

**CHINA-ASEAN FTA: CHANGING
ASEAN'S PERSPECTIVE ON CHINA**

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Executive Summary

1. Although economic considerations were clearly present, China's initiation of a free trade agreement (FTA) with ASEAN was primarily politically driven to ease rising concerns of a "China threat" in Southeast Asia.
2. Theoretically, an FTA will lead to economic integration that can help to alleviate competition among members in both trade and in attracting foreign investments. In practice, however, a bilateral or regional FTA is often associated with painful structural adjustments within and across countries.
3. In early 2000s, when China was at the eve of its WTO accession, concerns of strong competition from China in both exports to third markets and attracting foreign direct investment to the region were rising among ASEAN nations. It was a sensible move on the part of Premier Zhu Rongji, a good practical economist, to initiate FTA talks to allay such apprehension.
4. FTA negotiations and early agreements proved effective in promoting trade, as bilateral trade more than doubled from US\$42 billion in 2001 to over US\$100 billion in 2004, doubling further to over US\$200 billion in 2007. This has brought great economic gains to both China and ASEAN members.
5. The China-initiated FTA also gave China a political advantage. Japan viewed it as China's *first step* (先手) to dominate the region through this CAFTA, and had followed suit to initiate free trade talks with ASEAN.
6. The somewhat surprising success of the FTA talk encouraged Chinese leaders to extend economic cooperation with ASEAN to cultivate interdependent relationships which could provide more leverage to China.
7. When premier Wen Jiabao set bilateral trade targets for the CAFTA, a strategic consideration is to develop mutual dependence between China and ASEAN.

8. In 2007, such strategic thinking was further extended as a FTA approach China would replicate for its economic relations with other countries both in Asia and elsewhere.
9. However, the global economic crisis in 2008 had overshadowed Chinese efforts. The impending pressure to rebalance the global economy forces China to reevaluate its export-oriented policies, especially its over-dependence on western markets during the last two decades.
10. China will continue to pursue its peaceful development strategy when dealing with international relations. It seems that a new Shaping Neighboring Relations (塑造周边) strategy is emerging.
11. This new stratagem, driven by soft power building, will provide new energy for China-ASEAN relations. As an institutional platform, CAFTA is expected to continue to play an active role. At present, however, more efforts will be required to fulfill the various agreements signed under CAFTA.
12. There are also new proposals to further China-ASEAN cooperation, such as a China-ASEAN Economic Community which may not be a practical choice for the Chinese government for the time being.