

The China-ASEAN FTA brings advantages and challenges

COMMENT

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THE New Year marks a historical event in the region: the coming into force of the China-ASEAN Free Trade Area (FTA). It is the biggest trade zone in the world, with a population of 1.9 billion, total GDP of nearly US\$6 trillion and trade worth around US\$4.5 trillion. According to the agreement, the average tariff on goods from ASEAN countries to China is reduced to 0.1 percent. Six original ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) introduced tariff reductions on Chinese goods from 12.8 percent to 0.6 percent. By 2015, the policy of zero-tariff rates for 90 percent of Chinese goods is going to extend to the four newest ASEAN members, namely Cambodia, Laos, Myanmar and Vietnam.

As the world slowly begins to recover from the global economic crisis, the China-ASEAN FTA could push forward regional economic integration and help the region recover more quickly. China is the locomotive for regional economic development through deepening intraregional trade and investment.

It is noted that China is among the top three trade partners with ASEAN member countries, with a total trade volume of more than US\$230 billion in 2008. Moreover, direct Chinese investment in ASEAN countries has increased remarkably. For instance, in 2008 alone the total capital investment from China in ASEAN was US\$2.18 billion, up 125 percent from 2007.

Cambodia could greatly benefit from such a mechanism. China is currently the leading investor in Cambodia, with a total investment of more than US\$6 billion over the last 15 years. The main investment projects focus on hydropower, trade, tourism, agriculture, infrastructure and telecommunications. Today, there are about 700 Chinese companies and enterprises doing business in Cambodia.

Trade volume between Cambodia and China reached US\$1.13 billion in 2008. China is expected to be the main trade partner for Cambodia in the near future, as domestic consumption increases in China – especially in the field of agricultural products. However, there are challenges given Cambodia's low quality standards. To address this, Chinese aid to Cambodia should focus on supporting exporters to ship their products to China under the Aid for Trade scheme.

The China-ASEAN FTA not only promotes regional economic integration and joint development, but also reduces the Chinese threat perceived by some ASEAN leaders. Stronger economic interdependence can reduce the potential for conflict, especially regarding the South China Sea issue (a regional security flashpoint involving China, Vietnam, Malaysia, the Philippines, Indonesia and Brunei) and the Mekong River development differences between upstream China and downstream Thailand, Laos, Cambodia and Vietnam.

The China-ASEAN FTA will no doubt positively contribute to regional economic integration and

interdependence. It is a win-win for China and ASEAN. It is a breakthrough for free intraregional trade. Nevertheless, several challenges need to be overcome, such as the standardisation of the rules of origins and customs policy, promotion of the Aid for Trade scheme and linking trade with poverty reduction, particularly the rural poor.

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