

Annex B – Frequently Asked Questions on the ASEAN-China Free Trade Area (ACFTA)

What is the ACFTA and why is it important?

The ACFTA is the cornerstone of China-ASEAN relations. The Agreement is significant as the ACFTA is ASEAN's first free trade agreement (FTA) with an external dialogue partner, and also China's first FTA.

The ACFTA comprises three different Agreements – the Trade in Goods Agreement, Agreement on Trade in Services, as well as the Investment Agreement. The three Agreements entered into force in 2005, 2007, and 2009 respectively; collectively, the ACFTA entered into force in 2010.

The ACFTA seeks to facilitate trade in goods and services, as well as investment between China and ASEAN. For example, the ACFTA eliminates tariffs for 94.6% of tariff lines of exports to China that originate from Singapore. It contains commitments that creates market access and ensures a more predictable operating environment for services suppliers. The Agreement also provides investors and investments with protection, by establishing a more transparent, facilitative, and secure environment for investors.

The ACFTA has undergone one round of upgrade launched in 2014, signed in 2015, and entered into force for all Parties in 2018. The first upgrade made improvements to Rules of Origin, Customs Procedures and Trade Facilitation, Market Access for Services, as well as enhanced economic and technical cooperation.

Which countries are negotiating the ACFTA? How has the ACFTA benefited these countries?

The ACFTA is negotiated between China and ASEAN Member States (AMS) – Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

Economic relations between AMS and China have strengthened considerably since the respective Agreements under ACFTA entered into force. The value of ASEAN-China trade in goods increased more than five times from US\$160 billion in 2006 to US\$879 billion in 2021¹. In 2021, ASEAN and China were each other's largest goods trading partner. ASEAN-China trade in services increased about 3.5 times from US\$19 billion in 2007 to US\$67 billion in 2019². China is also ASEAN's fourth largest foreign investor (US\$127 billion, stock value), after United States (US\$488 billion), European Union (US\$397 billion) and Japan (US\$290 billion)³.

What upgrades are being considered for the ACFTA and why are they being considered?

The second round of ACFTA upgrade negotiations (i.e., ACFTA 3.0 upgrade negotiation) will be comprehensive in scope to ensure the Agreement remains relevant and commercially meaningful to businesses in the region.

The Upgrade Negotiations will cover the following elements: (a) Trade in Goods (tariff reduction; tariff elimination, where possible; non-tariff measures, customs procedures and trade facilitation; standards, technical regulations, and conformity assessment procedures; sanitary and phytosanitary measures, transparency); (b) investment liberalisation and protection; (c) economic cooperation in areas of digital economy; green economy; supply chain connectivity; competition;

¹ Source: UN Comtrade

² Source: BATIS

³ Source: IMF CDIS

consumer protection; micro, small, and medium enterprises (MSMEs); and (d) enhanced economic and technical cooperation in other areas of cooperation, where possible. Details for each element as follows:

- **Tariff Reduction and Elimination** - The Upgrade Negotiations will aim at enhancing the level of tariff liberalisation.
- **Non-Tariff Measures (NTMs)** - The Upgrade Negotiations will help ensure that NTMs are not used or developed to impede trade between ASEAN and China. This would contribute to ensuring the effective implementation of market access commitments under the ACFTA and preserving supply chain connectivity between the Parties.
- **Customs Procedures and Trade Facilitation (CPTF)** - The Upgrade Negotiations will build upon the WTO Trade Facilitation Agreement to facilitate trade between the Parties, while ensuring effective customs controls.
- **Standards, Technical Regulations and Conformity Assessment Procedures (STRACAP)** - The Upgrade Negotiations will seek to enhance transparency, strengthen cooperation, consultation and information exchange to facilitate trade and improve mutual understanding of Parties' standards, technical regulations and conformity assessment procedures.
- **Sanitary and Phytosanitary (SPS) Measures** - The Upgrade Negotiations will seek to enhance cooperation, including collaboration for capacity-building, strengthen consultations, and facilitate trade through science-based measures, including risk analysis while not creating unnecessary barriers to trade.
- **Investment** - The Upgrade Negotiations will follow up on the Future Work Programme under the Upgrading Protocol of the ACFTA, while taking into account existing agreements including the Regional Comprehensive Economic Partnership (RCEP) Agreement.
- **Digital Economy** – The Upgrade Negotiations will explore provisions to develop cooperation in areas such as digital trade and services (e.g., e-commerce, paperless trade); data governance (e.g., online personal data and consumer protection, data sharing, exchanging and comparing in response to big data utilisation, electronic transferable records, and cross-border data flows); and other trade-related aspects of digital economy cooperation including in cybersecurity, artificial intelligence, smart city development, upgrading technology and innovation, digital transformation and management.
- **Green Economy** – The Upgrade Negotiations will include commitments on strengthening collaboration, including through the sharing of knowledge, best practices, and technology in: low-carbon and sustainable economy (e.g., green finance, sustainable consumption and production, circular economy, green skills development); green technology (e.g., low-carbon technologies, sustainable and green infrastructure, environmental industry, green industry); sustainable energy (e.g., smart energy solutions, energy storage systems, renewable energy, and conservation).
- **Supply Chain Connectivity** – The upgrade negotiations will explore ways to strengthen the resilience and sustainability of regional supply chains, giving priority to the continued and smooth cross-border flow of essential goods and services.