



Chapter 9

China's Perspective

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Introduction

China and the Association of Southeast Asian Nations (ASEAN) are geographically close, with good economic complementarity and interdependence. After the Asian financial crisis, the China–ASEAN Free Trade Area (ACFTA) marked the beginning of economic integration in East Asia and laid the foundation for ASEAN to put forward the Regional Comprehensive Economic Partnership (RCEP) agreement. The establishment of the ACFTA has created significant trade, attracted investment, and improved employment, achieving a win–win situation and forming a ‘golden’ decade of China–ASEAN cooperation. At present, China and ASEAN aim to further enhance cooperation via the upgraded version of the ACFTA and the implementation of the RCEP.

1. Impacts of ACFTA on China's Economic Development

The ACFTA was the first free trade agreement (FTA) in East Asia and drove Japan, the Republic of Korea (henceforth, Korea), Australia, New Zealand, and India to sign FTAs with ASEAN. China has started to implement a free trade zone strategy, expedite the negotiation and construction of a free trade zone network, promote the liberalisation and facilitation of trade and investment, and stimulate the integrated development of the regional economy.

1.1. Background of China–ASEAN Free Trade Area

The ACFTA was established to naturalise the trend of regional integration as well as regional cooperation and integration development after the Asian financial crisis.

The ACFTA is still the largest free trade area amongst developing countries in the world and is China's first FTA. In November 2002, the heads of China and ASEAN signed the Framework Agreement on Comprehensive Economic Cooperation Between China and ASEAN during the Sixth China–ASEAN Summit and reached an agreement to formally establish the ACFTA by 2010. The signing of the agreement marks the beginning of the establishment of a free trade area between China and ASEAN and is the legal basis of the ACFTA, as the agreement defines the basic framework for all-around economic cooperation in the ACFTA (Government of China, 2013). In the Framework Agreement on Comprehensive Economic Cooperation Between China and ASEAN, bilateral cooperation on the

economy, trade, and investment is proposed. Goods and services trade were to be promoted, and the liberalisation of trade in goods and services was to be accelerated. A fairer, freer, more transparent, and convenient investment mechanism was to be created to achieve closer economic cooperation amongst the contracting parties (FTA Center, 2002). China has steadily promoted bilateral cooperation with ASEAN, signing a series of agreements – the Agreement on Trade in Goods, the Agreement on Dispute Settlement Mechanism, the Agreement on Trade in Services, the Agreement on Investment, and other related protocols – and has started to implement the tax reduction plan. In November 2022, China and ASEAN announced the launch of negotiations on the ACFTA Version 3.0. The consensus is that the negotiations will cover trade in goods, investment, the digital economy, the green economy, etc.; and create a more inclusive, modern, comprehensive, and mutually beneficial China–ASEAN Free Trade Area.

1.2. Development of China–ASEAN Relations Since 2003

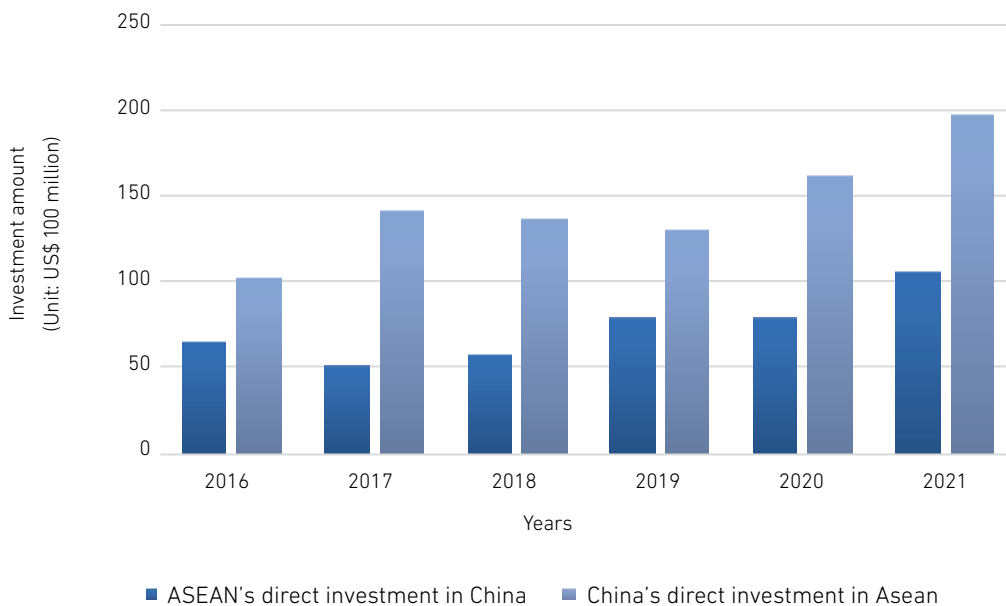
1.2.1. Trade: China and ASEAN and moving towards being largest mutual trading partners

ASEAN Member States (AMS) are rich in tropical crops and mineral resources, while China and ASEAN have trade complementarity in natural resources endowments. Taking agricultural products as an example, most of China's territory is located in a temperate zone, while ASEAN is almost in a tropical zone. The exports of different fruits and vegetables meet the various needs of consumers. In terms of bilateral trade between China and ASEAN, the China–ASEAN trade index increased in 2021 to 298.0, up 56.9 from 2020. In terms of trade volume, the total trade volume between China and ASEAN was US\$54.8 billion in 2002 and reached US\$78.2 billion in 2003, achieving the goal of exceeding US\$100 billion in 2004 and US\$200 billion in 2007. In 2022, the total trade volume between China and ASEAN reached US\$975.34 billion, with an increase of 11.2% from the previous year, of which exports reached US\$567.3 billion (up 17.7%) and imports reached US\$408.0 billion (up 3.3%). In 2002, China was ASEAN's third largest trading partner. With the bilateral agreement, China had become ASEAN's largest trading partner for 13 consecutive years by 2022. ASEAN also became China's largest trading partner for two consecutive years (2021 and 2022), up from the fifth largest trading partner in 2002 (Zhang et.al., 2021).

1.2.2. Investment: China’s cumulative investment in ASEAN ranks first in emerging markets

In terms of China–ASEAN investment, both parties are important mutual investment destinations. At the end of 2002, the total bilateral investment between China and ASEAN was US\$30.1 billion; by 2013, it had tripled to over US\$100 billion. From 2005 to 2013, ASEAN’s foreign direct investment (FDI) in China exceeded China’s FDI in ASEAN. Later, with the Belt and Road Initiative (BRI) and international production cooperation, China’s FDI in ASEAN increased rapidly and soon exceeded that of ASEAN in China. By the end of 2021, the cumulative amount of bilateral investment between China and ASEAN was over US\$280 billion – ASEAN investment in China was US\$10.58 billion in 2021, with a year-on-year increase of 33%, while China’s FDI in ASEAN was US\$19.735 billion, with a year-on-year increase of 22.8%. Under the weak global economic recovery following the coronavirus disease (COVID-19) epidemic, investment between China and ASEAN keeps growing (Figure 9.1).

Figure 9.1 Investment Between China and ASEAN, 2016–2021



ASEAN = Association of Southeast Asian Nations.

Source: Foreign Investment Department of Ministry of Commerce.

1.2.3. Bilateral cooperation: project contracting and labour service cooperation have reached a new level

From the perspective of bilateral cooperation, ASEAN is an important market for China's overseas project contracting and labour service cooperation. Major cooperation projects are being discussed involving infrastructure construction, agriculture, manufacturing, and processing industries. Financial institutions in China have also provided various financing facilities. In 2021, Chinese enterprises signed project contracts worth US\$60.64 billion in ASEAN, accounting for 23.46% of China's total new contracts for foreign-contracted projects. The completed turnover was US\$32.69 billion, accounting for 21.10% of the total turnover of China's foreign-contracted projects. Meanwhile, the overseas economic and trade cooperation zone is an important carrier of China–ASEAN economic and trade cooperation and innovation and development. With the establishment of the ACFTA, China has accelerated the construction of economic and trade cooperation zones amongst Southeast Asian countries, driving more trade and investment exchanges and boosting regional economic integration. China is committed to establishing overseas economic and trade cooperation zones in AMS, which is also an essential step for the economic and trade cooperation of domestic regions and ASEAN. Local governments and private enterprises in Guangdong, Guangxi, Zhejiang, and Jiangsu, etc. have also played a significant role.

1.2.4. China–ASEAN Comprehensive Strategic Partnership continuously improves

With the progress of the ACFTA and related agreements and plans, China has achieved closer interaction with AMS. In 2003, China and ASEAN announced the establishment of 'the strategic partnership oriented to peace and prosperity' (ASEAN, 2018). In 2013, while celebrating the 10th anniversary of the establishment of the China–ASEAN strategic partnership, China proposed jointly building the 21st Century Maritime Silk Road and working together to build a closer China–ASEAN community of destiny. The joint efforts make contributions to closer international cooperation, deeper trust, and more dialogue. Since 2008, China has established an active, friendly, and cooperative partnership with AMS, which also helps expand China's influence in the global economy.

1.3. New development perspective of China–ASEAN Free Trade Area

1.3.1. Digital economy and cross-border e-commerce

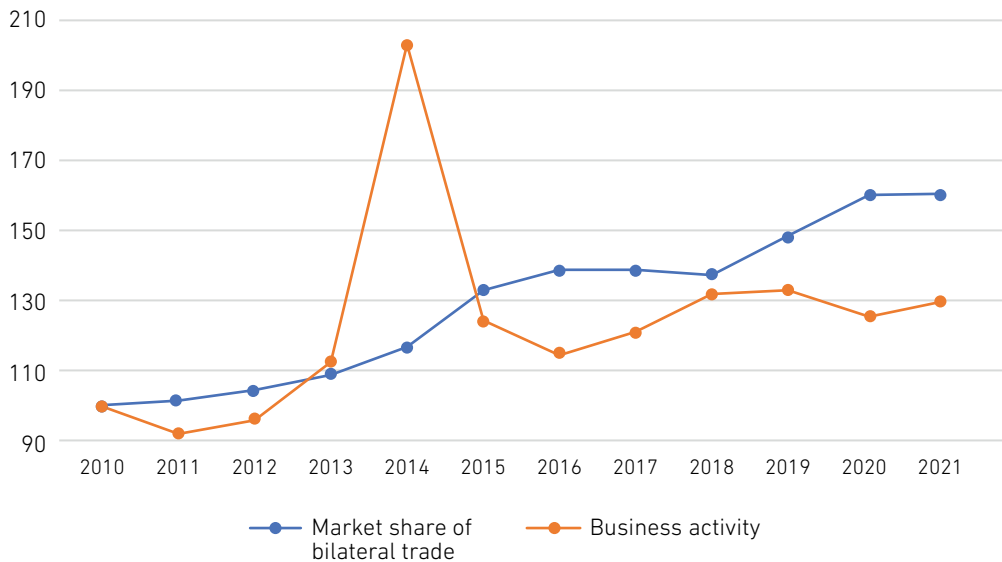
The digital economy is a new area for cooperation and development between China and AMS. On the one hand, both China and ASEAN attach importance to and develop the digital economy. In 2021, the scale of the digital economy in China reached CNY45.5 trillion, with a nominal year-on-year increase of 16.2% (China's State Council Information Office, 2022). According to the forecast of the ASEAN Secretariat, the proportion of the ASEAN digital economy in gross domestic product (GDP) will increase from 1.3% in 2015 to 8.5% by 2025, ranking amongst the top five digital economies in the world (ASEAN, 2021). On the other hand, in the development of the ACFTA, China–ASEAN bilateral cooperation is no longer limited to the traditional economy, with digital economy cooperation becoming an important development highlight between China and ASEAN. Cross-border e-commerce, overseas warehouses, and financial technology have become new modes, new models, and new sources of power for China–ASEAN economic and trade cooperation. According to Yang and Li (2019), the Asia-Pacific has the best cross-border e-commerce performance in the world, accounting for 53.6% of the global market size, with China and ASEAN contributing significantly. In the first half of 2022, China's exports to ASEAN via cross-border e-commerce increased by 98.5%. Thanks to the establishment of the ACFTA and the promotion of relevant agreements on e-commerce in the RCEP, China and ASEAN continued to be each other's largest trading partners in 2022, as well as important investment partners and economic and trade partners, which creates excellent favourable conditions for the bilateral cooperation and development of the digital economy and brings great business opportunities.

1.3.2. Global value chains and East Asian production networks

Strong complementarity exists between the economies and resources of China and ASEAN, which enables the two sides to concentrate on cooperation and promote development in advantageous areas of the global supply chain and global value chain cooperation. The establishment of the ACFTA has formed trade creation effects and investment creation effects, reduced trade and investment restrictions, increased bilateral trade vitality, expanded investment, and deepened the division of labour and cooperation. In 2021, the market share index of China–ASEAN bilateral trade reached a new high at 161.37; China invested US\$19.73 billion in AMS, with a year-on-year increase of 22.8%; and the foreign capital actually used in China was US\$173.48 billion, with a year-on-year increase of 14.9%, of which the actual investment from ASEAN increased by 29% year on year. These effects not only help China and ASEAN to form a mutually beneficial and win–win situation economically, but also accelerate regional economic integration and the formation and development of production networks in Southeast Asia, and deepen regional value chain cooperation in Southeast Asia, which is also in line with the development and

requirements of global value chains. Furthermore, the establishment of the free trade zone has brought about trade transfer effects and investment transfer effects, and some outer trade and investment have been replaced by inner trade and investment, which also continues to strengthen global value chain cooperation between China and ASEAN (Figure 9.2).

Figure 9.2 Market Share Trend of China–ASEAN Bilateral Trade, 2010–2021



ASEAN = Association of Southeast Asian Nations.

Source: Zhang et al. (2021).

1.3.3. Low-carbon green economy and sustainable development

China and ASEAN share common interests in achieving the 17 Sustainable Development Goals (SDGs) outlined in the 2030 Agenda, continuously injecting new vitality into their bilateral cooperation. For instance, the China–ASEAN Environmental Cooperation Centre is the official coordinator for bilateral cooperation in this area. During the 25th China–ASEAN Summit in November 2022, China and ASEAN put forward statements and visions aimed at promoting regional sustainable development, and issued a joint statement on strengthening China–ASEAN common sustainable development. This is not only to achieve sustainable economic development, but also to realise the sustainable development of bilateral relations, which helps China and ASEAN maintain a long-term, stable, positive, and healthy cooperative relationship. The ongoing upgrade of the ACFTA claims that the green economy and green development should constitute important negotiation content.

2. Experience of China–ASEAN Free Trade Area Construction

When building the ACFTA, China and AMS carried out extensive economic and trade cooperation under the framework of the China–ASEAN Free Trade Agreement (ACFTA) and performed good practices in goods and services as well as investment. This plays an important role in implementing the FTA and the enhancement of economic and trade cooperation.

2.1. Good practices in the construction of the ACFTA

2.1.1. Good practices in trade

When building the ACFTA, good trade practices were embodied in both trade in goods and services. Good practices in trade in goods mainly include eliminating tariffs and removing non-tariff barriers, while those relating to services trade are mainly manifest in the gradual liberalisation of the service trade market.

1. Trade in goods

The ACFTA is committed to reducing and gradually eliminating tariff barriers, i.e. reducing tariffs step by step, separately, according to the negative list mode. According to the Early Harvest Programme of the agreement, tariffs for more than 500 kinds of agricultural products in Chapter 1–8 and tariff lines in a few other chapters were reduced from 1 January 2004, including live animals, meat and edible offal, fish, dairy products, other animal products, edible fruits and nuts, edible vegetables, palm oil, and coconut oil and vegetable oil.

Due to the different stages and speeds of economic development between China and the original six AMS and the new four AMS (the Lao People's Democratic Republic (Lao PDR), Myanmar, Cambodia, and Viet Nam), special and differential treatment is given to the four new AMS. The tariffs on these products in China and the six AMS were reduced to zero in 2006 and then extended to Cambodia, the Lao PDR, Myanmar, and Viet Nam in 2010.

Apart from the Early Harvest products with tariff reduction arrangements, the Agreement on Trade in Goods divides the remaining products into normal products and sensitive products. China lists iron and steel products, including automobiles and some petrochemical products, as sensitive products, while AMS consider sugar and vegetable oil as sensitive products. The list of sensitive products has a maximum of 500 products, while the list of highly sensitive products has a maximum of 150 products (no more than 100 items for China and the six original AMS (Table 9.1).

Table 9.1 Tariff Reduction Mode of Sensitive Products in China and ASEAN

Country category	Sensitive products	Highly sensitive products
China and the original ASEAN Member States	Tariff rate reduced to 20% from 1 January 2012 and to less than 5% from 1 January 2018	Tariff rate reduced to less than 50% for highly sensitive products from 1 January 2015. The list of highly sensitive products has a maximum of 100 items (HS six-digit).
New ASEAN Member States	Tariff rate reduced to 20% from 1 January 2015 and to less than 5% from 1 January 2020	Tariff rate reduced to less than 50% for highly sensitive products from 1 January 2018. The list of highly sensitive products has a maximum of 150 items (HS six-digit).

ASEAN = Association of Southeast Asian Nations, HS = Harmonized System.

Source: Enterprise Singapore (n.d.), Modality for Tariff Reduction and Elimination for Tariff Lines Placed in the Normal Track. <https://www.enterprisesg.gov.sg/-/media/esg/files/non-financial-assistance/for-companies/free-trade-agreements/ASEAN-China-FTA/Legal-Text/Agreement-on-Trade-in-Goods-of-the-Framework-Agreement-on-Comprehensive-Econ-Coop/Annex-1-Modality-for-tariff-reduction-and-elimination>

The ACFTA is also committed to weakening non-tariff barriers. In addition to continuously facilitating customs procedures, cancelling import quotas, and unifying technical standards and health and quarantine regulations, the criteria for determining the origin have been upgraded. The regional value component (RVC) and the change in tariff classification (CTC) standards are now used to identify the origin of products.

Before the upgrade of the ACFTA in 2019, the China–ASEAN origin principles were mainly a single standard of RVC40 (40% of regional value added), with complicated identification of origin. After the upgrade, the RVC40 standard and the CTC standard of 4-digit tax items applied to more than 3,500 commodities jointly, and the 10% trace standard was added to simplify the determination procedure for rules of origin.

2. Trade in services

Trade in services have been liberalised in a 'positive list' mode. The contracting parties exerted three concessional commitments in 2007, 2011, and 2015, amongst which the opening up of the financial and tourism sectors is particularly noteworthy.

1) Finance

Financial cooperation measures consist of monetary cooperation and market cooperation. China's financial cooperation is mainly with Singapore, with which cooperation relevant to clearing banks and clearing agreements has developed rapidly.

In terms of cooperation on financial markets, China–ASEAN cooperation in capital markets is carried out informally under a memorandum of understanding and has achieved significant effects.

In terms of financial and monetary cooperation, the China–ASEAN UnionPay has been established, and cross-border e-payment have developed rapidly.

At the same time, bilateral cooperation in financial supervision and financial institutions has been deepened, and the existing effects are mainly reflected in two aspects: promoting the internationalisation of the renminbi and boosting the construction of the BRI.

2) Tourism

Before the COVID-19 epidemic, China had become the largest source of overseas tourists in ASEAN. In 2019, there were nearly 60 million tourists travelled between China and ASEAN, and more than 4,500 round-trip flights took place every week. In 2020, the number of Chinese tourists to ASEAN dropped to 18.6 million, but still accounted for more than 17% of the total number of tourists.

At the same time, cooperation between China and ASEAN on tourist visas has been deepened, as shown in Table 9.2.

Table 9.2 Visa Waiver Agreement Between China and ASEAN Member States

Agreement country	Types of visa-free documents	Effective date
Philippines	Chinese diplomatic passports and service passports (temporary visitors only); Philippine diplomatic passports and service passports (temporary visitors only)	28 February 2005
Cambodia	Diplomatic passports and service passports	14 September 2006
Lao PDR	Chinese diplomatic passports, service passports, and passports for public affairs; Lao PDR diplomatic passports, service passports, and ordinary passports with valid official visas	6 November 1989
Malaysia	Chinese diplomatic passports, service passports, and passports for public affairs; Malaysian diplomatic and service passports	18 May 2011
Myanmar	Chinese diplomatic passports, service passports, and passports for public affairs; Myanmar diplomatic and service passports	5 March 1998
Thailand	Chinese diplomatic passports, service passports, and passports for public affairs; Thai diplomatic and service passports	18 October 2003
Brunei	Chinese diplomatic passports, service passports, and passports for public affairs; Bruneian diplomatic and service passports	18 June 2005
Singapore	Diplomatic passports, service passports, and passports for public affairs	17 April 2011

Agreement country	Types of visa-free documents	Effective date
Indonesia	Diplomatic passports and service passports (temporary visitors only)	14 November 2005
Viet Nam	Diplomatic passports, service passports, and passports for public affairs	15 March 1992

Source: Ministry of Foreign Affairs, China (2024), List of Visa Exemption Agreements Between China and Foreign Countries. https://www.mfa.gov.cn/wjzfwfwpt/kzx/tzgg/202110/t20211029_10403855.html

2.1.2. Good practices in investment

The ACFTA is committed to lowering the entry threshold of the investment market. Specific provisions include fair and just treatment of investment, compensation for loss, transfer of technologies, and repatriation of profits and dispute settlement. The ACFTA also aims to improve information transparency in China and ASEAN, strengthens information exchange, and enhances bilateral cooperation in investment promotion and facilitation.

By the end of 2020, China had established 25 overseas economic and trade cooperation zones in AMS such as Malaysia, Cambodia, Thailand, Viet Nam, and Indonesia, attracting more than 600 enterprises. Guangdong, Guangxi, and Fujian, amongst others, have promoted initiatives such as the China–Viet Nam (Shenzhen–Haiphong) Economic and Trade Cooperation Zone, China–Malaysia Qinzhou Industrial Park, and the China–Indonesia ‘Two Countries, Two Parks’. Particularly, private enterprises from Jiangsu and Zhejiang have played a prominent role in the construction of overseas economic and trade parks such as Qingshan Park in Indonesia, Xigang Special Economic Zone in Cambodia, Luo Yong Industrial Park in Thailand, Longjiang Industrial Park in Viet Nam, and Damora Oil Refining Industrial Park in Brunei.

2.1.3. Good practices in infrastructure

Infrastructure construction is an important part of China–ASEAN cooperation, as well as a key way to promote the development of trade and investment. China–ASEAN land, sea, and air transportation infrastructure has been continuously improved to promote trade facilitation. Highways include the Nanyou Expressway, the first expressway connecting China and AMS; and the Kunman Highway, connecting China, the Lao PDR, and Thailand. Railways include the China–Lao PDR Railway, the first overseas railway project directly connecting with China’s railway network; the China–Thailand Railway, Thailand’s first standard-gauge high-speed railway; and Indonesia’s Yawan High-Speed Railway, China’s first overseas high-speed rail project. In terms of air routes, China has signed bilateral air transport agreements with AMS, and the route networks of major cities have been established. In terms of sea routes, China, the Lao PDR, Myanmar, and Thailand have officially opened for service, and major breakthroughs have been made in the Lancang–Mekong River international shipping cooperation project.

Regarding China–ASEAN cooperation in clean energy, in 2020, nearly half of China's newly signed projects were with AMS, accounting for 47% of its total actual foreign investment projects. In 2022, the China–ASEAN Clean Energy Capacity Building Plan carried out multi-phase exchange projects with the theme of photovoltaic and sustainable hydropower development, and continued to deepen cooperation in new energy.

2.1.4. Good practice in the RCEP

The implementation of the RCEP in 2022 has opened a new space for China–ASEAN Free Trade Area cooperation. For trade in goods, tariff barriers will be further reduced by combining an immediate tariff reduction with a gradual tariff reduction within 10 years. To open the service trade market and broaden investment access, the negative list mode was put into practice. For investment facilitation, rules of origin, customs procedures, inspection and quarantine, and technical standards were unified; customs clearance and commodity circulation procedures were simplified; an e-commerce chapter was included in the agreement; and the level of interconnection was improved. Meanwhile, the China Council for the Promotion of International Trade and the RCEP Enterprise Service Centre have been established to facilitate the implementation of the RCEP. Post-border measures, such as competition policy, government procurement, intellectual property protection, and e-commerce, have laid a solid foundation for expanding the scope of the 3.0 negotiations.

2.2. Lessons in China–ASEAN Free Trade Area construction

The implementation of the ACFTA has led to good practices in many fields, but still encounters practical problems and challenges.

2.2.1. Keep reducing trade costs

1. Rules of origin and certificate acquisition

The average tariff of the ACFTA has already been reduced by 90%–95%, but problems persist. These include complicated and changeable rules of origin, and cumbersome trading procedures and approval procedures, which seem to discourage business from applying the preferential rates, leading to the relatively low rate of utilisation of the ACFTA (Table 9.3). Enterprises have little knowledge of preferential tariffs and cannot avail of the full benefits of FTAs. Rules of origin still need to be improved and optimised, especially for some industrial products, so that businesses can fully benefit from tariff incentives.

Table 9.3 Thresholds and Utilisation of China's FTAs

FTA	Effective date	Threshold (%)	China customs utilisation rate, 2013 (%)	Estimated utilisation rate, 2013 (%)	Estimated utilisation rate, 2018 (%)
China–Chile	2006	21.00	6.55	10.59	10.35
China–Costa Rica	2011	20.00	1.30	3.99	23.48
China–Singapore	2009	16.00	13.45	12.42	12.93
China–Iceland	2014	16.00	-	-	18.26
China–ASEAN	2005	15.50	34.95	32.69	35.18
China–New Zealand	2008	14.10	31.67	28.92	24.78
China–Australia	2015	12.40	-	-	25.00
China–Switzerland	2014	11.00	-	-	2.96
China–Peru	2010	9.00	5.49	34.60	76.53
China–Rep. of Korea	2015	6.00	-	-	17.08
China–Pakistan	2007	2.90	71.97	73.15	69.57
Average	-	13.08	23.63	28.05	28.74

ASEAN = Association of Southeast Asian Nations, FTA = free trade agreement, - = data not available

Sources: China General Administration of Customs

2. Enhancement of customs

According to the World Bank (2020), amongst ACFTA members, Singapore got the highest score for border transportation trade facilitation indicators (0.98 out of 1.00), followed by Malaysia (0.76) and China (0.68). The customs mechanism needs to be optimised, and existing tariffs need to be unified to clearly stipulate the tariff treatment of various products, enhance the transparency of relevant information, and prevent arbitrary tariff changes. Furthermore, customs procedures should be simplified, existing agreements should be refined, and trade facilitation should be promoted.

2.2.2. Improve the openness of service trade

China and AMS are developing economies with a relatively low service level and service capacity. According to the RCEP, the positive list of service trade between China and seven other countries will be replaced by a negative list after 6 years.

2.2.3. External shocks to global supply chain

Due to the lockdown and isolation caused by the shock of the COVID-19 pandemic, industrial and supply chains were broken, so it is necessary to build new supply chains. With the rising cost of labour in China, some industries need to be relocated to ASEAN to gain more efficiency.

Since 2020, multinational companies from the United States (US) and Western countries with operations in China have started implementing a 'China Plus One' strategy, i.e. setting up other factories in Southeast Asian countries with lower wages to reduce costs and avoid the 'punitive tariffs' imposed by Europe and the US on products from China. In the name of national security, the US and Western countries request their enterprises to exit China, leading to negative impacts on supply chain cooperation between China and ASEAN.

3. China's Foreign Policy and How China–US Trade Impacts the China–ASEAN Value Chain

3.1. China's Foreign policy

China pursues a foreign policy of 'real non-alignment'. When dealing with international issues, China tends to make independent decisions that are conducive to maintaining world peace, developing friendly relations with other countries, and promoting mutual development. China's diplomacy is in accordance with the Five Principles of Peaceful Coexistence. It actively develops friendly relations with neighbouring countries and emerging nation states, and strengthens friendly relations with Asian and African countries under the policy of 'seeking common ground while reserving differences'.

Peace and development have become the theme of the 21st century, and seeking peace, development, and cooperation has become indispensable. China has taken an active part in international cooperation and acts as a responsible power. Since the 18th National Congress of the Communist Party of China, the 'top-level design' and 'bottom-line thinking' of China's diplomacy have been continuously innovating in theory and practice – advocating for and promoting the construction of the BRI; participating in the reform and construction of the global governance system; defending national sovereignty, security, and development interests; and strengthening the centralised and unified leadership of the Communist Party's foreign affairs work.

China concentrates on promoting economic diplomacy. While promoting the internationalisation of domestic enterprises and industries, it is also of great importance to bring in foreign advanced technologies and high-quality products, and to promote exports, foreign investment, domestic employment, and people's livelihoods through diplomacy.

3.2. Regional Policy of China Towards ASEAN

China's Southeast Asia policy since the Cold War is an important part of the 'good-neighbourly' foreign policy. This policy has changed from simply maintaining harmonious and friendly relations with neighbouring countries to promoting relations with neighbouring countries through regional cooperation, i.e. regional cooperation and regional economic integration (Wang and Hu, 2006).

China and some Southeast Asian countries have historical disputes pending political resolution. On 16 December 1997, the leaders of China and AMS met informally for the first time to determine the principles guiding the relations and to confirm 'building a good-neighbourly partnership of mutual trust oriented to the 21st century' as the strategic development direction. In addition, a multilevel regular dialogue and consultation mechanism has been established. China has maintained frequent interactions with AMS; conducted in-depth exchanges at all levels, including inter-party, parliamentary, and social organisations; and demonstrated the sincerity of cooperation to ASEAN through practical actions. Current China–ASEAN relations have transcended historical misunderstandings and succeeded in embarking on cooperative development.

In addition to the comprehensive improvement in political relations, economic ties have become increasingly closer and trade cooperation has been rapidly developed and upgraded. In November 2002, the ACFTA was officially launched and the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China was subsequently signed. Since 2010, when the ACFTA was established, trade between China and ASEAN has maintained a good growth trend.

Subregional cooperation has been continuously promoted and deepened. China participated in the Greater Mekong Subregion (GMS) Program and then proposed the Lancang–Mekong Cooperation Mechanism. It also promoted the construction of cross-border economic cooperation zones and boosted the construction of the China–Indochina Peninsula Economic Corridor in China.

On 1 January 2022, the RCEP came into effect as the largest regional economic cooperation agreement in the world. Under this institutional arrangement, regional economic integration in East Asia has taken an important step forward, which will strengthen economic and trade cooperation amongst Asian countries and boost regional trade development to a new level (Global Textile Network, 2022).

3.3. How China–US trade tensions impact the China–ASEAN value chain

To date, bilateral trade cooperation between China and AMS has focused on intermediate products, which account for 60% of the total trade, and their growth rate is far faster than that of primary and final products. Most of the intermediate products come from intra-company trade in the regional production network of multinational companies. However, China–ASEAN economic and trade relationships, which are dominated by the value chain trade of multinational companies, will be unavoidably affected by the consequences of the US–China trade tensions. For example, some multinational companies have gradually moved their main factory production from China to AMS in response to the US trade barriers imposed on Chinese goods and services.

The regional economic environment has been changing due to the increasing US–China trade tensions. In 2018, the US announced that it would raise tariffs on the steel and aluminium products of various countries, which brought a series of direct or indirect impacts on the steel and aluminium product markets of China and ASEAN. The production of similar products has been moved to the ASEAN market in the context of increasing US tariffs on Chinese goods. It is evident that steel and aluminium products exported from China to ASEAN have increased significantly. In 2019, Indonesia, Malaysia, and Viet Nam began to impose anti-dumping duties on China.

4. Policy discussion

4.1. Challenges facing the ACFTA

4.1.1. Market competition

China and ASEAN have comparative advantages in labour-intensive products. On the one hand, the high similarity between China and ASEAN's export markets has intensified competition. In 2021, the European Union, ASEAN, the US, and Japan were all common export markets for China and ASEAN, so China and ASEAN are competing for the export market share.

On the other hand, China and ASEAN share a similar export product structure. In 2021, of the top 10 commodities exported globally, mechanical and electrical products were the leading products for both China (59% of exports) and ASEAN (45% of exports) (Table 9.4). This reflects the strong competition between China and ASEAN in the mechanical and electrical industry

Table 9.4 Top 10 Products of China and ASEAN in Global Exports, 2021

China			Top 10 products of ASEAN's exports to the world		
Name of commodity	Amount (CNY100 million)	Proportion	Name of commodity	Amount (US\$ million)	Proportion
Automatic data processing equipment and parts thereof	16,488.1	7.59	Electrical and electronic equipment	489,650.6	28.6
Clothing and clothing accessories	11,000.0	5.06	Mechanical equipment	179,256.5	10.5
Integrated circuit	9,929.6	4.57	Mineral fuel, mineral oil, asphalt	155,514.6	9.1
Mobile phone	9,447.1	4.35	Animal and vegetable oils, fats, waxes, etc.	56,125.6	3.3
Textile yarn, fabric, and its products	9,384.3	4.32	Plastics and its products	53,723.5	3.1
Plastic products	6,396.9	2.94	Rubber and its products	53,592.6	3.1
Household appliances	6,382.4	2.94	Vehicles and their parts and accessories	52,413.6	3.1
Steel products	5,289.0	2.43	Optical, photographic, and other instruments and metres	46,976.4	2.7
Automobile and its parts and accessories	4,883.9	2.25	Steel	44,069.0	2.6
Furniture and its parts	4,771.9	2.20	Natural or cultured pearls, precious stones, etc.	42,003.1	2.5

ASEAN = Association of Southeast Asian Nations.

Source: WITS (n.d.), <https://wits.worldbank.org/> (accessed 25 March 2024).

4.1.2. Development of the digital economy

China–ASEAN cooperation in developing the digital economy faces many challenges, the biggest of which is the huge gap in the level of development and the digital divide amongst countries, urban and rural areas, and even social groups. Some AMS (Viet Nam, Myanmar, and Cambodia) are facing severe difficulties such as a shortage of energy, talent, and digital infrastructure in promoting digital economy construction, while others (Singapore) are similar to other developed economies in the world. Malaysian and Thai GDP per capita is close to that of China.

The digitalisation of most enterprises in AMS is still in its infancy, as is information and communication technology development. Zhu and Tan (2022) showed that 56% of enterprises in Southeast Asia seldom use digital tools, the digitalisation of these enterprises is still in the primary stage, and digitalisation has not been deeply integrated. The development of communication technology in each country is uneven. For example, communication technology in Singapore, Malaysia, and China mostly involves network communications, while other AMS are still using telephone and manual operations. The informatisation and standardisation of logistics are not unified, and the timely transmission of information affects the improvement of trade facilitation. It is still difficult for ports in China and ASEAN to realise standard information interactions. In addition, the government online service index of AMS and the development of information and communication technology for inter-business trade are quite inadequate (Sun, 2022).

4.1.3. Territorial disputes in the South China Sea

The tensions in the South China Sea are becoming increasingly heightened. The Indo-Pacific Strategy attempts to bypass the ASEAN-centred Asia-Pacific cooperation and development mechanism and block and contain China. In principle, ASEAN is seeking a strategic balance between China and the US, but in practice, some countries seem to make a pro-US and anti-China strategic choice. In the field of non-traditional security, the US also makes every effort to suppress China. Compared with the US, the import and export volume between China and ASEAN accounts for a higher proportion in trade, but in the field of investment, the share of the US in ASEAN is huge. In 2021, US investment in ASEAN reached US\$40 billion, accounting for 22.5%, while China only accounted for 7.7%, posing severe challenges to China in terms of economic influence and penetration.

4.1.4. Insufficient infrastructure development

Many AMS still face connectivity problems in terms of trade and development. Taking port infrastructure as an example, few ports in the region, other than those in China, Singapore, and Malaysia, have reached international standards. The lack of capital investment has seriously limited the level of port infrastructure. As for China and ASEAN cooperation in bilateral investment, the Asian Infrastructure Investment Bank estimated that annual investment in ASEAN infrastructure was US\$60 billion (ASEAN, 2023). Actual demand was significantly inconsistent with actual investment. Moreover, trade between China and Myanmar, the Lao PDR, and Viet Nam is mainly overland. In addition, the China–Southeast Asia Railway has not yet opened, further restricting the level of trade facilitation in the ACFTA.

4.2. Improving trade facilitation of the ACFTA

The improvement of trade and investment facilitation of the ACFTA should emphasise the following aspects. First, the CAFTA 3.0 negotiations will facilitate the implementation of a higher level of institutional arrangements for economic and trade cooperation, for which the CPTPP could be the benchmark.

Second, the ACFTA 3.0 should help strengthen the bilateral multilevel dialogue mechanism. China and ASEAN have maintained good communication and cooperation under mechanisms such as ASEAN–China–Japan–Korea (10+3) cooperation, the East Asia Summit, the ASEAN Regional Forum, Asia Cooperation Dialogue, and Asia-Pacific Economic Cooperation (APEC); and jointly responded to regional realities and potential challenges. The BRI and the ASEAN Master Plan on ASEAN Connectivity 2025 have gradually achieved their final goals. With the support of financing platforms such as the Asian Infrastructure Investment Bank and the Silk Road Fund, many cooperation projects have been successfully implemented. On this basis, China and ASEAN could seek to establish a long-term cooperation mechanism to provide a political, diplomatic, and business environment conducive to economic and trade cooperation.

Third, the ACFTA 3.0 aims at improving the business environment in the region. For AMS with less developed infrastructure, equipment such as warehousing and port joint inspection should be upgraded in port facilities construction. In view of the poor development of port logistics, ASEAN and China should implement a seamless connection between sea transportation and land transportation, and sea transportation and air transportation, in the free trade zone. In the case of insufficient investment funds, China and ASEAN should broaden financing channels and encourage their own financial institutions to participate in infrastructure construction. The financing mode could be either build–operate–transfer or build–own–operate. The government could give the green light to enterprises to participate directly in infrastructure construction through bidding. After construction, the enterprises would be managed for a given period and then returned to the government of the host country.

When formulating policies, governments need to collect information from multiple public channels to ensure the accuracy, timeliness, and fairness of information; consider the practical needs of enterprises; solve the problems encountered by enterprises in domestic imports and exports; and absorb the feedback opinions and suggestions from various industries and departments. A business-friendly environment requires not only efficient and transparent policies, but also timely implementation of these policies. Moreover, bilateral cooperation should provide back-up solutions when disputes occurred.

It is not enough to formulate efficient and transparent policies; they must also be implemented successfully in a timely manner. Where implementation is difficult, support should be provided, and bilateral coordination and communication should be enhanced.

4.2.1. Build the BRI systematically and with high quality, and tap the potential of trade and investment

The tensions in the South China Sea are becoming increasingly heightened. The Indo-Pacific Strategy attempts to bypass the ASEAN-centred Asia-Pacific cooperation and development mechanism and block and contain China. In principle, ASEAN is seeking a strategic balance between China and the US, but in practice, some countries seem to make a pro-US and anti-China strategic choice. In the field of non-traditional security, the US also makes every effort to suppress China. Compared with the US, the import and export volume between China and ASEAN accounts for a higher proportion in trade, but in the field of investment, the share of the US in ASEAN is huge. In 2021, US investment in ASEAN reached US\$40 billion, accounting for 22.5%, while China only accounted for 7.7%, posing severe challenges to China in terms of economic influence and penetration.

4.2.2. Accelerate the cultivation of economic and trade talents

Synergies amongst governments, enterprises, and think tanks should be harnessed to deepen China–ASEAN cooperation in training youth and talent in the digital economy. Various institutions should be supported to carry out multilevel and multi-form human resources training exchanges and help ASEAN strengthen its talent pool. China and ASEAN need to continuously increase investment and cooperation in education investment in the digital economy to ensure that all social groups and enterprises can participate in the digital process and to narrow the digital divide..

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