

ASEAN-CHINA FREE TRADE AREA: ONE-YEAR REVIEW



**S. RAJARATNAM SCHOOL
OF INTERNATIONAL STUDIES**
A Graduate School of Nanyang Technological University

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ASEAN-CHINA FREE TRADE AREA: ONE-YEAR REVIEW

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This report summarises the proceedings of the workshop as interpreted by the assigned rapporteurs and editors appointed by the S. Rajaratnam School of International Studies, Nanyang Technological University. Participants neither reviewed nor approved this report.

This workshop adheres to a variation of the Chatham House Rule. Accordingly, beyond the paper presenters cited, no other attributions have been included in this workshop report.

Executive Summary

The full implementation of the ASEAN-China Free Trade Area (ACFTA, or sometimes referred to as CAFTA) in January 2010 marked a major milestone in relations between China and Southeast Asian states. The architects of this agreement, in creating the world's largest free trade area by population, hoped to benefit from increased trade as the result of the lowering or elimination of trade tariffs. This new step towards economic integration accompanied other cooperative efforts between the two sides in recent years, and resulted in a new era of engagement.

Just over one year into the full implementation of ACFTA, this workshop aimed to examine the FTA's progress, successes and remaining challenges. During the months leading up to the start of the FTA, a number of concerns were raised from various industry groups (in Southeast Asia as well as in China) and even from some governments. Would local industries in Southeast Asia remain competitive or would they suffer from a massive influx of less expensive Chinese goods? Would workers' wages be affected? How might the growth of new industries in particular areas affect the environment? How would non-tariff trade barriers be addressed?

This workshop, organised into three thematic panels, called on scholars and practitioners from across Southeast Asia and China to address the issues noted above. The first panel addressed the region-wide impact of ACFTA—its successes and challenges—by calling on experts from ASEAN and China. The second panel explored perspectives from individual FTA member states including, but not limited to, Singapore, Vietnam, Indonesia, the Philippines, and China. This panel allowed workshop participants to compare and contrast the various experiences of each country. The third and final panel explored ACFTA's impact and relationship with the broader Asia-Pacific regional trade and relations.

The workshop participants were generally in agreement that it was still too early to judge the impact of ACFTA. However, it was also agreed that it was appropriate, if not necessary, to pause and appraise the FTA's efficacy and seek ways for all members to attain maximum benefit.

Session I: ASEAN-China Free Trade Area: The One-Year Mark

A Comprehensive Chinese View

Liu Jianren's presentation summarised the achievements made by the ASEAN-China Free Trade Area (ACFTA) in its first year of full implementation. Liu also addressed existing problems to be tackled when moving forward. Overall, he argued that the implementation of the FTA promoted greater economic ties between China and ASEAN while also relieving some of ASEAN's concerns over China's rise.

Liu identified five significant achievements of the FTA since its implementation. The first of these achievements was that a high level of trade between China and ASEAN had been realised, despite the ongoing negative impact of the global financial crisis. ASEAN-China trade in 2010 reached USD 292.78 billion, a 37 per cent increase from the previous year. The second achievement noted by Liu was the rapid increase in mutual foreign direct investment between the two sides. China's investment in ASEAN countries reached over USD 1.96 billion in 2010, and ASEAN's investments in China reached USD 5.567 billion. Third, he opined that further amendments to the FTA, such as the "Second Protocol to Amend the Agreement on Trade in Goods"—signed on 29 October 2010—continued to facilitate improved trade. Fourth, ACFTA had contributed to further regional integration, such as the first meeting for ASEAN-China Industry Cooperation held in Kunming on 17 September 2010. The fifth achievement highlighted by Liu was that of improved understanding of ASEAN markets by Chinese provinces and cities. Since the implementation of the FTA, over forty meetings had been held in China to explain the new trade

policies and opportunities of the agreement, and provincial governments had adopted strategies to take advantage of these.

He then discussed the challenges that remained for the FTA and highlighted four primary issues. First, he perceived that China was more active and interested in the FTA than ASEAN member states. He attributed this to ASEAN having more experience with FTAs than China and ASEAN focusing more on the problems brought by the agreement. Second, there had been an imbalance in trade between the two parties. ASEAN countries enjoyed a trade surplus of USD 163.4 billion by the end of 2010, but this surplus may not be sustainable. Third, some ASEAN members were still concerned that the FTA and tariff-free Chinese goods would harm particular local industries. He opined that these concerns were possibly to be blamed for the failure to reach agreement on the second batch of ACFTA market access and service trade liberalisation talks. Fourth, there continued to be a lack of understanding of the FTA by both sides. He claimed that many Chinese enterprises still did not understand the laws and regulations, such as the rules of origin. He also cited a study that found only 20 per cent of companies in the Philippines were taking advantage of ACFTA's zero-tariff benefits.

Despite its problems thus far, Liu argued that the FTA laid a firm foundation for economic integration between China and ASEAN, which would also lead to enhanced political relations and peace and stability in the region.



Liu Jianren

A Comprehensive ASEAN View

Rony Soerakoesoemah began by reminding the attendees that economic cooperation between China and ASEAN could be traced back to the formal establishment of relations in 1991. Economic relations were then elevated with the signing of the “Framework Agreement on Comprehensive Economic Cooperation” in 2002. This legal instrument was the basis for the establishment of the FTA between China and the ASEAN-6 in 2010 and between China and the CMLV countries in 2015.

The speaker argued that the most obvious benefits of the FTA were increased bilateral trade, expanded GDP, greater economic efficiencies, lower costs, and increased investments. He opined that over the first year of the agreement’s implementation, cooperation and relations between China and ASEAN had significantly improved. Moving forward, the FTA would allow for regional businesses to play a more significant role in the global supply chain, promote greater cross-border investments, and serve as a catalyst for East Asian economic integration.

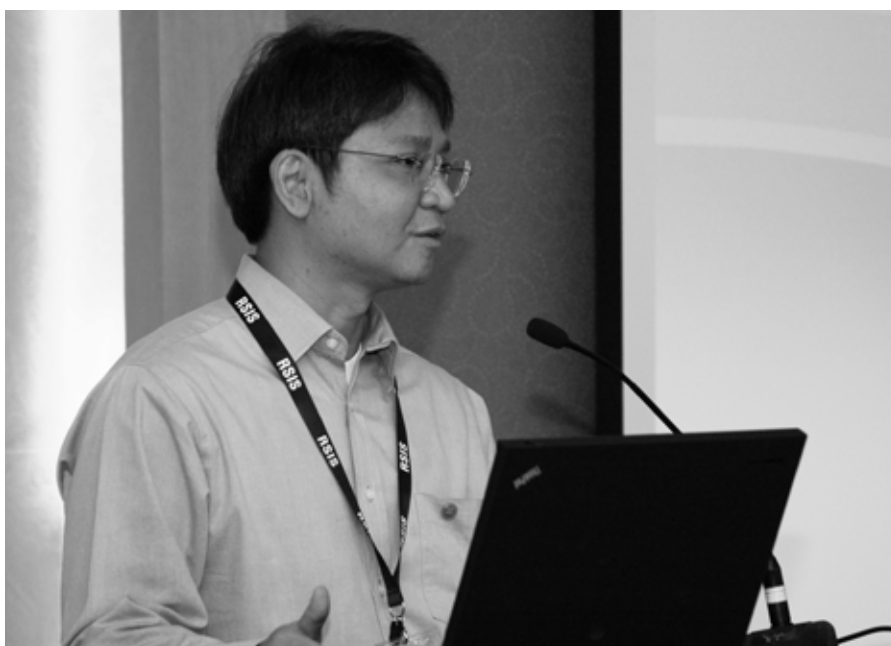
Assessing the FTA at the one-year mark, there were areas for improvement, according to Soerakoesoemah. ASEAN’s own mid-year review highlighted the need to avoid accelerating or deepening the liberalisation process, to improve the utilisation of margins for preferences, to enhance trade facilitation, and to continue monitoring the implementation and evaluation of the impact of the TIG Agreement. Furthermore, the speaker noted the need to deliberate on the low utilisation of preferential tariffs. The bigger challenge, however, was for ASEAN and China to work together to level the playing field so that all parties benefited from the FTA. There needed to be an acknowledgement of the disparity in the capacities of the CLMV countries and a more deliberate attempt to promote the

FTA in these countries. More outreach, to include the enhancement of the FTA Business Portal (aka BIZ Portal) and the organisation of seminars and forums to raise awareness among investors was recommended. He also raised the need to explore the potential of e-commerce between the CMLV countries and China, as well as an increase in the promotion of agricultural trade with these countries.

In conclusion, he noted that the FTA would create a sense of community among ASEAN members and China, and provided another important mechanism for supporting economic stability in East Asia. He also expected a significant increase in ASEAN-China bilateral trade in the future under the FTA.

Commentary

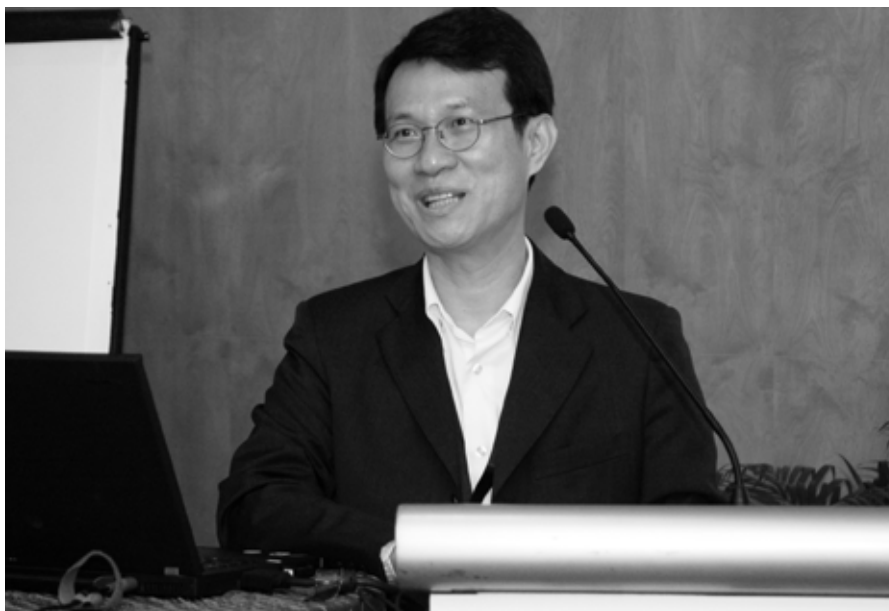
Sheng Lijun offered a brief commentary on the presentations done by Liu Jianren and Rony Soerakoesoemah. He opined that the presentations were complementary and offered both the positive and negative aspects of the FTA thus far. Some questions remained, however, such as how the global financial crisis had affected trade volume in the free trade area? How much of that trade was “double counting”? Certainly, some of this trade was produced in Asia, but not for Asia. Countries in the region were creating for third-party markets and depended on Western market consumption. Overall ASEAN-China trade was not as strong as it should be. The FTA was still a positive development, but observers needed to be realistic and understand that improvement in overall ASEAN-China relations would require more than simply trade.



Rony Soerakoesoemah

Session II: Country Reports on the ASEAN-China FTA

Thailand



Paisan Rupanichkij

Paisan Rupanichkij began his presentation with an overview of Thailand's economy in 2010. While the first half of the year saw significant political upheaval, the country had managed to quickly recover from the crisis and achieved a growth rate of nearly eight per cent—the highest in years. Thailand's main engine of growth was, and would continue to be, in the export sector. This accounted for two-thirds of the country's GDP. Like other export dependent countries in the region, Thailand benefited considerably from China's early economic rebound from the global financial crisis. From January to November 2010, exports from China grew at a hefty rate of around 40 per cent with a value of USD 19.4 billion. This was the first time that China surpassed the United States as Thailand's number one export market.

According to Rupanichkij, the ASEAN-China Free Trade Agreement had provided an impetus for growing trade ties between ASEAN and China since its enactment. From 2003–2007, ASEAN-China trade had increased 30 per cent per year on average. During the first half of 2010, bilateral trade between the two sides reached USD 136 billion, a year on year increase of 55 per cent. However, while ASEAN as a whole had enjoyed a trade surplus

with China, in the first ten months after the entry into force of ACFTA, Thailand ran into a trade deficit with China. During this period, the deficit amounted to USD 2.58 billion, compared to a deficit of USD 1.73 billion in the same period during the year before. This increased bilateral trade had led to greater economic interdependence between the two countries. He noted that while some observers viewed this as essential to lessen the impact of slow growth and recovery in western economies, others feared ASEAN had become too dependent on China's growth.

While China's outward FDI had increased in recent years, the country remained a small player in terms of total investment in ASEAN. However, China recently decided to make a major investment in wholesale trade in Thailand by building a large trade centre complex worth up to USD 1.5 billion near Bangkok's new airport. Set for completion in 2013, this centre would be the largest distribution centre in ASEAN and the second largest in Asia. This project had been welcomed by the Thai government, but received a cool response from the private sector, fearing its impact on the local economy.



Dato' Dr. Mahani Zainal Abidin

Dato' Dr. Mahani Zainal Abidin, explored ACFTA from Malaysia's perspective. She explained that the Malaysian government had offered several reasons for entering into the FTA. These included China's growing market and the diversification of export markets, complementarity between ASEAN and China, removal of trade barriers, and the fact that ACFTA would be the largest FTA to date. The question was whether Malaysia benefited in the ways its government had expected by entering the FTA.

Trade between Malaysia and China had been nearly balanced since the enactment of the FTA. However, the rate of growth for trade with China was the highest among its trading partners. China had therefore become an important trade partner. While this overall growth was welcome, it did not yet appear that ACFTA had changed the patterns of trade between Malaysia and China. There was little change in the types of goods exported from Malaysia to China, or imported from China to Malaysia. If one of the goals of the Malaysian government was to change the patterns of trade, then perhaps something other than the measures of the FTA were required.

As for FDI, in 2008 and 2009, Chinese investment in Malaysia had been very dramatic. But, this investment was not in the manufacturing sector, but in

resource-based projects and infrastructure. Furthermore, this investment did not appear to be the result of the FTA, but because of opportunity and the fact that China was looking for resources.

The private sector in Malaysia had been less enthusiastic about the FTA than the government. Malaysian iron and steel manufacturers claimed they were facing stiff competition. The Associated Chinese Chamber of Commerce & Industry of Malaysia (ACCIM) had called for a limit of 10 per cent annual growth in volume of imports from China.

In summary, it was not clear whether ACFTA had increased Malaysia-China trade or whether this was simply natural growth. It was also not clear whether the FTA had yet made an impact on FDI.

Lastly, an important question for going forward was whether ACFTA would help to link ASEAN with China in a regional production chain, or if this would be replaced by an internal Chinese production chain that excluded ASEAN? Malaysia was keen to see a realisation of the trade goals of ACFTA, but apart from this, the other benefit so far had been an improvement in the transparency and certainty of economic rules and regulations between the two countries.

Philippines

Amado M. Mendoza Jr. reviewed the first year of ACFTA from the Philippine's viewpoint. China and the Philippines had an established diplomatic relationship, which included economic agreements. However, this relationship could often be characterised as having a roller-coaster pattern, especially when considering relationships with Taiwan and the United States. Despite the complications, China and the Philippines had entered into cooperative projects, for instance, in the areas of agriculture and railway construction.

Bilateral trade between China and the Philippines had resulted in a trade surplus enjoyed by the Philippines, as well as an increase in volume for both sides. China's non-financial direct investment in the Philippines had also increased significantly in 2010. There had also been investment in China by a few Filipino businesses amounting to a smaller, though still considerable, sum.

Even with all of its advantages, ACFTA was not fully utilised by firms in the Philippines. This was largely due to the type of export goods (electronic), which have already enjoyed tariff reductions as part of the MFN status. Lack of information and administrative problems were also to be blamed. Another issue was the large amount of low-cost and low-quality Chinese goods that

were smuggled or hoarded in the Philippines. These goods were not counted in official statistics and made it probable that the Philippine trade surplus with China was overstated. Financial investment by Chinese firms had decreased in 2010, amid allegations of corruption and bribery between them and some Philippine government officials. These allegations extended to trade as well.

Territorial claims made by China, from Northeast Asia to the South China Sea, could threaten relations with the Philippines and other ASEAN nations. This threat had placed the Philippines within a triangle along with China and the United States in order to balance its own security needs. The presence of U.S. military forces in the Philippines had grown due to China's military assertiveness and territorial claims. There were also potential issues with Taiwan, as an FTA was contemplated. However, there had also been issues with the United States, regarding cooperation in fighting terrorism, which had opened the door to China to provide military and economic support in place of the United States. The challenges of territorial disputes with China and security issues with the United States continued to make the relationship, and also the relationship with ASEAN, complicated. The Philippines appeared to be hedging in its approach to balance power in the region.

Vietnam



Chu Minh Thao

Chu Minh Thao discussed the perspective of Vietnam in a review of the effects of the ASEAN-China Free Trade Agreement (ACFTA) after a one-year of implementation. In general, ACFTA was considered an opportunity to facilitate trade with China and other regional neighbours while providing a gradual time period for tariff elimination, which protected Vietnam's market during the transition.

The main benefit of the agreement had been the increase in trade turnover for both Vietnam and China. This was heightened by the natural use of informal border trade, since Vietnam and China shared a geographic border, which lowered the cost of trade for both nations. Another promising result of the agreement was the potential that the vast market of China provided for Vietnam's economic growth. The strengthening of cooperation between ASEAN and China was also seen as a continued benefit to Vietnam's export and production capacity.

The main disadvantage of the agreement had been the sharp increase in the already large trade deficit between Vietnam and China. This was further

exacerbated by the differences in the types of goods exported by each nation; i.e., most of Vietnam's exported goods to China were agro-fishery products and raw materials which were low-value added, while China's exported higher-value products flooded the Vietnamese market. In addition, Vietnam also faced challenges regarding the quality of China's exported product and technology, as well as the issues that Vietnam's dependence on China's supply caused as their economies become increasingly bound together, such as the foreign exchange rate.

In the future, Vietnam needed to better disseminate information about ACFTA to companies so that they could take full advantage of the benefits when exporting their goods. Often, opportunities were missed because of lack of preparation of the proper paper work. Vietnam also needed to strengthen the competitiveness of its exporters by investing in technology that would allow them to better comply with China's end-good requirements, such as labelling, testing, and packaging. Vietnam also needed to come up with a strategy to narrow its trade deficit to ensure stable trade relations with China.

Indonesia

Tirta N. Mursitama reviewed the impact of ACFTA on Indonesia at the one-year mark. Trade between Indonesia and China had been strong for a number of years, preceding the implementation of ACFTA, however, there had been a rapid growth in ASEAN-China trade relations since it had come into effect.

Both imports and exports between China and Indonesia increased substantially once ACFTA had taken effect. This was especially seen in the non-oil and gas sectors. This had been facilitated by the increased speed in moving goods and services across the borders of ASEAN countries which was made possible by the agreement. ACFTA had also been a prominent initiative to bolster economic cooperation among nations in the region, which had enhanced regional integration. ACFTA was seen as an important avenue for opening up the large Chinese market to foreign exports, as well as to enhance the competitiveness of the ASEAN member nations. The agreement had also been helpful to regional production networks by encouraging the restructuring of supply chains and the redistribution of FDI flows.

The main negative factor of ACFTA was the trade deficit between Indonesia and China, especially in the gas and oil sectors, which was a reversal of its previous position. Indonesia enjoyed a trade surplus with China until 2008 and had since seen the trade deficit increase by a substantial percentage. This had been expected by the Indonesian government as a natural consequence of reducing tariffs to zero, and the impact on certain commodities had been minimal. As an addition to the Indonesian deficit, the trade imbalance was unwelcome, but tolerable at the present.

The overall sentiment of the Indonesian business community appeared to be that trade agreements made before ACFTA went into effect figured more prominently into current dealings and therefore, the impact of the agreement had not yet been fully felt. More time and future analysis was needed to accurately assess the advantages and disadvantages to Indonesia brought on by ACFTA.



Suon Sophal

Suon Sophal commented on the effects that ACFTA had had so far on Cambodia and the potential it had in the future. Cambodia and China had a long history of bilateral relations, and currently enjoyed strong economic ties. This was especially evident between the ethnic Chinese community in Cambodia and Chinese traders and retailers. Chinese products were prominent in the Cambodian market.

The opening up of markets and the increased ease of trade between China and all ASEAN nations had been seen by Cambodia as beneficial to business enterprises as they facilitated the flow of goods, services, and technologies as well as reduced costs and increased in development. The ACFTA appeared to be responsible for the swift growth of trade and investment in the region, which was especially prominent between China and Cambodia. Imports from China to Cambodia had increased each year for the past nine years, and preferential tariff treatment had been provided for 418 Cambodian products exported to China. China was also one of the major investors in Cambodia, and ACFTA had provided an attractive environment for further foreign investment. The agreement also created an atmosphere favourable for marketing of Cambodian products in the region.

The major drawback of ACFTA to Cambodia was the very large trade deficit between it and China. However, Cambodia hoped to mitigate this situation with more diverse markets created by promoting greater demand in the region.

Cambodia saw ACFTA as a protective measure against a future world financial crisis. The emphasis on infrastructure investment by Cambodia was also important to the future full realisation of ACFTA benefits. The streamlining of customs procedures and automation, as well as the improvement of the physical road and rail network, would serve to strengthen economic integration. In keeping with this idea, regulations and supervision needed to be tightened and greater economic policy coordination between the ASEAN nations was necessary to ensure equitable and efficient growth. Maintaining a high level of complementarity with regard to development and industrial structure between China and ASEAN was the key to a successful supply chain sharing rather than unnecessary competition.

Singapore

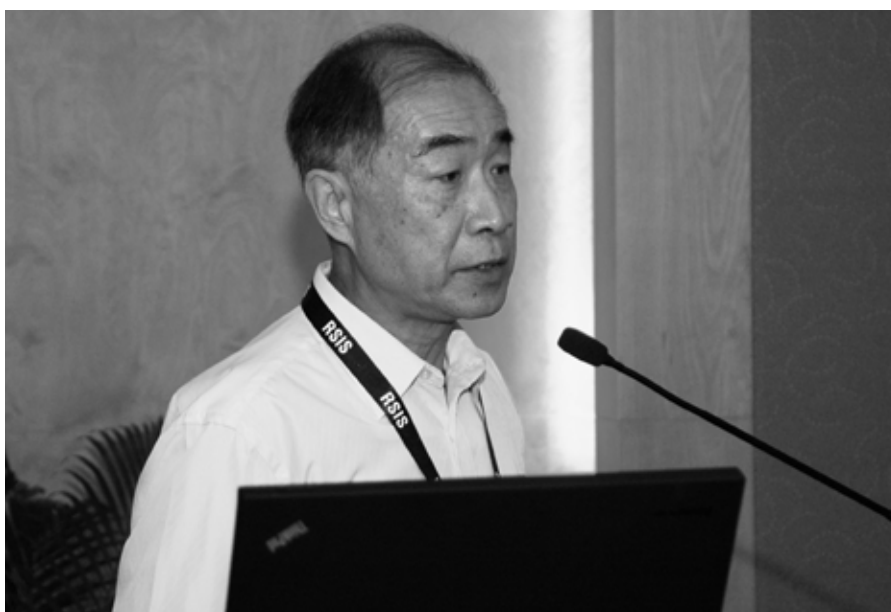
Yang Mu discussed the economic relationship between Singapore and China, before ACFTA was enacted and the possibilities for the future. Singapore had established links with several of China's provincial governments and had worked with China on three major economic projects as ways to continue to mutually benefit from each other's economic growth and success. This level of cooperation had also brought opportunities in China for Singaporean investors. Singapore saw itself as a reliable and experienced partner to China, which gave it a competitive edge. Singapore had also historically pursued FTAs with many nations around the world, and had positioned itself as the centre of growing diplomatic and business ties between East Asia and India, the Middle East, South Africa, and South America.

A bilateral FTA was started in 2009 between China and Singapore. Therefore, the impact of ACFTA in 2010 had had less effect on Singapore than on other ASEAN nations. The largest gain in trade seen as a result of ACFTA for Singapore had been as an exporter of parts and components used to manufacture finished products in China. In this way, the increase in exports from China

also benefited Singapore's exports. Food exports to China had also increased significantly due to the zero tariffs.

Even with increased exports to China, Singapore's exports had dropped as China's had risen. The main issues Singapore saw as impediments to ACFTA's success had to do with the many differences between ASEAN nations, such as gaps in GDP and per capita income. There were also many institutional system differences, which might complicate the fully realised implementation of ACFTA. China's investment in ASEAN nations was seen as an important step to counter some of these obstacles. This investment would be especially advantageous in the modernisation of physical infrastructure, including railways and ports, which would better connect China with Singapore and other ASEAN countries. Many of Singapore's neighbouring countries had seen and would continue to see improvement due to FDI from China, including Singapore's largest trading partner, Malaysia. This opened up the opportunity for cooperation between Singapore and China in the area of food security, and for the increased presence of Singaporean enterprises in China.

China



Liao Shaolian

Liao Shaolian outlined the progress and problems seen thus far, concerning ACFTA from China's point of view. Policy recommendations were also discussed. In general, ACFTA was seen as an important beginning to strengthen bilateral economic relations.

Three major achievements of ACFTA were identified. The first was the unprecedented increase in bilateral trade of goods between China and ASEAN that had taken place in a short time since the implementation of ACFTA. Since many Chinese manufacturing industries relied heavily on raw materials and intermediate goods from ASEAN, the establishment of the agreement substantially reduced the production costs of these enterprises. Another success was that trade in services developed quite fast and had begun to be an important form of economic cooperation. More market access had been provided to foreign investors in more than 60 sectors and development projects between China and other countries were underway. The third achievement was the result of the efforts in improving investment liberalisation, facilitation, and transparency. The investment environment had been further improved in both China and ASEAN, and Chinese enterprises had been encouraged to "go abroad" and invest in a wide range of areas.

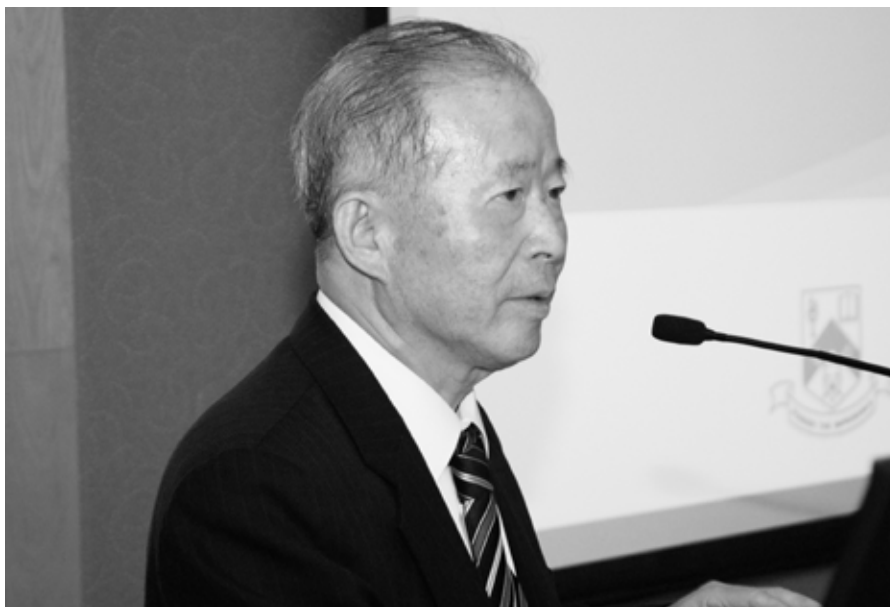
Liao also identified three problems that needed to be solved. There was still a lack of understanding of ACFTA in Chinese business circles, including

knowledge of laws and regulations. Secondly, more attention needed to be given to open the markets of trade in services, investment, and technology in addition, to the current focus of tariff reduction and trade of goods. Finally, standards and technical requirements of various countries required more synchronisation and exchange of information, as disparities in this area could cause barriers to smooth economic cooperation.

In order to further strengthen cooperation between China and ASEAN, as well as make ACFTA more beneficial to the business community, four policy recommendations were made. The first recommendation was to establish closer ties and more frequent contact between chambers of commerce and business associations of member nations to promote mutual understanding and to expand economic complementarity. The second was to emphasise mutual standardisation to reduce technical barriers to trade and to increase cross-border procurement between nations. Encouraging direct investment and trade in services was also recommended, through making the business circles of other countries aware of each government's policies in attracting foreign capital. The final recommendation was to promote direct and informal people-to-people contact through education, training, and cultural exchanges, in order to promote mutual cooperation and security.

Session III: ACFTA In The Context Of Asia Pacific Relations Economic Relations

Asia Pacific Economic Relations



Noboru Hatakeyama

Noboru Hatakeyama commented on the effects of ACFTA on broader Asia Pacific economic relations. The ACFTA was one of five ASEAN+1 FTAs in the region, the others being with Japan, Korea, India, and Australia/New Zealand. ASEAN was the first to have a major FTA in the region which began in 1992. Japan's first FTA, with Singapore, took effect in November 2002. China's first FTA, with Hong Kong and Macau, began in April 2004. The framework agreement on an ASEAN-China FTA began in 2005, while the ASEAN-Japan FTA started in December 2008. The result had been that currently 25.7 per cent of China's exports were covered by its ten FTAs with other economies, while only 16.4 per cent of Japan's exports were covered by its FTAs. These were both in contrast with an example such as Singapore, where 67.5 per cent of exports were covered by its FTAs with other nations.

One significant change that had occurred since the negotiation of ACFTA was that the average wage in China had increased from being much lower than that of the major ASEAN nations in March 2003, to higher than all major and some minor members of ASEAN today. This had resulted in increased exports to China from ASEAN countries compared to exports to ASEAN from China.

Another issue concerned goods that were fully covered by ACFTA and thus, had zero tariffs. The ACFTA allowed for each country to postpone the total elimination of tariffs for certain goods for up to two years. An example was Thailand's listing of auto parts, some on the highly sensitive list on the sensitive track, and others not at all. This became problematic for the auto production network between China and ASEAN. Production networks in Japan had not been affected by ACFTA due to the already established networks that Japanese companies had with both in China and ASEAN countries.

The future of free trade in the region was ever-changing with the current negotiation of a proposed East Asia Free Trade Area between ASEAN, China, Japan, and Korea, as well as the Comprehensive Economic Partnership in East Asia between ASEAN+3 and Australia, India, and New Zealand. Both of these required new FTAs to be made between several economies that did not have agreements before, so that they would significantly open up free trade in the region. Since the United States was the biggest market for China, it was also involved in negotiations to join the Trans-Pacific Partnership.

The FTAAP (Free Trade Area of Asia Pacific)



Fan Ying

Fan Ying outlined the distinguishing features of ACFTA and how the FTAAP could learn from the example of its negotiation and implementation. The first feature was that ACFTA was comprehensive; it not only included the framework agreement, but also guidelines for trading goods, trading services, settling disputes, and investment. Another feature was the flexible and elastic nature of ACFTA. An example of this was how the agreement allowed for newer members to gradually reduce tariffs over a five-year transition period, as well as participation in certain programmes such as Early Harvest. The unique way that negotiation and construction of ACFTA were conducted side-by-side was a feature that had resulted in trade liberalisation taking place over a relatively short period of time as well as increased enthusiasm among member nations. The ACFTA had also resulted in cooperative projects including investment and preferential loans among members.

There were many positive outcomes since the implementation of ACFTA. Economic ties between China and ASEAN had deepened as mutual exchange of goods between these entities had reached an unprecedented level. The agreement had promoted the shift of growth in the region, which had rebalanced the global economy. It had also encouraged the development of more FTAs

among the major economies of the region and beyond, including Japan, South Korea, Australia, India, the United States, the EU and even Russia.

The FTAAP still had many hurdles to overcome in order to arrive at the level of ACFTA. One was the huge developmental gap between the Asia-Pacific economies. Another issue was how all existing bilateral or multilateral FTAs could be coordinated under the FTAAP. This was further complicated by the fact that the economic dynamics in the Asia-Pacific region had traditionally been driven by market forces rather than by institutional agreement.

There were three main points learnt from ACFTA that needed to be applied to the FTAAP. One was to be practical and inclusive by giving member states an equal sense of participation and to encourage them to overcome discrepancies in political systems, economic output, cultural tradition, development levels, etc. The second was to encourage openness through competitive liberalisation, which also allowed members in the region to reach FTAs with economies outside the region. The final point was that of elasticity: the function of constructing while negotiating a FTA can enable member countries to enjoy the results, which motivate them during the process.

TPP (Trans-Pacific Partnership)

Henry Gao argued that the TPP was not only unique, but also the most important FTA in the Asian region, particularly for ASEAN countries. The features of the TPP that made it so important included: (i) It was a trans-regional agreement rather than an Asia-only FTA; (ii) it was initiated by smaller countries, considered to be middle powers, rather than being sponsored by a big power or a regional group; and (iii) it contained a clause allowing new members to accede without needing an approval from all existing individual members. The original objectives of the agreement were not typical of other FTAs, which usually sought only to increase bilateral trade, but rather focused on trade liberalisation, promoting political cooperation, and forging strategic alliances in areas such as education, agriculture, and technology. Trade liberalisation was most important as these nations were smaller and more export-oriented economies, which meant they were highly dependent on trade and required liberalisation on a wider scale than other economies less dependent on exports.

The United States had been excluded from the vast majority of FTAs formed in the region, and it had chosen the TPP as its vehicle to become more involved.

ASEAN countries had long seen the advantage to having the United States somewhat involved in the region as a hedge against the rise of China, as well as a trans-Pacific link, which prevented the risk of Asia-only economic agreements. While there were questions about the manner of U.S. participation, whether it would impose its own political and economic priorities and opinions on the other member economies, an enhanced U.S. presence was generally seen as beneficial for most ASEAN countries. China's method of negotiation during the development of ACFTA had been more conciliatory and had wanted to be seen as an equal partner rather than a big power.

Gao concluded that ASEAN countries could not ignore either the United States or China. He recommended that ASEAN entered into FTAs with both countries, to hedge against potential fallout between the two major powers. Therefore, serious thoughts were given to the establishment of an ASEAN+3 FTA, rather than the patchy ASEAN+1+1+1 deal that existed at the moment.

Discussion



A workshop participant noted that it was important to understand that the currency trade war was not between China and the United States, but between China, the United States and other countries, including those in Southeast Asia. The participant also asked whether the Chinese currency could be allowed to appreciate more, perhaps by five per cent. A speaker responded that if the Chinese currency were to appreciate too quickly, many companies would be bankrupted. The speaker further noted that many of these companies made very little profit.

Another participant remarked that although this was the first year of full-implementation for the ASEAN-China FTA, some parts of the agreement had been in effect for some years, such as the Early Harvest Programme, and progress in trade prior to this year should not be ignored.

A participant asked whether the proposed high-speed rail from China to Thailand was for passengers or for commercial transport, and whether the rail line made sense. A speaker responded that the railway was for passenger transport. As to whether it was a good investment for China, time would tell. This would depend on what China's motivations were for the project.

Another participant asked how much of an impact the smuggling of goods across the Vietnam-China border had on Vietnam's trade deficit with China. One speaker replied that smuggling may account for up to one-third of Vietnam's trade turnover with China, although it was difficult to quantify as it was illegal and hence, hidden. Much of this border smuggling was beyond the government's control and monitoring. Furthermore, if small Vietnamese companies had a choice, they would engage in border trade rather than trade channels that were part of the FTA. Another participant noted that trade figures between the Philippines and China were also difficult to measure because of smuggling, and that this was clear by the discrepancy in figures reported by both countries.

A participant wondered whether the change in the party regime in Vietnam would affect the country's support for the TPP. The participant found it surprising that Vietnam supported the TPP in the first place. Another participant opined that Vietnam would remain committed to the TPP, despite some lingering concerns. The change in leadership would not impact their commitment and it would likely be signed by the end of the year.

One participant noted that all the speakers focused on tangible trade in goods, and cautioned not to forget that the FTA was a comprehensive agreement that included services as well. This participant felt that ASEAN countries had a competitive advantage in a number of areas, like higher education, English language training, and tourism.

A participant remarked that China was a huge market and that it could manage a production chain by itself, without the involvement of other countries. However, the ASEAN-China FTA forced China to share its economic rise with others, and ASEAN simply had to "give to get".

Another participant noted that foreign competition in some industries could be of significant benefit, rather than always viewed it as threatening. For example, mango farmers in one region of China initially felt like victims of the Early Harvest Programme. ASEAN's mangoes were of higher quality and these Chinese farmers were suffering from the competition. However, in response to this competition, they raised the standards of their own crops and were able to find a niche in the market and compete.

A participant pondered whether China would seek an East Asia FTA, perhaps after forming a Northeast Asia FTA. And if so, would this be parallel to and competitive with TPP? Two speakers opined that it was possible to have two systems operating at the same time in the region. However, several participants disagreed on whether the United States would allow such parallel tracks. One participant felt that the TPP was good for ASEAN, as it was a hedging strategy should the Chinese market decline.

Programme

China-ASEAN Free Trade Area: One-Year Review

Organised by

S. Rajaratnam School of International Studies (RSIS)

14 February 2011

13 February:

6:30 pm

Foreign Participants Arrival (all day)

Welcome Dinner at Hotel

14 February:

9:00 am-9:10 am

Workshop (whole day)

Welcome Remarks, Li Mingjiang, Coordinator of China Programme, RSIS

9:10 am-10:20 am

Session I: China-ASEAN Free Trade Area: The One-Year Mark

A broad overview of CAFTA one year after the implementation between China and the ASEAN-6 (20 minutes for each speaker, 10 minutes commentary, and 20 minutes free discussion)

Chair: Li Mingjiang

- Lu Jianren, Chinese Academy of Social Sciences
- Rony Soerakoesoemah, ASEAN Economic Community Department, ASEAN Secretariat
- Commentary by Sheng Lijun, NTU and free discussion

10:20 am-10:40 am

Coffee/tea break

10:40 am-12:20 pm

Session II: Country report on CAFTA – Part A

Views from individual CAFTA member states in the region (20 minutes for each speaker, 20 minutes free discussion)

- Paisan Rupanichkij, East Asia Academic Cooperation Council of Thailand
- Dato' Dr. Mahani Zainal Abidin, Chief Executive, Institute of Strategic and International Studies, Malaysia
- Amado Mendoza, University of the Philippines
- Chu Minh Thao, Center for Development & Integration Studies, Diplomatic Academy of Vietnam

12:20 pm-2:00 pm

Lunch

2:00 pm-3:40 pm

Session II: Country report on CAFTA – Part B

(20 minutes for each speaker, 20 minutes free discussion)

Chair: Keith Flick

- Tirta Nugraha Mursitama, Center for East Asia Cooperation Studies, University of Indonesia
- Suon Sophal, Council for Development of Cambodia
- Yang Mu, East Asia Institute, NUS, Singapore
- Liao Shaolian, Xiamen University, China

3:40 pm-4:00 pm

Coffee/tea break

4:00 pm-5:20 pm

Session III: CAFTA in the Context of Asia-Pacific Economic Relations

(20 minutes for each speaker, 20 minutes free discussion)

Chair: Yang Mu

- Hatakeyama Noboru, Japan Economic Foundation
- Fan Ying, China Foreign Affairs University
- Henry Gao, Singapore Management University

5:20 pm-5:30 pm

Concluding Session (Chair: Li Mingjiang)

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About RSIS

The S. Rajaratnam School of International Studies (RSIS) was officially inaugurated on 1 January 2007. Before that, it was known as the Institute of Defence and Strategic Studies (IDSS), which was established ten years earlier on 30 July 1996. Like its predecessor, RSIS was established as an autonomous entity within the Nanyang Technological University (NTU).

The School exists to develop a community of scholars and policy analysts at the forefront of Asia Pacific security studies and international affairs. Its three core functions are research, graduate teaching and networking activities in the Asia Pacific region. It produces cutting-edge security related research in Asia Pacific Security, Conflict and Non-Traditional Security, International Political Economy, and Country and Area Studies.

The School's activities are aimed at assisting policymakers to develop comprehensive approaches to strategic thinking on issues related to security and stability in the Asia Pacific and their implications for Singapore.

For more information about RSIS, please visit
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About the RSIS' China Programme

The China Programme at the S. Rajaratnam School of International Studies looks broadly at China's international strategic thinking and behavior, foreign and security policy, and the impact of domestic political economy on China's foreign relations. Its members provide a distinctive regional voice on the issue of the role of China as a rising power. The Programme gives priority to the military dimension of China's strategic thinking and behavior, China's international relations in East Asia, China and regional institutions, sub-regional cooperation, maritime security, and Taiwan. Members of the Programme have extensive expertise on China's international strategy, Sino-US relations, Sino-Japanese relations, security issues involving China in the East Asian region, and domestic social, political, and economic transformations in China. The China Programme invites visiting fellows from Chinese military institutes, think tanks, top universities every year. The Programme also has extensive and regular research networking with many Chinese counterparts. Since 2006, the Programme has published 7 books and many papers in international peer-reviewed journals, and numerous opinion articles in various media outlets.

