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The Birth of the ASEAN–China Free Trade Area (ACFTA): A Historical Inquiry into China's Power, Motivations, and Strategies

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Abstract

ASEAN-China Free Trade Area (ACFTA) has been one of the world's influential free trade cooperations since its inception in 2010, making the region of Southeast Asia, together with China, a large and dynamic regional market. China acted as an important actor in the formation of the ACFTA. This research sought to deepen China's role, tracing back to the formation of such cooperation, particularly its economic power, motivations, and strategies driving the free trade cooperation. This research employed a qualitative method with a case study approach and economic liberalization theory. The results indicate that China's economic power was a major factor for ASEAN member states to agree on the formation of the ACFTA. In addition, China's motivations and strategies in expanding economic influence aligned with the interests of ASEAN to enhance trade liberalization and regional economic integrity.

Keywords: *ACFTA, China, ASEAN, free trade.*

1. INTRODUCTION

The ASEAN-China Free Trade Area (ACFTA) – also known as the China-ASEAN Free Trade Area (CAFTA) – is an agreement between China and ASEAN member states aimed at establishing a free trade area by eliminating or reducing trade barriers, such as tariffs and non-tariff measures, enhancing service market access, and improving regulations and investment rules. The agreement also focuses on strengthening economic cooperation to promote economic relations and raise the welfare of both ASEAN and China's societies (Samudra, 2024). Upon its formation, ACFTA was the largest market, following the European Union (EU) and the North American Free Trade Area (NAFTA) (Qu & Zhang, 2023). The ACFTA included goods, services, skilled workers, capital, and the investment sector (Ishikawa, 2021).

Early talks of the formation formalized with the signing of the ASEAN-China Comprehensive Economic Cooperation on November 6, 2001, in Bandar Seri Begawan, Brunei Darussalam. It was then followed by the signing of the Framework Agreement on Comprehensive Economic Cooperation in Phnom Penh, Cambodia, on November 4th, 2002. The Protocol First Amendment was signed on October 6, 2003, in Bali, Indonesia, and the Second Amendment was signed on December 8, 2006 (Ditjenkpi Kemendag, 2014).

The Trade in Goods Agreement was signed on November 29, 2004, in Vientiane, Lao PDR. The Trade in Services Agreement was signed on the 12th ASEAN Summit in Cebu, the Philippines, in January 2007. On the other hand, the other ACFTA framework, the Investment Agreement, was signed at the 41st ASEAN Economic Ministerial Meeting on August 15, 2009, in Bangkok, Thailand (Ditjenkpi Kemendag, 2014). The ACFTA officially took effect in January 2010 between China and six ASEAN member states – also called the ASEAN-6: Indonesia, Malaysia, Thailand, the Philippines, Singapore, and Brunei Darussalam. Meanwhile, it was only scheduled to be effective for four other

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ASEAN member states (CLMV – Cambodia, Lao PDR, Myanmar, and Vietnam) in 2015 (Sakaoğlu, 2014).

In general, the formation of ACFTA aimed to leverage the prosperity of the people and narrow the economic gap between the involved states. However, based on the ACFTA, the goals could be specified as the following: (1) to strengthen and increase cooperation in economy, trade, and investment, (2) to liberalize progressively and increase trades in goods and services, as well as to create a transparant system and ease investment, (3) to seek new potential fields of cooperation and develop right policies in economic framework, and (4) to facilitate more efective economic integration for the new member states of the ASEAN (CLMV) (Ditjenkpi Kemendag, 2014).

The ACFTA has now been one of the influential regional cooperations in terms of free trade, contributing to the economic integration of the Southeast Asia region. Looking back one and a half decades since its inception, China played a key role in the process, cementing the idea into reality. The study aims to describe the role of China in the formation of the ACFTA, particularly its economic power, motivations, and strategies.

2. METHODS

This research employed a qualitative research method with a case study approach to understand a phenomenon deeply and contextually. The data were gathered through a library research technique, reviewing relevant written sources. The data type was secondary data to help understand the research object, as well as to strengthen findings based on the theoretical framework.

To understand the relation of economic cooperation between China and ASEAN within the ACFTA, the economic liberalism approach can be best applied. Economic liberalism was proposed by Adam Smith and David Ricardo. Smith argued that trade barriers imposed by governments would only make the states impoverished instead of prosperous (Mansbach & Rafferty, 2008). State intervention in international trade would only complicate its economic development. Though states had better surrender their trades to market mechanisms, their roles are still necessary to create free trade.

States can leverage economies of scale by focusing on specialization in their "efficiently produced" products (Mansbach & Rafferty, 2008). Economies of scale refer to reductions in cost units to increase production, and states shall seek economies of scale to compete with others. The market would facilitate prosperity and welfare thanks to the competition in providing varied products at low prices. The state's role is limited to national security provision and public goods, like schools, roads, and others (Mansbach & Rafferty, 2008).

Economic liberalization theory is aligned with comparative advantage theory, developed by David Ricardo. Ricardo argued that despite the state's capability of producing all products at lower costs than other states, it should specialize in certain goods that can be produced the most efficiently relative to its trade partners (Mansbach & Rafferty, 2008). Simply, comparative advantage can be defined as the ability to produce particular goods with lower costs, relative to other goods, compared to other states.

Looking at the theories, it is understandable that China proposed an initiative to ASEAN to create free trade between both parties, as well as its commitment to assist the ASEAN member states to prepare themselves for the era of ACFTA. China realized the importance of expanding its reach for economic profits for its people by creating an economic cooperation platform with ASEAN. The prosperity of its people could be raised only if its products could penetrate the Southeast Asia region without barriers.

Reduction and/or elimination of tariff and non-tariff obstacles also facilitated the capital flows from China to invest in ASEAN member states. China's domestic industries in producing products with competitive advantages became a strong reason to push the idea of ACFTA. With a huge population, its domestic industries could develop fast and produce variants of certain products at relatively lower

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prices. Such a product became an alternative for ASEAN societies whose purchasing power reflected the middle to low classes.

The need for free trade, in fact, was not only for China but also for ASEAN. The ASEAN member states sought to encourage their products to penetrate the market in China, whose population was by far larger than all those combined in the region. Though the initiative came from China, the ASEAN member states, particularly in early formation, also had potential for comparative products, one of which was agricultural products.

3. RESULTS AND DISCUSSION

China's Economic Power

In the early 1990s, China began to open itself from international isolation and developed partnerships with various regions, particularly Southeast Asia (Bi, 2021). Economic reformation by the Chinese government brought about significant change, which was the state industrialization growth. Just several years after that, China enjoyed amazing economic growth, and its economic power began to be considered by other states.

Economic growth supported by the size of a huge population was a form of social capital to leverage industries at the domestic level. China's industries could result in a product in massive quantities in a relatively shorter time. Its advantage in producing a large quantity of products at lower prices enabled its industries to penetrate outside markets and compete with other states. The state relied on trade with others for its products, with a comparative advantage over others. Such a comparative advantage provided opportunities for the state to gain a surplus by maximizing exports.

China's fast and significant economic growth attracted other states, especially those in the developing world, like Southeast Asia. The World Bank recorded China's annual economic growth before the ACFTA formation in 2010, as follows:

Table 1: China's Annual GDP Growth

Y	2000	2001	2002	2003	2004	2005	2006	2007	2008
AG (+)	8.4	8.3	9.1	10.0	10.1	11.3	12.7	14.2	9.6

Y: Year, AG: Annual Growth in % (World Bank, 2025)

Table 1 shows that China's economy experienced consistent expansion from 2000 to 2008 with strong growth each year. In the early decade, the expansion rate is above 8 percent, and then rises gradually in the following years and reaches its peak in 2007. Despite its fluctuating annual GDP, declining in 2008, its percentages were still extraordinary. As a whole, the trend reflects sustained and more dynamic economic performance by the formation of ACFTA, as well as emphasizing the growing role of China in regional and global economic activities.

Studies indicate that China's economic performance has encouraged regional integration, leading to greater trade and investments with others (Bi, 2021; H. Liu et al., 2024). As China's market was expanding and demands for goods, services, and resources were growing, economic dependence between China and neighboring states was becoming stronger. This development pushed more economic cooperation, increased cross-border trade activities, and created conducive conditions for the making of regional economic architecture, like ACFTA, to strengthen trade liberalization and economic connectivity in the region.

China was then considered a trade partner that provided opportunities for profits for ASEAN member states, especially for its huge potential market. China's willingness to build economic relationships with Southeast Asia was apparent in the mid-1990s, when the state began to have talks to intensify trade relations with the region, leading to free trade. China's policies to provide economic assistance with easier requirements and investment in the region assured the ASEAN member states

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that it could be a partner in leveraging prosperity and welfare for the people in the region. In other words, China attempted to settle ASEAN's economic concerns and instead helped the region achieve growth (Bi, 2021; Qu & Zhang, 2023).

In addition, China was believed to be a new economic power that would balance the U.S.' dominance in Southeast Asia and the Asia-Pacific, and even such a belief appeared before the ACFTA took effect in 2010. The ASEAN attempted to take advantage of the rising China in a global economic order, and this was also to strengthen the hedging strategy embraced by most of the states in the region while facing the rivalry between the two global powers (Kuik, 2016).

China's Motivations

China's motivation in the formation of the ACFTA was not only pushed by the Chinese government's desire to prosper their people, but also to balance the U.S economy and politics in Southeast Asia. ACFTA could be recognition for China's geoeconomy and geopolitics in influencing the future dynamics of ASEAN. Both China and the U.S. made the region their important backyard of economic and political interest.

China's political motivation reflected its willingness to be a good friend and neighbor in Southeast Asia. Before the ACFTA, the state attempted to reassure the ASEAN member states that it was not a threat to the region by building economic cooperation with mutual benefits (Ling, 2021). China was open to providing access for ASEAN to enter its domestic market, which was developing fast.

In terms of economic interest, China was seeking natural resources in Southeast Asia to generate. In addition, the state realized that Southeast Asia, with its 560 million population, was a potential market for Chinese products (Wong et al., 2021). A stronger economic relationship between the two parties would restrain the U.S.' economic dominance in Southeast Asia, since the region would have an alternative other than the U.S. in increasing regional economic growth (Kuik, 2016).

Beyond these motivations, China's proposal to create a free trade area was well-received by the governments of the ASEAN member states for several reasons. Firstly, China was a state with large, dynamic economic power, and the Chinese growing demands for goods and services from the region could be an engine to accelerate the ASEAN economic growth (Samudra, 2024; Sinaga, 2018; Wong et al., 2021). The better China's domestic economy grew, the more Chinese citizens traveled abroad, particularly for tourism. China's tourists' visits became important to the regional tourism industry development. In addition, ASEAN member states were seeking China's investment that would facilitate employment for the people. The stronger relationship between ASEAN and China could also reduce dependence on traditional partners, like the U.S., Europe, and Japan, or diversify economic relations (Marukawa, 2021).

Secondly, China offered special treatment to the CLMV group and was ready to expand or share the benefits of its membership of the World Trade Organization (WTO) to ASEAN member states who had not joined the organization (Fan et al., 2021). China's membership in the WTO was considered to be able to benefit its non-WTO trading partners. CLMV were not part of the WTO, but they could trade with China by adopting free trade principles by 2015. Thirdly, economic cooperation between China and ASEAN was more apparent in creating free trade on agricultural products rather than the efforts to enter such products into the list of the WTO's free trade, which were often rejected by developed states (Fan et al., 2021). Agricultural products were the mainstay among ASEAN member states, and China was ready to open its market for the distribution of such products.

The formation of economic integration showed the convergence of China's and ASEAN's strategic interests (Bi, 2021; H. Liu & Lim, 2019). Both parties realized the potential benefits of stronger economic ties, including trade, investments, and regional economic growth. For China, ACFTA paved to broader access to Southeast Asia's market and strengthened its economic influence in the region. While for ASEAN member states, the agreement created opportunities to draw investments from

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China and enlarge exports to one of the world's biggest economies. Further, the ACFTA reflects a shared commitment to regional integration and economic interdependence that would contribute to the stability and prosperity of the broader region. Thus, ACFTA was an important milestone in bolding partnership between China and ASEAN.

China's Strategies

Even though China was a rising major power with economic power, it needed effective strategies to advance its national interests within the ASEAN cooperation framework. In international politics, diplomacy remained the main option to influence other states in creating an agreement; moreover, such an agreement promoted shared interests among the involved parties. Economic advancement experienced by China and its huge population turned into a vital capital in ensuring ASEAN member states for economic cooperation. The Chinese government chose to advance friendly diplomacy without having to force ASEAN to agree on a particular free trade mechanism in a short time. The state was content with the ACFTA, beginning with gradual reductions of tariffs.

Since the fact that the economic power of ASEAN member states was showing gaps, they would not be able to face the ACFTA without domestic preparations. The framework, which was proposed by China in the 2000s, could only be adopted in different years; officially in 2010 between China and ASEAN-6 with better economic foundations, and in 2015 between China and CLMV with lower economic development. In addition, China showed its readiness to review the points of agreement if the ASEAN member states were disadvantaged in the practice. The state was willing to assist those in preparing themselves to face the free trade agreement as well.

In terms of the dispute in the South China Sea in the early talks of the ACFTA agreement, China expressed its willingness to advance a peaceful mechanism with ASEAN member states in resolving the conflict (Ling, 2021). Its political stance strengthened economic power and diplomacy in assuring ASEAN for a free trade agreement and collectively transforming China and Southeast Asia into prosperous regions.

At the domestic level, China had several strategies to face the ACFTA. Technically, the state was preparing itself by reforming rules and regulations to be excellent in the factors of the bureaucratic system, economic stability, business innovation, labour market size, and efficiency for economies of scale (Q. Liu et al., 2021; Wang et al., 2021). The government adopted a tax-free policy for the first three years for joint venture companies. This policy was purposefully taken to encourage domestic companies to grow and develop quickly. The 13.5 percent subsidy from local governments in the form of tax refund, bank loans, which were only 3 percent a year, and numerous supporting industries could restrict imports (Saputro, 2010). The presence of supporting industries was able to reduce the volume of imports from abroad, as the demand for certain goods could already be met by its domestic industries. Besides, China's Yuan being pegged to the US dollar made the prices of Chinese export goods cheap (Saputro, 2010).

The Chinese government gave serious attention to the education sector. Since opening itself up from the politics of communist isolation, the government had been actively encouraging extraordinary investment in the sector. It was recorded that 3.4 million students entered universities in 1998, and four years later, university enrollment increased by 165%, while the number of Chinese students studying abroad rose by 152% (Saputro, 2010). The government sought to ensure its overseas graduates returned home to contribute to domestic development.

Initially, factories in China functioned only as outsourcing facilities, but as their human resources mastered technology, it was no surprise that several Chinese companies demonstrated good reputations, like Lenovo, which was able to acquire IBM's ThinkPad, Huawei, which challenged Cisco and Ericsson, and Haier, which pursued GE, Whirlpool, and Maytag (Saputro, 2010). In terms of labor, China had an efficiency advantage: wages were nearly the same as in other developing states, but its

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workers were more productive, particularly compared to ASEAN member states. China's worker productivity increased by 6% annually (1978–2003) (Saputro, 2010). One product could only require one worker in China, whereas in other states, such as Indonesia, three workers could be needed. Thus, factories in the state were able to produce a larger quantity of goods, which were then exported abroad.

Studies suggest that China was not a passive participant but an active architect of ACFTA (Men, 2007) and the agreement served as its long-term planning rather than short-term trade liberalization (Chin & Stubbs, 2011). Thus, the state was prepared with preconditions to support the new economic regionalization. The state combined domestic economic reforms with proactive regional diplomacy, ensuring internal competitiveness and external economic initiatives reinforced one another before the agreement entered into force. Through various strategies, it entered ACFTA with a strategic advantage and a clear vision of how regional integration could contribute to its broader economic objectives.

4. CONCLUSION

The ambition to make the China and Southeast Asia region more prosperous drove the formation of economic cooperation in the form of ACFTA. Both parties represented potential markets for each other's economic growth. Besides, China's rapidly developing economic strength became an attraction for ASEAN member states to establish cooperation. The framework involved market liberalization or free trade so that industrial products from China and ASEAN could enter each other's markets more easily and smoothly. ACFTA covered trade not only in goods, but also in services and investment movement.

China had advantages in its industrial products since most of the products possessed comparative advantages compared to those of ASEAN member states. For China, Southeast Asia was a market for obtaining trade surpluses that had a positive impact on its economic development. In addition, China also had political motivations in the formation of ACFTA, aimed at containing and competing with the U.S. in Southeast Asia and the Asia-Pacific region. For ASEAN member states, ACFTA represented an opportunity to attract investors to invest in their economies, not only to export their industrial products to China. Investment from the state could encourage economic development in the region and create employment opportunities. For CLMV states, ACFTA became an opportunity to catch up with their lagging economic development and narrow the economic gap between ASEAN member states. Thus, the convergence of strategic interests between the two parties led to the regional integration.

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