

**ASEAN-China SME Conference**  
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***Ministerial Forum: Maximising Trade under ACFTA – How ASEAN and  
China can benefit from FTA***

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Ladies and gentlemen,

Good morning. I am pleased to be here today participating in this SME Conference on ASEAN-China Free Trade Agreement (ACFTA). I am highly encouraged by the interest and enthusiasm shown by the ASEAN SMEs in venturing into the global market, specifically China. Indeed, the ACFTA was created with the aim of enhancing economic relations between both regions, creating business opportunities and improving living standards of the people of ASEAN and China.

***Background of ASEAN-China FTA***

Allow me to recap the background of the ACFTA: the ASEAN China Framework Agreement was signed in 2002 and this was followed by the signing of the Trade in Goods (TIG) Agreement in 2005; the trade in services agreement in 2007; and the investment agreement in 2009. ASEAN entered into these agreements with the intention of catalysing the economic synergies between the two sides and take advantage of the potential for trade and investment.

The ACFTA was ASEAN's first FTA with an external Party and at that point in time, it was seen as a litmus test of ASEAN's own economic and regulatory reforms towards an integrated and competitive market. Contrary to the fears that the ACFTA would increase competition for domestic businesses within ASEAN, particularly the SMEs,

the FTA had acted as a catalyst for the success of ASEAN's own economic policies aimed at a single market and production base. This was made possible as ASEAN and Chinese negotiators ensured that the FTA took into account important interests of both sides including built-in safeguard measures, such as follows:

- Phased reductions/elimination of tariffs;
- Protection of sensitive industries by allowing up to 10% of tariff lines to be put into the sensitive list. The tariffs reductions on these products will be capped and thus ensure some degree of protection; and
- Putting in bilateral safeguard provisions to ensure protection against any surge in imports as a result of ACFTA.

### ***First Five Years of ACFTA***

Within the first five years of the phased reduction and elimination of tariffs, there was an increasing momentum of economic activities between the two regions. Between 2005 and 2010, trade and investments between China and ASEAN grew at an impressive rate. Total trade between ASEAN-China increased at an average of 19.9% per annum, while investments from China into ASEAN increased four-fold from US\$0.54 billion to US\$2.10 billion except for 2009 which saw a slight dip in both trade and investment due to the global economic downturn. These figures reflect the synergy created by ACFTA, moving from adversary and competitor perspective to a collaborative and partnership outlook.

Signs of economic rebound from the financial crisis are evident in this region with the sharp increase of two-way trade between ASEAN and China in 2010 after a decline of 9.5% in 2009. Preliminary 2010 figures show that total trade between ASEAN and China exceeded the pre-crisis level of US\$171.1 billion in 2007 and US\$196.9 billion in 2008. ASEAN's exports to China increased by 37.9%, from US\$ 81.6 billion in 2009 to US\$112.5 billion in 2010, moving China up a notch to be ASEAN's second largest export destination. Imports rose by 27.5% from US\$96.6 billion in 2009 to US\$123.2 billion in 2010. For the second consecutive year, China is ASEAN's largest trading partner accounting for 11.6% of ASEAN's total trade. It is to be noted that the trade balance between China and ASEAN has been in China's favour taking the last three years data but the difference is in a decreasing trend; the trade deficit was US\$21.7

billion in 2008, decreased to US\$15.0 billion in 2009 and further decreased to US\$10.7 billion in 2010.

The implementation of ACFTA is on track. As of 1 January 2010, more than 89% of ASEAN-6 and China's tariff lines were at 0%. The remaining 3% of tariff lines in the Normal Track will be eliminated by 1 January 2012. For Cambodia, Laos, Myanmar and Vietnam (CMLV), tariff elimination will be completed by 1 January 2015. Trade in Services Agreement and Investment Agreements under the ACFTA Framework have been ratified by all Parties.

In the effort to attune the ACFTA with ASEAN's other FTAs and improve trade facilitation, the Second Protocol to Amend the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China, which includes the enhancement of the Operational Certification Procedures (OCP) was signed on 29 October 2010. The ASEAN-China Trade Negotiating Committee is currently undertaking the drafting of Chapters on Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), Customs Procedures and Trade Facilitation into the ACFTA Trade in Goods Agreement. ASEAN and China through the respective government representatives continue to meet regularly to resolve implementation issues, improve the agreement and review the outcomes of the ACFTA.

### ***ACFTA – A Successful Saga***

Ladies and gentlemen,

I am pleased to quote the results of two studies on the impact of the ACFTA. A study by East Asia Research Institute for ASEAN and East Asia (ERIA) noted that East Asia became a forerunner of developing international production networks because of its novel policy regime for trade and investment. Production networks in the region cover a number of countries with a sophisticated combination of intra-firm and arm's length transactions. Regional free trade agreements provide firms with choices on whether to keep some economic activities inside the firm or to outsource them to unrelated firms in a partner country. This is made possible by allowing the dismantling of the trade barriers and encouraging trade in services and promoting

investment. This framework resulted in the sophisticated nature of production networks in East Asia, including ASEAN-China where both intra-firm and arm's-length (inter-firm) production processes flourish.

The smaller proportion of intra-regional export for finished products compared with intermediate products and raw materials suggested that the FTA has created a larger and more integrated production hub to supply to the rest of the world. Major intermediate goods and commodities traded were electrical parts for televisions and telecommunication apparatus, iron and steel, mineral fuel, palm oil and natural rubber. The regional production network is evident with the increased trade between ASEAN-China with the rest of the world which also proves the absence of trade diversion, one of the adverse effects of FTAs as claimed by economists. ASEAN's trade with non-ACFTA members increased at an average of 17.5% between 2005 and 2010, versus 19.9% for ASEAN-China for the same period.

Another study by the Asian Development Bank (ADB) further supported the above findings that China and ASEAN are more integrated with one another than China is with the rest of the world. Statistical data indicated that more than half of the top ten products traded between China and ASEAN are also major export and import items. This suggests the high integration of production network between China and ASEAN for these products. The report further showed support, using the gravity trade model, that trade between ASEAN and China was created rather than diverted by ACFTA which augurs well for ASEAN-China trade and investment relations as well as showcasing ACFTA to the global economy of a win-win partnership.

This successful synergy is evidently demonstrated by the increasingly dynamic business activities at the sub-regional level of ASEAN and China such as the Guangxi Province and Viet Nam. According to the local customs house<sup>1</sup>, Guangxi-Zhuang autonomous region generated US\$5.4 billion trade volume with ASEAN during the first 11 months of 2010, a rise of 29.4% over the same period last year and accounted for 35.2% of the autonomous region's total trade volume. In 2009, 4.9 million people crossed the Dongxing border of Guangxi Province and Viet Nam. These borders, which are connected directly by land and water, are important

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<sup>1</sup> Global Times, 27 December 2010

gateways for trade and investment between ASEAN and China. As a matter of fact, Viet Nam is Guangxi's largest trading partner<sup>2</sup>. The ASEAN-China border trade is expected to further prosper with the realisation with ACFTA, infrastructure development such as rail links between ASEAN and China, and establishment of border zones aimed at facilitating business activities.

The region holds vast opportunities for businesses in the same industry to collaborate and complement rather than compete with each other. The ACFTA has the largest consumer market size with 1.9 billion consumers and a GDP of US\$7.6 trillion in 2010<sup>3</sup>. The ASEAN Member States and China have diverse resources, skills, strengths and talents that could be shared and developed into core competencies and capabilities for domestic businesses to thrive in the regional and global market. Indeed, ACFTA serves as a platform for businesses to tap into these opportunities.

### ***ASEAN's Initiatives for SMEs***

The opportunities presented by this regional economic integration between ASEAN and China should be enjoyed by the all business communities in region, including the SMEs. The lowering and elimination of import duties between ASEAN and China have increased competition in the domestic market and must have been daunting for some of our SMEs and yet at the same time others would have found opportunities either in terms export market and/or synergies with Chinese companies.

We also acknowledge the challenges that SMEs face, which include limited access to finance, technologies and markets; lack of management skills and market information; as well as inadequate capacity for compliance with standards and qualify requirements. Toward this end, the ASEAN Leaders have endorsed the Strategic Plan of Action for ASEAN Small and Medium Enterprises (SMEs) Development 2010-2015, which incorporates all SME-related regional commitments in support of AEC building and aimed to further SME development, competitiveness and innovation. The Strategic Plan of Action covers five important areas of

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<sup>2</sup> Chris Devonshire-Ellis, "Guangxi: China's Direct Link to Southeast Asia", China-Briefing.com dated 23 August 2010.

<sup>3</sup> Source: AIMO Database and IMF-WEO October 2010

cooperation: (i) SME access to finance; (ii) internationalisation of SMEs; (iii) establishing SME Service Centres; (iv) improving marketing and ICT skills; and (v) strengthening SME Human Resource Development and capacity building. Initiatives under this Plan include presentation of the ASEAN SME Innovation Awards, link between official websites of national SME Agencies in ASEAN to promote the SME events and share best practices; and development of common curriculum for entrepreneurship in ASEAN.

In addition, the ASEAN SME Advisory Board was established to serve as an integral platform for networking among the Heads of ASEAN SME Agencies and private sector representatives. The Board will also provide inputs to the ASEAN Economic Ministers to advance the agenda on regional SME development. The ASEAN Economic Community Council has given special emphasis to the AEC third pillar, equitable economic development, which includes SME development as one of the dimensions besides the other dimension, narrowing the developing gap, by tasking the all concerned parties in coming up with a framework/guidelines to enhance the progress in this two dimensions under the third AEC pillar.

Ladies and gentlemen,

While the ACFTA is achieving its objectives in enhancing economic relations between ASEAN and China, as well as creating more business opportunities, we in ASEAN will neither be complacent nor rest on our laurels. Rapid regional and global developments including the proliferation of bilateral and regional FTAs as well as growing economic interdependence in the region calls for deeper cooperation with our neighbours and trading partners. This includes greater promotional efforts to create awareness and understanding among ASEAN private sector and public at large on the opportunities and benefits of the ACFTA. At this juncture, I would like to commend the Government of Malaysia, in particular the SME Corporation Malaysia for organising this event. Endorsed by the ACFTA Working Group on Economic Cooperation, this event demonstrates the cooperation between the governments of ASEAN and China in promoting the FTA.

Initiatives under the Working Group on Economic Cooperation also include the ASEAN-China FTA Business Portal which serves to disseminate information on trade and investment of individual ASEAN countries and China as well as the pertinent facts of ACFTA. The next levels of development include translating the information to the local language and facilitating business-to-business transactions.

The Leaders of ASEAN and China have also agreed to establish the ASEAN-China Centre in Beijing which is aimed at promoting trade, investment and tourism. Among its activities include facilitating partnerships between ASEAN and Chinese businesses. At the 13<sup>th</sup> ASEAN-China Summit in October 2010 in Ha Noi, the Virtual Centre of the ASEAN-China Centre was launched and can be accessed at [www.asean-china-center.org](http://www.asean-china-center.org). The Centre is expected to be operational in August 2011.

One important area of regional cooperation is infrastructure development which would help facilitate the movement of goods and delivery of services. While all ASEAN countries, except for Laos, have access to the sea, further integration will depend on the development of inland road and rail access to link rural areas and increase overland connections to parts of China. A recent study has shown that while an additional 1,000 km by sea transport raises transportation costs by 4% on average, the same distance by land amounts to a 30% increase. Thus, improving transport and trade facilitation can have a dramatic impact on trade costs<sup>4</sup>. Toward this end, priority initiatives earmarked under the Master Plan on ASEAN Connectivity include the ASEAN Highway Network and Singapore-Kunming Rail Link.

### ***Key Challenges***

Despite the good progress made under ACFTA, there are some areas that could be further improved. Various reports have highlighted the following challenges that need urgent attention:

- (i) Low utilisation of the certificate of origin forms;

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<sup>4</sup> Statements by Supachai Panitchpakdi, Secretary-General of UNCTAD (2008-2011) at World Economic Forum on East Asia: Countdown to Regional Integration, Ho Chi Minh City 6 June 2010. Retrieved from <http://www.unctad.org/templates/webflyer.asp?docid=13410&intItemID=3549&lang=1>

- (ii) Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) issues that impede movement of goods; and
- (iii) Trade facilitation at the border and impediments behind the border.

These are important areas where key reform measures need considerations in order to fully enjoy the fruitful outcomes of trade liberalisation.

Ladies and gentlemen,

### ***Role of Private Sector***

The success of the FTA depends on the private sector as the main player in the economic activity to work together among yourselves and with your government in seizing the opportunities and benefiting from your comparative advantages. I would like to urge SMEs to avail yourselves to the assistance and facilities provided by various national and regional institutions so that you are equipped and ready to participate in the regional and global marketplace. We in the ASEAN Secretariat would welcome your feedback on how we can build on the FTA. Your knowledge and experiences are valuable in developing policies and transforming visions into actual business opportunities.

On this note, I wish all of you a fruitful conference.

Thank you.