

China and East Asian Regional Integration: Inception of ACFTA and APEC at 20

Emile Kok-Kheng Yeoh, Im-Soo Yoo and Lionel Wei-Li Liong
University of Malaya

Abstract

The rapid rise of China as a major economic power within a short span of 30 years is often described as one of the greatest economic success stories in modern times. For the past 30 years, China has opened and strengthened diplomatic relations and expanded her trading network. With the rise of China as a colossal trading power, it is important and timely to study the role of China in shaping the regional trade pattern between China, East Asian countries and ASEAN. Focusing on trade relations between China, Malaysia and countries in the East Asian region, this paper examines the role of China in the Asia-Pacific trade framework in the context of APEC and analyzes the possible regional implications of ACFTA/CAFTA as part of a paradigm shift in China's trade policy with particular reference to Sino-Malaysian economic relations.

Keywords: *APEC, ACFTA/CAFTA, trade, foreign direct investment, FTA, PTA*

1. Introduction

The phenomenal rise of China since the 1980s has seen the country emerge as a major global economic power in recent years. For the past 30 years, China has opened and strengthened diplomatic relations and expanded her

Dr Emile Kok-Kheng Yeoh 楊國慶, *Director and Associate Professor, Institute of China Studies, University of Malaya, Malaysia. Email: emileyeo@correo.nu, emileyeo@gmail.com*

Dr Im-Soo Yoo 유임수 / 劉壬洙, *Visiting Senior Research Fellow, Institute of China Studies, University of Malaya, Malaysia; Emeritus Professor of Economics, Ewha Womans University, Seoul, Republic of Korea; President, Asia-Europe Perspective Forum; former President, Korean Association for Contemporary European Studies, Korean-German Association of Social Science and Korean-German Association of Economics and Management. Email: isyoo@ewha.ac.kr, isyoo42@gmail.com*

Lionel Wei-Li Liong 梁偉立, *Project Research Officer, Institute of China Studies, University of Malaya, Malaysia. Email: iliew84@yahoo.com*

trading network. With a real gross domestic product growth at an average annual rate of 10 per cent¹, China's economic reforms have transformed China into a major trading power. This is evident in the growth of China's exports from US\$14 billion² in 1979 to US\$1,429 billion in 2008 (Morrison, 2009: 8). Thanks to her trade surpluses, China has accumulated the world's largest foreign exchange reserves, totalling nearly US\$1.95 trillion, as reported in 2008 (Setser and Pandey, 2009: 1).

For close to half a century, the United States of America (US) has enjoyed a position of superpower among all nations, in part because of her strong intellectual, economic and military power. However, the People's Republic of China has experienced tremendous growth in the past decade. If China continues to grow at the same rate, a "major reallocation of power among the world leaders" is expected to occur in the next 20 years with China rivalling the US for the world leadership position.³ As a growing trade power, China has gradually replaced the US as the most important export market for Southeast Asian countries. At present, China has trade deficits as large as tens of billions of US dollars with neighbouring countries and regions.⁴ Japan, the hitherto dominant player in the Asian region, is ceding this status to China.

Due to the rise of China, the Asia-Pacific region has drawn growing attention in recent years as a region that is integrating successfully into the global economy. With the rise of China as a colossal trading power, it is important and timely to study the role of China in shaping regional trade pattern between China, the East Asian countries and the ASEAN countries. Focusing on trade relations between China, Malaysia and countries in the East Asian region, this paper examines the role of China in the Asia-Pacific trade framework in the context of the Asia-Pacific Economic Cooperation (APEC) forum.

In addition, this paper also analyzes the possible regional implications of ACFTA/CAFTA⁵ as part of a paradigm shift in China's trade policy with particular reference to Sino-Malaysian economic relations. In this context, past trade and investment patterns between China and Malaysia are examined. The growing level of pre-ACFTA Sino-Malaysian trade in some way suggests that ACFTA has the potential to yield substantial economic benefits for the trading partners concerned in the years to come.

In the analysis of bilateral and multilateral trade relations, various FTAs⁶ and collaborations between China, other East Asian countries and Southeast Asian countries in regional trade are examined in this paper. It is suggested that with proper coordination and cooperation, intra-regional trade among the aforesaid countries would benefit one another. However, to further assert herself as a global power, China needs to solve her domestic problems and

change her political strategy in the near future. In addition, China should actively participate in various agreements and bring new ideas to the table making win-win policies for all.

2. Regional Economic Integration

Major regional economic integrations have developed in the Americas, Europe and the Asia-Pacific region in the last century.

In the case of the European Union (EU), regional economic integration has developed for more than 50 years since the Cold War. In the early 1940s, the Benelux (Belgium, Netherland and Luxembourg) union was formed for cultural, economic and geographic integration.⁷ In the early 1950s these three countries were joined by France, West Germany and Italy to form the European Coal and Steel Community which was the first European continent community.⁸ The Benelux countries created the community to coordinate economic activities among them to promote sustainable growth within the community. In addition, the countries also established the Benelux Court of Justice in Brussels “to promote uniformity in the application of common rules of law”.⁹

The US has been successful in her economic integration with Canada and Mexico. The North American Free Trade Agreement (NAFTA) was launched by the US, Canada and Mexico.¹⁰ The agreement created “a trilateral trade bloc” in North America.¹¹ This agreement removed most barriers related to trade and investment among the countries.¹² However, this trilateral trade bloc is still at an infant stage compared with the EU’s economic integration. In a way, NAFTA can be seen as a channel for the US to fulfil her own dream. George Bush Sr, during his tenure as the US president, introduced the Enterprise of the Americas Initiative (EAI), “a hemispheric program that he projected would establish a free-trade zone stretching from Anchorage to Tierra del Fuego, expand investment and provide a measure of debt relief to the countries in Latin America and the Caribbean”.¹³ Among the member countries of NAFTA, the US is a much bigger nation and possesses much more power than her counterparts. Thus, the US has taken the leadership of the continent and this leadership position has provided the catalyst for the US’s economic success.

Turning to the Asia-Pacific region, APEC, which was created in 1989,¹⁴ has not seen much result. Compared to the NAFTA and the EU, APEC covers a huge geographic region and major economic disparities exist among its member nations. Thus, the member countries of APEC are characterized more by heterogeneity rather than homogeneity, whether in terms of level of economic development and resource endowment or in terms of cultural heritage.

Since the launching of the “Open and Reform” policy, China has strengthened herself and is now ranked first in terms of exports, overtaking Germany recently, in the global community. China has transformed herself into an industrial nation and it is now the right time for China to provide the impetus for integrating the countries in the Asian region. In this respect, China has started forming FTAs with many Asian nations and is in the process of playing an even more important role in the Association of Southeast Asian Nations (ASEAN) and ASEAN Free Trade Area (AFTA).

On the other hand, Japan who has long been the major player in the Asian region is losing her power to China. China has taken several steps in recent years to gain influence. Apart from exerting her influence over the region through the ASEAN Plus Three, she has taken up an active role in the East Asian region. Japan has always supported the US in several trade-related issues. The US wants to engage in further economic integration with the ASEAN and Pacific regions and assume leadership position. However, in the last decade, we have seen that the World Trade Organization (WTO) has failed to achieve its goals. No solutions were found for various regional trade problems and the US has also shown little interest to resolve the WTO issues. At the same time, Japan has also started to engage several other countries for her benefit. ASEAN Plus Three (ASEAN, China, Japan, South Korea) and ASEAN Plus Three Plus Three (ASEAN, China, Japan, South Korea, India, New Zealand, Australia) countries are now in the process of building an East Asian Community.

The three consecutive years from 2009 to 2011 provide the best chance for the US to exert her influence over trade-related matters in her own interest. In the recent 2009 APEC conference in Singapore¹⁵, the US has made progress in relation to playing a more important role in ASEAN. After the 2010 APEC conference held in Japan, an allied nation of the US, the 2011 APEC conference will be held in the US.¹⁶ The US, with support from Singapore and Japan, will attempt to prepare a better model for regional economic integration based on her own leadership. The Obama Administration has already started working on improving trade relations with the Asia-Pacific region. The US is trying to gain support from the Asia-Pacific region so that she can increase her exports. In the 2009 Singapore APEC conference, different countries received different agendas from the US, mostly related to deregulation and financial support. The 2010 APEC conference in Japan provides the US an opportunity to collect information and feedbacks from the countries so that she can formulate a new model for the Asia-Pacific region. Finally, the US is expected to make concrete policy recommendations during the 2010 APEC conference so that tangible results could be obtained in the near future. If an FTA can be formed between the Asia-Pacific countries and the US, the US would benefit by having greater access to the Asia-Pacific market.

3. APEC and What Has It Achieved So Far?

APEC is designated to be the main forum for “facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region”.¹⁷ Since the birth of APEC in 1989, it has grown to encompass 21 members from four continents. It represents the “most economically dynamic region in the world”¹⁸ and accounts for approximately 40.5 per cent of the world’s population, 54.1 per cent of world GDP and 43.7 per cent of world trade.¹⁹ The forum was created “to enhance economic growth and prosperity in the region” and “to strengthen the Asia-Pacific community”.²⁰

The 21 APEC member economies of APEC include Australia, Brunei, Canada, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the US who joined in 1989, Taiwan (Chinese Taipei), Hong Kong and People’s Republic of China who joined in 1991, Mexico and Papua New Guinea who joined in 1993, Chile who joined in 1994, and Peru, Russia and Vietnam who joined in 1998.

APEC is a unique organization which has been revolving around dialogues with no binding obligation.²¹ APEC member countries have already held several meetings with no fruitful results. Since its establishment in 1989, many have claimed that APEC is merely “a loose discussion forum”, and in fact, many claim that APEC will remain as such (Liao, Liner and Müller, 2006: 1). Therefore APEC still faces a momentous task to make things happen at the regional level rather than merely “talking” about the issues.

Nevertheless, the diversity of member countries and the coverage of an extensive geographical area make APEC a relevant avenue for regional collaborations. Since the 1995 Osaka meeting, APEC has expanded international interaction and increased its national level activities. It has widened both its membership and scope. (*ibid.*: 3) APEC greatly differs from other regional organizations due to the “high diversity of its members”. The member nations of APEC do not share “cultural ties”, “common history” or any “big historical trauma”. (*ibid.*: 2)

Asian countries so far have not been as inclusive as their Western counterparts. Comparing with the European Union, Asian countries neither have enough widening policy nor deepening efforts for regional collaboration. Unlike Western countries, Asian countries do not have many trade agreements which can help to integrate the region. They have also hardly taken any initiatives to deepen integration.

At the beginning of 2010, China and Southeast Asia established the largest FTA in the world, “liberalizing billions of dollars in goods and investments” which covers “a market of 1.7 billion consumers”.²² In eight years’ time, it is expected that ACFTA will “rival the European Union and the North American Free Trade Area in terms of value and surpass those markets in terms of population”.²³ It is also expected that ACFTA will “expand Asia’s

trade reach” and “boost intra-regional trade”.²⁴ In fact, China has become ASEAN’s “third largest trading partner” after overtaking the US. It is also widely believed that China will leapfrog Japan and the EU within a few years’ of the inception of the ACFTA.²⁵

Trade between ASEAN countries and China has “exploded in the past decade”, increasing from US\$39.5 billion in 2000 to US\$192.5 billion in 2009.²⁶ Therefore, China has the advantage in terms of trade negotiation, monetary cooperation and investment in the region. In addition, the average tariff rate that China charges on ASEAN goods would be cut to 0.1 per cent (from 9.8 per cent) and the average tariffs imposed on Chinese goods by ASEAN countries will fall to 0.6 per cent (from 12.8 per cent).²⁷

China’s influence on the region and in the globe has increased significantly in the last twenty years. With growing trade deals and several bilateral agreements, China will likely obtain more trade and investment deals in the Asian region in the near future. The growth of China’s influence in the region has sparked fear and anxiety from the US and Japan.

The ongoing WTO negotiations have brought no significant outcomes and this explains why the US would be interested in signing bilateral agreements with countries in the Asia-Pacific region. The 2009 APEC meeting was successfully held in Singapore and subsequent meetings for 2010 and 2011 will be held in Japan and the US. The US will utilize the opportunities provided by the APEC meetings held in these consecutive years to advance her position in the region in a bid to rival the rise of China. The three advanced nations are allies of the US and fully support the US’s proposal for a Free Trade Area of the Asia-Pacific (FTAAP).

Despite the fact that APEC is not a binding organization, its significance in the region will gradually grow and APEC is expected to emerge as a powerful organization in the near future. With more than 2.7 billion consumers and nine member countries in the G20²⁸, APEC will liberalize various sectors in its member countries, provide an impetus for the growth of the member countries and spur trade across the Asia-Pacific region.

In November 1994, the APEC Economic Leaders Declaration²⁹ was adopted in Bogor, Indonesia, with the goal of freeing and opening trade and investment in the Asia-Pacific region. Clause 6 of the declaration states as follows:

With respect to the objective of enhancing trade and investment in the Asia-Pacific, the member countries agreed to adopt the long-term goal of free and open trade and investment in the Asia-Pacific. The goal was made to further reduce barriers to trade and investment and promoting the free flow of goods, services and capital among the countries.

The member countries also announced their commitment to complete the achievement of the goal of free and open trade and investment in the Asia-

Pacific no later than the year 2020. The pace of implementation will take into account differing levels of economic development among APEC economies, with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020.

Prominent Asian scholar Hadi Soesastro pointed out in a Shorenstein seminar that the Bogor Declaration outlined seven major principles regarding the goal of trade and investment liberalization (Soesastro, Noland and Emmerson, 1995):

- The goal will be pursued promptly by reducing barriers to trade and by promoting the free flow of goods, services and capital throughout the APEC countries.
- The goal will be achieved in a GATT-consistent manner.
- The goal will be achieved no later than the year 2020.
- The pace of implementation will reflect differences in economic development across the region, with industrialized countries achieving the goal by 2010 and developing economies having an additional ten years.
- APEC opposes the creation of an inward-looking trade bloc, and thus the goal will be pursued in a way that encourages worldwide trade and investment liberalization.
- APEC liberalization will not only reduce barriers among APEC economies but also between APEC and non-APEC economies.
- Special attention will be given to ensuring that non-APEC developing countries benefit from APEC liberalization in conformity with the provisions of the General Agreement on Tariffs and Trade and the World Trade Organization (GATT/WTO).

Dr Hadi Soesastro also noted that, immediately after the APEC meeting, “the Malaysian and Thai governments expressed some reservations and clarifications of their positions on the Bogor Declaration” in separate statements. There were three points in common in these statements (*ibid.*):

1. The goal is “not to create an exclusive Asia-Pacific free-trade area in the sense of the European Union or NAFTA”.
2. The “target dates of 2010 and 2020 are not binding commitments”.
3. The “elimination of trade and investment barriers in the region will proceed gradually”.

As pointed out, there is a widespread agreement among the APEC leaders that the timetable is nonbinding. Although the “nonbinding” nature of the timetable “raises questions about the value of the agreement”, it was pointed out that the “political commitment” by the APEC leaders is an important

“confidence-building step” that will encourage “trade liberalization across the region” (*ibid.*).

To achieve the Bogor Goals, APEC carries out work in three main areas, namely trade and investment liberalization, business facilitation, and economic and technical cooperation.³⁰ When APEC was established in 1989, average trade barrier in the region was 16.9 per cent and they had been reduced to 5.5 per cent within a span of 15 years.³¹ It will gradually diminish to zero. APEC has taken several reform efforts in the area of business facilitation. During 2002-2006, the “cost of business transactions across the region was reduced by 6%” and between 2007 and 2010 APEC “hopes to achieve an additional 5% reduction” in business transaction costs.³²

Since the inception of APEC, many countries have initiated several cooperative programmes for human resource development (education and training, especially for improving management and technical skills), the development of APEC study centres, cooperation in science and technology (including technology transfer), measures aimed at promoting small- and medium-scale enterprises (SMEs) and steps to improve economic infrastructure, such as energy, transportation, information, telecommunications and tourism, with the aim of contributing to sustainable development.³³

Financial crises have actually strengthened cooperation within the region. Asian countries have recently gone through two major financial crises: the first one in 1997-1998 and the second one in 2008-2009. In the aftermath of the Asian financial crisis many ASEAN countries suffered liquidity problems. Countries like Thailand, the Philippines and South Korea were supported by the International Monetary Fund (IMF) through bailout programmes. These countries have repaid the debts and their economies have recovered. Several other countries like Malaysia, took their own steps to overcome the difficulties. Asian countries have learnt from the financial crisis that they need to cooperate with one another in terms of trade, investment and finance for the sustainable growth of their economies.³⁴

The 1997-1998 Asian financial crisis has led to strong cooperation among the Asian countries, and in recent years the “institutionalization of the ASEAN Plus Three (APT) process has started to take shape” (Stubbs, 2002: 440). Government leaders and officials from ASEAN and the three Northeast Asian states (China, Japan, and South Korea) are “consulting on an increasing range of issues” (*ibid.*). The emergence of ASEAN Plus Three “raises questions about relations between it and other regional groupings such as the Asia-Pacific Economic Cooperation (APEC) forum and ASEAN itself”, and due to the differences among the East Asian countries, a number of obstacles to the development of ASEAN Plus Three had arisen (*ibid.*). The Asian economic crisis has enhanced the importance of ASEAN Plus Three.

Indeed, the regional grouping now has “the potential to become the dominant regional institution in East Asia”. At present, ASEAN Plus Three “continues to hold annual conferences and meetings”, while it is also trying “to form a better monetary cooperation in order to avoid any future financial crisis”. (*ibid.*: 454)

Countries and regions in East (including Southeast) Asia have signed the Chiang Mai Initiative Multilateralization (CMIM) to “address the short-term currency liquidity problem”.³⁵ The agreement was signed by the finance ministers and central bank governors of the ASEAN countries, China, Japan and the Republic of Korea (ASEAN+3), as well as the Hong Kong Monetary Authority.³⁶ An agreement was reached on all main aspects of creating a US\$120 billion regional reserve pool to “provide emergency liquidity for countries and regions in financial crisis”.³⁷ The objective of the agreement was to address problems related to balance of payment and short-term liquidity in the region.³⁸ China and Japan will contribute US\$38.4 billion each, the Republic of Korea will contribute US\$19.2 billion and the 10 ASEAN nations will provide a combined US\$24 billion to the liquidity pool (Rajan, 2009: 18). In addition, under the Chiang Mai Initiative (CMI), “a full series of bilateral swap and repurchase agreements between the ASEAN+3 countries” will be made, and under such an arrangement, member countries can swap their local currency for major international currencies (de Brouwer, 2005: 25).

The 2008-2009 global financial crisis, which was triggered by the US subprime mortgage crisis, has significantly affected the EU and Asian countries. Having experienced the 1997-1998 crisis, most Asian countries have restructured their financial and banking industry. Their previous experience and cooperation with one another has helped them to recover at a faster rate than their Western counterparts.

The Asian countries like Japan, China and South Korea are better placed than their G20 counterparts. The G7 countries alone are unlikely to be able to solve the financial crisis without the cooperation from the Asian countries. The fact that emerging economic powers are now playing a very important role in the world economy can be seen from the choice of Brazil and South Korea as the venues for the next G20 meetings.

The Asia-Pacific region compared to the EU and America differs in a very important aspect. Countries in the Asia-Pacific region have always lacked a strong leadership. APEC, which was formed 20 years ago, is an attempt to promote economic partnership within the region under one leadership. As such, it is hoped that APEC would provide a better platform for all participating countries to engage in well-coordinated economic integration under one leadership.

4. Growing Economic Integration and Cooperation of China in the Asian Region

At the beginning of this year, 2010, China and ASEAN officially launched the ACFTA.³⁹ China-ASEAN trade is targeted to hit US\$200 billion, by 2010 up from US\$113 billion in 2005. This will make ACFTA the third largest free trade zone in trade volume after the EU and NAFTA.⁴⁰ China sees the free trade agreement as a way of securing raw materials, while countries in ASEAN see opportunities in China's huge market.⁴¹ China and ASEAN signed an initial FTA in November 2002 and some tariffs have been reduced since 2005.⁴² From 2010, tariffs on 90 per cent of goods traded with China will be eliminated for Malaysia, Indonesia, Brunei, the Philippines, Singapore and Thailand and by 2015 for Laos, Vietnam, Cambodia and Burma.⁴³ Companies from ASEAN which are interested in entering China's service market (business services, tourism, etc) are given preferential access and vice versa.

For Malaysia, ACFTA is seen as having the potential to accelerate the development of economic relations between her and China and the economic growth of the two countries.⁴⁴ Trade tariff barriers between China and Malaysia will be eliminated following the full establishment of the FTA.⁴⁵ The FTA will "bring business and trade between the two countries to a new height" and also "benefit the banking industry which serves as a bridge of economic promotion and trade development". The Bank of China (Malaysia) is said to be "committed to promoting trade activities actively between China and Malaysia by rendering value-added services".⁴⁶ Presently, more than 100 corporations from China have established operations in Malaysia.⁴⁷

However, some Indonesian and Philippine manufacturers are against ACFTA, claiming that ASEAN member countries will only become the supply chain for China's booming economy which will be further propelled by gradual trade liberalization under ACFTA. Industry players in Indonesia have formally requested for the postponement of the treaty implementation for fear of the entry of cheap Chinese products undermining their manufacturing businesses. The Indonesian industries submitted a list of 228 items including iron and steel, textiles, machinery, electronics, chemicals and furniture covered by the FTA.⁴⁸

It is submitted that ASEAN countries and China should seek to promote proper coordination and cooperation in economic integration. Looking at US-China trade relations, it is observed that a failure to do so would bring about highly disruptive effects. Recently, the US government took the decision to approve extra tariffs of 35 per cent, 25 per cent and 20 per cent over the next three years, in addition to the regular 4 per cent levy on tires imported from China.⁴⁹ Since then, China has slapped import tariffs or restrictions on imports of US nylon, industrial acid, chicken and other products.⁵⁰ In addition, China has also initiated an investigation into whether US automakers are selling

below cost (“dumping”) cars in China. The US has retaliated by looking into allegations of dumping in other products and imposing tariffs on imports of Chinese steel pipes.⁵¹ This growing tension has “exacerbated protectionist fears on both sides of the Pacific” and it is “one reason global trade talks once against collapsed in Geneva last year”.⁵²

Against this background, China and ASEAN should learn from the China-US experience and avoid trade war or other conflicts. Proper coordination and cooperation is needed for the benefit of both China and ASEAN.

5. Role of China in the Asia-Pacific Region

Japan and the US are losing their power in the Asian region and China’s influence is increasing in the region. As such, Japan and the US are trying to strengthen their diplomatic relations with other Asian countries. In addition, the US is also trying to increase their export activities in the region. In recent years, the US is becoming very aggressive in approaching Asian countries for establishing economic relations. Politically, the US wants to limit China’s influence in the Asian region.

With her growing economy, China has increased her economic activities with other Southeast Asian countries. For example, she is supporting the ruling regime of Burma to build a sea harbour in the Indian Ocean. On the other hand, the US’s allies like Japan, the Philippines, Thailand and Singapore provide support for the presence of the US marine in the region. Most trading activities in Asian countries pass through the Strait of Malacca. The security of this waterway, particularly in the context of maritime terrorism, is therefore a great concern for many countries. Furthermore, China has also gradually expanded her activities in the waters of the Taiwan Strait and South China Sea, much of which she claims to be under her sovereignty. In recent years, China is spending more money on naval activities than she did before.

The rise of the Chinese economy has not only brought development for the country but also created some problems. China is trying to acquire raw materials and other natural resources, but this also creates problems for the global society. The Western nations and Japan realize that the integration of China into the Asian region will increase the superiority of China and decrease their powers in the global arena. This leads to the US and Japan attempting to expand their regional FTAs from the Asian region to the Asia-Pacific region. In addition, there are plans to include countries which do not come under these regions. Countries like India, Mongolia, Pakistan, Laos, Bangladesh, Colombia, and Ecuador are now seeking membership in some of these FTAs.

China, India and ASEAN are growing at a very fast rate and are playing major roles in the global economy. The rapid growth of these emerging

economic powers and the ASEAN Plus Three economies has stimulated world economic recovery after the global financial crisis. During the Cold War era, Japan dominated the region. She exported manufactured goods and in return received raw materials and agricultural products. Several ASEAN countries have criticized the Western countries as they have not shared similar level of foreign direct investment (FDI) and technological transfer. While Japan was fully supported by the US during the era, Asian countries have now sought for Japanese assistance for capital and technology through forging closer ties. However, at present, the Japanese export market is falling due to the rise of South Korea and China. China has dominated the region and now initiating several investment and monetary cooperation with other Asian countries. It is widely believed that China will succeed in creating a proper platform for investment and monetary cooperation in the region. When this is achieved, countries in the region will be the first to benefit.

In the last few years, China has replaced Japan as the dominant player in the Asian market. She is expected to overtake Japan and become the second largest economy after the US sometime in 2010. The WTO has failed to meet the expectation of both developed and developing countries, but it has surely made the US the most powerful developed country in the world. Recently, however, the emergence of new and potential economic powers like Brazil, Russia, India and China (BRIC), and particularly the growing influence of China, is causing much anxiety among many advanced nations.

However, China's financial market is underdeveloped in comparison with those of the Western countries. This is probably due to her socialist capital market system. Recently, the Chinese government has announced her commitment to stimulate the economy, by building Shanghai into an international financial centre and maintaining economic growth which would stabilize the capital market.⁵³ Shanghai is likely to become the financial centre of the future for China as well as for the Asia-Pacific region. The global financial crisis of 2008-2009 has momentarily halted the global expansion of financial markets. To become the global leader in the financial market, China in the next phase needs several major reforms aiming at improving market infrastructure and functionality, improving market regulation and supervision, and strengthening her legal framework. She also needs to increase the level of competitiveness among financial institutions, improve her market mechanism and corporate governance.

China has often been accused of "manipulating the exchange rate". It is true that the Chinese government needs to purchase dollars in large quantities to keep the yuan exchange rate "within certain target levels". Even though the yuan appreciated significantly after the July 2005 reforms against the US dollar, many people believe that it "remains highly undervalued against the dollar" (Morrison, 2009: 20). In addition, it is believed that the Chinese government's

policy could “undermine long-term economic stability” as it causes “over-production in various sectors”, increases the quantity of non-performing loans and causes inflation, for the reason that China’s currency policy has rendered the economy “overly dependent on exports and fixed investment for growth” and, furthermore, “promotes easy credit” (*ibid.*: 20-21).

China has grown so fast that she has realized that she might become a global power much faster than she thought.⁵⁴ She is treated as a *de facto* global power by the US, at least with regard to economic matters, with the two countries for all intents and purposes forming a “G2”.⁵⁵ China is already a major trading country, and there is little doubt that it will be a strong financial market player in the near future. This is the best time for China to change her policy to rise and become a strong financial power in accordance with her position as a G2 country.

Since the last decade, China has accumulated trade surplus on a yearly basis. The country’s exports have consistently exceeded her imports. Accumulating foreign reserve through trading, China currently possesses a foreign exchange reserve of over US\$2 trillion.

In terms of trade, China has gradually replaced the US as the main export market for Southeast Asian countries and now has trade deficits of tens of billions of US dollars with neighbouring countries and regions.⁵⁶ This explains why “the process of RMB regionalization has started with the ASEAN members adjoining the PRC”.⁵⁷ The renminbi has been used in “cross-border trade settlement”. In this respect, China has “signed bilateral currency swap deals with several countries and regions around the world since the beginning of 2009” (Nie, 2009). However, several steps must be taken before the regionalization of the RMB takes place.⁵⁸ Firstly, the implementation of RMB settlements must be carried out “within surrounding countries” first before moving to “broader regionalization”.⁵⁹ To achieve this, the Chinese government has declared that “Guangdong, the Yangtze River Delta Area, Hong Kong, Macao, Guangxi Zhuang Autonomous Region and Yunnan Province would begin quoting prices and settling accounts in RMB in trade with ASEAN” from the end of 2008.⁶⁰ In addition, the People’s Bank of China has “signed a currency swap agreement valued at RMB650 billion with monetary authorities in Hong Kong, the Republic of Korea, Malaysia, Indonesia, Belarus and Argentina”.⁶¹

This is the beginning of the rise of renminbi as the leading international currency. With a huge foreign exchange reserve, China is well positioned to advance in the financial world. With faith in the US dollar waning, China can begin to strengthen its financial infrastructure and gradually open up her financial market and elevate the renminbi to the status of a leading international currency. This is important for China if she wants to exert her influence in the region.

6. Sino-Malaysian Experience

With the changing global trade patterns and proliferation of preferential trading agreements (PTAs), a small open economy like Malaysia is set to see changes in her international trade partners. In the past, the US, Japan and the EU have been the major trading partners of Malaysia. However, with rapid economic growth, the emerging and transforming economic entities in East Asia, China in particular, are going to become more integrated, through trade and capital flows, with other East Asian countries, including Malaysia. As China is anticipated to sustain relatively high growth rates in the foreseeable future, Malaysia is positioning herself to take advantage of the growth opportunities. This could explain Malaysia's enthusiasm in getting actively involved in negotiations with the other ASEAN members to sign the ACFTA agreement with China not only to promote an increase in intra-regional trade but also to enhance market integration. Malaysia sees the FTA in terms of substantial potential gains through competition and scale effects, which could be used strategically to serve the growth objective. However, positive outcomes are only possible with careful policy design including detailed consideration of the implications of the agreement, identification of the readiness of the industries for liberalization and market access opportunities in partner countries, and ensuring effective enforcement mechanisms. (Yeoh and Ooi, 2007b: 5)

Basically in response to certain ASEAN members' doubt regarding the real benefits of ACFTA for them, China proposed a fast-track trade liberalization of agricultural products to "let ASEAN pick the peaches and taste the sweetness first" (Ravenhill and Jiang, 2007: 18). This was the "Early Harvest Programme" (EHP) negotiated on a bilateral basis between China and the individual ASEAN members. Member countries can exempt certain products from the programme's coverage under the Exclusion List. Conversely, there is a Request List for the inclusion of certain products not covered by the programme but mutually agreed by China and the concerned ASEAN member. Commenced in January 2004, EHP enables the reduction of tariff for certain products before ACFTA is fully implemented. These products include 562 items at 8/9 digit level in Chapters 1-8 in the Harmonized System of tariffs. (ASEAN Secretariat, 2002)

According to the Malaysian Ministry of International Trade and Industry (MITI), Malaysia has placed 590 products under EHP in which 503 are categorized as unprocessed agricultural products and 87 as processed and manufactured products. Malaysian exporters have benefited from the EHP⁶² since its inception in 2004 with total exports amounting to US\$135 million. Malaysia has placed 87.3 per cent of (or 10591) products in the normal track and 6.5 per cent (or 418) in the sensitive track. Products in the sensitive list are swine, milk and cream, wood products, cement, automotive, iron, steel

and others. For Malaysia, 0.6 per cent of the products, comprising alcoholic beverages, arms and weapons, tobacco refuse, and used tires, are excluded from tariff liberalization under ACFTA. In 2005, a total of 3780 Preferential Certificates of Origin were issued by Malaysia for EHP exports to China amounting to US\$540.3 million. Malaysian products which have benefited under EHP and TIG (Trade in Goods) agreements included chemical products, palm oil, stearic acid, rubber products, and detergent and soaps. On the other hand, Malaysia imported goods worth US\$3.7 million from China under the EHP and TIG agreements in 2005. (MITI, 2006a: 189-190)

6.1. Investment Profile

Historically, Malaysia relies heavily on foreign direct investment (FDI) for her economic expansion and industrial upgrading. Table 1 shows that China was the 8th largest foreign investor in Malaysia from 2001 to 2005. The amount of investment stood just below the Republic of Korea and surpassed investments from Taiwan and the Netherlands. According to MITI (2006b), Malaysia was the 6th largest source of imports and the 15th largest export destination of China in 2005 (Devadason, 2007: 138) and Sino-Malaysian trade reached US\$16.5 billion for the first six months of 2006 and expected to reach US\$50 billion by 2010⁶³. The statistics published by the Malaysian Industrial Development Authority (MIDA) show that the approved projects from China totalled 10 as compared to the total of 705 approved projects from foreign

Table 1 Approved FDI Projects in Malaysia – Top 10 Sources, 2001-2005
(RM million)

Country	2001	2002	2003	2004	2005	Total
US	3412	2668	2182	1059	5155	14476
Germany	2603	5055	170	4724	388	12940
Japan	3366	587	1295	1011	3672	9931
Singapore	2228	1019	1225	1515	2920	8907
United Kingdom	123	168	3870	151	99	4411
United Arab Emirates	–	0.9	3952	–	–	3952.9
Republic of Korea	1703	369	447	325	674	3518
Mainland China	2923	55	247	187	40	3452
Taiwan	1140	252	622	415	431	2860
Netherlands	69	607	316	99	1674	2765

Source: Yeoh and Ooi (2007b: 6), Table 2. Data of 2001 and 2002 are from IDE-JETRO and SERI (2004: 10), Table 5. Data of 2003 to 2005 are from MITI.

Table 2 Approved FDI Projects in Malaysia – Top Sources, 2005-2009
(RM million)

Country	2005	2006	2007	2008	2009*
US	5155.0	2476.6	3020.0	8669.0	288.5
Australia	155.9	2560.1	1685.1	13105.8	307.0
Netherlands	1674.0	3284.2	1690.4	1795.7	457.9
Hong Kong	105.4	84.5	59.8	83.6	116.3
Indonesia	52.5	214.9	41.2	22.1	2.2
Japan	3671.7	4411.6	6522.7	5594.9	6466.1
Germany	387.7	232.3	3756.8	4438.3	198.0
Republic of Korea	673.6	437.8	1118.8	197.6	431.8
Singapore	2919.9	1884.7	2952.2	2004.3	1613.9
Taiwan	430.7	405.5	408.7	911.6	610.4
United Kingdom	99.2	642.0	385.3	850.5	166.9
Others	2557.3	3593.8	11785.1	8425.5	1501.5
Total	17882.9	20227.9	33425.9	48098.8	12160.4

Note: * January-August.

Source: Malaysian Ministry of Finance, *Economic Report 2009/2010*.

investors in 2001, with the investments amounting to RM2923 million⁶⁴, or 15.46 per cent of total foreign investment in Malaysia. The number of projects approved was 9 with a total amount of RM55 million in 2002; it accounted for only 0.47 per cent of the total foreign investment in Malaysia. Investment from China regained its strength as it grew by more than four-fold to RM247 million; this accounted for 1.58 per cent of the total foreign investment in Malaysia in 2003. Investments from China in 2004 and 2005 were RM187 million and RM40 million respectively, with a share of 1.42 per cent and 0.22 per cent of the total foreign investment in Malaysia. However, mainland China has since dropped out from the top 10 FDI sources (Table 2).

Table 2 shows the FDI inflows to Malaysia for the period of 2005-2009. The top five sources of foreign investment were Japan (RM26667 million), the US (RM19609 million), Australia (RM17814 million), Singapore (RM11375 million), and Germany (RM9013 million). FDI to Malaysia increased from 2005 to 2008 with a total of 521 projects involving foreign investment in 2008. Total foreign investment in approved projects increased by 43.90 per cent from RM33425.9 million in 2007 to RM48098.8 million in 2008. This reflected the fact that Malaysia remained an attractive investment destination in this region during the period. However, total FDI inflow to Malaysia dropped sharply to RM12160.4 million. The decrease is likely to be caused by the global financial crisis. The electrical and electronics (E&E) industry received the highest amount of FDI with a total of RM11.3 billion or 63 per

Table 3 Sources of FDI to Malaysia – Comparison of China with ASEAN Countries, 2001-2009 (RM million)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Singapore	2228	1019	1225	1515	2920	1885	2952	2004	1614
China	2923	55	247	187	40	–	–	–	–
Indonesia	76	12	48	87	52	215	41	22	2
Thailand	68	9	264	37	142	–	–	–	–
Philippines	–	1	34	215	–	–	–	–	–
Vietnam	–	3	–	–	–	–	–	–	–
Burma	–	2	–	–	–	–	–	–	–

Note: * January-August.

Source: Yeoh and Ooi (2007b: 7), Table 3. Data of 2001 and 2002 are from IDE-JETRO and SERI (2004: 10), Table 6. Data of 2003 to 2005 are from MITI. Data of 2006-2009 are from Malaysian Ministry of Finance, *Economic Report 2009/2010*.

cent of the total foreign investment approved in 2005. This was followed by investments in scientific and measuring equipment with a total of RM1.4 billion, chemicals and chemical products worth RM596.1 million, plastic products worth RM594.8 million.⁶⁵

Table 3 shows the source of FDI from ASEAN members and China to Malaysia. Singapore accounted for the highest amount of investments with RM17362 million from 2001 to 2009. Investments from Singapore have recorded an increasing trend from 2002 to 2005 and from 2006 to 2007. The increasing investments were mainly due to major expansion projects in the E&E industry. From 2007 to 2009, investments from Singapore decreased. In 2007, investments from Singapore amounted to RM2922 million, the highest during the period of 2001-2009. Singapore was the second largest source of foreign investments in 2009.

Compared to ASEAN countries, FDI from China to Malaysia is second only to Singapore and well ahead of the second largest ASEAN source of FDI, viz. Indonesia. A total of 214 projects from China have been approved from 2001 to 2005. Investments from China are involved in the following industries: E&E, chemical and chemical products, wood and wood products, non-metallic mineral products, machinery manufacturing, food manufacturing, and plastic products manufacturing.

In the case of ASEAN, China's FDI in the grouping amounted to only about 1 per cent (US\$226 million) of the total FDI in ASEAN in 2004. For the period of 1995-2004, China's cumulative FDI in ASEAN, just exceeding US\$1 billion, amounted to only less than the 0.5 per cent of ASEAN's total inbound FDI for the period. FDI inflow from China has been constantly

Table 4 Foreign Direct Investment in ASEAN Countries (US\$ million)

	1997	2002	2003	2004	2005	2006	2007	2008
<i>Within ASEAN</i>	5235.7	3634.4	2301.8	2432.7	4217.7	7602.3	9408.6	11070.8
<i>Rest of the World</i>	28694.7	10070.3	16145.2	19371.1	34738.3	45767.9	59106.0	49355.2
EU	8326.5	5087.5	6674.7	6357.7	10015.6	10672.2	18383.5	12445.3
US	4950.1	357.6	1395.3	5051.9	3945.8	3406.4	6345.6	3392.5
Japan	5229.5	3366.2	2317.7	2538.2	6655.0	10222.8	8382.0	7653.6
Taiwan	914.0	270.7	826.9	1186.6	-6.8	785.3	872.3	1463.1
South Korea	721.8	92.4	632.0	896.5	507.0	1253.8	3124.7	1279.1
Hong Kong	1884.8	204.5	100.1	344.9	586.4	1278.8	1622.4	619.5
Mainland China	62.1	-80.9	188.7	225.9	537.7	1016.2	1226.9	1497.3
Others	6605.9	772.4	4009.8	2769.5	12497.6	17132.4	19148.6	21004.8
Total	33930.5	13704.7	18447.0	21803.9	38956.0	53370.2	68514.6	60426.0

Source: HKTDC, 2006; ASEAN Statistical Yearbook 2008.

Table 5 Actual Foreign Investment by ASEAN Countries in China
(US\$ million)

	1997	1998	2003	2004	2005	2006	2007
Singapore	2606.4	3404.0	2058.4	2008.1	2204.3	2260.5	3184.6
Malaysia	381.8	340.5	251.0	385.0	361.4	393.5	397.3
Philippines	155.6	179.3	220.0	233.2	188.9	134.3	195.3
Thailand	194.0	205.4	173.5	178.7	95.9	144.8	89.5
Indonesia	80.0	69.0	150.1	104.5	86.8	100.7	134.4
Brunei	0.1	1.8	52.6	96.1	160.4	294.2	376.9
Cambodia	5.5	2.9	12.5	20.7	2.8	2.1	6.3
Burma	2.7	5.1	3.5	8.8	3.7	7.4	3.3
Laos	0.4	1.1	0.4	4.3	–	–	3.0
Vietnam	1.5	14.1	3.3	1.1	1.3	13.7	0.7
Total	3428.0	4223.2	2925.4	3040.5	3105.5	3351.2	4391.3

Source: HKTDC, 2006; *China Trade and External Economic Statistical Yearbook*, 2007 and 2008.

increasing from 2002 to 2008. However, FDI inflow from China still amounted to only around 2 per cent of ASEAN's total inbound FDI from 2006 to 2008. On the other hand, Singapore topped the recipient list of China's outward FDI in ASEAN. ASEAN's cumulative investment in China surpassed US\$4000 million by the end of 2007, accounting for more than 4 per cent of China's total inbound investment. Singapore alone accounted for more than 70 per cent of China-bound FDI flows from ASEAN.

6.2. FTA and FDI

In the 1980s and early 1990s, ASEAN economies grew rapidly, at an average pace of 7 per cent annually. Rapid input factor accumulation, especially capital from FDI, was essential to this growth. Since 1997, FDI into ASEAN countries has declined as a proportion of global FDI and FDI directed to developing countries. Furthermore, the Japan External Trade Organization found that ASEAN bore the brunt of the decline of Japan's FDI to East Asia in recent years. Japanese investments in Indonesia, Malaysia, the Philippines and Thailand declined by more than half between 1997 and 1999. The decline has been attributed to the competition with China for FDI (Saywell, 2001), the lack of liberalization and the Asian financial crisis. Hence, the formation of ACFTA, it was hoped, would promote investments in the region and to recoup some of the shares of FDI to China. Besides, China and ASEAN could become a whole piece of platform for FDI with the formation of an FTA.

When the tariff rates are reduced to zero, the region will have the potential of becoming an attractive FDI destination. (Yeoh and Ooi, 2007a: 3)

On the part of China, it is obvious that she now sees FTAs as a crucial means to enhance economic development through expanding market size and establishing market coordination mechanisms to improve the investment environment and attract more investments from outside the region. This is in line with Beijing's need to guarantee the supply of energy and raw material from ASEAN and to help diversifying export markets. (Ravenhill and Jiang, 2007: 19)

The formation of ACFTA has the potential to further increase Malaysia's investment opportunity in China with both sides having entered into negotiations in order to progressively liberalize the investment regime. China's large market, abundant human resource and low production cost in combination may provide great opportunities for Malaysian firms to invest there. MIDA's statistics on Malaysian investment in China suggested opportunities in the China market, e.g. one of the Malaysian firms, Hytex Integrated Berhad has invested some US\$25 million to set up a new garment factory in China. Another, Karyon Industries Berhad, with a joint-venture with a China firm, will produce lead-free metal stabilization in China. (MIDA, 2006, <http://www.mida.gov.my>) With rising labour costs and shortage of workers in the domestic market, Malaysia is no longer a cost-competitive location for labour-intensive operations, and this leads to the option for labour-intensive manufacturers to relocate to cost-competitive countries like China and Vietnam. For instance, certain Malaysian firms have shifted the labour-intensive operations such as shoemaking and garment industries to China, seeking lower labour costs, lesser capital outlays, and higher profit margin. In short, the formation of ACFTA has the potential of generating opportunities for Malaysian firms to invest in low-cost and labour-intensive sectors within the FTA. (Yeoh and Ooi, 2007a: 11)

6.3. Trade Relations and Market Access Opportunities

Bilateral trade between Malaysia and China has increased significantly since 1994 and China was Malaysia's fourth largest trading partner in 2005, having replaced Taiwan since 2001. Trade flows between Malaysia and China have increased significantly from US\$4.264 billion to US\$46.386 billion for the 1998-2007 period, reflecting the mutual efforts of the governments and the intrinsic increasing domestic needs for the rapid economic development of both countries. Malaysian exports to China increased more than 10-fold from US\$1.596 billion to US\$17.689 billion for the 1998-2007 period. Bilateral trade between China and Malaysia is even higher if trade flows between Malaysia and Hong Kong are included. In 2005, the total value of trade between Malaysia and Hong Kong was RM42 billion, with exports amounting to RM31.21 billion and imports totalling RM10.79 billion. Between 1998 and

2007, imports from China rose by more than 10-fold from US\$2.668 billion to US\$28.697 billion. Malaysia recorded trade surplus with China for the 1994-1996 period; this was followed by a trade deficit of RM1.02 billion in 1997. Malaysia recorded trade surplus for the 1998-1999 period, followed by a trade deficit of RM0.81 billion in the year 2000. Trade deficit was also recorded from 2002 to 2005 (Yeoh and Ooi, 2007a: 18). However, ideally with the establishment of an FTA, the abolition of trade barriers will lead to trade expansion through trade creation or diversion. In the future, with China increasing her share in Malaysia's total trade, there is a likelihood that Malaysia will gain from the trade integration of China and ASEAN.

Table 6 Trade between China and Malaysia, 1998-2007 (US\$ billion)

Year	China's Export to Malaysia	China's Import from Malaysia	Total China-Malaysia Trade	Total China-ASEAN Trade
1998	1.596	2.668	4.264	23.5
1999	1.674	3.606	5.28	27
2000	2.565	5.48	8.045	39.5
2001	3.22	6.205	9.425	41.6
2002	4.975	9.296	14.271	54.8
2003	6.141	13.987	20.13	78.3
2004	8.087	18.174	26.26	105.8
2005	10.607	20.096	30.703	130.4
2006	13.537	23.572	37.109	160.838
2007	17.689	28.697	46.386	202.533

Source: Data for 1998-2005 from Li (2006: 128), Table 9.1 (data source: *Yearbook of China's Foreign Trade and External Economic Cooperation, 1998-2005*, China Foreign Economic Relations and Trade Publishing House). Data for 2006-2008 are from *China Trade and External Economic Statistical Yearbook, 2007 and 2008*.

Table 7 Malaysian Exports to China by Product Group (RM billion)

Description	Year	1994	2004
	TOTAL EXPORTS		5.06
E&E products		0.17	12.70
Palm oil		1.91	5.29
Chemicals & chemical products		0.07	3.92
Crude petroleum		0.13	1.57

Source: Kwek and Tham (2007:125), Table 6.2. Data from MATRADE.

Table 8 Commodity Composition of Exports to China from Malaysia (%)

Year	Agriculture-intensive	Mineral-intensive	Labour-intensive	Capital-intensive
1990	78.7	7.5	1.4	12.5
1995	66.3	6.2	4.3	23.2
2000	21.5	9.5	2.4	66.7
2003	14.4	7.7	1.3	76.7

Source: Li (2006:129), Table 9.2. Computed with data from UN Comtrade database.

As noted earlier, an Early Harvest Programme (EHP) was introduced in the early 2000s to eliminate tariffs on an agreed list of products prior to the actual implementation of the ACFTA as a gesture of the earnestness of the countries involved. The EHP was implemented on 1st January 2004 and the elimination of tariffs was scheduled to complete by 1st January 2006 for the six original members of ASEAN (ASEAN-6) and 2010 for Cambodia, Laos, Burma and Vietnam (CLMV). Covered under the EHP are agricultural and primary products in the HS Chapters 1 to 8 of the Customs Duties Order (unless specifically excluded by a member country) and specific products in Chapters 9, 15, 18, 27, 34, 38, 40 and 70. Malaysia has offered 590 products under the EHP, which include 503 unprocessed agricultural products and 87 specific products including coffee, cocoa and cocoa products, animal and vegetable fats/oils, mineral fuel, soap and stearic acid, articles of rubber and glass envelopes for cathode-ray tube. China has offered 581 products under the EHP. Take the year 2004 as an example: Malaysian exporters could be seen to have benefited by exporting these products to China. A total of 2046 Form E (Preferential Certificates of Origin under ACFTA) were issued for exports to China. Total amount of exports under EHP was RM514.1 million. Meanwhile, no imports from China were recorded under the EHP in 2004, pointing to the unequal nature of the agreement as noted earlier. Malaysia's exports under the EHP had further increased to RM540.3 million in 2005. (MITI, 2006a: 189-190) The Agreement on Trade in Goods (TIG) came into force on 20th July 2005. Malaysia's exports under the agreement are encouraging with a total of 1381 Form E being issued by Malaysia for exports to the China market. The value of exports under this agreement totaled RM756.5 million. In terms of imports from China, a total value of RM3.7 million was recorded in 2005. (*ibid.*)

On the other hand, it should be noted that the formation of ACFTA could also create challenges for Malaysia, one of which is the fact that the labour force in China is undeniably huge compared to ASEAN-5, hence giving China

a definite advantage in the labour-intensive sectors, although annual growth rate of labour force in China was the lowest among these economies (Figure 1). Monthly wages of unskilled production workers for some companies in the eastern seaboard cities of China could be 20-70 per cent lower, as compared to Malaysia. Some companies in Malaysia, such as Motorola, Sony Electronics, Acer Technology and Philips Semiconductor have relocated some of their operations to China to take advantage of the lower labour costs (UNDP,

Table 9 Early Harvest Programme

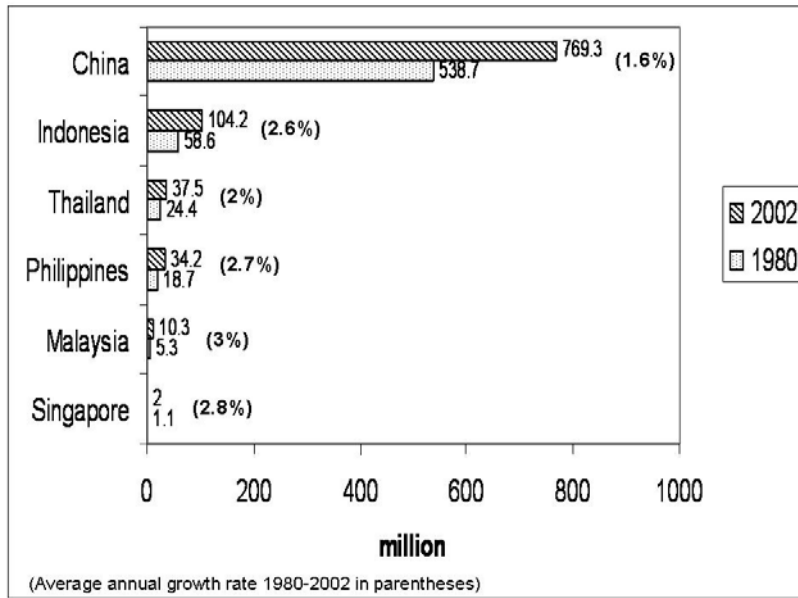
Tariff reduction commenced from 1st January 2004, 0% tariff rates by 2006. It covers more than 500 products, mostly agricultural products listed in the first 8 Chapters of HS Code	
Chapter	Description
01	Live animals
02	Meat and edible meat offal
03	Fish
04	Dairy produce
05	Other animal products
06	Live trees
07	Edible vegetables
08	Edible fruit and nuts

Table 10 Malaysia's Main Exports under ACFTA, 2005

Product Category	RM million	Share of Malaysia's Total Export Under ACFTA (%)
TOTAL	1296.8	100
Chemical products	613.1	47.3
Palm oil	196.7	15.2
Stearic acid	134.5	10.4
Rubber products	105.3	8.1
Detergent and soaps	95.9	7.4
Cocoa products	74.9	5.8
Fish and crustaceans	19.1	1.5
Mangosteen, watermelon and papaya	18.9	1.5
Cathode-ray tubes for television	13.2	1.0

Source: Yeoh and Ooi (2007b: 22-23), Table 13. Data from MITI.

Figure 1 Total Labour Force of ASEAN-5 and China



Source: Mukhriz and Nor' Aznin, 2005: 18, Table 7.

2006: 73). Furthermore, the formation of ACFTA and the removal of trade barriers will enable the competitive exporter with cheaper products to access the region's markets easily. Hence, Malaysian manufacturers will face greater competition in the domestic market as well as in the third-country markets of ASEAN involving many lines of textile and clothing, plus consumer electronics, footwear, toys and plastic products. In particular, garment producers in Malaysia have faced negative impacts from home-market penetration and third-market displacement by China in recent years (Yeoh and Ooi, 2007b: 30). According to Yeoh (2001), Malaysia's Associated Chinese Chamber of Commerce and Industry reported that out of over 4,000 small and medium enterprises involved in the garments and textiles sector, some 3,000 had closed down. In addition, China has developed competitiveness in a wide range of other manufactures, including machinery and electrical appliances, optical instruments, clocks and watches, metal products and several chemicals. In fact, these manufactured goods accounted for about 70 per cent of all ASEAN imports from China (Wattanaputtipaisan, 2003). There are worries in Malaysia that the shift in the composition of China's exports to higher value-added products and the rising domestic production of components would eventually make China a more favourable location than Malaysia particularly in outsourcing activities as according to the A.T.

Kearney Offshore Location Attractiveness Index, Malaysia ranked third for business process outsourcing after India and China (*Third Industrial Master Plan, 2006-2020*, MITI; Devadason, 2007: 139). Due to the reallocation of the production base towards China, in mid-2003, electrical and electronic firms in Malaysia, the state of Penang in particular, employed 17 per cent fewer workers than in 2000 (Woo, 2004, cited in Devadason, 2007: 139). For further illustration, Malaysia's "revealed comparative advantage" (RCA)⁶⁶ with respect to China was computed in Table 11 to identify niches for exporting to China, while Table 12 shows her opportunity for importing from China.⁶⁷

Table 11 RCA for Malaysia, 2004

Code	Product	RCA
15	Animal, vegetable fats and oils, cleavage products, etc.	12.91
80	Tin and articles thereof	6.83
44	Wood and articles of wood, wood charcoal	2.82
85	Electrical, electronic equipment	2.45
40	Rubber and articles thereof	2.44

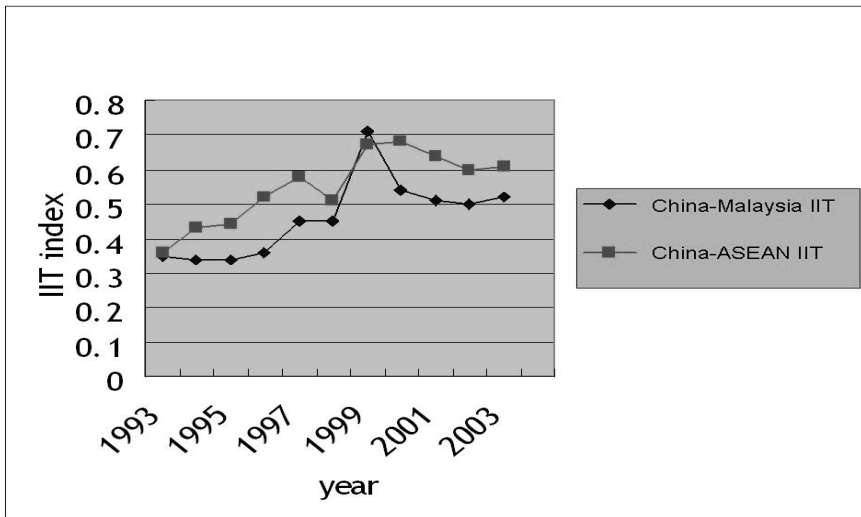
Source: Yeoh and Ooi (2007a: 23), Table 17. Computed with data from ITC database, UNTACD.

Table 12 RCA for China, 2004

Code	Product	RCA
46	Manufactures of plaiting material, basket work	9.31
66	Umbrellas, walking-sticks, seat-sticks, whips, etc.	8.27
67	Bird-skin, feathers, artificial flowers, human hair	6.63
42	Articles of leather, animal gut, harness, travel goods	4.84
43	Fur skins and artificial fur, manufactures thereof	4.41
95	Toys, games, sports requisites	4.18
63	Other made textile articles, sets, worn clothing, etc.	4.10
64	Footwear, gaiters and the like, parts thereof	3.75
61	Articles of apparel, accessories, knit or crochet	3.33
62	Articles of apparel, accessories, not knit or crochet	3.33
58	Special woven or tufted fabric, lace, tapestry, etc.	2.88
81	Other base metals, cements, articles thereof	2.74
96	Miscellaneous manufactured articles	2.62
60	Knitted or crocheted fabric	2.31
94	furniture, lighting, signs, prefabricated buildings	2.3
54	Manmade filaments	2.14
52	Cotton	2.06

Source: Yeoh and Ooi (2007a: 24), Table 18. Computed with data from ITC database, UNTACD.

Figure 2 China-Malaysia and China-ASEAN Intra-industry Trade (IIT)



Source: Li (2006: 131), Figure 9.1 (data from <http://www.aseansec.org>).

Regarding trade overlap between Malaysia and China, Li (2006) found the Sino-Malaysian intra-industry trade (IIT)⁶⁸ having steadily increased during 1998-2001, reaching around 50 per cent, although IIT had been relatively low (less than 30 per cent) till the mid-1990s (Li, 2006: 131), concurring with the finding of Wong (2004). Similarly, Devadason (2007) has found that the extent of Sino-Malaysian IIT has experienced steady increase between 1980 and 2005, reaching almost 50 per cent of total trade by 2001, exceeding Malaysia's IIT with the US and Japan (Devadason, 2007: 144). Li also found that the Sino-Malaysian IIT (Grubel-Lloyd index) is below that of Singapore, above that of the Philippines and Indonesia, rather parallel to that of Thailand after 2002.

6.4. Reduction in Over-dependence on Developed Countries

Besides expanding trade between Malaysia and her partner countries, ACFTA could also reduce her exports dependence on developed countries. Although trade between Malaysia and the other member countries of ACFTA would increase greatly, Malaysia's exports are heavily dependent on developed countries such as the US, the EU and Japan. The total share of exports of these countries accounted for 56.1 per cent of Malaysia's exports in 1980. The share of exports decreased to 47.6 per cent in 1990, 47.3 per cent in 2000

Table 13 Percentage Share of Malaysia's Exports to US, EU and Japan

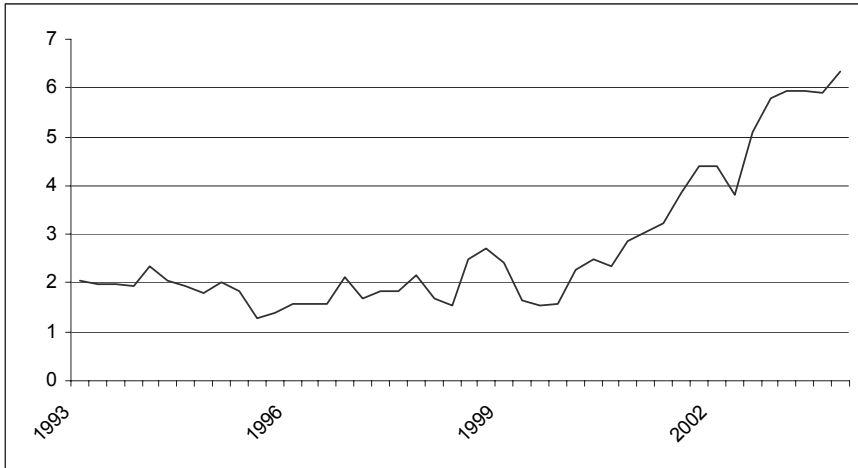
Country	Year				
	1970	1980	1990	2000	2005
US	13.0	16.4	16.9	20.5	19.7
EU	19.2	16.9	14.9	13.7	11.7
Japan	18.2	22.8	15.8	13.1	9.4

Source: UNDP (2006: 31), Table 2.4.

and 40.8 per cent in 2005. (Yeoh and Ooi, 2007a: 25) Sluggish economic growth is the key factor for the decline in exports demand in these major markets. Japan was a major exports market for Malaysia in the 1980s and 1990s. However, exports to Japan dropped significantly to 13.1 per cent in 2000. In 2005, Malaysia's exports to Japan accounted for only 9.4 per cent. This was due to Japan's low economic performance that decreased her market demand. That may be the biggest problem of over-dependence on a single export market.

In terms of trade intensity, Kwek and Tham (2007) has found that Malaysia's trade ties with China have grown faster than her trade ties with the rest of the world, with the trade intensity index of Malaysia's trade with China (comparing the relative intensity of Malaysia's trade with China relative to her trade with the rest of the world) having increased significantly from 1.60 in 1995 in 2000 and further to 6.04 in 2003. The increase was particularly remarkable after the financial crisis in 1998. Growth in exports to China and ASEAN could offset the decline of Malaysia's share in her key market with the formation of the FTA. Malaysia's exports market has been widening with China's accession to the WTO and the agreement to establish an FTA with ASEAN. These could gradually reduce Malaysia's over-dependence on the developed countries. Considering these factors, it leaves greater room for the future development and expansion in trade between Malaysia and the other members of ACFTA. In the context of global economic slowdown, and years of recession of the regional economic power, Japan, ACFTA by enhancing trade flows of the member countries will be especially beneficial. On the part of China, from the geopolitical perspective, she is of course happy to see that with the implementation of ACFTA, ASEAN's traditional economic dependence on the US, Europe and Japan would be gradually shifted to herself, although both she and ASEAN are still facing a risk in the over-concentration in electronics whose final market is over-dependent on the US (Ravenhill and Jiang, 2007: 21).

Figure 3 Quarterly Trade Intensity Index of Malaysia's Trade with China (1993:Q1 – 2003:Q4)



Source: Kwek and Tham (2007: 127), Figure 6.1.

Table 14 Malaysia and China: Pre-AFCTA Import Duties on Selected Products (%)

Product Sector	Malaysia	China
	Import Duty	Import Duty
Wood Products	5	17 – 27
Rubber Products	30 – 40	29.9 – 30
Furniture and Parts	Nil	20.7
Food and Beverage	0 – 25	22 – 45
Chemicals and Chemical Products	0 – 20	20 – 27
Jewellery and Parts	10	40 – 52
Boiler, Machinery and Mechanical Appliances	0 – 30	17 – 40
Electrical Machinery and Equipment, Electronics Parts and Accessories	0 – 30	17 – 47
Animal or Vegetables Fats and Oils and their fractions including edible preparations	0 – 10	22 – 47
Parts and Accessories for vehicles other than railway or tramway	25 – 30	23 – 33

Source: Kwek and Tham (2007: 134), Table 6.6. Data from MITI.

6.5. Competition to Enter the China Market

Malaysia has, in general, lower tariffs than China;⁶⁹ for instance in 2004, Malaysia's average tariff was 9.2 per cent while China's was 17 per cent. ACFTA's tariff reduction is poised to increase Malaysian firms' access to the China market with potential customs duty savings arising from the margin of difference between the Most-Favoured Nation (MFN) tariff rate and the lower preferential ASEAN-China tariff rate (Kwek and Tham, 2007: 134).

However, Malaysia will encounter a certain amount of other barriers to enter the China market. There is competition in the substitutes between Malaysia and the other ASEAN members in the China market due to the similarity of their economic structures and commodity exports to the China market.

6.6. Other Forms of Economic Cooperation

Besides the domains discussed so far, there are also potential benefits that Malaysia could hope to reap from the services sector in China's market. These may include building construction, tourism, financial services, education services and the (Muslim) halal food market.

There are opportunities for Malaysia to boost her tourism industry by attracting more tourists from China, based on the strong economic forecast in China that will lead to substantial increase in demand for various services especially recreational activities. China's National Tourism Administration reported an astounding 29 million China nationals travelling abroad in 2004, and the number had increased substantially in subsequent years with further travel concessions in place and new availability of outbound travel products (Yeoh and Ooi, 2007b: 24). In recognition of China's potential as a big tourist country given that a remarkable portion of China's population is getting rich, the Malaysian government has adopted various measures to attract tourists from China. For instance, the Malaysian Ministry of Tourism has intensified its tourism promotion by setting up tourism offices in Beijing and Shanghai, simplifying visa formalities, opening more chartered flights and staging promotion exhibitions in various major cities in China.

In order to attract more tourists, the Malaysian Ministry of Tourism has also participated in exhibitions in cities in central and western China. In addition, the ministry also stations *Putonghua* (普通话)-speaking immigration personnel at the country's main gateway, the Kuala Lumpur International Airport, to ensure that tourists from China will not face any problem when entering the country. The booming of the tourism industry is expected to bring services-related FDI into restaurants, tourism facilities, and wholesale and retail trade, thus helping to invigorate the domestic private sector and stimulate the services sector to spearhead economic growth.

With an education market estimated to be worth US\$54 billion and projected to grow at 20 per cent annually, China has been developing her joint educational venture with the outside world very rapidly in recent years, and there were 657 joint educational ventures in China in 2005, compared to only 70 in 1995 (Shen, 2005: 223). IDE-JETRO and SERI (2004: 15) reported that various Malaysian education providers have entered the China market to capture the growing demand there for tertiary and technical education, e.g. the Kuala Lumpur Infrastructure University College (KLIUC) has signed a Memorandum of Understanding with Tongji University, Tianjin Engineering and Technical Institute, and Tianjin University to provide joint technical twinning degrees in engineering and scientific fields, while the Inti International College has been providing management education in Beijing for more than a decade since 1993. In addition, China and Malaysia – who was already hosting about 10 thousand students from China in 2005 – have agreed to work together on a mutual accreditation programme for tertiary students of both countries. Having launched a media blitz to promote Malaysia's educational facilities to attract more students from China to study in Malaysia, the Malaysian Ministry of Higher Education is currently shifting its focus to mid-western China and planning to reach out to more students in this region.⁷⁰ In addition, twinning programmes with foreign universities in the United Kingdom, the US and Australia could enable students from China to obtain foreign degrees in Malaysia at a lower cost. (Yeoh and Ooi, 2007b: 25-26)

With an estimated 150 to 200 million Muslim population, China also provides an opportunity in the halal food sector. MIDA (2006a) reported that BIZ Link Global Sdn Bhd, a *Bumiputera* halal product manufacturer, has ventured into the China market, reckoning the immense opportunities that China offers for halal products, with the signing of a Memorandum of Understanding in Shanghai to export halal food products to two companies, viz. Shanghai Henyi Trading Co Ltd and Shanghai JD Trading Co Ltd. Much is yet to be done, nevertheless, to achieve the Malaysian goal of becoming a regional halal food hub, as Thailand and the Philippines have already established halal food programmes of their own to serve the global halal food market, which will be in direct competition with Malaysia's plans (Yeoh and Ooi, 2007b: 26-27).

Besides the above, despite reservations regarding China's reluctance to negotiate on services, many business service providers in this region are looking forward to a more liberal investment environment in the services sectors with the establishment of ACFTA. Incidentally, the International Management firm AT Kearney in a recent report described Malaysia as a rising alternative to India and China for offshore services.⁷¹

In addition, the construction of infrastructure and residential and office buildings in China is providing opportunities for the construction sector,

especially in areas such as ports, roads, highways, telecommunications and transportation, and oil and gas exploration. MIDA (2006b) reported that, venturing into contract biddings, many Malaysian companies had been keen to undertake the management of wastewater treatment plants, water supply work and city gas distribution projects on a build, own and transfer basis, e.g. Salcon Berhad, one of the leading water and wastewater service providers in the region, has won a 30-year contract through its wholly-owned subsidiary, Salcon Zhejiang (HK) Private Limited to operate and manage the supply of treated water in Haining, Zhejiang province, China. IDE-JETRO and SERI (2004: 15) also reported that Malaysian conglomerate Lions Group has already been involved in property development including hotel building and retail property development in China.

China's current "Develop the Western Region" (*xibu dakaifa* 西部大开发) strategy will also create opportunities in construction and infrastructure in China's western region. It has been observed that in accordance with China's general principles in PTA negotiation, individual agreements have often been geared towards particular economic ends.⁷² While CEPAs⁷³, for instance, with Hong Kong and Macau could be seen as intended to give Chinese networks in these two enclaves an advantage over those involving Taiwanese capital that operate across the Taiwan Strait, ACFTA, on the other hand, is providing a foundation for infrastructural strengthening and micro-regional development in the Greater Mekong River sub-region in western China (Ravenhill and Jiang, 2007: 11), in line with the *xibu dakaifa* policy.

China's successful bid for the 2008 Olympic Games and the 2010 Asian Games has also reinforced the optimism for prosperous development in that sector. Besides, Sino-Malaysian cooperation in energy and other natural resources could be growing to the benefit of both countries. In October 2006, the Malaysian State energy firm Petronas won a 25-year contract to operate and manage the supply of some three million tons of natural gas annually to Shanghai, China. The natural gas supply contract signed between the two nations was worth a reported US\$25 billion.⁷⁴ (Yeoh and Ooi, 2007b: 28)

7. The Future: What Role Can China Play?

In 2009, APEC celebrated its 20th year of successful establishment. Since its inception 20 years ago, APEC has positioned itself as the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region.⁷⁵ Being "the most economically dynamic part of the world"⁷⁶, APEC member economies "generated nearly 70 percent of global economic growth"⁷⁷ and the APEC region "consistently outperformed the rest of the world, even during the Asian financial crisis" (APEC Secretariat, 2005: 4). At

present, the rapid economic growth of China, Russia and Vietnam still draws much attention from various parts of the world.

APEC's success could be mainly attributed to the "designs and functions of APEC in the region for the economic activities" as the "active participation of private sectors" provides the public sectors in APEC member nations "cutting-edge advices on entrepreneurial developments and high-technology", while through such cooperation between the public and private sectors, problems related to business growth are often effectively solved, and in this respect, APEC members have demonstrated the ability to forge strong public-private sector partnerships within the nations (Chang, 2008: 2). Furthermore, APEC should explore the possibility of expanding its membership. The rise of BRICs is one of the most important economic trends in the 21st century. APEC should "embrace this economic momentum mainly growing from within the region" and "be more aggressive in bringing these other two neighbors, India and Brazil, or their neighboring countries, into the APEC community" (*ibid.*: 3). Although, since its inception, APEC has become more "dynamic and heterogeneous" through the "enlargement of its membership", providing an "unprecedented opportunity for regional integration" for many member countries, APEC is still primarily an Asian body, and as such, the "Asian nature of APEC" would actually be a "sustaining force", while the "sense of ownership" is also equally important as evident in Japan's participation in the Kyoto Protocol (Liao, Liner and Müller, 2006: 3).

There are many indications which point towards APEC expanding its "scope of competence" while remaining relevant and effective in the future – as interaction between member countries increase, a "sense of common destiny" is likely to be strengthened, and it is this "sense of common destiny" which could even evolve into a "common vision of Asia-Pacific" with consequences far beyond the original objectives of APEC (*ibid.*). As such, APEC is entering a new and complex phase with the expected "development of action plans for liberalization by each member economy" and their "subsequent continuing review" (Woods, 1995). Thus, it would seem that the strategy for APEC in the future is to act as swiftly as possible to "negotiate and implement a Trans-Pacific Partnership as the first and major step toward a Free Trade Area of the Asia-Pacific" and thereby achieve the "Bogor goals" (Bergsten, 2009).

Looking back at APEC's history, the level of success of the organization has been primarily judged on the degree of trade liberalization among its member states, and in this respect, Japan has "taken a very active leadership role within Asia" to "promote a new Asian economic architecture", and "proposed the ASEAN+6 variant" and "initiated the East Asian Summits", giving hope that "a successful realization of the Trans-Pacific Partnership" would further encourage "trade liberalization" and "restore the vitality of

APEC” (*ibid.*). In addition, the fact that the most senior-level personnel of member countries continue to attend APEC meetings is evidence of its importance and success.⁷⁸ Since its formation, APEC has grown from 12 founding members to 21. At present, APEC economies account for “more than 40 percent of the world’s population and world trade”, and “more than half of global production”.⁷⁹

Due to the current economic uncertainty surrounding the world, it is well nigh impossible to predict the future of APEC with any precision. Even though the 21 countries within APEC have increased regional economic cooperation and coordination considerably, huge economic and developmental disparities continue to exist between APEC member states. In fact, developed countries within APEC are gaining more from the strengthening APEC regional ties than their developing counterparts. In order to narrow the growing discrepancy between the member countries, it would be of utmost importance to ensure that free trade exists among all APEC countries. Within the APEC organization, the US, Japan and China are the most powerful nations. No one has ever imagined or predicted that China can attain the present level of economic development within such a short span of time. In fact, China has achieved such economic and technological clout that she will soon be replacing Japan to become the second largest economy in the world.⁸⁰ It is very possible that China will lead the Asian region, and even the world, in the future. China has attained such a high level of development primarily by exporting her products to the rest of the world. In addition, China has also started making huge investments in the industries of neighbouring countries within the Asian region, benefiting her neighbouring countries in the process while gaining popularity and power. With China’s increasing trade within the region, Japan and the US have lost some of their market shares to China. In order to retain her market share, China has taken the initiative to sign several FTAs with other Asian countries. Although similar FTAs are signed by Japan and South Korea within the region, China remains in the leadership position.

In terms of bilateral and multilateral trade agreements, China has focused her attention on establishing the China-ASEAN FTA. The creation of ACFTA has further strengthened China’s leadership in the region. It appears that China would not favour including Russia and the US in the FTA. On the other hand, China supported the inclusion of Japan and South Korea. A possible explanation for this is that China does not view Japan and South Korea as too much of a threat in terms of trade in the region. Japan supported explicitly the US’s proposition to add more new members to the FTA. China does not seem to worry about this as Japan is gradually losing her power in the region.

The US is very much interested in widening FTA arrangements to include countries in the Asia-Pacific region. She is looking forward to include more

countries from the region to join Brunei, Singapore and New Zealand which are already member countries of the FTAAP. The 2009 APEC conference in Singapore, the 2010 conference in Japan and the 2011 conference in the US provide great opportunities for the US to exert her influence in forging stronger ties with other APEC member countries.

The US's interest in the Asian region is further sparked by the uncertainty shrouding the WTO. The WTO has 153 members (representing more than 95 per cent of total world trade) and 30 observers, all seeking membership.⁸¹ The WTO is currently working on a trade negotiation called the Doha Development Agenda to "enhance equitable participation of the poorer countries".⁸² However, the Doha Development Agenda has been "dogged by disagreement between exporters of agricultural bulk commodities and countries with large numbers of subsistence farmers" on the "precise terms of a 'special safeguard measure' to protect farmers from surges in imports".⁸³ With such uncertainties surrounding the Doha Round, the US has become more interested in enhancing her trade relations within the Asia-Pacific region.

It is observed that while China wants the concept of free trade to be restricted to a few countries within the region, the US wants a much wider free trade zone. A probable explanation for China's preference of a more restricted FTA is that China can more easily lead the region and benefit from a restricted FTA because China's strength and influence mainly lie in the Asian region. An FTA which covers both the Asia and Pacific regions will increase the power and influence of the US and Japan in the region. China does not favour a wider FTA for fear of losing influence and advantage in trade in the region.

The US's proposition for a wider free trade zone is based on three major concepts which are summarised in the "goals of the G20 Framework for strong, sustainable and balanced growth".⁸⁴

- *Balanced growth*: Strong and sustained economic growth will require structural reforms to gradually unwind global imbalances and raise the potential output of the economies. APEC will ensure that the fiscal monetary, trade and structural policies are consistent with a more sustainable and balanced trajectory of growth, both within and across the APEC economies and develop own financial markets to better serve the real economy.⁸⁵
- *Inclusive growth*: To achieve inclusive growth APEC nations must broaden access to economic opportunities and build the resilience of the most vulnerable against economic shocks. The countries must help small and medium enterprises and women entrepreneurs gain better access to global markets and finance. They need to facilitate worker retraining,

skills upgrading, and domestic labour mobility which can provide short-term support but avoid long-term dependency.⁸⁶

- *Sustainable growth*: Future growth must be compatible with global efforts to mitigate climate change. At the same time, efforts to address climate change must be consistent with keeping trade and investment free and open. The countries need to rationalize and phase out over the medium-term fossil fuel subsidies while providing those in need with essential energy services.⁸⁷

In order to achieve the three types of growth mentioned above, the US suggests that she can contribute significantly at a micro-level in the area of education, technology, SMEs, worker training, microfinance, opportunities for women, etc. the US has marketed herself as a country which can offer the best assistance for fellow nations to achieve long-term economic and trade growth in the abovementioned fields.

The US and China share a complicated relationship in terms of FTA arrangements. China is well aware of the risk of losing her leadership position and power in the region if she accepts the US's proposal of a larger free trade zone. On the other hand, the US also realizes that the road towards successful economic integration in the region will be riddled with difficulties without China's cooperation.

It is often advocated that if China can cooperate with the US in developing a wider free trade zone in the Asia-Pacific region, China can gain more political stability and leadership in the region. Apart from that, the US would also be willing to actively work together with China to deal with the nuclear proliferation problem. This will contribute towards overall peace in the region and the world. On the other hand, disputes between China and the US will only bring problems to the global society rather than solve them.

In Asia, Japan is facing the aging problem domestically and is losing power in the continent. The US is trying to build a new model for supporting her allies in Asia. If the US succeeds in exerting further influence in the Asian region, China's leadership position would be shaken. After the recent global financial crisis, it is argued that China has caught up with the US. However, it is submitted that it would be difficult for China to compete with the US unless China further strengthens her economy.

China needs to act strategically on specific domestic and global issues. To strengthen herself as a major power, China needs to resolve her domestic problems and enhance social and economic development. In addition, China should try to make the yuan a key currency in the global market and play a more global role than she is playing right now. Thus, to strengthen her position as a leader in world trade, more specifically in the Asia-Pacific region, China will not only need to develop her economic and trade cooperation with countries in the region, but will also need development on all fronts.

Notes

1. <http://www.chinability.com/GDP.htm>
2. “Billion” = thousand million.
3. “Is Globalization Inevitable?”, Free Media Productions, 2009. <<http://www.freemediaproductions.info/Editorials/author/maverick/>>
4. Gu, X., “China Tries RMB Regionalization Measure”, *China Today*, 19th June 2009. <http://www.chinatoday.com.cn/ctenglish/se/txt/2009-06/19/content_203295.htm>
5. China calls this China-ASEAN Free Trade Area (CAFTA); ASEAN calls this ASEAN-China Free Trade Area (ACFTA). To avoid confusion with another CAFTA (Central American Free Trade Agreement), the acronym “ACFTA” is used in this paper.
6. However, Ravenhill and Jiang (2007: 1) preferred the term “preferential trading agreements” (PTAs) to “regional agreements” (RAs) or “free trade agreements” (FTAs) for the fact that their membership is often not “regional” in any conventional geographic sense of the word and “relatively few of the large number of preferential arrangements negotiated in the last decade come close to conventional criteria for ‘free’ trade”.
7. For more details about Benelux, reference can be made to http://www.benelux.be/en/home_intro.asp (Benelux Economic Union), <http://www.benelux-parl.org/> (Benelux Parliament), <http://www.courbeneluxhof.info/> (Benelux Court of Justice) and <http://www.boip.int/en/homepage.php> (Benelux Office for Intellectual Property).
8. http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_ecsc_en.htm
9. <http://www.pict-pcti.org/courts/beneluxCJ.html>
10. Details about NAFTA can be found at <http://www.sice.oas.org/Trade/NAFTA/naftatce.asp>
11. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/index.aspx>
12. <http://www.fas.usda.gov/itp/Policy/nafta/nafta.asp>
13. “The Enterprise for the Americas Initiative: Description and Up-date”, The Development GAP, October 1992. <http://www.developmentgap.org/americas/EAI_Description_and_Update.pdf>
14. http://www.apec.org/apec/about_apec/achievements_and_benefits.html
15. Details about the 2009 APEC Conference can be found at http://www.apec.org/apec/leaders_declarations/2009.html
16. <http://www.apec.org/>
17. *Ibid.*
18. <http://www.apec2007.org/>
19. http://www.apec.org/apec/about_apec.html
20. *Ibid.*
21. http://www.apec.org/apec/about_apec.html
22. Coates, S., “ASEAN-China Open World’s Largest Free Trade Area”, *Industry Week*, 30th December 2009. <http://www.industryweek.com/articles/asean-china_open_worlds_largest_free_trade_area_20729.aspx>

23. “Asian Opening”, *Lanka Business Online*, 30th December 2009. <<http://www.lankabusinessonline.com/fullstory.php?nid=182100356>>
24. *Ibid.*
25. *Ibid.*
26. “ASEAN, China Open World’s Biggest Free Trade Area”, *Borneo Post Online*, 31st December 2009. <<http://www.theborneopost.com/?p=2142>>
27. <http://www.thefreelibrary.com/ASEAN-China+open+free+trade+area-a01612103457>
28. <http://www.america.gov/st/business-english/2009/November/20091104135511dmslahrellek0.9469721.html>
29. This summary of the Bogor Declaration can be found at http://www.apec.org/apec/leaders_declarations/1994.html
30. These three pillars of the Osaka Action Agenda is discussed in detail in the Joint Statement of the 7th APEC Ministerial Meeting, 1995.
31. http://www.apec.org/apec/about_apec/achievements_and_benefits.html
32. *Ibid.*
33. <http://www.asianlii.org/apec/other/agrmt/2aeldocr429/>
34. http://en.wikipedia.org/wiki/1997_Asian_Financial_Crisis
35. “ASEAN+3, HK Sign Chiang Mai Initiative to Address Currency Liquidity”, *China Daily*, 28th December 2009. <http://www.chinadaily.com.cn/bizchina/2009-12/28/content_9238573.htm> | <http://news.xinhuanet.com/english/2009-12/28/content_12717353.htm>
36. *Ibid.*
37. *Ibid.*
38. *Ibid.*
39. “Launch of China-ASEAN FTA Significant Event in Asia: Singapore Scholar”, *Xinhuanet*, 29th December 2009. <http://news.xinhuanet.com/english/2009-12/29/content_12723814.htm>
40. Gooch, L., “Asia Free-Trade Zone Raises Hopes, and Some Fears about China”, *The New York Times*, 31st December 2009. <<http://www.nytimes.com/2010/01/01/business/global/01trade.html>>
41. *New York Times* (31st December 2009).
42. <http://www.smidec.gov.my/node/957>
43. *Ibid.*
44. “China-ASEAN FTA to Speed Up China-Malaysia’s Economic Growth”, *Global Times*, 26th December 2009. <<http://business.globaltimes.cn/china-economy/2009-12/494529.html>>
45. *Ibid.*
46. “Launch of China-ASEAN FTA Significant Event in Asia: Singapore Scholar”, *Xinhuanet*, 29th December 2009. <http://news.xinhuanet.com/english/2009-12/29/content_12723814.htm>
47. *Ibid.*
48. <http://www.textileasia-businesspress.com/>
49. Miller, J.W., “WTO to Probe US-China Tire Rift”, *The Wall Street Journal*, 13th January 2010. <<http://online.wsj.com/article/SB126323846798625041.html>>
50. *Ibid.*

51. *Ibid.*
52. *Ibid.*
53. “Foreword”, in PricewaterhouseCoopers (2008).
54. “First BRIC Summit Concludes”, *Deutsche Welle*, 16th June 2009. <<http://www.dw-world.de/dw/article/0,,4335954,00.html>>
55. *Ibid.*
56. Gu, X., “China Tries RMB Regionalization Measure”, *China Today*, 19th June 2009. <http://www.chinatoday.com.cn/ctenglish/se/txt/2009-06/19/content_203295.htm>
57. *Ibid.*
58. *Ibid.*
59. *Ibid.*
60. *Ibid.*
61. “Strengthen Regional Financial Cooperation and Actively Conduct Currency Swap”, The People’s Bank of China, 31st March 2009. <<http://www.pbc.gov.cn/english/detail.asp?col=6400&ID=1299>>
62. Malaysia has no exclusion of any products for China and the other ASEAN member states under the EHP.
63. *The Star* (Malaysian daily), 2006, cited in Devadason (2007: 138).
64. “RM” = (Malaysian) ringgit. RM1 is equivalent to about US\$0.295.
65. MIDA <<http://www.mida.gov.my>>.
66. RCA measures the share of each commodity group in an economy’s total exports, relative to that commodity’s share in world exports; hence, the larger the value, the greater the comparative advantage and the more competitive for the industry concerned (Balassa, 1961):

$$RCA_i = \frac{\left[\frac{X_{ij}}{\sum_i X_{ij}} \right]}{\left[\frac{\sum_j X_{ij}}{\sum_j \sum_i X_{ij}} \right]}$$

where X_{ij} = exports of sector i at country j ,

$\sum_i X_{ij}$ = total export of country j ,

$\sum_j X_{ij}$ = world export of sector i , and

$\sum_j \sum_i X_{ij}$ = total world export.

If a country’s share of world exports of a particular commodity is greater than its share of world exports of all commodities, the RCA will be greater than one. A country therefore has an RCA only in those products for which its market share of world exports is above its average share of world exports. Increased opportunities for exports to China, after the inception of ACFTA, is identified in product groups where Malaysia’s RCA is greater than two and where China’s RCA is less than one (Yeoh and Ooi, 2007a: 23).

67. Identified by the product groups, where China's RCA is greater than two, while Malaysia's RCA is less than 1 (*ibid.*: 24).
68. The overall level of IIT in country i is here measured by the Grubel-Lloyd index:

$$GL_{ij} = 1 - (X_{ij} - M_{ij}) / (X_{ij} + M_{ij})$$

with X_{ij} denoting export of commodity j in country i , and M_{ij} import of commodity j in country i . In general, the higher the GL_{ij} index, the higher is the intensity of intra-industry trade in this commodity, reflecting the advantage of specialization in international division of labour (Li, 2006: 130-131):

$$GL_i = \sum_{j=1}^n GL_{ij} \left[\frac{|X_{ij} - M_{ij}|}{\sum_{j=1}^n (X_{ij} + M_{ij})} \right]$$

69. MATRADE (<http://www.matrade.gov.my>) gave an average tariff rate of 20.4 per cent for agricultural goods, 11.5 per cent for chemical products, 14.6 per cent for machinery and parts, 6.9 per cent for metal products, 27.2 per cent for textiles and 12.9 per cent for wood and related products (Kwek and Tham, 2007: 134).
70. "KL and Beijing Discuss Accreditation System", *The Star*, 24th July 2006. <newsdesk@thestar.com.my>
71. "Malaysia Focuses on Services", *Asia Times*, 18th May 2005. <<http://www.atimes.com>>
72. Citing the focus on nurses in China's PTA negotiation with Australia, Ravenhill and Jiang (2007: 11) observed that one of China's objectives in service negotiations with industrialized economies "has been to improve the opportunities for Chinese professionals to work in partner economies" and Beijing is apparently seeing PTAs as providing a partial solution to the lack of domestic employment opportunities. China has also sought to include provisions in her PTAs that would enable her resource companies to bring in China's labour to staff her resource projects (*ibid.*: 9).
73. Closer economic partnership agreements.
74. <http://asia.news.yahoo.com/061031/afp/06103107465business.html>
75. http://www.apec.org/apec/about_apec.html
76. http://www.apec.org/apec/about_apec/achievements_and_benefits.html
77. <http://www2.ed.gov/about/inits/ed/international/apec.html>
78. "APEC Marks 20 Years, Looks to Future of Regional Trade", VOA News, 10th November 2009. <<http://www1.voanews.com/english/news/a-13-2009-11-10-voa14-69822382.html>>
79. *Ibid.*
80. "China Economy Shows Strong Growth in 2009", BBC, 21st January 2010. <<http://news.bbc.co.uk/2/hi/8471613.stm>>
81. "WTO", *International Business Times* (n.d.). <<http://www.ibtimes.com/topics/detail/266/wto/>>
82. http://en.wikipedia.org/wiki/World_Trade_Organization

83. *Ibid.*
84. These three major concepts are thoroughly discussed at http://www.apec.org/apec/news__media/media_releases/20091115_leadersstatement.html
85. *Ibid.*
86. *Ibid.*
87. *Ibid.*

References

- APEC Secretariat (2005), "APEC at a Glance". <http://www.apec.org/apec/enewsletter/jan_vol7/publication.primarycontentparagraph.0002.LinkURL.Download.ver5.1.9>
- ASEAN Secretariat (2002), *Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and the People's Republic of China*. <<http://www.aseansec.org/13196html>>
- ASEAN Secretariat (2008), *ASEAN Statistical Yearbook 2008*, Jakarta: ASEAN Secretariat.
- ASEAN Secretariat (2009), *ASEAN Statistical Yearbook 2009*, Jakarta: ASEAN Secretariat.
- Balassa, Bela (1961), *The Theory of Economic Integration*, London: George Allen and Unwin.
- Bergsten, C.F. (2009), "The Future of APEC and Its Core Agenda", keynote speech delivered to the APEC 2010 Symposium, Tokyo, Japan on 9th December 2009. <<http://www.piie.com/publications/papers/paper.cfm?ResearchID=1447>>
- Chang, H. (2008), "APEC: A View from Asian Business 'The Future of APEC'", *Journal of Commerce and Industry*, Vol. 1 (2008), Taipei: Confederation of Asia-Pacific Chambers of Commerce and Industry. <<http://www.cacci.org.tw/Journal/2008%20Vol%201/HarveyChang.pdf>>
- China Trade and External Economic Statistical Yearbook 2007*, Beijing: China Statistics Press.
- China Trade and External Economic Statistical Yearbook 2008*, Beijing: China Statistics Press.
- de Brouwer, G. (2002), "The IMF and East Asia: A Changing Regional Financial Architecture", *Pacific Economic Papers*, No. 324 (February 2002). <<http://dspace-prod1.anu.edu.au/bitstream/1885/40645/2/pep-324.pdf>>
- Devadason, Evelyn (2007), "Malaysia-China Trade Patterns in Manufactures: How Big Is Production Sharing?", in Emile Kok-Kheng Yeoh and Evelyn Devadason (eds), *Emerging Trading Nation in an Integrating World: Global Impacts and Domestic Challenges of China's Economic Reform*, Kuala Lumpur: Institute of China Studies, University of Malaya, pp. 138-152.
- Hong Kong Trade Development Council (HKTDC) (2006), "China-ASEAN Free Trade Area and Implications for Hong Kong as a Trade Hub", *Economic Forum*, 29 June. <<http://www.tdctrade.com/econforum/tdc/tdc060602.htm>>
- Institute of Developing Economies - Japan External Trade Organization (IDE-JETRO) and Socio-Economic & Environmental Research Institute (SERI) (2004), "Trade, Investment and Economic Cooperation between China and Southeast Asia:

- The Case of Malaysia”, report of IDE-JETRO and SERI joint research project, November 2003 – February 2004.
- “Is Globalization Inevitable?”, Free Media Productions, 2009. <<http://www.freemedia productions.info/Editorials/author/maverick/>>
- Kiyota, Kozo, Yoko Sazanami and Yu Ching Wong (2005), “Intra-regional Trade in Asia: Dynamics of Production Sharing”. <http://www.univ-lehavre.fr/actu/itlcsge/kiyota_2.pdf>
- Kwek, Kian-Teng and Siew-Yean Tham (2007), “Trade between Malaysia and China: Opportunities and Challenges for Growth”, in Emile Kok-Kheng Yeoh and Evelyn Devadason (eds), *Emerging Trading Nation in an Integrating World: Global Impacts and Domestic Challenges of China's Economic Reform*, Kuala Lumpur: Institute of China Studies, University of Malaya, pp. 123-137.
- Li Yi (2006), “An Analysis of Recent Sino-Malaysian Trade Relations”, in Emile Kok-Kheng Yeoh (ed.), *China and Malaysia in a Globalizing World: Bilateral Relations, Regional Imperatives and Domestic Challenges*, Kuala Lumpur: Institute of China Studies, University of Malaya, pp. 127-136.
- Liao, A., C. Liner and S. Müller (2006), “A Bright Future for APEC”, position paper for roundtable discussion “Whither Regionalism in Asia and the Pacific?” in “Governance and Regional Integration” course, Graduate Institute of International Studies, Geneva. <<http://hei.unige.ch/sections/sp/courses/0506/dupont/roundtable/Bright%20future%20for%20APEC.pdf>>
- Malaysia External Trade Development Corporation (MATRADE) (2004), *Malaysia's Trade Performance, 1994-2003*, Kuala Lumpur.
- Malaysia External Trade Development Corporation (MATRADE) (2005), *Malaysia's Trade Performance, 2004*, Kuala Lumpur.
- Malaysian Industrial Development Authority (MIDA) (2006a), “China’s Promising Market for Halal Products”. <<http://www.mida.gov.my>>
- Malaysian Industrial Development Authority (MIDA) (2006b), “Salcon Gets Contract to Supply Treated Water in China”. <<http://www.mida.gov.my>>
- Malaysian Ministry of Finance (2010), *Economic Report 2009/2010*. Kuala Lumpur: Percetakan Nasional Malaysia Berhad.
- Malaysian Ministry of International Trade and Industry (MITI) (2004), *Malaysia – International Trade and Industry Report 2003*.
- Malaysian Ministry of International Trade and Industry (MITI) (2006a), *Malaysia – International Trade and Industry Report 2005*.
- Malaysian Ministry of International Trade and Industry (MITI) (2006b), *Third Industrial Master Plan, 2006-2020: Malaysia – Towards Global Competitiveness*, Kuala Lumpur: Percetakan Nasional Malaysia Berhad.
- Morrison, W.M. (2006), “China’s Economic Conditions”, *CRS Issue Brief for Congress*, No. RL33534, Congressional Research Service.
- Mukhriz Izraf Azman Aziz and Nor’ Aznin Abu Bakar (2005), “The Export Competition between China and ASEAN-5 Countries in the U.S. and Japan: A Survey on Manufacturing Sectors”, paper presented at the conference “WTO, China, and the Asian Economies, III: Economic Integration and Economic Development”, 25th-26th June, Xi’an Jiaotong University, Xi’an, China.
- Nie, S. (2009), “Shanghai’s New Impetus towards China’s Wall Street”. <http://www.sinoptic.ch/shanghaiiflash/texts/pdf/2009/200904_Shanghai.Flash.pdf>

- PricewaterhouseCoopers (2009), Greater China IPO Watch 2008, PWC China/Hong Kong Capital Market Services Group. <http://www.pwccn.com/home/webmedia/633795312509403786/gc_ipo_survey_rpt_jun2009.pdf>
- Rajan, R.S. (2009), "Crises, Private Capital Flows and Financial Instability in Emerging Asia", *UNESCAP Working Paper*, WP/09/06, UNESCAP Macroeconomic Policy and Development Division. <http://www.unescap.org/pdd/publications/workingpaper/wp_09_06.pdf>
- Ravenhill, John and Yang Jiang (2007), "China's Move to Preferential Trading: An Extension of Chinese Network Power?", paper presented at the International Conference "Made in China vs. Made by Chinese: Global Identities of Chinese Business", Collingwood College, Durham University, Durham, United Kingdom, 19th-20th March.
- Saywell, Trish (2001), "Powering Asia's Growth", *Far Eastern Economic Review*, 164, no. 30, August, 40-43.
- Setser, B.W. and A. Pandey (2009), "China's \$1.5 Trillion Bet: Understanding China's External Portfolio", *CGS Working Paper*, Council on Foreign Relations Press.
- Shen, Danyang (2005), "ASEAN-China FTA: Opportunities, Modalities and Prospects", in Saw Swee-Hock, Sheng Lijun and Chin Kin Wah (eds), *ASEAN-China Relations, Realities and Prospects*, Singapore: Institute of Southeast Asian Studies, pp. 208-228.
- Soesastro, Hadi, Marcus Noland and Donald K. Emmerson (1995), "The Jakarta-Bogor APEC Summit: A Vision for 2020", *Shorenstein Reports on Contemporary East Asia*, Number 3, January 1995. <<http://ieas.berkeley.edu/shorenstein/1995.01.html>>
- "Strengthen Regional Financial Cooperation and Actively Conduct Currency Swap", The People's Bank of China, 31st March 2009. <<http://www.pbc.gov.cn/english/detail.asp?col=6400&ID=1299>>
- Stubbs, R. (2002), "ASEAN Plus Three: Emerging East Asian Regionalism?", *Asian Survey*, Vol. 42, No. 3, pp. 440-455, University of California Press.
- "The Enterprise for the Americas Initiative: Description and Up-date", The Development GAP, October 1992. <http://www.developmentgap.org/americas/EAI_Description_and_Update.pdf>
- United Nations Conference on Trade and Development (UNCTAD) (2006), "International Trade Statistics: General Trade Data 2000-2004", International Trade Center (ITC). <<http://www.intracen.org/tradestat/welcome.html>>
- United Nations Development Programme (UNDP) (2006), *Malaysia: International Trade, Growth, Poverty and Human Resource Development*.
- Wattanaputtipaisan, Thitapha (2003), "ASEAN-China Free Trade Area: Advantages, Challenges, and Implications for the Newer ASEAN Member Countries", *ASEAN Economic Bulletin*, April.
- Wong, K-Y (2004), "China's WTO Accession and its Trade with the Southeast Asian Economies", paper presented at the Conference "WTO, China and the Asian Economies: Free Trade Areas and New Economic Relations", Beijing, China, 18th-19th June.
- Woo, W.T. (2004), "The Economic Impact of China's Emergence as a Major Trading Nation" (Mimeo), California: University of California at Davis.

- Woods, J.M.L. (1995), "Achieving the 2020 Vision – The Future of APEC and Its Impact on World and Regional Trade", paper presented at the 22nd International Trade Law Conference, 27th-28th October 1995, Canberra. <<http://www.apec.org.au/docs/future.htm>>
- Yeoh, Emile Kok-Kheng and Shuat-Mei Ooi (2007a), *China, Malaysia and ACFTA: FDI, Trade and Comparative Advantage*, ICS Working Paper Series 2007-4, Kuala Lumpur: Institute of China Studies, University of Malaya, March.
- Yeoh, Emile Kok-Kheng and Shuat-Mei Ooi (2007b), *China-ASEAN Free Trade Area: Implications for Sino-Malaysian Economic Relations*, Copenhagen Discussion Paper Series, No. 17, Copenhagen: Asia Research Centre, Copenhagen Business School, April.
- Yeoh, Michael (2001), "China's WTO Accession – Likely Impact on Malaysian Companies", paper presented to Malaysia's National Economic Action Council's Consultative Group on Globalization on 5th December 2001. <<http://www.asli.com.my/China.htm>>