

China and ASEAN have established comprehensive strategic partnership Bilateral cooperation has entered a new chapter

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China and ASEAN on Nov 22, 2021 agreed to elevate their ties to a comprehensive strategic partnership, as President Xi Jinping attended and chaired a special summit to commemorate the 30th anniversary of China-ASEAN dialogue relations. With the RCEP agreement officially coming into force on January 1, 2022, the cooperative relations between China and ASEAN have been upgraded again, from the economic field to the comprehensive expansion of regional affairs coordination, green transformation, cultural exchanges and other fields. In the past, the two sides gave priority to economic cooperation and promoted political and security cooperation through economic cooperation, which gained valuable experience. In the future, we will deepen cooperation in five areas, namely, building a peaceful, peaceful, prosperous, beautiful and friendly homeland, and build a closer China-ASEAN community of shared future.

I China and ASEAN have established a comprehensive strategic partnership featuring a shared future and a shared homeland

Since the establishment of dialogue relations between China and ASEAN 30 years ago, bilateral relations have been continuously improved and the two sides have frequently exchanged views on major international political, economic and diplomatic issues. The two sides announced the establishment of a comprehensive strategic partnership in 2021, and will conduct deeper cooperation in economy, regional affairs, regional trade agreements and green development in the future.

First, over the past 30 years of dialogue, bilateral relations have deepened. Dialogue relations between China and ASEAN were established in 1991 and bilateral relations have been continuously deepened. The establishment of a comprehensive dialogue partnership in 1996 has improved bilateral relations. In 1997, China and ASEAN jointly responded to the Asian financial crisis, and in December of the same year decided to establish a good-neighborly partnership of mutual trust oriented toward the 21st century. In October 2003, the bilateral relations between China and ASEAN were sublimated again and the strategic partnership was established. In the same year, the Chinese government announced its accession to the Treaty of Amity and Cooperation in Southeast Asia. From 2003 to 2021, it was the “golden decade” and “diamond decade” for China and ASEAN to build strategic partnership. During this period, ASEAN is China’s peripheral diplomacy priority. Both sides uphold the principles of mutual trust, mutual benefit and mutual respect in such aspects as politics, economy, good-neighborly and friendly, to build a solid dam to bilateral relations, successfully resist the intrusion of various kinds of waves. On the whole, since the dialogue 30 years ago, the relations between China and ASEAN have been constantly improving. The establishment of a **comprehensive strategic partnership** between China and ASEAN is well deserved and just in time, which means that bilateral relations have entered a new era, a stage of upgrading and upgrading, and bilateral relations will continue to deepen.

Second, China will work with ASEAN to uphold regional peace and stability. In terms of geopolitics, ASEAN countries are geographically close, but there are differences in religious belief, political system and cultural background, resulting in complex and changeable relations within the region. Looking ahead, China will join hands with ASEAN countries to tackle all kinds of negative factors that threaten and undermine regional peace. Guided by the principle of “dialogue rather than confrontation, partnership rather than alliance” and the principle of “regional and international affairs should be handled through consultation by all”, China will work with ASEAN countries to jointly safeguard lasting peace in the region.

Third, we should actively promote coordinated economic development among countries in the region within the existing cooperation framework. In terms of regional economic development, ASEAN, China, Australia, Japan, the Republic of Korea and New Zealand signed the Regional Comprehensive Economic Partnership agreement (RCEP) on November 15, 2020. According to the PETERSON Institute for International Economics, RCEP is expected to boost member countries’ exports by US \$519 billion and national income by US \$186 billion by 2030. **In terms of goods trade,** RCEP has not only removed tariff barriers among member countries, but also reduced non-tariff barriers by gradually harmonizing rules of origin, customs procedures, inspection and quarantine, and technical standards. **In terms of service trade,** RCEP eased rules of service trade and investment in areas such as market access conditions, increasing the free mobility of production factors such as technology, labor and capital in the region, making the production division of labor cooperation between members strengthened, pulling the area consumer market capacity upgrade, promoting the industrial chain, supply chain and value chain in the east Asian regional integration. At the same time, China will actively carry out cooperation in digital economy and green economy under the RCEP framework, and jointly build a China-ASEAN demonstration zone for innovative economic and trade development. In addition, through the Belt and Road Initiative and Lancang-Mekong Cooperation mechanism, China and ASEAN can work together to develop specific projects, strengthen cooperation in infrastructure construction and digital economy, achieving mutual benefit and win-win development through coordinated development.

Fourth, we should advocate green economy and build economic partnerships for sustainable development. Harmony between man and nature is the theme of sustainable development of the world economy in current era, and also the general tone of China’s economic restructuring since the 18th National Congress of the Communist Party of China. In terms of green development, China is ready to engage in climate change dialogue with ASEAN by enhancing policy communication and experience sharing. The two sides should jointly promote regional energy transformation, step up sharing of renewable energy technologies, and strengthen cooperation on green finance and green investment to support low-carbon and sustainable development in the region. At the same time, China and ASEAN will launch an action plan on green agricultural development to make agricultural development in countries in the region more resilient and sustainable.

II The future outlook of CHINA-ASEAN FREE Trade Area 3.0

In November 2002, China and ASEAN signed the Framework Agreement on Comprehensive Economic Cooperation, marking the official launch of negotiations on China- ASEAN Free Trade Area. Since then, the two parties signed “Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN” in November 2004, the “Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN” in January 2007 and the “Agreement on Investment of the Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN” in August 2009 respectively. It took nearly 10 years for the two sides to finally complete all the main contents of the FTA negotiations. It has been nearly 10 years since the China- ASEAN Free Trade Area (version 1.0) was officially implemented. In 2015, an upgraded Protocol was signed, but it focused on trade in goods. As the economic level of China and ASEAN continues to develop and the world is undergoing profound changes unseen in a century, China- ASEAN Free Trade Area 3.0 emerges at the historic moment. In the future, CHINA-ASEAN Free Trade Area 3.0 will be dominated by the development of digital economy and green economy, with more emphasis on

the opening of service trade and investment. At the same time, the two sides should strengthen cooperation in other areas in the form of “promoting economic cooperation”, strengthen bilateral relations and create broader space for the development of China and ASEAN.

First, China- ASEAN free trade area is deepening, and it is timely to enter the 3.0 era. While attending and chairing the summit commemorating the 30th anniversary of China- ASEAN dialogue relations, Chinese President Xi Jinping made it clear that the building of China- ASEAN Free Trade Area 3.0 will be launched. Looking back at history, China and ASEAN officially launched the process of establishing a free trade area in November 2002, and the China- ASEAN Free Trade Area was formally established on January 1, 2010. Since the establishment of the China- ASEAN Free Trade Area (version 1.0), the two sides have continuously refined the terms and realized the opening of the goods trade market, service trade market and investment market. China- ASEAN Free Trade Area (version 1.0) is the first free trade agreement negotiated by China and ASEAN. At this stage, **China mainly expands the breadth and depth of opening-up in a progressive way and actively responds to the international challenges brought by economic globalization.** The China- ASEAN Free Trade Area covered 13 million square kilometers and benefited 1.9 billion people. Its annual GDP and bilateral trade reached US \$6 trillion and US \$4.5 trillion respectively, making it the largest free trade area among developing countries and the most populous in the world at that time. It has also become one of the important milestones of China’s implementation of the opening-up strategy and the Asia-pacific regional economic integration strategy. On November 22, 2015, the Protocol to Upgrade the China- ASEAN Free Trade Area was formally signed and took full effect on All members on October 22, 2019. The China- ASEAN Free Trade Area has entered the 2.0 era, with over 90% of the products from both sides being tariff-free. At the same time, it extensively covers trade in goods, trade in services, investment, economic cooperation, customs procedures and trade facilitation, rules of origin, standards, technical regulations and conformity assessment Procedures (STRACAP), sanitary and phytosanitary measures (SPS), economic and technical cooperation and other areas, enriching, improving and upgrading the original agreement. This has provided new impetus for bilateral economic cooperation and development. The protocol is also the first upgrade agreement of China that has completed on the basis of the existing FTA. Although the China- ASEAN Free trade Agreement has been upgraded, the current world political and economic landscape is undergoing profound changes unseen in a century, which is not enough to fully respond to the new world economic situation. Therefore, in November 2021, the two sides agreed to conduct a joint feasibility study to identify other possible areas for further upgrading the China- ASEAN Free Trade Agreement and continue to deepen the construction of the Free Trade Area, which marks that the China- ASEAN Free Trade Area is accelerating into the 3.0 era. The FTA 3.0 is a new and important node in China- ASEAN cooperation and will bring new major opportunities to China- ASEAN economic and trade cooperation.

Second, both sides are highly dependent on trade and should expand cooperation areas to achieve mutual benefit and win-win results. First of all, in terms of trade scale, the trade scale between China and ASEAN keeps expanding. The total volume of bilateral trade between China and ASEAN has increased from less than US \$8 billion in 1991 to US \$684.6 billion in 2020, an 85-fold increase in the past 30 years. Since 2009, China has remained ASEAN’s largest trading partner for 12 consecutive years. In 2020, ASEAN became China’s largest trading partner for the first time, with two-way trade accounting for more than one-seventh of China’s total foreign trade. By the end of October 2021, China- ASEAN trade has reached 703.3 billion US dollars, up 30 percent year on year, and will hit another record high for the whole year. **Secondly, in terms of commodity types, the trade commodities between China and ASEAN are highly complementary.** Take fruit and vegetable products as an example. Most of China is in the temperate zone, while most of ASEAN countries are in the tropics. There is a big difference in fruit and vegetable products between the two sides. According to customs statistics, the trade volume of fruits and vegetables between China and ASEAN in 2020 was about US \$15 billion, of which the total fruit export of ASEAN countries to China was about US \$6 billion. By the end of August 2021, China- ASEAN fruit and vegetable trade volume is equal to the volume of 2020, with ASEAN fruit exports to China exceeding 6.4 billion US dollars. **Thirdly, in terms of industrial chain and supply chain, the trade structure between China and ASEAN is constantly optimized, and the industrial chain and supply chain are developing in an integrated way.** The bilateral trade between

China and ASEAN has been transforming and upgrading from traditional agricultural and sideline products, primary processing products and low value-added industrial products to manufactured products, high value-added mechanical and electrical products, machinery and appliances and digital machinery and equipment. In 2020, bilateral processing trade reached US \$141 billion, accounting for 20.6 percent of China- ASEAN total trade. Trade in other raw materials and intermediate products also accounted for a large proportion. It is expected that in the future, China -ASEAN FTA 3.0 will continue to reduce non-tariff barriers, take industrial cooperation and small and medium-sized enterprises as the new direction of cooperation. And China -ASEAN FTA 3.0 will promote further cooperation on digital economy and green economy as the basic requirements of innovative cooperation to lead the FTA upgrade.

Third, we should adhere to the comprehensive development concept of “promoting cooperation through economy” and expand cooperation in other areas. Over the years, China and ASEAN have always adhered to the comprehensive development concept of giving priority to economic cooperation and promoting cooperation through economy. In terms of public health, since the outbreak of COVID-19 in early 2020, the economy of ASEAN countries has suffered a lot. In the future, China will strengthen cooperation with ASEAN countries and launch the China-ASEAN Health Shield cooperation initiative to contribute to the fight against the epidemic in ASEAN countries. **In terms of cultural communication,** the two sides will conduct further cultural communication and mutual learning, make full use of the diverse cultural features and advantages of the ASEAN region, draw on each other’s strengths and grow together. Tourism is an important bridge between China and ASEAN. Chinese tourists’ expenditure becomes an important source of income for Indonesia, Malaysia, Thailand and other Southeast Asian countries every year. **In terms of education cooperation,** China and ASEAN will strengthen cooperation in vocational education, mutual recognition of academic qualifications and other fields, appropriately increase the quota and quantity of China-ASEAN scholarships, carrying out youth camps and other activities as well, so as to promote communication and cooperation between young elites of both sides.

III The implementation of the RCEP agreement will promote the further development of regional banking business

The RCEP agreement enters into force on January 1, 2022 for four non-ASEAN countries -- China, Japan, New Zealand and Australia -- and six ASEAN countries -- Brunei, Cambodia, Laos, Singapore, Thailand and Vietnam. It will take effect on February 1 for South Korea. While COVID-19 is still raging, the coming into force of the agreement will undoubtedly inject a strong boost to regional economic development and bring broad prospects for the further development of regional banking business.

First, RCEP redefines the “place of origin” of goods, facilitates the flow of factors within the region, speeds up the restructuring of the industrial chain, and creates new opportunities for the banking sector to conduct supply chain finance business. Compared with the previous “10+1” agreements signed by ASEAN and China, Japan, South Korea, Canada and New Zealand respectively, the RCEP agreement has made a breakthrough in the definition of rules of origin by adopting the principle of regional accumulation of origin, which means that the value of origin of products can be accumulated between member states and the place of origin can be judged by the cumulative total value. This breakthrough will promote large multinational enterprises to make full use of the strengths of various countries to further optimize the layout of the industrial chain, and thus accelerate the value chain restructuring in the Asia-Pacific region. As the agreement reduces the threshold for most commodity trade, it encourages enterprises to use production factors in the zone to produce and operate as much as possible, which can not only strengthen the supply chain network in the zone, but also attract factors from outside the zone to flow into the zone and further improve the supply chain network in the zone. The new round of industrial and supply chain restructuring brought by RCEP has brought new business opportunities to regional banks: **Firstly, it will expand the business of upstream and downstream enterprises by focusing on the core enterprises of the supply chain.** It will get through information flow, logistics, capital flow and other data between core enterprises and upstream and downstream enterprises, and gradually establish business relations with upstream and downstream enterprises. **Secondly, take fintech as the entry point to participate in or build supply chain service platform.** It will strengthen cooperation

with government and industry associations, actively participate in building supply chain platform, enrich customer list and obtain operational data, and strive for financing, exchange, payment and other business opportunities within the platform.

Second, RCEP will accelerate the integration of the Asia-Pacific region, increase investment and trade activities in the region, and provide new impetus for banks to conduct cross-border finance. RCEP is the world's largest free trade agreement. By the end of 2020, it covers about 30 percent of the world's population and about 50 percent of the middle class population. The GDP of RCEP member countries account for 29 percent of the world's economy. The trade volume of the RCEP member countries account for 27 percent of the world's trade volume. The total foreign direct investment of the RCEP member countries account for 37 percent of the world's foreign direct investment. It is widely expected that RCEP will further integrate the economies of the Asia-Pacific region, accelerate the integration development, and generate new growth drivers for the local banking industry in Southeast Asia. **Firstly, it will focus on developing financial services for cross-border enterprises.** It will focus on developing local competitive industries and key development projects of the local government. With large multinational and local leading enterprises as the entry point, provide a full range of cross-border solutions. **Secondly, we will focus on cross-border personal financial services.** To meet the cross-border needs of business, education and professional teams, we actively contact with relevant local industry associations, chambers of commerce, enterprises, universities and other institutions to expand customer groups and tap specific needs, and strive to develop account opening, insurance, remittance, payment and other businesses.

Third, RCEP will lower the threshold for trade in some services, facilitate the export of high-quality professional services to ASEAN, and bring new customers to banks for cross-border financial services. In the area of service trade, RCEP agreement is more open than the WTO. It clearly defines the list of market access commitments, national treatment and most-favored-nation treatment among member countries, thus removing obstacles and facilitating the access of member countries' services to each other's markets. At the same time, RCEP has made rules and commitments on financial services, telecommunications services and professional services for the first time, creating conditions for regional service industry integration and bringing new customers to the cross-border business of regional banks. **Firstly, it will pay close attention to the development trend of high-level professional services in Southeast Asia such as Hong Kong and Singapore** (such as legal information, accounting services, marketing, product development, risk assessment, etc.), taking the initiative to establish customer relations and provide supporting financial service programs. **Secondly, it will take the initiative to connect enterprises and institutions in Southeast Asia** with professional service teams, giving full play to local strengths, understanding the professional service needs of southeast Asian customers, docking professional service teams in Hong Kong and other regions, and taking the opportunity to market financial products and services.

Fourth, the full implementation of RCEP will help Hong Kong consolidate its status as a super-contact, facilitating the vigorous development of its banking sector. By the end of 2020, ASEAN and the mainland have been each other's second largest source of investment for many consecutive years. Hong Kong has always acted as an investment bridge between the mainland and ASEAN. By the end of 2019, ASEAN investment to the mainland through Hong Kong accounted for about 20 percent, while mainland investment to the mainland through Hong Kong accounted for about 42 percent. With the implementation of the RCEP agreement, it is expected that the economic and trade ties between the mainland and Hong Kong will become even closer. And Hong Kong's role as a bridge will embrace new development opportunities. In addition, Hong Kong's advantageous position in finance, green and other professional fields is expected to benefit from the deepening of regional economic cooperation, so Hong Kong's banking industry needs to actively layout and seize opportunities. **Firstly, we should continue to improve the service network in Southeast Asia,** with electronic, self-service and intelligent services as the development goal, and enhance regional digital service capacity. **Secondly, we should focus on large multinational enterprises or institutions with Hong Kong as their regional headquarters,** digging into customers' cross-border business needs, and providing differentiated cross-border comprehensive service solutions for customers' regional development. **Thirdly, we should focus on developing green finance and other businesses,** actively participate in the construction and development of green economy in the Mainland and ASEAN, providing professional services such as green loans, green bonds and green insurance, becoming a financial service partner for the sustainable development of the local market.

