CHINA-ASEAN FREE TRADE AREA IN 2010: A REGIONAL PERSPECTIVE

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Executive Summary

1. China-ASEAN Free Trade Area (CAFTA) came into effect on 1 January 2010. As the world's third largest free trade area after the European Union and North America FTA, CAFTA will have significant trade and development implications for Southeast Asia.

2. As a rapidly growing economy, China offers enormous potential for the mostly small and export-oriented ASEAN members. CAFTA helps small ASEAN countries pool resources and combine markets, and forge a comprehensive economic partnership with China.

3. With CAFTA, multinational corporations will gradually restructure their supply chains and rationalize their production networks to take China and ASEAN as a single market, resulting in a redistribution of FDI flows and trade in the combined region.

4. Between 1995 and 2008, bilateral trade between China and ASEAN increased more than tenfold. The growth has been especially rapid since 2001 when China joined the WTO and CAFTA talks were initiated. By 2008, China became ASEAN's third largest trading partner and ASEAN China's fourth largest.

5. Bilateral investment between China and ASEAN also increased, although it constitutes only a small portion of the two regions' total FDI inflow. Inward investment to CAFTA from outside the region is expected to rise further, with a more harmonized regional economy. Indeed, total FDI to ASEAN doubled between 2001 and 2005. ASEAN's share in total FDI to developing world also rose from 9.4% in 2001 to 13.1% in 2007.

6. The growing intra-regional trade and investment inflow underlies the intensification of a cross-border regional production network in Asia. Intra-

industry trade takes up a large portion of China-ASEAN trade, reflected by the dominance of trade in materials, parts and components.

7. Although bilateral trade between China and ASEAN has grown rapidly, China-ASEAN trade remains secondary in the two regions' overall trade. In part, this is due to the competitive nature of their export structure and the lag in developing a strong consumer market in the region. China and many ASEAN members continue to compete in exports to advanced countries, such as the US and the EU.

8. CAFTA presents different opportunities and challenges to different ASEAN members due to the gaps in their levels of development and resource endowment. Export-orientated ASEAN countries may need to continue coping with the risk of trade diversion and related structural adjustments. After the initial process of adjustment, individual ASEAN economies will then develop their own niches in their economic relations with China.

9. China is becoming increasingly indispensable to ASEAN, as a close neighbor and a large regional power. CAFTA enables small ASEAN countries to jointly engage China as an equal party and generate mutual gains. On the international arena, CAFTA also increases ASEAN's standing.

CHINA-ASEAN FREE TRADE AREA IN 2010:
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Sarah Y. TONG & Catherine CHONG Siew Keng[*]

CAFTA came into effect

1.1 On 1 January 2010, China-ASEAN Free Trade Area (CAFTA) came into effect. As the world's third largest regional free trade area, after European Union (EU) and North America Free Trade Area (NAFTA), CAFTA has and will continue to have significant trade and development implications for Southeast Asia and beyond.

1.2 There is little doubt that CAFTA is important to ASEAN. As a rapidly growing economy, China offers enormous potential for the largely small and export-oriented ASEAN member countries. China's importance is even more evident at present with a fragile and uncertain global economic recovery and grave economic difficulties faced by the industrial world on which ASEAN countries rely heavily.

1.3 First, ASEAN needs CAFTA to maintain its competitiveness. Through closer integration within the region[1] and with China, CAFTA helps small ASEAN countries pool resources and combine markets. Needless to say, China's increasing integration with the world trading system also presents tremendous

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[1] In his article titled "ASEAN and Free Trade Area Cover China, Japan, India", S Pushpanthen, then Assistant Director for External Relations in the ASEAN Secretariat wrote "Economic liberalisation under the FTAs would help to integrate the region more quickly and generate more and new economic activities. Specialisation and economies of scale would also set in with the removal of barriers to trade in goods and services, and investments. … (However) ASEAN may have to advance the implementation of the ASEAN Free Trade Area (AFTA) to gain a fair deal out of the FTAs. ASEAN will have to improve its economic competitiveness and regional integration to better deal with its FTA partners", *The Jakarta Post,* 14 November 2002.

competitive pressure on its smaller neighbors. For ASEAN, instituting a more inclusive CAFTA, which covers trade in goods and services as well as investment activities, is essential for forging a comprehensive economic partnership with China and enabling a deeper economic integration in the long run.

1.4 With CAFTA, multinationals will gradually restructure their supply chains and rationalize their production networks in the region, taking China and ASEAN together as a single market, to further exploit comparative advantages of different countries. This would lead to a redistribution of the regional FDI flows and trade. As such, trade and FDI in the region are expected to grow, benefiting countries involved.

1.5 Furthermore, as the first of its kind in Asia, CAFTA also created new impetus for the region to revitalize its integration process. Indeed, the CAFTA had exerted tremendous pressure on Japan and Korea to follow suit with Japan signing a framework agreement in 2003 and later concluding an ASEAN-Japan Comprehensive Economic Partnership in 2008. Korea has also taken a similar move with the signing of the ASEAN-Korea Tree Trade Area in 2005.[2]

1.6 Today, as the world struggles to reinforce a still fragile recovery, CAFTA has become even more imperative for ASEAN. Indeed, China has become almost certainly a major constructive force leading the global upturn. In 2009, China's real GDP grew by 8.7%.[3] According to IMF's latest *World Economic Outlook*, China's real GDP is expected to grow by 9% for 2010, while that of the advanced economies is predicted to contract by 3.4% for 2009 and grow by only 1.3% for 2010.[4]

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2 As the latest, the ASEAN-Australia-New Zealand FTA (AANZFTA) was signed in February 2009. See "Agreement on Australia-New Zealand FTA Enters into Force", ASEAN Secretariat, ASEAN Website, 12 January 2010, http://www.aseansec.org/24194.htm)

3 "China's GDP expands 8.7% in 2009", XinhuaNet, 21 January 2010, http://news.xinhuanet.com/english2010/business/2010-01/21/c_13145167.htm

4 "World Economic Outlook: sustaining the recovery", International Monetary Fund, October 2009, http://www.imf.org/external/pubs/ft/weo/2009/02/. On 21 January 2010, China's National

1.7 More significantly, China has become even more vital in global trade. With total export slightly more than US$1.2 trillion and overtaking Germany's forecasted US$1.17 trillion, China has overtaken Germany to become the world's largest exporter in 2009.[5] Although China shows a 17.7 percent year-on-year increase in its export, its imports grew at a bigger 55.9 percent.[6] In 2009, China also became the world's biggest automobile market and the world's largest steel producer.

1.8 For 2010, global trade is expected grow modestly, reversing the serious downturn of 2009. Export and import by emerging and developing countries will grow by 3.7% and 4.7%, while that by advanced economies by 2.3% and 1.5%, respectively. Consequently, for small and export-oriented ASEAN countries, a deep and comprehensive economic partnership with China, through a fully enacted CAFTA is crucial.

Modality of a China-ASEAN FTA

2.1 In theory, under CAFTA, China and ASEAN will inevitably increase intra-regional trade and investment as trade barriers are lowered and costs reduced. With access to a larger and more integrated market, businesses in the region become more competitive due to economies of scale. A more integrated market also tends to attract more inward investments from developed countries, creating employment and increasing economic welfare of member states.

2.2 Trade between ASEAN and China has indeed grown substantially since mid-1990s (Figure 1). Between 1995 and 2008, bilateral trade increased more than tenfold, from about US$20 billion to US$223 billion, according to Asian

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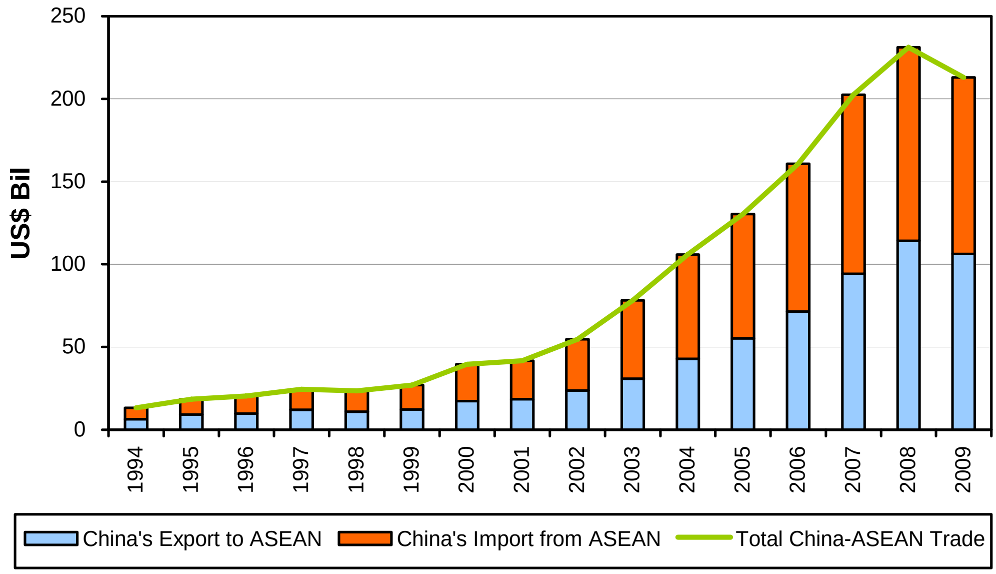
Bureau of Statistics announced its estimate of China's GDP growth for 2009 to be 8.7% (http://www.stats.gov.cn/english/newsandcomingevents/t20100121_402615502.htm).

[5] "China surpasses Germany as world's top exporter", *Washington Post*, 11 January 2010, http://www.washingtonpost.com/wp-dyn/content/article/2010/01/10/AR2010011002647.html

[6] "China's imports soaring 56% in December", *People's Daily*, 11 January 2010, http://english.peopledaily.com.cn/90001/90778/90861/6864590.html

Development Bank.[7] Growth has even been more rapid since 2001, when China joined WTO and the two initiated talks to create CAFTA.[8] Between 2001 and 2008, bilateral trade grew by around 30% a year on average, relative to 15% for the years between 1995 and 2001. Consequently, China became ASEAN's third largest trading partner and ASEAN China's fourth largest by 2008.

FIGURE 1 CHINA-ASEAN TOTAL TRADE



Source: China's Customs Statistics, various issues.

2.3 In the meantime, ASEAN countries are also trading more with each other. Between 2001 and 2008, intra-regional trade within ASEAN grew from US$164 billion to US$481 billion. Intra-ASEAN export also rose slightly, from about 22% to 26% (Figure 2).[9]

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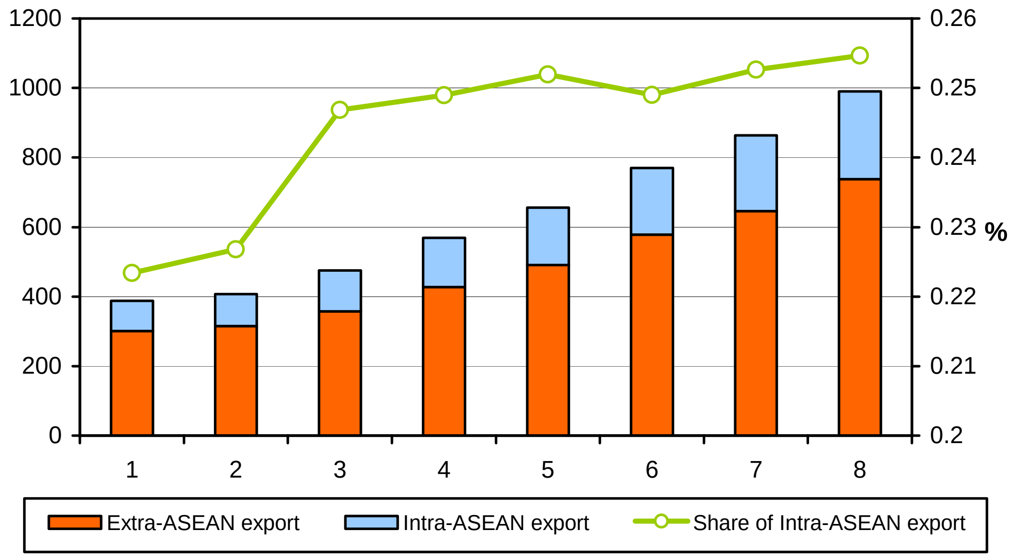
7 According to China's Custom Statistics, the figures were US$18 billion for 1995 and US$ 231 billion, respectively.

8 Under the CAFTA, ASEAN countries and China will grant each other preferential tariff; a zero tariff regime is envisioned for trade in goods and services between ASEAN and China by 2010 for the more advanced ASEAN members and 2015 for the less advanced members. Since 20 July 2006, tariff on 90 percent of imported goods across 7,000 product categories has been cut.

9 The degree of intra-regional trade is still relatively low in ASEAN, compared to that in EU and NAFTA. However, during the same period (2001-2008), the share of intra-regional export in total decreased from 55% to 50% in NAFTA and remained at around 68% in EU. Source: WTO.

FIGURE 2 INTRA- AND EXTRA-ASEAN EXPORT, 2001-2008



Source: China's Customs Statistics, various issues.

2.4 Moreover, bilateral investment has also grown considerably, although they constitute only a small portion of bilateral FDI. For example, between 2002 and 2008, ASEAN's FDI to China grew from US$3.3 million to US$5.5 million, accounting for only about 6% of China's total utilized FDI (Table 1). China's role as an overseas investor to ASEAN is even smaller. By 2008, China's total accumulated investments to ASEAN reached US$4.9 billion, accounting for only 2.6% of China's total outward investments[10] (Table 2).

TABLE 1 ASEAN'S FDI TO CHINA (USD MILLION AND %)

	Total FDI to China	ASEAN's FDI to China									
		Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	LCM*	Brunei	Subtotal	% in Total
1995	48,133	112	259	106	1,861	288	28	0	0	2,654	5.5%
1998	45,463	69	340	179	3,404	205	14	9	2	4,223	9.3%
2002	52,743	122	368	186	2,337	188	3	36	17	3,256	6.2%
2005	60,325	87	361	189	2,204	96	1	7	160	3,105	5.1%
2008	92,395	167	247	127	4,435	129	2	13	340	5,461	5.9%

Notes: *LCM refers to Laos, Cambodia, and Myanmar.
Source: China Statistical Yearbook, various years

[10] This figure included only outward investments that directly originate from China and did not include China's outward investments that passed through a third location (eg. Hong Kong) before reaching ASEAN.

TABLE 2 CHINA'S FDI TO ASEAN (USD MILLION AND %)

	China's Total outward FDI	China's FDI to ASEAN					
		Indonesia	Singapore	Thailand	Vietnam	Sub-total	Share in total
2004	5,497	62	48	23	17	150	2.73%
2005	12,261	12	20	5	21	58	0.47%
2006	17,633	57	132	16	44	248	1.41%
2007	26,506	99	398	76	111	684	2.58%
2008	55,907	174	1,551	45	120	1,890	3.38%
Accumulated Stocks end 2008	183,971	543	3,335	437	522	4,837	2.63%

Source: China Statistical Yearbook, various years.

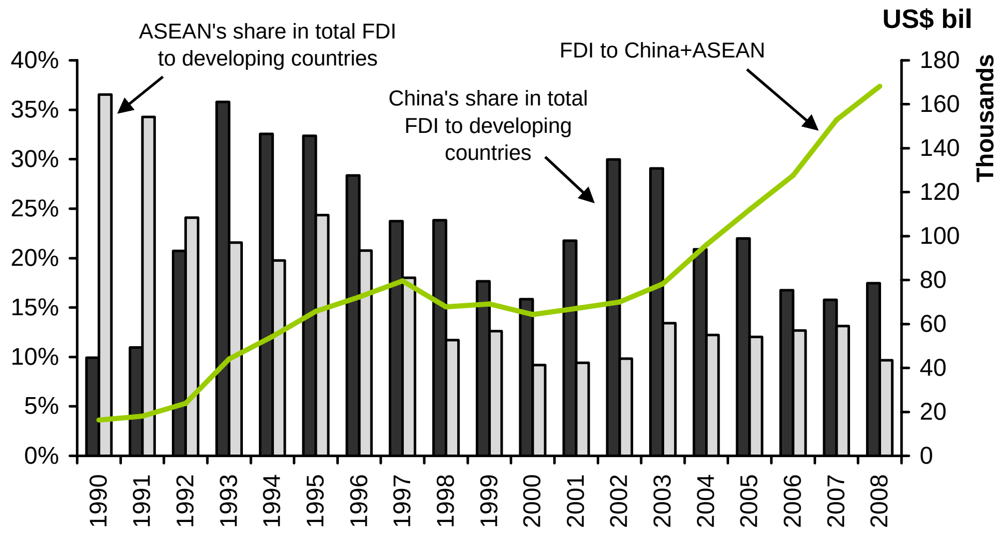
2.5 On the whole, inward investment from elsewhere to CAFTA shall rise, with a more harmonized region. According to the United Nations' FDI statistics,[11] after China's CAFTA initiation in early 2001, total FDI to ASEAN doubled from about US$20 billion in 2001 to US$40 billion in 2005, and increasing further to US$70 billion in 2007. ASEAN's share in total FDI to developing countries also increased from 9.4% in 2001 to 13.1% in 2007.[12] Correspondingly, FDI to China has also risen significantly (Figure 3). Between 2000 and 2003, the share of FDI to China and ASEAN in total FDI to developing countries rose sharply from 25% to 43%. It had since dropped gradually to 27% in 2008, although the total amount continued to increase.

2.6 Besides, more efficient infrastructural and transport networks would be another beneficial outcome, as CAFTA aims to cut trade cost. The newer ASEAN countries will certainly gain from such linkages since they are at the crossroads of economic activities between the ASEAN-6 and China.

[11] Major FDI Indicator, United Nations Conference on Trade and Development website, http://stats.unctad.org/FDI/TableViewer/tableView.aspx?ReportId=3084

[12] Due in part to the global economic crisis, in 2008, FDI to ASEAN dropped to 60 billion and its share in FDI to developing countries was 9.7%.

FIGURE 3 FDI TO CHINA AND ASEAN, 1990-2008



2.7 The growing intra-regional trade and investment underlies the intensification of a cross-border regional production network in Asia. Intra-industry trade takes up a large portion of China-ASEAN trade, reflected by the dominance of trade in materials, parts and components. For example, over half of ASEAN's exports to China are products under the category of "machinery and mechanical appliances; electrical equipment; parts thereof sound recorders and reproducers, television image and sound recorders and reproducers, and parts of accessories of such articles" (58% in the first quarter of 2009). The shares are especially high for the Philippines (83%) and Malaysia (65%) in the same quarter. Another 10% or so of China's import from ASEAN is for mineral products.

2.8 China is also fast becoming an important tourism market for ASEAN. For 2008, inbound visitor arrivals in China from ASEAN member states totaled 4.98 million. ASEAN meanwhile attracted 4.47 million Chinese tourists in the same year, an increase by 13.8% over the previous year. Following the implementation of CAFTA, China and ASEAN were also expected to conclude an agreement to allow unrestricted aviation competition. The

International Air Transport Association (IATA) expects passenger numbers in the region to rise from 647 million in 2009 to 864 million in 2013.[13]

Challenges Facing ASEAN countries

3.1 Although trade between China and ASEAN grew by around 30% a year on average between 2001 and 2008, China-ASEAN trade remained secondary in their overall trade. In 2009, trade with ASEAN accounted for less than 10% of China's total trade, up from around 8% in the late 1990s. Similarly, trade with China accounted for about 11% of ASEAN's total trade in 2008.

3.2 In part, this is due to the fact that consumer markets in the region are still under-developed while China and many ASEAN members continue to compete in exports to advanced countries, such as the US and the EU. With the exception of China and Singapore, competitive, rather than complementary, structures of China and ASEAN prevent significant growth in trade.[14] Thus China's export-oriented development strategies have cast a large shadow on ASEAN economies.

3.3 With CAFTA in force, export-orientated ASEAN countries may need to continue coping with the risk of trade diversion and related structural adjustments. After the initial process of adjustment, individual ASEAN economies will then develop their own niches in their economic relations with China.[15]

3.4 First, ASEAN will have to further improve its economic competitiveness and regional integration. In the short run, some ASEAN countries may face severe competition from cheaper Chinese goods, especially electronics, footwear,

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13 "ASEAN and China close to deals to open up Asia-Pacific air travel", *Financial Times*, 2 February 2010.

14 "China-ASEAN Free trade Agreement: Shaping Future Economic Relations", John Wong and Sarah Chan, *Asian Survey*. 43:3, pp. 507-526.

15 J Wong, "China-ASEAN Relations: An Economic Perspective", China-ASEAN Relations: Economic and Legal Dimensions, World Scientific, pp. 17 – 32.

apparels and textiles. ASEAN's newer members, who should be phased into the ASEAN Free Trade Area by 2015, may find it particularly challenging to reduce tariffs due to their reliance on custom tariffs.

3.5 Moreover, due to considerable differences among ASEAN members in development and in resource endowment, different ASEAN countries face different opportunities and challenges. Indonesia, Malaysia, the Philippines and Thailand, which are rich in natural resources, had exported mainly primary products to China in the early 1990s. By the mid-2000s, though, information and communication technology (ICT) goods comprised the majority of their exports. The complementarities between China and the more developed members in ASEAN have also deepened, underlying rapid rise in trade of machinery and equipment. For example, export of electrical machinery and apparatus accounted for 54% of Malaysia's export to China in 2008, and likewise, electronic equipment and parts plus machinery appliances accounted for 45% of Malaysia's import from China.[16]

3.6 Over the long run, however, product and process innovations in ASEAN are constrained by the size of the economies and limited R&D spending of less than 0.5% of GDP with the exception of Singapore. Meanwhile, ongoing upgrades in technological and business training and incubation have become even more pressing in, and challenging to, the less developed regional economies. Typically, their resources-based and labor-intensive exports are subject to stiffer competition in both the global and Chinese markets.

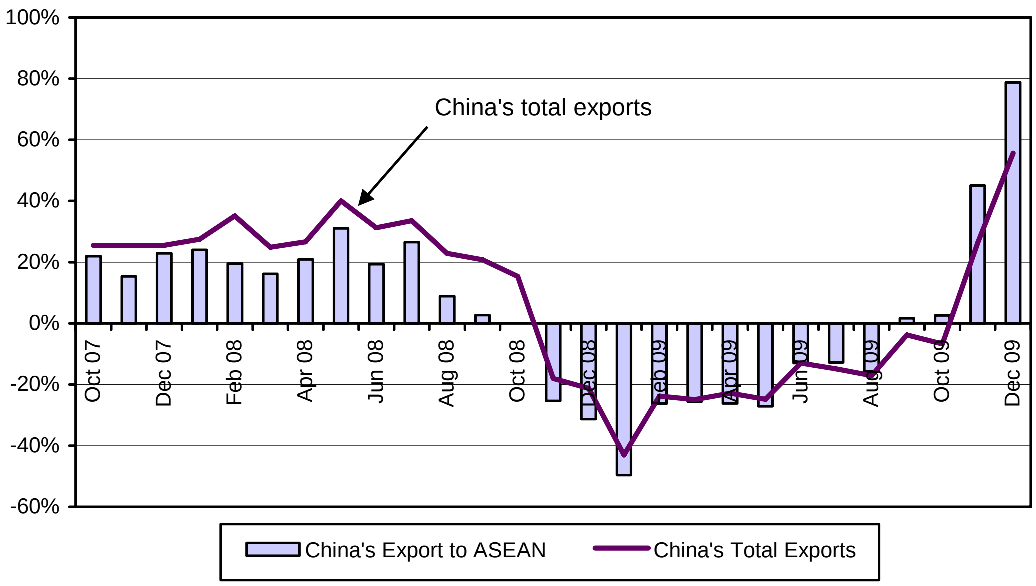
3.7 As the world economy has been hard hit by the crisis, both China and ASEAN are facing new challenges and difficulties. Since late 2008, trade between China and ASEAN has been seriously affected. In January 2009, China's export dipped over 40% due to weak global demands. As China often serves as the last point in the production chain and intra-ASEAN trade forms a broader regional production network, a sharp drop in China's export could be quickly translated into import declines, including those from ASEAN. In

[16] "China market offers opportunities for exports". *New Straits Times*, May 18, 2009.

January 2009, China’s total import dipped by 17% while that from ASEAN slid by 22% (Figures 4 and 5).

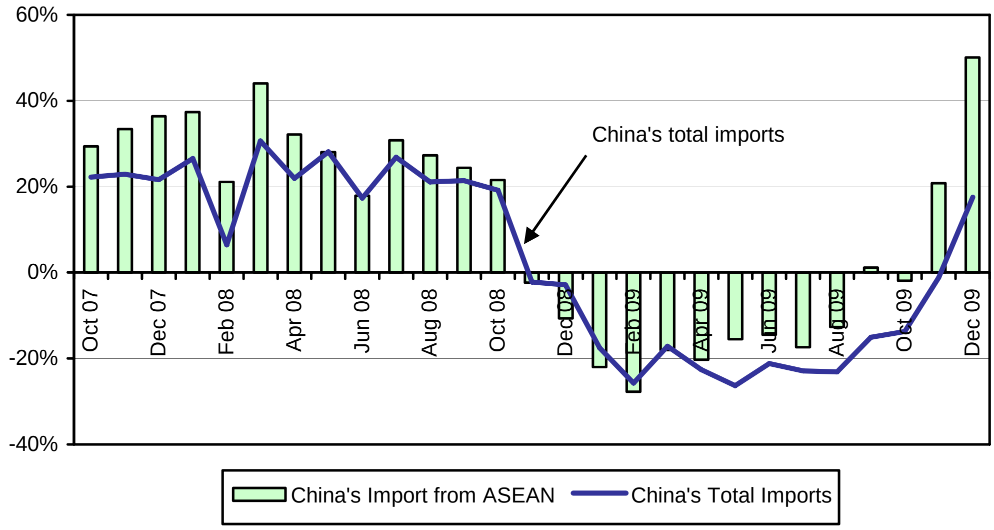
3.8 However, different ASEAN members have been affected differently. Vietnam’s bilateral trade with China is the worst affected, which saw its export to China dropped by 30% in the first quarter of 2009. Thailand, Indonesia, Malaysia, and Singapore also experienced significant decline in their export to China, by 27%, 26%, 23% and 17%, respectively. Myanmar is the least affected, with exports to China decreased by 7% in the first quarter of 2009, on a year to year basis (Table 3).

FIGURE 4 CHINA'S TOTAL EXPORT VS ASEAN'S EXPORT TO CHINA



Source: China'sCustoms Statistics (various years).

FIGURE 5 CHINA'S TOTAL IMPORT VS ASEAN'S IMPORT TO CHINA



Source: China's Customs Statistics (various years).

TABLE 3 CHINA'S IMPORT FROM ASEAN (Y-O-Y % CHANGE)

	Myanmar	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
2009 Q1	-7%	-26%	-23%	-11%	-17%	-27%	-30%
2009 Q2	11%	-23%	-17%	-17%	-15%	-30%	-24%
2009 Q3	5%	-24%	-14%	-14%	-15%	-24%	-7%
2009 Q4	15%	-14%	-8%	-6%	-7%	-15%	8%

Source: China's Customs Statistics

3.9 Although ASEAN's trade with China was seriously affected during the early months of the crisis, China has been viewed increasingly as one of the very few bright spots on ASEAN's trade horizon. Thanks to its strong domestic demands, especially in investment, China's GDP rebounded quickly and growth accelerated from 6.1 % in the first quarter of 2009 to 10.7% in the fourth quarter. Consequently, China's export to and import from ASEAN resumed positive growth toward the end of the 2009, as China's overall trade stabilized (Figures 4 and 5, and Table 4).

TABLE 4 CHINA'S IMPORT FROM ASEAN (Y-O-Y % CHANGE)

	Indonesia	**Malaysia**	**Philippines**	**Singapore**	**Thailand**	**Vietnam**
Jan-09	-21%	-24%	-5%	-11%	-30%	-43%
Feb-09	-37%	-35%	-21%	-21%	-31%	-24%
Mar-09	-22%	-13%	-9%	-19%	-21%	-23%
Apr-09	-24%	-5%	-24%	-21%	-38%	-29%
May-09	-22%	-13%	-16%	-4%	-32%	-23%
Jun-09	-16%	-19%	-23%	-12%	-26%	4%
Jul-09	-32%	-6%	-24%	-22%	-24%	15%
Aug-09	-26%	-12%	-10%	-22%	-15%	36%
Sep-09	-15%	-9%	9%	-4%	-4%	58%
Oct-09	-12%	-7%	-3%	-7%	-6%	32%
Nov-09	12%	14%	18%	9%	20%	75%
Dec-09	64%	21%	41%	62%	49%	70%

Source: China's Customs Statistics

3.10 By the end of 2009, China would have already overtaken the US to become ASEAN's third largest trading partner. With the CAFTA in force, China may soon overtake Japan and the European Union to be ASEAN's largest trading partner. To enhance the positive effect of such relations, ASEAN countries may have to continue their efforts in adjusting their economic structures so as to reduce direct competition and create more room for complementarities with the Chinese economy.

3.11 Indeed, Singapore has for years worked hard to move away from labor-intensive productions to develop industries with higher-value added and more sophisticated technologies.[17] Similar efforts were also seen in Malaysia, the Philippines, and Thailand.[18]

[17] Singapore Economic Development Board website, http://www.sedb.com/edb/sg/en_uk/index/why_ singapore.html

[18] *'Full steam ahead'*, *Sunday Times*, Lifestyle, Special - Malaysia 51st Independence Day, August 31, 2008. Encyclopedia of the Nations' website, Philippines Economic Development. National Economic and Development Authority (NEDA) of the Philippines, 'Philippines Midterm Progress Report on the Millennium Development Goals 2007'. Encyclopedia of the Nations' website, Thailand Economic Development.

3.12 Industrial restructuring, however, is often a long and painful process. While the opening of CAFTA will certainly boost the flow of goods and investments within the area, it has at the same time triggered calls from some ASEAN countries to delay the implementation or even to re-negotiate the deal. Some businesses in Indonesia, the Philippines, Malaysia, and Thailand have expressed reservations about the wide-ranging tariff cuts on Chinese import under the CAFTA.

3.13 Indonesia, which used to enjoy a trade surplus with China in the past, registered a US$3.61 billion trade deficit with Beijing in 2008. Indonesia's total trade balance also tumbled from US$32.75 billion in 2007 to only US$23.31 billion in 2008, mostly in the non oil and gas sectors which witnessed a decline of 42.5%.[19]

3.14 Indonesia's non oil and gas exports were hard-hit plunging from a surplus of US$79 million in 2004 to a deficit of US$7.16 billion in 2008. Since 2005, China's agricultural products have enjoyed zero percent import duties. The same was true of manufacturing products, where the import duties continued to be cut until 5% in 2009. By 2010, the duties of most manufacturing goods, except sensitive agricultural products, would have been cut to zero percent.[20]

3.15 As such, Indonesia plans to negotiate for a delay in the provisions on 14 industries,[21] including steel products, textiles, petrochemicals and electronics, which claim that they are not ready to open up their businesses.[22] Indonesian Association of Iron and Steel Industries is asking the Indonesian government to re-negotiate the pact as the industry already suffered a sharp trade deficit

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19 "FTA turns Indonesia's trade surplus with China into deficit", bilaterals.org, 30 July 2009, http://www.bilaterals.org/article.php3?id_article=15625

20 Ibid.

21 These 14 industries include textiles, steel, tires, furniture, cocoa processing, medical equipment, cosmetics, aluminium, electronics, downstream petrochemicals, flat glass, shoes, machine-tools and automotive goods. Also see "ASEAN-China free trade deal: Let's face the music", *The Jakarta Post*, 23 December, 2009, http://www.thejakartapost.com/news/2009/12/23/aseanchina-free-trade-deal-let%E2%80%99s-face-music.html

22 "Indonesia to seek delay of China-ASEAN trade pact", Reuters, 25 November 2009, http://uk.reuters.com/article/idUKJAK53385220091125?pageNumber=1&virtualBrandChannel=0

because they lost to Chinese imports. Lack of supporting factors, such as competitive transportation costs, short delivery times, low container rents, and low electricity tariffs had made Indonesian steel industry products uncompetitive with Chinese products.[23]

3.16 Indonesian Textile Association had also asked the Indonesian government to delay the implementation of the FTA, claiming that the FTA would bring more harm than good as it would lead to the influx of more textile imports which are more cost competitive. For example, China printed batik costs between 10,000 rupiah and 100,000 rupiah per piece, about half the price of hand-made Indonesian made.[24] Indonesia is already suffering from illegally imported Chinese textile products. Imports of Chinese textiles are currently worth about US$900 million, or 15 percent of the $7 billion domestic textile market in Indonesia.[25]

3.17 In Thailand, the Federation of Thai Industries has voiced concern over an influx of low-quality electrical gadgets from China after the CAFTA came into full force; there is no measure to prevent substandard products from entering Thailand currently. To help Thai manufacturers, the association has proposed to the Thai government for a cut in material import tax to help reduce the cost of Thai manufactured products[26] to remain competitive.

3.18 During China's State Councilor, H.E. Dai Bingguo's, recent visit to ASEAN's secretariat, he indicated China's readiness to work with ASEAN in its CAFTA

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[23] "Indonesia steel body opposes ASEAN-China FTA", Commodity Online, 3 December 2009, http://www.commodityonline.com/news/Indonesia-steel-body-opposes-ASEAN-China-FTA-23506-3-1.html

[24] "Problems from the pride of Pekalongan", *The Jakarta Post*, 17 April 2009, http://www.thejakartapost.com/news/2009/04/17/problems-pride-pekalongan.html

[25] "ASEAN and China FTA to ignite 'tug of war in trade'", *The Jakarta Post*, 27 July 2009, http://www.thejakartapost.com/news/2009/07/27/asean-and-china-fta-ignite-%E2%80%98tug-war-trade%E2%80%99.html

[26] "China/ASEAN: Concern on Influx of Chinese electrical devices raised over China-ASEAN FTA", Thai News Service, 17 November 2009, retrieved on 4 January 2010, Factiva

implementation period, citing that "China understands the period of transition and adjustment and is ready to accommodate and cooperate".[27]

3.19 Meanwhile, ASEAN's Secretary General has expressed that as a result of the gradual trade liberalization under CAFTA, he is confident of ASEAN members' capacity to be the supply chain for China's booming economy. He also believes that overall, the benefits from the growing trade between ASEAN and China would be translated into more jobs, more spending power and greater synergies between China and ASEAN.[28]

Outlook

4.1 In 2009, China overtook Germany to become the world's largest exporter and second largest importer, highlighting its growing presence as a major industrialized power, a leading trading nation. It is expected that China will also become an important investor and a key voice in managing the global economy.

4.2 As a close neighbor and a large regional power, China is now even more indispensable to ASEAN than in the past. With CAFTA, individual ASEAN countries, regardless of their size and level of development, are able to engage China as an equal party to enjoy mutual benefits. On the international arena, CAFTA also increases ASEAN's standing.

4.3 As CAFTA also facilitates trade and investment within and outside the region, countries like Malaysia has already been wooing Chinese investments for projects in Malaysia; on China's part, investing in Malaysia with its natural resources and raw materials is a win-win arrangement.[29]

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27 "China Ready to Accommodate on ASEAN-China FTA", ASEAN Secretariat, 22 January 2010.

28 "ASEAN secretary-general justifies FTA with China", Business Mirror, 10 January 2010, http://businessmirror.com.ph/home/top-news/20736-asean-secretary-general-justifies-fta-with-china.html

29 "China-ASEAN FTA to make regional trade surge", Asian Pulse, 24 December 2009 (retrieved from Factiva on 15 January 2010)

4.4 Although some remain skeptical about the implementation of CAFTA and its impact on trade and industries in ASEAN countries, many ASEAN countries have been adjusting their economic structures and activities to remain competitive, and also to complement the Chinese economy.

4.5 On the other hand, China's economy has also undergone rapid transformation as it develops. As a large economy, it is increasingly connected to this region. In the short term, China will need various products from ASEAN, including wood, iron ore, rubber and numerous kinds of tropical fruits to boost its economy. In the long term, in its effort to balance its economy and to develop its consumer markets, China has the potential of becoming a major export market for ASEAN for not only resource products but also manufactured goods.

APPENDIX 1 AN OVERVIEW OF CAFTA

ASEAN-China relations started to pick up pace with the normalization of relations between China and Indonesia in 1989 and then Singapore and Brunei in the early 1990s. Formal relations between China and ASEAN were established in 1996 when China became a dialogue partner of ASEAN. However, bilateral economic relations started to witness a substantive content only after China proposed establishing a free trade area (FTA) in 2001, which led to the signing of the Framework Agreement on Comprehensive Economic Partnership in 2002.

China's entry into WTO in late 2001 formalized China's integration with the world economy. It should have seemed imminent that the country, with its vast size and rapidly industrializing economy, will become a strong competitor as well as a huge potential market, in global trade. By signing a framework agreement with China, ASEAN recognized the challenge and opportunity and worked toward forging mutually beneficial bilateral economic relations.

Since then, China and ASEAN have proceeded to further strengthen their formal bilateral ties. The framework agreement at the Eighth ASEAN Summit in November 2002 set 2010 as the year for establishing the China-ASEAN FTA (CAFTA). Under the accord the Early Harvest Program was implemented on 1 January 2004; tariff negotiations for trade in goods were completed in November 2004 and implemented in July 2005. In January 2007, an Agreement on Trade in Services was signed and the Investment Agreement was signed in August 2009.

As the world's third largest FTA, CAFTA has a combined GDP of US$6.6 trillion, a market of 1.9 billion people and a total trade of US$ 4.3 trillion. As any other FTA, the CAFTA would likely bolster ASEAN-China trade, which has already risen at a dramatic pace. The removal of trade impediments has lowered costs of transactions, further increasing China-ASEAN trade volume and enhancing economic efficiency. Indeed, since the implementation of CAFTA on January 1, 2010, more than 90% or over 7,000 products have been traded between China and the six members of ASEAN, i.e., Brunei, the Philippines, Indonesia, Malaysia, Thailand and Singapore, tariff-free.

APPENDIX 2 TIMELINE FOR THE CHINA-ASEAN FTA

Nov 2001	China and the 10-member Association of South East Asia Nations (ASEAN) began negotiations to set up a free trade area.
Nov 2002	The “China-ASEAN Framework Agreement on Comprehensive Economic Cooperation” was signed.
1 January 2004	Implementation of the Early Harvest Program (EHP); tariffs on certain products were reduced over a period of three years, and zero tariff no later than 1 January 2006. The EHP covers over 130 agricultural and manufacturing products. In return ASEAN countries agree to give tariff concessions to China under the Harmonized System (HS) for agricultural products, including meat, fish, fruits, vegetables, and milk.
Nov 2004	The China-ASEAN Protocol on Enhanced Dispute Settlement Mechanism (DSM) and the Agreement on Trade in Goods were signed at the Tenth China-ASEAN summit.
July 2005	Agreement on Trade in Goods under Framework Agreement on ASEAN-China Comprehensive Economic Cooperation became effective. The gradual lowering and removal of the trade threshold encourage new industrial structural adjustment and offer new choices for market development of enterprises.
Jan 2007	Agreement on Trade in Services between China and ASEAN countries was signed.
Aug 2009	On August 15, 2009, the Investment Agreement was signed, marking the successful completion of main CAFTA negotiations.
1 Jan 2010	Full-implementation of the CAFTA

Source: Authors’ own compilation from various sources.