

## The ASEAN-China Free Trade Area: Neighbors, Relatives or Foes?

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*The Framework Agreement for the ASEAN-China Free Trade Area was initiated in 2002. It is the first ASEAN Plus pattern free trade agreement in East Asia. To understand the cultural and historical bonds between China and Southeast Asian States, and contemporary Chinese regional political economy in building the ACFTA, this paper reviews the tributary trade and ancient Chinese diplomacy between China and the neighboring States. The primary purpose of this research is to show how the ACFTA is in the interests of all parties in the course of China's fast economic and political growth. The following article highlights the ACFTA provisions by examining trading agreements in goods, services and investment in the context of the corresponding WTO provisions. In the end, it suggests the possible resolutions for achieving a win-win and interdependent ASEAN-China Free Trade Area.*

**Keywords:** ACFTA, ASEAN-China, Tributary Trade, Early Harvest Program, Agreement on Trade in Goods, Agreement on Trade in Services, Agreement on Trade in Investment

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## I. INTRODUCTION

“Preferential trading arrangements” have proliferated in many regions of the contemporary international community. They have become accepted as the second-best option after the Most Favoured Nations (“MFN”) rules under the WTO framework. In East Asia, particularly, the mechanism of the ASEAN-China FTAs, initiated in 2002, reflected widespread anxieties about the uncertainty of the WTO trade negotiations that catalyzed the spread of ‘ASEAN Plus’ mechanisms. While China is shaping the China-ASEAN maritime cooperation, the parties to the agreement have progressively liberalized trade in goods, services and investment by signing a series of agreements that were launched by the first Framework Agreement between the ASEAN and China (hereinafter ACFTA Framework).<sup>1</sup> Statistics published by the Ministry of Commerce of the People’s Republic of China (“PRC”) from 2000 to 2009 shows that the average annual growth rate in goods trade was over 20 percent.<sup>2</sup> Accordingly, China-ASEAN bilateral trade has surged sharply from USD 54.77 billion in 2002 to USD 400.1 billion in 2012, with an average annual growth rate of 22 percent.<sup>3</sup>

Under the ACFTA Framework, extensive economic and political cooperation has been initiated, ranging from senior ministerial meetings to private business exchanges.<sup>4</sup> Chinese officials expected that the ACFTA would be the third biggest world economic bloc in light of large consumption of a population of two billion.<sup>5</sup> In 2009, the ASEAN finally became China’s third largest import market.<sup>6</sup> Likewise, China is the third leading import market for the ASEAN after the EU and the US.<sup>7</sup>

However, as China did not have a long tradition of pursuing her economic and political interest through international law, building the ACFTA was the first testing ground for her growing economic influence under the WTO. In the ASEAN, many are skeptical of the ASEAN-China commerce, as statistics show the trade deficits of China with the ASEAN in 2011, which was the second year for completing the ACFTA among the ASEAN-6 and China, reached USD 22.63 billion<sup>8</sup> and China’s trade benefits from the ASEAN (USD 1.787 billion) was considerably smaller than that of the ASEAN’s (USD 2.986 billion).<sup>9</sup> These high trade deficits indicate that the ACFTA is not a purely market-oriented trade policy, but primarily a politically oriented FTA aiming at easing tensions in neighboring