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The China-ASEAN free-trade agreement

Ajar for business

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More breadth than depth

A DECADE after it was first mooted, the world's largest free-trade area by population came broadly into effect on January 1st. The agreement between China and the ten-country Association of South-East Asian Nations (ASEAN) covers nearly 1.9 billion people. In terms of economic value, this is the third-largest regional agreement, after only the EU and NAFTA, the North American Free-Trade Agreement. ASEAN has similar agreements with Australia and New Zealand. The dream of an Asia-wide free-trade area with ASEAN at the core is, in some quarters, alive and well.

The Chinese press is epiphanic about the "glad tidings" of the deal, which brings easier access to South-East Asia's raw materials and the promise of crunchy new markets for manufactured goods to replace soggy ones in the United States and Europe. As for ASEAN, the deal sends the "strong signal" that South-East Asia is open for business, says one of its senior apparatchiks.

The splash is not all that it seems. Tariffs have been coming down for years, helping drive brisk growth in China-ASEAN trade. On January 1st the six richest ASEAN members eliminated remaining tariffs and barriers to investment on 90% of products. But the poorest four ASEAN members, Vietnam, Cambodia, Laos and Myanmar, will not need to cut tariffs to the same levels till 2015. Meanwhile, every country may list dozens of sensitive areas where tariffs can still apply, from ports to cars to popcorn. And with no rigorous mechanism for settling disputes, doubts remain about whether the deal will have real teeth. This level of free trade falls well short of the EU or NAFTA. For all that, not everyone in South-East Asia is happy. Many firms fear Chinese competition. In particular, Indonesia, which wanted to reopen parts of the deal, has not readied itself for freer trade.

As Robert Sutter of Georgetown University points out, however, it is possible to exaggerate China's impact on ASEAN, where trade is in fact highly diversified. Last year ASEAN traded more with both Japan and the EU than it did with China. South Korea, Australia and India are also important. What is more, ASEAN's deficit (by its own figures) with China is matched by a surplus with America. That suggests much of Chinese-ASEAN trade is part of the same supply chains for Western markets.

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