

# THE INTERNATIONAL JOURNAL OF HUMANITIES & SOCIAL STUDIES

## The Resilience of China-ASEAN Economic Cooperation: From the Perspective of Services Trade

**Mohd Rozaimy Bin Ridzuan**

Full Time Lecturer, Department of Administrative Science and Policy Studies,  
University Technology MARA (UiTM), Malaysia

**Noor Amira Syazwani Binti Abd Rahman**

Full Time Lecturer, Department of Administrative Science and Policy Studies,  
University Technology MARA (UiTM), Malaysia

**Nur Hidayah Nabihah Binti Manas**

Full Time Lecturer, Department of Accountancy and Business,  
TARUC Pahang Branch, Malaysia

**Ju Soon Yew**

Full Time Lecturer, Department of Administrative Science and Policy Studies,  
University Technology MARA (UiTM), Malaysia

**Kong Lai Kuan**

Full Time Lecturer, Department of Business and Management  
Institution name: University Technology MARA (UiTM), Malaysia

### **Abstract:**

*With the economic globalization and regional economic integration, today's world witnesses the new round of industrial restructure with service and service trade playing an increasing role in the national and international economy. China accelerates into the third decade of widening market access, since its first forays from its open-door policy in 1979 and services has also taken on a vital role. This paper reviews relevant literatures pertaining to China-ASEAN economics integration between 2000 and the recent years through academic journals, and observation that have been written by several articles. It is hoped that this study will supplement the information pertaining to economic services trade among two giant countries.*

**Keywords:** ASEAN, china, service trade, economic cooperation

### **1. Introduction**

On 14 January 2017, China had signed The Service Trade Agreement and the agreement took effect of 1<sup>st</sup> July 2007. Based on the agreement, China was agreed to venture into new commitment in 26 sectors under construction, environment reservation, transportation, sports and business. Meanwhile, ASEAN agreed to open its market in finance, telecommunications, education, tourism, construction, and medicines (Yang, 2009). ASEAN and China are beginning to recognize the pivotal role that services could play. The ASEAN Framework Agreement on Services (AFAS) and China commitments under the General Agreement on Trade in Services (GATS) are examples of the efforts being made to liberalize and promote the services trade and investment (Swee-Hock, 2007).

According to GATS, trade services can be classified under four modes:

- Cross borders services, which are independent of supplier or consumer (telecommunication, postal and e-banking)
- Consumption abroad, where the consumer of the services is non-resident in the country where the services is consumed (travel and training of the foreign students)
- Commercial, where the supplier of the service is an affiliate or branch of a foreign supplier (local branches of multinational companies such as banks)
- Movement of natural persons, where the supplier is a non resident of the country in which he is working on a temporary basis. (professionals, construction workers and domestic helpers).
- Source: Mann (2017) and (Swee-Hock, 2007).

Among the four modes of service trade, it is useful to note that commercial presence (mode 3) and cross-border (mode 1) services made up an estimated 85 per cent of the total trade in services.

It is interesting to note that ASEAN and China have seen an upsurge in activities on the services trade front. ASEAN's services exports grew at a healthy 8 per cent annually between 2000 and 2005, with the import growing at an equally strong 9 per cent in the same period. In the same period, China's export of service saw a remarkable average annual 22 per cent growth, while import grew no less significantly by 18 per cent annually (Swee-Hock, 2007). In addition, the services trade

for both parties has also grown in 2005-2016: for China, it increased from US\$161 billion to US\$657 billion, whereas, for ASEAN, it rose from US\$252 billion to US\$643 billion (Basu Das, 2018). Bilaterally, China exports engineering and labour services to ASEAN and imports transport, financial and construction services from ASEAN countries (Yang, 2009). Besides that, in 2016, 20.3 million of Chinese tourists visited ASEAN countries (around 18% of the total), and 10.3 million of ASEAN tourists visited China (8% of the total).

At present, ASEAN countries and China have collaboration across power, transport and telecommunication projects (ASEAN Secretariat and UNCTAD, 2015). Chinese multinational enterprises – both state-owned and private players – are actively participating in ASEAN's infrastructure landscape. Specifically in CLMV, Chinese companies are the largest investors in hydropower plants, dams, roads, bridges, seaports and railway networks. Since January 2016, the Asian Infrastructure Investment Bank (AIIB) has started to provide infrastructure loans to ASEAN members. Indonesia tops the list in receiving such funds, followed by the Philippines and Myanmar. In sum, services have taken on an increasingly important role in ASEAN. Indeed, it can be seen that services play a critical role in several of the key initiatives that ASEAN has adopted. Under ASEAN Economic Community (AEC) with a 500 million market by 2020, four priority sectors in services have been targeted. They are air travel, tourism, e-ASEAN and healthcare. Among the six ASEAN countries, the farthest distance between China is to Indonesia, followed by Singapore and Malaysia. These three countries are the largest countries of China's export destination (Supriana, 2013).

## 2. Literature Review

### 2.1. China and Asean Services Trade

Given the low level of development and poor infrastructure of Cambodia, there are growing outward services investment from China into Cambodia. According to Swee-Hock (2007), the main service collaboration with Cambodia lie in the field of construction and infrastructure development, especially in projects such as dams and bridges. In 2005, Chinese company make the largest investment project in hydroelectric production ever and provide 498 GWh of energy annually. Meanwhile, in December 2005, China agreed to provide a grant of US\$88 million to fund a technical survey for a 255km railway line from Kampong Speu province to the border with Vietnam. On top of that, in April 2006, China also newly pledge US\$600 million in grants and loans for dam and bridge projects. In recent years, China has invested in Cambodian's power and electricity fields such as in Tatay River hydropower dam, Lower Stung Russei Chrum hydropower station, Phnom Penh-Sihanoukville transmission line and East Phnom Penh-Neakleung-Svay Rieng transmission line and 120 MW Atai hydropower plant (ASEAN Secretariat, 2015).

Previously, China-Asean trade and investment were most focusing on merchandise goods and resources related fields. However, Indonesia is seen to have a bright potential in the fields of tourism and travel. In 2006, Indonesia held tourism promotion campaigns in China in order to attract 150 000 visitors to come to their country. China also believed that Indonesia has a potential for medical tourism since Indonesians spending over US\$500 million per year on these services. Realizing that three countries such Singapore, Australia and Malaysia have a strong basis in medical investors in Indonesia, China is planned to invest specifically in traditional Chinese medicine (TCM). Recently, China is investing on power plant in Bali and Hydropower project in Kalimantan, Indonesia. Besides that, China is also investing in the transportation project, namely Tanjung Sauh Port in Batam Indonesia (ASEAN Secretariat, 2015).

Malaysia has sought to increase opportunities in the field of shipping, logistics and distribution as market access for services trade with China further opens up. It is interesting to note that Port Klang rose rapidly in world container ports ranking from 58<sup>th</sup> in 1993 to 14<sup>th</sup> in 2005. Besides that, China also through Cosco Pacific, a subsidiary of China Ocean Shipping Group Co owned 49 per cent stake investment in a shipping terminal of the Port of Tanjung Pelapas, Malaysia. In addition, Integrated Logistics Bhd obtained a Class, a licence to operate a full-fledged logistics company in China. In 2003, Malaysia obtained 26,000 foreign students. There is likelihood to see a rising intake of Chinese students with initiatives such as twinning programmes with other foreign university. In 2004, Chinese visits to Malaysia hit a record three million. In recent years, China is willing to invest in the Malaysian transportation projects namely Kuantan Port and Penang 2<sup>nd</sup> Bridge. China's ambassador to Malaysia, Bai Tian contends that China's confidence of doing business with Malaysia remained strong, despite the review of several mega projects in the country, including that of the East Coast Railway Line (New Straits Times, 2018).

In Thailand, most of the major investment of China is in the fields of logistics and infrastructure. In April 2006, Thai-owned Trans Asia Logistics Company Limited announced a joint venture with Nuctech Company, a state run Chinese company, to invest in 4 integrated logistics centres as part of company. In recent years, China invested in 5MW ground-mounted solar photovoltaic project (ASEAN Secretariat, 2015). In Vietnam, most of China's investments are related to Infrastructure and Road Building, inter banking services, education abroad and tourism. In 2005, Chinese visitors to Vietnam stood at more than 23 per cent of the total visitors to Vietnam. In recent years, China invested in Vietnamese' power and electricity project namely 1200MW Vinh Tan 1 coal-fired power plant and transportation project namely Line 2A of Hanoi Metro.

Other than that, China also has made several investment projects in ASEAN countries such as Singapore, Laos, Myanmar and Philippines. In Singapore, China invested in transportation project namely 73 units of C951 three-car trains for the driverless Downtown MRT Line. In Laos, two power and electricity projects have been invested by China namely 3 hydropower dams on Nam Ma River and Nam Tha 1 hydropower dam. Besides, in term of transportation, China invested in the expansion of Luang Prabang International airport. Meanwhile, in Myanmar, power and electricity has been invested by

China in 530 MW Hlawga power plant and Deep-seaport on Madae Island in transportation field. In the Philippines, China is supplying trains for Metro Rail Transit Line 3.

### 3. Discussion and Conclusion

China and ASEAN are already highly integrated with respect to goods and services markets. Indeed, both China and ASEAN appear to have come to the consensus that their joint development is best served through an even closer degree of integration than that mandated by the WTO (Laurenceson, 2003). While these are positive developments, there are concerns that Chinese investment is hurting the domestic economies of receiving countries. Cambodia, for instance, heard grievances from locals that new jobs from Chinese investments go to Chinese immigrants. Even small indigenous businesses are hurt as Chinese workers favour Chinese-owned shops to service their daily needs (Touch, 2018). Likewise in Indonesia, locals complain that Chinese firms regularly bring their 'own workers and machines, creating friction with locals' (Danubrata and Suroyo, 2017).

China-funded projects are also seen as compromising the environmental conditions of the receiving countries. Recently, as Thailand decided to accelerate the project approval process, Chinese investment in a power plant was seen as going against the country's laws for environment protection. Chinese interest in investing in mega-projects like Forest City in Malaysia, Sihanoukville port city in Cambodia, Sino-Laos railway project, and the Kyaukpyu SEZ in Myanmar is regularly seen as detrimental for national debt of the recipient countries as it raises concerns over debt repayment and other strategic risks. After all, economic cooperation is a crucial aspect of the overall ASEAN-China Strategic Partnership. For years, trade and investment have been contributing to growing economic ties between the two parties.

### 4. References

- i. ASEAN Secretariat and UNCTAD (2015). ASEAN Investment Report 2015: Infrastructure Investment and Connectivity. Retrieved on 20 January 2019 from [asean.org/wp-content/uploads/2016/09/ASEAN-Investment-report-2015.pdf](http://asean.org/wp-content/uploads/2016/09/ASEAN-Investment-report-2015.pdf)
- ii. Basu Das, S. (2018). Do the Economic Ties between ASEAN and China Affect Their Strategic Partnership? Yus of Ishak Institute. Retrieved on 20 January 2019 from [https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2018\\_32@50.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2018_32@50.pdf)
- iii. Danubrata, E. and Suroyo, G. (2017). In Indonesia, labor friction and politics fan anti-Chinese sentiment. Retrieved on 26 January 2019 from <https://www.reuters.com/article/us-indonesia-election-china/in-indonesia-labor-friction-and-politics-fan-anti-chinese-sentiment-idUSKBN17K0YG>
- iv. Laurenceson, J. (2003). Economic Integration between China and ASEAN. Retrieved on 26 January 2019 from <https://core.ac.uk/download/pdf/6901553.pdf>
- v. Mann, M. (2017). Exploratory Estimates Of Us International Services By Mode Of Supply. Retrieved 1 January 2019 from [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=15&ved=2ahUKEwifq9ib-8vfAhUDsY8KHT4YDs84ChAWMAR6BAgAEAI&url=http%3A%2F%2Fwww.oecd.org%2Fofficialdocuments%2Fpublicdisplaydocumentpdf%2F%3Fcode%3DSTD%2FCSSP%2FWPTGS%2FRD\(2017\)3%26docLanguage%3DEn&usq=AOvVaw0qj\\_QI4yPH8S62gVqQkVTJ](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=15&ved=2ahUKEwifq9ib-8vfAhUDsY8KHT4YDs84ChAWMAR6BAgAEAI&url=http%3A%2F%2Fwww.oecd.org%2Fofficialdocuments%2Fpublicdisplaydocumentpdf%2F%3Fcode%3DSTD%2FCSSP%2FWPTGS%2FRD(2017)3%26docLanguage%3DEn&usq=AOvVaw0qj_QI4yPH8S62gVqQkVTJ)
- vi. New Straits Times (2018). Bilateral trade between Malaysia, China to exceed US\$100 bln. Retrieved on 26 January 2019 from <https://www.nst.com.my/business/2018/06/381187/bilateral-trade-between-malaysia-china-exceed-us100-bln>
- vii. Supriana, T. (2013). Comparing the Effects of CAFTA on Internal Trade of China and ASEAN Countries. *Technology and Investment*, 4, 10-15.
- viii. Swee-Hock, S. (2007). ASEAN-China Economic Relations. Institute of South East Asian Studies. Singapore.
- ix. Touch, D. (2018). What Does Chinese Investment Mean for Cambodia? Retrieved on 26 January 2019 from <https://thediplomat.com/2018/02/what-does-chinese-investment-mean-for-cambodia/>
- x. Yang, C. (2009). Analysis on the Service Trade between China and ASEAN. *International Journal of Economics and Finance*. 1(1), 221-224.