Mainland Corridors v.s Maritime Corridors in ASEAN-China Economic Relation

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Maddaremmeng A. Panennungi

Abstract

Based on the geography analysis, It is found that the closer relation of China with GMS countries (Mainland Corridors) compared to Malacca Straits countries (Maritime Corridors) during several past decades has potential to marginalize Indonesia, Malaysia, and Singapore in ASEAN (Fau et al, 2014). This paper is aimed at deepening the analysis of the development in both corridors by emphasizing economic analysis. There are several methods used in this paper: simple statistics, GTAP (Global Trade Analysis Project), and qualitative analysis. This study find out: (1) China economic relation with GMS countries tends to have better progress than with the Malacca Straits Countries. (2) The potential gains from economic integration of China-GMS is higher than China-Malacca Straits Countries. (3) The competition of Malacca Straits countries with the development of alternative trade routes and coupled with the undermining Malacca Straits role in ASEAN under ASEAN-China FTA have potential to isolate Malacca Straits countries in the future.

JEL Classifications: F15, F68

Keywords: Malacca Straits, Greater Mekong Sub Region (GMS), ASEAN, China

1. Introduction

Economic integration in ASEAN has achieved several progresses during the last two decades. Firstly, ASEAN has changed its nature from “regional forum” into action in economic relation with AFTA (ASEAN Free Trade Area). Secondly, ASEAN has moved into broader integration by developing AEC (ASEAN Economic Community) and RCEP (Regional Comprehensive Economic Partnership). Thirdly, ASEAN has involved broader than economic integration by developing ASEAN Community that include not only economy but also social and security.

To support ASEAN economic integration, Master Plan on ASEAN Connectivity concept has been developed that consist of physical connectivity, institutional connectivity, and people to people connectivity as shown in the Figure 1 below.

Physical connectivity put attention on transport, ICT, and energy cooperation. Institutional connectivity includes cooperation trade in goods (ATIGA), trade in services (AFAS), investment (ACIA), and transport facilitation agreement. People to people connectivity consist of ASEAN tourism strategic plan, ASEAN Education work plan, and Mutual Regional Arrangements.
In general, connectivity in ASEAN is part of Asian connectivity that has been started since 1959. UNESCAP (United Nations Economic and Social Commission of Asia and the Pacific) have defined what linkages should receive priority under the Asian Highway and Asian Railway. Standardized Asian Highway (AH) involves 32 Asian countries including Indonesia and Asian Railway including 28 Asian countries. Indonesia including AH 2 (Java and Bali Island Network) and AH 25 (Sumatra Network).

Two important economic corridors in ASEAN are Greater Mekong Subregion as mainland corridor and Malacca Straits as maritime corridor. GMS cooperation has been promoted by Asian Development Bank (ADB) since 1992 that involve two provinces of China, Thailand, Vietnam, Lao PDR, Cambodia, and Myanmar while Malacca Straits has been started by cooperation sub-region of government along Malacca Straits, especially Indonesia, Malaysia, Singapore, and Thailand under IMS GT and IMT GT. Even though Thailand could be included in both GMS and Malacca Strait, in this article is just included...
in GMS because Thailand involvement in GMS is more significant than in Malacca Straits. Fau et al (2014) shows that recent development of GMS corridor is more dynamic compared to the corridor of Malacca Straits and this could marginalize Malacca Straits corridors in ASEAN in the future by showing the evidence that there are nodes development along the corridors both as pair city and twin city. Both of the corridors are seen below:

This article is intended to compare the economic development of GMS and Malacca Straits in terms of development of trade cost, export, import and simulation of potential economic impact of the cooperation between the two corridors.

2. Methodology

This article uses several methods: simple statistical analysis, simulation of trade liberalization using GTAP (Global Trade Analysis Project), and qualitative explanation.

3. Development of GMS and Malacca Straits since 1990s

In GMS or Mainland Corridors is the corridor development could be divided into three decades (Taillard, 2014): first decade (1992-2002) was focused on the Mekong and Chao Phraya, especially the North-South Corridor (Kunming-Bangkok), East West Corridor (Khon Khen-Danang and Ubon-Pakse-Danang), Southern Corridor (Bangkok-Ho Chi Minh City-Vung Tau); second decade (2002-2012) was mostly affected by the inclusion of Guangxi (China Province) in 2004 that affect the development of Northeastern Corridor especially the extension development of the Kunming as the first wave [with Myanmar, Thailand, Vietnam, (and India) that connect the GMS with major cities in China (Beijing, Shanghai, and Guangzhou-Hongkong)] into second wave in Nanning [especially with Qinzhou, Fancheng, and Beihai]; and third decade (2012-2022) has been more advanced orientation such as rail network of coastlines or higher speed railway.

Maritime Corridor is mainly based on sub-regional cooperation Indonesia, Malaysia, and Singapore under IMS GT (Indonesia Malaysia and Singapore Growth Triangle-previously under SIJORI). In addition, IMT GT (Indonesia Malaysia Thailand Growth Triangle) is sub regional cooperation that consist Sumatra Island (Indonesia), Malaysian Peninsular, and Southern Thailand. There are five economic corridors are identified under flagship of IMT-GT to be extended (Banomyong, 2014): Songkhla-Penang-Medan, the Straits of Malacca Economic Corridor, the Banda Aceh-Medan-Pekanbaru-Palembang Economic Corridor, the Melaka-Dumai Economic Corridor, and the Ranong-Phuket-Banda Aceh Economic Corridor. Trade among sub region in three countries shows that Peninsular of Malaysia have better trade relation both with Southern Thailand and Sumatra Island (Indonesia); however, trade between Thailand and Indonesia (Sumatra) is less significant. These conditions put Malaysia as the main player in IMT-GT trade and compete with Singapore.

Thailand is a special case because it could be art of mainland corridors or maritime corridors. However, this article put Thailand as only part of GMS due to Thailand economy is mostly connected with GMS countries than Malacca Straits.

4. Comparison Economic Corridor of GMS and Malacca Straits in Relation with China

China and India have been economic super power for ASEAN both in the past and in the present condition. However, in the current condition China economic progress has shown better performance than India. Another feature of the ASEAN economic development is not only
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Figure 3: China Export to the Selected Maritime and Mainland Corridors (Average Growth)

influenced by China but Japan and Korea presence in this region have shown deeper relation. However, to assess the dynamic of GMS and Malacca Straits economic corridors, this article is only emphasize the relation with China because for ASEAN, ACFTA (ASEAN China Free Trade Area) is the first economic cooperation under ASEAN with certain country.

To show the dynamic relation with China, this article divide into two steps; first, showing the gradual relation of China with GMS and Maritime Corridors in some important indicators: China bilateral trade cost with both of the economic corridors, export and import growth, and some selected economic and social indicators. Second is showing the potential economic impact of the economic liberalization of China-GMS v.s China-Malacca Straits.

Gradual economic relation of China with GMS and Malacca Straits is shown in Table 1. All indicators have revealed that gradual progress of China relation with GMS (mainland corridors) is better than that of Malacca Straits (maritime corridors).

Firstly, bilateral trade cost reduction of China with mainland corridors is faster than the maritime corridor. And there is a special case: the fastest in trade cost reduction with China is Lao PDR. Secondly, bilateral trade performance of China with mainland corridor is better than maritime corridors.

Additional indicators that affect the dynamic economic relation of China-GMS and China-Malacca Straits from selected of economic indicators: Vietnam has the highest economic growth during period 1992-2012 but its MFN tariff are highest around 9.5%. This is one of the explanations why China-Vietnam relation and its potential has better performance compared to others. In contrast, some indicators that explain why Vietnam has better economic relation compared to Indonesia even though has the same comparative advantage in the labor intensive industry: HDI (Human Development Index) of Indonesia is low and has the same with Vietnam around 0.6. And Indonesia has lowest Ease Of Doing Business (129) compared to Vietnam (98).

Table 2 shows the comparison of liberalization simulation of China with countries/economies under the GMS and the Malacca straits based on standard model of GTAP (Global Trade Analysis Project). It is exposed that potential economic advantages of China-GMS relation is higher than China-Malacca Straits.

For China, Liberalization with GMS has a better result in terms of welfare and economic
Table 1: Dynamic Economic Relation of China with GMS and Malacca Straits Economy

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Mainland Corridors (GMS, 2 China provinces*, Thailand, Vietnam, Lao PDR, Cambodia*, and Myanmar*)</th>
<th>Maritime Corridor (Indonesia, Malaysia, Singapore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral Trade Cost(^1) of China with</td>
<td>Progress of reduction of bilateral trade cost of China with Vietnam, Thailand, and Lao are consistent and it is more than maritime corridor cost reduction. And Lao PDR has shown faster progress during the period.</td>
<td>Overall reduction in bilateral trade cost of China with maritime corridor (Indonesia, Malaysia, and Singapore) has lower progress in compared to GMS</td>
</tr>
</tbody>
</table>


Source: APEC Statistics based on UNCOMTRADE, 2014, processed

Figure 4: China Import from Selected Maritime and Mainland Corridors (Average Growth)
### Table 2: Comparison of Liberalization Simulation of China with GMS and Malacca Straits

| Indicators            | Liberalization of China-Mainland Corridors/GMS (Thailand, Vietnam, Lao PDR, Cambodia, and Myanmar*) | Liberalization of China-Maritime Corridor (Indonesia, Malaysia, Singapore) |
|-----------------------|-------------------------------------------------------------------------------------------------|****************************************************************************|
| Welfare Changes (USD M) | China has higher welfare (USD 1,556.17 M) compared to other GMS corridor (USD 1,312.52 M)      | Malacca Straits corridor welfare (USD 1,511.41 M) is higher than China (USD 367.01 M) |
| Growth (%)            | GMS corridor growth (0.19%) is higher than China (0.02%)                                        | Malacca Straits corridor growth (0.03%) is higher than China (0.01%)       |
| Inflation (%)         | GMS corridor inflation (0.51%) is higher than China (0.13%)                                      | Malacca Straits corridor inflation (0.45%) is higher than China (0.02%)    |
| Export (%)            | GMS corridor export (1.58%) is higher than China (0.35%)                                         | Malacca Straits corridor export (0.71%) is higher than China (0.42%)       |

Notes: *) data are not available  
Source: GTAP Simulation, based on GTAP Data Base 7

Growth compared to liberalization with Maritime Corridor even though inflation and export growth are slightly better with Maritime Corridor. For GMS countries, impact on its welfare, growth, and export are higher than Maritime Corridor countries even though its inflation is slightly higher than Maritime Corridor. It is clearly shown that the potential impact of the integration will benefit more on GMS countries, followed by Malacca Straits Countries and China.

Both of the dynamic economic relation and economic impact of China integration with GMS and Malacca Straits economies have shown that there is a potential of unequal benefit of economic integration of China with ASEAN countries under ASEAN-China FTA (ACFTA). There is a potential divergence between GMS/Mainland Corridor countries versus Malacca Straits/Maritime Corridor countries. And it is clearly seen that GMS countries tend to be more integrated with China while Malacca Straits countries could be left behind. This findings have strengthen geography analysis of the corridors in Fau et al (2014). It is an early warning for Malacca Straits countries, especially Indonesia, Malaysia, and Singapore. Another important factor that could affect this corridors is the development other maritime route, the Northern Sea Route development, due to the ice melting that help the route to be more convenience for trade transport. One of the example of the information that could support the challenge for Malacca Straits from Northern Sea Route Information Office (2014):

"A Chinese shipping company is planning the state’s first commercial voyage through the Northern Sea Route to the United States and Europe in 2013. By 2020, China could transfer up to 15% of the country’s international trade through the Arctic. With thawing sea ice, countries are rushing to the Arctic hungry for its oil, gas and mineral deposits. China is mostly interested in using the Northern Sea Route for a more direct shipping link between east and west."

Combination of the marginalized Malacca
Straits in relation with China and the development of other sea route competitor will affect the future of the countries along Malacca Straits especially Indonesia, Malaysia, and Singapore.

The possibility of the decreasing trade volume that link Malacca Straits corridors will affect the existence of the countries/cities along the Malacca Straits in the future. This could repeat the history of the rise and fall of the cities/countries along the silk route in the past. Among 25 of cities in the past connected by silk road in the past are Agra, Aleppo, Baghdad, Basra, Beijing, Bukhara, Chang’an, Constantinople, Damascus, Delhi, Dunhuang, Guangzhou, Isfahan, Jerusalem, Kabul, Karakorum, Kashgar, Kesh, Khotan, Marv, Ormuz, Samarkand, Tabriz, Taxila, Urgench. All of them are in 20 modern country now. Since the sea trade route link has dominated the trade among countries, those Silk Road cities/countries were left behind and isolated unless they have been linked to the trade sea route.

5. Conclusion and Recommendation

5.1. Conclusion

China economic relation with GMS countries tends to have better progress than with the Malacca Straits Countries. In addition, the potential gains from economic integration of China-GMS is higher than China-Malacca Straits Countries.

The competition of Malacca Straits countries with the development of alternative trade routes and coupled with the undermining Malacca Straits role in ASEAN under ASEAN-China FTA have potential to isolate Malacca Straits countries in the future. And the rise and the fall of the cities/countries along the former silk route in the past should be lesson learned of Malacca Straits countries to survive in the future.

5.2. Recommendation

Indonesia, Malaysia, and Singapore should anticipate the challenge of the future development of the Malacca Straits. And how to improve their economic link with China and the rest of the world is the key.

6. References