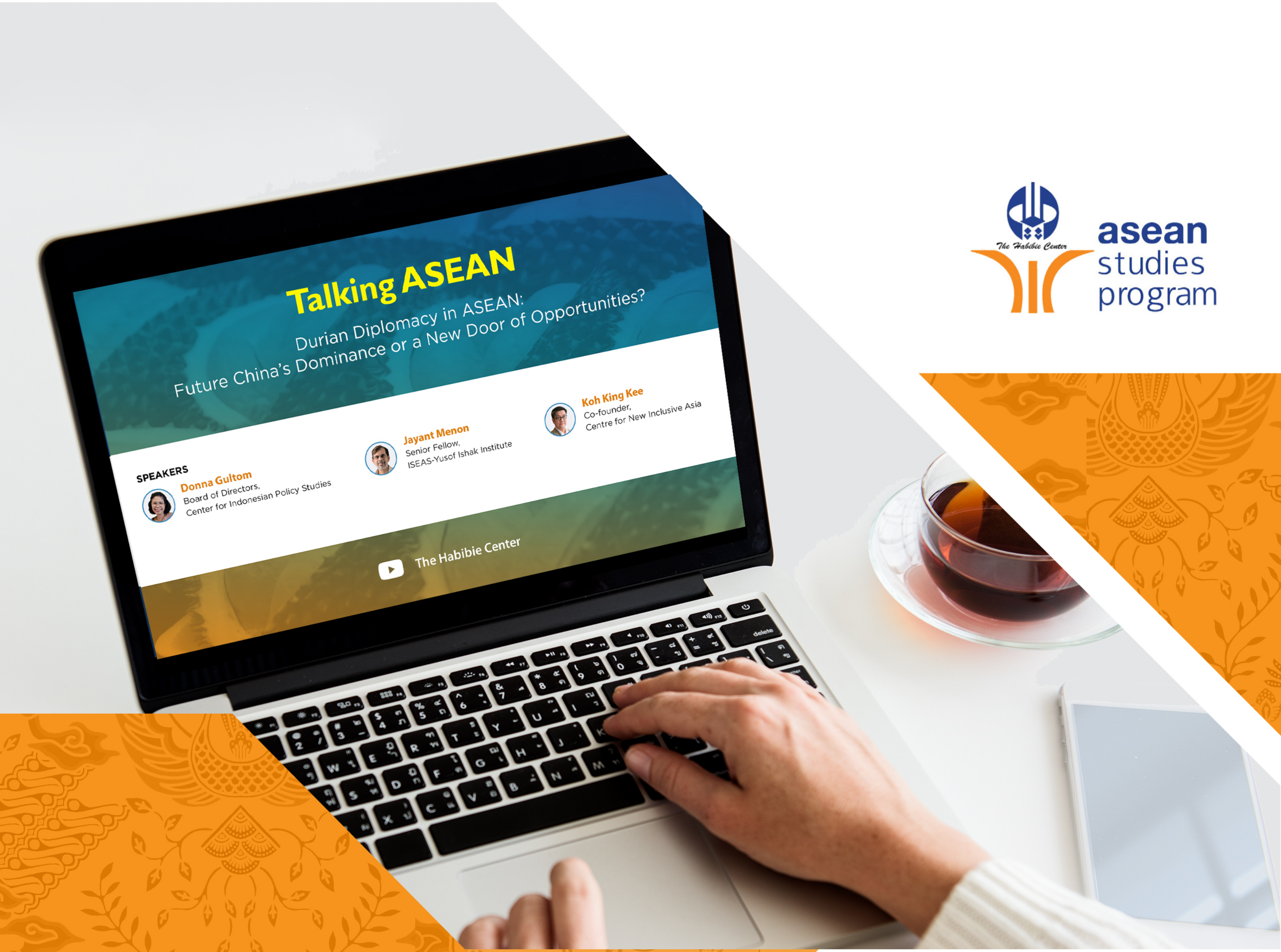


The Habibie Center asean studies program

Discussion Report Talking ASEAN Webinar

on

Durian Diplomacy in ASEAN: Future China's Dominance or a New Door of Opportunities?"

Jakarta, October 12th 2022

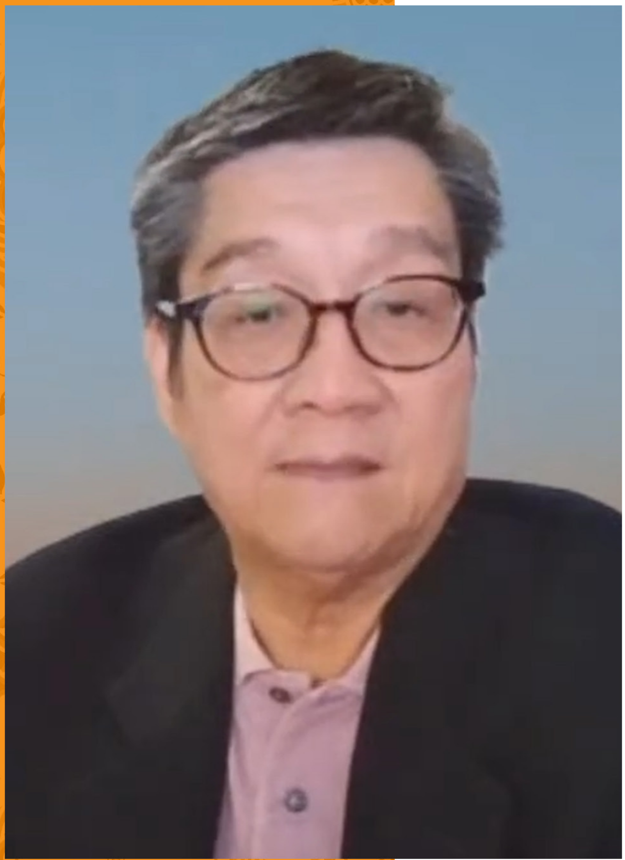
Introduction

The Habibie Center (THC) convened the 5th Talking ASEAN Webinar on 12 October 2022. Entitled **"Durian Diplomacy in ASEAN: Future China's Dominance or a New Door of Opportunities?"** the webinar invited three speakers—**Koh King Kee** (Co-founder, Centre for New Inclusive Asia), **Donna Gultom** (Board of Directors, Center for Indonesian Policy Studies), and **Jayant Menon** (Senior Fellow, ISEAS-Yusof Ishak Institute)—and was moderated by **Herawati** (Researcher of ASEAN Studies Program, THC).

The objectives of the webinar were to: (a) discuss how ASEAN engages with its trading partners and the increasing prominence of China as a trading partner in recent years; (b) assess the position occupied by agricultural commodities in ASEAN-China trade relations, particularly the importance of durian as China's main import commodity, and the notion of "durian diplomacy"; and (c) analyze the prospects and risks of dependency on the Chinese markets for ASEAN as one collective effort as well as an individual member state.

This discussion report summarized the key points of each speaker, as well as the following questions and answers session.

PRESENTATION FROM THE PANELIST



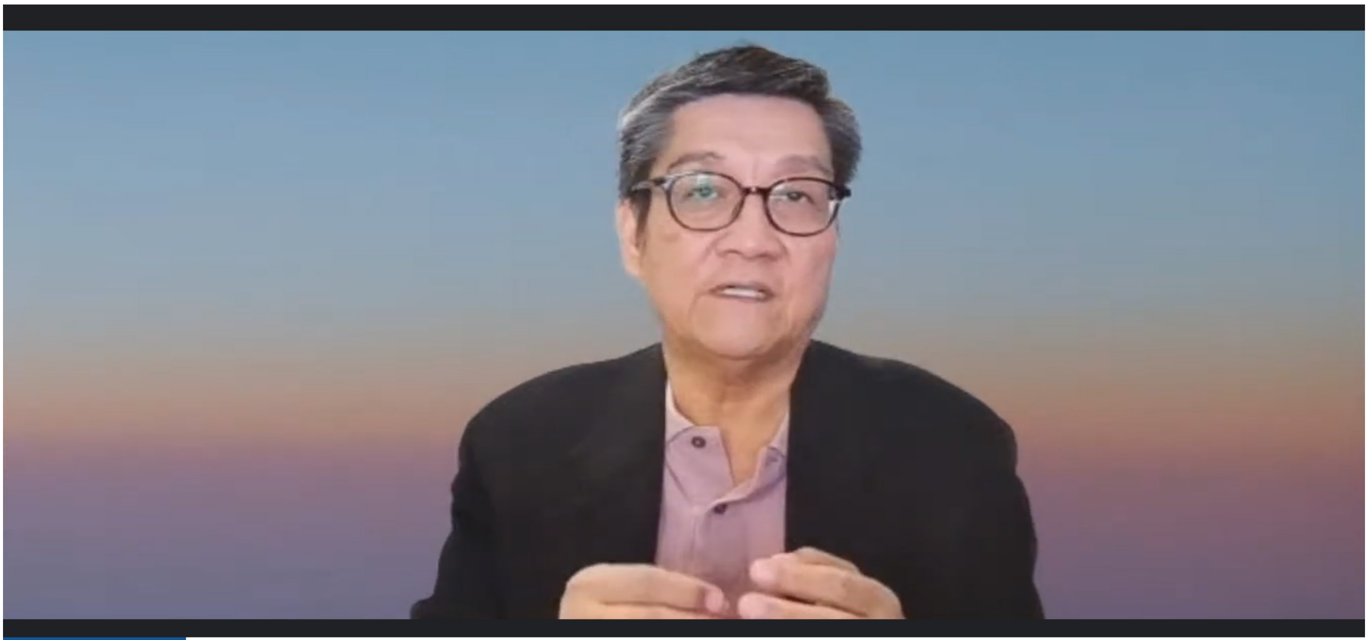
Koh King Kee
(Co-founder,
Centre for New Inclusive Asia)

Koh King Kee started his presentation with a quick recap on the relationship between China and ASEAN. China's official engagement with ASEAN countries began in 1972 when Malaysia became the first ASEAN country to establish diplomatic relations with China. Singapore was the last and did not establish formal diplomatic ties with China until 1990. After the Cold War, China's relationship with ASEAN countries got off to a fresh start. China was invited to the 1991 ASEAN Summit in Kuala Lumpur and became ASEAN's full dialogue partner in 1996. China was the first to accede to the Treaty of Amity and Cooperation in Southeast Asia in 2003 and upgraded its relationship with ASEAN to a "strategic partnership for peace and prosperity". In November 2021, at the special summit to mark the 30th anniversary of bilateral dialogue between China and ASEAN, both parties agreed to elevate the relationship to a Comprehensive Strategic Partnership.

With regard to economic ties, the ASEAN-China Free Trade Agreement (AFTA), which took effect in January 2010, laid the foundation for accelerating trade and investment between China and ASEAN. China became ASEAN's largest trading partner in 2009 and overtook the European Union to become China's largest trading partner in 2020. Trade between China and ASEAN countries skyrocketed from USD 8.36 billion in 1991 to USD 878.207 billion in 2021, an increase of more than 100 times in 30 years. Among ASEAN countries, Vietnam, Malaysia, Thailand, Singapore, Indonesia, and the Philippines accounted for 94.8% of ASEAN's total trade with China in 2020. China's trade with ASEAN totaled USD 685 billion in 2020, accounting for 20% of ASEAN's total exports and 31% of ASEAN's total imports. A unique feature of the trade relationship between China and ASEAN is that intermediate goods constitute a high percentage of ASEAN's export to China.

Despite the COVID-19 pandemic, China-ASEAN bilateral trade increased by 6.7% in 2020 and 28.1% in 2021, reflecting the resilience of China-ASEAN trade relations. All ASEAN Member States (AMS) were the early supporters of the Belt and Road Initiative launched by Present Xi Jinping in 2013, signifying the close trade ties between China and ASEAN. Chinese foreign direct investment (FDI) and construction projects in ASEAN countries have increased by 85% and 33% respectively since the start of the BRI, with Indonesia, Malaysia, the Philippines, and Vietnam receiving the most FDI from China. As of the end of June 2021, the cumulative two-way investment between China and ASEAN had exceeded USD 310 billion. ASEAN was China's third largest source of foreign investment and one of the fastest-growing regions for China's foreign investment. In 2020, China ranked as ASEAN's fourth largest source of foreign investment.

Furthermore, Kee showed a chart that illustrates over 80% of ASEAN's export to China from 2012 to 2018 were intermediate goods, while during the same period, less



SPEAKERS

Koh King Kee

Co-founder, Centre for New Inclusive Asia

than 60% of ASEAN's export to the US were intermediate goods. In short, more than 80% of China's 5 largest ASEAN trading partners' exports to China were intermediate goods.

Kee then moved on to discuss current global challenges, such as the COVID-19 pandemic, the Ukraine war, and China's zero-COVID policy, that have caused serious disruptions to the global supply chain. To mitigate geopolitical risks, supply chain disruptions, and uncertainties, multinationals and possibly some Chinese companies are adopting the "China Plus One" strategy by moving some of their manufacturing facilities out of China while maintaining the primary production base in China. ASEAN countries will benefit the most from these global supply chain adjustments as they are likely to be the preferred choice for the relocation of new production facilities or offices. This is due to the geographical proximity to China, which will translate into lower transportation costs and faster delivery, facilitated by the cumulative rules of origin under RCEP.

The COVID-19 pandemic has accelerated the digitalization of the global economy, and more people are now shopping online. The newfound popularity of live streaming e-commerce could help to spur cross-border trade between China and ASEAN, particularly the mainland ASEAN countries. The newly-opened China-Laos railway and the newly-started one crossing the China-Thai border will reduce the time taken to transport goods between China and Indochina ASEAN countries. This will undoubtedly help promote cross-border trade in agricultural products, especially food items such as vegetables and fruits between China and ASEAN.

In fact, there is a huge potential for China-ASEAN trade in agriculture products. At the special summit to mark the 30th anniversary of the bilateral dialogue between China and ASEAN in November 2021, President Xi said China would buy USD 150 billion of agricultural products from ASEAN countries during the next five years. The growing middle-class population in China has pushed up demand for tropical fruits such as durian, banana, mango, papaya, and other products from ASEAN. The popularity of durian is a strong indication of the booming demand for fruits from ASEAN states in China. To meet the logistical needs for fruit imports from ASEAN, China has implemented multiple supportive measures, such as easing the inspections of fruit transport vehicles and setting up an international cold-chain logistics park in Guangxi.

At the special ASEAN summit last year, President Xi announced that China will launch the China-ASEAN Science, Technology, and Innovation Enhancing Program, and will provide 1,000 items of advanced and applicable technology to ASEAN and support an exchange program for 300 young ASEAN scientists in the next five years.

The Biden administration's relentless and extensive efforts to stifle China's technological advancement could incentivize China to assist ASEAN countries in developing their homegrown technologies as the technology world may turn bipolar. This will inadvertently create strategic opportunities for ASEAN's homegrown technologies as China endeavors to reduce its technological dependence on the US. ASEAN should capitalize on the China-ASEAN Science, Technology, and Innovation Enhancing Program.

Kee subsequently shared his observations on the impact of US-China strategic competition on ASEAN. China's rise has changed the global power dynamics. The US, which has been the sole superpower since the collapse of Soviet Russia, deems China's rise as a challenge to its global supremacy and regards China as the "only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system." Due to its geostrategic and economic importance in the global system, ASEAN has now become the battlefield of big power rivalry, with US and China competing to gain influence over the region.

Biden launched the Indo-Pacific Economic Framework (IPEF) in May 2022, consisting of 14 participating founding members, of which 7 are ASEAN member countries. The IPEF has four policy pillars, namely: 1) Connected Economy; 2) Resilient Economy; 3) Clean economy; and 4) Fair Economy. Kee opined that this is not a free trade agreement but a US effort to reassert its economic domination in the Indo-Pacific to counter China's increasing influence in the region. In fact, it is the economic component of the US Indo-Pacific Strategy, motivated by geopolitical considerations. As ASEAN's close neighbor, China's geographical proximity to ASEAN is the inherent advantage China has that the US can't remove. Geographical proximity could translate into savings in shipping costs, quick response, and fast delivery which is crucial to a country's standing in the global supply chain.

ASEAN's total trade with China is double that of its trade with the US. Kee emphasized that ASEAN has a higher degree of economic complementarity with China as compared to the US. ASEAN countries are open economies with exports accounting for more than 50% of their GDP. It is, therefore, not surprising that, notwithstanding the South China Sea dispute, ASEAN countries tend to lean towards China economically.

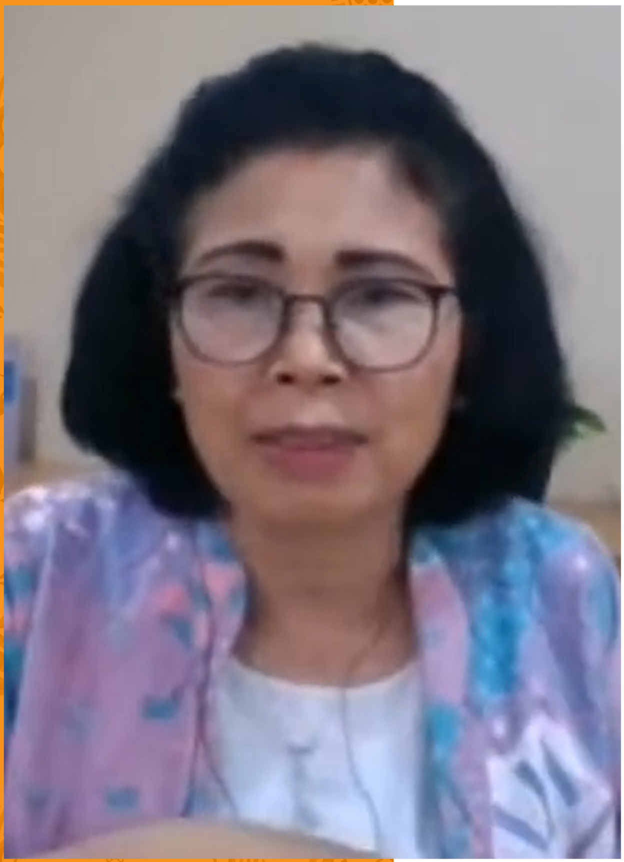
China's huge and growing consumer market is projected to double by 2030. According to a Mckinsey Report, China's consumer market is expected to grow by about USD 6 trillion from 2019 through 2030, which is equivalent to the US and Western Europe combined or double that of India and ASEAN combined. China contributed close to 30% of annual global growth in the past decade. Despite external turmoil and visible domestic headwinds due to the sluggish property market, local government debts, and disruptions caused by the zero-COVID policy, China's economic growth projection has not been derailed.

To reduce its dependence on export for growth, China has implemented the "Dual Circulation" development strategy by placing greater emphasis on its huge domestic market to spur growth. As neighbors and with RCEP serving as a facilitator, ASEAN countries could be well integrated into China's "Dual Circulation" to tag on its continued, albeit slowing, growth. The US, however, is a country thousands of miles away from Southeast Asia. Its interest in ASEAN is mainly geopolitical, thus its relationships with Southeast Asian countries are transactional.

Kee quoted a statement from Professor Robert Sutter at George Washington University, "Despite the Biden government garnering support in its competition with China from Australia, India, Japan, South Korea and Taiwan as well as European and NATO allies and partners, the competition is unwelcome or viewed warily in Southeast Asia. It adds to reasons explaining the recent US decline relative to China in Southeast Asia."

For China, ASEAN countries are its immediate neighbors, its interest in Southeast Asia is comprehensive, both economic and strategic, and must necessarily be long-term. China has plenty of room for growth as its GDP is approximately 77% of that of the US, while its per capita GDP is only about 18% of the US. Kee finally argued that, given the size of its economy and growth potential, China's rise unquestionably will bring both challenges and opportunities for ASEAN. Going forward, as China continues to grow, it is likely to become economically dominant in ASEAN, but certainly not domineering. As such, ASEAN must learn how to live with a giant as its neighbor.

PRESENTATION FROM THE PANELIST



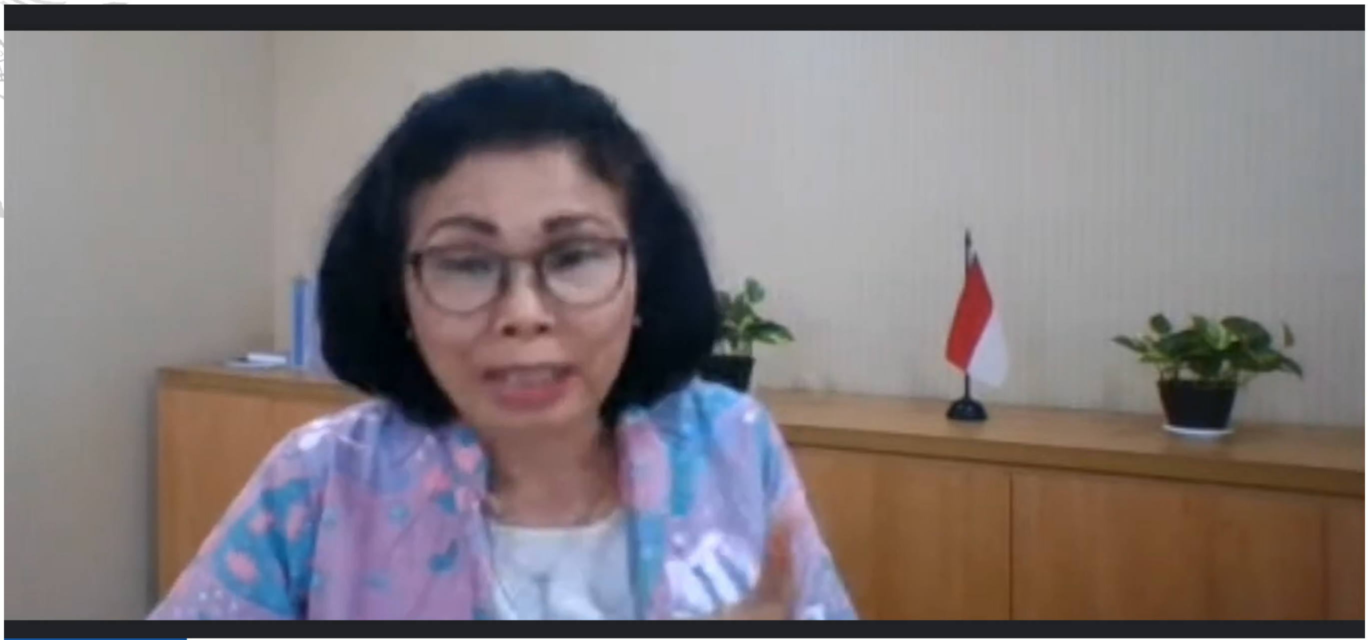
Donna Gultom
(Board of Directors,
Center for Indonesian Policy Studies)

To begin her presentation, Donna Gultom shed light on ASEAN's relations with dialogue partners. ASEAN has six Free Trade Agreement (FTA) trading partners - China, South Korea, Japan, India, Australia-New Zealand, and Hong Kong. Under the ASEAN+1 FTA mechanism, ASEAN started to implement the ASEAN-China FTA in 2005. In terms of tariffs, the liberalization commitment by China toward ASEAN is 95%, while the ASEAN Member States (AMS) are varied; to be specific, the commitment is at 92% for Indonesia.

Furthermore, Gultom highlighted the importance of trade for ASEAN-China relations as China is ASEAN's main export destination. In 2020, ASEAN's total export value was USD1.41 trillion (8.42% of global exports). The top export destinations were China (USD 216 billion), the United States (USD 213 billion), Japan (USD 99.7 billion), Hong Kong (USD 98.7 billion), and Singapore (USD 75.8 billion). ASEAN's total export to China in 2020 was USD 216 billion. ASEAN's main commodities exported to China are electronics (31.3%) and oil (8.83%). Agriculture products such as rubber and rubber articles accounted for only 4.31% of total exports, while fruit and nuts, aquatic animals, and cereals were respectively valued at 2.49%, 1.06%, and 0.71%. These are small contributions to the products demanded by the Chinese market and also show the lack of commitment from Xi Jinping to buy agricultural products from ASEAN. Moreover, China is also the main source of imports for ASEAN countries. The total import of ASEAN countries from China in 2020 was USD1.27 trillion or 28.1%. Top suppliers to ASEAN were China (USD 357 billion), South Korea (USD 93.2 billion), Japan (USD 87.4 billion), the United States (USD 75.2 billion), and Malaysia (USD 68 billion). ASEAN's main commodities imported from China were electronic parts, which accounted for 28.8% (USD 103 billion). Conversely, agricultural products such as fruits and nuts accounted for only 1.14% of imports (USD 4.07 billion) and vegetables accounted for 0.99% (USD 3.54 billion).

Gultom then identified agriculture production trends in ASEAN and China. The production of some agricultural commodities such as rice, cereals, corn, and palm oils has seemed to increase steadily in some countries. For instance, Malaysia and Indonesia show a growing trend in oil palm production. It indicates that both countries are the biggest producers of palm oils in the world. On the other hand, China produces more rice, cereals, and corn than all ASEAN countries combined.

With regard to recent development in agricultural trade between ASEAN and China, the trade in goods reached USD 684.6 billion in 2020. ASEAN surpassed the European Union to become China's largest trading partner for the first time in history. In 2020, China's direct investment in ASEAN reached USD 14.36 billion, up by 52.1%, and ASEAN's actual investment in China reached USD 7.95 billion dollars, up by 1%. Barriers still exist in both ASEAN and China, however. For instance, high tariff rates on some products of export interest to the other region persist.



SPEAKERS

Donna Gultom
Board of Directors, Center for Indonesian Policy Studies

Additionally, non-tariff barriers in the forms of quotas, licensing requirements, other forms of import control measures, and sanitary and phytosanitary (SPS) are still employed as hidden barriers, especially by China on agricultural commodities or products.

The latest trade issue is China's plan to boost economic cooperation with ASEAN, including striving to import USD 150 billion worth of agricultural products from ASEAN members over the next five years. The USD 150 billion could mean China may almost double its farm imports from ASEAN over the next five years. The pattern of Chinese agricultural exports to ASEAN has shifted from "more varieties, low price, and small quantity" to "fewer varieties, high price, and large quantity", quoted from Sun & Li, 2018.

In short, over the last two decades, China has been growing into the largest importer of agricultural products in the world, while its exports have remained at a lower level. In 2021, imports of agricultural products in China increased by 28.6%, reaching a total value of approximately USD 84.4 billion. Over the last 15 years, there has been higher growth of imports of agriculture than exports. This is due to rising living standards and shifting consumption patterns towards protein-rich food, fruits, and vegetables.

During 2018-2020, China accounted for 11.7% of the global import value of agricultural products on average, making China the largest importer of agricultural products worldwide. China's global import share has increased considerably over the last 20 years, while its export share has not changed significantly.

This illustrates China's growing dependence on the global market for the supply of food and other agricultural products.

In addition to ASEAN+1 FTA, China will utilize the Regional Comprehensive Economic Partnership (RCEP) as another opportunity to boost its export of manufacturing products. The RCEP - the world's largest free trade deal to date - covers all AMS and its five FTA partners - China, Japan, the Republic of Korea, Australia, and New Zealand. Every country now prepares itself to make use of this agreement while previously only operating under their respective ASEAN+1 FTA schemes.

RCEP will strengthen the supply chain cooperation between China and ASEAN countries. It covers 20 chapters on Trade in Goods; Rules of Origin; Customs Procedures and Trade Facilitation; SPS Measures; Technical Regulations and Conformity Assessment Procedures; Trade in Services; Investment; Intellectual Property; Electronic Commerce; Competition Rules; Small and Medium Enterprises; Economic and Technical Cooperation; and Government Procurement.

Gultom subsequently analyzed the impact of trade dependency on ASEAN toward China, as evidenced by stronger ASEAN-China trade relations in 2022. ASEAN countries, including Vietnam, Malaysia, Singapore, the Philippines, and Indonesia, have become increasingly dependent on China since 2005 because it was the first trading partner to open the market for ASEAN. From January to April 2022, ASEAN maintained its status as China's largest trade partner (14.6% of China's total foreign trade value), while China has been ASEAN's largest trade partner for 13 consecutive years since 2009. The RCEP, which became effective on January 1st this year, will further boost China-ASEAN trade and increase economic growth between countries.

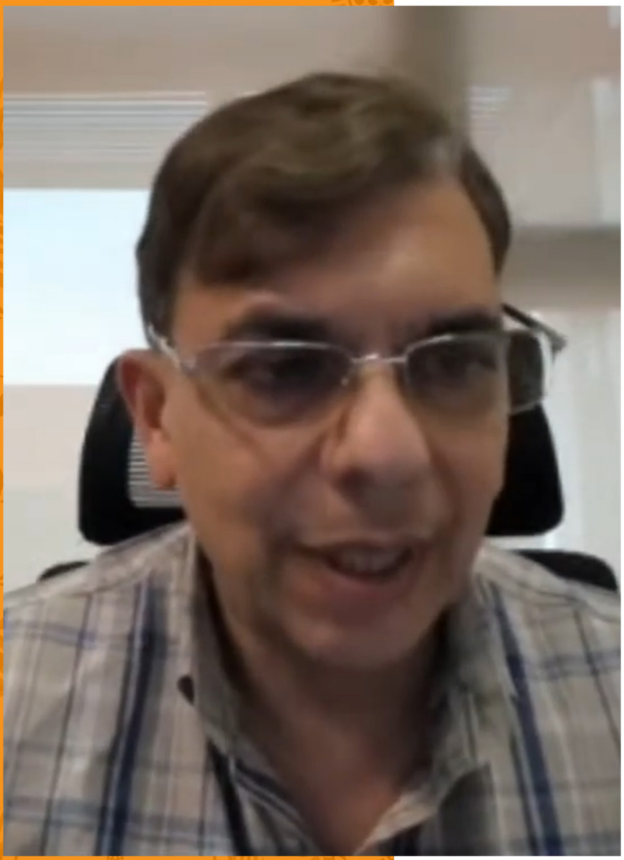
Furthermore, Gultom explored the impact of trade dependency on ASEAN countries, especially Indonesia, Malaysia, and Vietnam. In 2021, Indonesia's export to China grew by 64.97% and amounted to USD 53.78 billion. China is the biggest trade partner and a major source of FDI for Indonesia; however, the increased dependence on China could lead to negative economic and political impacts on Indonesia. There is a negative consequence of economic dependence on China, where a 1% drop in China's economic growth can affect a 0.3% drop in Indonesia.

China has been Malaysia's largest trading partner since 2009 and a major source of FDI. Trade between Malaysia and China has increased by 34.5% to USD 178.6 billion in 2021. The growing trade dependence on China may have big implications for Malaysia's economic growth. World Bank econometrics estimate that a 1% slowdown in China's gross domestic product (GDP) would result in a 0.8% decline in Malaysia's GDP.

Another salient example is Vietnam. In August 2022, Vietnam exported USD 7.83 billion and imported USD 12.4 billion from China, resulting in a negative trade balance of USD 4.58 billion. Since 2001, Vietnam's trade deficit with China has grown rapidly. Heavy reliance on China's intermediate and capital goods has made Vietnam's production chains vulnerable.

Finally, Gultom concluded her presentation by stressing that China's use of trade as a weapon in geopolitical situations has made economic conditions increasingly uncertain. On the other hand, China does not see ASEAN as a competitor, but more as partners in trade. Hence, AMS must be aware and make optimal use of the ASEAN-China FTA to minimize the effect of the geopolitical situation on trade. ASEAN needs to work on agricultural sectors to improve its market share in China. China's import of agricultural products will continue to grow and this is an opportunity for ASEAN.

PRESENTATION FROM THE PANELIST



Jayant Menon
(Senior Fellow,
ISEAS-Yusof Ishak Institute)

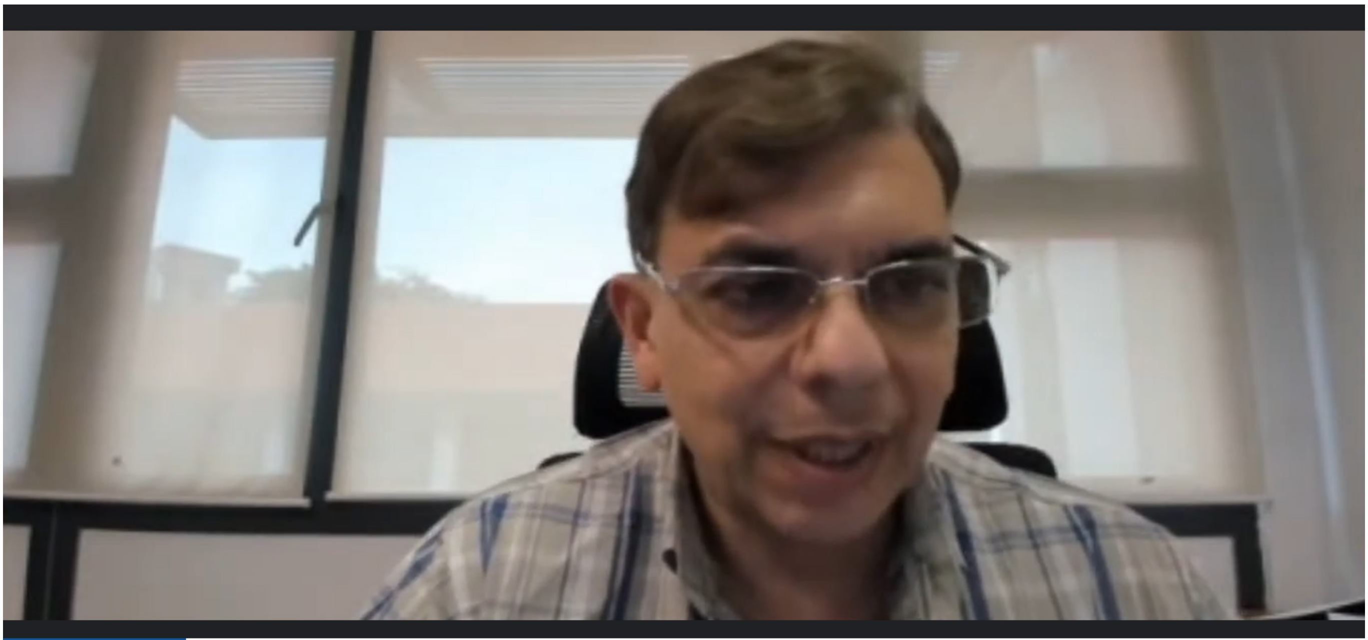
Jayant Menon presented the prospects and risks of dependencies on the Chinese market for ASEAN and its member states. He provided a particular focus on the role of global supply chains and manufacturing in the relationship between ASEAN and China.

Menon began his presentation by outlining that ASEAN's dependency on China is twofold—firstly through agriculture, and then secondly on the manufacturing and supply chains side. He noted that the key thing to remember about supply chains in this discussion is that there is a high level of interdependence when one part of the supply chain is affected, these effects reverberate throughout the whole chain. For example, when the US tries to push China out of supply chains through punitive tariffs, it is also going to affect the ASEAN region both positively and negatively.

As Kee discussed prior, there is a China Plus One Policy being pursued and a number of ASEAN countries are already benefiting from the US-China trade war through restructuring and relocation of supply chains. There have been many discussions of Vietnam in the newspapers and elsewhere as being a major beneficiary of this type of restructuring, but others such as Malaysia and Thailand have also benefited, and perhaps increasingly Indonesia and the Philippines. We also see some of the investments moving out of China—not just foreign firms but also originating from China itself. This has been evident already in the huge volume of FDI from China flowing into the ASEAN region. COVID-19 gave this process a major boost by increasing the amount and pace of the restructuring. It does not account for all of it, however, the trade war is likely the bigger factor.

Both COVID-19 and the trade war are accelerators rather than inducers. This restructuring began before the pandemic or the trade war, starting with rising wages and the tightening of environmental regulations in China. This is a natural outcome of progress in China, and the flying geese pattern of supply chain relocation applies to China equally to other countries in the region. By their very nature, global supply chains are dynamic beasts—forever evolving and restructuring. As a result, Menon argued that it is totally expected that there would be restructuring and shocks. Thus, adjusting to shocks is the status quo of how they grow.

Menon noted that it is important to highlight the difference between the change in costs, like rising wages in China, which pushed a lot of relocation initially, and the impact of tariffs that are part of the US-China trade war right now. If a small change in trade costs can cause global supply chain relocation, then even a small bilateral tariff can have a much greater amplified effect on relocation. This is because there is no one-to-one equivalence or relationship between changes in trade costs and changes in bilateral tariffs.



SPEAKERS **Jayant Menon**

Senior Fellow, ISEAS-Yusof Ishak Institute

The Habibie Center

Menon then moved on to explain that in the US-China trade war the amount of protection that is provided to countries that compete with China for activities along the supply chain is much higher than suggested by the tariff rate alone. Despite the fact that the value-added share from China is what triggers the tariff, the tariff is applied to the total value of the product. For instance, even if only 1% of the value is added from China for a product that costs $100, and a 10% tariff is applied, the tariff will be 10% of the total $100 value, not the $1 which the Chinese value added. As a result, the 10% tariff actually becomes a 100% tariff. As a result, the 10% tariff actually becomes a 100% tariff because the value added is so much smaller than the total value to which the tariff is applied. In the context of the US-China trade war, Menon called this the "effective rate of spillover protection."

Menon then referred to real data from 2019. On average, for total manufacturing in 2019, only about 30% of the value added to Chinese exports was actually Chinese contact. However, using the concept of effective rate of spillover protection, we can see that a 15% tariff actually becomes a 49% tariff, or a 25% tariff actually becomes 81%. This tariff has a magnifying effect on tariffs in the trade war, meaning that even a small tariff can have a huge impact.

As an example of this impact, if the US applies a 15% tariff on Chinese products it becomes, in effect, a 49% tariff on the Chinese value added. As a result, as long as Vietnam can do whatever China is doing for less than 49% more of the costs, then it makes sense to move out of China into Vietnam to avoid the tariff on a completed product. As a result, this small tariff gives competitors in ASEAN a huge comparative advantage in attracting FDI out of China into their countries to avoid the bilateral trade war tariffs.

Menon argued that the theory above suggests there should be quite a bit of relocation out of China; however, in practice, there have been some, but nowhere near the amount that would be expected. Supply chains have been remarkably resilient to the trade war tariffs. In fact, the shifts that have been seen are mainly in labor-intensive industries—the so-called 'footloose' industries such as textiles, clothing, footwear, leather products, and similar where the fixed costs are low and the costs of relocation are also relatively low. This is what we have seen mostly leaving China into Vietnam, Thailand, and Malaysia. There has also been movement in some of the labor-intensive segments of electronics and automotive parts, but not the capital-intensive segments of the same industries (which is the bulk of those industries and the bulk of global supply chains). These are the so-called ETM industries—electronic, transport equipment, and machinery industries.

Menon also noted that ETM industries have not yet relocated out of China in any significant way. Demonstratively, the trade surplus from China to the US has actually grown since the beginning of the trade war, and trade and investment numbers are booming. Despite the magnifying effects of the aforementioned protection, we are seeing very little relocation of the key industries of supply chains. As a result, Menon concluded that supply chains are much more resilient than they appear. ASEAN's current dependence on China is still very much intact. He emphasized that changes are taking place but not in the key ETM industries and not in any significant way. Importantly, this is something to bear in mind when people start talking about the need for reshoring, nearshoring or friend-shoring, and then start providing subsidies to try and get firms to return home (as done by the US, Japan, and perhaps others).

The taxes and tariffs have not worked, and neither have the subsidies—a lot of the Japanese firms that were given subsidies to return from China did come back to Japan and did accept the generous subsidies, however, they simply waited a while, and then subsequently went back to China or went to other parts of ASEAN. Menon opined that it is likely we will see the same to be true for the US, as they try to retrench a lot of the semiconductor and component parts industries. Semiconductors are complex and have a complex network of supply chains, so you cannot simply try and shave off one aspect and say we want these to be produced in the US for security reasons and try to convince them with subsidies. Rather, we must understand these things do not work because the ETM industries are capital-intensive with high shares of fixed costs. The technologies involved are not very divisible and cannot be separated out easily, so there are fewer segments of the supply chain that can be transferred across borders. You cannot simply recreate the ecosystem very easily or cheaply—it would be very costly to move these capital-intensive ETM industries.

We have not reached a point where it makes economic sense to move them out of China—though that is not to say we won't reach that point if the trade war escalates further. If there are things like bans on technology, then there may become a point where it will make economic sense to move everything. It would, however, be bad if this happened—it will not only be costly for China, but also for ASEAN and the US in the end. The fact that these complex production processes operate within an ecosystem that is less divisible and more difficult to recreate elsewhere suggests that we are locationally resilient. Menon stressed that this is something we should stop trying to change—if we start reversing the trade war then it will ultimately be good for ASEAN, China, and even the US.

Menon concluded that ASEAN supply chains are still very much China-centric, though less so since the pandemic and trade war, and they are likely to remain so for the foreseeable future. This is the reality that ASEAN countries must navigate around as the trade war and frictions continue and seemingly escalate. Ultimately there will likely be a difficult period approaching, but ASEAN prospects are still very much tied to China. China is now a major investor in ASEAN, which is also increasing interdependencies. We must live with both the US and China as important trading, economic, and strategic partners. He hoped finally that the trade war will soon come to an end or at least stop escalating, and we will find that we can all prosper together rather than exist in unnecessary competition.

QUESTION AND ANSWER SESSION

Questions

Sidiq (Bandung):

In response to all speakers' discussions on dependence or interdependence on the Chinese market, how would all speakers respond to concerns over China's food security in the future? And what opportunities or challenges should ASEAN expect?

Responses

Koh King Kee (Co-founder, Centre for New Inclusive Asia):

The issue of dependency is unavoidable. Of course, it is natural to not want to depend too much on someone, however, there can be an ideal situation. As shown by research from Hong Kong University, China's rise does benefit the whole world—according to the report, from 1994-2017 a 1% increase in the share of US apparel import in China would lower the annual rate of growth of the US and consumer price index by approximately two percentage points. In addition, the reduced price of non-oil consumer goods has resulted in an estimated average annual saving of USD 633 billion between 1994 and 2016 for US consumers, which is approximately 12% of the average annual US non-oil consumer expenditure during the same period. The level of the US consumer price index in 2017 would have been 20% higher if the share of US imports from China had remained at the 1994 level. This demonstrates the benefits of globalization, though, of course, some will benefit less than others.

Regardless, the arrangement between the US and China is difficult because everything has been politicized, meaning that states will try to hurt their opponent which will ultimately hurt themselves as well. Kee noted that, from his personal experience being an overseas Chinese person, it is not in the Chinese culture to hurt someone. Of course, however, it makes sense to want to reduce our dependence on China and the US, or on anyone, and buy evenly from everyone.

In reality, however, it cannot be done. China is huge, and China's per capita GDP is only around 18% of the US, while its total GDP is 76% or 77% of the US. This demonstrates that there is still significant room for increase. If China's per capita GDP theoretically doubled, then China's GDP would be 100% to 150% of the US. China garners attention because of the vast number of people, and other countries with significant populations such as India will soon face the same issue.

Ultimately, if you put aside geopolitical issues, the world will be much better. China's worldview is that we are all in the same family, and there has been a focus on promoting the community of shared future. Kee noted that he has been very involved with this goal and that China wants the world to be inclusive and open. So far, however, the world has been dominated by the West and its attempts to ensure everyone conforms to its standards. As a practical approach to geopolitical issues, Kee suggested the mindset of "live and let live".

Donna Gultom (Board of Directors, Center for Indonesian Policy Studies):

Gultom began by echoing the comments of Kee—that there is big growth in the Chinese economy which is actually beneficial for ASEAN. She then noted that food security is another big issue and that every country must take care of itself. She does not believe that China sees AMS as the enemy, and believes the trade war happens because China has been treated unfairly.

In relation to food security in Indonesia, AMS have so far handled it themselves, and prior to the geopolitical situation, China has already imported food agriculture products a lot and Indonesia is still in a good situation. Gultom argued that Indonesia's food security will be more affected if the war between Russia and Ukraine continues because much of Indonesia's food is imported from that region.

Gultom noted that it is important to work on ourselves and to understand the benefit we can get from China. Her worry is if the economy of China is changing and there are crises, it will affect Indonesia. Ultimately, Indonesia needs to work on its competitiveness. For example, as Menon referred to the location of industries such as ETM, Indonesia can work on its sites in other sectors with a focus on what can bring benefit to all AMS. Finally, she also argued we should avoid seeing China as the enemy.

Jayant Menon (Senior Fellow, ISEAS-Yusof Ishak Institute):

Menon began by noting that he agreed with the comments of his co-presenters. The Russian invasion of Ukraine has indeed highlighted the issue of food security since both states are huge food exporters and many countries have been affected by this. Food security has been an issue for a long time, however, disturbingly, this time there has been a lot more talk about self-reliance. For instance, Singapore can never be self-reliant when it comes to food and it therefore must always trade. Many other countries are in the same place but Singapore is just an extreme example of the need to keep markets open and resist the increasing temptation to impose export bans at a time of uncertainty and rising prices.

Many countries such as Malaysia, Indonesia, and India have banned exports of different products and it actually has not helped their prices very much, and in fact, it will likely cost them lost sales and lost supply channels in the longer term. Hopefully, Menon argued, people will realize the mutual benefit of keeping markets open and satisfying our needs.

The big challenge to food security is ultimately climate change, and this is where we need to ensure that future growth in the agricultural sector does not exacerbate climate conditions. Instead, we need to ensure we are actually finding ways of adapting to an increasing number of climate events, including weather and natural disasters. Developed countries such as Singapore can help the countries they import from to adopt climate-resilient or climate-sensitive production, which will help global food security overall

Questions

Helmy Aulia:

Is there any way to engage the US in ASEAN trade multilateralism? Noting that the Indo-Pacific Economic Framework is not an agreement, what can ASEAN expect from it?

Responses

Donna Gultom (Board of Directors, Center for Indonesian Policy Studies):

On the first question—ASEAN already continually engages with the US, with the US being the second largest destination for ASEAN exports. As Menon highlighted, the US has interests in forming a trade arrangement with ASEAN to ensure trade is not excessively dominated by China. The US does not seem to be interested in forming a multilateral FTA with ASEAN, or in joining other forums such as the RCEP. Initially, there were many AMS involved in the Trans-Pacific Partnership (TPP) negotiations, however, now only the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is agreed upon, rather than the full TPP. The best way to deal with the US is to maintain the interests that already exist, and work with the US for the interests of AMS. So far this approach has worked, for example, the Indo-Pacific Economic Framework (IPEF) has been discussed for a long time with AMS. Indonesia does say it is interesting, though perhaps it is not serious. Perhaps it is not within the interests of all ASEAN states to bring the US into an FTA, and maybe they do not have it in their mind yet either.

Koh King Kee (Co-founder, Centre for New Inclusive Asia):

In general, we all agree that ASEAN is open and we are all small countries that welcome investors. For example in Malaysia, Intel invested and set up their assembly lines in Penang back in the 1970s, which was a big benefit due to new jobs and there were no resultant political issues. The issue, however, is when you bring geopolitics into the discussion.

It is important to be more accommodating because you cannot expect everything to be within the US or Western standards. China, being a developing country, is more understanding of the developing world, which is why they are better able to get along with ASEAN. It is beneficial to set high standards, however, we do need to reasonably assess whether ASEAN countries are capable. Singapore has a per capita GDP of around $51000, whilst Cambodia, Laos, and Myanmar are comparatively very poor. This makes cooperation with ASEAN very complex, and it is important to communicate and try to set standards from a cooperative perspective that understands where other partners are coming from. For example, the Indonesian Defence Minister made a speech about shared Asian values, and this idea should be the way. Kee drew from an analogy from a scholar about Western culture and Chinese culture who argues that Chinese culture seeks harmony, whilst Western culture is a duel. Kee reflected that perhaps the scholar is right, although also reflected that he was educated in the West and can also understand the Western perspective. He finished by saying that if you try to understand each other, then the world will be more peaceful. Without peace and security, there will be no more development.

Jayant Menon (Senior Fellow, ISEAS-Yusof Ishak Institute):

The US attempts to engage on the economic front with the region through the recently-announced IPEF. Of course, this is not a traditional trade agreement and there is no exchange of concessions. Rather, it is all about setting rules and infrastructure. Menon argued that this is acceptable if you are a rich, developed country; however, many developing countries are still seeking an exchange, particularly in access to a large and high-income market like the US. As a result, they are not particularly interested in implementing all of these rules, which ultimately have short-term costs for long-term benefits, without any compensation in the short-term in the form of access to the US market.

The reason, however, that the US does not give this benefit is because of their domestic politics—if any politician in the US embraces a free trade agreement right now, they would be committing political suicide. This is why the TPP never happened and why it became the CTPPP in a much more watered-down fashion. Unfortunately, right now, you simply cannot sell an FTA to the US electorate. This is because currently, rightly or wrongly, they blame these types of agreements on the hollowing out of the middle and the so-called 'export of jobs', as well as the manner in which the industrial balance is suffering throughout the US currently. Menon noted that he thinks they are currently picking the wrong culprit; however, this is ultimately the current reality and this is how politicians are responding.

As a result, we cannot expect too much from the US in the foreseeable future in terms of re-engaging on a traditional economic agenda. IPEF does have some sweetness in that it allows a lot of flexibility—for example, you can negotiate on any one of the four pillars. The US will likely continue to engage in areas of defense and climate change and strategic cooperation, but it will still lag behind on the economic front for domestic political reasons.

Questions

Nisa (The London School of Economics and Political Science):

What other strategies should Indonesia & Malaysia devise to pressure China into lifting tariffs on palm oil? How should ASEAN contribute or could ASEAN do anything at all? Should we be concerned that IPEF will fail to materialize or amount to anything at all, taking into account what happened to TPP?

Responses

Donna Gultom (Board of Directors, Center for Indonesian Policy Studies):

Gultom pointed out that ASEAN is unique in responding to this challenge because ASEAN is working on opening up its market to Asia. It has trade relations with approximately ten committed partners and does not have any external tariffs or any external standards. Gultom noted that she is unsure of how to work out the palm oil issues with China.

During negotiations on RCEP, she negotiated with China on this matter and tried to understand why this was China's only strategy to protect its farmers who produced sunflower oil. The tariff is not actually high, but it is specific to Indonesia and Malaysia and is seemingly maintained quite strictly. This issue exists not because China does not want the products, but because they want to use the tariffs to protect their own farmers.

China does have commitments to unilaterally open up to their partners, RCEP for example, the crude palm oil (CPO) opening secured quantities of Indonesian products and promised to support approximately 150 billion per year of products. China will, however, only open the sectors that are less sensitive for them and for their farmers. All other countries do also try to protect their farmers so they can maintain their own industries and not completely depend on imports.

It is important to be intensely communicative with China to obtain a commitment for a certain number of years so that there is a binding commitment to liberalization. China does not have an issue with manufacturing, for example, although Indonesia's capacity to enter China's market is also lower.

Ultimately, Gultom reflected that when all of the products that can be exported to China are analyzed and how competitive the Chinese competition is, she does not know how we can get out of this situation. It is difficult to deal with China because they are so far ahead in their economic competitiveness in the world. We should ultimately aim to communicate better so there is more Chinese investment in Indonesia, and then access to foreign markets would also open.

Questions

Luthfy Ramiz (The Habibie Center):

Kee mentioned that geographical proximity to ASEAN is among the advantages China has in regard to its dominance, especially in trade. If the US hypothetically had the geographical advantage that China had, could the US enjoy the same advantage of dominance in ASEAN?

Responses

Koh King Kee (Co-founder, Centre for New Inclusive Asia):

We cannot choose our neighbors, we are born with them and have to live with them. China has its own political system which is quite different, and China is not as open. China is not so difficult to deal with if you understand them. For example, returning to the issue of farmers—farmers' interests are of the utmost importance to the Chinese Communist Party so it is essential they are protected. Every year the first policy statement is on farmers, which shows just how important they are. Culturally China is also different from the West and other parts of Asia. For instance, on the topical issue of human rights, the West values freedom of speech and freedom in general. China, however, says if they have no food to eat then they cannot worry about human rights—they are ultimately at different stages of development than the west.

We need to be more inclusive, not 'my way or the high way'—the trouble is the West has this attitude. There are a lot of things that China proposes that are very good, but it needs to be implemented to actually convince people. Engagement is very important—if you start cutting off the engagement between Washington and China then it is very difficult. You must speak to your enemy to settle your problems at the table, not on the battlefield. We need to keep our channels of communication open, especially in times of turmoil. In international relations, there is no love, only national interest, but sometimes we need to compromise and respect the opposition so that we will be respected. If you drive a guy to nowhere then of course he will hit back hard.

Jayant Menon (Senior Fellow, ISEAS-Yusof Ishak Institute):

Even with the US being where it is, it was the biggest influence in the region in many ways for a very long time—not because they were far away but because the door to China was closed. Now, China has become the biggest economic power as they have opened up and embraced the global trading system. You do not have to be next door to be a major influence, and even today the US remains a very important trading and investment partner of the region, despite being on the other side of the world.

In addition, the cost of distance has been coming down very sharply through technological change—firstly through shipping technology and now through the digital revolution. This is why all these calls for reshoring and nearshoring are contradictory—saying that we need to close our supply sources, whilst at the same time the same countries are talking about the importance of digital technologies. Distance is not the critical factor, but rather it is policies more than anything. Tariffs and non-tariff barriers and all kinds of other policy-induced frictions are the real problem and are what we need to address if we are going to actually reduce the costs of trade and increase engagement and integration.

Questions

Anonymous:

In response to your explanation about China's mindset that "do not do to others what you would not have them do to you," it is quite impressive. We all wish international relations can work that way ideally. You also mentioned that there are too many geopolitical considerations rather than just cooperation across nations. How would you respond to China's ban on fruit importation from the Philippines because of the South China Sea issue during 2012-2016? Also, why did China impose trade restrictions on Australian trade items, such as wine, beef, and lobster until now? China has also been using trade and tourism as a weapon to "punish" the Czech Republic, Lithuania, and Taiwan for several years. Do you think that China would be able to justify itself based on what you have just mentioned, namely harmony, pure cooperation, and no political calculations?

Responses

Koh King Kee (Co-founder, Centre for New Inclusive Asia):

Washington needs to explain why it has imposed sanctions on Cuba for so long. We have to face the reality—what I said earlier was very idealistic. Most of the time you have to do something, otherwise, you get hurt. Under normal circumstances the trade bans against Australia would not happen, however, because Australia became an ally of the US, this is something that China views as hurting its interests, so it needs to fight back. China has never sanctioned any country because the common people suffer (unable to get medicine and food). Even if someone is sanctioned it must be very targeted to ensure it is fair. When you sanction a country, innocent people get hurt; however, nobody questions whether this is justifiable.

Donna Gultom (Board of Directors, Center for Indonesian Policy Studies):

Gultom sees that China never started the war first—their mechanism is to put pressure on other countries to support China. If Indonesia's economy was as big and influential it would do the same—of course, it would use sanctions if someone else hit or hurt them. This is not to say that Indonesia is currently afraid.

Gultom does not like the current geopolitical situation, as it has made the world worse. She proposed that every country has to come down and see that what they have done in the geopolitical issues and trade is harmful to the whole world. Her view is that China is using economics and trade because they have opened their market. Once China sees something is done that is indirectly supporting its enemy, then of course it is logical that it will do something hurtful in return.

ABOUT ASEAN STUDIES PROGRAM

The ASEAN Studies Program was established on February 24, 2010, to become a center of excellence on ASEAN related issues, which can assist in the development of the ASEAN Community by 2015. The Habibie Center through its ASEAN Studies Program, alongside other institutions working towards the same goal, hopes to contribute to the realization of a more people-oriented ASEAN that puts a high value on democracy and human rights.

The objective of the ASEAN Studies Program is not merely only to conduct research and discussion within academic and government circles, but also to strengthen public awareness by forming a strong network of civil society in the region that will be able to help spread the ASEAN message. With the establishment of ASEAN Studies Program, The Habibie Center aims to play its part within our capabilities to the ASEAN regional development.

ABOUT TALKING ASEAN

Talking ASEAN is a monthly public dialogue held at The Habibie Center in Jakarta. Covering a wide array of issues related to ASEAN, Talking ASEAN addresses topics of: Economic Integration, Socio-cultural, & Democracy, human rights and regional peace, among others. Featuring local and visiting experts, Talking ASEAN is one of a series of twelve dialogues regularly held each month and open to a target audience consisting of ASEAN officials, foreign ambassadors & diplomats, academics, university students, businesses, and the media.

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