

**THE IMPACTS OF CAFTA ON TRADE AND FDI
IN CHINA**

ZHANG XIAOHUA

**DOCTOR OF PHILOSOPHY
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**THE IMPACTS OF CAFTA ON TRADE AND FDI
IN CHINA**

**By
ZHANG XIAOHUA**

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School of Economics, Finance and Banking
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ABSTRACT

The China and ASEAN Free Trade Area (CAFTA) was established on 4th November 2002. Since then, trade flows, trade structure, trade complementarities, trade competition and FDI between China and ASEAN have grown rapidly. Nevertheless, the basic issue remains - whether these growth are due to CAFTA. Thus, this study examines the effects of CAFTA on China's trade flow, trade structure, trade complementarities and competition and, the flow of FDI. A gravity model is used to estimate these effects, while the qualitative method is used to analyze the economic integration. Data for the analysis is obtained from UN database, WTO database, World Bank database and China Statistical Yearbook. This study employed five models to examine the effects of CAFTA on trade structure, trade complementarities and competition, the FDI flow and the effects on different regions in China. The overall results indicate that CAFTA produces trade creation effect and greatly improves the trade structure of China. CAFTA has caused an expansion of inter-industry trade of the main products (crude materials and manufactured goods) between China and ASEAN countries. It has strengthened the trade complementarities between China and Cambodia, Indonesia, Singapore, Malaysia and Thailand. However, there are tendencies of weakening trade complementarities between China, the Philippines and Vietnam. On the other hand, trade competition for some products between two sides indicated a different trend. Several ASEAN countries have experienced increasing export comparative advantages in agriculture products, food, fuels and mining products. Meanwhile, China has obvious export comparative advantages in manufactured products and machinery and transport equipment. In addition, the domestic analysis revealed a very promising effect. CAFTA has promoted trade growth for 17 provinces and 7 regions, with positive effect on the geographically advantaged provinces and regions in China. Surprisingly, CAFTA caused a reduction of FDI outflow and inflow in China. In conclusion, CAFTA has improved the trade growth and trade structure in China, while promoting the expansion of trade between China and ASEAN. However, FDI reduced due to CAFTA.

Keywords: CAFTA, FDI, trade flow, trade competition, trade complementary, trade structure

ABSTRAK

Kawasan Perdagangan Bebas China dan ASEAN (CAFTA) telah ditubuhkan pada 4 November 2002. Semenjak itu, aliran dan struktur perdagangan, perdagangan komplementari serta persaingan di antara negara China dan ASEAN telah berkembang pesat. Namun, isu asasnya ialah sama ada perkembangan ini disebabkan oleh CAFTA. Justeru itu, kajian ini menilai kesan CAFTA ke atas aliran, struktur, pelengkap dan persaingan perdagangan. Selain itu, kajian ini juga menilai aliran pelaburan asing secara langsung di China. Model graviti digunakan untuk menganggarkan kesan-kesan tersebut. Sementara itu, kaedah kualitatif digunakan untuk menganalisis integrasi ekonomi akibat kesan daripada CAFTA. Data untuk tujuan analisis diperolehi dari pangkalan data UN, WTO, Bank Dunia serta Buku Statistik Tahunan negara China. Kajian ini menggunakan lima model untuk menilai kesan CAFTA ke atas aliran, struktur, pelengkap dan persaingan dagangan, aliran pelaburan asing langsung, serta kesannya terhadap wilayah-wilayah yang berbeza di China. Secara keseluruhannya, hasil kajian menunjukkan bahawa CAFTA telah menghasilkan kesan pembentukan perdagangan, serta memperbaiki struktur perdagangan di negara China. CAFTA telah memperkembangkan perdagangan antara industri bagi produk-produk utama iaitu bahan-bahan mentah serta barangan perkilangan di antara negara China dan negara-negara ASEAN. CAFTA turut memperkukuhkan pelengkap dagangan di antara China dan Kemboja, Indonesia, Singapura, Malaysia dan Thailand. Namun, wujud kecenderungan pelengkap dagangan yang lemah di antara China dengan Filipina dan Vietnam. Sementara itu, corak persaingan dagangan bagi sebahagian produk di antara kedua-dua pihak agak berbeza. Sebahagian daripada negara ASEAN mempunyai kelebihan berbanding eksport untuk produk-produk pertanian, makanan, bahan api dan produk perlombongan. Negara China pula memiliki kelebihan berbanding eksport untuk barangan pembuatan serta jentera dan kelengkapan pengangkutan. Malahan, analisis domestik mempamerkan kesan yang lebih baik, apabila CAFTA turut menggalakkan pertumbuhan perdagangan bagi 17 buah daerah dan 7 buah wilayah utama di China. Kesimpulannya, CAFTA telah memperbaiki struktur serta pertumbuhan perdagangan China. Di samping itu, CAFTA menggalakkan aliran perdagangan di antara negara China dan negara-negara ASEAN. Walau bagaimanapun, CAFTA turut mengurangkan FDI.

Kata kunci: CAFTA, FDI, aliran perdagangan, pesaingan perdagangan, pelengkap perdagangan, struktur perdagangan

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LIST OF ABBREVIATIONS

ACIA	ASEAN Comprehensive Investment Area
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Associated Southeast Asia Nations
CAFTA	China and ASEAN Free Trade Area
CEPA	Closer Economic Partnership Arrangement
CEPT	Common Effective Preferential Tariff
CGE	Computable General Equilibrium
CHINGEM	A Computable General Equilibrium Model
DID	Difference in Difference Model
ECPA	Economic Cooperation Framework Agreement
EEC	European Economic Community
EFTA	European Free Trade Association
EU	European Union
Eviews	Econometrics Views
FDI	Foreign Direct Investment
FII	Foreign Indirect Investment
FTA	Free Trade Area
GATS	General Agreement on Trade in Services (WTO)
GCC	Gulf Cooperation Council
GTAP	Global Trade Analysis Project
HS92	Harmonized Commodity Description and Coding System (1992)
MNC	Multi-National Corporation
MNF	Most Favored Nation
NAFTA	North American Free Trade Area
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
RC	Revealed Comparative
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership Agreement
RTA	Regional Trade Agreement
SITC	Standard International Trade Classification
TCI	Trade Complementarities Index
TII	Trade Intensity Index
TSC	Trade Specialization Coefficient
WTO	World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The China/ASEAN Agreement on comprehensive economic cooperation was signed on 4 November 2002, which marked the establishment of the China and ASEAN Free Trade Area, i.e., CAFTA. Many researchers believe that CAFTA is a win-win situation for both ASEAN and China (Chen, 2002; Chirathivat, 2002; Wang, 2002; Wei, 2002; Liang, 2003). However, some researchers (He, 2002; Zhang, 2002; Zhao, 2002) concluded that CAFTA would play a negative role in China due to intense competition between ASEAN and China.

Initially, scholars mainly focused on the significance, process and prospects of CAFTA, using the qualitative method. For instance, Wang (2002) and Chen (2002) introduced the background and process of CAFTA. He (2003), Zhao (2002) and Zhang (2002) discussed the advantages and disadvantages of establishing CAFTA, while Liang (2003), Wei (2002) and Zhang (2002) analyzed the significance and prospects of CAFTA.

There have been different views on the effects of CAFTA based on quantitative analyses. Some researchers have proposed that CAFTA would be beneficial to China. The ASEAN-China Expert Group on Economic Cooperation (2001) was the first to conduct research on the effects of CAFTA. They adopted Computable

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