

# China and ASEAN create free trade bloc

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A Free Trade Agreement (FTA) between the Association of South East Asian Nations (ASEAN) and China came into effect on New Year's Day, creating the world's third largest free trade bloc behind the European Union (EU) and the North American Free Trade Association (NAFTA). While limited in scope, the agreement is further testimony to the expansion of China's influence in Asia and internationally at the expense of its rivals, above all the US.

Initially proposed by China, the FTA is the product of eight years of negotiations, with the details only being settled last year when investment rules were sorted out. As of January 1, tariffs have been abolished on more than 7,000 items or 90 percent of the total number for China and the six more economically developed ASEAN members—Indonesia, the Philippines, Thailand, Singapore, Malaysia and Brunei. The four remaining ASEAN nations—Vietnam, Laos, Cambodia and Burma—have until 2015 to end tariffs.

The FTA is a continuation of processes that have been developing over the past decade. Trade with China played a significant role for many ASEAN countries in their recovery from the devastating impact of the 1997-98 Asian financial crisis. Two-way trade between ASEAN and China amounted to \$US19.5 billion in 1995, rose to \$57.6 billion in 2003 and hit \$231 billion in 2008. China has supplanted the US as ASEAN's third largest trading partner after Japan and the European Union (EU).

The combined population of the free trade bloc is 1.9 billion people and its combined GDP is \$6 trillion. However, the agreement is more restricted than NAFTA and falls well short of the EU's economic integration. For China, the arrangement facilitates greater access to raw materials and manufacturing parts

as well as markets in South East Asia. ASEAN countries, however, are concerned about being overshadowed by China—its GDP is three times that of the combined ASEAN.

The FTA's limitations reflect these concerns. Under the deal, each nation is allowed to list sensitive items on which some tariffs can remain, in some cases to 2020. Included in these lists are chemicals, some types of electronic equipment, motor vehicles and automotive parts. Even with this protection, Indonesia called for a last-minute delay on some provisions, reflecting fears that its steel, petrochemical, textile, farming and other sectors will not be able to compete with cheap Chinese imports. Jakarta could not get agreement from other ASEAN members.

An *Asia Times* article on January 7 highlighted concerns in Vietnam over China's economic involvement in the country, particularly a major investment by Chinese corporate giant Chinalco in bauxite mining and processing. Vietnam is seeking investment in exploiting its huge bauxite reserves, the world's third largest, but is worried about Chinese influence. Likewise it has doubts about a Chinese proposal to establish a rail and road corridor running from Nanning in China through Vietnam to Singapore. Vietnam already has an \$11.2 billion trade deficit with China.

ASEAN, however, is already integrated into globalised manufacturing processes that centre on China. ASEAN countries provide raw materials and parts, the main assembly hub is China and the main markets are the US, Europe and Japan. According to an Asian Development Bank study, 60 percent of China-ASEAN manufactured goods end up in Western markets. The downturn in the US, the EU and Japan

has prompted greater efforts to promote trade within Asia.

For much of corporate elite within ASEAN countries, there is no alternative but to embrace trade with China. The *Jakarta Post* summed up the attitude of much of the Indonesian ruling elite when it dismissed concerns about the country's vulnerable industries last month, declaring Indonesia had to "face the music" and begin to restructure the economy.

The Japanese government of Prime Minister Yukio Hatoyama, elected last August, has also been pressing for closer economic integration with Asia, including China. Shortly after taking office, Hatoyama enunciated his vision of an Asian community along the lines of the EU, with its own common currency. While such a proposal is fraught with difficulty, Japan, China and South Korea have established a joint currency swap arrangement with ASEAN to stabilise regional currencies. Hatoyama's efforts are designed to ensure that Japan, which is about to be overtaken by China as the world's second largest economy, is not eclipsed.

The Obama administration has said nothing officially about the FTA, but it will only underscore concerns in Washington that the US is slipping behind China economically. The US has no FTA with ASEAN, which has signed deals with Japan, South Korea, India, Australia and New Zealand as well as China. Within Asia, Washington has only one free trade agreement with Singapore. Negotiations with South Korea are bogged down and efforts to reach a deal with Thailand collapsed after the army ousted Prime Minister Thaksin Shinawatra in 2006.

Some ASEAN countries are keen for engagement with the US, not only to maintain access to the huge American market, but as an economic and political counterweight to China. In the lead-up to President Obama's tour of Asia last November, Singapore's former prime minister, Lee Kuan Yew, bluntly warned the US to become more engaged with Asia. "The 21<sup>st</sup> century will be a contest for supremacy in the Pacific because that's where the growth will be. If you do not hold your ground in the Pacific, you cannot be a world leader," he said on US television.

As part of his tour, Obama attended the ASEAN summit in Singapore and held a meeting on the sidelines with ASEAN leaders—the first for a US president—in order to underline his intention to maintain a strong US presence in the region. However, the gulf between the two sides on economic issues was obvious. ASEAN leaders urged Obama not to resort to protectionism, but were rebuffed by the US president who declared that Asia could no longer rely on the US market. Obama had been pushing for an ASEAN statement pressing China to revalue its currency, but the final ASEAN communiqué made no reference to currencies.

Taken as a whole, Obama's trip to Asia failed to achieve any of Washington's aims. After the ASEAN summit, Obama visited China for three days, but was no more successful there in achieving US aims on currency revaluation, Chinese support for more sanctions on Iran or other issues. In the past two months, tensions between the US and China have only sharpened, with Washington announcing further protectionist steps against Chinese goods and an arms sale to Taiwan.

Given the failure of Washington to wring any economic concessions from its Asian trading partners in 2009, the China-ASEAN FTA is unwelcome news in Washington. There will no doubt be attempts to play on the conflicting economic interests among the ASEAN nations and with China, and to present US military force in Asia as the only guarantee against Chinese domination. On the economic front, despite the continuing significance of the huge US market, Asian economies are beginning to vote with their feet as the relative decline of US capitalism continues.



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