

## A New Perspective of the China - ASEAN Free Trade Area and the Story of Top Ten Products

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### Abstract

The politics of modern world is changing every day and all developing countries look for new markets to survive in all situations. China, as the world's leading producer, also looks for multiple markets to decrease the chances of any major setback of economy in future. In these lines, China has recently signed Free Trade Agreements with different nations. This study explores the impact of one such Free Trade Agreement between China and ASEAN countries. Taking a qualitative and descriptive approach, this paper studies the effects of this agreement on both the sides. Analysis determines that both the sides have great benefits in this kind of agreements. China's trade with ASEAN countries has taken a positive outlook since 2010 after implementing this agreement. In addition, making more 93 percent items with zero tax has provided a boost to the trade between two sides. This exploration further explains that as a dominating partner in this agreement, China has obtained good deal of advantage after signing this agreement. The study suggests that China can establish a real target market by providing some benefits to other parties. In addition, China needs to continue working on such agreements not only with ASEAN but also with other neighboring countries to develop sustainable markets for future trade.

**Keywords:** Free Trade Agreement, China, ASEAN, International Trade, International Economics

### 1. Introduction

According to WTO 31 January 2014, some 583 notifications of RTAs (counting goods, services and accessions separately) had been received by the WTO. Of these, 377 were in force. Among those signed FTAs, the ASEAN-China Free Trade Agreement (CAFTA) is predominantly worth mentioning because of its potentially transformative implications for the modern global economic order. CAFTA is one of a few existing regional free trade agreements such as the North American Free Trade Agreement NAFTA (1993), the European Union EU (1993), and the Southern Cone Common Market MERCOSUR (1991) of South America, it is of significant importance to the organized labour since the China led free trade area engenders a pole of Asian regional economic order and accordingly a multi polar global order, one in which China plays a fundamental role in the future of international economy. China and ASEAN Upgrading the CAFTA version will give a greater chance for economic and trade expansion, which came into force on 1st January 2010. China and ASEAN have not yet realized its full potential in fostering trade and investment under the framework of CAFTA. The CAFTA is the world's biggest free trade area in terms of population and third largest in terms of nominal GDP, trailing the European Economic Area and North American Free Trade Area. Under the free trade agreement, tariffs will be reduced to zero on 7,881 product categories, or 90 percent of imported goods. This reduction already took effect in China and the six original members of ASEAN: Malaysia, Philippines, Indonesia, Singapore, Brunei and Thailand. The remaining four countries: Cambodia, Vietnam, Myanmar and Laos will follow suit in 2015. Irrevocably, ACFTA has stimulated the Asian regional integration process. Already, Japan and Korea followed China's lead by signing similar FTAs with ASEAN. In the present era trade has come to be a dynamic factor in relations between nations. Trade is not limited only to commodities but embraces various factors of nations. This has not only since overtaken the pace of political confidence-building but also has a substantial impact on their mutual perceptions. This boom in trade has also introduced new trends. The two giants China and ASEAN are no longer only recipients of foreign direct investment but have entered into a new phase of bilateral trade in the region. In this new context, the increasing deficit in the energy sector and the competition to capture new markets present major challenges to sustaining this boom in their bilateral trade. In this paper the bilateral trade relations have been measured and the role of the two economies in the Asian region has been presented. According to China's ministry of commerce China and ASEAN in respect to bilateral trade has set their target to meet the goal of total trade to US\$500 billion by 2015 compared with 2012 bilateral trade value reached USD 400 billion, 7.3 times as much as that of 2002. ASEAN is the third-largest trading partner of China and China stood first for ASEAN.

According to Nielsen (2014) the roadmap for ASEAN community 2009-2015, ASEAN noted that ASEAN has three key objectives with separate blueprints, including:

- To speed up economic development, social progress and cultural development in the region

- To encourage regional peace and stability through abiding respect for justice and the rule of law
- To hasten active collaboration and mutual assistance on matters of common interest

These blueprints offer a deep penetration into the complex tapestry of agreements and regulations that are needed to attain ASEAN's primary ambition, even though the ambition itself is comparatively simple: "In short, the AEC will renovate ASEAN into a region with free movement of goods, investment, services, skilled labour, and freer flow of capital."



Figure: 1. Future growth of ASEAN and trade partners

China - ASEAN Free Trade Area in January 2010 completed on schedule, coincides with the international financial crisis is still exist, while China took the lead in the world economy to achieve the overall recovery in the right direction. China - ASEAN forum, the participants of some politicians and business people believe that the 10 ASEAN countries will adjust the structure being implemented in China, expanding domestic demand and strategic benefit. The CAFTA has created more profit than troubles, and also, the benefits will be long-lasting. The objectives of this paper are three-finding. First, it seeks to understand the free trade agreements in Asia with a particular focus on CAFTA success story. The second objective of this paper is to explore how the changing occurs in top ten imports and exports products under the CAFTA. Third, it will seeks does CAFTA works on win-win for all his partners.

## 2. Summary of Relevant Literatures

Paul (1991) studied in depth the integration of European Commission (EU). He thinks that great considerations should be given to the cost of risk and coordination, as it furthers the development of free trade area and unifies currency. He also thinks that the integration of regional economy would inevitably promote industrial agglomeration and development of imbalance industry; thus the realistic demands of some member countries cannot be met. Besides, the results of regional economy integration will increase the costs of risk governance and coordination Paul de Grauwe (1997). Further development of CAFTA will make China to take greater social responsibilities, provide public productions, coordinate and solve many conflicts and problems, reduce the risk of industrial agglomeration and imbalance development of industry for its further integration and bear corresponding costs. This study focuses on empirical study of CAFTA present, future and balance effect, which accelerates the development of CAFTA and helps to make the right development strategy during the integration. Researchers like Yan (2006), Tekin-Koru (2008), Hartmut et al. (2008) and so on studied different aspects of industrial agglomeration in free trade area. Nishikimi (2008) came up with solution to industrial agglomeration and imbalance development in free trade area, which has to do with countries that have large market providing public production in free trade area. Baldwin (2003) thought the "shock therapy" should be abridged in the integration. Rodriguez-Clare (2007) put ahead that every member should apply tactical control to free trade policies. Jiang and Cai (2013) analyzed the status of China-ASEAN trade development and proposed the countermeasures for the development of China-ASEAN trade.

## 3. Research Methodology

This study will adopt a mixed method analysis of FTA between China and ASEAN. Most scientific fields have their own specific methods and strategies which are supported by appropriate methodology. Study is descriptive in nature. Basically secondary data sources will be taken into consideration. In this paper secondary data is been collected from Books, magazines, working papers and websites. The study of international trade is a branch of Economics and in response to increased economic interdependence and other profound changes in the international system during the last few decades, the analysis of international trade have developed in new directions. Case study is a qualitative method that social scientists, in particular, have widely used to examine contemporary real-life situations Yin (2003) and that methodology has been used in this thesis. Robert K. Yin

defines the case study research method as: “an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.” Yin (1984).

#### **4. Impacts of CAFTA on the Global Economy**

The tenth anniversary of the strategic partnership between China and ASEAN celebrated in 2013. Trade and investment between China and ASEAN members have seen enormous expansion throughout the decade. China is the ASEAN's leading trade partner, and ASEAN, China's third biggest. Accumulative trade balance of CAFTA worth was USD 444 billion in 2013, trade volume was USD 210 billion. It's a 12 percent year-on-year boost, and almost four times more than that in 2002. ASEAN is now China's fourth most important FDI destination, that worth USD 30 billion 2013. In 2002, the two giant economies signed their free trade agreement. Now more than ninety percent of Chinese imports from ASEAN are duty free, and the same implements to Chinese exports used for six ASEAN members. Irrevocably, CAFTA has accelerated the Asian regional integration process. With a rising trade volume among Asian countries, Asia's traditional dependency on the US and Europe as its final export market has weakened. This deepening Asian regional integration process has engendered a multipolar global order that will likely see the emergence of multi-regional currencies, instead of US dollar as the only international reserve currency. A growing acceptance of Chinese Yuan as a means of trade payment is indicative of the changing global order. China's active involvement in FTAs can be seen as a long term development strategy by Chinese government. China, like many other Asian countries, professes the need to diversify its markets and to move away from its over-dependence on the markets of developed countries.

The growth of intra-regional trade in Asia and the tightening trade networks around China make it possible for the Chinese currency to emerge as a regional trade currency. Some scholars such as Arvind (2011) even predict that the Chinese Yuan would become the world's dominant currency within a decade. The growing strength of the Yuan position in the international market will further undermine the current economic order based on US dollar as the reserve currency. There are many examples that support the above contention. Three East Asian countries, China, the Republic of Korea and Japan, enjoy about 47 percent of the world's total foreign exchange reserves as of 2011. The three countries are collectively unhappy with their situation highly vulnerable to external fiscal shocks coming from uncertainty and volatility of the US dollar. They are worried about the falling value of US dollar as monetary expansionist policies of the US government push further down the value of the global reserve currency Li (2011).

#### **5. CAFTA Analysis**

Since the 1990s, the economic ties between China and ASEAN has flattering more and more close and bilateral trade continues to boom. CAFTA was established in 2010, marking the growth of China-ASEAN bilateral trade has taken a significant step. Meanwhile, since January 1st of 2010, China has reduced tariffs on more than 93 percent of the traded products to zero for ASEAN countries and promoted the China-ASEAN trade developed rapidly. In 2013, total value of imports and exports between China and ASEAN was USD 443.56 billion which ranked the first and second place of China's value of imports and exports with major trade partners. In 2012, China's total value of imports and exports to ASEAN was USD 400.093 billion. It shows that trade relation between China and ASEAN are getting closer and stronger. Until 2012, ASEAN is China's third largest trading partner in the world and the largest trading partner among developing countries, while China is ASEAN's fourth largest trading partner. Collectively, ASEAN represents a market of some 630 million people, with a collective GDP of about USD 2.3 trillion in year 2013. ASEAN became USD 1 trillion economy in 2006, one year later than the anticipated date. But ASEAN passed the USD 2 trillion benchmark in 2011, 9 years earlier than projected. By 2015, ASEAN will almost reach US\$ 3 trillion point and will be closer to USD 4 trillion in 2020.

##### *5.1. Geographical Composition of Export and Import under CAFTA*

China's exports to ASEAN countries in 2012 rose 20.1 percent year-on-year to USD 204.27 billion and in 2013 rose with same percentage as last year accounts USD 244.11 billion. Vietnam stood first with share of 20 percent of total imports from China to ASEAN and Malaysia took second place with share of 18.8 percent followed by Singapore shares 18.79 percent in 2013. China's import from ASEAN grew much faster than China's export to ASEAN; China's trade deficit with ASEAN climbed from USD 4.8 billion in 2001 to more than USD 20 billion in 2004 then from 2005 rapidly getting down year-on-year and in year 2013 China's trade balance was USD 44.66 billion. Since 2012 CAFTA totally favored to China.

Table: 1 List of China's exports to ASEAN countries

Importers	Exported Values in US\$ billions				
	2009	2010	2011	2012	2013
China's total	1201.65	1577.76	1898.39	2048.78	2210.52
Share of China's Exports value (%)	8.8	8.8	9.0	10.0	12.1
Export Growth Rate (%)	-6.9	30.1	23.1	20.1	19.5
ASEAN	106.29	138.16	170.07	204.27	244.11
Vietnam	16.30	23.10	29.09	34.21	48.59
Malaysia	19.63	23.80	27.89	36.53	45.93
Singapore	30.07	32.35	35.57	40.75	45.88
Indonesia	14.72	21.95	29.22	34.28	36.95
Thailand	13.31	19.74	25.69	31.20	32.74
Philippines	8.58	11.54	14.26	16.73	19.84
Myanmar	2.26	3.47	4.82	5.67	7.35
Cambodia	0.91	1.35	2.31	2.71	3.41
Lao. PDR	0.38	0.48	0.47	0.93	1.72
Brunei Darussalam	0.14	0.37	0.74	1.25	1.70

Source: Author's own calculations based on ITC & UN COMTRADE statistics

China is the biggest trading partner of ASEAN and bilateral trade under CAFTA hit USD 443.56 billion in year 2013, with Chinese exports totaling USD 244.11 billion and imports totaling USD 199.45 billion, gaining a trade surplus of USD 44.66 billion. China previously had a trade deficit with ASEAN that was increase in second half of 2012 and CAFTA started to favor of China.

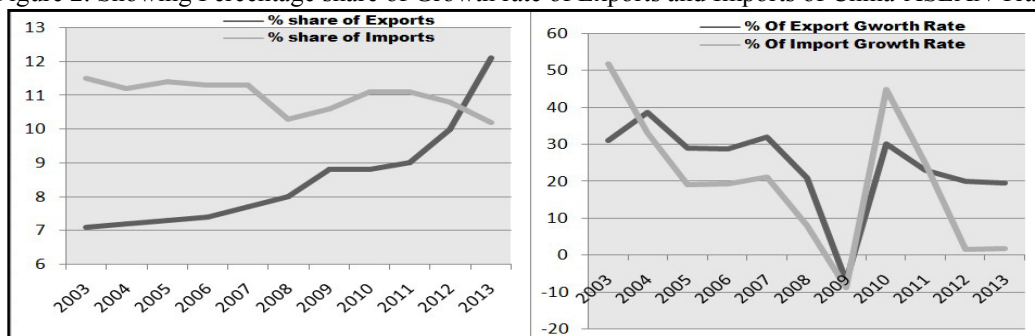
Table: 2 List of China's imports from ASEAN Countries

Exporters	Imported Values in US\$ billions				
	2009	2010	2011	2012	2013
China's total	1005.55	1396	1743.39	1818.20	1949.93
Share of China's Imports value (%)	10.6	11.1	11.1	10.8	10.2
Import Growth Rate (%)	-8.8	44.8	24.7	1.6	1.8
ASEAN	106.71	154.68	193.02	195.87	199.45
Malaysia	32.33	50.43	62.14	58.30	60.07
Thailand	24.90	33.19	39.04	38.55	38.52
Indonesia	13.66	20.80	31.33	31.94	31.49
Singapore	17.80	24.72	28.14	28.53	29.97
Philippines	11.95	16.20	17.99	19.64	18.23
Vietnam	4.75	6.98	11.12	16.23	16.88
Myanmar	0.64	0.97	1.67	1.30	2.81
Lao. PDR	0.37	0.60	0.83	0.79	1.02
Cambodia	0.036	0.093	0.18	0.22	0.36
Brunei Darussalam	0.28	0.66	0.57	0.37	0.089

Source: Author's own calculations based on ITC & UN COMTRADE statistics

For import, the import had the same change trend with export. There was an upward trend of China's total imports from ASEAN from 2009 to 2013 with increase from USD 106.71 billion to USD 199.45 billion. In 2009, the growth rate of imports declined, however from 2010 to 2011, the growth rate of imports accelerated year after year. In 2012 imports growth rate began to decline sharply. As 2009 the imports had a declined trend and fell to USD 106.714 billion with appearance of negative growth of -8.8% among 12 years. Since January 1st of 2010, more than ninety-three percent of products traded between China and ASEAN enjoy zero tariffs, and China's imports from ASEAN rose sharply to USD 154.569 billion with growth rate of 44.8%. However starting from 2011, the import growth rate decreased gradually, especially in 2012, representing growth rate of only 1.6% and rose up again in 2013 with 1.8%.

Figure 2. Showing Percentage share of Growth rate of Exports and Imports of China-ASEAN Trade



Source: Author's own calculations based on ITC & UN COMTRADE statistics

### 5.2. Product Composition of Export and Import under CAFTA

In 2013, Malaysia, Thailand, Indonesia and Singapore are major four trading countries to China among ten ASEAN countries. From Table 3 and Table 4 show the composition of the top ten commodities that the four countries of Malaysia, Thailand, Indonesia and Singapore and also other remaining countries imported and exported to China in 2013. On the export side, among the commodities that the four countries exported to China, of which the similar are electrical and mechanical products, minerals, machinery, nuclear reactors, plastic and rubber, chemical products, base metals and products, and they were mainly agricultural products and materials products. Especially mechanical and electrical products, accounted for a large proportion of the commodities that four countries exported to China, ranked first among the commodities Malaysia and Thailand exported to China, and the second place of Indonesia and the third place of Singapore. China's great demand for minerals indicated that with rapid economic development the demand for resource products is increasing year-on-year.

Table 3. Products Exported by China to ASEAN under ACFTA

HS-2 Code	Product Name	2009	2010	2011	2012	2013
	All Products	106.29	138.16	170.07	204.27	244.11
85	Electrical, electronic equipment	23.19	28.23	32.40	37.46	45.30
84	Machinery, nuclear reactors, boilers, etc	21.25	24.91	29.34	32.86	36.63
61	Articles of apparel, accessories, knit or crochet	2.65	3.04	4.32	8.97	11.09
27	Mineral fuels, oils, distillation products, etc	6.15	8.08	7.71	7.46	10.47
72	Iron and steel	2.43	5.36	7.09	8.88	10.42
94	Furniture, lighting, signs, prefabricated buildings	2.70	4.07	4.40	6.76	9.53
90	Optical, photo, technical, medical, etc apparatus	3.24	4.62	5.74	7.16	7.55
73	Articles of iron or steel	3.14	3.84	5.57	7.02	7.41
39	Plastics and articles thereof	1.88	2.90	4.19	5.83	7.37
89	Ships, boats and other floating structures	5.95	6.28	6.86	8.01	7.15

Source: Author's own calculations based on ITC & UN COMTRADE statistics

For import, the top four countries Vietnam, Malaysia, Singapore and Indonesia have the very similar commodity structure of imports from China, the top ten commodities are mainly electrical and mechanical products, chemical products, transport equipment, plastic and rubber, textiles and raw materials, furniture, toys and miscellaneous manufactured articles. In addition, the mechanical and electrical products, plastic and rubber, chemical products also occupied a very important position. By mechanical and electrical products as representatives of high-tech products, high-tech products accounted for a large proportion of these commodities that the four countries exported to China. However the labor-intensive products also accounted for a certain proportion. Vietnam, Malaysia, Singapore, and Indonesia imported optical, watches and medical devices from China, indicating there is an increasing demand for these emerging trade products, and the emerging trade products have very potential market prospects.

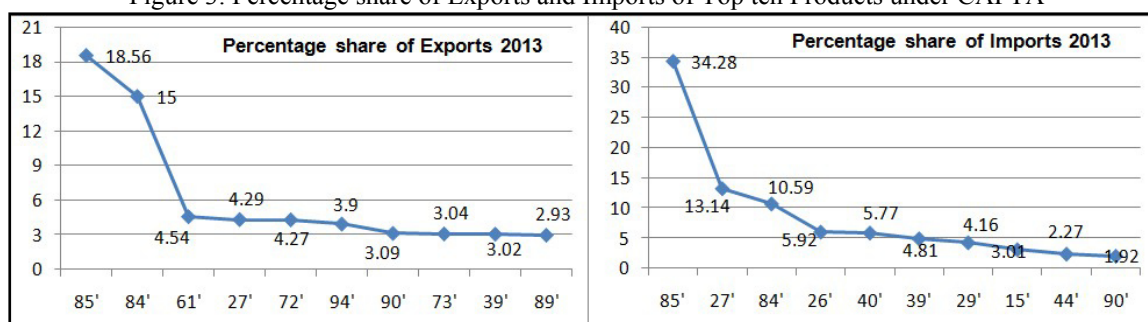
Table 4. Products Imported by China from ASEAN under ACFTA

HS-2 Code	Product Name	2009	2010	2011	2012	2013
	All Products	106.71	154.68	193.02	195.87	199.45
85	Electrical, electronic equipment	38.25	56.25	64.04	65.44	68.38
27	Mineral fuels, oils, distillation products, etc	13.11	20.50	26.22	27.28	26.21
84	Machinery, nuclear reactors, boilers, etc	18.22	23.36	25.62	26.79	21.12
26	Ores, slag and ash	2.67	5.13	10.11	9.97	11.81
40	Rubber and articles thereof	5.01	9.27	13.74	11.89	11.51
39	Plastics and articles thereof	5.25	7.28	8.31	8.47	9.60
29	Organic chemicals	3.38	5.55	7.86	7.17	8.29
15	Animal, vegetable fats and oils, cleavage products, etc	4.80	5.73	8.29	7.92	6.01
44	Wood and articles of wood, wood charcoal	1.27	2.12	3.15	3.32	4.52
90	Optical, photo, technical, medical, etc apparatus	1.42	2.24	2.76	3.48	3.83

Source: Author's own calculations based on ITC & UN COMTRADE statistics

Although Philippines and Vietnam are in the race of developing countries, still have the similar import and export commodity structure with other top countries of ASEAN. China and ASEAN should continue to strengthen the development of high-tech products and constantly improve the export structure to get mutual benefits. Manufactured products trade accounted for a larger share of trade between China and ASEAN countries, mainly in the food and beverages and textile industry, tobacco industry, machinery, transport equipment and chemical industry. There was a phenomenon that China had trade deficit with ASEAN's member countries from 2002 to 2012. The trade deficit increased year by year from 2000 to 2006; however the trade deficit quickly went down to USD 0.417 billion in 2009 and rallied from 2010 to 2011. Due to the lower level of economy development of these countries, their imports and exports to China mainly focus on agricultural products. Agricultural products trade between ASEAN and China has developed rapidly. These countries are in great demand for industrial products. Their import products from China are mainly electronics, refined oil, steel, textiles, etc. Figure 3 showing the percentage share of top ten products under CAFTA in 2013.

Figure 3. Percentage share of Exports and Imports of Top ten Products under CAFTA



Source: Author's own calculations based on ITC & UN COMTRADE statistics

From the perception of direct investment flows, China's direct investment into Singapore stand first among other ASEAN countries, and Brunei came in last place. Compared with 2010, China's outward foreign direct investment flows into Myanmar, Thailand, Vietnam and Malaysia declined in 2011. As for FDI stock, at the end of 2011, Singapore was in first place ASEAN countries, followed by Myanmar and Cambodia, and Brunei was at the bottom in the list. It can be seen the bilateral foreign direct investment was evolving constantly; Chinese enterprises invested in these countries mainly concentrate in manufacturing, power development, wholesale and retail trade, mining, construction industry and other industries. China should strengthen investment in high-tech industries, while China also needs to maintain development of investing to developing countries, so that to get complementary advantages, optimize their domestic industrial structure and improve the industrial technology and also promote the progress of the host country.

## **6. Recommendations for improving CAFTA**

### *6.1. Strengthening the trade development of China-ASEAN*

In 2010, the establishment of China - ASEAN Free Trade Area improved China-ASEAN trade to increase significantly, demonstrating that the formation of the free trade area has brought the opportunities for China - ASEAN trade development. Cooperating with China can help ASEAN get rid of financial difficulties. For China, the economy external dependence is growing, strengthening trade links with ASEAN and strengthening development of China - ASEAN Free Trade Area can help China adapt to economic globalization, enhance the ability to withstand economic risks and expand China's economic cooperation with Southeast Asia. From July 2005, China - ASEAN began to implement tariff reduction policy for 7000 products. And since January 1st, 2010, more than ninety-three percent of products that China trade with ASEAN enjoy zero tariffs. These tax policies have brought a lot of effects for China - ASEAN trade, for the short-term effect, it makes the growth of bilateral trade between China and ASEAN. From the view of long-term effect, it not only can make Guangxi and Yunnan provinces that border with ASEAN get the benefits, but also drive the Southwest region of China adjacent to the ASEAN develop, and eventually the effect will extent to the whole country. Therefore China and ASEAN should strengthen the implementation of zero tariff policy to China - ASEAN Free Trade Area to ensure that by 2015 China will implement zero tariff policy to all ten countries of ASEAN. China will enhance trade facilitation through cooperation with ASEAN members in areas including customs and quality checking while sending purchasing groups for agriculture products from ASEAN members.

### *6.2. Optimizing Structure of International Trade of China*

China should gradually phase out these backward industries that compete with ASEAN, such as high-polluting industries and resource-based industries, and should improve the cooperation with the different countries and regions according to their resource characteristics, economic structure and technological level. Optimizing the industrial structure will be conducive to China-ASEAN trade. China should continue to develop technology-intensive and capital-intensive industries rather than labor-intensive industries. China can make full use of technology advantages and other advantages in intensifying cooperation of the development of biological resources, mineral resources exploration and other areas to upgrade China's relevant industrial structure, and to avoid free-trade zone industrial competitiveness. The main traded commodities between China and ASEAN are mechanical and electrical products, indicating high-tech products account for a large proportion of China - ASEAN trade. Therefore, both sides should continue to increase the proportion of high-tech and high value-added goods in trade, improve the technological content of export products and increase the introduction of high-tech and capital-intensive products. China continue to work together with ASEAN countries build Gulf Economic Zone, deepening the port cooperation, strengthening the terminal building, logistics, airline flights, information and human resource training, exchanges and cooperation, promote the development of port logistics, explore the establishment of China.

### *6.3. Improving the Construction of Investment Environment*

China should improve the investment environment to attract foreign investment. Improving investment environment includes the establishment of standardized, efficient and transparent administrative system, the deep concern for the development of foreign companies and improvement of legal system. At the same time, China and ASEAN countries should strengthen infrastructure construction to provide convenient conditions for foreign investment. Cultural exchanges are conducive to enhancing mutual understanding and friendship between the people of both sides and establishing harmony neighboring relations. Therefore China and ASEAN countries should promote the friendly exchanges in the fields of folk culture, tourism, education. Particularly in education, the colorful youth friendly exchange activities could facilitate more young people to participate in the regional cooperation.

## **7. Conclusion**

At present, China is now ASEAN's largest trade partner, while ASEAN, China's third biggest trading partner. From 2000 to 2012, China's trade with ASEAN had maintained growth except in 2009 due to the impact of financial crisis. In 2013, total trade volume stood at USD 443.56 billion. It is 12 percent year-on-year increase, and nearly four times addition than that in 2002. ASEAN currently China's fourth most important FDI destination, USD 30 billion value. Trade and investment between China and ASEAN members have seen great growth during the decade. There are economic disparities within ASEAN countries; China-ASEAN trade is mainly concentrated in the five old ASEAN member countries and Vietnam. To China the old ASEAN member countries have the similar imports and exports commodity structure, for import, electromechanical products and other high-tech products occupy the main part. The new four ASEAN countries relatively are economically backward, exports to China are mainly agricultural products, imports are mainly machinery and electronic products, refined oil, steel, textiles, etc. China should take full advantage of this opportunity to further comprehensively strengthen mutually beneficial cooperation with ASEAN, besides China needs to deepen and expand cooperation with neighboring countries. Practice will continue to prove that China's sustainable

development and prosperity will bring the important opportunities to the neighboring countries including the ASEAN and even to the courtiers all over the world.

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