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**ASEAN-CHINA FTA: ADVANTAGES, CHALLENGES AND  
IMPLICATIONS FOR THE NEWER ASEAN  
MEMBER COUNTRIES**

*“The most important trip you may take in life is meeting people halfway”*

**Henry Boye**

*“Judge a tree from its fruit, and not from its leaves.”*

**Euripedes**

*ASEAN has been and will remain the most important trade and investment partner of Cambodia, Lao People’s Democratic Republic (PDR), Myanmar and Viet Nam (or ASEAN-4). China’s accession to the World Trade Organization (WTO) and the proposed ASEAN-China Free Trade Agreement (FTA) will provide greater market access in resource- and agro-based products and some manufactured goods for ASEAN-4. There will be, at the same time, much greater competition from China in both ASEAN-4’s home and third-country markets, especially in a wide range of labour- and technology-intensive manufactures. Special and differential (S & D) treatment and flexibility for ASEAN-4 will be necessary to enable a more effective participation by the newer members in the proposed ASEAN-China FTA. In this connection, two proposals are made for enhancing domestic entrepreneurship and inter-firm networking, and for monitoring and benchmarking supply capabilities and competitiveness at the enterprise level within ASEAN6/4 and China.*

**I. Introduction**

Globalization has provided a dynamic platform to sustain high and durable rates of economic growth, structural transformation and social development for many developing countries. In particular, it has opened up unlimited opportunities for gainful co-operation and integration in trade, investment and services among countries and communities, including China and most ASEAN members in this part of the world. In this context, leaders of the two sides decided in Singapore during

November 2000 to explore measures to widen and deepen the process of mutual economic co-operation and integration. A year later in Brunei Darussalam, they endorsed a proposal to set up an ASEAN-China FTA within 10 years; negotiations on trade liberalization for products under the “early harvest” programme were then initiated.

Subsequently, a Framework Agreement on Comprehensive Economic Co-operation (FACEC) between ASEAN and China was signed in Cambodia in November 2002. The Agreement provides for, among other things, the completion of negotiations on trade in goods by mid-2004. It also envisages the operation of a FTA between China and, on the other hand, the six older member countries (or ASEAN-6) from 2010. FTA arrangements between China and ASEAN-4 will be in force from 2015; there are three least developed countries (LDCs) and an economy in market-based transition among the newer member countries. The Framework Agreement is likely to become another milestone in the unfolding history and process of multi-faceted growth and integration in trade in goods and services, and in investment among developing economies in East and South-East Asia.

The following paper first discusses in section II the current patterns of trade and investment relationships between China and ASEAN-4. It then considers the potential and opportunities on the demand side, including additional market access for resource-based products and for intra-industry activities, which can be expected from the proposed ASEAN-China FTA (section III). Section IV examines the supply-side impact on ASEAN-4 as a result of China’s proven competitive strength, recent WTO membership, and proposed free-trade arrangements with ASEAN. Due emphasis is given to the additional competition to be managed by ASEAN-4 in both home and third-country markets, especially on a wide range of labour- and technology-intensive manufactures. The nature and justification for special and differential (S&D) treatment and flexibility for low-income and least developed countries are dealt with in section V, with special reference to non-WTO members within ASEAN-4 in the context of the proposed ASEAN-China FTA. The promotion of SME competitiveness and capacity building are among the focal areas of economic co-operation within the Framework Agreement. In this context, section VI contains two actionable proposals for capacity building in entrepreneurship development and inter-firm networking within and across borders, and for monitoring and benchmarking enterprise capabilities and competitiveness in ASEAN-6/4 and China. The paper ends

with a number of concluding observations on the challenging management of greater interdependence between ASEAN and China ahead (section VII).

## **II. Current Relationships in Trade and Investment**

There is a significant amount of unrecorded cross-border trade, involving largely consumer goods and raw materials, among economies of the Greater Mekong Subregion (GMS). Given this qualification, a number of observations can be made from the patterns of trade and investment interaction between ASEAN-4 and China in 1995 and 2000 (Table 1). One, China's trade share with the newer ASEAN members has risen, especially on their import side. The exception is Myanmar where bilateral trade declined appreciably in the late 1990s. Excluding Myanmar, the relative share of merchandise trade between China and ASEAN-3 more than doubled from 4.6 per cent in 1995 to 9.3 per cent in 2000 (equivalent to just over US\$ 3.1 billion). This is much faster than the growth of ASEAN trade with China as a whole.

Two, China and Viet Nam have become comparatively important as trade partners – in terms of both the size and the rate of expansion of merchandise trade, from US\$ 0.7 billion in 1995 to over US\$ 2.9 billion in 2000. Nevertheless, ASEAN as a whole remain the most important trade partner of ASEAN-4 with a relative trade share of almost two-fifths (US\$ 15.9 billion) in 2000 (Table 1). In this connection, there was a significant fall-off in Cambodian exports to ASEAN, especially Singapore and Viet Nam, from 2000 because of the massive increase in exports to the United States.<sup>1</sup>

Three, trade in services (notably tourism) has also risen appreciably between ASEAN-4 and China. In particular, the number of Chinese tourists going to Viet Nam constituted one-third (or some 626 thousand persons) of the total in 2000, compared to just 5 per cent during 1995 (Table 1). Again, however, ASEAN generally accounts for the large bulk of tourists visiting the other three newer member countries. The potential for two-way tourism is really inviting. At present, ASEAN tourists were less than 13 per cent of the total tourist arrivals (13.1 million) in China during 2000 while Chinese tourists in ASEAN made up just 5 per cent of the 37.8 million persons visiting ASEAN in the same year (Table 1).

PLEASE INSERT TABLE 1 NEAR HERE

Four, China has been a destination for foreign direct investment (FDI) from several ASEAN members -- directly or via Hong Kong Special Administrative Region (SAR) of China.<sup>2</sup> Likewise, several ASEAN countries have also been the host to important FDI flows from China, both directly and via third-party ventures. However, China is a net investor in ASEAN-4, notably with some large investment projects in Cambodia during the second half of the 1990s. Nevertheless, ASEAN-6 as a whole remains by far the most important source of FDI for most ASEAN-4 (Table 1).

In general, a large proportion of FDI from China is channeled to resource-based activities in ASEAN-4. Manufacturing for the export and, to a much less extent, domestic markets is also another important focus of such investment. In addition, there is considerable FDI “in kind” – that is the investors supplying manufacturing equipment and machinery as equity in the joint ventures while their local partners provide land and building and related infrastructure.<sup>3</sup>

### **III. Demand-side Potential and Opportunities**

There is a great scope for greater ASEAN-China complementarities in economic development and structural transformation (Wattanapruittipaisan 2001). As income and the standard of living rise, so will domestic demand for more as well as better goods and services for consumption and investment purposes. Typically, the additional consumption is met in part by imported products, and by outward travel for tourism and other purposes, especially education and training. Imported consumer goods and overseas travel, for example, have served both as an incentive for work and, too, as an outlet for unsatisfied (or pent-up) demand. Surely, ASEAN will be in a position to supply competitively some of such import demand for goods and services from China, and vice versa.

#### *III.1 Overview*

In the above context, four positive factors operate at the macroeconomic level. One, China has a huge economy and an equally huge population of some 1.2 billion persons. The country’s GDP, for example, reached US\$ 1,159 billion in 2001, compared to an average GDP of US\$ 576 billion for ASEAN during 2000-2001. What is more, China has been among the fastest growing economies in the world, with output expansion averaging some 9 per cent a year in the past two decades.

Equally striking is that GDP in China continued to expand by around 7 per cent a year during the financial and economic crisis of 1997-1998, and the global and regional slowdown in 2001<sup>4</sup>.

Two, income per head of population in China almost tripled -- from US\$ 342 to US\$ 911 between 1991 and 2001. This income level, which doubles every 7 to 8 years with the maintenance of the country's high-growth path, will soon approach the average per capita income within ASEAN as a whole (about US\$ 1,137 in 1991 and US\$ 1,038 in 2001). There is, of course, a big gap between per capita income in Singapore and Brunei Darussalam and, on the other hand, the average income level among the remaining member countries<sup>5</sup>. Relative to China, however, the rate of expansion in GDP as well as per capita income will likely be slower in most parts of ASEAN in the future.

Three, China's external trade expanded at a double-digit rate for more than a decade before WTO accession; such a rate was twice faster than the global average. Yet, trade penetration remains comparatively limited: the ratio of trade to GDP was still comparatively low at 44 per cent during 2000; the corresponding ratio being over 135 per cent for ASEAN-10 and 78 per cent in the case of ASEAN-4 (Table 1). In addition, the proportion of China's trade with ASEAN to GDP of China, although rising, is very low – for example, from 2.0 to 3.6 per cent between 1991 and 2000. Meanwhile, the value of ASEAN's trade with China relative to ASEAN GDP was less than 6 per cent in 2000; the corresponding figure for ASEAN-4 being just 7.8 per cent (or US\$ 3.8 billion).

Four, the trade flows between exports and imports have been relatively balanced between ASEAN and China. In recent years, some ASEAN-6 members have enjoyed a considerable surplus in merchandise trade with China but the newer ASEAN members tend to record a large trade deficit with China. Large economies, such as that of China, tend to have lower trade/GDP ratios than those of their smaller counterparts. However, an increase of even a few percentage points in the trade/GDP ratios between ASEAN and China can be expected with reasonable confidence (more later). These few points are equivalent to several billions dollars in effective demand on the basis of current trade flows in 2000 (Table 1).

### *III.2 Post-WTO Trade Liberalization*

China joined WTO in December 2001. This is a significant and welcome development for the global community because the country had been negotiating

since 1986 for accession to the General Agreement on Tariffs and Trade (GATT), the WTO predecessor organization. In the intervening period, China became the world's seven largest trading economy, with an annual turnover averaging US\$ 470.5 billion during 2000-2001. The country now accounts for about 4 per cent of global export value, and 3.5 per cent of world imports (UNCTAD 2002: 141). In addition, China is the world's largest destination for FDI among the developing countries, hosting an inflow of US\$ 47 billion in 2001 alone.

Substantial tariff cuts as well as the removal of a variety of non-tariff barriers (NTBs) had already been carried out by China in preparation for membership of the global trading community. The average tariff rate, for example, was slashed from 42.9 per cent in 1992 to 23.6 per cent four years later and to 17.5 per cent in 1999. The effective tariff rate, measured by the ratio of tariff receipts over import value, was only 4.5 per cent during the first half of 1999.<sup>6</sup> China's WTO accession involves a package of further and more comprehensive liberalization in cross-border trade in goods and services.

One, the weighted average tariff on all imports in China will fall to 5.7 per cent with most of the reductions taking place within 2 to 4 years after accession but in no case later than 2010. This rate is slightly higher than that in Japan (4.7 per cent), comparable to that of the United States (5.5 per cent), and slightly lower than that in EU (6.9 per cent) after the Uruguay Round. Notably, tariffs on information technology products (including computers, telecommunications equipment and semiconductors) will go down from an average rate of 13.3 per cent to zero by 2005.<sup>7</sup>

Two, significant commitments have also been made by China to remove NTBs.<sup>8</sup> Imported agricultural products, in particular, face high tariff rates and strong barriers as well. NTBs are converted to their tariff equivalents while market access is also enlarged through the imposition of low tariffs on imports within quota ceilings. Major agricultural commodities of interest to ASEAN and other exporters will be subject to an in-quota tariff level of less than 10 per cent (except sugar) – compared, for example, to an out-of-quota tariff rate of 65 per cent on rice (and wheat). Between 2001 and 2004, moreover, the quota ceilings rise from 1.7 to 2 million tons for sugar, 2 to 3.6 million tons for soybean and palm oils, 3.3 to 5.3 million tons for rice, and 7.9 to 9.6 million tons in the case of wheat. In addition, import licensing and NTBs on 162 out of 377 import items were eliminated upon accession while NTBs on another 75 items are to be removed by end-2003.

Three, extensive liberalization is to be implemented by China as regards the supply of cross-border services. There had been severe restrictions on external participation and foreign presence firstly, in many service sectors and subsectors; secondly, in a large number of geographical locations; and lastly, in terms of the extent and ceiling of equity ownership. These restrictions are being removed and relaxed mostly within 2-4 years after WTO membership. Such liberalization is particularly significant in a wide range of financial services, in telecommunications, and in wholesale and retail trade as well.

### *III.3 Estimated Impact on Trade and Income Growth*

The short- and long-term impact of China's WTO accession has been of great interest virtually across the world. It was examined by at least 20 major econometric and simulation studies (both published and unpublished) between 1996 and 2000. Estimates from these studies are quite diverse – a result of the different sets of assumptions and specifications made as regards the extent and depth of trade liberalization, the sequence of domestic policy and economic responses, and the interactive effects of such responses over time. Nevertheless, some elements of convergence can be drawn from the estimates so far available although the order of magnitude involved are not necessarily uniform and, in several cases, comparable.<sup>9</sup>

One, with WTO membership, China's share in global trade will be considerably higher, by as much as 30 per cent each in both export and import volumes. In particular, the net import of selected agricultural products may increase by US\$ 1.5 billion a year between 2000 and 2009. Meanwhile, annual grain imports may rise by 2 million tons, while those for oilseeds, by 2.5 millions tons. Two, there will be higher GDP growth in China, with the estimated gains in the range of 0.9 per cent to well over 2 per cent on top of the already rapid output expansion (some 7-8 per cent annually) in recent years. Thus, one additional percentage point in GDP is equivalent to almost US\$ 12 billion of domestic resources available for consumption and investment (including via imports).

Regarding ASEAN-China interaction, greater market access and more trade opportunities are likely to materialize directly through trade liberalization measures, and indirectly through the consequent and cumulative enlargement of trade flows coupled with significant income and welfare gains on both sides. There are presently no separate estimates of the positive spill-over effects of China's WTO membership



on ASEAN-4. Several observations, however, can be drawn from the few indicators available for ASEAN.

In aggregate terms, firstly, China's post-accession demand for ASEAN imports will expand by about 10 per cent a year. Thus, the value of such imports will reach US\$ 35.5 billion in 2005, compared to US\$ 22.2 billion in 2000 (ASEAN 2001: 7). Secondly, assuming duty-free access under the ASEAN-China FTA, the export value of six ASEAN members to China would rise by 48 per cent and that of China to ASEAN-6, by 51 per cent. At the same time, the combined GDP of these six ASEAN countries would expand by at least US\$ 5.4 billion (or just under one per cent) while that of China by US\$ 2.2 billion (or 0.3 per cent).<sup>10</sup>

As regards the composition of trade flows, firstly, ASEAN-4 may directly gain some additional market shares in China in resource-based goods. These include notably oil, gas and hydro-energy; several other mineral commodities; many forestry and agriculture items (such as food grains, sugar, edible oils, timber and furniture etc.); and fishery and aquaculture products in fresh, processed and frozen forms. In addition, through rising income and affluence, there will be higher demand from China and ASEAN-6 for a variety of high-value, income-elastic agro-products – including high-quality rice, fish and seafood, cut flowers, tropical vegetables and fruit, nuts and spices and so on (Lam and Wattanaputtipaisan 2001b: 29-30). In the process, furthermore, ASEAN-4 producers can expect a large premium for environmentally preferable, natural products – including those from organic farming, and from farming with plants and species which have not been subject to genetic modification.

Secondly, some ASEAN-4 members can also be suppliers to ASEAN-6 of a variety of assembly services, and of parts or components for electrical and automotive machinery and equipment and for consumer electronics, too. Driven by trade-related FDI, these product categories have become important exports of several ASEAN-6 countries, and many elements within these categories are likely to be competitive in third-country markets or as complementary (intra-industry) inputs for China's export production (ASEAN 2001). As noted earlier, the heavy tariffs and strong NTBs on such imports are being cut substantially by China – for example, from 13.4 to 6.6 per cent on machinery and equipment, and from 31.3 to 14.1 per cent for motor vehicles and parts.

It is possible, furthermore, that the actual increase in trade flows may even be larger, given the likely faster rate of China's imports of ASEAN products relative to

China's imports from all sources. This possibility is attributable to falling prices of traded goods and inputs as a result of mutual trade liberalization, and to greater economic cooperation and integration in the context of FTA arrangements. Higher trade and income growth will also have a positive, flow-on impact on trade in services, ASEAN-China tourism especially, and on two-way FDI flows -- including those channeled to resource-based projects, and to trade-related manufacturing activities and services.

As noted earlier, there is a significant potential for a substantial increase in two-way tourist flows between ASEAN and China, and for service-related FDI in restaurants and tourism facilities, and wholesale and retail trade. In particular, the mutual flows of tourists are still relatively small, especially in terms of the total number of tourists visiting ASEAN or China (table 1). At the same time, the growing markets for eco-tourism, thematic tourism, adventure tourism and multiple-destination tourism remain to be tapped in, as well as by, both ASEAN and China. However, the skills and resource base, and the policy capacity tend to be limited within ASEAN-4, especially among the smaller and least developed economies. This has imposed a severe constraint on domestic and external efforts to induce the needed reallocation of resources to take advantage, directly and via ASEAN-6, of current and emerging trade and investment opportunities, including those in China.

#### **IV. Challenging Supply-side Competition**

Other things being equal, the widening and deepening of market access can be a positive stimulus on domestic economic growth and diversification, social development and poverty reduction in the long term. This accounts for the proliferation of preferential trade arrangements (PTAs) or FTAs, among other trade-facilitating approaches, over the past four decades, especially those coming into force from the 1990s. Increased competition in home and third-country markets, and adaptive structural adjustments and resource re-allocation are among the consequent costs and disruptions. These can be considerable and prolonged in many cases, as experiences have revealed. Nevertheless, they have to be managed by all concerned in a sustainable and forward-looking manner for greater collective efficiencies over the long term.<sup>11</sup>

##### *IV.1. Global and Regional Trade Interaction and Implications*

It is not within the scope of the paper to speculate on the shape of things to come under the proposed ASEAN-China FTA. A number of observations, however, can be made concerning the shifting patterns of trade flows and their economic implications. One, ASEAN-6 will remain an important trade and investment partner for most ASEAN-4 in the foreseeable future. As such, the older members continue to serve as a useful market for ASEAN-4; they can act, too, as a crucial gateway for ASEAN-4's trade in both final export and import products, and in intermediate inputs for processing within ASEAN-6 and, possibly in the longer term, in China as well.<sup>12</sup>

Two, intra-Asian trade has been on the increase – with the Asian newly industrializing economies (NIEs), China and several ASEAN member countries playing collectively an important part. This upward trend augurs well for further advances in trade and investment integration in the coming decades among Asian economies and economic groups (ASEAN-6, ASEAN-4, Asian NIEs and China). China, for example, sourced only 47 per cent of imports from the EU, Japan and the United States in 1999, compared to 54 per cent a decade ago (Table 2). The corresponding figures for ASEAN-6 are 45 and 54 per cent for these two respective periods.

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Three, in the above context, China has developed strong trade and investment linkages with other developing economies in East and South-East Asia. In fact, these economies supplied over one-third each of China's import of agricultural commodities and manufactured products in 1999 (Table 2). Largely as a result, the Asian NIEs and ASEAN-6 have a combined merchandise trade surplus (totaling just over US\$ 2 billions in 2000) with China (UNCTAD 2002: 155-156). On the other hand, the limited supply capacity and competitiveness of most ASEAN-4 members has contributed to their on-going trade deficit with China, as noted earlier (Table 1).

#### *IV.2 Competition in Home and Third-country Markets*

In general, the bigger beneficiaries from China's liberalized and deregulated markets (in goods and services) are developed countries, or developing economies rich in natural resources, scenic tourist attractions and/or at higher levels of industrialization and technological development. The likely beneficiaries among the latter group include the Asian NIEs and several ASEAN-6 members (OECD 2002: 69-78 and 138-156; and UNCTAD 2002: 157-164). These Asian regional suppliers have developed

extensive production and export linkages with China. As such, they are now possessing invaluable first-mover advantage through well- or long-established trade and investment complementarities.

Nevertheless, ASEAN home market as a whole can expect much greater competitive pressures in from China. The products involved include labour-intensive manufactures (such as many lines of textiles and clothing plus consumer electronics, footwear, toys and plastic products). In particular, garment producers at a lower stage of technology sophistication in South Asia and several ASEAN members (both newer and older) are going to feel considerable pressures from home-market penetration and third-market displacement by China in the coming years. The pressures are likely to be intensified with the phasing out of (preferential) export quotas under the Multifibre Arrangement at the beginning of 2005 (UNCTAD 2002; and Walmsley, Terrie and Hertel 2000).

In addition, China also has a competitive edge or has developed competitiveness in a wide range of other manufactures -- including building materials, machinery and electrical appliances, optical instruments, clocks and watches, measuring and checking instruments, metal products and several chemicals. In fact, these manufacture goods accounted for about 70 per cent of all ASEAN imports from China -- with machinery and electrical appliances alone reaching just over one-half of the import value in 1999. Such imports have also expanded faster than ASEAN import of similar products from all other sources during 1993-1999 (ASEAN 2001: 20-21).

Concerning third-country markets, China will likely be a formidable competitor in several export categories of major interest to both the older and newer ASEAN members in the three most important export markets for both ASEAN and China -- namely, the United States, Japan and EU. During the 1990s, for example, China's share doubled to around 20 per cent in the G-7 market for clothing.<sup>13</sup> This gain in market share has occurred largely at the expense of exporters from the Asian NIEs; however, the major ASEAN exporters (Indonesia, Malaysia, Philippines and Thailand) managed to keep their relative share largely constant at around 8 per cent.<sup>14</sup> The G-7 market for footwear is now dominated by China whose relative share was less than 10 per cent in the late 1980s but went as high as 38 per cent in the late 1990s. Again, this has taken place at the expense of both the Asian NIEs and, to a lesser extent, such ASEAN members as Indonesia, Malaysia, Philippines and Thailand (OECD 2001: 138-140).

As regards tourism, the potential for mutual gains is substantial. Out-bound tourists from China amounted to around 10 million with just over one-fifth heading for ASEAN. Comparatively, however, the number of Chinese tourists in ASEAN-4 (except Viet Nam) has been much fewer (Table 1). Meanwhile, the growing markets for eco-tourism, adventure tourism, and multiple-destination tourism remain to be tapped. The major selling points for such “niche tourism” – namely naturalness, rarity, and pristine quality – are in good supply, particularly within ASEAN-4.

There has, indeed, been a considerable amount of FDI and many investment projects in infrastructure development with a positive spillover effect on tourism development generally. In particular, ASEAN-6 has been an important source of investment capital in tourist-based hotels, resorts, and facilities in the newer ASEAN members since the early 1990s. But such investment resources have been confined largely to more accessible localities and internal regions, or “cheery picking” in nature. Within ASEAN-4, meanwhile, good quality accommodation is not always available or affordable for different classes of tourists and at various scenic locations. In addition, a large number of tourism-related services remain to be improved and their variety diversified (Lam and Wattanapruttipaisan 2001b: 30-31).

An over-arching issue concerns the impulses and imperatives in future competition to be managed by both ASEAN and China. A key factor in maintaining market shares or in gaining new markets relates to innovation-led and learning-driven improvement and differentiation in products and production processes. Meanwhile, there are other non-price attributes of competitive advantage – reflecting, for example, more demanding, more sophisticated and constantly changing consumer choices and market preferences.<sup>15</sup> Largely as a result, there are now shorter product cycles and smaller production batches, more frequent design changes, greater mass customization and just-in-time sourcing, and tighter delivery scheduling.

Thus, the structural adjustment and resource reallocation so involved in building up capabilities and sustaining competitiveness have become greatly complicated, costly and time consuming. A compounding factor in this connection is that the process has to be initiated, nurtured and carried out on an on-going basis so as to ensure a timely and flexible response to the fast changing impulses and imperatives from both domestic and external economic and technological conditions, as noted earlier. This leads on to the need for preferential treatment and greater flexibility in favour of the poorer and more disadvantaged economies.

## **V. Special and Differential Treatment for ASEAN-4**

A large number of LDCs, including Cambodia and Lao PRD in this region, and economies in transition, such as Viet Nam, are not GATT/WTO members. As such, they will not be able to enjoy the S&D treatment provided in the Uruguay Agreements and in China's WTO commitments for that matter. At the same time, it should be noted that substantial new WTO obligations are being assumed by developing economies and, in many cases, by even the LDCs. In addition, the greater specificity of S&D provisions under various WTO Agreements means that such treatment tends to be less extensive or inclusive.

S&D provisions for low-income economies and LDCs in various WTO Agreements normally comprise four categories – namely the recognition of their specific interest, the imposition of fewer obligations on these economies, the granting of longer adjustment and transitional timeframes to them, and the provision of technical assistance in their favour (Table 3). Thus, S&D treatment is expected to give low-income countries time and opportunities firstly, to make the necessary changes in their legislation; secondly, to re-orientate policies and put in place new packages of policies, and to establish the necessary institutional and administrative infrastructure; thirdly, to minimize and manage more effectively the inevitable economic disruptions and losses associated with their new obligations; and lastly and most crucially, to build up their supply capabilities and competitiveness for gainful and sustained participation in the global trading system in the long run.

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In practice, however, the S&D provisions are generally inadequate as regards, among other things, the length of time required to set up the hard and soft infrastructure, noted above. In addition, they do not sufficiently reflect the special needs or individual performance of the intended beneficiaries (developing economies and LDCs). Furthermore, there is a variety of implementation problems in S&D treatment on the part of the developed countries.<sup>16</sup> All these issues are being addressed in the current Doha (Millennium) Development Round, and their complexity is evidenced by the extended deadline for reaching a consensus on strengthening S&D provisions to the end of 2002 (instead of 31 July 2002).

More importantly, however, S&D treatment is only part of a bigger picture because the net stimuli and mutual gains from PTAs and FTAs depend on several

other factors. One is the number (or range) as well as the relative importance of “sensitive” activities and sectors which are excluded, and the duration of their exclusion, from the PTAs and FTAs under consideration. Two relates to the definition and calculation of (minimum) local contents or county of origin, plus the ways in which such measures are applied in practice. In this connection, there is the related issue of the safeguard provisions, and the manners by which these provisions are applied and interpreted under various PTAs and FTAs.

The third factor is the availability of systems and modalities for orderly and speedy dispute settlements which are, at the same time, less “lawyer-intensive”, less overly legalistic, and hence less prohibitively expensive in terms of time and cost; the WTO dispute settlement model is far from ideal in this regard. Lastly, there are the transitional adjustments in policies and structures. The timeframe provided for such adjustments tends to be rather short in many instances; they are also far from uniform among different developing economies and LDCs – given the diverse speeds, flexibility and sequence with which their resources, policies and institutions can be shifted, created, transformed and adjusted to meet the existing, enlarged, differentiated and new demand associated with the concerned PTAs or FTAs.

There is thus a justifiable need to link S&D treatment to the development needs and to the strengthening of supply-side capabilities of developing economies and LDCs under the Doha Round, as indicated earlier. Regarding AFTA, ASEAN-4 is given longer adjustment timetables, among other elements of flexibility and preferential treatment. Under the recently signed FACEC as well, China has accorded the Most Favoured Nation status in the context of the proposed ASEAN-China FTA to (the newer) ASEAN countries which are not WTO members.

In addition, there are provisions in the same Framework Agreement for capacity building and technical assistance to ASEAN-4 in several other areas of economic co-operation between ASEAN and China, including specifically in the promotion of efficiency and competitiveness among small- and medium-scale enterprises (SMEs). Such firms have been and will remain the backbone of virtually all economies in East and South-East Asia in the foreseeable future. Indeed, the 1997-1998 economic crisis has served to renew policy focus on SMEs virtually across the region (Wattanapruittipaisan 2002:65-66). A few proposals for ASEAN-China collaboration to foster SME sector development will be made in the following discussion.

## **VI. Enhancing SME Capabilities and Competitiveness**

### *VI.1 Overview of Issues*

A detailed discussion on the above matters is outside the scope of this paper although a number of observations can be briefly noted. One, just like a rich base of physical resource endowments, capabilities alone are not sufficient to guarantee current or to sustain future competitiveness.<sup>17</sup> There are deeper factors and forces at work in transforming capabilities into comparative and competitive advantage.<sup>18</sup> They include, firstly, the ready availability of socio-cultural capital -- such as work ethics, trust, moral norms, ethnic- or community-based development and social networks etc. Secondly, there are the accessibility and affordability of economic and social infrastructure and services, the quality of domestic policies and institutions, plus the extent of development-oriented governance. Thirdly, a culture or tradition of entrepreneurship, innovation and networking is essential; and so are the competence and relevance of research and development institutions and facilities, and the extent of their linkages to business end-users. Lastly, the external conditions and circumstances must be and must remain conducive to the multi-faceted and interactive processes of economic development and social transformation of the developing economies.

The second observation is that competitiveness is not a static concept. Simple, initial price advantage will be exhausted or eroded over time by the rising costs of labour and land, by widening infrastructure shortages, by more intensifying competition, and by the increasing fragmentation and sophistication of consumer demand and market requirements. Indeed, competitive advantage has become more and more the result of knowledge-based and learning-driven upgrading, differentiation and innovation for continuous productivity and brand-name enhancement as firms adjust competitively to an environment of constant change but still of ever-fierce competition and rivalries. In addition, learning and innovation themselves can be further leveraged and improved by inter-firm linkages within and across borders – including through mergers and acquisitions, through becoming part of clusters and networks of collaborative firms, and through the formation and deepening of strategic alliances and technology partnerships.

### *VI.2. Some Proposals for Co-operation in Enterprise Capacity Building*

#### *Benchmarking of SME Capabilities and Competitiveness*



Competitiveness has a foundation in microeconomics – in particular, at the enterprise level -- whether or not it is measured and benchmarked at the industry, sectoral or national level (Porter, Sachs and McArthur 2001: 16-21). In fact, the competitiveness of an industry or sector (and by extension, of an economy itself) is as strong and durable as that of the weakest link in the chain or network of enterprises supporting the industry or sector concerned.<sup>19</sup> However, information and data on enterprise capabilities and competitiveness are not available virtually across the region. It is thus important and pressing that a co-operative effort be made by governments, SME-support agencies, and donor countries and agencies. This is to survey and assess -- in a systematic, objective and statistically robust manner -- the competitive potential and, by extension, the needs for remedial capacity enhancement of selected enterprises in priority sectors within ASEAN-6/4 as well as China.

There can be identified at least 78 variables for measuring, monitoring, evaluating and benchmarking the capabilities and competitiveness of enterprises, including SMEs. These variables can be grouped into seven categories to provide a quantitative assessment of the overall operating environment facing, and the current capabilities and competitive potential associated with, the (sampled or surveyed) enterprises.<sup>20</sup> The results so obtained will reveal various areas of competence as well as shared weaknesses and deficiency on the supply side. As such, they provide a solid foundation not just for further capacity strengthening and remedial technical assistance at the enterprise level by government and non-government organizations in both ASEAN and China. The surveyed results are also indispensable as an input in the formation and deepening of inter-firm linkages and networking for enhanced collective efficiency and hence competitiveness.

#### *Entrepreneurship Training and Inter-firm Networking*

Traditionally, entrepreneurship is regarded as an inherent personality trait, a cultural characteristic, or a normal response to the presence of a profit-making opportunity. However, (cross-sectional and cross-border) behavioural research on successful entrepreneurship has indicated that entrepreneurial attributes are latent and widely distributed (Timmons 1990: 161-176). Many of these attributes can be identified, developed and enhanced as their supplies are not relatively fixed at any given place and time. Yet, training in entrepreneurship development has not been pursued on a sustained basis for the promotion and incubation of a culture of entrepreneurship,

innovation and networking among GMS economies -- namely ASEAN-4 plus Thailand and Yunnan (China) -- and within ASEAN for that matter.<sup>21</sup>

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Meanwhile, SMEs and by extension, all business firms have to manage growth and change in a new and more challenging development context. As noted previously, there are the intensified global and regional competition, the rapid pace of technological advances and their equally rapid incorporation in production processes and products, and the more sophisticated and constantly changing consumer and market demands. Table 4 below contains an overview of the various output categories from a pilot project proposal firstly, to train 3,500-4,000 GMS entrepreneurs over a three-year period; secondly, to create a local capacity for the most cost-effective replication of training activities in entrepreneurship development and inter-firm networking among the GMS economies and elsewhere in South-East Asia; thirdly, to assist in the formulation of bankable business plans by the trained entrepreneurs, one of the perennial barriers to SMEs in accessing credit and finance; and lastly, to promote inter-firm linkages and networking among the GMS economies as well as between GMS enterprises and those from outside the subregion.<sup>22</sup>

## **VII. Concluding Remarks**

It can now be reiterated that firstly, there are great potential and opportunities for wider and deeper relationships in trade and investment between ASEAN-6 plus China on the one hand, and ASEAN-4 on the other. Secondly, such potential and opportunities can be charted, nurtured and operationalized with good commercial returns in support of income growth, structural transformation and modernization, poverty alleviation and social advancement across the region. Thirdly, the whole process can be facilitated and accelerated through a co-operative mobilization of the synergies between external investment and local resources – as mediated by the gradual evolution of regional trade flows and the consequent relocation of trade-related FDI and technologies to sectors, industries and enterprises in various areas within ASEAN and China.

This is the famous “flying geese” pattern of collective development as demonstrated by the interaction of trade and investment among East and South-East Asian economies over the past 40 years. The pattern itself is conditioned and facilitated firstly, by the mutual liberalization of trade and investment and the

associated standardization and simplification of procedures and regulations, including via PTAs and FTAs; secondly, by the mutual transformation, diversification and upgrading of sectors, industries and enterprises among the interdependent economies and enterprises concerned; thirdly, by the collaborative establishment and deepening of various cross-border linkages and inter-firm partnering; and lastly, by the formation of a common position in commercial diplomacy and in negotiating forums within and outside the region.

However, the co-operation and integration process will be less than smooth sailing; this has been amply demonstrated by the long experience so far gained in the implementation of a variety of PTAs, FTAs and multilateral trade accords. The potential and opportunities for durable economic growth, structural transformation and social development through the proposed ASEAN-China FTA are both exciting and significant. But to sustain co-operation and enhance integration, both sides clearly will have to manage – effectively, timely, flexibly and in a forward-looking manner -- the many challenges from trade and investment liberalization as well as from their own competition in third-country markets. This will be one of the greatest tests to economic commitment and political will for mutual and equitable growth and development in East and South-East Asia.

TABLE 1

ASEAN-China trade and investment interaction, 1995 and 2000

	1995	2000
<b>China</b>		
GDP (US\$ billion)	700.2	1 079.8
GDP per head (US\$)	342	853
Merchandise trade (US\$ billion)	281.1	474.3
- Trade with ASEAN (%)	7.1	8.1
Tourist arrivals (million)	10.2	13.1
- ASEAN tourists in China	1.1	1.7
FDI inflows (US\$ billion)	35.8	47.0
FDI outflows	2.0	3.4
<b>ASEAN-10</b>		
GDP (US\$ billion)	652.5	579.9 <sup>a</sup>
GDP per head (US\$)	1,359	1,105 <sup>a</sup>
Merchandise trade (US\$ billion)	675.6	781.7
- Trade with China (%)	2.9	4.2
Tourist arrivals (million)	29.7	37.8
- Chinese tourists in ASEAN	0.8	1.9
FDI inflows (US\$ billion)	24.7	12.9
FDI outflows <sup>b</sup>	8.2	7.5
<b>Cambodia</b>		
GDP (US\$ billion)	3.3	3.4
GDP per head (US\$)	361	259
Merchandise trade (US\$ million)	1,930	2,547
- Exports	357	1,123
To China (%)	1.4	2.1
To ASEAN (%)	63.3	6.8
- Imports	1,573	1,424
From China (%)	3.6	7.9
From ASEAN (%)	38.6	38.9
Tourist arrivals (thousand)	262.9	264.2
- From China (%)	14	12
- From ASEAN (%)	16	21
FDI inflows (US\$ million)	1,909.6	160.2
- From China (%)	0.1	17.7
- From ASEAN (%)	80.4	32.3

	1995	2000
<b>Lao People's Democratic Republic</b>		
GDP (US\$ billion)	1.8	1.7
GDP per head (US\$)	382	330
Merchandise trade (US\$ million)	900	1,077
- Exports	311	392
To China (%)	2.9	1.5
To ASEAN (%)	55.0	42.1
- Imports	589	685
From China (%)	3.7	5.5
From ASEAN (%)	56.2	78.2
Tourist arrivals (thousand)	346.5	614.3
- From China (%)	1	3
- From ASEAN (%) <sup>c</sup>	75	73
FDI inflows (US\$ million)	802.9	33.9
- From China (%)	1.1	15.6
<b>Myanmar</b>		
GDP (US\$ billion) <sup>d</sup>	10.4	14.2
GDP per head (US\$)	280	300
Merchandise trade (US\$ million)	3,432	5,171
- Exports	1,198	2,117
To China (%)	11.3	5.4
To ASEAN (%)	30.3	19.9
- Imports	2,342	3,054
From China (%)	29.0	17.9
From ASEAN (%)	45.6	45.1
Tourist arrivals (thousand)	120	246
- From China (%)	0.1	0.1
- From ASEAN (%)	10.3	7.0
FDI inflows (US\$ million)	688.2	184.3
- From China (%)	n.a. <sup>e</sup>	15.7
- From ASEAN (%)	66.2	23.0
<b>Viet Nam</b>		
GDP (US\$ billion)	20.7	30.3
GDP per head (US\$)	283	391
Merchandise trade (US\$ million)	13,980	30,118
- Exports	5,621	14,482
To China (%)	6.4	10.6
To ASEAN (%)	19.8	18.1
- Imports	8,359	15,638
From China (%)	3.9	9.0
From ASEAN (%)	28.4	28.5
Tourist arrivals (thousand)	1,351.3	1,907.7
- From China (%)	5	33
- From ASEAN (%)	2	3
FDI inflows (US\$ million)	2,336	2,081

*Sources:* Various issues of IMF, *Direction of Trade Yearbook* and CD-ROM, October 2002 (Washington, DC); UNCTAD, *World Investment Report* (New York); World Tourist Organization, *Yearbook of Tourism Statistics*; ASEAN website: [http://www.aseansec.org/menu/tourism\\_statistics](http://www.aseansec.org/menu/tourism_statistics); IMF, Myanmar – *Recent Development Report*, September 1999; and Central Statistical Office, *Selected Monthly Indicators – May-June 2001*, Yangon.

*Notes:* a Falling value due to the financial and economic crisis plus the lower exchange rates (to the US dollar) in several ASEAN member countries since July 1997.

b. From Indonesia, Malaysia, Philippines, Singapore and Thailand

c. Thailand accounted for 233.8 and 356.1 thousand tourists respectively for 1995 and 2000.

d. Estimate.

e. Less than 0.1 per cent

TABLE 2.  
Major suppliers of China's imports by product groups, 1999  
(Percentage)

Product groups	United States	European Union	Japan	Hong Kong (China)	Asia <sup>a</sup>	Latin America	Africa
All products	11.8	14.8	20.5	4.1	34.4	1.8	1.3
Food, beverages And oils	21.3	10.8	4.2	1.0	19.4	17.8	1.3
Agricultural goods	12.1	8.6	6.8	1.0	34.6	4.9	5.1
Manufactured goods	12.2	16.8	23.7	4.9	33.1	0.4	0.2
Chemicals	14.6	10.0	18.7	2.7	42.4	0.4	0.5
Machinery and transport equipment	14.1	23.8	25.7	3.9	25.3	0.2	0.1
Other manufactures <sup>b</sup>	7.6	8.4	23.3	7.8	41.3	0.8	0.4

Source: UNCTAD (2002: 164)

a Excluding Hong Kong SAR of China, Japan and West Asia.

b Categories 6 and 8, less 68 of the Standard International Trade Classification (SITC).

TABLE 3.  
S&D provisions for developing economies and LDCs  
under the Uruguay Round Agreements and WTO

	Recognizing their interests	Requiring fewer obligations	Giving longer adjustment time frame	Providing technical assistance
WTO	DPC		DPC	DPC
Balance of payments		DPC/LDC		DPC
Safeguards	DPC	DPC		
Anti-dumping duties	DPC			DPC
Subsidies/counter- vailing duties	DPC	DPC/LDC <sup>b</sup>	DPC/LDC <sup>b</sup>	
TRIMs	DPC/LDC	DPC	DPC/LDC	
Import licensing	DPC/LDC	DPC	DPC	
Customs valuation	DPC	DPC	DPC	DPC
Preshipment inspection	DPC			DPC
Technical barriers	DPC	DPC	DPC/LDC	DPC/LDC
Sanitary/phyto-sanitary	DPC/LDC		DPC/LDC	DPC
Agriculture	DPC/LDC	DPC/LDC	DPC	LDC <sup>c</sup>
Textiles and clothing	LDC		LDC <sup>d</sup>	
Services	DPC/LDC	DPC	DPC/LDC	DPC/LDC
TRIPS	DPC		DPC/LDC	DPC/LDC
Dispute settlement	DPC/LDC			DPC
Trade policy review mechanism		DPC/LDC <sup>b</sup>		

Source: Weston (1995: 65)

a DPC = developing countries (those with GDP per capita of less than \$1,000).

LDC = least developed countries as categorized by the United Nations.

b Including smaller developing-country exporters.

c LDCs plus net food importing developing countries.

d Smaller producers granted more rapid removal of restraints in importing countries.



TABLE 4.  
Overview of various output categories of a GMS training project  
in entrepreneurship development and enterprise networking

	Number of GMS entrepreneurs trained	Number of GMS (3- person) training teams graduated	Number of GMS trainers certified overseas	Number of GMS enterprise business plans assisted	Number of inter-firm linkages promoted
Cambodia	300-350	1		80-100	20-30
Lao PDR	150-200	1		40-50	15-20
Myanmar	400-450	1-2		120-150	35-50
Thailand	1 350-1 500	3	2-3	260-300	80-100
Viet Nam	900-1 000	3	2-3	175-200	50-70
Yunnan, China	400-500	1-2		125-150	40-50
<b>Project total</b>	<b>3 500-4 000</b>	<b>10-12</b>	<b>4-6</b>	<b>800-950</b>	<b>240-320</b>

*Source:* Lam and Wattanapruttipaisan (2001a: 20).

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NOTES

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<sup>1</sup> Merchandise exports to or through Singapore were down from US\$ 182 to 18 million between 1999 and 2000; the figures for exports to or through Viet Nam being US\$ 392 and 19 million respectively. On the other hand, exports to the United States expanded from US\$ 236 to 740 million, in a large part due to the higher garment quota given to Cambodia from May 2000.

<sup>2</sup> Hong Kong SAR has been an important trade and investment partner of ASEAN. In 2000, for example, the share of ASEAN's trade with this SAR was equivalent to 4.4 per cent of the total ASEAN's foreign trade; the corresponding ratio of ASEAN's trade being 8.5 per cent of the foreign trade value (US\$ 412.4 billion) of Hong Kong SAR. Also in 2000, the gross domestic product (GDP) of Hong Kong SAR reached US\$ 162.6 billion, equivalent thus to almost US\$ 24,000 per head of resident. During the same year, there were almost 1.1 million Hong Kong tourists visiting ASEAN while the number of ASEAN tourists going to Hong Kong SAR was estimated at around 1.5 million in 2000.

<sup>3</sup> It is worth noting the growing attraction of China as the host economy for FDI. Such inward investment averaged just under US\$ 14 billion a year during 1989-1994. The annual flow reached almost US\$ 41 billion over 1995-2000. Some 400 of the Fortune 500 biggest corporations have invested in over 2000 projects in China. As a whole, inward FDI from all sources in ASEAN has not been expanding and diversified that fast.

<sup>4</sup> On the other hand, GDP in several ASEAN countries contracted, quite severely in 1998 -- with total production down by 7.5 per cent in Malaysia, 10.2 per cent in Thailand and 13.2 per cent in Indonesia. In the global economic downturn of 2001, Singapore's GDP fell by 2.0 per cent (compared to an expansion of almost 10 per cent in 2000). The corresponding figures for Malaysia are 0.4 and 8.3 per cent respectively.

<sup>5</sup> During 2001, for example, income per head of population reached almost US\$ 23,000 in Singapore and about US\$ 12,900 in Brunei Darussalam. It was in the range of US\$ 3,700 to US\$ 1,800 in Malaysia and Thailand; US\$ 900 to US\$ 670 in Philippines and Indonesia; and around US\$ 400-260 in ASEAN-4.

<sup>6</sup> OECD (2002: 761), UNCTAD (2002: 144), Ianchovichina and Martin, (2001: Table 5), and JP Morgan (1999: 6).

<sup>7</sup> There are tariff peaks on both agricultural and industrial products in China and, for that matter in virtually all other trading economies. For example, the specific tariff rates on individual agricultural goods are in the range of 0 to 65 per cent, with an average of 15 per cent. However, tariff rates become much higher for (out-of-quota) agricultural imports -- for example, 65 per cent on rice, wheat and sugar; and 15 per cent on palm oil. Those on industrial products are from 0 to 47 per cent, with an average of 8.9 per cent; the higher rates are on photographic films, automobiles (falling from 80-100 per cent to 25 per cent) and auto parts (10 per cent by 2006).

<sup>8</sup> These barriers typically include import quotas, import prohibitions and restrictions, the imposition of variable levies (based on price and/or quantity) on imports, the introduction of minimum import prices or volumes, discretionary import

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licensing, NTBs and other opaque practices maintained by or through state trading enterprises, the requirement of voluntary restraints by import suppliers and so on.

<sup>9</sup> For a sample of more recent discussions on the complexities involved in model specifications and in making realistic and workable assumptions in the case of China, and on the estimated results, see OECD (2002: 118-121 and 151-156); UNCTAD (2002: 141-174); Ianchovichina, Martin and Fusake (2000); Walmsley and Hertel (2000); Huang, Chen and Rozelle (1999: 1-36); Wang (1999: 379-405); and Anderson (1997: 749-772). OECD (2002: 761-783) contains an extensive survey of the results from major research papers and publications on the impact of China's WTO accession.

<sup>10</sup> Simulation results carried out on the basis of the Global Trade Analysis Project (GTAP). They do not cover Brunei Darussalam, Cambodia, Lao PDR and Myanmar which are not included in the GTAP database. For further details, see ASEAN (2001: 21-22, 30-31, and 145-153)

<sup>11</sup> For a detailed discussion on PTAs and FTAs, and related issues in structural and policy adjustments, see Asian Development Bank (2002: 157-196), Pomfret (2002), and WTO (1995: 25-62). Further references on this subject can be found in the extensive bibliography contained in the first two pieces of work

<sup>12</sup> In global terms, however, it is clear that the industrialized economies and region will continue to be the most important trade markets, sources of investment finance, and origins of cutting-edge technologies and innovative services for both ASEAN (as a group) and China for a considerable time to come. In particular, the EU, Japan and the United States absorbed together 48 and 38 per cent of exports from China and ASEAN respectively in 2000.

<sup>13</sup> Namely Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

<sup>14</sup> In particular, China has been and will remain the dominant supplier of textiles and clothing to Japan, with a relative share rising from 44 to 62 per cent between 1993 and 1999.

<sup>15</sup> This is a transformation both facilitated and fostered by the speedy progress in information, communication and transportation technologies and, on the other hand, by more fundamental forces and attitudes of a non-economic nature as well. For further details, see Wattanaputtipaisan (2002) and the references cited therein.

<sup>16</sup> Outstanding issues in S&D treatment are discussed at length in UNCTAD (2002: 42-45) and (1988: 65-87); and Weston (1995: 64-85).

<sup>17</sup> In business management terminologies, competitiveness at the national level is normally understood as the degree to which the domestic environment in its totality is deemed conducive to entrepreneurship, innovation, and business initiatives and activities. Industry-level competitiveness refers to the extent to which an industry or sector has the potential for growth and/or to generate an attractive return to direct and/or other forms of investment. Meanwhile, firm-level competitiveness is the effectiveness and efficiency in the production and delivery of goods and services at lower costs than those of competitors, or at a price premium because of superior or differentiated quality and design, and more timely delivery.

<sup>18</sup> Some of these forces and influences -- in particular, a development State and the prevailing socio-cultural values and norms -- have proved to be highly contentious both before and after the publication of a comprehensive study by the World Bank (1993) on the East Asian economic miracle.

<sup>19</sup> Efficient firms, for example, make it possible for other enterprises to purchase inputs more cheaply. Dynamic and innovative firms induce others to keep up with the latest technologies in production, management and organization. Flexible enterprises speed up the capabilities to respond quickly in other firms which have forward or

backward linkages to them. Indeed, the recent attention on national and industrial competitiveness reflects a growing appreciation that competitive advantage is systemic in nature. See, Porter, Sachs and McArthur (2001: 17-23); Esser and others (1999: 62-85); and the references cited by them.

<sup>20</sup> The overall environment in which the (sampled) SMEs operate is quantitatively approximated as “Nature and readiness of firm” (with 12 questions and a relative weight of 12.5 per cent). “Entrepreneurial characteristics” (13 questions and 20 per cent) are the driving force of firms, whether they are large companies or small and medium-sized enterprises. The 10 questions each in “Capabilities” and “Competitiveness” (each with 12.5 per cent relative weight) are indicative, by and large, of the initial conditions and circumstances of the SMEs concerned. The category “Production organization” (11 questions and 15 per cent) is a proxy of the potential for productivity upgrading and competitive growth through innovation-led, learning-based and investment-driven transformation of the activities of the pertinent enterprises. There are 11 questions each in “Finance” (15 per cent of relative weight) and “Human resource development” (12.5 per cent). See Wattanapruttipaisan (2002a) for a detailed discussion of the justification and methodologies involved.

<sup>21</sup> There have been a large number of programmes for business training and human resource development at the enterprise level within the GMS – funded by both multilateral agencies (including the Asian Development Bank and UNDP) and bilateral donors, notably Japan. But most of these programmes have concentrated on the generation of skills in (formal) management, finance and marketing.

<sup>22</sup> See Lam and Wattanapruttipaisan (2001a) for further details on the methodologies and sequencing of training and networking activities, and the estimated costs of various components of project activities over a three-year period.

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