

Research Articles

Multilateral Diplomacy as China's Expansionism in ACFTA

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Abstract

ACFTA or ASEAN-China Free Trade Area, also known as China-ASEAN Free Trade Area is an economic agreement to construct a free trade zone between 10 ASEAN member countries and China to eliminate various tariff and non-tariff barriers. All of ASEAN members' leaders and China's leader signed the ACFTA on November 5, 2002 in Phnom Penh, Cambodia which latter came into effect on January 1, 2010. Since then, it was recorded in 2016 that the total trade between ASEAN and China has reached to US\$ 475 billion, thus making China as ASEAN's largest trading partner while ASEAN serves as China's third largest trading partner. This means that China's export to ASEAN is more than ASEAN's export to China. It could be seen that the free trade area has benefitted China more than it has benefit ASEAN. This paper aims to provide brief explanation on how China

is able to benefit more on the trade agreement. Using a descriptive method of analysis, combined with expansionism and multilateral diplomacy concepts, it can be found that China is able to utilize various means to maximize its benefit in the ACFTA scope of agreement. Through the ACFTA, China has managed to master trade routes, break trade barriers, invest more, deepen economic cooperation contracts and master production skills in manufacturing all across ASEAN member countries. All of these efforts are made possible by China's favourable multilateral diplomacy instruments in the ACFTA.

Keywords: China, ASEAN, ACFTA, Multilateral Diplomacy, Expansionism

I. Introduction

ASEAN-China Free Trade Area, or more commonly known as ACFTA was established on November 5, 2002 with the signing of The Framework Agreement on Comprehensive Economic Co-operation Between ASEAN and the People's Republic of China during the sixth ASEAN-China Summit. The agreement was signed by leaders of the respective countries, namely Chinese Premier Zhu Rongji, Sultan of Brunei Darussalam King Haji Hassanal Bolkiah, Cambodian Prime Minister Hun Sen, President of Republic of Indonesia Megawati Soekarnoputri, Lao People's Democratic Republic Prime Minister Bounnhang Vorachith, Malaysian Prime Minister Mahathir Bin Mohamad, Myanmar Prime Minister Senior General Than Shwe, President of the Republic of the Philippines Gloria Macapagal-Arroyo, Singaporean Prime Minister Goh Chok Tong, Thailand Prime Minister Thaksin Shinawatra and the Socialist Republic of Viet Nam Prime

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Minister Phan Van Khai. This agreement contained specific commitment called the Early Harvest Programme (EHP) to reduce respective countries tariffs on certain products starting January 2004. The idea to form a closer cooperation between China and ASEAN Free Trade Area was first coined during the third ASEAN-China Summit in 1999 and later was followed up by series of joint studies on the impact of ASEAN-China economic cooperation, which yield positive results (Yoshimatsu, 2008). Free trade area between ASEAN and China was considered important to further enhance ASEAN-China trade, which already previously indicate a rising economic interdependence between the two as seen from the table below.

Year	2000	2001	2002	2003
Total Trade	39.5	41.6	42.8	55.2

Tab 1. ASEAN-China Total Trade 2000-2003 (in US\$ billions)

Source: ASEAN Trade Statistics Database (Cordenillo, 2005)

In November 2004, a follow up agreement, the Agreement on Trade in Goods, was signed and later has been revised in 2006 and 2010 with amendments. These agreements further includes more products in the tariff reduction and elimination into two criteria, "Normal Track" and "Sensitive Track" (ASEAN Organisation). The "Normal Track" criteria is a category which all tariff lines have been eliminated by Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and China by January 1, 2012. While the rest of the ASEAN country will follow suit by no later than January 1, 2018. Another follow up agreement was signed on January 14, 2007, which specifically regulate the trade in services, called the Agreement on Trade in Services. This agreement aims to liberalise and eliminate discrimination of trade

in services among the respective countries various service sectors. A specific agreement on investment was signed in August 2009 called the Investment Agreement which aimed at ensuring fair and equitable treatment for investors, non-discrimination treatment on nationalisation and compensation for loses, allowing transfers and repatriation of profits in usable currencies, and providing arbitrations for dispute settlement of investor-state disputes. It is apparent that to fully support the ASEAN-China Free Trade Area, complete and comprehensive agreements are needed to cover wide range of trade sector with legal platforms.

In terms of population, ACFTA is the largest free trade area in the world, while in terms of nominal GDP, it occupies the third largest GDP shares after the European Economic Area and the North American Free Trade Area. The intensified free trade cooperation of the ACFTA thus allows China to be one of the most prominent rising economic power as well as the largest exporting countries in the world. In addition, ACFTA cooperation makes economic ties between countries in ASEAN and China even stronger. Since ACFTA was established in 2002, trade relations between the People's Republic of China and ASEAN grew from US\$ 59.6 billion in 2003 to US\$ 192.5 billion in 2010. Furthermore, in 2016 the total trade between ASEAN and China has reached to US\$ 475 billion with the tariffs on 7,881 product categories have reduced in the free trade agreement. The average tariff rate on Chinese goods sold in ASEAN member countries was reduced from 12.8% to 0.6% on January 1, 2010. This reduction of tariff barriers allows ASEAN's and Chinese products and trade in services to freely circulating in the ASEAN market and vice versa.

ACFTA brings up the positive impact in long-term policy for its member countries. The examples are the increase in export activities

carried out by Singapore, Malaysia, Thailand, Philippine, and Indonesia as the four highest countries that have trade partnerships with China. In 2004 to 2007, Singapore became the highest ACFTA trading partner for China. Then followed by Malaysia, Thailand, and Indonesia. In addition, Indonesia's export activities to China endured a significant increase, from US\$ 8.3 billion in 2006 to US\$ 15.6 billion in 2010 (Ismanto & Khrisnamurti, 2014). It is evident that ACFTA has increase bilateral trade flows between China and ASEAN significantly. In 1998, the total trade between China and ASEAN was recorded at approximately US\$ 24 billion and has increased to US\$ 231 billion in 2018 with the average of 20% growth annually (Sheng, Tang, & Xu, 2012). In 2009, ASEAN became China's fourth largest trading partner after the European Union, the United States, and Japan accounting for 10.2% the total trade of China as seen in Figure 1. While at the same time, China became ASEAN's largest trading partner, followed by the European Union, Japan, and the United States as seen in Figure 2.

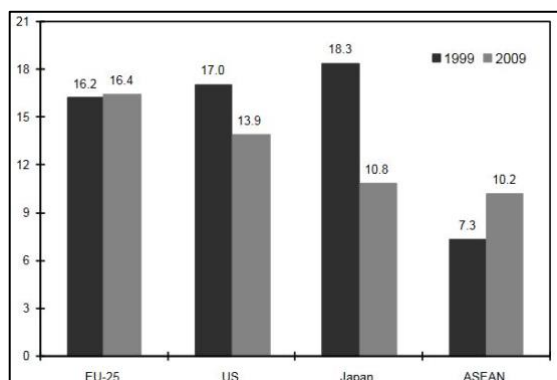


Fig. 1. Major Trading Partners of China in 1999 and 2009 (in %)

Source: ADB Working Paper Series on Regional Economic Integration (Sheng, Tang, & Xu, 2012)

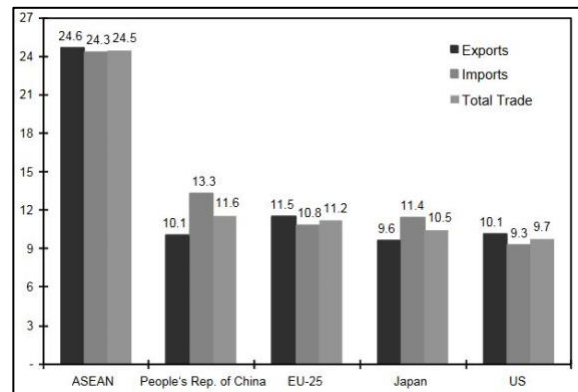


Fig. 2. Major Trading Partners of ASEAN in 2009 (%)

Source: ADB Working Paper Series on Regional Economic Integration (Sheng, Tang, & Xu, 2012)

By the difference on the major trading partner position, it is apparent that ACFTA is more advantageous for China than its ASEAN counterparts are. This paper thus directed to answer a question on how China is able to benefit more on ACFTA? To answer this question, a framework of thinking using expansionism and multilateral diplomacy are used. This research also uses a descriptive method to thoroughly described China's efforts through expansionism and multilateral diplomacy instruments. This research will be done in four parts with introduction as the first part. Followed by methodology as the second part, discussion and analysis as the third part, and conclusion as the final part.

II. Methodology: Expansionism through Multilateral Diplomacy

To answer the main research question mentioned above, this research is using a qualitative descriptive method. Qualitative descriptive method aims in understanding a phenomenon and describing certain facts systematically, factual and accurate. Phenomenon can be in the forms of activities, characteristics, relational changes, similarities of differences between one action and another. Descriptive method also tries to interpret phenomenon, such as the condition

or relation of being, growing opinions, processes and impacts that has already happening or ongoing (Sukmadinata, 2006). Thus, this research aims to describe numerous expansionist efforts made by China through its multilateral diplomacy in the framework of ACFTA. In order to be able to thoroughly described China's efforts, it is important to understand what is expansionism and multilateral diplomacy.

Expansionism has an origin as territorial-based concept. Although the expansion measures have indeed become a human habit in the era of the monarchy and long before that, but in trajectory of nation state, it has recorded a profound implication on world politics in the 18th century. Expansionism became an inherent characteristic of foreign policy in the first century of United States independence. When many countries were still wallowing in history to escape from the British Empire, the United States has taken one step at a time to expand the authority of its administration. Expansionism is the process of growth through the acquisitions-either by purchase or by warfare-of a nation (Sauers & Weber, 2010). Every political entity has a tendency to dominate other parties, especially those who have more capabilities than other parties. By understanding the US reasons, it was a consequence of its capability. Not only the US, all countries have the potential to do so since they are driven by ego, fear and dissatisfaction through colonialism and imperialism. Due to regional claims were used as parameter of the political power at the time.

Expansionism theory developed in the 19th century which was associated with the relations of political theories and spatial theory or in short it is called geopolitics by Friedrich Ratzel. The discussion was supported by conditions in the 19th century where nation state did a lot of keeping the country's borders

due to the dominating security issues. After annexation was categorized as an illegal measure entering the 19th century by international laws including the Porter Convention 1907, League Treaty of Nations and the Kellogg-Briand Pact of 1928, Karl Haushofer was legally introducing expansionism by spreading influences, creating alignments and show off the national potential (Piana, 2015). These thought was used by Adolf Hitler and driving him to spread the doctrine. The Nazi's power at the time could explain what kind of expansionism was initiated by Haushofer. The war broke out due to ultranationalism which was really destroyed the country even the world.

In the post-war era, the focus of countries has turned into economic improvement. The development of the theory is supported by the development of history. Since then, the economic stability has become the new orientation of pursuing power. So, the new form of expansionism is economic expansion which led the country to have control over the world trade. It differs from the classical expansionism which was done by force, through an economic support, the sovereignty as if it surrendered voluntarily. Several economic strategy which commonly used by countries include mastering the dominant needs and trade routes, spreading influences through cultural values in order to produce economic value, break the trade barriers, investing in the other countries to create dependencies, playing smart in making an economic cooperation contracts, mastering the spread of the country's cultural values in order to produce economic values, creating the progress of ICT, investing in other countries on a large scale to create dependencies and mastering the production skills of any types of manufactures. Besides that, by taking into account the domestic business dynamics, foreign trade, labor market, financial markets,

price level and real interest rate, influence on election outcomes (mastering political information inward and outward), risks of countervailing developments, transition to the next phase of how long is the stock and the asset prices can be maintained and also learn from the empirical economic experiences of another countries are needed.

One of the most important instrument of expansionism in the post-war era, as mentioned before, is the ability to create economic cooperation. And the most effective instrument to create economic cooperation is through diplomacy, and more specific in this research, is multilateral diplomacy. Diplomacy is a very important instrument in establishing relations among states. One way to conduct relations with multiple states at once is through multilateral diplomacy. Multilateral diplomacy is a process of relations or negotiations with three or more states and it must be carried out directly and openly. Multicultural diplomacy is based on negotiating practice akin to the process of "managing complexity", thus multilateral diplomacy are often took long time. These negotiations are divided into distributive and integrative negotiations. Distributive negotiation is an explanation where the negotiator has a fixed amount of profit to given and integrative negotiation becomes an actor that provides a substance to increase the potential for collective benefits (Balzacq, Charillon, & Ramel, 2020). Multilateral diplomacy has mobilized many actors. The decisions produced by the results of international diplomacy and negotiations will always have an impact on the economic sector, both in the agriculture, services, industry, and so on. In free trade, the magnitude of a state's economic strength must be different from other states. This factor determines the bargaining power and bargaining position of each country to win a negotiation.

Multilateral diplomacy occurs because of the substantial increase by the number of conferences attended by many states, using verbal models, and face-to-face communication (Berridge, 2010). It is interesting to note that, since its origins, multilateral diplomacy has mobilized a great many actors. The issue of their numbers is thus not in itself a disqualifying factor in concluding a multilateral agreement. Another explanation often advanced about inextricable nature of multilateral negotiations is their sensitivity, multidimensionality, and technicity. Multilateral diplomacy is conducted in order for each actor (state) could get the advantages in accordance with the interests of state. In a world of anarchy, every state may be concerned with their own national interests. The main point of multilateral diplomacy is appropriate of negotiation, because the success of the negotiations will affect the outcome of each conference.

The implementation of multilateral diplomacy considerably aided with the presence of international organizations. International organizations improve the efficiency of multilateral negotiations in several aspects: providing an institutional framework for negotiations, requiring equal rights for all states meeting and negotiating, decreeing a set of explicit decision-making rules for their use, and drawing on instruments of international law (like agreements, resolutions, treaties) to ensure the commitments agreed by the states. International organizations functions as a forum for diplomats to negotiate in order to achieve a common goal. International organizations help the course of multilateral diplomacy where there is a consensus decision making, so every state will get the benefits and stay in conducive circumstances. Although, multilateral negotiations are very likely to be complex and difficult when many states strive

to reach a multidimensional agreement by consensus.

The main reason for state to conduct multilateral diplomacy is to acquire access of information (Hartanto, 2016). If it is in an international forum, surely each country will exchange their valid and important information, this can aid the achievement of the country's goals. In addition, every country that participates will be interconnected, with no exception in uniting the natural resources of each country. Each sovereign state has the authority to make decisions independently, but every state's sovereignty must be limited by other sovereignty. The implementation of multilateral diplomacy is used to solve and control the problems that exist in each country and can influence the behaviour of other countries.

In realizing the effective relations between states, often using a contractual agreement with the concerned states (Hartanto, 2016). The agreement was made for the concerned state to agree and would do things in accordance with the agreement. The aim in order that each state can get the same benefits. No limitation in economic activity. For example, if a state wants to advance its economy more broader, then state can make an agreement with other states, and with the existence of this agreement, the concerned states can advance their economic sectors.

Multilateral diplomacy allows state to be included in the formation of legal frameworks of any cooperation through various agreements. To be included means that state have the advantages to put forward its interest. Expansionist interest can also be incorporated into the legal framework of multilateralism through the formation of various agreements design to be advantageous to its interest. In order to benefit expansionist agenda, agreements can be tailored to fit ones needs to dominate trade routes, break trade

barriers, or even invests in other parties dependencies.

III. Discussion: China's Efforts in ACFTA

China's expansionist interest can be seen through its involvement in the ACFTA over the years in generating various agreements to better benefit itself more than its ASEAN counterpart generates. The Framework Agreement on Comprehensive Economic Cooperation was signed in November 2002 to develop the ASEAN-China Free Trade Agreement (ACFTA). The ACFTA took full effect on January 1, 2015. In accordance with the mandate given by the Leaders to upgrade the ACFTA, the agreement was updated and it was signed on November 21, 2015 in Kuala Lumpur. The agreement entered into force on July 1, 2016, is expected to bring ASEAN and China closer to actualizing their twin goals of two-way trade and investment of US\$1 trillion and US\$150 billion severally by 2020 (ASEAN Organisation, 2017).

The upgrade agreements include the Goods Trade Agreement to Improve and simplify the rules of origin by revising the product-specific rules. Subsequently, related to clarification of the Operational Certification Procedure for implementing and obtaining the ACFTA Preferential Tariff Certificate, "Form E". Form E is used to verify the eligibility of export products for preferential care. Next is to renew customs tariffs and procedures, and improve trade facilities (Menon & Melendez, 2019). Regarding Trade in Services, agreements were made to increase service commitments from China which included engineering, construction, sports, securities, and tourism services. Furthermore to strengthen investment, economic cooperation, and ethnic cooperation. The agreement aims to build Cooperation and Economic capability of e-commerce and focus on assisting micro, small and technical businesses.

Another agreement to complement existing agreement on trade and trade in services, was also signed on August 15, 2009 during the eighth Consultations between the ASEAN Economic Ministers and the Ministers of Commerce in Bangkok, Thailand. The Agreement on Investment of the Framework Agreement on Comprehensive Economic Cooperation between the Associations of Southeast Asian Nations and the People's Republic of China further emphasis the eradicate discrimination in the investment sector and to create a more binding dispute settlement mechanism for investment in the ACFTA. This agreements thus open broader investment opportunity from China to the ASEAN countries and vice versa by giving a legal assurance in doing business and trade in the designated free trade area.

Various agreements signed in the framework of ACFTA has been very successful in expanding China's influence in the free trade area are that it benefitted China's exports to the region more than China's import from the region. There were significant points behind the establishment of ACFTA, which are the ASEAN Financial Crisis 1997, deteriorating Japanese economic performance as the best Chinese partner, along with the earlier years of China's entry to the WTO where China has passed a long accession and needed an evidence over its economic revival. In practice, China did not have enough confidence to open its market to those economies that are more advanced than its own. The economic gap between China and Japan or China and the other East Asian countries was farther than China and ASEAN. By taking into account the economic condition of ASEAN member countries which lower than China, it has brought up the view, "*it is easier to start the ball rolling by working first with ASEAN*". Besides that, it would later produce '*chain reaction*' as the triumph of inducement

strategy by China. Japan reacted to the ACFTA by offering its own FTA to ASEAN. As China hopes, this would pull East Asian countries to get closer. The dependencies that have been created will integrate the economies of East Asian countries.

There were several considerations regarding to China's preference to the ASEAN. In establishing free trade area, there must be conveniences of mobilization of goods. ASEAN will not pose any security threats to China as an excuse to expedite the mechanism of trade. In addition, the trajectory showed the possibly track that can be crossed by China *in mastering the trade routes* due to Japan has slipped into closer military alliance with the United States, especially there was reorientation the US security policies after the 9/11. ASEAN has taken place into the more balanced positions that would be more acceptable to the west before reaching the US. ASEAN itself would serves China's interest better. It differs from the ASEAN plus three (Japan, China and Korea) which showed that ASEAN plus East Asian was succeeded while ACFTA will show that cooperation between China and ASEAN will also succeed. Like kill two birds with one stone, ASEAN will bridge the trust among the East Asian Countries but does not engage in economic integration therein.

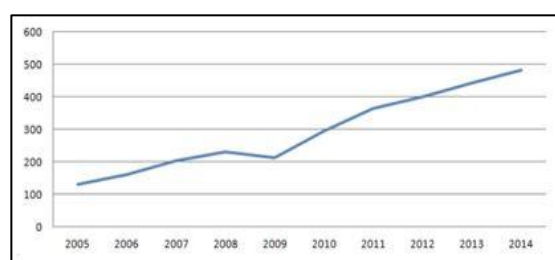


Fig. 3. Trade Data between ASEAN and China (US\$ million)

Source: ACFTA Business Portal (ACFTA Business Portal, 2016)

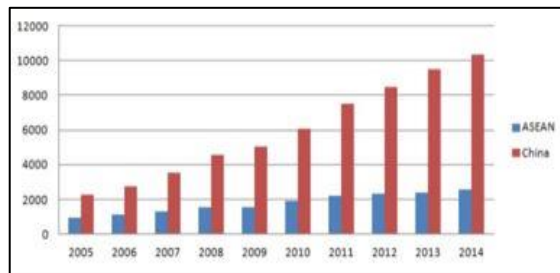


Fig. 4. GDP According to the Present Price (US\$ billion)

Source: ACFTA Business Portal (ACFTA Business Portal, 2016)

From data above, the volume of trade in goods between China and ASEAN member countries simultaneously has increased over the years. By observing not only the Gross Domestic Products (GDP) but also the real GDP Growth Rate, it can be concluded that the cooperation has contributed to economic growth both for ASEAN by approximately 5,4% per year and China by approximately 10% per year (by calculating the average of the Real GDP Growth Rate above). The other things that must be taken into account regarding free trade are the most profitable commodity and the scarcity in the other countries. China is exporting almost all of its natural resources besides fulfilling the needs of its people. Not only natural resources, China also made textiles, its own assembled technologies and mastering almost the all production of manufactures and made all of them as export commodity after 2010. Some commodities that are exported to Malaysia, Indonesia and Singapore including metal bars, iron, steel, mechanical equipment, electronics, heating and cooling equipment and automatic data machine. The important point we can learn from the China's strategies are the creation of all stuffs and how they balance the fulfillment of their society's needs and make them as export commodities.

Year	2009	2010	2011	2012	2013
Total	1,965	4,052	7,860	5,718	6,778

Tab. 5. China's FDI to ASEAN (US\$ million)

Source: ACFTA Business Portal (ACFTA Business Portal, 2016)

After mastering the several important points of free trade, China's economic (Amsden, 1989) (Wade, 1990) performance continuously increased along with the China's direct investment to ASEAN (until 2013, based on data above). These growth has been largely concentrated in the sectors such infrastructures, extractive industries, electricity, oil, and gas pipelines. China aims at investing in these sectors because these sectors aims to facilitate free trade and create dependencies so that the ACFTA can be more integrated and further benefit China.

IV. Conclusion

Expansionism as a form of power pursuit has change over time and now became a contestation of states to control world trade. To be able to control world trade, states must be able to master trade routes, break trade barriers, invest more, deepen economic cooperation contracts and master production skills in manufacturing. These efforts are made possible through various agreements negotiated through multilateral diplomacy in international organizations. Multilateral diplomacy allow states to be included in the formation of legal frameworks of any cooperation through various agreements where states have the advantages to put forward their interest. In the case of China-ASEAN Free Trade Area or ACFTA, China is using its multilateral diplomacy as an instrument to put forward its economic interest in the agreements negotiated. Agreement signed in the ACFTA has proven to be very advantageous to China and has managed to amplify its economic power as one of the biggest exporting country and rising economy in the world.

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