

ASEAN -China FTA : Potential Outcome for Participating Countries

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I. Introduction

- Growing concern in Southeast Asia about China's economic presence.
- Review of economic partnership after China's accession to the WTO.
- Chinese Premier proposed an ASEAN - China FTA.

II. Background

Environment

- A natural response to growing FTAs.
- Trade liberalization has been progressive.
- Economic relationship has grown rapidly in recent years.
- Outward orientation of both sides could attract outsiders to trade and invest.

II. Background (continued)

Framework of economic cooperation

- Trade and investment facilitation.
- Provision of technical assistance and capacity building for ASEAN new members.
- Promotion measures given to ASEAN new members.
- Expansion of cooperation in various areas.

• Establishment of an ASEAN - China FTA

III. Implications

Context

- An economic area with 1.8 billion population, GDP of about US\$ 2 trillion and total trade estimated at US \$ 1.23 trillion .
- Average tariff and non-tariff barriers lower in ASEAN (2.33% for chinese products) compared to China(9.37% on ASEAN products) .
- An FTA will allow more trade creation rather than trade diversion, lower costs,

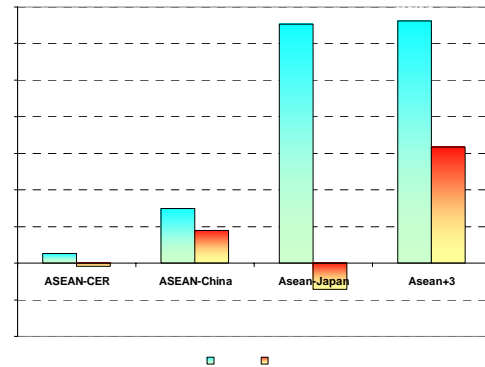
Methodology

- GTAP model (Computable General Equilibrium Model)
- Elimination of tariffs between ASEAN and China
- Tariff rate as of 1999

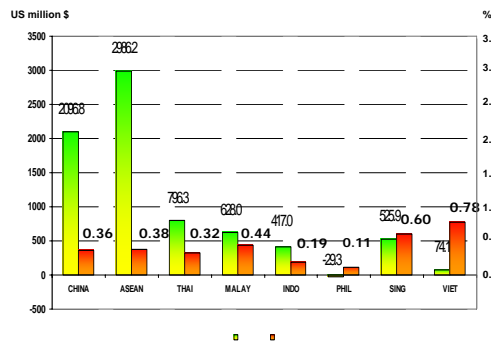
Macroeconomic impact

- Real GDP gain of 0.38% for ASEAN and 0.36% for China.
- Trade expansion of 53.3% for ASEAN and 23.1% for China.
- ASEAN gain from large China's market while ASEAN exports to the third markets slow down.
- China exports more to ASEAN and the third markets due to cost reduction.
- China needs more input&intermediate

Impact of FTAs on ASEAN & China welfare



Welfare gains from tariff reduction



Impact on trade flows

Exp/Imp	Thailand	ASEAN	China	Japan	US	EU	ROW	Total
Exp	0.00	5.45	3	1.82	1.11	1.45	2.38	0.74
Imp	4	-0.79	7	1.41	0.83	1.04	1.21	0.76
ASEAN	4	-0.79	7	1.41	0.83	1.04	1.21	0.76
China	1	7	0.00	0.37	0.41	0.42	0.37	1.88
Japan	-0.81	0.23	1.44	0.00	0.05	0.05	0.04	0.05
US	-0.34	0.54	2.55	0.00	0.00	0.01	0.03	0.05
EU	-0.25	0.38	1.68	0.05	0.04	0.03	0.04	0.04
ROW	-0.55	0.63	2.43	0.22	0.04	0.03	0.00	0.08
Total	0.95	1.03	1.52	0.08	0.06	0.04	0.07	0.07

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Macroeconomic impact of tariff reduction(%)



Variables	ASEAN		
	overall	Internal	External
Price of GDP	055	-017	072
Real investment	088	026	056
Export volumes	095	045	048
Import volumes	127	043	082
Trade Balance (millions\$)	-177.68	-319.63	147.87
Welfare (millions \$)	296.22	190.9	275.83
Real GDP	0.38	0.12	0.27

Macroeconomic impact of tariff reduction(%)



Variables	China		
	overall	Internal	External
Price of GDP	-017	-052	035
Real investment	074	054	020
Export volumes	237	198	037
Import volumes	344	274	066
Trade Balance (millions\$)	-97.93	-128.35	267.45
Welfare (millions \$)	187.05	557.59	1191.72
Real GDP	0.36	0.24	0.12

Sectoral impact of FTA for ASEAN



Trade effect	Export Growth	Output Growth	
Processed rice	247	353	Thai, Viet
Sugar	231	589	Thai
Textiles	96	334	Indo/Thai
Beverages, tobacco	2577	16	Sin
Motor vehicles	811	08	Thai
Veg oil and fats	1312	667	Malay

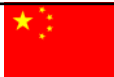
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Sectoral impact of FTA for ASEAN



Substitution effect	Import Growth	Output Growth
Veg fruit, nut	51	-041
Orqs rec	19	-10
Leather products	354	-016
Coal	223	-190

Sectoral impact of FTA for China



Trade effect	Export Growth	Output Growth
Veg fruit/nut	268	031
Metal products	346	078
Auto and parts	5874	140

Substitution effect	Import Growth	Output Growth
Orqs rec	2638	-1.17
Animal products rec	4637	-0.47
Veg oil and fats	253	-7.49
Processed rice	25127	-3.28
Sugar	2262	-6.28
Wood products	1015	-0.76

Cost & Trade effect	Price	Output Growth
Textiles	-0.03	1.22
Beverages	-0.27	0.97
Food products rec	-0.20	0.24
Electronic	-0.29	2.09



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IV. Framework Agreement

- Create a FTA in 10 years.
- China gives more favorable terms for ASEAN, especially the new members.
- Tariff liberalization to start soon once the negotiations completed by the end of 2002. Early Harvest.
- Scheme to cover mainly 3 categories of products subject to tariff liberalization
- Other complementary measures like non-tariff reduction should be applied in parallel in order to get real benefits for

Table 7 : Tentative timetable for elimination of tariffs between ASEAN and China

Time	First year	Third year	Last year
Products categories (HS6 digits)			
1. Top ten trading Products (early harvest)	China A minimum of 60% of the total tariff lines must have tariffs of 0-5 %	China 100 % of items in the Inclusion List would have tariffs of 0 %	China Same as the third year
	ASEAN A minimum of 40% of the total tariff lines must have tariffs of 0-5 %	ASEAN 100% of items in the Inclusion List would have tariffs of 0-5 %	ASEAN 100% of items in the Inclusion List would have tariffs of 0%
2. Normal products	Each side would have an Inclusion List with tariffs of 0-15 %	Each side would have an Inclusion List with tariffs of 0-5 %	Each side would have tariffs of 0 %
3. Sensitive products	Each side would agree on the tariff range	Each side would agree on the tariff range	Each side would have tariffs of 0-5 %

Source : author interviews

V. Upcoming Challenges

- How to make this FTA work in practice.
- FTA and its attractiveness to outsiders especially traders and investors from those developed countries.
- For ASEAN, how to avoid not losing its clout, especially its own AFTA and its own strength in integration and needs to improve its own house in order.
- ASEAN - China FTA could contribute to a wide "Asian Economic