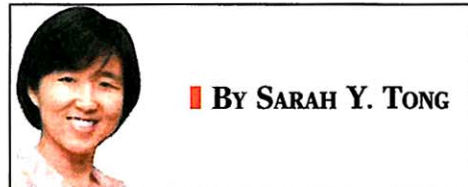


**ST-NUS ECONOMICS DEPARTMENT
SERIES ON CHINA'S ECONOMY**

Asean trade pact a win-win situation



ON JAN 1, the China-Asean Free Trade Area (Cafta) came into effect. For Asean, this is significant.

The agreement provides the group better access to a growing Chinese market. At the same time, Cafta would force Asean member states to accelerate their economic restructuring so as to remain dynamic and competitive.

Cafta removes tariffs on more than 90 per cent, or over 7,000, of the products traded between China and six Asean countries - Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. It is the world's third largest free trade area - after the European Union and the North America Free Trade Area (Nafta).

As the world's fastest growing large economy, China offers enormous market potential. For example, in January last year, monthly vehicle sales in China sur-

passed those in the United States for the first time in history. The country has become the world's largest vehicle consumer market. Today, as global economic recovery continues to be fragile, the strong Chinese market has become even more important.

In relative terms, Cafta is more comprehensive than most other FTAs. It covers trade in goods and services as well as investment. By means of Cafta, Asean can forge a broader economic partnership with China. It will also force Asean to speed up integration within the group.

Trade between Asean and China has grown rapidly in the last decade. Since the initiation of Cafta in early 2001, bilateral trade has grown by 30 per cent a year. China is now Asean's third largest trading partner.

Meanwhile, intra-Asean trade has also increased. That is to say, Asean member states are exporting more to one another, relative to exporting to countries outside Asean.

With closer China-Asean integration, multinationals will gradually restructure their production facilities, taking Cafta as a single market. For example, to satisfy growing demand in the greater region, an



In January last year, monthly vehicle sales in China surpassed those of the US for the first time in history. China is now the world's largest vehicle consumer market. PHOTO: REUTERS

automaker which already has a tyre factory in Thailand may decide to increase its production capacity in that country instead of opening up a new factory in China. This should lead to growing trade and investment for the region as a whole.

Since 2001, foreign direct investment

inflow (FDI) into Asean first doubled to US\$40 billion (S\$56 billion) in 2005, and then rose further to US\$70 billion in 2007. In 2001, FDI to Asean made up 9 per cent of total FDI to all developing countries. That figure rose to 13 per cent in 2007. In the meantime, investment be-

tween China and Asean also grew considerably. For example, between 2001 and 2008, Asean's FDI to China rose more than threefold.

Furthermore, the closer China-Asean economic partnership has created new impetus for regional integration. For example, Cafta had exerted tremendous pressures on Japan and South Korea to follow suit with their own FTAs with Asean. Japan signed a framework agreement in 2003 and concluded an Asean-Japan Comprehensive Economic Partnership in 2008. South Korea signed the Asean-Korea Free Trade Area in 2005.

Cafta came into effect at a crucial juncture, as the world was struggling to climb out of a serious recession. China has been a major constructive force in the global economic recovery. Preliminary estimates suggest that its real GDP increased by 8.7 per cent last year, against an estimated 3.4 per cent contraction in the advanced economies. China is expected to continue growing rapidly in the coming years.

More crucially, China will play a vital role in global trade. It has already overtaken Germany to become the world's largest exporter last year. Likewise, its share of world imports has also risen significantly. In the first three quarters of last year, China became the world's second largest importer, after the US.

This year, global trade will grow again, led by developing countries like China and India. Thus, establishing an economic partnership with China will serve Asean's interest well.

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