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China and the Creation of ASEAN-China Free Trade Area: Implications for Cambodia

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Abstract:

China's rising has brought many attentions with mixed concerns and opportunities. The ASEAN-China Free Trade Area will be the world biggest trading bloc with a market of about 1.7 billion people which will have a huge impact to regional and individual countries' economies. This paper attempts to answer the question "Why does China want to create an ASEAN-China Free Trade Area?" Cultural, economic, and political interests explain Chinese motives in creating ASEAN-China Free Trade Area (ACFTA). Though the ACFTA creates challenges for some countries, it also has a great potential to generate a tremendous business opportunity, economic development, prosperity and stability in East Asia in general and Cambodia in particular.

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China and the Creation of ASEAN-China Free Trade Area: Implications for Cambodia

By

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1. Introduction

China's trade with ASEAN is seen as an example of South-South cooperation in the face of an unfair international trading regime dominated by the developed nations.² China first suggested the idea of creating a Free Trade Area (FTA) between China and the ASEAN in 2000 in Singapore and officially proposed this ASEAN-China Free Trade Area (ACFTA) at the ASEAN + 3 Brunei summit in November 2001. Then in 2004, China and the ASEAN countries agreed to create the ACFTA in 2010.

This paper attempts to answer the question "Why does China want to create an ASEAN-China Free Trade Area?" This paper also draws attention to the impacts of the ASEAN-China Free Trade Area on the ASEAN member countries, particularly Cambodia. This paper has two main parts, the first provides the reasons why China wants to create the ACFTA and the second proceeds to analyze the affects of this ACFTA on Cambodia.

2. China's Motivations to ACFTA

China's involvement in Asian countries especially ASEAN countries is within the grand framework of Chinese foreign policy since the post Cold War, especially after the Tiananmen Square incident when China was isolated from the West and Japan. China has always preferred to have support from the developing countries, particularly her neighbors, if we looked into the history of Chinese foreign policy. China has shifted from passive to active even initiative in her response to regionalism and globalism.³

¹ The author would like to extent his gratitude to Dr. Chap Sotharith, Executive Director of CICP for editing and adding some inputs in this paper.

² Robert G. Sutter, *China's rise in Asia: Promises and Perils*, (Oxford: Rowman & Littlefield, 2005), p. 3

³ Jianwei Wang, "China's Multilateral Diplomacy in the New Millennium", in Yong Deng and Fei-Ling Wang (eds.), *China Rising: Power and Motivation in Chinese Foreign Policy*, (Oxford: Rowman& Littlefield, 2005), p.159

China's political and cultural influence can be considered as strongest in Asia. The largest proportion of her trade has been increasingly conducted with her Asian neighbors.⁴ China's economic intention toward the ASEAN members is not for a pure economic reason but it mixes with a grand political and strategic significance⁵. The reasons why China actively supports the regional arrangement with her Southeast Asian neighbors, especially the creation of the ASEAN-China Free Trade Area (ACFTA) can basically be seen from three dimensions: Cultural, Political, and Economic dimensions.

2.1. Cultural Dimension

There is a significant relationship between culture and economic development in East Asia.⁶ China tries to promote its culture together with economic development. The relationship between China and the Southeast Asian countries finds its roots in its beginnings where China always considered itself as the centre of civilization in which it had a sphere of influence over the other countries in the region⁷, as the centre of Asian civilization and when Chinese culture had a great influence on her Asian neighbors⁸. Advanced culture is one of the Three Represents developed by China in 2000. Therefore, in order to maintain and strengthen her cultural influence, China assists in creating more contacts through trade and investment. One may argue that the idea of cultural imperialism still exists in the school of thoughts of Chinese leaders.

The Free Trade Area between the ASEAN countries and China can encourage the business opportunity for ethnic Chinese in ASEAN countries since many ethnic Chinese are dealing with business activities and these Chinese networks have become "an efficient institution that supersedes both market mechanisms and organizational hierarchy in Southeast Asia".⁹ Therefore it creates a kind of cultural network among the mainland Chinese and overseas Chinese in ASEAN countries. Moreover, strong economic relations between China and ASEAN would help promote Chinese culture through language (Mandarin). ASEAN

⁴ Robert Sutter, *China's rise in Asia: Promises and Perils*, Ibid., p. 2

⁵ Jianwei Wang, "China's Multilateral Diplomacy in the New Millennium", Ibid., p. 169

⁶ See Timothy Brook and Hy V. Luong, *Culture and Economy: The shaping of Capitalism in Eastern Asia*, (Michigan: The University of Michigan Press, 2002)

⁷ Frank Umbach, "ASEAN and Major Powers: Japan and China Changing Balance of Power?" In Jorn Dosch and Manfred (eds.), *International Relations in the Asia-Pacific: New Patterns of Interest, Power and Cooperation*, (New York: Munster, 2000), p. 173

⁸ Samuel S. Kim, *China and the World: Chinese Foreign Policy Faces the New Millennium*, (USA: Westview Press, 1998), p.209

people would learn Chinese in order to do business or work with Chinese companies or study in China.

ACFTA encourages people movements in the region and come along with such wave of people movement cultural exchanges are improving. Chinese culture, especially Chinese language and cuisine, will become more popular once China and ASEAN is integrated into a single market through Free Trade Area (FTA).

2.2. Political Dimension

Since its formation in 1967, ASEAN countries have feared the threat from China.¹⁰ It is argued that China's main intention in creating the ACFTA is more political rather than economical because China would like to reduce the fear of South East Asian Countries concerning the ameliorating influence in both economical and political fronts in the region. Shee argues that the Chinese idea behind the ASEAN-China Free Trade Area is politically motivated rather than economical and even historical and cultural concerns.¹¹ Sharing a similar view with Shee, Sheng contends that the Chinese proposal of the ACFTA is pushed by strategic and not economic factors although he accepts the importance of economic relations between China and the ASEAN.¹²

With strong trade relations, China can advance her political objective since China wishes to possibly reduce the United States' sphere of influence from the Southeast Asian region.¹³ Going along with this argument and emphasizing the role of the powerful countries in East Asia, Takashi posits that "China acknowledges the unity and integration of ASEAN as a prerequisite for an East Asian community and it would be a significant task to remove the ASEAN's concern about its possible marginalization within East Asia, where the three Northeast Asian countries are dominant."¹⁴

⁹ Timothy Brook and Hy V. Luong, *Ibid.*, p.152

¹⁰ Denny Roy, *China's Foreign Relations*, (Oxford: Rowman & Littlefield, 1998), p.175

¹¹ Shee Pon Kim, "East Asian New Regionalism: Toward Economic Integration?", *Ritsumeikan International Affairs*, Vol. 1 (2003), p.57

¹² Sheng Lijun, "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivation", ISEAS Working Paper: International Politics and Security Issues, Series No. 1 (2003), 34 pages available at <http://www.iseas.edu.sg/ipsi12003.pdf>, last access on November 3, 2005

¹³ See Dana R. Dillion and John J. Tkacik, "China and ASEAN: Endangered American Primacy in Southeast Asia", *The Heritage Foundation*, available at the Heritage Foundation Website www.heritage.org, Last Access on October 19, 2005

¹⁴ Takashi Terada, "Creating an East Asian Regionalism: The institutionalization of ASEAN+3 and China-Japan Directional Leadership", *The Japanese Economy*, Vol. 32, No. 2, Summer 2004, p. 81

To calm down the fear of Chinese dominance in the region, Chinese Premier Wen Jiabao confirmed that “China's development is not a threat but a benefit to the ASEAN.”¹⁵ In addition, the Chairman of the ASEAN-China Business Council, Pyone Maung Maung stated that “The ASEAN-China Free Trade Area would certainly create a win-win situation”¹⁶ and Zhou Keren, the Vice-Minister of Foreign Trade and Economic Cooperation stated that “the opening of the China-ASEAN Free Trade Area will not only help step up bilateral economic and trade exchanges and boost common economic development, but will also improve existing friendly relations between China and ASEAN nations and help maintain a peaceful and stable situation in Asia with mutual trust among all neighbors.”¹⁷

Concerning the conflict boiling in the South China Sea, the potential issue that could deteriorate regional stability and prosperity, China might want to use its economic interdependence as a tool to squelch the problem with peaceful means which was mentioned in the Xinhua News saying China would like to use ASEAN-China Free Trade Area as a means to avoid the use of force in solving the dispute over the South China Sea.¹⁸ China and ASEAN want to improve trust through the economic growth rate.¹⁹

China's incentive in creating the ACFTA is in part because of China's foreign policy's fight against the “hegemonies”, “power politics”, and “cold war thinking” of the United States.²⁰ China is under US pressure to reevaluate its national currency, the Yuan, up to the satisfactory level that the US wants but China refuses to do so and views the ASEAN as an ally to counter balance against the increasing U.S. pressures over the revaluation of the Yuan (Chinese currency).²¹ The ACFTA could enhance the overall bargaining power of China *vis-à-vis* the United States as argued by Morrison and Suhrke²². But it should be noticed that China considers US market as a main driving force for Chinese economic growth, so there are some constraints for Chinese response to the US's demands. Stick is not the only tool of China's US policy but carrots because China considers US as a main machine of Chinese economic growth.²³

¹⁵ Xinhua (China), Nov 23, 2004

¹⁶ Xinhua (China), Dec 16, 2002

¹⁷ Xinhua (China), May 09, 2002

¹⁸ Takashi Terada, *Ibid.*, p. 68

¹⁹ Denny Roy, *China's Foreign Relations*, *Ibid.*, p.177

²⁰ Robert G. Sutter, *Ibid.*, p. 180; Denny Roy, *Ibid.*, p.177

²¹ Takashi Terada, *Ibid.*, p. 68

²² Morrison & Suhrke, *Strategies of survival*, (New York: St. Martins Press, 1979), p. 11

²³ See John W. Garver, “China's US policies”, in Yong Deng and Fei-Ling Wang (eds.), *China Rising: Power and Motivation in Chinese Foreign Policy*, (Oxford: Rowman & Littlefield, 2005), pp.201-243

Moreover, Chinese motive behind the creation of ACFTA is to compete with Japan in terms of regional leadership. Japan feels that the development of ACFTA has put more pressure for Japan's keener interest in furthering relations with ASEAN.²⁴ Politically, China wants to move forwards in efforts that will bind the ASEAN into her sphere of influence through economic interdependence. China may also have the intention of reducing Japanese influence from this region because Sino-Japan relations are more conflicting than cooperative, which can be exemplified by the past behavior of the former Japanese Prime Minister Koizumi's visit to the Yasukuni Shrine and Japan's pro-United States foreign policy under Koizumi's administration.

To conclude here, the China-ASEAN Free Trade Area is one of China's foreign policy's tools used to send the message to the ASEAN countries that China is not a threat but an economic partner.²⁵ At the same time China wants to reduce the influence of the US in the region, and may wish to compete with Japan in regional leadership.

2.3. Economic Dimension

Historically, the relationship between China and its Asian neighbors can be traced back to the Han Dynasty when the suzerainty of the Chinese empire was widely accepted.²⁶ China used to have a larger economy than those of the West at the beginning of the sixteenth century, but China lost the opportunity to compete with the West because it did not use its advantage in spreading its influence through trade with her Asian neighbors (except for a short period during the Ming Dynasty).²⁷ Therefore it is a good experience for China to consider the importance of regional integration through trade with her neighbors.

Trade is seen as being "mutually advantageous among nations, not cutthroat competition for wealth and power".²⁸ The regional economic integration among developing

²⁴ Takashi Terada, "Creating an East Asian Regionalism: The institutionalization of ASEAN+3 and China-Japan Directional Leadership", *The Japanese Economy*, Vol. 32, No. 2, Summer 2004, p. 69

²⁵ See Shee Poon Kim, "Is China a threat to the Asia-Pacific Region?", in Wang Gungwu and John Wong (eds.), *China's Political Economy*, (Singapore: Singapore University Press, 1998), pp. 139-358.

Shee argues that China is not a real threat and he suggests Positive Cs including consultation, consensus, compromise, coordination, cooperation, communitarianism, and coexistence as a fundamental tool to study China's rising power in the region.

²⁶ Francois Gipouloux, "Globalisation and Regionalization in East Asia: Stakes and Strategies" in "*Regional Economic Strategies in East Asia*" edited by Francois Gipouloux, (Tokyo: Maison Franco-Japonnaise 1994), p.29

²⁷ Steven Chan, *East Asian Dynamism: Growth, Order, and Security in the Pacific Region*, (Oxford: Westview Press, 1993), p. 16

²⁸ David N. Balaam and Michael Veseth, *Introduction to International Political Economy*, (New Jersey:

countries is to promote trade and strengthen the international competitiveness of developing countries to face competition in the global market.²⁹ With access to the outside market, domestic firms can achieve economies of scale, which would enable them to lower unit production costs.³⁰ With all these ideas in mind, China, as well as ASEAN nations, try to create a trade zone for mutual benefit as Kim noted that international economic relations are gaining more and more influence on the shaping of China's foreign policy.³¹ Since the 1990s, there has been an increasingly close economic cooperation between China and the ASEAN and this leads to the argument elaborated by Little holding that East Asia prospered because of good policies that represented the combination of free trade and free markets.³²

China's foreign policy in regards to East Asian regional integration is both economically and politically motivated³³ with emphasis on the economic than political factor. China needs material resources in order to fulfil her demand of industrialization and modernization which are the main pillars of Chinese development policy, especially after Jiang Zemin's economic reform policy. Moreover, Chinese productivities are more than domestically needed and the Chinese export level is decreasing, due to some restraints from quotas on Chinese products in Europe and US, therefore China needs to find a new market especially in developing countries since Chinese products are competitive in price and of acceptable quality.³⁴ Therefore the closer the economic interdependence between China and the ASEAN would help China continue its economic development strategy and it also can become a factor pushing China to the "economic center of gravity in Asia".³⁵ It can be foreseen that an economic factor, including a "widening and deepening of trade and investment", become "the key in Sino-ASEAN Strategic Partnership".³⁶

In order to prove the strong economic relations between China and ASEAN countries, the following describes some facts regarding trade and investment. These two

Prentice-Hall, 2001), p. 51

²⁹ Charles Oman, "Globalization and Regionalization: Challenges for developing countries", OECD, 1994

³⁰ De la Torre, A. and Kelly M.R., "Regional trade arrangements", Occasional paper No. 93, Washington D.C.: *International Monetary Fund*, 1992

³¹ Samuel S. Kim, *Ibid.*, p.36

³² Little, I.M.D. *Economic Development: Theory, Policy, and International Relations*, (New York: Basic Books, 1982) quoted by Iyanatul Islam and Anis Chowdhury, *The Political Economy of East Asia*, (Oxford: Oxford University, 2000), p.2

³³ Robert Taylor, *Greater China and Japan: Prospects for an economic partnership in East Asia*, (London: Routledge, 1996), p. 129

³⁴ Sheng Lijun, "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivation", *Ibid.*, p. 19

³⁵ Dana R. Dillion and John J. Tkacik, "China and ASEAN: Endangered American Primacy in Southeast Asia", *The Heritage Foundation*, October 19, 2005, www.heritage.org

³⁶ Shee Pon Kim, *China and the ASEAN States*, Lecture Note, Niigata: IUJ, 2005

figures are significant in showing that China's economic interests with ASEAN are large and continue to increase.

Growing China-ASEAN trade

Statistics from the Chinese Ministry of Commerce show that the trade volume between China and ASEAN countries soared at a pace of 20 percent a year on average since 1990. A historic record was set in 2003 when the trade between the two sides valued at 78.2 billion US dollars, 90 times as much as that in 1978.³⁷ In recent years, China and ASEAN countries have seen an annual growth of 30-50 percent in trade and have seen ASEAN countries become China's fourth biggest trading partner in the first half of the year 2004 with the two-way turnover reaching nearly US\$59.8 billion. The China-ASEAN trade stood at US\$105.9 billion in 2004.³⁸ It is evident that China could gain and benefit a lot economically from this ACFTA since after the establishment of the ACFTA, China's exports to ASEAN countries is expected to increase by 10.6 billion US dollars.³⁹ President Hu Jintao states that the goal is to bring the China-ASEAN trade to 200 billion dollars before 2010.⁴⁰ In the long term, the proposed China-ASEAN free trade area could favor China more than the other members.⁴¹

Growing Chinese Investment in ASEAN

China's interest in Southeast Asia is not merely limited to trade. In the past two years China has poured Official Direct Investment (ODI) in the region.⁴² Chinese investment in the ASEAN—endowed with natural resources—remained modest in 1998 and climbed up in 1999 and 2000. In 1999, the Chinese government approved an investment of \$72 million in ASEAN countries. In 2000, it jumped by 50 per cent to \$108 million.⁴³ South East Asia

³⁷ *Xinhua* (China), Nov 03, 2004; *Times*, The (United Kingdom), Feb 09, 2004

³⁸ ASEAN-China Economic Consultation Focuses on Free Trade Area, <http://www.china.org.cn/english/international/143387.htm>, retrieved October 12, 2005; *Xinhua* news agency, Beijing, 29 Sep 05

³⁹ *Xinhua* (China), Feb 25, 2003

⁴⁰ <http://www.aseansec.org/afp/109.htm> last access on October 25, 2005; *Kyodo News International* (Japan), Apr 27, 2005

⁴¹ *Australian*, The, DEC 04, 2004

⁴² Stephen Frost, "Mainland Outward Direct Investment in ASEAN: A New Form of Regional Bilateralism?", *Southeast Asia Research Working Paper Series No.67*, 2004, p. 8 available at "http://www.cityu.edu.hk/searc/WP67_04_Frost.pdf", last access October 26, 2005

⁴³ available at "<http://www.blonnet.com/2002/06/27/stories/2002062700040800.htm>", last access on October 26, 2005

would become one of the China's strong industrial bases.⁴⁴ Therefore the ACFTA could promote Chinese investment in ASEAN countries because it would cost less than China in some areas, allow re-importation into the Chinese market or any other markets in Japan, US, and Europe, and integrate the ASEAN market within the framework of ACFTA.

With this arrangement, China would be like Japan, catching up with Japan's standard manufacturing industries and high technology.⁴⁵ This trend will force China to re-export its low level manufacturing industries to South East Asian countries.

3. ASEAN-China Free Trade Area and its impact

3. 1. Overview of ASEAN-China Free Trade Area

The ASEAN, with its 10 members in Southeast Asia, was established in 1967. Since China became the ASEAN's dialogue partner in 1996, the bilateral cooperation, especially within economy and trade, has witnessed a comprehensive development.⁴⁶ Chinese President Jiang Zeming attended the ASEAN's thirtieth anniversary celebration and informal summit and signed the first Chinese-ASEAN joint statement in December 1997.⁴⁷ The ASEAN and China have made a further step in strengthening their relationship after China proposed an FTA embracing China and all the ten ASEAN members in November 2000. China signed the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation during the ASEAN-China Summit in Phnom Penh in 2002, all of which are very important for peace, security, stability and prosperity in the region.

In the year 2004, leaders from China and the Association of Southeast Asian Nations (ASEAN) attended the signing ceremony of agreements on trade, communications, transportation and dispute-solving mechanisms between China and the ASEAN countries in the city of Vientiane, the capital of Laos, on November 29, 2004. According to the agreement, starting from July 1, 2005, China and ASEAN countries have started their tariff-

⁴⁴ Stephen Frost, *Ibid.*, p. 7

⁴⁵ Ippei Yamazawa, "Has Japanese economy recovered?", GSIR Special Lecture, IUJ, Niigata: November 30, 2005

⁴⁶ China acceded to the Treaty of Amity and Cooperation in Southeast Asia, adopted the Declaration on the Conduct of Parties in the South China Sea and signed the Framework Agreement on ASEAN - China Comprehensive Economic Cooperation during the ASEAN-China Summit in Phnom Penh in 2002, - all these are very important for peace, security, stability and prosperity in the region

⁴⁷ Robert G. Sutter, *China's Rise in Asia: Promises and Perils*, (Oxford: Rowman & Littlefield Publishers, 2005), p.178

reducing process. The two sides would gradually reduce or cancel tariffs on 7,000 kinds of products. Under the agreement, China and six of the “old” ASEAN members will complete the building of the free trade area by year 2010 while the other four “new” members will enjoy another five years in a “transitional period” and complete the building of the free trade area in 2015.⁴⁸ (The “old” ASEAN members are Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, while the “new” ASEAN members are Cambodia, Laos, Myanmar and Vietnam).

In the free trade pact, the products will be classified as to whether they belong to the “normal track” or “sensitive track” for tariff reductions. The tariffs for products under the normal track will be progressively reduced to zero from 2005 to 2010, while those under the sensitive track will be progressively reduced from between zero and 5% between the years 2012 and 2018. Earlier way, the ASEAN governments have agreed to join China's early harvest program involving farm products. The scheme is a bilateral arrangement forged by China with ASEAN countries to reduce the tariff on farm goods.⁴⁹ In addition, over 500 agricultural products will enjoy the zero tariff treatment before 2006 in the China-ASEAN area. The two sides will trigger negotiations on the zero tariff timetables for another 5,000 products.⁵⁰

The free trade area will become the world's largest regional trade block composed of developing nations in terms of its economic scale. The China-ASEAN Free Trade Area would create the world's biggest trade zone which would cover nearly 2 billion consumers with a combined gross domestic product (GDP) of about two trillion dollars.

3.2. Its impact on ASEAN

The effects of ACFTA in the region are significant because China is an emerging economic power in the region with 1.3 billion people. China is ASEAN's fifth largest trading partner. This displays the importance of bilateral trade, but the fact that they are not in each other's top export markets suggests a competitive implication. Both are competing for consumers, capital and technology from developed countries.⁵¹

⁴⁸ *Xinhua* online, “http://news.xinhuanet.com/english/2004-11/30/content_2275112.htm”, last access on October 7, 2005

⁴⁹ *BusinessWorld* (Philippines), Sept. 16, 2005

⁵⁰ *Xinhua* (China), Jul 17, 2003

⁵¹ *China Daily* online, “<http://english.sohu.com/20050629/n226123515.shtml>”, retrieved October 7, 2005

The establishment of the ACFTA will offer big opportunities for all the ASEAN members because it allows the gradual removal of the trade barriers amongst them and remarkably facilitate the flow of goods, services and investment. Freer trade relations will benefit both. The ACFTA will allow all those concerned to realize economies of scale and improve efficiency.⁵² The free trade area between China and the Association of Southeast Asian Nations (ASEAN) offers an important channel for both sides to enhance cooperation, promote development and create a win-win situation.⁵³

In spite of strong competition between China and ASEAN countries due to a similarity in production and in terms of attracting foreign direct investment, China and ASEAN can complement each other when China and ASEAN countries can “interlock their economies through economic integration”.⁵⁴ The Chinese economy grew by 9.5% in 2004 compared to 9.3% in 2003, while the ASEAN grew by 6.1% in 2004 which was an improvement to the previous year’s 5.2%. The bilateral trade relations between the ASEAN and China have increased rapidly from USD78 billion in 2003 to USD100 billion in 2004. In the first half of 2005, trade between the ASEAN and China increased by 25%. China is the fourth largest trade partner of ASEAN.⁵⁵ Ong Keng Yong, the ASEAN’s secretary general, stressed that the trade volume between China and ASEAN reached 84.6 billion US dollars in the first 10 months of 2005, up 35 percent year-on-year. It is estimated that the bilateral trade volume reach 100 billion US dollars in 2006.⁵⁶

3.3. Its Impact on Cambodia

China's association with the ASEAN is boosting the economy of Cambodia because Cambodia is a member of the ASEAN. Cambodia can gain a bigger market and can attract more foreign direct investment, especially from China due to Cambodia’s richness of natural resources that are in high demand from China, to continue its economic growth. Chinese economic expansion has created demands of its own. With annual growth rates of 8 to 9

⁵² *China Daily online*, “<http://english.sohu.com/20050629/n226123515.shtml>”, retrieved on October 7, 2005

⁵³ *People’s Daily online*, “http://english.people.com.cn/200407/17/eng20040717_149932.html”, retrieved on October 6, 2005

⁵⁴ Jonh Wong and Sarah Chan, “China ASEAN Free Trade Agreement: Shaping future economic development”, *Asian Survey*, 43:3, May/June 2003 pp. 507-526

⁵⁵ Association of South East Asian Nations Website, “<http://www.aseansec.org/afp/44.htm>”, retrieved October 7, 2005

⁵⁶ *Xinhua online*, “http://news.xinhuanet.com/english/2004-11/30/content_2275112.htm”, retrieved October 7, 2005

percent, China's industry has an expanding need for raw materials, energy and manufactured parts and has turned to Cambodia as one of its major sources. China has become one of Cambodia's major Foreign Direct Investment (FDI).⁵⁷ Chinese investment in Cambodia has increased remarkably since the late 1990s.

The ACFTA can contribute to the strengthening of the traditionally good relationship between China and Cambodia. China has agreed to grant preferential tariff treatment on products from Cambodia and has offered to write off Cambodia's old debts to China.⁵⁸ China and Cambodia have expanded their economic and trade cooperation and have kept close contacts and cooperated together in recent years. These contacts have played an active role in promoting bilateral relations.⁵⁹ In 2002, Sino-Cambodian trade volume reached US\$ 0.27 billion, an increase of 15% from 2001. China's exports to Cambodia are textiles, steels, electric device, metals machinery and building materials and its imports from Cambodia are rubber, plywood, panels and furniture.⁶⁰ In 2003, the bilateral trade between China and Cambodia yielded a total of more than 320 million dollars, an increase of 16.1 percent compared to 2002.⁶¹ During a meeting with her Cambodian counterpart Sar Kheng, Visiting Chinese Vice-Premier Wu Yi said the two governments would make efforts to boost annual bilateral trade volume to 500 million US dollars in 2005 from 300 million dollars in 2003. Wu said that the Chinese government will encourage its enterprises to invest and cooperate in Cambodia's infrastructure, processing industry and resources development. Wu also pledged that the Chinese government will continue to provide possible assistance to Cambodia to help develop its rural economy.⁶²

Sino-Cambodia relationship has come to the point that Cambodia is China's closest friend in Southeast Asia and reciprocating that, Chinese political and economic support to Cambodia has been ever generous and free from big conditions.⁶³ Chinese State Councilor Tang Jiaxuan described China-Cambodia relations as one between "truly good neighbors and good friends."⁶⁴ Chinese Premier Wen Jiabao noted that "the Chinese government follows the principle of building friendship and partnership with neighbors, and the guideline of building

⁵⁷ *Xinhua General News Service*, March 22, 2004

⁵⁸ Takashi Terada, *Ibid.*, p.80

⁵⁹ *Xinhua General News Service*, January 19, 2005

⁶⁰ Ministry of Foreign Affairs of People's Republic of China, available at <http://www.fmprc.gov.cn/eng/wjlb/zzjg/yzs/gjlb/2696/default.htm>, last access on November 13, 2005

⁶¹ *Xinhua General News Service*, March 22, 2004

⁶² *Xinhua General News Services*, March 22, 2004

⁶³ Robert G. Sutter, *China's Rise in Asia: Promises and Perils*, *Ibid.*, p. 178

⁶⁴ *Xinhua General News Services*, April 21, 2004

a friendly, peaceful and prosperous neighborhood. China will enhance cooperation with Cambodia according to the above principles”.⁶⁵

From 1997 to 1999, China provided aid and loans to Cambodia amounting to US\$240 million.⁶⁶ In November 2003, Chinese Ambassador to Cambodia, Ning Fukui signed two agreements with the royal government of Cambodia on economic and technical cooperation. Under the first agreement, China will grant \$6.1 million Cambodian government.⁶⁷ In April 2004, when Prime Minister Hun Sen visited China, he signed 16 agreements with China for aid and loans. Moreover, China would lend \$500,000 to construct a road to the Lao border and \$1.8 million to develop telecommunications in rural areas.⁶⁸ Recently on January 6, 2005 Cambodia and China signed a contract on the design of a China-aid new building of the Office of the Council of Ministers.⁶⁹ On August 11, 2005, Chinese President Hu Jintao vowed to promote cooperation in agriculture, natural resources, education and sanitation between China and Cambodia.⁷⁰

The Cambodian Prime Minister Hun Sen addressed at the second China-ASEAN business and investment summit held in Nanning, Guangxi Zhuang Autonomous Region, PRC, on October 19, 2005 that “I strongly believe that the establishment of ASEAN-China Free Trade Area will further strengthen and expand Cambodia's opportunity in socio-economic development. I wish to take the opportunity, once again, to thank the government of the People's Republic of China for opening a market to us with no tariff and no quotas for 418 items of Cambodian goods. I strongly appeal to Cambodian and Chinese as well as ASEAN businessmen to explore means to better utilize the preferential treatment in order to export goods within the range of the 418 items to the Chinese market. Indeed, you all can come and invest in Cambodia to produce those goods for exporting to China”.⁷¹

4. Conclusion

Cultural, political and economic interests can explain Chinese motive behind the creation of ASEAN-China Free Trade Area (ACFTA). The ASEAN countries feel secure in continuing

⁶⁵ *Xinhua General News Services*, April 20, 2004

⁶⁶ Stephen Frost, Kevin Hewison and Sanjiv Pandita, “The Implications for labor of China's direct investment in Cambodia,” *Asian Perspectives*, December 2002. pp. 201-226

⁶⁷ *Xinhua General News Services*, November 27, 2003

⁶⁸ *Cambodia Daily*, 26 April 2004

⁶⁹ *Xinhua Economic News Service* January 7, 2005

⁷⁰ *Xinhua news agency*, Beijing, 11 Aug 2005

synergetic activities with China without the fear of threat when there is a strong economic tie between China and the ASEAN. The ACFTA can be seen as a means to an end in terms of political and strategic goals because economic interdependence among countries in the region can provide peace and stability. But in the long term, the economic factor seems to be both a means and an end when the ASEAN no longer perceives China as a threat.

The ACFTA could secure the win-win situation when trust, understanding, neighborliness, and a mutually beneficial and comprehensive partnership become the philosophy or ideology of ASEAN and Chinese people.⁷² This ACFTA can contribute a great deal to business opportunities, economic development, prosperity, and stability in the region. Cambodia, as one of the ASEAN members, can enjoy more preferential treatment from China especially in trade, investment and financial assistance. While Cambodia is importing more products from China, Cambodia could become also home to one of China's manufacturing plants. When China's economy is blossoming, it also benefits Cambodia.

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⁷¹ Cambodia New Vision Home Page "<http://www.cnv.org.kh/>", last access on November 1, 2005

⁷² See Ong Keng Yong, "Developing ASEAN-China Relations: Realities and Prospects", Keynote Address at the ASEAN-China Forum 2004, Singapore, 23 June 2004, available at www.aseansec.org/16256.htm, last access November 3, 2005

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Appendix: ASEAN-China Free Trade Agreement

Under the Early Harvest Program, live animals, meat and edible meal offal, fish, dairy produce, other animal products, live trees, edible vegetables and edible fruits and nuts, as well as other specified products now enjoy the following ACFTA tariffs:

China's (MFN) Applied Tariff Rates:	ACFTA Tariff Rate	
	2005	2006
Greater than 15%	5%	0%
Between 5% (inclusive) and 15% (inclusive)	0%	0%
Less than 5%	0%	0%

Under the Trade in Goods Agreement, all other products, which are listed under the Normal Track now enjoy the following ACFTA tariffs:

China's (MFN) Applied Tariff Rates:	ACFTA Tariff Rate	
	2005	2007
Greater than or equal to 20%	20%	12
Between 15% (inclusive) and 20%	15%	8
Between 10% (inclusive) and 15%	10%	8
Between 5% and 10%	5%	5
Less than and equal to 5%	Standstill	

As a general rule, to enjoy ACFTA tariff rates your product must originate from ASEAN and/or China. To be classified as originating at least 40% of a product's local content should have come from ASEAN and/or China. This 40% local content requirement refers to both single country and cumulative content.

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