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ASEAN-China Relations: Does Political Tension Necessarily Impact Trade Relations?

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SYNOPSIS

*ASEAN-China trade and economic relations in general have experienced strident growth in the past few decades despite persistent political and security conflicts between China and some of the states in the region. **TIONG WEI JIE** and **LI MINGJIANG** explain the limited impacts of political and security tensions on bilateral economic ties. They also suggest that uncertainties are emerging for ASEAN-China trade relations due to new geopolitical challenges, primarily the US-China rivalry.*

COMMENTARY

Throughout the past few decades, China's political and security ties with some ASEAN countries were far from rosy despite the upgrading of official relations on several occasions. Tensions in the South China Sea were palpable during much of the 2000s and skirmishes continued to occur intermittently in the past few years. Many analysts attribute these tensions to Beijing's assertiveness in disputed waters. The maritime conflicts have had significant negative impacts on bilateral relations in the political realm. According to [The State of Southeast Asia Survey 2023](#) by ISEAS-Yusof Ishak Institute, only 38.9% of respondents in ASEAN would choose Beijing if forced to align with China or the United States. For Vietnam and the Philippines in particular, this figure stood at only 22.1% and 21.2% respectively, significantly lower than the ASEAN average.

That said, since the commencement of dialogue between China and ASEAN as a bloc in July 1991, economic relations between China and countries of the region have

developed dramatically, especially in the realm of trade. Official Chinese sources show that ASEAN-China trade increased from just US\$7.96 billion in 1991 to US\$292.8 billion in [2010](#). Trade between both sides further increased in recent years from US\$641.5 billion in 2019 to a new peak of US\$975.3 billion in [2022](#) despite the COVID-19 pandemic. China has been ASEAN's largest trade partner since 2009 while ASEAN has been China's number one trade partner since surpassing the European Union in 2020.



Despite the tensions surrounding the South China Sea, ASEAN-China trade relations have developed dramatically and do not seem to be adversely impacted. Nevertheless, ASEAN countries may consider pursuing other diversification strategies given the evolving geopolitical dynamics. *Image from Pixabay.*

The contrast between the state of politico-security relations and that of economic ties between the ASEAN countries and China is intriguing. It would suggest that the maritime conflicts have caused very limited damage to economic and trade, even in the cases of Vietnam and the Philippines, the two countries in the region that have had the most intense contestations with China in the South China Sea. At the multilateral level, negotiations for the ASEAN-China Free-Trade Agreement 3.0 are well under way, which suggests economic ties could deepen when the agreement is concluded. However, the intensifying rivalry between China and the United States and the implications of the latter's "decoupling" or "de-risking" inclination may generate some uncertainties for ASEAN-China economic ties.

The Case of Vietnam

Take Vietnam as an example. Its trade relations with China have deepened quite substantially throughout the decades. According to the World Bank's World Integrated Trade Solution (WITS), Vietnam's total trade with China increased from US\$2.94 billion in [2000](#) to US\$36.48 billion in [2011](#). Vietnam customs [data](#) shows that this figure now stands at US\$175.7 billion for [2022](#). In terms of trade reliance, Vietnam has become more dependent on trade with China over the years. According to the same customs data source, trade with China, which had accounted for just 9.76% of Vietnam's total trade in 2000, nearly doubled to 17.9% in 2011. In 2022, this number rose further to 24.1%.

The strengthening of trade relations comes at a time when tensions between China and Vietnam in the South China Sea have been ratcheting upwards. In May 2014, Vietnamese authorities protested vehemently against drilling activity by a Chinese oil rig in waters near Paracel Islands. Maritime skirmishes ensued, with some reports labelling the incident as the “[worst diplomatic crisis](#)” in decades. On land, anti-China protests turned violent when some rioters attacked factories in Vietnam deemed to be of Chinese origin. Several Chinese nationals were [reportedly](#) killed. This is just one example; keen observers of Vietnam-China relations would know well that numerous other clashes have occurred between the two countries in the South China Sea in the past few decades.

The Case of the Philippines

The same pattern is evident in Philippines-China relations as well. Trade ties between China and the Philippines have similarly deepened over the years. According to WITS, the Philippines’ total trade with China increased from US\$7.21 billion in [2005](#) to US\$12.6 billion in [2011](#). Official data from Manila shows that this figure now stands at US\$39.19 billion for [2022](#). In terms of trade reliance, the Philippines too has become more dependent on trade with China. According to the Manila data source, in 2005 and 2011, trade with China accounted for 7.9% and 11.3% of the Philippines’ total trade respectively. By 2022, this figure had more than doubled to 18.1%.

On the politico-security front, the Philippines has long been critical of China’s claims in the South China Sea and disappointed by China’s rejection of a ruling made in Manila’s favour by a 2016 international tribunal. Notably, just weeks ago, the BBC [witnessed](#) a near-collision between a Chinese coast guard ship and a Philippine patrol vessel in the disputed waters.

Future Uncertainties?

Moving ahead, ASEAN-China economic ties look set to deepen further. There is no clear sign to suggest that political tensions will have a significant impact on bilateral trade relations. Any attempts at even partial economic decoupling will have to contend with the intricately intertwined ASEAN-China supply chains. Currently, ASEAN’s overall imports from China are on an increasing trend, growing from US\$319.2 billion in 2018 to US\$567.3 billion in 2022, according to [official Chinese data](#). A significant proportion of such imports comprised intermediary products that are crucial for ASEAN’s eventual exports. For instance, calculating the top three commodity groups that Vietnam [imported](#) in 2022, China alone accounted for (1) 29.4% of computers, electrical products, spare-parts and components, (2) 53.8% per cent of machine, equipment, tools and instruments, and (3) 50.3% of textiles, leather, footwear materials and “auxiliary group”. These intermediate goods are then processed and form a sizeable proportion of Vietnam’s exports. Given this strong economic dependency, the continued resilience of ASEAN-China trade should persist even in light of thorny political and security-related issues.

But there may be some uncertainties down the road. To begin with, burgeoning trade relations did not necessarily translate into greater trust of China’s intentions in the region. According to the aforementioned ISEAS survey, only 35.5% of ASEAN states

welcome Beijing's growing regional economic influence. In comparison, 65.7% of those surveyed welcome the United States' growing regional economic influence.

This leads us to ponder how various ASEAN countries might respond to the friend-shoring/de-coupling efforts that are currently being undertaken by the United States and its allies to reduce their economic dependence on China and how such efforts might in turn impact ASEAN-China economic ties. In particular, a few ASEAN countries are participants in the US-led Indo-Pacific Economic Framework (IPEF), which aims to build supply chain resilience. It is not entirely clear how and to what extent the IPEF may affect trade and investment relations between China and the ASEAN countries.

Under the evolving geopolitical dynamics, the ASEAN countries are also likely to step up their own diversification strategies. For instance, Vietnam has, over the years, [signed](#) many free-trade agreements with other countries in an attempt to diversify its economy. In addition, some ASEAN countries were already [noted](#) to have become more positive towards both the AUKUS and QUAD "minilateral" arrangements in recent years. How the advent of these minilaterals impacts ASEAN-China economic ties, especially in the hi-tech industry, remains to be seen.

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