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Call for Papers

中国一东盟自由贸易区的

基础问题 CAFTA FUNDMENTAL ISSUES





The Geo-political and Economic Imperatives of the China-ASEAN Free Trade Area

Maria Cristina P. Rilloraza

Maria Cristina P. Rilloraza, prosecutor of office of the chief state prosecutor of Department of Justice

Content

- Introduction
- The Association of South East Asian Nations(ASEAN)
- The China-ASEAN Free Agreement(CAFTA)
- Conclusion

T. Introduction

The establishment of China-ASEAN Free Trade Area (CAFTA) on January 1, 2010 marked an important milestone in the development of China-ASEAN relations. It is the world's third largest regional free trade area, after European Union (EU) and North America Free Trade Area (NAFTA). CAFTA has a significant trade and development implications for Southeast Asia. However, as this agreement contains not only economic matters but also explicit political content, it stirs academic interest and contending views among activists and scholars in developing countries.

The rise of China has prompted frequent discussion and concern in the U-



nited States. Much of this discussion has focused on the future economic and security threat China may pose to the United States. In contrast, for the ASEAN member states, China's growing status as a global power is not a future challenge but a daily reality.

The idea of forming CAFTA as a free trade bloc dated back to the Asian financial crisis in the 1990s. At the third China-ASEAN Summit in Manila in 1999 then, Chinese Premier Zhu Rongji reiterated China's readiness to enhance its ties with ASEAN free trade district. His proposal got positive response from leaders of ASEAN nations.

The events that shaped the CAFTA include the accelerated globalization, the recent Asian financial crisis, China's entry into the World Trade Organization, the terrorist attacks in the South East Asian region, the 9/11 terror attacks on the United States and the reorientation in the U.S. security policy.

CAFTA is important to ASEAN. As a rapidly growing economy, China offers enormous potential for the largely small and export-oriented ASEAN member countries.

II . The Association of South East Asian Nations (ASEAN)

A. History

The Association of Southeast Asian Nations (ASEAN) has its roots in previous regional groupings such as: SEATO (Southeast Asian Treaty Organization, 1945) the ASA (Association of Southeast Asian Nations, 1961), MAPHILINDO (Malaysia, Philippines and Indonesia, 1963) and ASPAC (Asian and Pacific Council, 1966).

On August 8, 1967, with the signing of the ASEA Declaration (also known as Bangkok Declaration), ASEAN was established.

B. Membership

The five founding members of ASEAN are: Indonesia, Malaysia, the Philippines, Singapore and Thailand.

On January 7, 1984, Brunei became the sixth member of ASEAN.

At present, ASEAN has ten member countries, namely, Singapore, Brunei Darrusalam, Malaysia, Lao PDR, Vietnam, Cambodia, Myanmar, Philippines, Indonesia, and Thailand.



As embodied in the Bangkok Declaration, the ASEAN "is open for participation to all States in the Southeast Asian Region" subscribing to the Association's aims, principles and purposes.

Aside from abundant natural resources, the region is a developing market with a strong potential demand for consumer goods, capital goods, and technical skills.

It has one of the fastest economic growth rates and membership countries have projected annual growth expansion rates from five to seven percent.

The heads of government of member countries are the highest authority of ASEAN. Whenever necessary, summit meetings are held to discuss problems and to give renewed direction to ASEAN.

C. Aims and Purposes

ASEAN desires to establish a firm foundation for common action to promote regional cooperation in Southeast Asia in the spirit of equality and partnership and thereby contribute towards peace, progress and prosperity in the region.

To achieve its goals, the ASEAN shall seek to:

- a. accelerate the economic growth, social progress and cultural development in the region through joint endeavors;
 - b. promote regional peace and stability;
- c. promote active collaboration and mutual assistance on matters of common interest:
 - d. provide assistance to each other through training and research;
 - e. collaborate for the uplift of the standard of living of the region's people;
 - f. promote Southeast Asian studies;
- g. maintain close cooperation with international and regional organizations with similar aims and purposes.

D. ASEAN Cooperation

ASEAN member countries have forged several cooperation agreements on different aspects, particularly on economy, science and technology, social development, drugs and narcotics control, culture and information, politics, and with countries which are dialogue partners.

Economic cooperation is a key aspect of ASEAN cooperation. It encom-



passes both intra-ASEAN cooperation as well as extra-ASEAN cooperation with Third Countries (non-ASEAN member countries) and international organizations. ASEAN economic cooperation extends to the following fields:

- a. Finance and banking
- b. Food, agriculture and forestry
- c. Industry, minerals and energy

In the field of political cooperation, pursuant to the ASEAN Declaration (1967) and the Declaration of ASEAN Concord (1976), ASEAN member countries coordinate their positions and take common stands whenever possible on several international political issues.

E. The ASEAN Charter

The ASEAN Charter, which was signed on November 20, 2007 in Singapore, entered into force on December 15, 2008. The Charter provides the legal and institutional framework for ASEAN to be a more rules-based, effective and people-oriented organization. The ASEAN Foreign Ministers and the Secretary-General of ASEAN met on December 15, 2008 at the ASEAN Secretariat to welcome the ASEAN Charter's entry into force. The Charter can serve as the basis for speeding up and strengthening regional integration. By virtue of its provisions, ASEAN community would be resting on the pillars politico-security cooperation, economic cooperation and socio-cultural cooperation. It also provides for ASEAN's elevation into a rules-based and people-oriented organization with a legal personality. H. E. Dr. Surin Pitsuwan, the Secretary-General of ASEAN, pledged to protect and uphold the ASEAN Charter in letter and in spirit for the benefits of all the peoples of ASEAN.

III. The China-ASEAN Free Trade Agreement (CAFTA)

A. History

The idea of a free trade area between China and ASEAN was first proposed by Chinese Premier Zhu Rongji at the November 2000 China-ASEAN Summit. In October 2001, the China-ASEAN Expert Group on Economic Cooperation issued an official report recommending a "WTO-consistent ASEAN-China FTA" within ten years. A month later, at the November 2001 China-ASEAN Summit, the relevant leaders endorsed the ideas of the



Expert Group and the negotiation process officially commenced. Then, at the Eighth China-ASEAN Summit in November 2002, the ASEAN leaders and Chinese Premier Zhu Ronjgi signed the "Framework Agreement on Comprehensive Economic Co-operation" (CAFTA Framework Agreement). This agreement has served as a roadmap for the development of the free trade area. As laid out in the CAFTA Framework Agreement, a free trade area covering trade in goods between China and the original six ASEAN members is to be completed by 2010. The remaining four ASEAN members are expected to fully join by 2015. The CAFTA Framework Agreement is a ground breaking document, for after individual ASEAN members had previously created free trade agreements, ASEAN as an organization had never before made such a pact with an outside entity. Moreover, the CAFTA Framework Agreement was China's first free trade agreement with a foreign entity. Since the CAFTA Framework Agreement, both China and ASEAN have entered into negotiations with other countries regarding free trade agreements.

The objectives of the CAFTA Framework Agreement as stated in Article 1 thereof are the followings:

- a. strengthen and enhance economic, trade and investment co-operation between the parties;
- b. progressively liberalize and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime;
- c. explore new areas and develop appropriate measures for closer economic cooperation between the parties;
- d. facilitate the more effective economic integration of the newer ASEAN member states and bridge the development gap among the parties.

In order to establish China-ASEAN FTA within ten years from the taking effect of the CAFTA Framework Agreement, and to strengthen and enhance economic cooperation, the parties, in accordance with Article 2 thereof, shall adopt the following measures for comprehensive economic cooperation, to wit:

- a. progressive elimination of tariffs and non-tariff barriers in substantially all trade in goods;
 - b. progressive liberalization of trade in services with substantial sectoral



coverage;

- c. establishment of an open and competitive investment regime that facilitates and promotes investment within the China-ASEAN FTA;
- d. provision of special and differential treatment and flexibility to the newer ASEAN member states (Cambodia, Lao PDR, Myanmar and Vietnam);
- e. provision of flexibility to the parties in the ASEAN-China FTA negotiations to address their sensitive areas in the goods, services, and investment sectors with such flexibility to be negotiated and mutually agreed based on the principles of reciprocity and mutual benefits;
- f. establishment of effective trade and investment facilitation measures, including, but not limited to, simplification of customs procedures and development of mutual recognition arrangements;
- g. expansion of economic cooperation in areas as may be mutually agreed between the parties and formulation of action plans and programmes in order to implement the agreed sectors/areas of cooperation;
- h. establishment of appropriate mechanisms for the purposes of effective implementation of the framework agreement.

An "early harvest programme", to accelerate the establishment of the CAFTA, specified that tariffs on certain products would be eliminated over three years beginning January 1, 2004. A longer time-frame (no later than January 2010) was accorded to Cambodia, Lao PDR, Myanmar and Vietnam

An Agreement on Trade in Goods and an Agreement on the Dispute Settlement Mechanism of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China entered into force on January 1, 2005. Authorities indicate that since the tariff reduction began, there has been a boom in imports and exports between China and ASEAN, and a narrowing trade imbalance.

It needs to be mentioned that there is also an Agreement on Trade in Services of the China-ASEAN Free Trade Area that was signed in January 2007 and entered into force on July 1, 2007.

B. The birth of CAFTA and its motivations

On January 1, 2010, China-ASEAN Free Trade Area (CAFTA) came



into effect. 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.

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.

China and ASEAN nations enjoy geographic advantage in their economic cooperation, and their economies are highly complementary to each other. Before taking effect, it is projected that CAFTA will benefit both sides and help lift world economy out of any financial crisis. It will also help enhance cultural exchanges and integration in the region and the mutual understanding between China and ASEAN nations.

Cooperation between China and ASEAN nations covers economic, political, cultural, environmental, security and many other spheres, and the CAFTA offers further impetus to their comprehensive cooperation.

Apparently, at the end of 2009, China has 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.

Worth noting that at present, data show, 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. Moreover, since the implementation of CAFTA on Jan-



uary 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.

IV. Conclusion

In sum, although increasing trade and investment ties have caused China and ASEAN to become more economically interdependent, these relationships are still trailing the region's economic relationships with the United States and Japan, but the gap is narrowing.

The China-ASEAN relations are characterized as economic cooperation at first hand. Such relationship has been developing from economic cooperation to other areas of cooperation. The agreements between China and ASEAN, has gradually evolved and been formulated, thus extending their relations initially from economic aspect to political, security and legal fields and on many other areas of cooperation between the two sides.

CAFTA is expected not only to improve the economic but also the political and social relations between ASEAN and China, building on existing geographic proximity, as well as historical and cultural ties. The free trade area as a regional bloc, will bring about regional peace and prosperity in China and Southeast Asia as well as contribute to a balance of power in East Asia and provide for a louder and more effective voice in the international fora.

Truly, the forging of the China-ASEAN Free Trade Area came as a milestone in the annals of China-ASEAN relations, in that if continued to be carefully and transparently implemented, will improve not only the economic but also the geo-political conditions in the China-ASEAN region and thus may well serve as a model for regional cooperation not only in Asia, but in other parts of the world as well.

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