

## **China-ASEAN Free Trade Agreement and recent trade development**

On 1 January 2010, China-ASEAN Free Trade Agreement (FTA) came into effect, with more than 90% or over 7,000 products traded between China and the six members of ASEAN, including Brunei, the Philippines, Indonesia, Malaysia, Thailand and Singapore, now tariff-free. Such a grouping is significant for the economies in Southeast Asia.

As the world's second largest economy and a rapidly growing one, China offers enormous market potential for ASEAN members; many are small economies relying heavily on export. The importance is even more marked at present with the global economic recovery still fragile and economic difficulties particularly grave in the industrial world.

By concluding a comprehensive FTA with China, ASEAN is able to forge a broader economic partnership with China and achieve a deeper economic integration within the region. This would enable ASEAN and its member states to maintain and strengthen their global competitiveness and to take advantage of China's expanding domestic market.

Today, as the world struggles to reinforce a still fragile recovery, closer economic relations with China have become even more imperative for ASEAN. Indeed, China has become a major constructive force leading the global upturn. In 2008, China's real GDP grew by nine percent, compared to 0.4% of OECD countries and 1.7% of the world as a whole, according to the World Bank. In 2009, real GDP grew by 9.1% in China, while the advanced economies' GDP contracted by 3.2%, according to International Monetary Fund (IMF).

More significantly, China has become considerably more vital in global trade. In 2009, China overtook Germany to become the world's largest exporter in merchandise, accounting for 9.6% of the world total. China's share in world import has also risen significantly to eight percent in 2009, overtaking Germany to become the world's second largest, following the US whose share in world total imports was 12.7%, according to the World Trade Organisation. In the meantime, China has also become important in global trade of commercial services. In 2009, China was the fourth largest importer of commercial services, accounting for 5.1% of the world total, following the United States, Germany and United Kingdom.

Trade between ASEAN and China had grown substantially since the mid-1990s and especially in the 2000s. Between 2001 and 2008, bilateral trade grew by around 30%

a year on average and China has become ASEAN's third largest trading partner. The global economic downturn that started in 2008 had certainly affected trade between ASEAN and China, most seriously between late 2008 and mid-2009. As export of Chinese products suffered a sudden decline, China's import from ASEAN countries dropped even more drastically, especially those of parts and components. During the first half of 2009, for example, while China's import contracted by 25% on a yearly basis, import from ASEAN members decreased by 28%. This highlights the growing inter-dependence of the two economies.

While the sudden deterioration of external demand had caused a harmful chain reaction in East and Southeast Asia, a gradual economic recovery, led by strong performance in China, has quite certainly benefitted ASEAN. According to IMF, the world economy is expected to grow by 4.6% in 2010 and 4.3% in 2011, with developing and emerging economies achieving growth of 6.8% and 6.4%, respectively. China is expected to remain in the lead for growth, with 10.5% and 9.6% annual growth for 2010 and 2011 respectively. In the first half of 2010, China's economy grew by 11.1%, over the same period of 2009.

Economic recovery has been associated with strong performance in trade. In the first half of 2010, world trade grew by about 25%. During the same period, China's total trade grew by 43% over that a year ago, with 35% in export and 53% in import. Due at least in part to the newly enacted China-ASEAN FTA, China's trade with ASEAN had recovered strongly, with 45% in export and 64% in import. This would certainly help ASEAN countries sustain a healthy recovery. Among ASEAN's member states, Malaysia seems to have benefitted the most from the recent surge in bilateral trade. During the first seven months of 2010, China's trade with Malaysia grew by 67%, with 39% in export to Malaysia and 85% in import from Malaysia. China's trade with Indonesia has also increased strongly, by 60% in export and 71% in import.

Global economic recovery is well underway, led by strong performance of emerging economies and sustained by significant improvement in world trade. By forging closer economic ties through CAFTA, ASEAN countries as well as China would not only benefit growing regional economic integration, but also become important in providing an important engine of future economic growth for the world economy.