



# ASEAN–China Free Trade Area: background, implications and future development<sup>☆</sup>

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## Abstract

ASEAN–China economic linkages are moving into a new direction. In November 2001, ASEAN and China agreed to establish an ASEAN–China free trade agreement in 10 years. More than a strategic move to signal China’s interest in Southeast Asia, there are implications of such an agreement. For both sides, there should be net trade gains: trade creation would offset trade diversion with ASEAN getting a slight trade diversion while the same trade diversion would not be obvious for China. With China’s strong growth, it seems that China would require more input imports and ASEAN could provide as an alternative source of inputs for natural-resource based and intermediate inputs in an FTA. Both ASEAN and China’s hope to prosper will be intricately linked to their outward orientation and the role of developed countries to open up more opportunities, thus providing a firmer foundation for growth and stability. A new FTA has also opened up a debate of a possible formation of an “Asian Economic Community”.  
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## 1. Introduction

The Asian crisis has not slowed down most the affected countries of the region to remain open and globally integrated. It causes them, however, to think more cautiously that

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integration with the global economy requires not just open trade and finance, but also sound policies and institutions in a range of areas. The fact is that further integration has not only benefited them but also accelerates development in all aspects as well and that requires them to be prudent to vulnerabilities related to external shocks.

Most of the ASEAN countries have, by now, sailed, through the severity of the crisis and started to ponder again about the process of their own integration within the regional and global context. China, having recently been admitted to the WTO, is still growing and has developed more recently a deeper integration with the Asian region and the world economy (Zhao, 1997). While the ASEAN economies have been weakened by the crisis, China poses a challenge in trade and investment for the world. With China's dominance, ASEAN needs to reassess its own position and relative strength like many other countries.

What is lying ahead of ASEAN–China economic partnership is now closely related to the newly concluded ASEAN–China Free Trade Area (or ASEAN–China FTA). At the ASEAN Summit in November 2000, the leaders of ASEAN and China agreed to study the implications of China's accession to the WTO and to improve the means and ways to enhance economic cooperation and integration between the two. The creation of ASEAN–China FTA was proposed as one of the key initiatives to foster areas of complementarities while addressing on existing strengths.

Economic links between ASEAN and China are close knit and inevitably need to have a fresh look considering recent changes and factors related to many on-going relationships. Will the ASEAN–China FTA help to improve further the relationship among the two? What will be the ASEAN future linked with China in a borderless Asia? ASEAN and China also needs to adjust its own competitiveness in order to get the benefits within the ASEAN–China FTA. Meanwhile, one could ask why China needs a stronger economic relationship with its neighboring countries in Southeast Asia. For both, this regional arrangement represents a real first FTA concluded with another country or grouping. For China, this is a first FTA it has concluded after the accession into the WTO. For ASEAN, it was long since the creation of AFTA that ASEAN countries came to an agreement to form an FTA with an outsider.

## **2. Background**

At the first look, one could think that an ASEAN–China FTA is a natural response to a growing development of FTAs. It appears attractive because it provides preferential access to both sides and it may make good progress that would call attention from outsiders to become more involved within the grouping. Looking closer, one would find also that ASEAN is losing its economic attractiveness since the crisis as China is viewed as a rising global economic partner. The reality is that China draws much foreign direct investment from the region as much as it competes more with the ASEAN exports in the third markets (Wang, 1999; Chirathivat, 2001, 2002; Panitchpakdi & Clifford, 2002). Linking both sides together in an FTA could reinforce each one's own position within the regional and global context.

On the other hand, it is also true that trade liberalization has been progressive in ASEAN and China. For ASEAN, it varies among countries with Singapore the most advanced, then

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