

China in the World, the World in China International Conference
"Implications of a Transforming China: Domestic, Regional and
Global Impacts", 5-6 August 2007

Institute of China Studies, University of Malaya

**The Logic of China-ASEAN Free Trade Agreement:
Economic Statecraft of “Peaceful Rise”**

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Abstract

This paper examines the China-ASEAN free trade agreement (ACFTA) in light of regionalism in East Asia and China's new diplomacy. Dubbed "peaceful rise," China's new diplomatic strategy seeks to capitalize on globalization to accelerate China's economic development and elevate China's power. In Southeast Asia, "peaceful rise" is promoted through a FTA agenda reflecting geopolitical and geoeconomic objectives -- cultivating goodwill among neighbors, maintaining regional stability, and securing key markets and raw materials needed for China's economic growth. China sees ACFTA as a tool to respond to challenges posed by competitive regionalisms in the world economy, cement growing economic ties with Southeast Asia, secure raw materials, and ensure a peaceful environment to support China's growing influence and counterbalances American and Japanese power. ASEAN nations are attracted by the opportunities entailed in China's expanding trade and economy; they also seek to leverage ACFTA to additional FTAs with important trading partners within (e.g., Japan) or outside (e.g., the U.S.) the region. Due to the disparate levels of development and policy priorities of ASEAN members, ACFTA may cause various challenges to individual members and ASEAN as a whole.

Key words: China, ASEAN, Southeast Asia, free trade agreement, peaceful rise, peaceful ascendancy, economic statecraft

The Logic of China-ASEAN Free Trade Agreement: Economic Statecraft of “Peaceful Rise”

Vincent Wei-cheng Wang *

Introduction: A Rising China in Asia

Since the end of the Cold War, the political and economic order in the East Asian region¹ has undergone a significant transformation. One of the most important sources for this change is China’s growing clout and influence. Several crucial factors contribute to this development: China’s rapid and sustained economic growth (on average 9 percent a year over the past two decades), Japan’s relative decline as a result of its decade-long recession, the 1997-8 Asian Financial Crisis which decimated several high-flying Asian economies, and the overextension of the United States’ military resources and political capital due to the war on terror, the daunting task of rebuilding Iraq, and the challenge posed by a nuclear North Korea.

Whereas China’s rise in the mid-1990s caused much concern among its neighbors and the U.S.,² China’s further ascent in the early 2000s has instead generated more equanimity. China’s expanding economy is now regarded more as an opportunity than a threat, and its more polished foreign policy exudes confidence and poise.³ Does this change have more to do with a fundamentally changed Chinese foreign policy (goals) or with the changing *perception* of other nations on a rising China (posture)?

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¹ For the purpose of this paper, the term “East Asia” encompasses both Northeast Asia and Southeast Asia.

² For a useful compilation of commentaries on the implications of a rising China, see Michael Brown et al, eds., *The Rise of China* (Cambridge, MA: MIT Press, 2000). The two books that helped set the stage for the “great debate” over China were Richard Bernstein and Ross H. Munro, *The Coming Conflict with China* (New York: Knopf, 1997) and Andrew J. Nathan and Robert S. Ross, *The Great Wall and the Empty Fortress* (New York: Norton, 1997). See also Herbert Yee and Ian Storey, eds., *The China Threat: Perceptions, Myths, and Reality* (London: RoutledgeCurzon, 2002).

³ For an account on China’s more confident diplomacy, see Evan S. Medeiros and M. Taylor Fravel, “China’s New Diplomacy,” *Foreign Affairs* 82(6)(November-December 2003): 22-35. For a new book on China’s expanding “soft power,” see Joshua Kurlantzick, *Charm Offensive: How China’s Soft Power is Transforming the World* (New Haven: Yale University Press, 2007). Bates Gill, *Rising Star: China’s New Security Diplomacy* (Washington: Brookings, 2007) and David Shambaugh, ed., *Power Shift: China and Asia’s New Dynamics* (Berkeley: University of California Press, 2005) are two useful books that discuss the strategic logic of China’s new foreign policy.

Nowhere is this shift more evident than in Southeast Asia, especially the changing attitudes of ASEAN (Association of Southeast Asian Nations), which during the Cold War had kept a weary eye on China and did not normalize relations with China until the 1990s. Therefore, the announcement by ASEAN and China in November 2001 that they intended to create an FTA (Free Trade Area) between them within a decade symbolized a seismic change in China-Southeast Asian relations. On November 4, 2002, at the Eighth ASEAN-China Summit in Phnom Penh, Cambodia, ASEAN leaders and Chinese Premier Zhu Rongji signed a Framework Agreement on Comprehensive Economic Cooperation, which enunciated the parties' commitment and laid the groundwork for the eventual establishment of an ASEAN-China FTA (ACFTA) by 2010 for the ASEAN 6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and 2015 for the newer members (Cambodia, Laos, Myanmar, and Vietnam). The Framework Agreement set 1 July 2003 as the date when the agreement was to enter into force.⁴ To pursue the goals set in the Framework Agreement, the ACFTA parties negotiated for three years and concluded an Agreement on Trade in Goods for the Framework Agreement on 29 November 2004 at the summit meeting in Vientiane, Laos. This trade in goods agreement formally took effect on 1 July 2005.⁵

Comparing today with ASEAN's founding epoch, the contrasts cannot be sharper: In 1967, China was mired in its angry self-imposed isolation known as the Great Proletarian Cultural Revolution, whereas ASEAN was established partly to form a collective counterweight against the regime that had exported revolutions and inspired guerrilla insurgency in several Southeast Asian nations. Nowadays China is deeply engaged with the world and even assumes the hitherto unprecedented role as a trade promoter in East Asia, considering that its market-oriented economic reform started only in 1978 and it did not become a member of the World Trade Organization until late 2001.

What explain these changes? What are the political and economic impetuses for the ASEAN-China FTA? What is the relationship between China's current trade offensive and its "new" foreign policy thinking? Does it represent a long-term and fundamental shift in China's economic statecraft or only a short-term tactical expedient aimed at buying the crucial time China needs in becoming the preeminent actor in the region capable of securing its core interests and projecting its power?

This paper shows that China's trade activism, driven by resource needs, is a strategy motivated by *geopolitical* considerations but uses *geo-economic* means. By

⁴ ASEAN Secretariat, News Release, 4 November 2002, "ASEAN and China Sign Economic Pact," <<http://www.aseansec.org/13169.htm>>; Framework Agreement on Comprehensive Economic Cooperation Between the Association of Southeast Asian Nations and the People's Republic of China," <<http://www.aseansec.org/13197.htm>>; and "ASEAN-China Dialogue," <<http://www.aseansec.org/7585.htm>>.

⁵ ASEAN Secretariat, Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation Between the Association of Southeast Asian Nations and the People's Republic of China <<http://www.aseansec.org/16647.htm>>; Kevin G. Cai, "The China-ASEAN Free Trade Agreement and Taiwan," *Journal of Contemporary China* 14(45)(November 2005): 590; and Alyssa Greenwald, "The ASEAN-China Free Trade Area (ACFTA): A Legal Response to China's Economic Rise?" *Duke Journal of Comparative and International Law* 16 (2005): 193, <<http://www.law.duke.edu/journals/djcil/articles/djcil16p193.htm>>.

examining the ASEAN-China FTA in light of regionalism in East Asia and China's new diplomacy, this paper argues that China's FTA with the ASEAN is driven by a *political* logic to respond to challenges posed by competitive regionalisms in the world economy, to cement growing economic ties with Southeast Asian nations, to secure raw materials crucial to China's economic development, and to ensure a peaceful and stable environment close to home so as to buttress China's growing influence and counterbalance American and Japanese power. It is thus a concrete example of economic statecraft employed to facilitate China's "peaceful ascendancy."

ASEAN nations are attracted by the opportunities brought about by China's economic expansion and trade liberalization; they also seek to leverage their FTA with China to additional FTAs with important trading partners within (e.g., Japan) or outside (e.g., the U.S.) the region (or more generally, leveraging their improved relationship with China to engage other great powers). However, due to the disparate levels of development and policy priorities of its members, ASEAN's FTA with China is likely to cause various challenges to individual members and the organization as a whole.

This paper believes that among the major paradigms of international political economy, the *realist* perspective best explains China's approach to trade:⁶ China uses trade as a foreign policy instrument to advance its national interests and power, and its increased power helps acquire more wealth, on which the Communist leadership's continued rule depends.

The rest of this paper is divided into five sections. The first section defines the broader context of the issue, by providing some background on regional trading arrangements while emphasizing the proliferation of such arrangements in the 1990s. The second section examines the profiles of China's economic interactions with ASEAN. The third section discusses the main political calculus in China's decision to pursue FTA with ASEAN, paying special attention to the larger strategic factors associated with China's desire to attain "peaceful ascendancy." The fourth section discusses ASEAN nations' motivations and assesses the impact of ACFTA on them. The fifth section speculates on the future of China's "peaceful rise" by invoking historical precedents and contemporary constructivist theory of international relations.

Rising Regionalism in the World Economy

Regional economic integration is not a new phenomenon. Viewed as the deepening of intra-regional economic interdependence in a given region, through intra-regional trade, foreign direct investment (FDI) and harmonization of commercial regulations, standards, and practices, it probably predated the Westphalian international

⁶ The realist approach to international political economy is called mercantilism or economic nationalism, and has enjoyed a tradition as long as the presently predominant liberalism. Alexander Hamilton, Friedrich List, Jacob Viner are among the most important writers of this school. See Alexander Hamilton's *Report on Manufacturers* and Friedrich List's *Political and Cosmopolitical Economy*, collected in George T. Crane and Abla Amawi, eds., *The Theoretical Evolution of International Political Economy: A Reader*, 2nd ed. (New York: Oxford University Press, 1997), pp. 37-54; Jacob Viner, "Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," *World Politics* 1(October 1948): 1-29.

system. Scholars coined the phrase “regionalism” to characterize the political movement towards the creation or expansion of regional trade organizations or associations.⁷

However, the proliferation of regional trading blocs – often known as regional integration agreements (RIAs) – and the deepening of relationships among existing members of certain trading blocs represent a major development in international relations in recent decades. Most industrial and developing countries in the world are members of a regional integration agreement, and many belong to more than one. In fact, over one-half of world trade takes place within such agreements.⁸

During the Cold War, divergent diplomatic alignment and economic systems hampered the development of regional trade agreements (RTAs). With the end of the Cold War, the past decade has witnessed an especially sharp increase in RTAs. According to World Trade Organization (WTO) figures, eighty-one percent of the 151 notified RTAs in goods since 1958 went into effect after 1990: 29 in 1990-4, 64 in 1995-9, and 30 in 2000-2.⁹ As the end of 2002, a total of 259 RTAs had been notified to the WTO and its predecessor, General Agreement on Tariffs and Trade (GATT); among them 176 RTAs are currently in force. An additional 70 RTAs are believed to be operational but not yet notified, and about 70 are under negotiation. Among WTO’s 146 members as of 2003, only Mongolia is not already in a RTA or engaged in negotiations on preferential agreements.¹⁰

One important reason for the increasing popularity of preferential trade agreements (PTAs) is the seemingly difficult process and bleak prospects for progress on the multilateral agenda – the latest example being the collapse of the Doha Round WTO meeting in 2003 in Cancún, Mexico, after which US trade representative Robert Zoellick warned that the U.S. might press ahead with bilateral and regional trade deals.¹¹

Table 1 shows that 43 percent of world merchandise trade now occurs under the umbrella of preferential trade agreements. If all RTAs currently under negotiation are successfully concluded before 2005, then over 50 percent of world merchandise trade will occur among countries linked by preferential agreements.

⁷ May T. Yeung, Nicholas Perdikis, and William A. Kerr, *Regional Trading Blocs in the Global Economy* (Cheltenham, UK: Edward Elgar, 1999), p. 17.

⁸ The World Bank, *Trading Blocs* (New York: Oxford University Press, for the World Bank, 2000), p. 1.

⁹ World Trade Organization, *World Trade Report 2003* (Geneva: WTO, 2003), p. 47.

¹⁰ *World Trade Report 2003*, p. 46. WTO now has 149 members.

¹¹ “Road from Cancún Leads to Brussels: The Hypocrisy of Rich Countries Blocks Trade Liberalization,” *The Financial Times* (16 September 2003): 22.

Table 1
 Preferential Trade Share of intra-RTAs Trade in Merchandise Imports
 of Major Regions, 2000 and 2005
 (as of January 2003)

	2000	2005
Western Europe	64.7	67.0
Transitional economies	61.6	61.6
North America (incl. Mexico)	41.4	51.6
Africa	37.2	43.6
Middle East	19.2	38.1
Latin America (excl. Mexico)	18.3	63.6
Asia	5.6	16.2
World	43.2	51.2

Source: World Trade Organization, *World Trade Report 2003* (Geneva: WTO, 2003), p. 48.

Table 1 also shows that as of now, Western Europe leads in preferential trade (hence this fact evokes the image of “Fortress Europe”), whereas Asia is the region where preferential trade arrangements are the least developed. Again, the lingering effects of Cold War geopolitics in Asia partially explain this. Indeed, the current proliferation of PTAs in Asia to a considerable extent represents a “catching up” phenomenon.

PTAs are the opposite of the principle of nondiscrimination in trade policies – the cornerstone of the GATT/WTO system. The Anglo-American Allies who planned the global economic system after World War II -- which became known as the Bretton Woods system – believed that the discriminatory trade policies in the 1930s had contributed to the collapse of world trade and in turn to the Great Depression and the ensuing international conflict. To prevent a recurrence, they enshrined the nondiscrimination policy into Article I of the GATT, which required (unconditional) most-favored nation (MFN) for all GATT members.¹²

However, since its outset, the GATT allowed a major deviation from the MFN principle. Article XXIV states that a group of countries may form a free trade area or custom union, dropping barriers among themselves, subject to a few requirements.¹³ While RTAs are supposed to be, and they are usually found to be, WTO-consistent, some analysts attribute this to the fact that “the requirements of Article XXIV and the Enabling Clause and GATS [General Agreement on Trade in Services] are very weak and have

¹² Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System* (Washington: Institute for International Economics, 1997), pp. 2-3; and Jagdish Bhagwati, Pravin Krishna, and Arvind Panagariya, eds., *Trading Blocs: Alternative Approaches to Analyzing Preferential Trade Agreements* (Cambridge, MA: MIT press, 1999), p. 6

¹³ These requirements are: (1) “Substantially all” barriers among the members be removed; (2) trade barriers against nonmembers not be made more restrictive than before; and (3) subsequent progress toward economic integration is supposed to be expeditious – normally not to exceed ten years. Frankel, *Regional Trading Blocs*, p. 3.

never been enforced.”¹⁴ This raises the question of whether RTAs are “building blocks” or “stumbling blocks” for global multilateral trade under the WTO’s auspices.¹⁵

It is useful to differentiate the various levels of integration under formal regional trading agreements so as to understand the ACFTA in a proper comparative and theoretical context.¹⁶

Levels of Integration

(1) **Preferential trade arrangements:** The loosest type of arrangement is the granting of partial preferences to a set of trading partners. If the concessions are one-way, this is called a *preferential trade arrangement* – as seen in the unilateral concessions made by an industrialized country to less developed countries (LDCs), such as the Generalized System of Preferences (GSP), a practice that the GATT always permitted. If the concessions are reciprocal, we may call it *preferential trade area* (PTA) to describe the club of nations covered.

(2) **Free Trade Area (FTA):** If the members of a PTA eliminate *all* tariffs and quantitative import restrictions among themselves – i.e., 100 percent preferences – then they form a *free trade area* (FTA). But in fact they typically retain varying levels of tariffs and other barriers against the products of nonmembers.¹⁷

(3) **Custom Union (CU):** The next level of integration occurs when the members of an FTA go beyond removing trade barriers among themselves and set a common level of trade barriers vis-à-vis outsiders. This at a minimum entails a common external tariff, which is no higher than the average of the previously existing tariffs of the member countries. A full CU will set all trade policy for its members as a whole.

(4) **Common Market:** Whereas PTA, FTA, and CU are different models of “shallow integration,” common market and economic union constitute “deep integration.” Beyond the free exchange of goods and services among members, a *common market* entails the free movement of factors of production: labor and capital.

(5) **Economic Union:** Economic union involves harmonizing national economic policies, including typically taxes and a common currency.

The European Union (EU) is the best example of a long process of increased level of integration and the most notable economic union. In contrast, neither the members of the North American Free Trade Agreement (NAFTA) nor the members of ASEAN FTA expect to literally eliminate all internal barriers to trade, as the name “free trade area” would imply. It should also be pointed out that not all trade among preferential trading

¹⁴ P. Lloyd, “Implications for the Multilateral Trading System of the New Preferential Trading Arrangements in the Asia-Pacific Region.” PECC Trade Forum paper, Vancouver, 11-12 November 2002. Available at <<http://www.pecc.org>>. Quoted in Jiangyu Wang, “The Legal and Policy Considerations of China-ASEAN FTA: The Impact on the Multilateral Trading System,” in Ho Khai Leong and Samuel C.Y. Ku, eds., *China and Southeast Asia: Global Changes and Regional Challenges* (Singapore: Institute of Southeast Asian Studies, 2005), p. 55.

¹⁵ Maghaisvarei Sellakumaran, “WTO at the Crossroads and the Road Ahead for ASEAN,” in *Economic Outlook 2004-2005* (Singapore: Institute of Southeast Asian Studies, 2005), pp. 52-54.

¹⁶ For more theoretical discussions, see Yeung, Perdikis, and Kerr, *Regional Trading Blocs in the Global Economy*, pp. 18-19; and Frankel, *Regional Trading Blocs*, pp. 12-17.

¹⁷ The term “free trade area” (a form of preferential trade area) should not be confused with “free trade,” which entails a positive connotation of broad trade liberalization.

partners takes place at preferential rates. Most agreements exclude certain sensitive sectors, most notably agriculture.

Motivations for Integration

Why do nations pursue regional integration? Largely speaking they do it for two sets of reasons: (1) politics and policymaking, and (2) economics.

As a World Bank publication asserts, “Regional integration is good politics: It meets political needs, such as security or enhanced bargaining power, and it satisfies influential lobbies.”¹⁸ Indeed, the main motivation for regional integration is often *political*, rather than economic. China’s motivation for ACFTA illustrates this point.

The first motivation is to use integration to consolidate peace and increase regional security. It is often assumed that creating linkages between economies can make conflicts more costly. Both Immanuel Kant’s third definitive article of “perpetual peace” – cosmopolitan law¹⁹ – and Thomas Friedman’s “Golden Arches Theory of Conflict Prevention”²⁰ affirm this insight. In the post-911 environment, then US Trade Representative Robert Zoellick justified his aggressive pursuit of FTAs with such nations as Jordan, Israel, Chile, Singapore, Australia, Morocco, southern Africa, and Western Hemisphere on national security ground. He argued, “While terrorism isn’t caused by poverty...failed states, broken societies, extreme poverty, create the fertile ground in which the seeds of terrorism can grow, and therefore we have a very strong interest in having a pro-growth and opportunity economic policy that complements our security agenda.”²¹ Clearly the U.S. expected important strategic and political benefits from these FTAs, since the economic benefits offered by these states were modest at best.

Second, by joining together the weak can pool their strengths. Governments often seek to acquire greater bargaining power in multilateral negotiations by first tying in partner countries through regional commitments. At a regional level, a subset of countries could first strike their own agreement in order to increase bargaining power and press for a better outcome.

Third, regional agreements have been used to lock in institutional changes and reforms. In the early 1990s, proponents of neoliberal economic reform in Mexico sought to leverage NAFTA to enable desired changes. For trade liberalization, regional agreements are a well-designed piece of commitment mechanism because they are built upon reciprocal preferences.

Fourth, vested interests, such as powerful national bureaucracies created to negotiate trade agreements, or certain sectors of the society that stand to gain or lose, often lobby the governments to seek regional agreements.

Fifth, countries can benefit greatly from cooperation when they share resources – such as rivers, fishing grounds, hydroelectric power, or rail connection – or when they

¹⁸ *Trading Blocs*, p. 11.

¹⁹ Immanuel Kant, “Perpetual Peace,” in Lewis White Beck, ed., *Immanuel Kant: On History* (Indianapolis, IN: Bobbs-Merrill, 1963), originally published in 1795.

²⁰ Thomas Friedman, *Lexus and the Olive Tree* (New York: Farrar, Straus and Giroux, 1999), pp. 195-217.

²¹ Peter Hatcher, “US Links Free Trade To Global Security,” *Australian Financial Review* (15 November 2002): 28.

jointly overcome problems – such as pollution and transportation bottlenecks. By virtue of enhanced trust, regional agreements can help in this regard.

Several economic rationales have also been marshaled for regional agreements, which can be summarized as the allure of reaping benefits from free trade without enduring the cost for adjustment. First, the theory of “second-best” holds that although multilateral agreements that aim at eliminating barriers across the board are almost always preferable, they are also more elusive. Hence, liberalization via a regional agreement might be more beneficial to the world than the status quo.

A second economic reason for governments to seek discriminatory liberalization is that they may be able to reap gains from trade in product areas where they cannot compete internationally. RTAs thus could serve the purpose of shutting out third-party competition from more efficient suppliers.

Third, small countries especially regard participation in regional agreements as a defensive necessity. They fear exclusion from markets and see participation as an insurance policy against being placed at a competitive disadvantage through discriminatory policies. Richard Baldwin calls this “domino theory” of regionalism – idiosyncratic incidents of regionalism triggered a multiplier effect that knocked down bilateral import barriers like a row of dominoes.²²

As will be shown later, many of these characteristic political and economic considerations were clearly at work in the case of ASEAN-China FTA.

ASEAN and China: Interdependent but Not Indispensable

ASEAN was established on 8 August 1967 in Bangkok by the five original member states -- Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, expanding its membership to 10. The last four entrants are also called newer members, or ASEAN-4.

The ASEAN Declaration states that the aims and purposes of the Association are: (1) to accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations, and (2) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.²³

Despite these common aspirations, ASEAN members vary considerably – from the tiny oil-rich sultanate of Brunei (population: 300,000) to the world’s fourth most populous nation (and the largest Muslim country), Indonesia; from the miniscule economy of Laos to the potential giant, Indonesia; from the impoverished ASEAN-4 to the wealthy Singapore and Brunei. Table 2 presents several basic economic indicators of ASEAN states. Comparable data for China are also included for reference.

²² Richard E. Baldwin, “The Cause of Regionalism,” *World Economy* 20(7)(November 1997): 865-888.

²³ See ASEAN, “Overview: ASSOCIATION OF SOUTHEAST ASIAN NATIONS,” available online at <<http://www.aseansec.org/64.htm>>.

Table 2 reveals the huge disparity among ASEAN nations, and such inequity raises important questions. Experiences from other world regions, particularly Western Europe, offer three illustrative lessons for ASEAN. First, small states are often more active than large states in promoting integration (e.g., the Benelux countries turned out to be “core” members at the forefront of each stage in the history of European integration); this is in contrast to the “hegemonic stability” theory, which holds that the existence of a hegemon, both willing and capable of shouldering the cost of maintaining an open system, is the prerequisite to liberal economic regimes and institutions.²⁴ Second, homogeneity -- comparable levels of development, cultural affinities, and compatible political systems – facilitates successful “deep” integration. Third, deeper integration among the existing members is often considered helpful, if not essential, to “shallow integration” with newer members who are characterized by greater heterogeneity (e.g., EU’s “growing pain” or “hiccups” in integrating with the former communist countries of Eastern Europe).

ASEAN nations pride themselves for following certain “fundamental principles” in their relations with one another, as adopted in the Treaty of Amity and Cooperation (TAC) in Southeast Asia, signed at the First ASEAN Summit on 24 February 1976:

- Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
- The right of every State to lead its national existence free from external interference, subversion or coercion;
- Non-interference in the internal affairs of one another;
- Settlement of differences or disputes by peaceful manner;
- Renunciation of the threat or use of force; and
- Effective cooperation among themselves.²⁵

In January 1992, the ASEAN Free Trade Area (AFTA) was established to eliminate tariff barriers among the Southeast Asian countries with a view to integrating the ASEAN economies into a single production base and creating a regional market of 500 million people. Under the AFTA, tariff rates levied on a wide range of products traded within the region will be reduced to no more than five percent. Quantitative and other non-tariff barriers are to be eliminated. The newer members are expected to realize AFTA by 2006-10.²⁶

Size is an important factor to intra-ASEAN integration and to ASEAN-China FTA. Table 2 shows that China towers over each individual ASEAN member and all of them combined. AFTA intends to create a regional market of over 500 million people. But this combined ASEAN magnitude would only constitute 29% of the population, 32% of the GDP, and 46% of the trade volume, of the combined ASEAN-China FTA. Covering 1.79 billion people, \$1.7 trillion in GDP, and \$1.36 trillion in trade volume, the

²⁴ See Immanuel Wallerstein, “The Three Instances of Hegemony in the History of the Capitalist World-Economy,” *International Journal of Comparative Sociology*, 24(1-2)(1983).

²⁵ “Overview: ASEAN.”

²⁶ ASEAN, *Southeast Asia: A Free Trade Area*, <<http://www.aseansec.org/12025.htm>>.

ACFTA will become the world's largest FTA (all calculated from Table 2). This is why there is a widely accepted view, expressed by former Singaporean Trade and Industry Minister George Yeo, that an integrated ASEAN is the only viable response to an economically-rising China.²⁷

Table 3 shows the major export and import partners of individual ASEAN members and China as of 2003. And Table 4 shows the major export and import partners of individual ASEAN members and China as of 2006. Comparing these two tables show some interesting findings.

Table 3 reveals several interesting patterns. As of 2003, although China was among the top five trading partners for each ASEAN member, it was not the most important (Myanmar's import is the only exception); its importance to these nations was comparable to that of Taiwan's or South Korea's. In fact, the United States was the top export partner of five out of the ten ASEAN members (and also China's top export market); and Japan was the top import partner of four ASEAN nations (and also China's top import source). So, *economic* arguments are insufficient to explain ASEAN-China FTA. If economy of scale is the main concern, then ASEAN nations (and for that matter China itself) should pursue FTAs with their largest trade partners – the U.S. and Japan; and for that matter, China should also do the same. Why are ASEAN and China forging FTA with their secondary trading partners? As section 2 points out, regional integration is often driven by political considerations, and ACFTA is no exception. The next section will examine some of the *non-economic* rationales for ACFTA.

Although China's trade with ASEAN may not be as large or important as ASEAN-U.S. trade or ASEAN-Japan trade, it nevertheless has increased rapidly in recent years. Table 4 shows that China now is Vietnam's top import partner. From 2003 to 2006, for every ASEAN member (except Brunei) imports from China as a percentage of this country's total imports increased. However, the United States remains the top export partner for the same five ASEAN countries plus China, as seen in Table 3, albeit U.S. relative shares have declined, being mainly replaced by exports from China.

Citing ASEAN official figures, Table 5 shows that from 1993 to 2001, total ASEAN exports to China increased seven-fold, from \$4.5 billion to \$31.6 billion. During the same period, ASEAN imports from China increased 5.5 times, from \$4.3 billion to \$23.8 billion. Two-way trade in 2001 stood at \$55.4 billion.

Table 6, using official statistics from China's Ministry of Commerce, highlights the importance of ASEAN-China trade but also helps place it in perspective. It should be noted that the Chinese official data in this table groups together trade data of all fifteen member states of the European Union as one entity and the ten members of ASEAN as one entity. This accounting method conjures up the allure of elevated importance of EU and ASEAN – hence, it is politically easier to sell the FTA to ASEAN as a whole and to show that China's trade flows to various markets are “balanced.” According to this table, ASEAN is China's fifth largest overall trade partner, constituting 9.2% of China's total trade; ASEAN is China's fifth largest export market and fourth most important import source. These more recent data, dated 18 February 2004, show that China's total trade with ASEAN amounts to \$78.3 billion.

²⁷ “How ASEAN Can Hold Its Own Against China,” *The Straits Times* (12 November 2002). From *LexisNexis*.

Tables 7 and 8 show ASEAN statistics. China now is ASEAN's fourth largest overall trading partner, with 9.3 percent of total ASEAN trade. Intra-ASEAN trade, trade with the United States, and trade with Japan are still more important. However, the customary adage "trade follows investment" does not apply in the ASEAN-China case: from 2001-5, China contributed only 1.3 percent of ASEAN's total foreign direct investment inflow.

To be sure, the U.S. remains the region's biggest single-country trade partner and top investor, but trade between China and the rest of Asia is booming. In October 2003, Chinese Premier Wen Jiabao urged Southeast Asian nations to achieve \$100 billion worth of trade with China before 2005 – almost double the 2001 figure of \$55.4 billion. Table 7 shows that this goal was reached. By comparison, U.S. trade with the ten members of ASEAN was \$120 billion in 2001,²⁸ and has grown at a lower rate since then, reaching \$154 billion in 2005. In 2005, Japan-ASEAN trade also approached \$154 billion. The race is thus on.

In sum, although increasing trade and investment ties have caused China and ASEAN to become more economically interdependent, these relationships are still trailing the region's economic relationships with the United States and Japan, but the gap is narrowing. Although these economic facts arguably justify a FTA, more important non-economic reasons better explain why China "attaches great importance" to ASEAN-China FTA.²⁹ In other words, the answer is found elsewhere.

China's FTA Calculus: Pursuing "Peaceful Rise" Through Economic Statecraft

Commentators have offered various explanations for the initiatives taken by China to sign an FTA with ASEAN countries. Most of these accounts invoke standard economic arguments or fall under the category of conventional wisdom. For example, Kevin Cai identifies the three most crucial rationales for the ASEAN-China FTA are (1) such a FTA helps craft a response to intensified regionalism elsewhere (Europe and North America), (2) FTA helps cement the growing economic ties between China and ASEAN, and (3) FTA helps coordinate government policies – a need made painfully clear by the Asian Financial Crisis.³⁰ Employing a computable general equilibrium (CGE) model based on international parity conditions, James Laurenceson finds that China's integration with ASEAN's five original members is already relatively advanced with respect to goods and services markets and he argues that future benefits from liberalization will be mainly felt in financial markets.³¹ Focusing on the ASEAN's four

²⁸ Jane Perlez, "Asian Leaders Find China a More Cordial Neighbor," *The New York Times* (18 October 2003): A1.

²⁹ "China Attaches Great Importance to China-ASEAN Free-Trade Area," *Xinhua News Agency* (23 October 2002).

³⁰ Kevin G. Cai, "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping," *Contemporary Southeast Asia*, 25(3)(2003): 387-404.

³¹ James Laurenceson, "Economic Integration Between China and the ASEAN-5," *ASEAN Economic Bulletin*, 20(2)(August 2003): 103-11.

newer countries, Thitapha Wattanapruttipaisan believes that the ASEAN-China FTA will provide greater market access in resource- and agro-based products and some manufactured goods for ASEAN's poorer four newer members, but will also see greater competition from China in both ASEAN-4's home and third-country markets.³²

However, this paper differs from these standard economic theories by adopting a *realist* approach. It argues that China's FTA with ASEAN countries is driven primarily by *strategic* considerations and that although the main instruments that it uses – FTAs -- are economic, China's foremost goal is to ensure survival and expand power in a changing (i.e., more challenging) security environment. In short, China's FTA with ASEAN exemplifies the economic statecraft of China's vaunted foreign policy of "peaceful ascendancy" or "peaceful rise" (to be explained later).

The concept of "economic statecraft" involves the utilization of a state's economic tools (resources and capital) in its foreign policy conduct and is part of a state's statecraft – the art of conducting state affairs. By employing either positive (rewards) or negative (sanctions) means, economic statecraft seeks to advance a state's interests through ways that are less coercive than military means.³³ Although many scholars equate economic statecraft with economic sanctions and consequently question the validity of economic statecraft, since "sanctions never work,"³⁴ positive incentives such as trade benefits or aid are more effective instruments for achieving a state's objectives. China's FTA with ASEAN is a good example of this positive approach. If negative economic statecraft (sanctions) works less well for adversaries than for allies,³⁵ positive economic statecraft (rewards) also works better for allies. China's trade offensive thus better achieves its goals of improving relations with ASEAN and expanding influence in Southeast Asia than any previous approach that China had adopted in the past. Certainly charm offensive, talk of "peace" and "development," and trade are better received than communist ideology and revolution.

One of the most interesting developments to the scholarly and policy communities in the last two or three years is China's "new" foreign policy, which marks significant

³² Thitapha Wattanapruttipaisan, "ASEAN-China Free Trade Area: Advantages, Challenges, and Implications for the Newer ASEAN Member Countries," *ASEAN Economic Bulletin*, 20(1)(April 2003): 31-48.

³³ David A. Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985) is a classic in the field of economic statecraft.

³⁴ E.g., Gary Clyde Hufbauer and Jeffrey J. Schott, *Economic Sanctions Reconsidered: History and Current Policy* (Washington, DC: Institute for International Economics, 1985). In a recent critique, Daniel W. Drezner et al., eds., *The Sanctions Paradox : Economic Statecraft and International Relations* (Cambridge: Cambridge University Press, 1999) grapples with the puzzle that despite the conventional wisdom that economic sanctions do not work in international affairs, why do countries wield them so often?

³⁵ Daniel Drezner argues that, paradoxically, countries will be most eager to use sanctions under conditions where they will produce the feeblest results. States anticipate frequent conflicts with adversaries, and are therefore more willing to use sanctions. However, precisely because they anticipate more conflicts, sanctioned states will not concede, despite the cost. Economic sanctions are thus far less likely to be effective between adversaries than between allies. See the previous note.

departures from past practices in several key areas. In some respects, these changes indicate the desire of the so-called Fourth Generation leadership (centered around Hu Jintao)³⁶ to put their imprimatur on China's external conduct. Analysts have used various labels to describe these changes, such as China's "new diplomacy,"³⁷ "independent foreign policy of peace," or "pragmatic, balanced strategy in foreign policy."³⁸ The Chinese have called this the policy of "*heping jueqi*" ("peaceful ascendancy"³⁹ or "peaceful rise"⁴⁰). The concept of "peaceful rise" first appeared at the 2003 Boao Forum for Asia hosted by China. Zheng Bijian, then vice president of the Central Party School (now Chairman of China Reform Forum) and a key theoretical advisor to Hu, delivered the speech, "New Path of China's Peaceful Rise and Asia's Future" on 3 November 2003 at the Boao Forum.⁴¹ The concept was formally introduced to Asia by Chinese President Hu Jintao on his tour of Southeast Asia in October 2003,⁴² and to America by Chinese Premier Wen Jiabao in his speech at Harvard University in December 2003.⁴³ The 2004 Boao Forum further held a conference on "China's Peaceful Rise and Economic Globalization."⁴⁴

³⁶ "Fourth Generation" leadership refers to such leaders as Hu Jintao, Wen Jiabao, and Zeng Qinghong, that were elevated to top positions after the Chinese Communist Party's 16th National Congress in November 2002. See Susan Shirk, H. Lyman Miller, Gang Lin, Lowell Dittmer, Cheng Li, David Shambaugh, Richard Baum, *The 16th CCP Congress and Leadership Transition in China*, Wilson Center Asia Program Special Report 105 (Washington, DC: The Wilson Center, 2002): 1-48.

³⁷ Medeiros and Fravel, "China's New Diplomacy."

³⁸ "WWP: Beijing Adopts Pragmatic, 'Balanced' Foreign Policy," *Hong Kong Wen Wei Po* (Internet version-*WWW*) in Chinese, 27 January 2004 [Dispatch from Beijing News Center by Reporter Liao Ya-meng, "China Adopts 'Balanced' Strategy in Foreign Policy"], PTS Translated Text for FBIS, FBIS-CHI-2004-0127, obtained via *World News Connection*.

³⁹ Yoichi Funabashi, "China is Preparing a 'Peaceful Ascendancy,'" *International Herald Tribune* (30 December 2003); "Author Sees China's Role in Pushing India, Pakistan Toward Détente," *Calcutta The Telegraph* (Internet version-*WWW*) in English, 25 December 2003 (article by Jairam Ramesh, "China is Changing"), FBIS Transcribed Text, FBIS-NES-2003-1225, obtained via *World News Connection*.

⁴⁰ Robert W. Radtke, "China's 'Peaceful Rise' Overshadowing U.S. Influence in Asia?" *The Christian Science Monitor* (8 December 2003): 9.

⁴¹ The official website of the 2003 Boao Forum's agenda for November 3, http://history.boaoforum.org/2003nh/rcts/t20031027_173175.shtml, asks users to install a security certificate provided by a company based in Beijing in order to download Zheng's speech. For a précis by China's official Xinhua News Agency, see "Boao Forum: Chinese Official Says China Important to Asian Development," *XINHUA* (3 November 2003), FBIS-CHI-2003-1103, obtained via *World News Connection*.

⁴² "WWP: Beijing Adopts" and Radtke, "China's 'Peaceful Rise.'"

⁴³ "PRC Premier Wen Jiabao at Harvard Says China's Development Depends on Own Efforts," *XINHUA* (10 December 2003), FBIS-CHI-2003-1210, obtained via *World News Connection*

⁴⁴ The agenda of this conference is available online at <http://history.boaoforum.org/english/home/NoticeBoard/t20040331_562702.shtml>. Accessed 13 October 2004.

However, starting in mid-2004, the theory of “peaceful rise,” put forth by the Hu Jintao regime as China’s grand strategy for the 21st century, quietly disappeared from the statements of senior government officials and the CCP’s official documents – to be replaced by a slogan of “peaceful development.”⁴⁵ Analysts attribute this to the power struggle between Hu and his predecessor Jiang Zemin, who vacated the posts of Party chief in November 2002, and State president in March 2003, but held on to the chairmanship of the powerful Party Central Military Commission until October 2004, and was widely believed to be casting influence behind the scene.⁴⁶ The opposition to Hu’s favorite policy comes from an interesting combination of sources: Some in the party reject the use of the term “rise,” which they believe may aggravate the theory of China as a threat, whereas the hardliners led by the armed forces, who claim that focusing only on a peaceful posture will result in China being taken lightly on the issues of maritime resources and Taiwan. In other words, some oppose “peaceful,” and others abjure “rise.”

Nevertheless, now that Jiang has given up his last official post and Hu is expected to gradually consolidate his power and the fact foreign reception of “peaceful rise” is more positive than the “China threat” theory, Hu is expected to further advance the concept and strategy of “peaceful rise” – in action if not in words. Indeed, in a recent article published in *Foreign Affairs* aimed at Western audience, Zheng Bijian, a key advisor to Hu, further explicates China’s aspirations for “peaceful rise” to great-power status.⁴⁷ Hence, it is important to analyze the key elements of this policy.

China’s “peaceful rise,” promoted as a non-ideological foreign policy, contains several key elements. First, it is based on an embrace of globalization as part of the solution to China’s growth imperatives. It relies both on China’s domestic economy and the international marketplace to sustain and fuel growth. China’s Fourth-Generation leaders determine that the international environment that China faces has changed and the country must respond “correctly to a world which is becoming multipolar, to economic globalization, and to the trend of development in scientific and technological advancement.”⁴⁸ Now is especially a “period of important strategic opportunity” for achieving China’s paramount goal – in the words of one analyst, “it is all part of a single-

⁴⁵ “Peaceful ‘Rise’ No More, Replaced by ‘Development’: Facing Opposition from Various Sides, the Once Popular Slogan Suddenly Disappeared” (in Chinese), *The World Journal Online* (25 August 2004), <http://www.worldjournal.com/wj-ch-news.php?nt_seq_id=1037880>. Accessed 25 August 2004.

⁴⁶ “Tokyo Daily: ‘Peaceful Rise’ Theory Scrapped Due to Hu, Jiang Power Struggle,” *Tokyo Shimbun (Internet Version-WWW)*, 6 August 2004, FBIS-EAS-2004-0806, obtained via *World News Connection*.

⁴⁷ Zheng Bijian, “China’s ‘Peaceful Rise’ to Great-Power Status,” *Foreign Affairs* 84(5)(September/October 2005): 18-24. For a critique of this non-ideological foreign policy, see Lanxin Xiang, “Why Washington Can’t Speak Chinese,” *Washington Post* (16 April 2006): B3.

⁴⁸ “Hu Jintao Summarizes China’s World View in Political Bureau Study Session,” *Beijing Xinhua Domestic Service* in Chinese 1155 GMT 24 February 2004 [“Hu Jintao at CPC Central Committee Political Bureau’s 10th Collective Study Session Stresses, Continue to Take a Broad View of the World While Analyzing the Situation, Improve the Ability to Work Well with Reform and Opening Up”], FBIS Translated Text, FBIS-CHI-2002-0224, obtained via *World News Connection*.

minded focus on economic development oriented to making China an economic superpower in every respect...in the next two decades.”⁴⁹

Second, to achieve that goal, China must secure a peaceful international environment that is crucial to sustaining China’s economic development and augmenting China’s power. Peace in the Asia-Pacific region – China’s backyard – is thus essential. Hence, China’s “peaceful rise” is designed to counter deep Asian apprehension about China as a competitor for trade, investment, and jobs, and a security threat. At a practical level, this means that when dealing with its most formidable challenger (the United States), China must “bide its time and hide its capacities” (*taoguang yanghui*) -- avoiding a premature showdown or confrontation with the United States, especially in light of the Bush Administration’s imperial strategy. And when dealing with its nervous neighbors, China must replace its brusque “Great Power Diplomacy,” which Third-Generation leaders like Jiang Zemin upheld, with a good-neighbor diplomacy.

The timing is ideal, as the United States is distracted by the war on terror, Iraq, Iran, and North Korea, while Southeast Asia is still grappling with the aftermath of the 1997-8 Asian Financial Crisis. In light of America’s single-minded pursuit of its own narrow agenda and Japan’s diminished stature, China’s “charm offensive” toward Southeast Asia – a pragmatic approach consisting of increasing investment and trade, and proposing myriad of FTAs throughout Asia – has won much good will in the region.⁵⁰

Third, this new diplomacy is characterized by several important changes in *style*, if not substance: (1) Instead of acting like an aggrieved victim, China now aspires to be a responsible great power and is acting increasingly like one. (2) Whereas China used to distrust “multilateralism” for fear that multilateral institutions could be used to constrain or punish it, now Chinese leaders recognize that deeply engaging these organizations help promote the country’s trade and security interests and limit American power. For China, the word “multilateralism” now sounds like a coded opposition to America’s “unilateralism,” and China prefers a “multipolar” world (in which China acts as a great power) to a “unipolar” world founded on U.S. hegemony. (3) On many contentious and intractable issues, China has also adopted more pragmatic stances. On the South China Sea issue, China acceded to ASEAN’s Treaty of Amity and Cooperation (TAC) and promoted peaceful dialogue over territorial disputes. On Taiwan, China has replaced its military bluster with economic enticement. (4) China is more aware that its rise has consequences for the Asia-Pacific region and beyond. So it is keen on easing the concerns of various countries. (5) China has become much more actively engaged in, and seeks to shape, regional affairs. Its hosting of the Six-Party Talk over North Korea’s

⁴⁹ “Author Sees China’s Role.” See note 39.

⁵⁰ Kurlantzick, *Charm Offensive*; Jane Perlez, “China is Romping with the Neighbors (U.S. is Distracted),” *The New York Times* (3 December 2003): A1; “Asian Leaders Find China a More Cordial Neighbor,” *NYT* (18 October 2003): A1; “The Charm from Beijing,” *NYT* (9 October 2003); Radtke, “China’s ‘Peaceful Rise,’” Michael Vatikiotis and Murray Hiebert, “How China is Building an Empire,” *Far Eastern Economic Review* (20 November 2003). For a more sober reflection, see Marvin Ott, “Watching China Rise Over Southeast Asia,” *International Herald Tribune Online* (15 September 2004), reprinted from YaleGlobal Online.

nuclear issue is a good example.⁵¹ In Southeast Asia, symbolism matters and China understands this and plays the game well.

Fourth, the major instrument used in advancing China's objectives is its economic power, which is buoyed by its phenomenal economic growth, rapidly expanding domestic markets, and voracious appetite for raw materials needed for its economic development. China's economic boom has benefited the recovery of several Asian countries, but also forced many traditional industries of other nations to relocate to China. Its vastly increased demand for raw materials has contributed to the hike in global oil prices and an economic bonanza for such resource-rich countries as Brazil and Australia.⁵²

In the context of Southeast Asia, China's FTA with ASEAN helps defuse the "China Threat" concern and cultivate goodwill among China's important neighbors, maintain peace and security in the region, defuse American influence, and secure key markets and raw materials needed for China's economic security. It is thus a *sine qua non* of "peaceful rise" – the fundamental strategy of China's new diplomacy for survival and development. Kevin Cai argues that China's WTO ascension in 2001 and its ASEAN FTA initiative that immediately followed represent a "new stage in the nation's policy of opening to the outside world and are logically related to each other."⁵³

To sum up, China's "peaceful rise" is a comprehensive long-term strategy leveraging globalization as catalyst to accelerate China's economic development and elevate China's power and stature. The language is peace and stability, the style is constructive diplomacy, and the substance is economics – at least for now.⁵⁴ China's FTA agenda exemplifies the economic statecraft of this overall strategy. Geopolitics, rather than purely economic reasons, drives China into trade talks. The hallmarks of China's arrival as a major player in world and regional affairs include: (1) using multilateralism to counter what China sees as U.S. unilateralism, (2) talking of the need for a new international political and economic order, and (3) promoting an East Asia pact to match European and North American free-trade agreements.

⁵¹ As a sign of the tug-of-war between proponents and opponents of "peaceful rise" and the spasmodic nature of its foreign policy, observers have noted that a nationalistic impulse has caused China's relations with its neighbors to worsen in recent months – witnessing the row with Japan over the Asian Soccer Cup incident and former Japanese Prime Minister Koizumi's visit to the Yasukuni shrine, the row with South Korea over the ancient kingdom of Kogyuro, and the increasingly strident attitude toward Taiwan in the aftermath of the reelection of Chen Shui-bian in 2004.

⁵² Ted C. Fishmen, "The Chinese Century," *The New York Times Magazine* (4 July 2004): 24; Oliver August, "Enter the Dragon, Breathing Fire into Economy," *The Times* (16 February 2004): 13.

⁵³ Kevin G. Cai, "The China-ASEAN Free Trade Agreement and Taiwan."

⁵⁴ One Indian writer quips, "It is all part of the new PRC syndrome – not the old People's Republic of China, but a new Peaceful Rise of China." "Author Sees China's Role."

ASEAN's Motivations and ACFTA's Possible Regional Impact

If China's motivations for ACFTA are mainly strategic, what are ASEAN nations' considerations? How will ASEAN-China FTA impact ASEAN members? How will it affect regional and international balance of power? Three fundamental reasons explain why ASEAN embrace the FTA with China.

The first argument is the so-called "bandwagoning" thesis. Each individual ASEAN member is too weak vis-à-vis China. To augment their bargaining power, ASEAN members must pool their resources together so as to overcome the very plausible collective action problem. Facing a much bigger and economically ascending China, these nations find out that if they are to have any hope of luring foreign investments, they need to trumpet their growing ties with Asia's next giant.⁵⁵

The second is the "China market" argument. Individual ASEAN members clearly see FTA with China as a logical step toward partaking in China's growing domestic market, made increasingly prosperous because of China's entry into the WTO and the benefits arising from the phasing-in of China's pledged liberalization. China's offer of "early harvest" – a unilateral goodwill measure – is especially appealing to the poorer ASEAN-4 members.

The third argument sees the FTA as a lever in a sort of "balance of power" logic. ASEAN nations hope to use the FTA with China as a catalyst to accelerate their own integration (AFTA)⁵⁶ and a ploy to engage larger trading partners, such as Japan, the United States, and the EU. Already, ASEAN-China FTA is causing some concerns for Japan, and prompts Tokyo to redouble its endeavor in engaging an area that it has traditionally dominated. For example, in its summit meeting with ASEAN in December 2003, Japanese Prime Minister Junichiro Koizumi pledged \$3 billion in new aid to Southeast Asia (it is already receiving 60% of its overseas aid from Japan), and promised to work with the region to maintain security ties, liberate trade and create a broad "economic partnership."⁵⁷ Interestingly, in the eyes of some, Japan's new emphasis on fostering closer relations with ASEAN is driven by one major consideration – China.⁵⁸

⁵⁵ "Everybody's Doing It," *The Economist* (26 February 2004).

⁵⁶ "How ASEAN Can Meet the Chinese Challenge," *The Business Times Singapore* (1 August 2003), obtained via *Lexis-Nexis*; Michael Shari, "A New Front in the Free-Trade Wars; The ASEAN Nations Are Slashing Tariffs to Compete with China," *Business Week* (3 June 2002): 23.

⁵⁷ Audrey McAvoy, "Japan Pledges \$3 Billion in Aid for Asia," *Associated Press* (12 December 2003); Anthony Rowley, "Koizumi to Convince ASEAN on Integration," *The Business Times Singapore* (1 December 2003). However, some analysts believe that because of Japan's heavy protection of its agricultural sector, a FTA with ASEAN similar to the ASEAN-China FTA appears unlikely.

⁵⁸ Leslie Fong, "China's Not in Competition with Japan," *The Strait Times* (19 December 2003); "ASEAN Must Deepen Ties with Japan," *The Business Times Singapore* (31 July 2003); Kwan Weng Kim, "Japan 'to Remain Top ASEAN Partners for Next 20 Years'; but It Will Have to Jostle with China for the Position in 50 Year, says PM Goh," *The Strait Times* (3 December 2003).

Space allows only this cursory survey of ASEAN's motivation for FTA with China. However, it also raises some questions about the impact of ACFTA on ASEAN and other countries in the region.

First, China could turn out to be a fierce competitor. After all, China and most of ASEAN members are developing economies; they are competitive, rather than complementary. There have also been few success stories of regional integration that consist of all developing nations.

Rodolfo Severino, the former secretary-general of ASEAN, is aware that such industries as textiles, toy, and motorcycle manufactures will be negatively affected in the short term, although he believes long-term benefits will follow.⁵⁹ Because of its almost inexhaustible unskilled labor and huge amounts of FDI, China may pose an especial challenge to the ASEAN-4 in their home or third-country markets.

China received the lion's share of FDI inflows to the entire developing world. As Table 1 shows, in 2000, China received more than three times the combined total of FDI inflows to the ten ASEAN nations. The FDI that is currently going into China for China's intrinsic value is unlikely to be distracted by an FTA with ASEAN, and some of the FDI going into ASEAN now may end up going into China (for the larger pot directly). A caveat is that Chinese companies seem keen on investing in Southeast Asia. This somewhat mitigates China's competition for FDI with ASEAN.

Second, there are real concerns that ACFTA may undermine AFTA. This is thanks to China's "divide and conquer" negotiation tactic. Some worry that China may distract a core trading group from pursuing its better interests by offering an FTA. These skeptics question whether China's real motivation is actually domination, as opposed to integration, and this could see ASEAN not complete full integration, trying instead to cash in on the huge Chinese economy.⁶⁰ For example, while insisting on ASEAN's *collective* recognition of China as a full market economy (thus the special concessions China made in its WTO accession will not apply in its trade with ASEAN),⁶¹ China

⁵⁹ Barry Wain, "Some in ASEAN Have Issues with China FTA," *Australian Business Intelligence* (8 October 2002): 1008281i9293 (*The Asian Wall Street Journal* – ABIX via COMTEX).

⁶⁰ Garry Bowditch, "Trade Pact Carries Risk for ASEAN," *Australian Business Intelligence* (12 November 2002): 1008316i2190 (*The Australian Financial Review* – ABIX via COMTEX).

⁶¹ Article 14 – Recognition of China's Market Economy Status – of the Agreement on Trade in Goods states:

Each of the ten ASEAN Member States agrees to recognize China as a full market economy and shall not apply...Sections 15 and 16 of the Protocol of Accession of the People's Republic of China to the WTO and Paragraph 242 of the Report of the Working Party on the Accession of China to WTO in relation to the trade between China and each of the ten ASEAN Member States.

Section 15 of China's WTO accession protocol deals with Price Comparability in Determining Subsidies and Dumping. Section 16 provides Transitional Product-Specific Safeguard Mechanism. <<http://docsonline.wto.org/DDFDocuments/t/WT/L/432.doc>>. Paragraph 242 of the Working Party Report addresses possible disruptions from China's textile products. <<http://docsonline.wto.org/DDFDocuments/t/WT/ACC/CHN49.doc>>.

negotiated early harvest provisions with individual ASEAN nations *bilaterally* by observing the different interests of each ASEAN nation with respect to ACFTA.

Whereas China has a very clear strategic goal, as discussed earlier, ASEAN does not have a clear picture about its place in the new strategic environment of an emergent China. One Australian analyst thinks that under these circumstances the best that ASEAN can do is to lock itself in as a fringe player on the spokes of China's regional trade architecture, while further enhancing the attractiveness of China as the hub for regional investment and production.⁶² In this view, ASEAN will be reduced to a role of auxiliary actor in the main show – China's rise.

ACFTA may entail differentiated consequences for other countries in East Asia. For example, it may undercut America's vast influence in the region. Already nations in this region are adopting some sort of "hedging" strategy by simultaneously improving their ties with China while ensuring the continued presence of the United States. Although the U.S. has countered with a FTA with Singapore, a region-wide FTA with ASEAN is not currently on U.S. priority, and authority for "fast track" trade negotiation expired at the end of June in 2007.

ACFTA may also spur the region's other economic giant, Japan, into more active economic diplomacy with ASEAN out of fear of being edged out by China.⁶³

And finally, ACFTA may pose a special challenge for Taiwan. As a major trading nation, Taiwan should be included in various Asian FTAs. However, China's steadfast opposition to any country signing FTA with Taiwan (because China claims this would "interfere in China's internal affairs") and its offer of a Hong Kong-style Closer Economic Partnership Arrangement (CEPA) to Taiwan,⁶⁴ which Taiwan refuses, have threatened to cause Taiwan's isolation and "marginalization" from the ongoing process of regional integration in East Asia.⁶⁵ In fact, as Tables 3 and 4 show, Taiwan's importance to ASEAN nations gradually declined at the same time China's importance to ASEAN was increasing. Taiwan has sought to forge FTAs with the United States and Japan, hoping that pacts with these important countries will herald more FTAs with other countries in the region.

In sum, China's active trade diplomacy, as exemplified by ACFTA, has caused a "trade race" in the region with profound strategic consequences.

⁶² Garry Bowditch, "Trade Pact with China Carries Risk for ASEAN," *Australian Financial Review* (13 November 2002): 63.

⁶³ "Japan Needs Trade Pact with ASEAN," *Daily Yomiuri* (19 July 2005): 4.

⁶⁴ China-Hong Kong CEPA calls for gradual elimination of all tariff and non-tariff barriers in goods and services. This entails the political symbolism that trade between the mainland and Hong Kong, though both WTO members, is "internal" trade. Taiwan understandably rejects this scheme and insists that as a WTO member, it has the same right as China in signing FTAs with other countries.

⁶⁵ Cai, "The China-ASEAN Free Trade Agreement," p. 591 and 587.

Whither ACFTA? Reading History and Constructivism

What does ACFTA or China's "peaceful rise" mean for the region's future? A historical metaphor is illustrative here. Historians John King Fairbank and Merle Goldman argue that traditional China, seeing itself as the superior Middle Kingdom, carried out its foreign policy based on a tribute system, which was a "reciprocal foreign relationship between superior and inferior" in that tribute offerings were normally reciprocated by lavish gifts from the emperor; hence, "accepting China's supremacy was materially worthwhile." In addition, the tribute system early became the institutional setting and indeed "cover for foreign trade."⁶⁶

Another scholar points out that China and its tributaries had far more interaction with each other than is commonly acknowledged. "Trade, both private and tributary, made up a significant portion of both government revenues and GNP. Under this system, these countries were a thriving, complex, and vibrant regional order" and the tributary system was "a form of disguised staple trade."⁶⁷ Other scholars have argued that asymmetry or hierarchy (with China predominating), rather than balance of power or the Westphalian "horizontal" international system predicated on sovereign equality, has empirically and theoretically contributed to stability based on Asian history.⁶⁸

To say that China's FTA with ASEAN evokes the ancient tributary system and threatens to institutionalize China's dominant position and ASEAN's subordinate status in the form of trade obviously risks the charge of being a false historical analogy. However, the analogy is not entirely inappropriate. The Chinese are a history-conscious people. After all, until recently their foreign policy was driven by the legacy of "century of humiliation." The main difference is that in the past, the Chinese believed in their cultural supremacy and cared more about the others' acknowledgement of China's cultural superiority than actual occupation – in other words, learning is only one-way. Today, China exists in a globalized world defined by a different paradigm. To survive in an increasingly challenging environment, China has proved that it can be a fast learner. It is learning the new rules and playing the new games. Learning is now two-way. Liking the FTA to the modern-day tribute system may be an exaggeration, but calling it the economic statecraft of China's "peaceful rise" in light of China's fundamental aspiration for rising to the position of preeminent power is entirely proper.

As constructionists would like to point out, the structure of elites' beliefs and interests determine whether anarchy is conflictual or cooperative,⁶⁹ it is not sufficient to simply infer China's real intention from its manifested behavior. As China is seeking

⁶⁶ John King Fairbank and Merle Goldman, *China: A New History*, enlarged ed. (Cambridge, MA: Harvard University Press, 1998), pp. 112-3.

⁶⁷ David Kang, "Hierarchy and Stability in Asian International Relations," in G. John Ikenberry and Michael Mastanduno, eds., *International Relations Theory and the Asia-Pacific* (New York: Columbia University Press, 2003), p. 172-3.

⁶⁸ Brantly Womack, "China and Southeast Asia: Asymmetry, Leadership and Normalcy," *Pacific Affairs* 76(4)(Winter 2003-4).

⁶⁹ Alexander Wendt, "Anarchy is What States Make of It," *International Organization*, 46(2)(Spring 1992): 391-425.

peaceful ascendancy, other countries can interpret its presently more accommodating new diplomacy as a fundamental shift. However, the available evidence is not sufficient to warrant this optimism. After all, the Chinese seem to offer only a tactical reason for their restraint – “biding one’s time and hiding one’s capabilities.” What will they do *after* they achieve their goal of becoming an economic superpower? Will economic success breed an aggressive nationalism?⁷⁰ Will it convince Chinese leaders that China can finally take on the United States and turn the twenty-first century world order into *Pax Sinica*? While Westerners think most highly of the positive connotation of *peace* (as an *end*) in China’s strategy of “peaceful rise,” it is not clear whether the Chinese use peace as a updated *means* for its unwavering end. Will China’s neighbors and potential detractors still be concerned with a rising China, no matter *how* it has arisen?

No one knows. Clearly with history in mind, former U.S. Trade Representative Robert Zoellick said that China’s increasing economic power and global influence must be integrated into the international community.⁷¹ It is not just good economics; it is also good politics.

⁷⁰ Hsu Tung-ming, “China’s Rising Not All that ‘Peaceful,’” *Taipei Times* (19 August 2004): 8. <<http://www.taipetimes.com/News/edit/archives/2004/08/19/2003199349>>. Accessed 19 August 2004.

⁷¹ “USTR Says China’s Power Must Be Integrated Into World Community” (USTR Zoellick’s Feb. 25 remarks to Asia Society), e-mail update from “USINFO East Asia” <iipgeap@STATE.GOV>.

Table 2
China and ASEAN: Select Economic Indicators

	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	China
Population (millions, 2001)	0.3	12.2	209.0	5.4	23.8	48.3	78.3	4.1	61.1	79.5	1,271.8
GDP (US\$ billions, 2001)	N/A	3.4	145.3	1.8	88.0	14.2*	71.4	84.9	115.3	32.9	1,159.0
GNI per capita (US\$, 2001)	N/A	280	680	300	3,400	300*	1,030	21,100	1,960	410	890
PPP GDP (US\$ billions, 2002 estimate)	6.5	20.4	714.2	10.4	198.4	73.7	379.7	112.4	445.8	183.3	5,989.0
PPP GDP per capita (US\$, 2002 estimates)	18,600	1,660	3,100	1,800	8,800	1,700*	4,600	25,200	7,000	2,700	4,700
Exports (US\$ billions, 2001)	3.0	1.4	52.3	0.3	95.2	2.7	35.1	127.0	67.7	16.5	325.6
Imports (US\$ billions, 2001)	1.4	1.7	32.1	0.6	76.8	2.5	33.5	113.0	58.1	16.8	295.3
FDI inflows (US\$ millions, 2000)	N/A	125.7	-4,550.0	33.9	3,787.6	254.8	1,241.0	6,390.3	3,366.0	1,298.0	38,399.3

Notes: * Estimates

Sources: Author's compilation from *World Bank Indicators Data Query* (<http://www.worldbank.org/data/dataquery.html>), The National Bureau of Asian Research, *Strategic Asia Database* (<http://strategicasia.nbr.org/Data/CView/>), and the Central Intelligence Agency, *The World Factbook 2003* (<http://www.odci.gov/cia/publications/factbook/index.html>).

Table 3
Major Trading Partners of ASEAN Nations and China (circa 2003)

	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	China
	(Percentage shares of the country's exports / imports)										
Export partners	Japan (40.3)	U.S. (60.2)	Japan (21)	Vietnam (26)	U.S. (21)	Thailand (31.4)	U.S. (26.2)	Malaysia (17.4)	U.S. (19.6)	U.S. (15.2)	U.S. (21.5)
	So. Korea (12.3)	Germany (9.1)	U.S. (13.2)	Thailand (19)	Singapore (17.4)	U.S. (13)	Japan (14.9)	U.S. (15.3)	Japan (14.9)	Japan (14.9)	Hong Kong (18)
	Thailand (12.1)	U.K. (7.1)	Singapore (9.4)	France (7.5)	Japan (10.9)	India (7.4)	China (7.4)	HK (9.7)	Singapore (8)	Australia (7.1)	Japan (14.9)
	Australia (9.2)	Singapore (4.4)	So. Korea (7.2)	Germany (5.3)	China (6.5)	China (4.7)	Taiwan (5.8)	Japan (7.1)	HK (5.4)	China (6.6)	So. Korea (4.8)
	U.S. (8.1)		China (5.1)		Hong Kong (5)		Singapore (5.7)	China (5.5)	China (5.2)	Germany (6.5)	
	China (6.4)		Taiwan (4.2)					Taiwan (4.9)	Malaysia (4)	Singapore (5.5)	
Import partners	Singapore (30.6)	Thailand (24.8)	Japan (14)	Thailand (59)	Japan (16.9)	China (27%)	Japan (21.6)	Malaysia (18.2)	Japan (23)	So. Korea (12.7)	Japan (18.1)
	Japan (21.5)	Singapore (16.9)	Singapore (13.1)	Vietnam (12.3)	Singapore (15.9)	Singapore (19.5)	U.S. (18.6)	U.S. (14.3)	U.S. (9.6)	China (12.2)	Taiwan (10.5)
	Malaysia (17.4)	China (12.1)	U.S. (8.5)	China (7.9)	U.S. (15.5)	Thailand (12)	Singapore (7.8)	Japan (12.5)	China (7.6)	Japan (12.1)	So. Korea (9.7)
	U.K. (6.1)	HK (10.9)	China (7.8)		China (7.8)	Malaysia (9.1)	So. Korea (7.5)	China (7.6)	Malaysia (5.6)	Singapore (11.8)	U.S. (9.2)
	Hong Kong (14)	So. Korea (5.5)	So. Korea (5.3)		So. Korea (5)	Taiwan (6.3)	China (5.7)	Taiwan (4.6)	Singapore (4.5)	Taiwan (10.6)	Germany (5.6)
			Taiwan (5.1)		Taiwan (4.7)	So. Korea (5.3)	Hong Kong (4.5)	Taiwan (4.6)	Taiwan (4.4)	Thailand (5.4)	
							Taiwan (4.1)				

Sources: Author's compilation from CIA, *The World Factbook 2003* (<http://www.odci.gov/cia/publications/factbook/index.html>).

Table 4
Major Trading Partners of ASEAN Nations and China (circa 2006)

	(Percentage shares of the country's exports / imports)										
	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	China
Export partners	Japan (36.8)	U.S. (48.6)	Japan (21.1)	Thailand (29.4)	U.S. (19.7)	Thailand (43.8)	U.S. (18.0)	Malaysia (13.3)	U.S. (15.4)	U.S. (18.3)	U.S. (21.4)
	Indonesia (19.3)	Hong Kong (24.4)	U.S. (11.5)	Vietnam (12.5)	Singapore (15.6)	India (12.1)	Japan (17.5)	U.S. (10.4)	Japan (13.6)	Japan (13.6)	Hong Kong (16.3)
	So. Korea (12.7)	Germany (5.6)	Singapore (9.2)	France (6.0)	Japan (9.3)	China (6.7)	China (9.9)	Indonesia (9.6)	China (8.3)	China (9.0)	China (11.0)
	U.S. (9.5)	Canada (4.6)	So. Korea (8.3)	Germany (4.5)	China (6.6)	Japan (5.0)	Netherlands (9.8)	Hong Kong (9.4)	Singapore (6.9)	Australia (7.9)	So. Korea (4.6)
	Australia (9.2)		China (7.8)		Hong Kong (5.8)		Hong Kong (8.1)	China (8.6)	Hong Kong (5.6)	Singapore (5.6)	Germany (4.3)
			Malaysia (4.0)				Singapore (6.6)	Japan (5.5)	Malaysia (5.2)		
Import partners	Singapore (32.7)	Hong Kong (16.1)	Singapore (16.4)	Thailand (66.8)	Japan (14.6)	China (28.8)	U.S. (19.2)	Malaysia (13.7)	Japan (22.0)	China (15.6)	Japan (15.2)
	Malaysia (23.3)	China (13.6)	Japan (12.0)	China (9.1)	U.S. (13.0)	Thailand (21.8)	Japan (17.0)	U.S. (11.7)	China (9.4)	Singapore (12.4)	So. Korea (11.6)
	Japan (6.9)	France (12.1)	China (10.1)	Vietnam (5.8)	Singapore (11.8)	Singapore (18.4)	Singapore (7.9)	China (10.2)	U.S. (7.4)	Taiwan (11.7)	Taiwan (11.2)
	U.K. (5.3)	Thailand (11.2)	U.S. (6.7)		China (11.6)	Malaysia (7.6)	Taiwan (7.5)	Japan (9.6)	Malaysia (6.8)	Japan (11.1)	U.S. (7.4)
	Thailand (4.5)	Taiwan (10.2)	Thailand (6.0)		Taiwan (5.6)		China (6.3)	Taiwan (5.9)	UAE (44.8)	So. Korea (9.7)	Germany (4.6)
	So. Korea (4.0)	So. Korea (7.5)	So. Korea (5.0)		Thailand (5.3)		So. Korea (4.8)	Indonesia (5.2)	Singapore (4.6)	Thailand (6.5)	

Sources: Author's compilation from CIA, *The World Factbook 2007* (<http://www.odci.gov/cia/publications/factbook/index.html>).

Table 5: ASEAN Trade with China by Country (1993 – 2001)

ASEAN Export to China

(Value in Thousand US \$)

COUNTRY	Export								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei Darussalam	-	37.1	152.2	115.4	0.0	0.0	244.2	22,270.0	127,741.3
Cambodia	-	-	-	-	-	-	-	285,985.0	224,984.2
Indonesia	1,249,494.1	1,280,043.2	1,741,717.8	1,867,758.2	2,123,041.2	1,832,034.4	3,338,942.2	4,321,848.9	3,490,998.1
Malaysia	1,202,628.5	1,859,707.4	1,806,866.6	1,519,935.5	1,313,812.7	1,545,082.2	4,595,865.8	6,433,437.9	6,229,130.5
Myanmar	-	-	-	-	-	-	65,076.9	86,525.3	103,700.5
Philippines	173,874.0	163,967.0	212,938.6	327,921.7	244,411.6	343,682.6	2,521,925.8	2,570,611.5	2,372,582.0
Singapore	1,902,697.9	2,000,065.8	2,439,216.6	3,214,704.8	4,195,491.8	4,059,714.3	12,718,557.3	16,236,398.3	16,140,398.9
Thailand	-	-	-	543,696.6	1,291,132.0	1,422,072.6	3,231,764.2	5,077,586.6	2,862,555.1
TOTAL	4,528,694.5	5,303,820.5	6,200,891.8	7,474,132.2	9,167,889.3	9,202,586.1	26,472,376.4	35,034,663.5	31,552,090.6

Note: China including Hong Kong in 1999 - 2001

ASEAN Import from China

(Value in Thousand US \$)

COUNTRY	Import								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei Darussalam	-	34,931.4	63,336.5	72,500.2	55,090.6	20,620.9	72,415.9	84,958.9	97,356.1
Cambodia	-	-	-	-	-	-	-	364,110.9	203,774.4
Indonesia	935,983.3	1,477,386.7	1,495,223.3	1,235,458.7	1,518,013.9	904,459.4	1,469,664.0	2,364,323.0	2,099,989.6
Malaysia	816,772.8	1,200,709.0	1,516,774.7	1,719,986.8	1,916,805.4	1,685,513.6	3,358,966.0	6,572,884.9	5,129,407.3
Myanmar	-	-	-	-	-	-	223,665.3	261,734.9	394,914.4
Philippines	180,662.9	294,046.6	475,876.6	676,506.8	871,565.5	1,198,911.2	2,265,960.7	1,984,916.9	2,212,320.0
Singapore	2,402,944.9	2,751,912.8	3,578,512.1	4,205,358.5	5,808,553.0	4,853,367.7	8,878,527.6	10,637,225.3	9,982,659.7
Thailand	-	-	-	1,307,809.3	3,312,855.6	2,548,662.2	3,138,797.8	4,210,755.3	3,712,652.5
TOTAL	4,336,363.9	5,758,986.5	7,129,723.2	9,217,620.3	13,482,884.0	11,211,535.0	19,407,997.3	26,480,910.1	23,833,074.0

Note: China including Hong Kong in 1999 - 2001

Sources: ASEAN Trade Statistics data query (<http://202.154.12.3/trade/publicview.asp>).

Table 6
China's Top Ten Trading Partners (circa 2004)

Unit: US\$ billions; percentages

Overall trade				Exports			Imports		
	Partner	Amount	Share	Partner	Amount	Share	Partner	Amount	Share
1	Japan	133.6	15.7	U.S.	92.5	21.1	Japan	74.2	18.0
2	U.S.	126.3	14.8	Hong Kong	76.3	17.4	E.U.	53.1	12.9
3	E.U.	125.2	14.7	E.U.	72.2	16.5	Taiwan	49.4	12.0
4	Hong Kong	87.4	10.3	Japan	59.4	13.6	ASEAN	47.3	11.5
5	ASEAN	78.3	9.2	ASEAN	30.9	7.1	So. Korea	43.1	10.4
6	So. Korea	63.2	7.4	So. Korea	20.1	4.6	U.S.	33.9	8.2
7	Taiwan	58.4	6.9	Taiwan	9.0	2.1	Hong Kong	11.1	2.7
8	Russia	15.8	1.9	Australia	6.3	1.4	Russia	9.7	2.4
9	Australia	13.6	1.6	Russia	6.0	1.4	Australia	7.3	1.8
10	Canada	10.0	1.2	Canada	5.6	1.3	Brazil	5.8	1.4

Sources: Ministry of Commerce of the People's Republic of China, "Top Ten Export Markets," "Top Ten Import Sources," and "Top Ten Trade Partners" (all dated 2004-02-18), online at http://english.mofcom.gov.cn/article/200402/20040200183706_1.xml, http://english.mofcom.gov.cn/article/200402/20040200183744_1.xml, and http://english.mofcom.gov.cn/article/200402/20040200182458_1.xml.

Table 7

ASEAN Statistics

Top ten ASEAN trade partner countries/regions, 2005

as of 29 December 2006

value in US\$ million; share in percent

Trade partner country/region ^{1/}	Value			Share to total ASEAN trade		
	Exports	Imports	Total trade	Exports	Imports	Total trade
ASEAN	163,862.5	141,030.7	304,893.2	25.3	24.5	24.9
USA	92,941.9	60,976.4	153,918.2	14.3	10.6	12.6
Japan	72,756.4	81,077.9	153,834.3	11.2	14.1	12.6
European Union-25	80,922.1	59,611.6	140,533.6	12.5	10.3	11.5
China	52,257.5	61,136.0	113,393.6	8.1	10.6	9.3
Republic of Korea	24,362.3	23,609.5	47,971.9	3.8	4.1	3.9
Australia	19,645.7	11,593.0	31,238.7	3.0	2.0	2.6
India	15,048.3	7,952.3	23,000.6	2.3	1.4	1.9
Taiwan	8,267.7	11,532.9	19,800.6	1.3	2.0	1.6
Hong Kong, SAR	13,868.6	5,590.3	19,458.9	2.1	1.0	1.6
Total top ten trade partner countries	543,932.8	464,110.8	1,008,043.6	83.9	80.5	82.3
Others ^{2/}	104,214.2	112,631.6	216,845.7	16.1	19.5	17.7
Total	648,147.0	576,742.4	1,224,889.4	100.0	100.0	100.0

Source: ASEAN Trade Database (compiled from data submission and/or websites of ASEAN Member Countries' national statistical offices and other relevant government agencies)

Notes

- not available as of publication time

1/ identified/ranked based on share of total trade in 2005

x not available/not compiled

2/ includes trade of all other countries and those that could not be attributed to specific countries

Some figures may not sum up to totals due to rounding off errors.

Source: ASEAN Statistics (<http://www.aseansec.org/stat/Table20.xls>)

Table 8

ASEAN Statistics

Top ten sources of ASEAN foreign direct investments inflow

as of 29 December 2006

Country/ region ^{1/}	Value			Share to total inflow		
	2004	2005	2001-2005	2004	2005	2001-2005
European Union (EU)-25	7,856.3	7,122.7	31,478.8	30.6	18.7	26.7
USA	3,919.4	8,748.4	18,120.3	15.3	23.0	15.3
ASEAN	2,630.3	2,220.4	13,314.2	10.3	5.8	11.3
Japan	3,119.3	3,163.7	12,096.0	12.2	8.3	10.2
Cayman Island	1,658.93	4,372.9	7,333.9	6.5	11.5	6.2
Taiwan	305.8	306.6	4,258.3	1.2	0.8	3.6
Other Central & South America ^{2/}	(25.3)	662.9	3,398.0	(0.1)	1.7	2.9
Bermuda	486.3	933.3	3,160.4	1.9	2.5	2.7
Republic of Korea	682.1	628.4	1,709.6	2.7	1.7	1.4
China	670.3	569.8	1,509.0	2.6	1.5	1.3
Total top ten sources	21,303.4	28,729.2	96,378.5	83.0	75.4	81.6
Others ^{3/}	4,357.7	9,353.7	21,701.7	17.0	24.6	18.4
Total	25,661.1	38,082.9	118,080.2	100.0	100.0	100.0

Source: ASEAN Trade Database (compiled from data submission and/or websites of ASEAN Member Countries' national statistical offices and other relevant government agencies)

Notes

- not available as of publication time
- x not available/not compiled
- n.a. not applicable

- 1/ identified based on cumulative FDI inflow from 2001-2005
- 2/ includes countries in Central and South America, other than Argentina, Brazil, Mexico and Panama
- 3/ includes inflow from all other countries, as well as total reinvested earnings in the Philippines (local banks only) for 2001-2005 and intercompany loans in Singapore for 2005
Ranking is based only on countries where data is available.

Source: ASEAN Statistics (<http://www.aseansec.org/Stat/Table27.xls>)