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China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations

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CHINA-ASEAN FREE TRADE AREA: ORIGINS, DEVELOPMENTS AND STRATEGIC MOTIVATIONS

Abstract

China's recent proposal to ASEAN countries of establishing a free trade area (FTA) between them has marked an important milestone in the development of China-ASEAN relations. This proposal has created strong academic interest and brought about contending views. This paper is a political study of the origins, developments and motivations on the Chinese side of the FTA, demonstrating its political, strategic, intellectual and economic basis. The events that shaped the FTA include the accelerated globalisation, the recent Asian financial crisis, the deteriorating Japanese economic performance, China's entry into the WTO, the 9/11 terror attacks on the United States and the reorientation in the U.S. security policy. This study concludes that the China-ASEAN FTA (CAFTA), if carried out with careful calculation and good cooperation, can bring about more benefits than losses to both sides. Otherwise, there will be losses where there shouldn't be.

Background

The Development of the China-ASEAN Relations Since the 1990s

Before the 1990s, there was no official relationship between the ASEAN as a grouping and China, although China had official relations with certain individual ASEAN member states on a bilateral basis. From the late 1980s, China intensified its efforts to establish diplomatic relationship with all the remaining ASEAN states as the final step, leading to its eventual official relationship with the ASEAN grouping.

In his visit to Thailand in November 1988, Chinese Premier Li Peng announced four principles in establishing, restoring and developing relations with all the ASEAN states. After establishing diplomatic relations with the last ASEAN country — Singapore — in late 1990, China pushed for official ties with the ASEAN grouping. On 19 July 1991, Chinese Foreign Minister Qian Qichen attended the opening session of the 24th ASEAN Ministerial Meeting (AMM) in Kuala Lumpur as a guest of the Malaysian Government, where he expressed China's interest in cooperating with ASEAN, particularly in the field of science and technology. The latter responded

positively. In September 1993, ASEAN Secretary-General Dato' Ajit Singh visited Beijing and agreed to establish two joint committees, one on co-operation in science and technology, and the other on economic and trade co-operation. An exchange of letters between the ASEAN secretary-general and the Chinese Foreign Minister on 23 July 1994 in Bangkok formalised the establishment of the two committees. At the same time, ASEAN and China agreed to engage in consultations on political and security issues at senior officials level. In July 1996, ASEAN accorded China full Dialogue Partner status at the 29th AMM in Jakarta, moving China from a Consultative Partner, which it had been since 1991.

By early 1997, there were already five parallel frameworks for dialogue between China and ASEAN. China participated in a series of consultative meetings with ASEAN. In December 1997, Chinese President Jiang Zemin and all the ASEAN leaders had their first informal summit (ASEAN Plus One) and issued a joint statement to establish a partnership of good neighbourliness and mutual trust oriented towards the 21st century.

ASEAN-China trade has expanded rapidly, at an annual growth rate of about 15 per cent since 1995, and it jumped by 31.7 per cent in 2002 to US\$54.77 billion. ASEAN is now the fifth largest trade partner of China while China is the sixth of ASEAN.

China Proposed an FTA

China's open push for the formation of a free trade area (FTA) embracing China and all the ten ASEAN members came at the ASEAN Plus Three Summit¹ in November 2000, where Chinese Premier Zhu Rongji proposed: "In the long term, China and the ASEAN countries can also further explore the establishment of a free trade relationship."² He also proposed the creation of an expert group under the framework of the China-ASEAN Joint Committee of Economic and Trade Co-operation to study the feasibility of the FTA.

At a meeting of senior ASEAN and Chinese economic officials in Brunei in mid-August 2001, China made a strong push, proposing tariff reduction and other

measures to be phased in over seven years from 2003-09. ASEAN responded cautiously, proposing a 10-year phase-in period without specifying a starting date.³

At the ASEAN-China summit in November 2001, Premier Zhu formally made the proposal for the formation of a China-ASEAN FTA (CAFTA) in ten years. China offered to open its own market in some key sectors to the ASEAN countries five years before they reciprocate. It would also grant special preferential tariff treatment for some goods from those less developed ASEAN states, i.e., Cambodia, Laos and Myanmar.

ASEAN accepted this proposal and held several rounds of consultations with China on the CAFTA before they jointly announced, at the ASEAN-China Summit in Cambodia in November 2002, the Framework Agreement on ASEAN-China Comprehensive Economic Co-Operation as a legal instrument to govern future ASEAN-China economic cooperation. This Agreement covers cooperation in goods, services and investment and other relevant areas. It lists guidelines, principles, scope and modalities for the FTA, including early harvest and special and differential treatment (S&D) of new ASEAN members, Laos, Cambodia, Myanmar and Vietnam, allowing them five more years to join the FTA. China accorded the three non-WTO ASEAN members — Vietnam, Laos and Cambodia — the most-favoured-nation status.

Formal talks on the CAFTA would begin the next year, with the inception year 2010 set for China and the six original ASEAN states — Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand — and 2015 for the less developed ASEAN members of Cambodia, Laos, Myanmar and Vietnam. But an “early harvest” programme of tariff cuts on 600 agricultural products would be launched immediately. This includes live animals, meat, fish, dairy produce, other animal products, live trees, vegetables, fruit and nuts.

The Conceptualisation

The Chinese conceptualisation of CAFTA could be traced to as early as 1995 when Thailand for the first time proposed a special economic zone, similar to an FTA, with China’s southern provinces. From then onwards, especially in the early 1997, Chinese scholars began to discuss various modes of special economic zones along China’s

coast, the Yangtze River and the Pearl River, involving participation by Japan, South Korea, North Korea (Tumen River economic zone), Russia, ASEAN, Taiwan and Hong Kong. The concept of such special economic zones differed from the earlier special economic zones that China set up in the late 1970s and early 1980s when it had just started its economic reform. It was similar to an FTA.

The Asian financial crisis from late 1997 heated up the Chinese academic discussion on a regional FTA. The U.S.-led NATO bombing of China's embassy in Belgrade in 1999 pushed the discussion from the academic circles to high policymaking level. In 2000, Chinese leaders made the decision to "strengthen co-operation" with ASEAN through setting up the CAFTA. All this led up to Chinese Premier Zhu's tentative proposal of setting up an FTA with ASEAN in Singapore in 2000 and the formal proposal in Brunei in 2001.

Modality

The Chinese proposal of the CAFTA was based on a study by the ASEAN-China Expert Group that was set up following Chinese Premier Zhu's proposal at the ASEAN Plus Three Summit in November 2000.⁴ The Chinese team in the Group was made up of two professors from Institute of Asia-Pacific Studies of China Academy of Social Sciences (Professors Zhang Yunlin and Zhou Xiaobing) and three experts from Chinese Academy of International Trade and Economic Co-operation under Ministry of Foreign Trade & Economic Co-operation (Messrs, Zheng Zhihai, Xu Changwen and Li Wei). All these five members were from two think-tanks in Beijing. But China's five leading institutes of Southeast Asia studies were all located in the south of China, and they were not instructed to do the CAFTA feasibility study until well after Premier Zhu announced the CAFTA proposal. This fact illustrates the point that this proposal had not been widely and fully discussed before its announcement and Beijing may have under-estimated its difficulties. Secondly, it was strongly politically motivated. Through my interviews in both Beijing and south of China, I found that Chinese strategists in Beijing (most of them are not ASEAN experts) pay overwhelming attention to the geo-strategic implications of the CAFTA and appear to be more optimistic while professional Chinese ASEAN experts (most of them are in south of

China) are concerned about the economic difficulties in building this CAFTA and appear to be much less optimistic.

Nevertheless, scholars in these five leading institutes of Southeast Asia studies support the CAFTA, since it has already been announced, but also caution Beijing about the difficulties of having an FTA with all the ten ASEAN states at the same time. Many prefer to have a bilateral FTA with individual ASEAN states, one by one before covering all of them. They are more economically oriented while Beijing is more strategically motivated.

These scholars note that the difficulty in building the CAFTA comes not only from the vast economic differences of the ten ASEAN countries, but also from the lack of what they call the “nucleus”, like the Germany-France axis in the EU and the “nucleus” role by the United States in North America Free Trade Area (NAFTA). China, with its current level of GDP, cannot and should not play the leading role.⁵ However, since the CAFTA is already on the cards, a “third way” must be found. They have proposed the following modes for the CAFTA:⁶

- “*rongru xing*” [merge in]: China merges into the ASEAN Free Trade Area (AFTA). Some Chinese scholars suggest: “In many aspects, CAFTA can follow AFTA, but with certain revision, readjustment and add-up”.⁷ Others opt for a new model because of the weaknesses that exist in the AFTA.
- “*pinghua qidong*” [phase-in]: China opens its market before ASEAN reciprocates gradually;
- “*xianyi hounan*” [from the easy to the difficult]: China builds an FTA with the more advanced economies, like Singapore and Malaysia (some include Thailand.⁸) to form a strong and stable “nucleus” before including the rest.
- “*you dian dao mian*” [from one point to comprehensive]: CAFTA should start from easier industries/products before covering all.⁹
- “*ciquyu tuijin*” [from sub-region to whole area]. CAFTA may start with sub-regional cooperation, such as Greater Mekong Sub-regional (GSB) cooperation, as a model before covering the rest.¹⁰ In a joint meeting in September 2002, China’s six southwest provinces appealed to Beijing to take Yunnan and Guangxi as the experimental area of the CAFTA.¹¹ Chinese scholars propose to build an exemplary zero-tariff FTA between China’s Yunnan and Guangxi regions and ASEAN.¹²

- “*yanhai youxian*” [priority to coastal area]: The CAFTA may start with cooperation between China’s coastal area, including Hong Kong and Macao, and the maritime ASEAN states.
- “*bianmao qieru*” [start from cross-border trade]: Chinese scholars, especially those in Nanning and Guangxi, are in favour of taking the border areas between China and Vietnam, Laos and Myanmar as experimental area of the CAFTA.¹³
- “*bian zou bian chang*” [learning through practice]: CAFTA should proceed cautiously, step by step, learning through practice.

As for the scope of the CAFTA, many propose to go beyond trade and tariff reduction to cover cooperation in services (including financial services), science and technology (including IT technology), agriculture, tourism and transportation (including air transport), electricity, non-traditional security and cross-border crime (such as drug traffic), and regional cooperation (such as the GMS cooperation and building China’s Southwest International Corridor through Yunnan).¹⁴

Many are in favour of the year of 2010 as the cut-off point for the establishment of the CAFTA,¹⁵ but some prefer to have it earlier. Former Chinese Premier Zhu Rongji was enthusiastic about an earlier CAFTA. The new leadership, however, seems to have moderate views.

Motivations

China’s WTO Entry

One immediate reason for China’s offer of the CAFTA is its economic competition with ASEAN that could intensify following its entry into the World Trade Organisation (WTO) in January 2002. This competition itself can be manageable, but Beijing is concerned that some “international forces” would exaggerate and play it politically to prove a “China threat”. Making economic concessions through this CAFTA (such as its early harvest) would help to pre-empt this undesirable scenario. China’s Deputy Economic Minister and chief WTO negotiator Long Yongtu promised that ASEAN would be among the first to benefit from China’s further opening up.¹⁶ As a matter of fact, China has long sent out the message that it is willing to make economic concessions (such as lowering tariffs) to ASEAN before it does likewise to the other countries. In the absence of CAFTA, China cannot, according to WTO rules, make

these concessions to ASEAN alone since China is already a WTO member. As the bilateral trade is only about 8 per cent of China's total foreign trade, making such concessions will not bring about severe economic and social repercussions to China, and would be compensated by ASEAN's political reciprocity. The CAFTA is a good experiment. Its experience would be valuable when China negotiates its future FTAs with its major trade partners.

New Security Concept and East Asia Integration

Strategically, this CAFTA is an application of China's New Security Concept that advocates a multi-polar world and multilateralism to dilute U.S. unilateralism in world and regional affairs. Chinese President Jiang Zemin announced the Concept for the first time at the inaugural meeting of Shanghai Cooperation Organization in 1996. Since then, it has become the cornerstone of Chinese diplomacy. It emphasizes the Five Principles of Peaceful Coexistence, mutually beneficial economic contacts, and dialogue promoting trust and the peaceful settlement of disputes. It stresses on multilateralism and cooperation as the best route to a more peaceful Asia, and to rise above one-sided security and seek common security. It takes economic progress as an important avenue to lasting security in Asia. At the 2002 Cambodia ASEAN summit, where China and ASEAN endorsed the framework agreement towards the CAFTA, Chinese Vice Foreign Minister Wang Yi made the point: "China-ASEAN co-operation in the non-traditional security fields will serve as a helpful trial and practice of China's new security concept, featuring comprehensive, common and co-operative security."¹⁷

The CAFTA is also aimed at East Asia integration to, as Chinese chief WTO negotiator Long Yongtu said, protect against economic shocks in the globalisation.¹⁸ When the economic crisis in Mexico broke out, the United States immediately came to its rescue. But during the 1997 Asian crisis, it was only more than one month before Washington sent out an investigation team. IMF turned out to be disappointing with many wrong prescriptions. APEC also failed to deliver immediate and effective assistance. At the Vancouver APEC in November 1997, the Asian crisis was not even listed as a major issue for discussion. The APEC meeting took the issue of hastening the process of liberalization as its main theme, instead of the on-going Asian financial

crisis, without professing a strong political commitment to solving this crisis. Hence, many Chinese scholars view East Asia regional cooperation and integration as a necessary self-saving measure or “insurance”. Otherwise, East Asia would be politically divided and ruled by external powers, economically marginalized, viciously competing with each other to satisfy external markets.¹⁹

Chinese strategists agree on the need for the East Asia integration but differ, as discussed below, on its leadership, modality, and vision, i.e., whether to create an East Asia Community, one ASEAN Plus Three, or three ASEAN Plus Ones groupings.

The Leadership: China-Japan Axis or ASEAN?

A China-Japan axis as the leadership of the East Asia integration has invited heated debate. Some Chinese strategists (including those in the PLA whom I interviewed) take the view that a historical reconciliation between China and Japan is crucial not only in breaking the bottleneck in China’s diplomacy, but also essential for East Asia integration.²⁰ They prefer to have an FTA with Japan and Korea first, whose stronger economic complementarities would make them better partners for China than ASEAN. “Closer trade relationship with the two countries will also bring along capital and technology that China needs to accomplish its present goal of economic development. Co-operation with ASEAN countries means more pressure but less opportunities for domestic industries.”²¹ Some are concerned that making further concessions to ASEAN, as a CAFTA would do, would increase the huge trade deficit with ASEAN, which stood US\$1.3 billion in 1993, US\$1.64 billion in 1998, US\$2.7 billion in 1999 and US\$4.8 billion in 2000.²²

Despite these voices, Beijing decided to approach ASEAN instead of Japan. Its economic consideration includes the huge economic volume and gap between China and Japan. China does not have the confidence to open its market to those economies that are huge and far more advanced than its own.²³ Chinese economists cite the Korean reluctance to enter an FTA with Japan as an example. In 1999, the average tariff of Korea was 7.9 per cent and 2.9 per cent for Japan. Korea calculated that if without tariffs, its export to Japan would increase by 16.05 per cent and its import from Japan would increase by 36.91 per cent. Thus its deficit would increase by US\$7.15

billion and its GDP would decrease by 0.14 per cent.²⁴ If China reduces its current average tariffs of around 14 per cent to the level of Korea and Japan in an FTA arrangement, and given the huge bilateral trade volumes, the consequence would be devastating. Moreover, Seoul and Tokyo even refuse to include their agricultural products in an FTA negotiation with China. If China's agricultural products cannot find a better access into Japanese and Korean markets, its trade deficit, increased as a consequence of having an FTA with both, cannot be fairly compensated.²⁵

Some Chinese scholars have warned that China can have FTAs with developed countries only when it is confident that it can realise full trade and investment liberalisation by 2005 and 2010 respectively. Otherwise, it should only take developing countries that are on similar development level for an FTA.²⁶ They estimate that by 2005, only Japan, Korea, Taiwan, Hong Kong and Singapore can realise full trade and investment liberalisation. Thailand, Malaysia, the Philippines, Indonesia and China will reach the target by 2015, and Vietnam, Laos, Myanmar, and Cambodia by 2018. Since China can only have full trade and investment liberalisation by 2015, it is better to choose ASEAN for an FTA. If China picks up Japan and Korea at this stage, it is hard to set the deadline as late as 2015, as favourable to China, for its full trade and investment liberalisation. So long as there are some states in ASEAN that find it is difficult to have the full trade and investment liberalisation before 2015, China will be in a better position in the FTA negotiation.²⁷

Besides these economic concerns, political considerations have weighed heavily as well. Japan's political over-dependence on the United States defeats Beijing's political purpose of having a regional FTA that leads to East Asia integration. It is the general perception among Chinese strategists that Japan is unwilling to lead a real and independent East Asia integration at the displeasure of its ally, the United States. What is on top of Japan's agenda is not bilateral FTAs with regional countries, but multilateral free trade arrangement. More often than not, Japan does not take Asia's interest as its priority, but that of the West.²⁸ If Japan leads this regional integration, its outcome will be more to the interest of countries outside of the region than those inside. For the foreseeable future, Japan will not sacrifice its alliance with the United States to enhance and protect the interest of East Asia countries.²⁹ Many Chinese strategists

understand Japan's effort to become a "normal state", but are annoyed that this status enhancement is not made through seeking understanding and cooperation from China and other Asian countries, but through the United States and even using the United States to balance China.³⁰ Japan's strategic support of Taiwan as seen by Beijing, such as its support of Taiwan to join the World Health Organisation (WHO) and World Health Assembly (WHA), also defeats another political purpose behind Beijing's effort at regional integration.

Historical baggage is still heavy. There is still popular Chinese resentment towards Japanese attitude of its war against China as reflected in its distortion of facts in its history textbooks and Japanese Prime Minister Junichiro Koizumi's official visit to the Yasukuni Shrine. The Shrine honours Japan's war dead including several top criminals of Japan's war against China. The Chinese see the Shrine as a symbol of Japanese wartime militarism. This popular resentment, mingled with domestic politics, has eroded the political and social basis for Chinese support of Japanese leadership or a Japan-China axis in East Asia integration.

ASEAN Plays the Vital Role

With a China-Japan axis being dismissed, at least for the time being, Chinese strategists take the view that "it is easier for China to start the ball rolling by working first with ASEAN",³¹ and hope the CAFTA would cause "chain reactions" to produce "multilayered arrangements" (such as several ASEAN Plus Ones), and "gradually move to a unique regional framework" in East Asia.³² The "chain reactions" have taken place: Japan reacted to the CAFTA by offering its own FTA to ASEAN states and ASEAN reacted by accelerating its own economic integration through AFTA and the potential "ASEAN Economic Community". These actions, reactions and interactions, as China hopes, would pull East Asian countries closer. In this process, China hopes, as its Foreign Minister Tang Jiaxuan said in July 2001, that ASEAN would continue to play the vital role such as in ASEAN Plus Three cooperation,³³ the main channel of East Asian regional cooperation.

Several considerations account for China's preference to ASEAN. First, ASEAN has been a more independent political power grouping than Japan and Korea,

which are U.S. allies. In the past decade, ASEAN has taken a more balanced position vis-à-vis big powers while Japan has slipped into closer military alliance with the United States, especially on the Taiwan issue. Secondly, ASEAN itself will not pose any security threat to China. ASEAN's cohesion, as discussed below, serves China's interest better. Offering the CAFTA would enhance ASEAN's cohesion and relevance in regional affairs at a time when ASEAN is at a crossroads with widespread pessimism because of its political instability and economic slowdown. Thirdly, ASEAN, instead of China, playing such a vital role would be more acceptable to the West.

Nevertheless, some Chinese strategists take the view that ASEAN is only good for jump-starting the process of East Asia cooperation, but not its integration, such as the East Asia Community, for which ASEAN has neither the capability nor the intention. ASEAN may be more interested in making big powers balance each other than forming an East Asia Community where ASEAN will have to share or lose its driver's seat. For the eventual vision of an East Asia Community, stronger leadership is required, i.e., a China-Japan axis. Both Japan and China should forsake their illusion of being able to single-handedly lead the process and both ASEAN and South Korea should act as a facilitator or enforcer of this cooperation between China and Japan.³⁴

East Asia Community?

Chinese strategists differ on where this East Asia integration should lead. Some are in favour of an eventual East Asia Community, which would start from several ASEAN Plus Ones and, then, one ASEAN Plus Three.³⁵ This view is similar to a recommendation by East Asia Vision group to establish an "East Asian Free Trade Area (EAFTA), "East Asian Summit", gradual monetary integration, regional institutional building and finally moving towards an 'East Asia Community (EAC). As the first step of such regionalism, Chinese strategists have recommended setting up Organisation of East Asian Cooperation (OEAC), with a secretariat and functional committees and annual leaders meetings.³⁶

Some prefer the CAFTA to lead to an East Asia FTA that would include China, Japan Korea and Singapore as the economic "nucleus" at the first stage; Malaysia, Thailand, Indonesia, the Philippines and Brunei at the second stage; Vietnam, Laos,

Myanmar and Cambodia at the third stage; and followed by Hong Kong, Macao and Taiwan as separate customs identity under China. This East Asia FTA may develop into an Asia FTA in future by including North Korea, Mongolia, Middle Asia, South Asia and West Asia and even Russia.³⁷ Few are in favour of including Australia into this East Asia integration.

Some would like to have one ASEAN Plus Three, which should gradually move to an East Asia Community of 13+3 (Hong Kong, Macao and Taiwan). Some point out: “10+3 is more symbolic than practical.” They believe that three ASEAN Plus Ones are more feasible.³⁸ Some are even more sceptical. They believe that it is difficult to have a real and meaningful CAFTA, not only because of the huge economic diversity of the ten ASEAN countries but, more importantly, the United States will not allow a meaningful CAFTA that covers regional political and security issues. The United States has the means to sabotage it.

Regional Security

Chinese strategists want the CAFTA to be more than an economic deal, one that covers cover political and security issues as well.³⁹ Some prefer to start from economic cooperation before building a regional security mechanism.⁴⁰ Some insist that without security co-operation, economic and political co-operation will not go far enough. They recommend establishing an “East Asia Security Committee” to conduct consultations and dialogues on security issues, which will gradually evolve into a security co-operation mechanism.⁴¹ In their view, this East Asia security co-operation is mainly in the non-traditional security area and does not mean to break the existing U.S.-Japan alliance. But at the same it does not want U.S.-Japan alliance to interfere with the East Asia security co-operation.⁴²

Beijing seems to have accepted the latter view. At the ASEAN-China summit in November 2001, when Chinese Premier Zhu Rongji proposed the CAFTA, he also called for “dialogue and co-operation in the field of non-traditional security”.⁴³ During the ASEAN foreign ministers meeting in Brunei in late July 2002, Chinese Foreign Minister Tang Jiaxuan proposed to start security cooperation in the non-traditional security areas within the framework of ASEAN Plus Three.⁴⁴ In June 2003, China

proposed to ASEAN a security pact establishing a security forum involving military personnel from Asia Pacific countries.⁴⁵

Apparently China is employing this regional integration or regionalism to dilute U.S. strategic unilateralism in East Asia. But caution should be taken against the temptation to slip into an immediate and simplistic conclusion that China is aimed at an anti-U.S. alliance in the region. Further evidence is needed.

Through the years of its reform, China has realized that its own interests are increasingly being better served by integrating itself into the developed world and playing the game by the rules. Evidence shows that in the international organizations, where China is in, such as the WTO, China, in most cases, has not played an obstructing role. China Institute of Contemporary International Relations (CICIR), one of China's leading think-tanks of strategic studies, pointed out in its annual review of 2002: "China is no longer a victim, as it was, of the international system, but a beneficiary and a participant."⁴⁶ It is no longer a revolution power, as it was, driven by ideological zeal to overthrow the whole capitalist world and the United States, but intends to benefit from participating in this capitalist world.

It should be noted that since 1980s when top Chinese leaders met U.S. presidents and other high officials, they always reminded them that China and the United States are both big countries of potential influence and the United States should treat China from a long-term strategic point of view. Beijing's hint is clear (1) No power including the United States can dominate the world single-handedly for long; (2) The United States should and would eventually come around to see the value of maintaining strategic partnership with China and China is waiting for the day to come; (3) China is willing to build a strategic condominium with the United States if its legitimate interests and status are accommodated.

Awareness of this mentality change is essential for understanding China's international behavior nowadays: With this awareness, one can better understand why Chinese leaders have consistently refused to bow to strong domestic political pressure (such as that following the U.S.-led NATO bombing of Chinese embassy in Belgrade in 1999 and the death of a PLA pilot in the Hainan China-U.S. air collision in 2001) that would corner China-U.S. relations beyond repair. One major reason, though perhaps

not the sole one, is that they have in their mind their future strategic cooperation with the United States. China, even if it becomes strong in future, should work with, not against, other major powers, especially the United States.

Also with this awareness, we can better understand China's ASEAN policy. In the revolutionary years, Beijing saw ASEAN as an US ally and consequently its enemy. Now, with the changed mentality, Beijing does not see that US allies and close friends, such as South Korea, Japan, Thailand and Singapore and the Philippines, would unavoidably be its enemies. They can be friends to the United States and to China as well. It is simplistic to interpret this change as China's united front strategy. China is obviously no longer using the simplistic either-black-or-white, either-friend-or-enemy attitude, as in the Cold War, to look at this complex world now. This has fundamentally changed its ASEAN policy and added a lot of flexibility to its diplomacy, which accounts heavily for its initiative of the CAFTA.

ASEAN's engagement with China in the past decade also gave China confidence in its new ASEAN policy. For example, through its involvement in the ASEAN Regional Forum (ARF), China can see that ASEAN has acted more on its own interests than those of external parties. At first, China was skeptical that the ARF was an attempt by the West, through ASEAN, to contain China. Before long, China found that ASEAN's interests were not identical with those of the United States and it feels comfortable with ASEAN's cautious and balanced position that has helped to off-set attempts by the United States and other Western countries to move faster from confidence-building to preventive diplomacy in the ARF agenda.

Another example is ASEAN's multilateral engagement with China on the Spratlys issue following the Mischief incident in 1995. Shortly thereafter, China realized that its earlier concern of the multilateral engagement was excessive. This was because the territorial dispute exists between some of the ASEAN member states as well, and some prefer to seek a bilateral, instead of multilateral solution to their own specific disputes. Therefore, ASEAN cannot go further, at least at present stage, than issuing a very broad political framework like the Declaration on the Conduct of Parties in the South China Sea. This has effectively left the final solution of the dispute mainly to bilateral negotiations between the parties involved.

It is to China's interest to see ASEAN member states remaining together in the grouping. Some Chinese strategists were concerned about ASEAN's incorporation of Vietnam, Laos, Cambodia and Myanmar. But now they see that this expansion of membership has served China's interest. The more members it has, the more moderate ASEAN will become. Under the framework of ASEAN, individual member states will be constrained from going extreme. For example, any radical move against China on the Spratlys issue by its individual member will meet not only pressure from China but also dissuasion by other moderate ASEAN members. Without this grouping, it is more likely that an individual Southeast Asian country, out of its security concern of China, may take extreme measures, inviting U.S. military presence and involvement.

Therefore, China adopts the strategy of "*yong duobian cu shuangbian, yong shuangbian cu duobian* [to use multilateral relations to promote bilateral relations and vice versa], or, in another Chinese expression, "*zhengti yidao shuangbian, shuangbian tuidong zhengti*" [overall relations (between China and ASEAN) guide bilateral relations (between China and individual ASEAN member states), and bilateral relations push forward overall relations].⁴⁷ In other words, China hopes to use its good relations with this moderate grouping to constrain potential radical moves by its individual member states and, meanwhile, use its more friendly relations with certain ASEAN member states to move the whole grouping forward.

For example, in the late 1990s, China started signing a framework agreement of friendship and cooperation towards the 21st century with one or two more friendly individual ASEAN member states. This precedent made it easier for other hesitant ASEAN member states to follow suit. Finally, ASEAN as a grouping signed such a framework agreement with China. Take the ASEAN-China summit in November 2001 in Brunei as another example. When some enthusiastic ASEAN member states publicly supported China's CAFTA proposal, other reluctant ones felt obliged to follow suit, at least not to decry publicly. After the CAFTA was made as political commitment by the ASEAN as a grouping, some previously hesitant ASEAN member states had to follow and make the best out of it.

China is largely comfortable with ASEAN as a grouping and the mainstream view among Chinese ASEAN specialists is to support a more stable and moderate

ASEAN to play a more important role in regional affairs,⁴⁸ such as the ARF, ASEAN Plus One and ASEAN Plus Three. China wants to create a friendlier environment with ASEAN through the CAFTA initiative and its recent decision to accede to the Treaty of Amity and Cooperation. With this environment, potential tension over issues like Spratlys conflict, trade dispute, and FDI competition will be mitigated and more easily handled.

This is one major reason why China would rather not to have an FTA with individual ASEAN member states (which makes more economic sense) and pledged to have an FTA with the ASEAN as a whole (which makes more political sense). Here, political considerations weigh heavily. For China, the CAFTA process is as important as its outcome: The fact that the ten ASEAN countries sit down together with China to discuss an FTA is very important itself. This is the first time in China's history that it has found common interest (a point of engagement with or leverage over ASEAN) to engage all the South-east Asian countries constructively and *exclusively* to talk about cooperation, instead of quarrelling on issues such as the rival claims in the Spratlys. This can be read as "political confidence-building" for both sides. The CAFTA talks mean that China can engage ASEAN countries constructively for at least ten years under one friendly political and economic framework.

Because of the desire on the part of some ASEAN countries to ride on the booming Chinese economy and the fears on the part of others of the Chinese economic competition, ASEAN countries have the common intention to engage and negotiate hard but peacefully with China, either to ride on the Chinese economy or to reduce the Chinese competition.

This CAFTA is only part of China's regionalism. Besides, it also intends to set up an FTA in its northeast with Japan and Korea. It has already established the Shanghai Co-operation Organisation (SCO) in its northwest. It also intends to greatly improve its relations with India, as demonstrated by the official visit to China in June 2003 by Indian Prime Minister Atal Behari Vajpayee, and eventually to build a regional economic co-operation mechanism in its southwest.

Apparently, its strategic intention is to construct a safety cushion around itself through this multilateralism or regionalism to relieve its worries over potential U.S.

unilateralism in the region. And, geographically, China is in the pivotal position in all these four regional groupings. As China's CICIR points out in its annual review of 2002: "China is at the centre of Asia Pacific and is the only big power that links with most Asia Pacific countries by either land or sea. Without China's participation as the geographic 'linking point', any integration of Asia Pacific is beyond imagination."⁴⁹

This does not mean that these countries are and will become China's allies. Beijing obviously does not have such expectations. But once such regional structures are built and consensus formed from within, they may serve as collective constraints upon individual potential "trouble-makers", among which is Taiwan, in China's view.

CAFTA, CEPA and the Taiwan Issue

The Taiwan issue is part of, but not solely, the overall strategic consideration behind China's push for the CAFTA and the East Asia integration. Taiwan feels strongly about the CAFTA that, in its view, may marginalize itself both strategically and economically in the region. The East Asia integration may land Taiwan in a sealed corner of a new regional power structure where Taiwan will find it increasingly difficult to upgrade its political and sovereign status.

Taiwan reacts. It is reportedly pursuing an FTA with the United States, Japan, Singapore, Panama, and New Zealand, with the target of signing such pacts before the end of 2005.⁵⁰ Taiwan and many ASEAN countries are economically compatible for an FTA. However, Taiwan will almost certainly raise its political demand and make the pact more political than economic. This makes it difficult for ASEAN countries. Taiwan's Economics Minister Lin Yi-fu realised the difficult: "Given the current political environment, it would be difficult for us to pursue a similar agreement with the ASEAN as a block. Our strategy is to pursue separate pacts with individual nations."⁵¹ Again, this is not easy. Without a strong push from the United States, either an overt or covert one, other countries will be very reluctant. Even if one or two countries in the region sign an official FTA with Taiwan, this will hardly have a domino effect and therefore will not fundamentally change the regional power structure.

Compared with the CAFTA, China's FTA with Hong Kong (signed on 29 June 2003) and Macao (to be concluded by the end of 2003) may shake Taiwan more.

At the Brunei ASEAN-China Summit in November 2001 when China made the CAFTA proposal, Hong Kong was not included because it is not an independent sovereign state. But, Beijing was then already considering an FTA-like pact that would include Mainland China, Hong Kong Macau and Taiwan. This pact would start with Hong Kong, followed by Macao, and Taiwan would be included at later stage. At the Shanghai APEC summit in October 2001, Tung Chee-Hwa, chief executive of Hong Kong, asked for an FTA that comprises Mainland China, Hong Kong and Macau,⁵² and Beijing gave him immediate and strong support. From early 2002, China and Hong Kong earnestly started the FTA negotiation. The negotiation had come across many unexpected technical difficulties and had to be extended beyond the end of 2002 deadline that China had originally intended. However, Beijing was determined (explained below) to have an early FTA with Hong Kong and the negotiation accelerated despite the eruption of Severe Acute Respiratory Syndrome (SARS) in both Hong Kong and the Chinese mainland in the first half of 2003. On 29 June 2003, the two sides finally signed the pact, which is called as Closer Economic Partnership Agreement (CEPA), instead of FTA that, in Chinese view, is only used between independent sovereign states. At the same time, Beijing said that it would conclude a similar pact with Macao by the end of 2003.⁵³

The timing is important here. The year of 2004 is the presidential election in Taiwan (in March). Concluding the CEPA with Hong Kong and Macao before 2004 will have strong impact on the election. As Chinese strategists claimed at the signing of CEPA on 29 June, the CEPA has set a good example of “one country two system” for Taiwan.⁵⁴

Conclusion

The Chinese proposal of the CAFTA is both strategically and economically motivated. Faced with the uncertainty of the reorientation in the U.S. global and regional security policy after the 9/11 terror attacks, China feels a pressing need to improve its relations with its neighbours through ASEAN Plus Three and CAFTA, and use this new regionalism as a precautionary measure to dilute potential U.S. unilateralism in region. It is important to note that this East Asia integration is not an anti-U.S. united front. It

is not a sole Chinese product. Actually, ASEAN countries and South Korea are among its earlier advocates, pathfinders and supporters. The economic and security interests of China and other big powers, like the United States, are not inevitably incompatible with each other. The recent improvement in China-India relations, as demonstrated in the historical visit to China in June 2003 by Indian Prime Minister Atal Behari Vajpayee, shows that big powers may have more to cooperate than conventional strategic thinking takes for granted. Therefore, caution should be made against the excessive zero-sum interpretation of one big power driving the others away from the region.

As this essay is an account of Chinese strategic (*not economic*) motivations of the CAFTA, one could not deny the existence of China's strong economic considerations as well.⁵⁵ For example, the export of foreign-invested companies in China was US\$300 million in 1985, only 1 per cent of China's total export. In 2001, it jumped to US\$133 billion, over 50 per cent of China's total.⁵⁶ This figure helps to explain why China's economic policy is more open than other developed economies (such as Japan) when they were at the same economic level and why China has adopted an actively cooperative position in the WTO and made initiatives, like the CAFTA, towards greater regional economic liberalization. The answer is that this serves its own economic interest. For China, closing or even narrowing the door at this time would only protect the monopoly of those foreign companies that have already entered the Chinese market. Opening the door further will intensify the competition among foreign companies to China's benefit. Beijing believes that the globalisation is an irreversible trend and the best way to handle it is to face it and merge in, but not to quit.

China's export sector, after more than twenty years of rapid growth, now feels its bottleneck. One way to break that is to upgrade its industrial and export structure. But this takes time. With increasingly more production capacities than domestically needed, China may intend to find new market for its export, especially in developing countries where their products, with competitive price and reasonable quality, may sell better than expensive ones from developed countries. Apart from the 500-million-strong ASEAN market for its export, China also aims at their raw materials. It hopes that CAFTA will help its land-locked southwest region find an outlet to sea for its

export and build an “international corridor” that links the region with ASEAN, and other countries.

The new Chinese leadership is likely to continue to push through the CAFTA and the East Asia integration, in its own way. We need further evidence to prove the following initial observations: (1) The new leadership seems to pay more attention to domestic modernisation than to big-power diplomacy that the old leadership enjoyed; (2) In building the regional mechanisms around China, it seems to attach more importance to its relations with Russia and Shanghai Cooperation Organisation than to other regional mechanisms; (3) In developing East Asia integration, it seems to pay more attention to national interest and less on personal relations than previous leadership, more on the political and security cooperation of this regionalism and less enthusiastic than the previous leadership on an economic CAFTA. But caution should be made against hasty conclusions. The new leadership, fresh from the power transition in China, needs more time to figure it out.

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Glossary

AMM	ASEAN Ministerial Meeting
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asia Nations
CAFTA	China-ASEAN Free Trade Area
CEPA	Closer Economic Partnership Agreement
CICIR	China Institute of Contemporary International Relations
EAC	East Asia Community
EAFTA	East Asian Free Trade Area
FDI	foreign direct investment
FTA	free trade area
GDP	gross domestic product
GMS	the Greater Mekong Sub-region
IT (technology)	Information technology
NAFTA	North America Free Trade Area
OEAC	Organisation of East Asian Cooperation
SARS	Severe Acute Respiratory Syndrome
SCO	Shanghai Co-operation Organisation
WHA	World health Assembly
WHO	World Health Organisation
WTO	World Trade Organisation

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