

South East Asian summit seals free trade agreement with China

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The annual gathering of the Association of South East Asian Nations (ASEAN) held last month in the Laotian capital of Vientiane was dominated by the signing of a free trade deal with China. The pact is expected to give a further significant impetus to a trade relationship on which the 10 ASEAN members have become increasingly dependent, particularly since the 1997-98 Asian financial crisis.

Under the agreement, tariff and non-tariff barriers will be systematically reduced and a mechanism set up to resolve disputes. The six more economically advanced ASEAN members—Indonesia, Singapore, Malaysia, Thailand, the Philippines and Brunei—and China will begin cutting tariffs on July 1 2005, with the aim of reducing duties on 4,000 categories of goods to between five percent and zero by 2010. Vietnam, Laos, Cambodia and Myanmar will have until 2015 to comply with these targets.

The difficulty of dealing with varying levels of economic development and different interests among ASEAN members has resulted in a less ambitious plan for “sensitive goods”. Tariffs for goods in these categories will not be reduced below 20 percent until 2012. Iron, steel and petrochemicals are classified as “sensitive” and each country is allowed to nominate up to 400 goods.

For the ASEAN ruling elites, there was little choice but to accept China’s offer of increased integration with its booming economy. Since the 1997-98 financial collapse, China has attracted the lion’s share of foreign investment at the expense of its South East Asian neighbours. In 2001, China received 9 percent of the world’s available foreign investment—five times the scant 1.7 percent attracted by ASEAN members. Over the last decade, China has more than doubled its share of the world’s manufactured exports to 5.3 percent.

While ASEAN countries have lost out to China in the competition for investment funds, its economic expansion has created demands of its own. With annual growth rates of 8 to 9 percent, Chinese industry has an expanding need for raw materials, energy and manufactured parts and has turned to South East Asia as one of its major sources. Since 1995, Sino-ASEAN trade has risen by about 15 percent per year. In the first nine months of 2004, it was worth \$US75.45 billion and is expected to reach \$US100 billion by year’s end—up 28 percent from \$78.2 billion for 2003.

Malaysia, for instance, increased its exports to China seven-fold between 1991 and 2002, and its imports six-fold. Half of Malaysia’s exports consisted of electronic, electrical, chemical, machinery and textile commodities as well as edible oils and grains.

ASEAN trade with China is rapidly overtaking trade with the US—worth an estimated \$120 billion—and with the European Union—\$110 billion. Rising exports to China have been a major factor—as well as to Europe and the US—in the revival of the major ASEAN countries after the 1997-98 financial crisis. By 2003, Singapore, Indonesia, Malaysia, Thailand and the Philippines accounted for 4.4 percent of the world’s manufactured exports—the same level as in 1994.

Financial analysts, however, speculate that ASEAN nations will have to specialise in upmarket, high value-added products, such as luxury automobiles, if trade relations with China are to continue to expand.

In a press interview on December 3, Indonesia’s Trade Minister Mari E. Pangestu explained that, in the area of textiles and clothing, his country could not compete with China in low-end products but had to attract investment to enter into brand-named goods and other higher value-added products.

Pangestu made clear, however, that, despite the

competition, Indonesia had to integrate with the booming Chinese economy. “We can and must take full advantage of the increasing tendency of East Asia to become a regional production centre where China is the core. China becomes the centre due to its big exports and big domestic market. The bottom line is we must take part in the production network.”

Beijing’s attitude was outlined in early November by Chinese Vice-Premier Wu Yi at the China-ASEAN Exposition in Nanning. She called for greater integration of the economies and for the promotion of trade in high value added machinery and electronic products as well as the expansion of trade in traditional goods. “China and ASEAN should team up. Only by doing so, can we grasp opportunities, meet challenges ... and withstand the fierce competition on a global basis,” Wu said.

Washington reacted coolly to Beijing’s closer ties with ASEAN, clearly regarding the trade deal as a threat to US domination in the region. Citing US analysts, an article in the *Washington Post* warned that “the agreement shows how an increasingly bold China is forging alliances that would reduce, and possibly eventually challenge, America’s influence in Asia.”

ASEAN was formed in 1967, in the wake of the bloody US-backed coup in Indonesia, as a pro-US grouping directed primarily against China. In the wake of the collapse of the Soviet Union in 1991 and the end of the Cold War, ASEAN has focused on fostering regional economic cooperation. Vietnam, Cambodia, Burma and Laos all joined in the 1990s.

Well aware of the potential for US-China tensions to sharpen, ASEAN leaders are involved in a cautious balancing act. Economic opportunities are opening up in China but ASEAN members are still heavily dependent on the US as an export market. The ASEAN economies, with a combined GDP of around \$US 700 billion or about half that of China, are dwarfed by the US economy with its GDP of over \$10 trillion.

In this light, the reaction of ASEAN leaders to the refusal by Australian Prime Minister John Howard to sign the organisation’s 1976 Treaty of Amity and Friendship is significant. Howard was invited, along with his New Zealand counterpart Helen Clark, to the ASEAN meeting for the first time. The ASEAN leaders agreed to begin talks with Australia over a free trade deal and were clearly stunned by his refusal to sign the

treaty. China, India, Japan, Pakistan, South Korea, Russia and New Zealand have all signed the treaty, which is largely cosmetic and commits these nations to nothing.

Howard, however, has refused to renounce intervention in the region, even formally. He has already provoked opposition in Asia by announcing his own version of Washington’s doctrine of preemptive strikes, declaring that his government will not hesitate to act, with or without the approval of neighbouring countries, to counter a so-called terrorist threat. On this basis, the Howard government is already aggressively pursuing Australian economic and strategic interests—following up the Australian-led military intervention in East Timor in 1999 with the political takeover of the Solomon Islands in 2002 and the bullying of other small Pacific Island countries.

In the past, ASEAN figures like former Malaysian Prime Minister Mahathir Mohamed would not have hesitated to take Howard to task for his brazen threats to national sovereignty. In the current international political climate, the South East Asian leaders were reluctant to challenge Canberra, when Howard was clearly acting with Washington’s backing. Howard insisted that his government had to retain the right to intervene directly into the region, and no public criticisms were made—a result that was hailed by Australian Foreign Minister Alexander Downer as a victory of Australian diplomacy.

China’s close involvement with ASEAN is likely to heighten tensions. The US has already indicated its opposition to Burma taking over as the organisation’s chair when its turn comes up in 2006. The Bush administration, which maintains economic sanctions against Burma aimed at installing a more sympathetic regime, is threatening to boycott any ASEAN related events if Burma takes over. China on the other hand has maintained close relations with Burma.



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