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Regional Bilateral Trade Analysis of the European Union, China and ASEAN

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Abstract

This paper deals with the analysis and evaluation of bilateral trade flows between the European Union and ASEAN, and China and ASEAN. Many preferential trade agreements come into force in accordance with global efforts to liberalize trade. The European Union and China also negotiate to create preferential trade relations with ASEAN. The aim of this paper is to verify whether observed economies that form or plan to form a preferential area are *natural trading partners* or not and which economy has better position to create such agreement. The analysis uses indices of regional trade intensity and trade complementarity. The analysis clearly shows growing commercial dominance of China in Southeast Asia compared to the EU, but Chinese trade focus on the ASEAN countries weakens. From the perspective of trade complementarity it implies that the EU is more natural trading partner of ASEAN countries than China.

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Keywords: Bilateral trade; intensity of trade; trade complementarity; preferential trade agreement

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1. Introduction

Southeast Asia has experienced a rapid economic expansion during last two decades supported by inflows of foreign investment and its involvement in the international trade. Countries of this region created the ASEAN integration project in 1967 based on principle of economic cooperation. This collaboration reached the culmination during 1990's when the Free Trade Agreement (ASEAN Free Trade Area) among its members was established. Currently, this integration project involves ten member countries with more than 500 million people. Despite the fact that ASEAN countries have the common goals, they are reaching a very different economic levels. The AFTA involves so-called newly industrialized countries (Singapore, Indonesia, Malaysia and Thailand) which are characterized by high dynamic of economic development and on the other hand, there are countries that belong to the least developed countries of the world (Laos, Myanmar of Cambodia). ASEAN countries produce more than 3 % of global product and they share 6.7 % of global trade.

Table 1. Basic economic characteristics of ASEAN countries.

	GDP growth (%)	GDP (in millions)	GDP per capita	Unemployment rate (%)	Inflation (%)	Public debt (% of GDP)
Brunei	1.2	16 619	39 418.46	2.7	0.46	2.36
Cambodia	6.0	14 160	978.00	0.2	2.93	28.75
Indonesia	6.2	878 425	3 588.79	6.6	4.28	24.54
Laos	7.9	9 194	1 442.46	N	4.26	52.78
Malaysia	5.6	303 488	10 350.27	3.0	1.66	55.50
Myanmar	5.0	57 764	1 185.53	4.0	2.83	48.02
Philippines	6.6	250 269	2 594.23	7.0	3.16	41.91
Singapore	1.3	270 462	51 454.95	2.8	4.53	111.00
Thailand	6.4	390 855	5 592.26	0.7	3.01	45.44
Viet Nam	5.0	140 605	1 566.97	4.5	9.09	51.31

Source: UNCTAD, 2014; World Bank, 2014; IMF, 2014;

Although all observed economies are included in the multilateral trading system, represented by membership in the World Trade Organisation (WTO), they also participate in a large amount of bilateral agreements establishing Free Trade Areas or Custom Unions, as it allows the article XXIV of the General Agreement on Tariff and Trade and the article V of the General Agreement on Trade in Services.

China has geographical, political and cultural advantage in relation to the Southeast Asia region besides the European Union and uses its economic dominance not only in the Asian region to enter into preferential trade agreements. China can provide access to the markets of the Asian and Pacific region based on *the Free Trade Area and Economic Integration Agreements* which has been joined by eight countries at the bilateral level so far. But China is also part of the Asia-Pacific Trade Agreement, and in 2008 filed a notification establishing preferential agreement with ASEAN countries, which creates the largest Free Trade Area in the world with market of more than two billion people. Import duties between China and ASEAN countries gradually reduced since 2005. Tariffs should be nullified in 2010 between China and six ASEAN developed countries according to *the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China*. For the remaining countries (Myanmar, Cambodia, Laos and Viet Nam), there is an exception to the year 2015 (Association of Southeast Asian Nations, 2008). However, the fact is that this agreement contains many exceptions, especially in identifying “sensitive” goods, which complicates the functioning of trade between ASEAN countries and China considerably. Moreover, China still protects its market in the form of intellectual property rights, exports restrictions on raw materials, non-tariff barriers (Fojtíková, 2012). Rapid development of China's economy puts pressure on other Asian economies with which China negotiates a similar type of agreements (South Korea or Japan).

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