The Nanning-Singapore Economic Corridor:
Challenges for China and ASEAN

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To compete for GDP growth, many provinces and localities in China are developing their own “going out” strategies. Yunnan for instance is taking advantage of its “bridgehead” position vis-a-vis the Greater Mekong Subregion and Guangxi’s role in the Beihu Gulf Economic Zone development to capture more economic benefits under the CAFTA framework. The Nanning-Singapore Economic Corridor is in reality a “sub-sub-regional cooperation” attempt within the Beihu Gulf Economic Zone.

CHINA TODAY IS clearly an emerging global power, particularly viewed in the post-financial crisis context. However, it should be remembered that the economic rise of China was originally a regional phenomenon. How does the rise of China impact on ASEAN?

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China’s relations with Southeast Asia (traditionally called Nanyang or “south sea”) have been historically very extensive and deep-rooted because of geography and migration. With the formation of the People’s Republic in 1949, the “Cold War” started to affect this relationship. In the early 1980s, as China’s started its economic reform, individual ASEAN countries also began to normalise political and economic relations with China.

Indeed, when China started its economic reform and open-door policy in the early 1980s, it made an immediate impact on its neighbouring economies, especially those in Northeast Asia: Japan, Hong Kong, Taiwan and later South Korea. They soon started to economically interact with China, benefitting from China’s opening up through trade and investment. Subsequently, as China’s economic reform process intensified and its external economic policies became even more open, especially after its accession to the WTO in 2001, the impact of China’s successful economic growth began to be felt by its other neighbouring countries to its south. These are the 10 Southeast Asian countries that formed the Association of Southeast Asian Nations (ASEAN).

Initially, China’s economic relations with Southeast Asia were quite weak, with their two-way trade amounting to no more than two percent of each other’s total trade, with most trade activities in Singapore and Malaysia. As China’s economy continued to expand, its spillovers into Southeast Asia also grew. In 1995, the two-way trade between China and ASEAN was only US$20 billion; but it increased more than tenfold by 2008, amounting to US$223 billion. Indeed, by 2009, China became ASEAN’s third largest trading partner, accounting for more than 11% of ASEAN’s total trade.

Apart from its rapid economic growth, China’s expanding economic relations with ASEAN were also facilitated by the China-ASEAN Free Trade Agreement (CAFTA), which was first proposed by China’s former Premier Zhu Rongji in November 2000, and the framework agreement signed in November 2002. The CAFTA came into operation in January 2010, freeing tariffs for 7,881 products or about 90% of the trading commodity categories.

CAFTA has also stepped up FDI (foreign direct investment) flows between the two sides. ASEAN’s FDI to China increased from US$3.3 billion in 2002 to US$5.5 billion in 2008. More significant has been the sharp rise of China’s outward FDI to ASEAN, rising from US$20 billion in 2001 to US$70 billion in 2007. Tourism, too, has also grown by leaps and bounds. Many ASEAN countries have become one of the top destinations for Chinese tourists.

For many years, China has used its special economic zones in Guangdong and Fujian as gateways for its trade and investment activities with ASEAN. But China is such a vast, continental-sized country that many individual provinces and localities have taken their own initiative to develop their “going-out” strategies towards their adjacent neighbouring countries.

The case in point is Yunnan’s plans to take advantage of its so-called “Bridgehead” position vis-à-vis the GMS (Greater Mekong Subregion, comprising Cambodia, Laos, Myanmar, Thailand, Vietnam and China’s Yunnan province) and Guangxi’s role in the Beibu Gulf Economic Zone development. Both are actually sub-regional cooperation
activities designed to optimise or capture more economic benefits under the overall CAFTA framework. The Nanning-Singapore Economic Corridor is what may be called a “sub-sub-regional cooperation” attempt within the Beibu Gulf Economic Zone.

ASEAN Looking North

Broadly speaking, ASEAN shares more or less similar geopolitical and geo-economic considerations with China, with geography and history figuring prominently in its overall relations with China.

Economically speaking, China and ASEAN are both complementary and competitive. China’s economic growth is in need of primary commodities and natural resource products from the ASEAN region while China as a large industrial economy can also supply individual ASEAN countries with a wide variety of manufactured products. But there is a competitive angle. Many of China’s labour-intensive manufactured exports tend to compete directly or indirectly (i.e., in the third country market) with similar products from ASEAN. The case in point is textile and clothing. Apart from competition in manufactured exports, ASEAN has also felt the pressure of too much FDI being diverted from ASEAN to China. Accordingly, some ASEAN countries (e.g., Indonesia) in the 1990s were apprehensive of China’s economic rise.

Not surprisingly, China’s initiative of offering an FTA to ASEAN, the first of its kind for ASEAN, was widely seen as Beijing’s strategy to alleviate ASEAN’s fears of a rising China, even though all free trade agreements are fundamentally a win-win for all parties in the long run. In actual fact, the fears of China’s economic rise on the part of

![Figure 1: China's Trade Balance with Selected Economies (US$ Bil)](source)
ASEAN had started to subside in the later part of the 2000s. The CAFTA might have produced some beneficial effects. More importantly, China’s continuing economic growth has produced significant positive spillover to the ASEAN economies.

In recent years, China’s high economic growth has become increasingly more “inclusive” in both global and regional contexts. First, as can be seen from Figure 1, China tends to import more from its neighbouring economies than exporting to them (with some exceptions like Vietnam), thereby incurring a trade deficit with these economies while it turns around by incurring a trade surplus with the US and EU. This means that China operates as an engine of economic growth for many ASEAN economies, which are taking advantage of China’s vast domestic markets for their own economic growth.

Second, of even greater importance, China is home to many global and regional production networks, through which China both imports and exports, but for different parts and components. China is not just the world’s foremost manufacturing base, but also the world’s largest processing base, as slightly over half of China’s trade comes from its processing activities. China imports various parts and components from different countries in the region for processing into finished products and then exports them (as “made-in-China”) to the US and EU markets. In this way, China’s export-oriented economic growth actually serves to integrate all the economies in the region with mutual benefits for all. Figure 2 illustrates the powerful integrating effect of China’s dynamic economic growth.
The recent global financial crisis has not affected China much, as it has indeed emerged from the crisis with such strong economic growth as to lead global and regional economic recovery. The crisis has also marked a new turning point in China’s economic growth, and this should offer new opportunities for ASEAN. First, China’s economy, faced with a tighter labour market, is currently undergoing industrial restructuring and upgrading.

**FIGURE 3 TRAFFIC PLAN STATUS OF NANNING-SINGAPORE ECONOMIC CORRIDOR**

*Source: Nanning-Singapore Economic Corridor brochure*
Its manufactured exports, faced with rising wages and the gradual appreciation of the renminbi, will gradually and inevitably pass some of their comparative advantage to the ASEAN region. Secondly, as a capital surplus economy, China will have more outward FDI for the ASEAN region, much as what Japan, Korea and Taiwan had done in the past.

ASEAN’s economic relations with China are set to strengthen in the years ahead. Admittedly, the CAFTA will be the major platform for both sides to intensify their economic interactions. As China is a vast and diverse country, individual ASEAN countries, particularly the smaller ones, may take advantage of China’s sub-regional cooperation projects such as the GMS or the Beibu Gulf Economic Zone to penetrate the markets of specific provinces or localities in China. Geography and history will further advance the benefits of such subregional cooperation activities.

Specifically for the proposed Nanning-Singapore Economic Corridor, the six or seven ASEAN states that are included in the Corridor will certainly stand to gain from the improved transportation and communications network in future, which will further enhance trade, investment and tourism. At the 15th ASEAN Summit in Thailand in October 2009, ASEAN leaders discussed the concept of ASEAN Connectivity, and they agreed that widening and deepening connectivity among the ASEAN states through various forms of transportation would not only strengthen ASEAN’s community building, but also reinforce the development of ASEAN as the hub of the dynamic East Asian region.