Zealand, besides Japan and South Korea. The unification of 11 Asian countries with 1.86 billion people is the beginning of the unification of Asia. Third, there are advantages of language, culture, transportation, and market in Sino-ASEAN economic cooperation. Ethnic Chinese are very active in economic cooperation with China. Even if they do not speak the language, they are more welcome due to their common culture. The trade between China and Laos, Myanmar, and Vietnam is very convenient in terms of transportation. Fourth, it is a strategy to solve the issue of the South China Sea and Taiwan (Xu, 2004). However, to many Southeast Asians, China's economic development includes both perils and opportunities.

The fears are mainly from those Southeast Asian countries either at comparable stage of development such as Thailand, the Philippines, and Indonesia or at a lower stage of development such as Vietnam, Laos, Myanmar, and Cambodia. For the first group, they worry about the competition with China in exporting low-technology manufacture. For the second group, they worry that their manufacturing industries would be undermined due to technological advantages from China. Another economic peril for Southeast Asia, according to Roy (2002), is China's soaking up a limited pool of foreign direct investment. In 1990, about 60 percent of FDI in Asia went into Southeast Asia, and 20 percent into China. China now gets 80 percent.

However, economists from the Singapore Ministry of Trade and Industry think that the popular media has overstated the threat posed by China to ASEAN. Based on statistics, their conclusions are:

- 1) China's share of global FDI flows is not out of proportion. Even in the 1990s, it had merely kept pace with China's strong GDP growth. Between 1998–2000, when FDI to ASEAN-5 declined sharply, China also experienced a drop in FDI, and China was ranked lower than Singapore, Vietnam, Thailand and Malaysia in attracting FDI.
- 2) Between 1995 and 2000, developed countries have consistently invested more in ASEAN-5 than in China, while Hong Kong has remained the single largest contributor to China's inward FDI.
- 3) The decline in FDI to ASEAN-5 does not appear to be very closely related to China's increasing attractiveness as a FDI destination. The Asia Financial Crisis, rather than China, has been primarily responsible for the decrease in ASEAN-5's inward FDI flows. FDI is not a zero-sum game; investment to ASEAN and China can grow concurrently. (Wu, Siaw, Sia,

and Keong, 2002)

The long-term goal of foreign direct investment is profits. A country chooses a place to invest its capital mainly looking for three things: cheap and qualified labor, access to the market, and a safe and stable environment. China has many advantages in these three areas compared with most of ASEAN countries. It was not China's decision that foreign countries establish FDI in China, but those investors' themselves. They invested in China for their own best interests. However, the situation will change according to the rules of economic development. With prosperity, labor and overhead costs in China will inevitably rise, making foreign direct investment less profitable. Eventually this capital would leave China in search of countries with lower costs of doing business (Roy, 2002). However, this probably will not happen in the next two decades. The ASEAN countries cannot afford to wait for that long for the opportunities to come. China also should plan ahead for the next step before the foreign investment is withdrawn. Both China and Southeast Asia should look into the complementarities between them in the areas of market, trade, and investment. In this way, they can be engines of each other's development.

Complementarities

As mentioned above, the fundamental rule of economic integration is the complementarity between or among partners. To form a FTA or other economic communities, members are looking for complementarity rather than competition. There are more complementarity than competition between China and ASEAN. China and ASEAN can be markets, traders, and investors for each other.

Market for Each Other

Southeast Asia offers special opportunities to China in many areas. But first of all, it offers a market of large population exceeding any of China's other partners. According to the statistics of July 2004 by the World Factbook (2005), ASEAN countries have a total population of 562,643,050. This means, for some Chinese goods, it can potentially have 1.86 billion consumers. Second, it is an undeveloped market demanding cheap and fairly good quality goods for daily life and basic needs. This demand well falls into the general characteristics of Chinese commodities. It may not include few of the ASEAN members like Singapore or Malaysia. But for Indonesia, Vietnam, and other less developed ASEAN countries, Chinese manufactured goods match the income levels of their people. Third, it is a nearby market. Some ASEAN members are closer to the south and the southeast parts of China than are other provinces in China. Myanmar and China share a long inland border where markets can be formed and reached easily. On the other hand, China offers the same opportunity to ASEAN countries with a relatively higher ratio. With a market of 1.3 billion consumers, China can easily support any section of the economy from any of the ASEAN countries, although in reality, situations are not as simple as this. Especially for those agricultural countries in ASEAN, China can provide a huge market for their produce. For example, starting from October 2003, 188 fruits and

vegetables have been duty free between China and Thailand, which opens up the market of tropical fruits for Thailand and the temperate climate fruit and vegetable market for China. Within six months, the trade from this market reached more than \$0.1 billion. Besides, ASEAN, mainly Singapore, is also the second largest market of contract labor for China. With the development of CAFTA, markets for products from both sides will be much more easily formed and expanded.

There are many potential markets for each other between China and ASEAN. For example, the pharmaceutical industry in Thailand is relatively undeveloped. Most medicines have been imported from western countries. In June 2000, the Thai government approved of using Chinese medicine, which opened up a potential market for Chinese medicine although western medicine has dominated the market for a long period of time. It will take some time for this market to develop. In Thailand, 95% of machinery, 93% of medical equipment, 77% of antiseptic equipment, and most of chemical fertilizers are dependent upon imports. Although Thailand is the largest rubber producer in the world, the U.S., France, and Japan control its tire market. However, the situation could change when Thailand improves its technology for making tires. China could be a huge potential tire market for Thailand.

Both sides also can help each other in market development. Singapore is very interested in helping introduce Chinese products to the international market. Its high officials made a few offers on this issue. Now about 50% of China's exports to Singapore are transferred to other countries (Xu, 2004). In the future, other countries also can play the same role. For example, Chinese products might be introduced to South Asian countries through Myanmar. China can also introduce or transfer ASEAN's products to other countries.

In terms of tourism, China and ASEAN are the best market for each other. Tourism plays a very important role in ASEAN countries' economies, especially in Thailand, Singapore, Malaysia, Indonesia, and the Philippines. Singapore, Malaysia and Thailand have been China's largest overseas tourist markets for more than a decade. In 1987, 21,000 Chinese tourists visited Thailand. In 1999, this number increased to 775,000 with a 34% yearly increase. China is the third largest market of Thailand tourism. In 2000, 500,000 Chinese tourists visited Singapore. China now is also the third largest tourist market for Singapore. And Singapore's goal is to make China as its first tourist market while introducing China's famous tourist sites to the world. Chinese traveling to Vietnam started much later than Thailand, Singapore, and Malaysia, but in 2002, there were 510,000 Chinese who visited Vietnam as tourists. Last year, 12 million Chinese went abroad for tourism. Among them, about 1 million went to Vietnam. Since tourism is its second major resource of foreign currency, Malaysia is very anxious to attract more Chinese tourists and expand the market of tourism for both sides. Malaysia's Minister of Culture, Art, and Tourism set up a goal of attracting 1 million Chinese tourists. Other ASEAN countries are also eager to explore this market. The Philippines realized it's lagging behind Thailand, Malaysia, and Singapore as a destination for the growing number of Chinese tourists. However, the Philippines is optimistic that it can be a potential tourist destination since it is closer to China than Singapore, Malaysia, and Thailand, and also has a lot of beautiful scenic spots and beaches to offer (Philippines National Report, 2001, in *ASEAN Secretariat*: 86).

Trader for Each Other

The complementarities of manufacturing between China and the Southeast Asia are strong. ASEAN has been the fifth biggest trade partner of China for last 17 years (Xu, 2004). Since 1990, bilateral trade has increased 20% yearly. The trade with ASEAN counted 5.8% of China's foreign trade in 1990, 8.3% in 2000, and 9.2% in 2004, when Sino-ASEAN trade increased 35.3% more than the year before. The trade value increased from \$7.9 billion in 1991 to \$39.5 billion in 2000, and almost doubled between 2002 and 2004 from \$54.77 billion to \$105.88 billion. In the first two months of this year, the Sino-ASEAN trade increased 23.6% and reached \$16.6 billion. For the first time ASEAN became the fourth trade partner of China. Meanwhile, the share of China in ASEAN's trade has grown from 2.1% in 1994 to 3.9% in 2000. China is the sixth largest trade partner of ASEAN.

In terms of trade structure between China and ASEAN, the ASEAN-China Expert Group did the following analysis in October 2001.

In the early 1990s, the top five ASEAN exports to China were oil and fuel, wood, vegetable oils and fats, computer/machinery and electrical equipment. Collectively, the share of these five products amounted to 75.5% of all ASEAN exports to China. By 1999, the order of importance had changed, away from commodities and towards manufactured products. Computers/machinery and electrical equipment grew from 12.4% to 38.2% of ASEAN's exports to China. In addition, ASEAN's exports to China had diversified, with the top five exports making up only 60.3% of total exports of China (ASEAN Secretariat, 2001).

The trade relation is based on the needs of both sides, and it changes over time depending on mutual interests. During the same period, the top two China's exports to ASEAN, electrical equipment and computer/machinery remained in the same position. But the three exports next in order changed their positions. Lubricants/fuels/oil moved from the top three to top four. And cotton and tobacco were changed to cereals and ships/boats. The trade of both resources and manufacturing goods from each other shows its complementary characteristic.

At the bilateral level, complementarities exist in most cases. Brunei exports 95% of its crude oil and 90% of gas. In 1999, Brunei started oil exports to China with a value of B\$19.4 million. A year later, it increased to B\$92.2 million. But it only accounts 2.7% of Brunei's total oil exports. Brunei, on the other hand, enjoys the benefits of cheaper products from China. The trade between China and Myanmar, to use the words from Myanmar's Ministry of National Planning and Economic Development Report, is more complementary than competitive. To enhance the level of its complementarities, Myanmar can export processed food and value-added products instead of exporting raw vegetables and wood. For example, the share of resource-based products in Philippines' exports to China was 66.86% in 1996, and it reduced to 28.39% in 2000, while the share of industrial manufacture increased from 11.17% to 57.13% during the same period of time (ASEAN Secretariat, 2001). So the increase of the complementarities of trade among the partners is closely related to the development of industrial upgrading.

Investor for Each Other

There are different ways of exporting extra capital. Xu and Gen (2000) listed three major forms of exporting capital: exporting commodities, loan, and foreign direct investment. Foreign direct investment can avoid the issue of tariffs, trade war, debt, and the capability of returning loan. Although investors should have the advantages of capital, technology, materials and management, they also have to meet two conditions: cost of production in foreign country is lower than in investor's, own country; and cost of FDI is lower than the local companies. Most capital or technology intensive FDIs in China are invested by European or North American countries. And most labor intensive FDIs in China are invested by companies from Hong Kong or Taiwan. Labor-intensive foreign investment makes more profit than capital or technology intensive FDI. The reasons are: 1) the capital or technology intensive companies cannot fully use the local comparative advantage such as cheap labor because not much labor is involved; and 2) there is a limited market for the high capital and technology products. So the best destinations for export capital are those areas where the level of economic development is half-pace slower (or half a step behind). As long as a FDI has advantages in materials, product development, sales and after-sale service, it can make profits. So developing countries can also export capital while importing capital. In fact, this has happened since the 1990s. According to World Investment Report of 2004 (UNCTAD, 2004), many developing countries emerged as significant sources of FDI to other developing countries. South-South FDI flows appear to have grown faster than North-South FDI flows. The following factors contribute to this phenomenon: low labor cost; market-access opportunities; geographic proximity and ethnic and cultural ties; fiscal and other incentives from government; the increase of regional trade; similar level of development; and access to more sources of investment. By the end of the decade, more than one-third of the FDI in developing countries originated from other developing countries. If the investor has all the advantages above mentioned, it does not need a large amount of capital but still make profits. Sometime, the half-pace principle cannot be applied to the economic relationship of two countries in general, but can be applied to certain areas of two partners.

Between China and Southeast Asia, there are many cases and areas where the half-pace principle can be applied, for example, Singapore and Thailand's investment in China, and China's investment in Indonesia and Vietnam. This also happens in certain industrial sections. On one hand, China still needs large amounts of foreign investment in capital, technology and management, especially in the west of China. On the other hand, the more developed coastal areas of China are interested in exporting their capital and technology to some areas in Southeast Asia. Mutual investment can bring the best out of all players, and realize everyone's comparative advantages and industrial or technology upgrades.

Approximately 80% of foreign investment in China came from Hong Kong or Taiwan. However, most of their investment is placed in the south or the southeast of China. Chongqing, one city in the west of China, attracted many of Singapore's construction companies last year for its numerous opportunities including 30 industrial parks, three shopping areas in downtown, real estates for enlarged city population (from 10 million to 18 million) and increasing average living space (from 15 square meters to 25 square meters). There are even more opportunities in other western

regions of China.

Among 50 top investors from developing countries, nine are from Singapore. FDI outflows shared 36.3% of gross fixed capital formation in Singapore while only 0.8% in China between 2001–2003. Up to 2000, there were only 692 Chinese FDIs with the value of \$0.8 billion in Southeast Asia while 612 ASEAN FDI projects of \$1.3 billion were initiated between January and June in 2001. However, the Prime Minister of China, Wen Jiabao, announced at the summit meeting of ASEAN on the Indonesia island of Bali on October 7, 2003, that the Chinese government would encourage greater investment in the region by Chinese companies. The prime minister also said that Chinese FDI in ASEAN countries was growing at an annual rate of more than 20%, and in some countries at more than 40%. In the same month, the statistics show that Chinese FDI in ASEAN was near 800 with the value of \$1.15 billion. We can be almost certain that China's investment in ASEAN will increase dramatically along with the development of ASEAN's FDI in China.

Process

Sino-ASEAN economic integration occurs in a region where all partners are developing countries. CSFTA is the first FTA that China has been involved in establishing. Integration is of two levels and a few layers: bilateral level and regional level. At the bilateral level, there are a few layers (between mature NIE and young NIE; between two young NIE countries, between NIE and developing country, between two developing countries, and between one country and a region of another country). At each layer, trade items are based on the needs and benefits of traders, and import and export of capital are overlap.

Bilateral Integration

The index of intra industry trade between two countries is expected to be positively related to their income levels and their income gap. The higher their income levels, the higher the manufactured goods' share of total exports. If the income gap between two countries is small, it is more likely they will have a similar trade structure. According to Kwan (1994), both China and Thailand would reach the stage of mature NIE before 2000; meanwhile Malaysia and the Philippines would reach the young NIE stage. There are other ASEAN countries at the introductory stage of primary industry. China is a big country whose needs are various. China itself has just walked out of poverty. The products from China cover a wide range. The economic development in China is not balanced. While the south and east coast regions of China can be put into the category of mature NIE, the broad west is still undeveloped. So the bilateral integration between China and ASEAN can be conducted in almost every form at every layer.

Integration between China and Singapore covers a wide range. Singapore is the first country in the Southeast Asia that began economic cooperation with China. The economic integration between China and Singapore is at the highest level of bilateral integration in the region. It overlaps two layers: the layer between a mature NIE and a typical developing country; and the layer between a mature NIE and a young NIE in certain areas. While Singapore serves China as resources of capital,

technology, and management know-how, it also plays the role of salesman of Chinese products and the bridge between China and the world. According the Institute of Management and Development of Switzerland, Singapore is only below the U.S. in terms of year-to-year world competitive ability. It is one of the centers of international business, international finance, and international transportation.

Although people in Singapore consider themselves Singaporean rather than Chinese, 77% of ethnic Chinese provide rich resources for investing in a place where language barrier is limited. This population also is more likely to become the consumers and salesmen of Chinese products. In 2001, China was the sixth trade partner of Singapore; and in 2004, it went up to the fourth. And Singapore expects China to be one of its top three trade partners. One third of Sino-ASEAN trade is Sino-Singapore trade. Among the top ten import goods of China and Singapore, three of them are the same but in different order on the list. The other two-thirds of import goods from both countries are fuel oil, metal, electronic parts and machinery with different products from each category. The complementarities involved here are at a very fine level that can be between different types, different performance, or different brands of a certain product.

In 1998, Singapore was the eleventh foreign investor in China, now it is the fifth one. And China is the country that Singapore invested in most. Singapore's investment in China covers broad areas, for example, real estate in Shanghai, theme park in Henan, harbor affairs in Dalian, especially the industrial parks in Suzhou. On the other hand, Singapore is China's second biggest contract project market and overseas labor market. The projects that Chinese companies conduct in Singapore include construction, electric power, chemical engineer, machinery, ship repair, harbor, wharf, and other areas. In some developed areas in China, rich Chinese provide loans to Singaporean investments in the region to attract their management system, information advantage and high technology. Singapore also welcomes those mid and small-scale Chinese enterprises to participate its International Commercial Center of medium and small companies. Along with the development of west China, Singapore's investment in China also has moved its focus from east and south towards the west part of China. With encouragement from the government, Singapore companies already started investing in Sichuan, Shanxi, and Yunnan. The Ministry of Trade and Industry of Singapore sent its delegates to the Expo of West China, and to inspect the area to find the opportunities of investment.

As Singapore knows the world market well, it became the bridge between China and Southeast Asia, and the bridge between China and the rest of the world. So besides trade and investment, Singapore also plays a role of salesman for Chinese products, helping Chinese companies' globalization. Singapore is interested in helping transfer of China's research accomplishment into commodities, which means opportunities for Singaporean companies. The tourist industry is also an area in which complementarities exist between two countries. As a well-known tourist country, Singapore has rich resources in tourism development, through which, Chinese famous historic and scenic sites can be introduced to the world. Meanwhile, more Chinese tourists will head to Singapore as their leisure paradise.

Integration between China and other ASEAN countries is also moving along. Indonesia is an

oil-dependent country. As the biggest country in ASEAN, Indonesia expects its economy to match its population and territory size. The Indonesian Minister of Industry and Trade thought that trade with China is very important and mutually beneficial. Indonesia has many important resources including oil, palm oil, wood, and minerals that China needs. Chinese manufactured goods are acceptable to Indonesians for their low prices. Chinese companies are investing in the fields of oil, refrigerator, air conditioning, and so on. The Bank of China re-opened its branch in Jakarta. Indonesia is very interested in the tourist market in China. However, very few Chinese tourists visited Indonesia due to the anti-Chinese incidents in history and the most recent one in 1998. In 2000, there were 2.2 million Chinese visited ASEAN countries. Among them, only 28,000 went to Indonesia, which accounted 1.2% of total number. Tourists from China could be an important resource of foreign currency for Indonesia if it can guarantee Chinese consumers' safety.

Bilateral integration also happens between a region of China and one or several ASEAN countries. Fujian province in China is the homeland for many ethnic Chinese in Southeast Asia, thus it became the first choice for ethnic Chinese investment in China. From 1979 to 2000, ASEAN-5's investment in Fujian is as twice as much as that of American investment and as five times as much as Japanese FDI. ASEAN is the second largest investor in Fujian based on statistics from Invest in Fujian China network (2001). This bilateral integration between a region of China & ASEAN countries can be in an opposite direction. For example, in 2000, the proportion of the tertiary industry in Shanghai reached 40%, which indicates that the Shanghai region is moving to a new stage of industrial development. Certain industries or certain areas are ready for investing in Southeast Asia.

Starting from 2004, there has come to be a clear industry division among ASEAN countries. Indonesia is mainly responsible for wooden and auto production while Malaysia is in charge of rubber products and textiles. Myanmar focuses on agriculture and fishing, whereas Thailand will put more attention into tourism and airlines. The Philippines concentrates on electrical goods, and Singapore continues its leading position in electronic networks and medical treatment. This helps Chinese investors in deciding locations and partners of their investment in Southeast Asia.

Regional Integration

Regional integration can be understood as multilateral integration in which more macro decisions are made. However, in Sino-ASEAN economic integration, most regional integration appears in the format of bilateral cooperation. It is partly because ASEAN is still a loose organization, and lacks leadership. In order to promote trade and investment for each other, ASEAN and China decided to meet yearly to provide more opportunities for each other. On November 4, 2004, the first Sino-ASEAN Expo was held in Nanning, Guangxi province. There were 846 news reporters at this Expo. The Prime Ministers of Myanmar, Laos, and Cambodia, and ministers from Malaysia, Brunei and Indonesia all warmly invited Chinese investors. The first Sino-ASEAN Business and Investment Summit was also held during the Expo. The potential investors who are also the leaders of business association from all ASEAN countries presented, and look for the possibilities of investing in China.

Integrated transportation system is both a goal and a means of economic integration.

Transportation became a new area of Sino-ASEAN economic cooperation in recent years. The first highway connecting China and ASEAN will be completed this year. The Nanyou highway is 180 kilometer, starts at Nanning in China, and ends at the city of Youyiguan. The Mekong River and its branches are open to navigation. The road from Kunming to Bangkok and the pan-Asia railway suggested by Malaysia have been connected. And flights between China and Southeast Asia are increasing. Besides transportation from air, water, and land, the fourth “economic express” started late last year when China first exported a large amount of electricity to Vietnam (50 million kilowatt per hour).

Cross-board investment between China and ASEAN has started. Up to 2000, China invested \$0.8 billion in ASEAN countries, whereas ASEAN’s investment in China was \$3.4 billion in June 2004, accounting 6.4% of foreign investment in China. There are various activities organized by governments to present the opportunities to each other. Between March 31 and April 2 this year the ASEAN Beijing Committee, which consisted of embassies of ten ASEAN countries, organized a trip of 17 ambassadors to Yunnan province to discuss the possibilities of cooperation in tourism, investment, and trade. On April 14, the Conference on Investment and Cooperation between Vietnam and Guangxi province was held in Hanoi. The delegates from Guangxi brought 78 investment projects, and 13 were signed, 31 were under consideration, and 30 to be introduced.

According to the “early harvest” plan, near six hundred agricultural products can be traded with reduced tariffs, and zero tariffs in 2006. CSFTA will officially start its formation in July 2005 when 7000 goods are reduced in tariff. In 2004, ASEAN announced its recognizing of China’s complete market economy system. The trade between China and ASEAN exceeded \$100 billion in 2004. In the second month of this year, ASEAN, for the first time, became China’s number four trader partner in the world.

The Future

The road toward CAFTA is broad and bright. First, the governments in ASEAN countries all have a very positive view of China. The Prime Minister of Singapore, Lee Xian Long, considers China as an ideal place to invest because of its broad market, low cost labor, and hard-working workers and professionals. And Singapore considers China as its fourth engine of economic development. The first three engines of Singapore’s development were the American economy, the global semiconductor industry, and the ASEAN economy. ASEAN countries all recognize China as an economic entity of a complete market. Second, there is a large population of ethnic Chinese in Southeast Asia, for example, 76% of Singaporeans, 34% of Malaysians, and 20% of Brunei’s population are ethnic Chinese. And this certainly reduces the cultural and language barriers of cooperation. Ethnic Chinese in Southeast Asia also play an important role in economic relations with China as well as in their own countries. In last year Huang Yan Hui became the first minister of ethnic Chinese in Philippines’ history. FDI from the Philippines are all run by ethnic Chinese except one. Also last year, the ethnic Chinese, Feng Hui Lan, was appointed to the position of Minister of Trade in Indonesia. Third, the ASEAN free trade area (AFTA) will certainly serve as a model for

CAFTA. After China became a member of WTO, Cambodia was accepted to WTO last year, and Vietnam will join WTO this year. These moves will speed up the economic integration between Cambodia, Vietnam and other countries. Fourth, China and some ASEAN countries found common resolution for one of the most sensitive issues, or one of the most controversial areas, the Southeast China Sea. China, Vietnam, and the Philippines are going to exploit this area together. Fifth, although total partners are only eleven within CAFTA, discrepancies are at different levels and different sections, and sometimes are big, so members are able to find areas for interchange. The fact that 79% of trade items are manufactured products and 21% of them are preliminary products indicates that partners found the best and most suitable areas to have business transactions.

However, there are some factors that might obstruct the process of economic integration in the region. First, the spread of “China Threat” or “Black Hole of Investing in China” had a very negative effect in the atmosphere. Although in their government or expert reports, ASEAN countries consider China as opportunity and their economic engine or express, deny that ASEAN and China are sharing the pie in world economy, there are still worries due to the historical image of China and the fact of China becoming a power.

Second, there are conflicts and contradictions among ASEAN countries, for example, historical accumulated grievances between Vietnam and Cambodia, territory conflicts between Malaysia and Indonesia, between Malaysia and Singapore, and between Indonesia and the Philippines. Some ASEAN countries do not have a stable political environment especially in the country with military government and under the influence of terrorism. There are other Southeast Asian countries where conflicts occur due to the differences of religions and faiths. Malaysia, Indonesia, and Brunei are Muslim countries whereas Thailand and Cambodia are Buddhist countries. Most Filipinos are Catholics while Socialism has strong influence in Vietnam and Laos.

Third, economic development among ASEAN countries is not balanced, especially between Singapore and Vietnam, Myanmar, Laos, and Cambodia. Singapore’s average GDP is at least 70 times higher than ASEAN four new members. This difference is much bigger than the differences among EU countries (16 times) and that of NAFTA (30 times). The economic structures of some ASEAN countries are similar, so the complementarities of comparative advantages among them are not high due to their uniform transition from labor intensive industry to electronic industry. Thus the proportion of internal trade to their foreign trade is much lower than that of EU and NAFTA. Exports among ASEAN countries accounted only 22.2% of total ASEAN exports while the proportions of EU and NAFTA were 54.6% and 62.6% respectively (Zhang, 2003). Therefore, the dependence on foreign market increases.

Fourth, there is no leadership within ASEAN. In theory, every member is equal. However, in regional economic integration, there is a need for a core unity that can play the role of consultation and guidance. In 1995, when the financial crisis happened in Mexico, it was the United States that prevented the spread of the crisis to other American countries. However, during the Asia Financial Crisis, ASEAN countries devalued their currencies in order to protect their national interests, not to prevent spreading the crisis. Although Indonesia, Malaysia, and Singapore all want to be the leader of ASEAN, due to economic and political factors, none of them has been recognized as the leader of

the region.

There are other factors that could hinder the process of Sino-ASEAN economic integration. For example, some ASEAN countries signed unilateral FTAs with non-ASEAN countries. Taiwan remains a sensitive issue in Sino-ASEAN relations. The influence of other powers in the region can also change the political and economic structure of the region. Possible trade war and protectionism will slow down the process any time when they occur.

There are also some issues that could arise in the process of regional integration. Drug smuggling may take advantage of a less restrictive border and flexibility of free trade. The fact that many ethnic Chinese are involved in Sino-ASEAN economic transaction is a plus, but it can potentially become a problem between China and Southeast Asian countries, or between ethnic Chinese and natives as has happened in history in several ASEAN countries. There also exists a suspicion of China's intentions as pan-China or Monroe Doctrine.

However, in recent years, both sides are focusing on the positive aspects of this relation and have overcome various obstacles. For example, China's opening up the door to ASEAN agricultural products brings real benefits to peasants in ASEAN countries especially Thailand and Vietnam. West China provides even more opportunities for ASEAN FDI especially Singapore. The variety of Chinese products and market needs will in fact affect the economic structures of some ASEAN countries. In general, the process of CAFTA as well as Sino-ASEAN economic relations will follow the Flying Geese patterns of economic development with some diversion. According to the theory of Flying Geese, each industry passes through five stages—introduction stage, import-substitution stage, export stage, mature stage, and reverse-import stage (Kwan, 1994). In the first stage, imports dominate the domestic market, and domestic production mainly imitates and transfers foreign technology. China has mostly gone through this stage, but not in all areas. Some ASEAN countries are in a similar situation as China; others might be a decade behind China. In the import-substitution stage, imports start to fall due to the excess of production to demand. This happens often in both China and ASEAN in certain industries, which needs the guidance of macroeconomic policies and coordination in the process to CAFTA. When production surpasses domestic demand, there is a surplus for exports. However, within CAFTA, the domestic demand includes the needs of all 11 countries. It will take much longer for the production of a certain good to exceed the demand of a much bigger market. As an economy improves, the costs of production rises, and investment in less developed countries accelerates. This was identified as the mature stage in the theory of Flying Geese. The reason for mutual investment among CAFTA countries can be related to labor cost, availability of materials, access to the market, and many others. However, it is not necessary that only more developed countries invest in less developed countries. It is mainly for a country's comparative advantage and the complementarities of both partners. In the last stage of reverse-import, the industry becomes a net importer again. At this stage, the imports are from its overseas subsidiaries, which means the development of FDI of the country concerned reached the export stage. However, in practice, many FDIs are export-oriented when they are established. According to Kwan (1994), a country's comparative advantage usually shifts from the production of primary commodities to labor-intensive manufactured goods and later on, to capital and

technology-intensive products. Sino-ASEAN economies can find the complementary spots to realize each other's comparative advantages, while moving toward the positive directions of their economic development. Approximately one third of Sino-ASEAN trade is of primary commodities, and two-thirds labor-intensive manufactured goods. This is because the comparative advantages of China and most ASEAN countries are at the stage of labor-intensive production.

Mutual understanding and trust is extremely important to a common opinion. Considering mutual benefits guides more cooperation even in the areas of disputes. China, Indonesia, and Vietnam are working together in exploring oil in the South China Sea. The present leads to the future. Cambodia joined the WTO last year and Vietnam will become the member of WTO this year. This will increase the involvement of the two countries in the trade process, and force them to adjust the structure of their economies to fit the dynamics of more interdependent world economy. This will also decrease the discrepancies among ASEAN countries and enhance the balance of their economic development.

Conclusion

The natural basis of Sino-ASEAN economic integration is the fact that they are geographically connected. The common ground of this relation is the economic complementarity of the two areas. And the fundamental principle of this integration is mutual benefit. Economic integration creates numerous win-win opportunities among partners that surmount the differences of ideologies and opposition of systems, and even disputes on territories. The function of an integrated economy will eventually lead to a common goal of mankind, that is peace and prosperity.

Complementarities are the basic principles of human relations. Mankind can be complementary in physiology, psychology, capability, knowledge, political system and economy at the levels of inter-personal, international or universal. Economic complementarities can be multilateral, bilateral, or regional, in all branches of the economy, or in one branch, or even in a very specific area. The complementarities of six factors of production are not always in the format of technology, capital, and management in change of resource, market, and labor. It can have many different combinations. The realization of the complementarities is a long and overlapping process. Developing countries do not have to wait until they become developed countries or NIEs to start searching for economic complementarities with other developing countries, NIEs or developed countries. In terms of Sino-ASEAN, China should find every possibility of complementarity both bilateral and multilateral based on individual cases. Besides, China and the Southeast Asian countries share a closeness and similarity of geography, ethnicity, culture and language. This will smooth the process of locating and realizing the existing complementarities. The Philippines President, Gloria Macapagal-Arroyo, said in an interview with the World Economic Forum's magazine *Worldlink*, "China is going to become a giant in the 21st century. So far China has been a responsible giant and we hope it will stay that way." (Roy, 2002) If all CAFTA members are responsible players, in the mid of this century, the region will reach the integrative level of European Union. 11 countries of the region can share the peace and prosperity. If all members of the world community are cooperative, the potential and the future of

complementarities among mankind will be infinitive.

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