

ASEAN-CHINA FREE TRADE AGREEMENT: A PRIMER

ASEAN-China FTA

The ASEAN-China FTA Primer is a publication of the Universal Access to Competitiveness and Trade (U-ACT) under its Institutionalization of Multistakeholder Consultation for Trade Negotiations (I-MUST) project.

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Foreword

The ASEAN-China Free Trade Agreement (FTA) is considered to be a landmark agreement as it is the first external FTA pursued by the ASEAN and the first of China, outside its WTO membership. The establishment of the ASEAN-China FTA in 2003 set in place the largest free trade area to date.

The primer will allow the various stakeholders to understand and be able to identify the trade and economic opportunities that have been paved open by this trade agreement. It will also tackle how the agreement will impact on the Philippine economy, its local industries and sectors.

A detailed explanation of the agreement is provided for in this primer. The publication is divided into five parts. The first part looks into the ASEAN-China Economic Relations. The second part talks about the background of the agreement. The third part discusses the rationale behind the ASEAN-China FTA. The fourth part thoroughly talks about the coverage of the agreement, while the fifth part demonstrates the benefits of the agreement to all the countries involved.

I. ASEAN-CHINA ECONOMIC RELATIONS

Introduction

The rise of China is one of the most critical developments in the world today. China's emergence as an economic giant during the past quarter century has dramatically changed the global economic landscape. During the last decade, China's real GDP growth had averaged 10.1 per cent, the fastest rate of real GDP growth in the world. During the same period, China's exports grew threefold from US \$ 62.1 billion in 1990 to US \$ 249.2 billion in 2000, making China the seventh largest exporter in the world. . In addition, FDI inflows into China had grown more than tenfold from US \$ 3.5 billion in 1990 (about 10 per cent of all FDI flows to developing countries) to US \$40.77 billion in 2000 (17 per cent of all FDI flows to developing countries). Between 1995 and 2004, China's economy grew by 9.1% and in 2005 is ranked second to the US in terms of gross domestic product measured in purchasing power parity (PPP). China's global presence is largely felt in manufactured exports. During the past 25 years, the share of China in global manufactured exports increased tenfold and its share of global manufactured imports increased six-fold. As of 2004, China has overtaken Japan in the area of trade in manufactures.

China's 1.3 billion population is double that of ASEAN-10 and 6 times that of Indonesia. China's huge and cheap labour force gives it a comparative advantage in labour intensive production. China's nominal GNP of US\$1.1 trillion in 2001 is twice that of ASEAN-10, but is only onefourth that of Japan. However, when adjusted for purchasing power parity (PPP), the Chinese economy is already 1.5 times larger than Japan. China's GDP grew at an annual average rate of 10.0% in 1990-2001 and is forecasted to continue growing at an annual rate of around 7% for the next 10-15 years. China's external trade has been growing even at a faster pace than its GDP, at an annual pace of 15%.

The reasons for China's phenomenal growth have already been described and analyzed by many experts (see for example Lall and Abaladejo 2004; Winters and Yusuf 2006) and will not be discussed by this primer.

Some scholars, however, are reflective on China's rise, its meaning and implications. They argue that China is a strong competitor of ASEAN with far reaching impact on the latter's strategic outlook and economic prosperity. ASEAN countries are viewing the rise of China with a mixed sense of threat and hope. (Chia 2004). The sense of economic threat arises from the sheer size and dynamism of China's economy and its growing ability to "flood the market" with competitively-priced products. There is concern that China's huge and cheap labour force and cost competitiveness will capture ASEAN's market shares in the US, EU and Japan as well as threaten ASEAN industries in their domestic markets. There is also concern that China's cost competitiveness and its rapidly growing domestic market will divert FDI from ASEAN. The hope is that China's economic dynamism and market of 1.3 billion consumers will become a new regional

growth engine, particularly as the Japanese economic engine continues to sputter into its second decade. Scholars (Yap and Dueñas, 2006; Swee-Hock, Lijun and Kinwa, 2005) argued that there will be challenges arising from the establishment of an FTA between ASEAN and China. There would be intensified competition in each region's domestic market given the similarity in industrial structures. There would also be the need for adjustments to be made by enterprises, particularly the small and medium enterprises. The removal of trade barriers would bring with it some loss of tariff revenue.

For better or worse, one can simply conclude that the rise of China is a development one cannot afford to ignore.

The dynamism of China's economy, its rise as a major exporter and as a magnet of FDI was in some sense similar to the experience of a number of ASEAN countries, but it was occurring at a much faster pace and at a much larger scale. These developments have contributed to ASEAN and China realizing the need to establish economic, political, and social ties to reap, together, enormous benefits. Growing economic relations between ASEAN and China reflect their buoyant economies, their respective economic reform and trade and investment liberalisation over the years, complementarity of economic structures, and warming political ties.

And it is in this milieu that ASEAN and China decided to form a lasting political, economic, and social partnership that has become stable and stronger as time passes by.

ASEAN-China Relations: Historical timelines

The historical links between Southeast Asia and China date back to centuries during which individual countries of Southeast Asia and China carried out trade, cultural interactions and sea voyages.

Before the 1990s, there was no official relationship between ASEAN as a grouping and China, although China had official bilateral relations with certain individual ASEAN member states. From the late 1980s, China intensified its efforts to establish diplomatic relations with all the remaining ASEAN member states leading eventually to official relationship with the ASEAN grouping.

In his visit to Thailand in November 1988, Chinese Premier Li Peng announced four principles in establishing, restoring and developing relations with all the ASEAN states. After establishing diplomatic relations with Singapore on October 03, 1990, China pushed for official ties with the ASEAN grouping.

Collectively, as ASEAN, the relationship between countries in Southeast Asia and China started to open up in the year 1991. At the early stage, the relations progressed gradually as both sides work towards achieving a significant level of comfort and confidence.

On July 19, 1991, Chinese Foreign Minister Qian Qichen attended the opening session of the 24th ASEAN Ministerial Meeting in Kuala Lumpur, where he expressed China's interest in cooperating with ASEAN. The latter responded positively. In September 1993, ASEAN Secretary General Dato' Ajit Singh visited Beijing and agreed to establish two joint committees, one on cooperation in science and technology, and the other on economic and trade cooperation. An exchange of letters between the ASEAN Secretary General and the Chinese Foreign Minister on July 23, 1994 in Bangkok formalized the establishment of the two committees. At the same time, ASEAN and China agreed to engage in consultations on political and security issues at senior official

By early 1997, there were already five parallel frameworks for dialogue between China and ASEAN: (1) the China-ASEAN political consultation at the senior level; (2) the China-ASEAN Joint Committee on Economic and Trade Cooperation; (3) the ASEAN-China Joint Cooperation Committee (ACJCC); (4) the China-ASEAN Joint Committee on Scientific and Technological Cooperation; and the (5) ASEAN-Beijing Committee.

In December 1997, President Jian Zeming and all the ASEAN leaders had their first informal summit (ASEAN+1) and issued a joint statement of establishing partnerships of good neighbourliness and good mutual trust oriented towards the 21st century, thus putting into place the framework and charting the course for all the all-round growth of their relations.

Relations between China and ASEAN countries have since developed rapidly, highlighted by the frequent exchange of visits by top leaders of the respective countries. In 1999, China signed framework documents on bilateral cooperation oriented towards the 21st century with Thailand and Malaysia, and signed statements on future joint cooperation with Brunei and Vietnam. By 2000, China had already signed similar framework documents with all ASEAN states.

At their Summit in November 2000, the Leaders of ASEAN and China agreed to look into the implications of China's accession to the WTO and at measures to further enhance economic cooperation and integration between the two sides, including the possibility of establishing a free trade area (FTA) between ASEAN and China. The decision by the leaders to look into these two issues was a natural response to a number of important global and regional developments during the course of the past decade.

An important milestone in the development of ASEAN-China relations was China's signing in 2003 of a key ASEAN security protocol, the Treaty of Amity and Cooperation (TAC), and their declaring of each other as key strategic partners of peace and prosperity.

ASEAN-China Economic Relations: From Crisis Management to Forging an FTA

The financial and economic crisis of 1997, which brought a temporary end to the rapid growth and development of the ASEAN countries underscored the economic interdependence between ASEAN and China. As a result of the crisis, the ASEAN + China, process gained momentum. The Leaders of ASEAN and China regularly meet

annually drawing from the lessons of the financial contagion of 1997.

Economic links between ASEAN and China through trade, investments and tourism have prospered throughout the 1990s. Perhaps, equally important, China's maintenance of the value of the renminbi (RMB) during the economic crisis of 1997, served as a regional anchor preventing what could possibly have been successive rounds of competitive devaluations. This clearly prevented the crisis from becoming more acute for ASEAN countries and yet this put China's own exports at risk, as much cheaper goods from the crisis-plagued region competed with Chinese goods.

Another important milestone that contributed to the smooth relationship between China and ASEAN is China's entry into the WTO. China has committed and undertaken a very comprehensive package of market liberalization measures, implemented immediately after its accession to the WTO. China's accession to the WTO represents a new stage in China's economic reform and opening to the outside world, i.e. from selective liberalization to comprehensive liberalization, from unilateral liberalization to WTO rules-based liberalization. As a result, China's policy and regulations became more transparent and accountable. WTO accession made the Chinese economy more efficient through its integration with the global economy and standardization of management and regulations on an international level. It provided China with an opportunity for improving its technology to accelerate domestic industrial restructuring and raised the level of Chinese participation in the international division of production.

ASEAN-China trade expanded fast with these developments, with an average growth rate of 20.8% from 1990-2003. ASEAN-China trade totalled US \$39.5 billion in the year 2000. ASEAN's share in China's foreign merchandise trade has been continuously on the rise during that period, increasing from 5.8 percent in 1991 to 8.3 per cent in 2000. ASEAN then became China's fifth biggest trading partner. Meanwhile, the share of China in ASEAN's trade has grown from 2.1 per cent in 1994 to 3.9 percent in 2000. China then became the sixth largest trade partner of ASEAN.

In 2003, China-ASEAN trade reached a record high of US\$78.3 billion, with a growth rate as high as 42.9%. ASEAN then became the fifth largest trade partner of China while China was the sixth of ASEAN during that period. According to ASEAN's statistics, total trade between ASEAN and China grew by 27% from USD89 billion in 2004 to USD113 billion in 2005. The contribution of total ASEAN-China trade to the total ASEAN trade with the world also increased from 8.3% in 2004 to 9.3% in 2005. However, China's foreign direct investment (FDI) to ASEAN declined by 15% from USD670 million in 2004 to USD570 million in 2005. Cumulative (1999-2005) China's FDI to ASEAN amounted USD1.4 billion. Bilateral trade between ASEAN and China increased 21.4 per cent from US\$140.9 billion in 2006 to US\$ 171.1 billion in 2007. China has emerged as the fourth leading trading partner of ASEAN in 2007.

To sum it all up, according to ASEAN statistics, the trade value between the ASEAN and China increased from US\$ 59.6 billion in 2003 to US\$171.1 billion in 2007, growing at

an annual rate of 30 percent. The average growth in exports is 28 per cent with imports at 32 per cent during the same period.

Mutual investment has also expanded. From 1991-2000, ASEAN investment in China increased at an annual average rate of 28%. In 1991, ASEAN investment in China was only US\$90 million, and increased to US\$26.2 billion by 2001, accounting for 7.7% of China's overseas investments. Cumulative Foreign Direct Investment (FDI) flows from China into ASEAN from 2003 to 2007 amounted to US\$ 3.6 billion.

The China-ASEAN Free Trade Area (CAFTA) marks another milestone in the ASEAN-China relations. China's push for the formation of a free trade area (FTA) embracing China and all the other ten ASEAN members started from the ASEAN+3 Summit in November 2001, China formally raised the proposal for the formation of the CAFTA in ten years. ASEAN leaders at the meeting accepted this Chinese proposal. The Framework Agreement on ASEAN-China Comprehensive Economic Cooperation was signed at the ASEAN-China Summit in November 2002 to establish the CAFTA. Formal talks on CAFTA started in 2003, with the year 2010 set for China and the six original ASEAN states- Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand- and 2015 for the less developed ASEAN members of Cambodia, Laos, Myanmar, and Vietnam. But an "Early Harvest Program" of tariff cuts on agricultural products was launched immediately.

The past two decades have thus witnessed the rapid development in ASEAN-China relations. Both sides now have more in common than before though differences still exists. Needless to say, ASEAN and China have always managed to find innovative ways and means to deal with challenges and move the relationship forward.

II. BACKGROUND OF THE AGREEMENT

During the fifth ASEAN-China Summit held last November 6, 2001 in Brunei Darussalam, the ten-member countries of the ASEAN and China unanimously endorsed the creation of an ASEAN- China Free Trade Area, with the view of establishing the FTA within ten years and providing for special and differential treatment and flexibility for developing ASEAN countries, such as Cambodia, Lao PDR, Myanmar, and Vietnam.

One year after declaring their intent to have a free trade area established, all eleven parties signed a Framework Agreement on a Comprehensive Economic Cooperation during the seventh ASEAN-China Summit in Phnom Penh in November 2002.

The Framework Agreement on a Comprehensive Economic Cooperation laid down the groundwork for the creation of an ASEAN-China FTA, with all parties in agreement that an FTA be established within ten years, with a provision for an early harvest program to be included. Moreover, all parties declared the need to give flexibilities to developing ASEAN countries such as Cambodia, Lao PDR, Myanmar, and Vietnam.

On November 2004, the ASEAN and China agreed and signed the Framework Agreement on Trade in Goods, which was put in force on July. Based on the agreement, the six original ASEAN countries (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand) and China are to eliminate tariffs on 90% of their products by 2010, while the less developed ASEAN countries are given until 2015 to implement tariff eliminate.

With regard to trade in services, the ASEAN and China signed an agreement for the liberalization of the said sector in July 2007. On the other hand, the agreement on investments is still under negotiations.

III. RATIONALE OF ASEAN-CHINA FTA

The ASEAN and China agreed to forge an agreement with one another, since they both recognized that a free trade agreement (FTA) is the best means to achieve further growth and development in the region.

The FTA sets in place a mechanism that allows for strengthened cooperation between the parties, paving the way for a more stable and stronger East Asia economy. Through the FTA, all parties have agreed to work towards further minimizing barriers and deepen economic linkages among the parties, increasing intra-regional trade and investment, increasing economic efficiency, creating a larger market with greater opportunities and larger economies of scale for business, and enhancing the attractiveness of the Parties to capital and talent.

IV. COVERAGE OF THE AGREEMENT

TRADE IN GOODS

The agreement on trade in goods was put in force by ASEAN on 1 July 2005 and was put in force by China on 20 July 2005.

As specified in the agreement, all parties are committed to reduce or eliminate tariffs based on the following schedules:

1. Early Harvest Programme (EHP)
2. Normal Track
3. Sensitive Track
 - a. Sensitive List
 - b. Highly Sensitive List

Early Harvest Programme (EHP)

The EHP is a provision that accelerates the implementation of the ASEAN-China FTA, wherein all products at the 8/9 digit level in HS Chapters 01-08 are subject to tariff elimination.

Chapter Description

- 01 Live Animals
- 02 Meat and Edible Meat Offal
- 03 Fish
- 04 Dairy Produce
- 05 Other Animals Products
- 06 Live Tress
- 07 Edible Vegetables
- 08 Edible Fruits and Nuts

The agreement also provides for the parties to have an Exclusion List, whereby products that are deemed sensitive are to be excluded from the agreement.

The EHP was implemented on 1 January 2004, with the Philippines initially excluded from the agreement due to issues that stalled negotiations with China. It was only on 29 December 2005 when President Gloria Macapagal- Arroyo issued EO No. 485 that paved the way for the Philippines to implement the EHP.

Below is the schedule of the implementation of the EHP for the ASEAN Countries:

Elimination Track	End Rate	Implementation Date	
		ASEAN 6	Cambodia, Laos, Myanmar, and Vietnam
Early Harvest Programme	0%	2004-2006	2004-2010

The following are the modalities and schedules for EHP implementation for the ASEAN 6 countries, the Philippine included.

Product Category	Not Later than 1 January 2004	Not Later Than 1 January 2005	Not Later Than 1 January 2006
With applied MFN tariff rates higher than 15%	10%	5%	0%
With applied MFN tariff rates between 5% and	5%	0%	0%

15% (inclusive)			
With applied MFN tariff rates lower than 5%	0%	0%	0%

NORMAL TRACK

Under the normal track provision of the trade in goods, the parties who placed tariff lines under this category shall have their respective applied Most Favored Nations (MFN) rates gradually reduced and eliminated in accordance to the modalities set by the agreement.

Below are the modalities of the tariff reductions:

ASEAN 6 and China

X= Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not Later than 1 January)			
	2005*	2007	2009	2010
$X \geq 20\%$	20	12	5	0
$15\% \leq x < 20\%$	15	8	5	0
$10 \leq x < 15$	10	8	5	0
$5 < x < 10\%$	5	5	0	0
$X \leq 5\%$	Standstill		0	0

*The first date of implementation is 1 July 2005

Vietnam

X= Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not Later than 1 January)							
	2005*	2006	2007	2008	2009	2011	2013	2015
$X \geq 60\%$	60	50	40	30	25	15	10	0
$45\% \leq X < 60\%$	40	35	35	30	25	15	10	0

35% ≤ X < 45%	35	30	30	25	20	15	5	0
30% ≤ X < 35%	30	25	25	20	17	10	5	0
25% ≤ X < 30%	25	20	20	15	15	10	5	0
20% ≤ X < 25%	20	20	15	15	15	10	0-5	0
15% ≤ X < 20%	15	15	10	10	10	5	0-5	0
10% ≤ X < 15	10	10	10	10	8	5	0-5	0
7% ≤ X < 10%	7	7	7	7	5	5	0-5	0
5% ≤ X < 7%	5	5	5	5	5	5	0-5	0
X < 5%	Standstill							0

*The first date of implementation is 1 July 2005

Cambodia, Lao PDR, Myanmar

X= Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not Later than 1 January)							
	2005*	2006	2007	2008	2009	2011	2013	2015
X ≥ 60%	60	50	40	30	25	15	10	0
45% ≤ X < 60%	40	35	35	30	25	15	10	0
35% ≤ X < 45%	35	35	30	30	20	15	5	0
30% ≤ X < 35%	30	25	25	20	20	10	5	0
25% ≤ X < 30%	25	25	25	20	20	10	5	0
20% ≤ X < 25%	20	20	15	15	15	10	0-5	0
15% ≤ X < 20%	15	15	15	15	15	5	0-5	0
10% ≤ X < 15	10	10	10	10	8	5	0-5	0
7% ≤ X < 10%	7**	7**	7**	7**	7**	5	0-5	0
5% ≤ X < 7%	5	5	5	5	5	5	0-5	0
X < 5%	Standstill							0

*The first date of implementation is 1 July 2005

** Myanmar shall be allowed to maintain ACFTA Rates at no more than 7.5% until 2010

Based on the provisions of the FTA, the following are the dynamics of the agreement:

ASEAN 6 and China:

- a. All parties shall reduce tariffs to 0-5% not later than 1 July 2005 for at least 40% of tariff lines that were placed under the Normal Track;
- b. All parties shall reduce tariffs to 0-5% not later than 1 January 2007 for at least 60% of tariff lines under the Normal Track;
- c. All parties shall eliminate their tariffs for tariff lines placed in the Normal Track not later than 1 January 2010. Flexibility shall be given to have tariffs on some tariff lines (not exceeding 150 lines) eliminated not later than 1 January 2012;
- d. All parties shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2012.

Cambodia, Lao PDR, Myanmar, Vietnam:

- a. Vietnam shall reduce tariffs to 0-5% for at least 50% of its tariff lines under the Normal Track not later than 1 January 2009. Lao PDR and Myanmar shall reduce tariffs to 0-5% of its tariff lines under the Normal Track not later than 1 January 2010. Cambodia shall reduce tariffs to 0-5% of its tariff lines under the Normal Track not later than 1 January 2012;
- b. Cambodia, Lao PDR, and Myanmar shall eliminate their respective tariffs not later than 1 January 2013 on 40% of its tariff lines placed in the Normal Track;
- c. Vietnam will determine the percentage of Normal Track tariff lines to be eliminated by 1 December 2004. Tariffs shall be eliminated not later than 1 January 2013;
- d. All parties shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2015, with flexibility to have tariffs on some tariff lines, not exceeding 250 tariff lines, eliminated not later than 1 January 2018;
- e. All parties shall eliminate all its tariffs for tariff lines placed in the Normal Track not later than 1 January 2018;

(See annex for modalities under normal track)

SENSITIVE TRACK

The number of tariff lines which each Party can place in the Sensitive Track shall be subject to a maximum ceiling of:

ASEAN 6 and China

- 400 tariff lines at the HS 6- digit level and 10% of the total import value, based on 2001 trade statistics;

Cambodia, Lao PDR and Myanmar

- Not more than 40% of the total number of tariff lines in the Sensitive Track or 150 tariff lines at the HS 6-digit level, whichever is lower;

Vietnam

- Shall be determined not later than 31 December 2004.

Tariff lines that are placed by the Parties in the Sensitive List shall be divided into sensitive and highly sensitive. Tariff lines that are to be placed in the Highly Sensitive List shall be subjected to the following conditions:

ASEAN 6 and China

- Not more than 40% of the total number of lines in the Sensitive Track or 100 tariff lines at the HS 6-digit level, whichever is lower;

Cambodia, Lao PDR, and Myanmar;

- Not more than 40% of the total number of tariff lines in the Sensitive Track or 150 tariff lines at the HS 6-digit level, whichever is lower; and

Vietnam

- Shall be determined not later than 31 December 2004

The parties shall reduce and, where applicable, eliminate the applied MFN tariff rates of tariff lines in the Sensitive Track according to the following Schedule:

ASEAN 6 and China

- Shall reduce the applied MFN tariff rates of tariff lines placed in their respective Sensitive Lists to 20% by 1 January 2012. These tariff rates shall be subsequently reduced to 0-5% not later than 1 January 2018.

Cambodia, Lao PDR, and Myanmar

- Shall reduce their applied MFN tariff rates of tariff lines placed in their respective Sensitive Lists to 20% not later than 1 January 2015. These said tariff rates shall be subsequently reduced to 0-5% not later than 1 January 2020.

Vietnam

- Shall reduce its applied MFN tariff rates of tariff lines in placed in its Sensitive Lists not later than 1 January 2015 to a rate to be determined not later than 31 December 2004. These tariffs shall be subsequently reduced to 0-5% not later than 1 January 2020.

The said Parties shall reduce the applied MFN tariff rates of tariff lines placed in their respective Highly Sensitive Lists to not more than 50% not later than 1 January 2015 for ASEAN 6 and China, and 1 January 2018 for the CLMV countries.

(See annex for modalities under sensitivel track)

TRADE IN SERVICES

The second component of the FTA with China is the trade in services, which entered into force last 1 July 2007.

The main objective of the agreement is to expand trade in services in the region through improved market access and national treatment for those specific sectors and subsectors where the Parties made specific commitments.

The agreement takes into account that special and differential treatment shall be given to Cambodia, Lao PDR, Myanmar, and Vietnam, which would allow these countries to open fewer sectors and liberalize fewer transactions.

The agreement paves the way for a more liberalized services sector for both the ASEAN and China through provisions such as market access and national treatment. The provision of market access entails that each party shall give services and service suppliers treatment that is no less favorable than the terms, limitations, and conditions agreed upon by the Parties. On the other hand, National Treatment means that each party shall give the services and service suppliers of any other Party, treatment that is no less favorable than what the former accords its own services and service suppliers.

It is expected that the agreement would lead in the expansion and growth of the four modes of trade in services, namely: cross-border supply, consumption abroad, commercial presence, and movement of natural persons. Moreover, the agreement is

expected to spur higher levels of investments in the regions, specially in those sectors where commitments have been made by each Party.

The market access commitments of both China and the ASEAN are contained in the first package of the agreement. Both ASEAN and China agreed to progressively liberalize trade in services with substantial sectoral coverage. China committed to open up new markets for the ASEAN countries in 26 branches of 5 service areas on the basis of original WTO commitments, namely construction, environmental protection, transportation, sports and commerce. China also made commitments in: Computer and Related Services, Real Estate Services, Other Business Services, Construction and Related Engineering Services, Environmental Services, Recreational, Cultural and Sporting Services, and Transport Services.

On the other hand, the ASEAN committed to open their markets to China in finance, telecommunication, education, tourism, construction and medical treatment, among others.

The Parties have also agreed that successive rounds of market access negotiations be held to broaden the coverage of the Trade in Services Agreement; the negotiations for the second package of commitments are to be undertaken immediately as the Agreement has a built-in agenda for the conclusion of a second package of commitments one year from its entry into force.

(See annex for Schedule of Specific Commitments in Trade in Services)

TRADE IN INVESTMENTS

Although the Free Trade Agreement with China contains a provision for an agreement in investment to be put in place, this particular section is still being developed to date.

AREAS OF COOPERATION

Aside from the agreements on the liberalization of goods, services, and investments, the Parties also agreed to strengthen their cooperation in the areas of agriculture, information and communications technology, human resources development, investment, and the development of the Mekong River basin.

It was also agreed that cooperation will be extended to other areas such as banking, finance, tourism, industrial cooperation, transport, telecommunications, intellectual property rights, small and medium enterprises (SMEs), environment, bio-technology, fishery, forestry, and forestry products, mining, energy and sub-regional development.

Activities to promote cooperation in the abovementioned sectors shall include but not be limited to the following:

- a. promotion and facilitation of trade in goods and services, and investment, such as:
 - i. standards and conformity assessment;
 - ii. technical barriers to trade/ non-tariff measures;
 - iii. customs cooperation
- b. increasing the competitiveness of SMEs;
- c. promotion of electronic commerce;
- d. capacity building; and
- e. technology transfer

V. Benefits of the Agreement

The establishment of an FTA between ASEAN and China created an economic region with 1.7 billion consumers, a regional GDP of about US \$ 2 trillion and total trade estimated at US \$ 1.23 trillion. This makes it the biggest FTA in the world in terms of population size. The lowering of trade and investment barriers will result in an enlarged integrated market, promote specialization and trade according to comparative advantage, and enable exploitation of scale economies, contributing to lower costs and increased economic efficiency. Trade creation occurs when domestic production is replaced by lower cost imports from an FTA member, boosting regional income and welfare. In addition, there may also be welfare gains or losses due to terms of trade changes. ACFTA will also attract more investments, both from regional investors as well as investors from non-ACFTA countries.

The FTA proceeded with the removal of trade barriers between ASEAN and China that lowered costs, increased intra-regional trade and increased economic efficiency between the two entities. The establishment of an ASEAN-China FTA created a sense of community among ASEAN members and China. It provided an important mechanism for supporting economic stability in East Asia and it allowed both ASEAN and China to have a larger voice in international trade affairs on issues of common interest.

By 2010, average duty within the ASEAN-China FTA, if realized, will vary between zero and 5 per cent, and internal trade and investment barriers will be eliminated. The free trade area will then possess 40 per cent of the world's foreign exchange reserves and more than US\$2 trillion in gross domestic product, 10 per cent of the world's total.

Trade volume between ASEAN and China grew further with the implementation of the Early Harvest Programme of the ACFTA in January 2004, as well as the implementation of the tariff reduction programme under the normal track of the Trade In Goods (TIG) Agreement by the mid-2005. Already by July 2004, the value of the Early Harvest Programme products traded between ASEAN and China reached US\$1.11 billion representing an increase of 42.3% over the same period of 2003, amongst which ASEAN exports to China were US\$ 0.68 billion, an increase of 49.8% over that same period.

The ASEAN-China Expert Group on Economic Cooperation (ACEGEC) used a Global Trade Analysis Project (GTAP) model, a multiregion and multisectoral model developed

by Hertel and associates, to simulate the effects of a free trade area between the ASEAN and China. The simulation focused on two key areas: (a) impact on trade (b) impact on GDP.

The reduction of tariffs between ASEAN and China results in both regions trading more heavily with one another. ASEAN's exports to China increase by US \$ 13 billion or by 48% while China's exports to ASEAN rises by US \$ 10.6 billion or 55.1%. Among the ASEAN countries, the biggest gains in exports are Indonesia, Malaysia, Singapore and Thailand. China's exports make the biggest inroads in the Philippines (US \$ 3.1 billion increase) and Thailand (US\$ 3.1 billion increase). (Please refer to table 1 for complete simulations.) A key feature of the TIG Agreement is the non-maintenance of quantitative restrictions and the elimination of non-tariff barriers. The removal of these trade impediments will lower the costs of trade transactions, further increase ASEAN-China trade and enhance economic efficiency. As low-cost imports under the FTA flow from one member to another, specialisation in production ensues, thereby boosting real income in both ASEAN and China as resources flow to sectors where they can more efficiently and productively utilised. (please refer to table 1 for simulated change in exports for both ASEAN and China with the establishment of an FTA).

CHANGE IN EXPORTS WITH AN FTA
(US \$ Millions)

FROM	TO										Total
	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam	USA	Japan	China	ROW	
Indonesia	0.00	-69.00	-117.05	-106.35	-141.49	-40.05	-209.99	-313.66	2,656.09	-547.45	1,111.05
Malaysia	-45.59	0.00	-245.11	-312.71	-219.41	-20.97	-416.56	-246.27	3,207.28	-688.07	1,012.60
Philippines	-2.82	16.57	0.00	46.89	-24.97	-3.00	413.49	39.16	330.80	104.46	920.57
Singapore	-47.27	-392.60	-329.26	0.00	-233.84	-430.61	-321.22	-200.07	3,639.18	-745.43	938.89
Thailand	-29.13	-65.56	-118.87	-101.24	0.00	-52.49	-252.78	-271.30	2,907.76	-525.48	1,490.90
Viet Nam	-10.53	-31.02	-18.62	-15.08	-5.69	0.00	-12.07	-19.01	267.04	-59.24	95.79
USA	8.29	11.17	-152.88	208.02	-75.46	-1.19	0.00	123.37	-501.03	100.00	-279.69
Japan	-16.76	-1.68	-266.16	325.30	-342.10	-23.38	393.97	0.00	-823.79	472.17	-282.44
China	1,371.60	1,456.34	3,057.17	643.94	3,140.16	944.81	-813.34	-511.53	-889.91	-1,557.07	6,842.16
ROW	-13.82	119.73	-543.70	417.50	-363.92	-89.28	482.25	467.77	-2,679.26	844.00	-1,360.75
											10,489.12

Table 1: Effects on exports of both ASEAN and China with an FTA

Amongst ASEAN's top exports to China include electrical equipment, computer/machinery, lubricants/fuels/oil, organic chemicals, plastics, fats & oils and rubber. Notably these products are mostly intermediate goods to China's exports to Third Countries. Thus, it can be expected that in the process of China's economic expansion and with the ACFTA in place, it will import more from ASEAN countries for its required

inputs in its production processes and for its needs as its income and standard of living improves.

On the effects of the FTA on ASEAN and China's GDP, the simulation revealed that the FTA increases ASEAN's GDP by 0.9 percent or by US\$5.4 billion while China's real GDP expands by 0.3 percent or by US 2.2 billion in absolute terms. (for a complete simulation please refer to table 2).

IMPACT ON REAL GDP OF AN ASEAN-CHINA FTA

COUNTRY	REAL GDP (US \$ Millions)	ABSOLUTE INCREASE (US \$ Millions)	PERCENTAGE INCREASE
Indonesia	204,031.4	2,267.8	1.12%
Malaysia	98,032.3	1,133.5	1.17%
Philippines	71,167.1	229.1	0.32%
Singapore	72,734.9	753.3	1.05%
Thailand	165,516.0	673.6	0.41%
Viet Nam	16,110.9	339.1	2.15%
USA	7,120,465.5	-2,594.5	-0.04%
Japan	5,078,704.5	-4,452.0	-0.09%
China	815,163.0	2,214.9	0.27%
ROW	14,657,026.0	-6,272.0	-0.04%
Total	28,298,952.1	-5,706.9	-0.02%

Table 2. The impact on real GDP of an ASEAN-China FTA

The formation of an ASEAN-China Investment Area should also aid in generating more investments for ASEAN. Not only will more ASEAN and Chinese companies be willing to investment within the integrated market, since market risk and uncertainty are lowered, but US, European and Japanese companies, which are interested in making inroads into the Asian market, will also be attracted to invest in the integrated market.

On its own, China has been successful in luring investors into its growing economy for it has the essential investment determinants in place. China's market potential is already well established and its performance in relation to some indicators of institutional quality and macroeconomic and political stability is better than other members of ASEAN. And despite the perceived inadequate legal framework, high inflation and the pervasiveness of bureaucratic red tape and corruption, foreign investors are looking at the long-term benefits of investing in China more than its short problems.

As such, the integration of ASEAN with China can entice more foreign corporations, which each market alone cannot otherwise attract. With a larger market, more intense competition, increased investment and economies of scale, investors will be more inclined to locate in the integrated region.

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Briefing Paper on the Establishment of the ASEAN-China Free Trade Agreement (FTA) http://www.tariffcommission.gov.ph/briefing_paper_fta.htm

China-ASEAN http://www.bilaterals.org/rubrique.php3?id_rubrique=95

Annexes:

Trade in Goods Normal Track <http://www.aseansec.org/16646.htm>

Trade in Goods Sensitive Track <http://www.aseansec.org/16646.htm>

Trade in Services <http://www.aseansec.org/19330.htm>

For a copy of the signed framework agreement, please click the link below:

<http://uactphilippines.org/images/stories/uact/pdf/imust/aseanchinafta-.pdf>