

**The Pan-PRD and ASEAN-China FTA as
Agents of Regional Integration
in Pacific Asia**

Yue-man Yeung

Shanghai-Hong Kong Development Institute

Hong Kong Institute of Asia-Pacific Studies

February 2006

About the Author

Yue-man Yeung is Research Professor; Director of the Hong Kong Institute of Asia-Pacific Studies; and Director of the Shanghai-Hong Kong Development Institute, The Chinese University of Hong Kong.

Keynote address presented at the Forum on A Tale of Two Regions: China's Pan-PRD and ASEAN, Gold Coast Hotel, Hong Kong, 4 November 2005.

Opinions expressed in the publications of the Shanghai-Hong Kong Development Institute and Hong Kong Institute of Asia-Pacific Studies are the authors'. They do not necessarily reflect those of the Institutes.

© 2006 Yue-man Yeung

ISBN-10: 962-441-813-6

ISBN-13: 978-962-441-813-2

All rights reserved. No part of this book may be reproduced in any form without written permission from the author.

The Pan-PRD and ASEAN-China FTA as Agents of Regional Integration in Pacific Asia

Around the turn of the twentieth and twenty-first centuries, several momentous events occurred in Pacific Asia (East and Southeast Asia) that are likely to have a long-term and significant impact on the region. In 1997 and 1999, Hong Kong and Macau returned to Chinese rule, under the "one country, two systems" formula. Hot on the heels of Hong Kong's handover, the Asian financial crisis erupted in Thailand, which was to draw in a large number of countries in the region in an unprecedented financial upheaval. The unsavory dimension of globalization was fully revealed. Meanwhile, China's steadfast and almost altruistic role during the crisis in resisting the pressure to devalue its currency was widely applauded. The country continued along its path of rapid economic growth, which had quadrupled its gross domestic product (GDP) during two decades of openness and economic reform. It was admitted to membership in the World Trade Organization (WTO) in late 2001. In the following year, China signed an agreement with the Association of Southeast Asian Nations (ASEAN) to form a free trade area between them in 10 years. In 2003, China adopted a number of policies favourable to Hong Kong, namely the Closer Economic Partnership Arrangement (CEPA), the individual travel scheme, and limited renminbi trading. These policies greatly helped Hong Kong to recover quickly from the devastation of the Severe Acute Respiratory Syndrome (SARS) epidemic of that spring, and to embark on a road to economic recovery. In June 2004, a landmark regional cooperation framework to form a

Pan-Pearl River Delta (PPRD or 9+2, for short) region was signed between nine provinces in eastern, southern, and western China, led by Guangdong, along with Hong Kong and Macau.

The object of this paper is to examine the substance and ramifications of the PPRD and the ASEAN-China Free Trade Area (ACFTA or 10+1, for short) as integrative agents of regional economic development in Pacific Asia. The rationale and essence of these regional frameworks are outlined prior to an exploration of their interactive dynamics.

The background to the discussion of rapid economic growth in Pacific Asia is that during the last three decades of the twentieth century, Pacific Asia (exclusive of Japan) tripled its share of world trade, from 5.4% in 1975 to 18.7% in 2001 (Wong and Liang, 2005:297). These decades coincided with a period of accelerated globalization, which occurred in tandem with the emergence of China since 1978. Where ACFTA is, strictly speaking, a regional organization in which participating countries are bound by agreements and commitments, the PPRD is a looser regional cooperative framework cemented by political goodwill and pledges. Yet both may be viewed as having been born in the environment of globalization and its counter process of regionalization. Both may, in addition, be viewed as two sides of the same coin forged by the ingredients of the international division of labour, pursuit of markets, economic competitiveness, and foreign direct investment (FDI).

An attempt is made in Table 1 to compare the PPRD, ASEAN, and the European Union (EU) in very broad terms. While ASEAN possesses the largest area and population, the PPRD and the EU are comparable in population. With a GDP of less than 6% that of the EU, the PPRD and ASEAN are relatively underdeveloped. Table 2 shows the level of intra-regional trade in some leading regional groupings in the world. At over 60% for both imports and exports, the EU exhibits a higher level of internal cohesiveness than other regional groupings. The North American Free Trade Agreement (NAFTA) is at an intermediate level of over 30%, but ACFTA and ASEAN are both at comparable levels of over 20%. Clearly, the Asian regional groupings are only at an incipient stage of regional economic development.

ASEAN-China Free Trade Area

Prior to the onset of the Asian financial crisis, ASEAN had been flourishing economically for two to three decades, with robust economic growth and sizeable FDI inflows. The crisis greatly weakened and shook countries in the region. Even agreement in 1992 by members of ASEAN to establish an ASEAN FTA (AFTA) by 2008, was considerably weakened. ASEAN was looking for a way to rejuvenate itself by looking northward to the three large economic powers of Japan, China, and South Korea.

Table 1 Comparison of Major Indicators, 2003

Regional grouping	Area (1000km ²)	GDP		Population	
		(million) euro	(billion RMB)	% of EU	(million)
EU (25 countries)	3956.3	9738872.2	98557.4	—	454.6
ASEAN	4495.6	686276.0	5682.4	5.8	562.6
Whole PPRD	2006.7	—	5259.8	5.3	457.0

Source: Yeung (2005:77).

Table 2 Changing Patterns of Intra-regional Trade in Selected Regional Groupings, 2001-2003 (%)

Regional grouping	Proportion of imports			Proportion of exports		
	2001	2002	2003	2001	2002	2003
ASEAN	22.8	23.5	23.3	23.3	24.0	23.3
ACFTA	20.4	20.3	21.1	20.2	20.8	24.6
NAFTA	39.4	38.1	36.8	55.4	56.5	56.1
EU	60.9	61.9	61.7	61.9	61.6	61.9

Source: Li (2005), from various official statistics.

Since 1997, the yearly ASEAN meeting has included a "10+3" summit, involving leaders from Japan, China, and South Korea. Chinese President Jiang Zemin attended the "10+1" summit in Hanoi in 1997 involving ASEAN and China, followed by Chinese Premier Zhu Rongji who attended the 2000 summit. China's participation is, in fact, one of three "10+1s", with Japan and South Korea being the other two countries also having a relationship with ASEAN to set up free trade areas. The Japan "10+1" is operational but the South Korean one has yet to get off the ground. Zhu has proposed the establishment of a free trade area between China and ASEAN. At the same time, South Korean President Kim Dae Jung also proposed the establishment of an East Asian free trade zone consisting of all of the countries in the "10+3" summit meeting. At the next ASEAN-China summit held in November 2001, both parties agreed to establish a bilateral free trade area in 2010. In the next summit a year later, China and ASEAN finally concluded a Framework Agreement on China-ASEAN Comprehensive Economic Cooperation, by which China and the original six ASEAN countries (ASEAN-6) will create a free trade area in 2010, and one between China and all ASEAN countries in 2015. The framework agreement commits these countries to eliminating tariffs and other trade barriers among them to build a common market of 1.7 billion people with a combined GDP of US\$1.5-2 trillion. The agreement has allowed ASEAN to engage its giant neighbour as an economic partner rather than as a competitor (Cheng, 2004). In 2003, China accepted, upon ASEAN's earnest request, an invitation to enter into The Treaty of Amity and Cooperation in Southeast Asia. The country was the first extra-region large nation in the Treaty, greatly helping to eliminate the fear of a "China threat", which ASEAN nations have harboured in response to China's recent rise as a major power (Cao and Xu, 2004).

In a report, the ASEAN Secretariat noted that:

ASEAN-China trade totalled US\$39.5 billion in the year 2000. ASEAN's share in China's foreign merchandise trade has been continuously on the rise, increasing from 5.8% in 1991 to 8.3% in 2000. ASEAN is now China's fifth biggest trading partner. Meanwhile, the share of China in ASEAN's trade has grown from

2.1% in 1994 to 3.9% in 2000. China is now the sixth largest trade partner of ASEAN (quoted in Chirathivat, 2002:673).

As trade between ASEAN and China has been increasing steadily in recent years, the ultimate objective of establishing a free trade area is in the best interests of all concerned. At the moment, China's average tariff rates are still much higher, at 15%, than those prevailing in the ASEAN-6 countries. Table 3 shows the specific differences between the average tariff rates of the two parties. The regional framework for the abolition of trade barriers will allow trade between ASEAN and China to expand. This will occur through trade creation and trade diversion effects (Chirathivat, 2002). When ACFTA is in force by 2010, intra-regional trade will approximate the existing levels prevailing in the EU and NAFTA. By that time, intra-regional trade will increase to over 30%, as compared with the present level of over 20% (Li, 2003; see also Table 2). During the past 10 years, trade between ASEAN and China has been increasing rapidly, often at double digits annually. The balance of trade has largely been in ASEAN's favour, with imports by China regularly exceeding exports from that country (Table 4).

Table 3 Average Tariff Rates of ASEAN-6 and China (%)

ASEAN collected from China		China collected from ASEAN	
Fruits and vegetables	5.0	Fruits and vegetables	27.4
Coal	9.4	Oil seeds	21.4
Food products	5.0	Petroleum products	8.4
Electrical goods	4.8	Rice	112.8
Drinks/tobacco	6.2	Chemical, rubber and plastic products	19.2
Machinery	3.4	Electrical goods	16.6
Average	2.3	Average	9.4

Source: Chirathivat (2002:674).

Table 4 Growth in Trade between China and ASEAN, 1995-2003

	Trade volume (hundred million US\$)				Growth rate (%)		
	Imports	Exports	Total trade	Trade balance	Imports	Exports	Total trade
1995	99	105	204	6	37.8	46.3	42.1
1996	109	103	212	-6	9.6	-1.5	3.9
1997	125	127	252	2	14.8	23.2	18.9
1998	126	110	236	-16	1.2	-13.1	-6.0
1999	149	122	271	-27	18.4	11.2	15.1
2000	222	173	395	-49	48.6	41.2	45.3
2001	232	184	416	-48	4.7	6.1	5.3
2002	312	236	548	-76	34.4	28.3	31.7
2003	473	309	782	-164	51.7	31.1	42.8

Source: Wong and Liang (2005:311).

Notwithstanding the regional framework that is to be eventually established, many existing challenges remain to test the bilateral relationship. For example, some ASEAN members are still reluctant to open their markets to the Chinese products that could flood and devastate their economies. The increased competition in ASEAN's domestic markets as a result of liberalization with regard to Chinese products could negate any potential benefits of improved access to the Chinese market (Chirathivat, 2002:680). In a detailed comparison of different goods produced by the two sides, it was concluded that ASEAN should not focus on competing with China on the basis of cost, but rather on improving product and service quality, efficiency, and reliability. ASEAN should focus on specific product areas where they have significant advantages over China including mineral and petroleum products, technology-intensive products such as semiconductors and high-value electronic components, natural

resource-based products such as timber and paper products, food and food products, and so on. There are products in which China has a comparative disadvantage, such as agricultural products, intermediate capital goods, mineral products, and services (Tongzon, 2005:209-10).

At another level, ACFTA is seen as being of assistance to ASEAN in improving its economic standing by engaging China in an interdependent relationship. Certainly from the viewpoint of FDI flows, China has been a direct competitor of ASEAN during the past 15 years or so. In the early 1990s, Southeast Asia was the hottest destination for FDI flows among developing countries in Asia, accounting for 61%, while China accounted for 18%. A decade later, the situation was reversed: China attracted 61% versus only 17% for ASEAN (Glosserman and Fritschi, 2002). By linking up with China, the world's largest and most powerful growth machine, ASEAN anticipates a strengthening of its economic competitiveness and growth prospects.

In fact, the ACFTA partnership goes far beyond economics. In political relations, regional security, social and cultural relations, there is a wide scope for cooperation and advancement between the two sides. To be specific, the establishment of ACFTA has vastly reduced the concern over the "China threat" that has come with the emergence of China as a regional and global power. The agreement serves as a code for avoiding armed conflicts over conflicting claims by several countries to sovereignty over the Spratly Islands. Regional cooperation also encompasses measures to cope with transnational or transregional crimes, including terrorism, drug trafficking, people trafficking, arms smuggling, money laundering, and so forth. In addition, the agreement provides for cooperative development plans aimed at improving road, rail, and water transport links between China and ASEAN countries. At the 2000 summit meeting, Zhu Rongji indicated that Beijing was willing to fund the construction of a Lancang-Mekong development project in Myanmar and Laos, which will allow for commercial navigation on the Mekong River from Thailand to China (Cheng, 2004).

The Pan-Pearl River Delta

In contrast to ACFTA, the PPRD is an internal regional cooperation framework in China that involves one-fifth of the country's area, one-third of its population, and 40% of its GDP. In June 2004, leaders of the nine provinces in the greater part of the country south of the Yangtze River met to sign a landmark agreement to accelerate economic and social development through regional cooperation. The nine provinces were led by Guangdong and its neighbouring provinces of Guangxi, Yunnan, Sichuan, Guizhou, Hunan, Jiangxi, Fujian, and Hainan, together with the Special Administrative Regions (SARs) of Hong Kong and Macau, conveniently referred to as 9+2. As a domestic regional set-up, it is unprecedented in scale and form anywhere in the world. Several meanings may be read into the establishment of this development design.

First, the PPRD can be interpreted as a major move by China to further its policy of economic reform and openness, after a quarter century of astonishing economic development and social progress. The regional framework is widely viewed as a vehicle to further accelerate development in the southern, central, and western parts of China, where disparities in development and foreign investment among provinces is obvious, and the scope for mutual benefit in enhanced cooperation is boundless given their clear complementarities. Second, the 9+2 set up was designed, in part, to counteract the recent strong emergence of the Yangtze River Delta powered by Shanghai. Several key indicators in 2002 and 2003 indicated that the Yangtze River Delta is forging ahead of the Pearl River Delta. Third, with Hong Kong and Macau having recently been returned to China under the "one country, two systems" formula, there was a need to highlight that these two territories could further prosper and engage in a process of mutual benefit with a large part of China. Finally, with China's accession to the WTO in 2001, the establishment of the PPRD would sharpen the competitive edge of a large part of China to become a strong player in the world market. Regional cooperation in the utilization and deployment of production factors could generate significant benefits for all concerned.

At a strategic level, this bold and pioneering regional framework

was designed to strengthen the "dragon head" in the Pearl River Delta, which needs an enlarged hinterland to supply land, labour, and raw materials for its next stage of growth and development. Within the PPRD, many provincial policies and practices are self-centred, with little heed paid to how they can be harmonized with those of neighbouring provinces. For example, some superhighways stop before reaching provincial boundaries, leaving inter-provincial connectivity as a goal to be realized only in the future. The PPRD framework is designed to mitigate and eventually remove inadequacies such as these. True to the spirit of regional cooperation, Railway Minister Liu Zhijun and Communications Minister Zhang Chunxian, who attended the summit meetings in June 2004, announced their plan of building an extra 10,000 km of railways and 22 superhighways with a total length of about 30,000 km, and of boosting the transport capacity of the Pearl River Delta by 30%. The planned improvements to transport networks will reduce travel times between Guangzhou and other major cities in the PPRD to less than a day (Chow, 2004; Yeung, 2005). In fact, notable progress has been made in developing infrastructure, with massive investment at all levels of government that will bring the region to a high level of preparedness to embark on the next stage of economic and social development. The author has undertaken research on the range of infrastructure planning and development within the PPRD centred on superhighways, railways, ports, airports, and power supply (Yeung and Kee, 2005a, 2005b, 2005c, 2006). These are basic investment and development prerequisites that must be met before the region can elevate itself to another level of economic competitiveness and enhance cooperation between its different spatial units.

The implementation in Hong Kong and Macau in 2003 and 2004 of CEPA and the individual travel scheme has directly benefited these two SARs, as the policies can be extended to more provinces within the PPRD. Hong Kong has participated fully in the 10 domains for cooperation that were identified in the 2004 summit, namely infrastructure, investment, business and trade, tourism, agriculture, labour, education and culture, information and technology, environmental protection, and public health and prevention of

infectious disease (HKSAR Government, 2005:15). In just six months to the end of 2004, the Hong Kong government has participated in 70 to 80 meetings at the working level with its counterparts in the region, involving many of these identified domains. At the second PPRD summit meeting and auxiliary forums held in Chengdu in July 2005, Hong Kong sent a large delegation of 150 people from many professional fields. Hong Kong continued to be an active and key player in the new regional network.

Indeed, Hong Kong can and should cultivate a short and medium-term strategy to cooperate with the provinces and cities within the PPRD. A recent study has surveyed the scope of cooperation between Hong Kong and the provincial units on a realistic and rational basis (Yeung and Shen, 2005). To capitalize on one of Hong Kong's recognized strengths as a financial centre, more mainland enterprises have been seeking to enlist in Hong Kong Stock Exchange in a process that has been called "going out". So far, this going out process has not focused particularly on the PPRD, as many of the enterprises there are not yet at a level of maturity and success that would qualify them for a listing. However, the avenue is wide open for firms to make use of this facility in Hong Kong. Conversely, Hong Kong's role in attracting foreign firms to invest in mainland China, including the PPRD, continues to grow, as manifested by the growing number of foreign headquarters or regional offices that are being located here.

Macau has been able to reap even more dividends from recent policy formulations, to such an extent that it has entered a period of rapid economic growth and urban transformation unprecedented in its recent history. A major factor in its economic take-off has been the lifting of its monopoly concession in the gambling business with the extension in 2002 of the gambling concession from one to three, and especially with the inclusion of operators from Las Vegas. Chinese visitors taking advantage of the individual travel scheme have come in droves, many enticed by the casinos, which continue to expand in scale, glamour, and sophistication. The casino business has grown so rapidly that the annual turnover in Macau already exceeded that in Las Vegas. In 2004, the casino income from Chinese visitors alone exceeded RMB30 billion (Wang, 2005). Having recently grown by

leaps and bounds, Macau now faces the prospect of becoming a leading gambling and family entertainment centre in the world.

Interactive Dynamics between 9+2 and 10+1

From the geographical perspective, the PPRD and ACFTA are two sub-regions within Pacific Asia that are adjacent to each other, conveniently linked by land, water, and air. The connecting parts on land fall in Guangxi and Yunnan, which have, therefore, special roles to play in providing vital conduits from China to Southeast Asia. The common denominator of the two regional groupings is, of course, China, which, as an emerging regional and global power, identifies the PPRD as having strategic value in the overall development of the country. At the same time, ACFTA is a vital move to effect the regional integration of Pacific Asia. Apart from the mutual economic benefits that both sides perceive can be gained from ACFTA, China and Southeast Asia have had strong and enduring ethnic, cultural, and linguistic ties for centuries. The fabled seven expeditions led by Admiral Zheng He in the fifteenth century have left many historical relics and an immeasurable legacy that has helped to forge strong bonds between the two lands and their people over the years.

When the PPRD and ACFTA are compared, the two regional groupings appear to be starkly similar. As Table 5 shows, the income levels of the two regional groupings are highly comparable, with three groups of units consisting of the same number of countries/provinces or equivalent units. While the PPRD is led by Hong Kong, Singapore tops the ACFTA rankings, with income levels far in excess of those in the lower categories. Hong Kong and Singapore have much in common and, in the context of the discussion here, they lead their respective regional grouping in global connections, a sound administrative system, advanced professional services, and as financial centres, to name just a few of the sectors in which they excel. They are role models in their region and lead geese in the oft-quoted "flying geese" model of development in this part of Asia. In view of the divergent levels of economic development within the two

Table 5 Average Income Levels, 10+1 and 9+2 Compared, 2003 (US\$)

Income level	10+1		9+2	
	Country	Per capita GDP	Province	Per capita GDP
≥10000	Singapore	20987	Hong Kong	25895
	Brunei	12971	Macau	18685
≥1000-<10000	Malaysia	4175	Guangdong	2043
	Thailand	2291	Fujian	1813
	Mainland China	1090	Hainan	1046
<1000	Philippines	987	Hunan	876
	Indonesia	972	Jiangxi	807
	Vietnam	481	Sichuan	758
	Laos	362	Guangxi	721
	Cambodia	310	Yunnan	682
	Myanmar	179	Guizhou	435
	Sub-total	Mainland China	1090	Hong Kong/ Macau
	ASEAN	1267	Mainland China	1050

Source: Wong and Liang (2005:308).

regional groupings, it has been a deliberate policy choice for both to begin with countries/provinces at comparable stages of development. For example, the strategy of a two-phase timetable to pursue tariff reduction between China and ASEAN-6 ahead of the rest was predicated on this consideration.

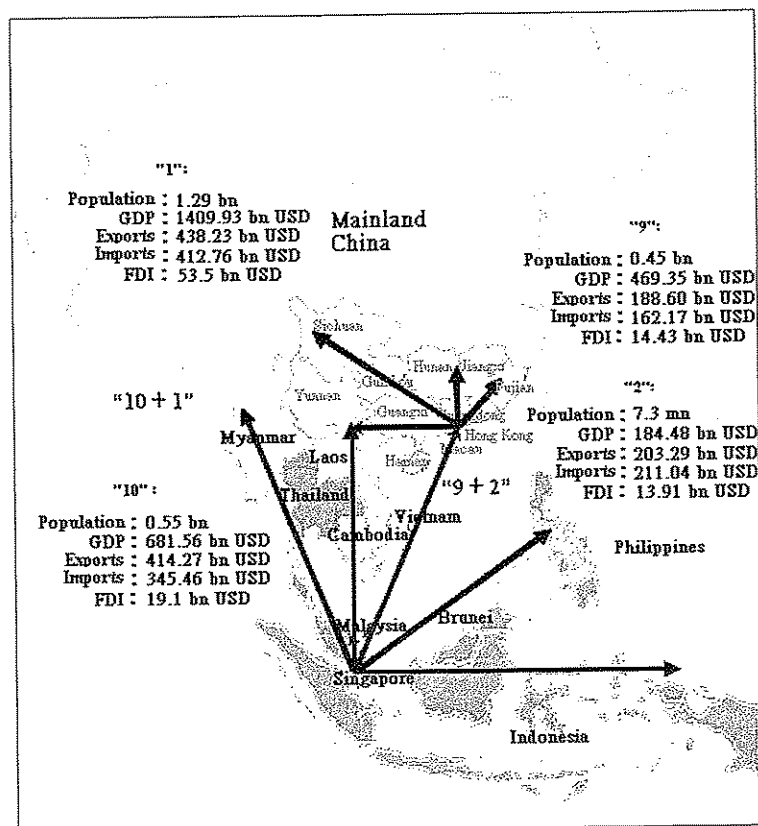
The interactive dynamics between the two regional groupings may be perceived in some of the recent figures with regard to FDI flows. In 2002, 33.9% of mainland China's FDI came through Hong Kong, as compared with only 6.2% from ASEAN. Likewise, of Guangdong's actual realized FDI, 53.8% originated from Hong Kong and Macau, with ASEAN accounting for only 2.7%. Even

more important, of Hong Kong's investment in mainland China, 48.2% was directed to Guangdong, showing a dominating symbiotic relationship between Hong Kong and Guangdong. On the other hand, of Singapore's investment in China, 44.2% has concentrated in the Yangtze River Delta, with Guangdong accounting for 22.6%. The preference of Singapore firms for the Yangtze over the Pearl River region is clear from the investment patterns (Wong and Liang, 2005:313-14).

The above description of investment patterns plainly shows that the economic nucleus of the PPRD falls sharply on Guangdong and Hong Kong as presiding over the regional division of labour and production. ASEAN hardly figures to date as a factor in development within the PPRD. Nevertheless, the various infrastructure projects that are ongoing within the PPRD and ACFTA can cause this picture to change in the future. Within the 10+1 grouping, major infrastructure projects include the ASEAN-Mekong Basin Development Cooperation and its Singapore-to-Kunming Pan-Asia railway, and the Bangkok-Kunming highway as part of the Greater Mekong Sub-regional Project. Within the 9+2 grouping, there are plans for an West-East Power Transmission project, a coastal railroad along the southeastern part of the region, a Guangzhou-Shenzhen-Hong Kong high-speed railroad, an inter-city railroad system within the Pearl River Delta, and the Hong Kong-Zhuhai-Macau bridge. When these projects come to fruition, the connectivity within and between the PPRD and ACFTA will be greatly improved. This connectivity will also largely determine how the Pearl River Delta can be integrated with the 10+1 grouping and engage in closer economic and cultural relationships. The present relationships within and between the two regional groupings, with China as the overarching player, are depicted in Figure 1. As measured by population and economic power, the China factor looms large not only in this part of Asia, but increasingly throughout the world.

The critical link between the 9+2 and 10+1 groupings falls squarely on Guangxi and Yunnan, which share a land border with Southeast Asian countries. In particular, Guangxi is the only province that borders with ASEAN by land and by sea, with 637 km of land

Figure 1 9+2 and 10+1 Visually and Statistically Compared



Note: The ASEAN imports and exports data are for 2002, all other data are for 2003.

Source: Wong and Liang (2005:319).

border and 1,595 km of sea border. Since October 2003, Nanning, the capital of Guangxi, has been designated by China to host the yearly China-ASEAN Exposition, which has given the country a new diplomatic and economic platform to deal with ASEAN. Its scale and success can be gauged by the presence at the 2005 meeting of 3,300 exhibition counters, 2,000 exhibition traders, and 25,000

Table 6 Trade between Guangxi/Yunnan and ASEAN, 2002 (million US\$)

	Exports		Imports	
	Guangxi	Yunnan	Guangxi	Yunnan
Singapore	16.33	36.22	5.56	22.91
Brunei	—	0.07	—	—
Malaysia	23.42	12.17	12.69	1.76
Thailand	26.22	37.66	14.08	5.94
Philippines	12.19	20.65	4.25	10.69
Indonesia	19.82	76.56	2.50	21.85
Vietnam	340.58	133.71	145.49	28.95
Laos	—	10.53	—	6.02
Cambodia	—	1.21	—	—
Myanmar	—	296.08	—	110.70
ASEAN	442.38	624.86	184.88	198.82

Source: Wong and Liang (2005:327), from various official statistics.

Chinese and foreign participants, with a total investment of US\$5.29 billion and 126 cooperative projects signed worth US\$1.15 billion (*Ming Pao Daily News*, 28 October 2005, p. A32; also *Wenwei Po*, 22 October 2005, p. B5). Guangxi and Yunnan have therefore been assigned special and vital roles in linking 9+2 with 10+1, and are positioned to reap further dividends as regional cooperation gathers momentum. Indeed, over the past few years the two provinces had already witnessed accelerated economic development consequent to the promulgation of the Western China Development Strategy in 1999. With the recent establishment of 9+2 and 10+1, they are poised for even more favourable prospects for growth and development. In 2002, the trade of Guangxi and Yunnan with ASEAN had reached a modest level, with the effect of geographical propinquity being very evident. For instance, trade between Vietnam and Guangxi was especially flourishing and that between Myanmar and Yunnan was substantial (Table 6). As the 10+1 grouping continues to develop and

expand, these two provinces will capitalize on their special positions to play a mediating role and thereby contribute to the development of their own economies. To China, they are its “beachheads” in connecting with ASEAN.

From a more macro perspective, the establishment of 10+1 has a vital strategic interest for China. Developing ACFTA enables the country to explore and stabilize a safe passage for its energy imports through Southeast Asia. At present, over 90% of China’s energy imports are dependent on maritime passage through the region. Moreover, a suggestion has been mooted that, through ACFTA, the recent policy of CEPA, which has been highly beneficial to Hong Kong and Macau, be extended to ASEAN. Should this possibility be realized, any fears that ASEAN nations might still harbour with regard to the “China threat” would be further alleviated (Qiu, 2005).

Solely within the framework of 9+2 and 10+1, there are positive prospects for development along many fronts. However, China must tread gingerly in its dealings with the powers that have traditionally been active economically and politically in Southeast Asia. Japan is a power that has invested heavily in the region and has stood out in its development assistance to ASEAN countries. Japan has its own 10+1 plan with ASEAN and will try every possible means to safeguard its investments and maintain other advantages already built up in the region. Likewise, the United States has long had a close relationship with countries such as Singapore and the Philippines. The United States has lost some favour with countries in the region because of how it and institutions like the International Monetary Fund (IMF) reacted to the aftermath of the Asian financial crisis. What was a loss to the United States has been a gain for China, as the past few years have provided the latter with an opportunity to seal a cooperative agreement with ASEAN to lead both parties to a positive and mutually beneficial future.

Conclusion

The PPRD and ACFTA are important creations in regional

development and cooperation that will be crucial to shaping the future of China and ASEAN and their relationship in the early part of the twenty-first century. Ultimately, they will also shape the speed and scope of regional integration within Pacific Asia in the years to come. While the PPRD is the first pioneering regional cooperation design within China and, for that matter, anywhere in the world, its demonstration effect, for better or worse, will be a key barometer of how other regions in that country will decide on a similar grouping for their future. On the other hand, ACFTA as a regional trade agreement (RTA) comes in the company of a large number of comparable recent creations worldwide. Globally, there were only 124 RTAs in the period 1948-1994. Since then, the number has quickly multiplied, with RTAs reaching 300 in 2005 by an unofficial count (Wong and Liang, 2005:296). Both regional designs have similar aims to achieve and collective economic and social goals to advance, and are by-products of the age of globalization.

If everything goes as planned, by 2010, ACFTA will be a free trade area having within it a total population of 1.8 billion, a GDP of US\$2,300 billion, and a total trade turnover of US\$2,000 billion. It will be the largest of its kind in Asia and in the developing world. It will be the third-largest free trade area in the world after the EU and NAFTA (*Ming Pao Daily News*, 28 October 2005, p. A32). However, the final year by which the East Asian free trade area must come into being is 2020, because that is the timetable agreed to by APEC members. The road to a regional free trade area is still fraught with many challenges and opportunities. For one thing, ASEAN nations as a group are relatively small in economic weight. This means that the three large East Asian countries will likely take a more decisive lead in shaping the region’s future (Zang, 2004). The next 10 to 15 years will be crucial for ACFTA to prove its worth and effectiveness as a regional organization.

The PPRD and ACFTA were both born in an environment of positive anticipation and neighbourliness. The participating countries and provinces believe that by pooling their resources and through regional cooperation, they will be able to scale the ladder of economic success and improve the welfare of their people. Both regional

creations have many features in common, including their manner of cooperation. The emphasis on investing in infrastructure development is complemented by plans to remove tangible and intangible barriers. When successfully implemented, both will constitute a major step in advancing the goals of regional integration in Pacific Asia and bring economic and social progress to all concerned.

References

- Cao, Yunhua and Xu Shanbao. 2004. "China's Good Neighbor Policy and China-ASEAN Relations", *Contemporary Asia-Pacific Studies*, 2:52-59. (In Chinese)
- Cheng, Joseph Yu-shek. 2004. "The ASEAN-China Free Trade Area: Genesis and Implications", *Australian Journal of International Affairs*, 58(2):257-77.
- Chirathivat, Suthiphand. 2002. "ASEAN-China Free Trade Area: Background, Implications and Future Development", *Journal of Asian Economics*, 13:671-86.
- Chow, Chung-yan. 2004. "Overhaul of Delta Transport Links to Slash Travel Times", *South China Morning Post*, 2 June.
- Glosserman, Brad and Vivian Brailey Fritschi. 2002. "ASEAN Needs to Unite, or Fade in China's Shadow", *South China Morning Post*, 11 November.
- Hong Kong Special Administrative Region Government (HKSAR Government). 2005. *Hong Kong 2004*. Hong Kong: Government Logistics Department.
- Li, Ronglin. 2005. "China-ASEAN Free Trade Area and Regional Economic Integration in East Asia", *Contemporary Asia-Pacific Studies*, 8:19-23. (In Chinese)
- Li, Yiping. 2003. "Regionalism and New Development in China-ASEAN Relations", *Contemporary Asia-Pacific Studies*, 12:30-34. (In Chinese)
- Qiu, Danyang. 2005. "China-ASEAN FTA: Pondering over China's Peaceful Rising from a Geo-economic Perspective", *Contemporary Asia-Pacific Studies*, 1:8-13. (In Chinese)
- Tongzon, Jose L. 2005. "ASEAN-China Free Trade Area: A Bane or Boon for ASEAN Countries?", *The World Economy*, 28(2):191-210.
- Wang, Wuyi. 2005. "Macau's Gambling Tide: The World Market is the Right Way to Go", *Xinhau Macau Post* (<http://www.waou.com.mo/detail.asp?id=8882>). (In Chinese)
- Wong, John and Liang Ruobing. 2005. "Regional Integration and Subregional Cooperation under International Division of Labour: Comparison and Interaction between '10+1' and '9+2'", in Yeung Yue-man and Shen Jianfa (eds.), *The Pan-Pearl River Delta and Its Interactive Development with Hong Kong*. Hong Kong: Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong, pp. 295-348. (In Chinese)
- Yeung, Yue-man. 2005. "Emergence of the Pan-Pearl River Delta", *Geografiska Annaler: Series B, Human Geography*, 87(1):75-79.
- Yeung, Yue-man and Gordon Kee Wai-man. 2005a. "Basic Infrastructure Development in the Pan-Pearl River Delta Research Series: I. Highways". Hong Kong: Occasional Paper No. 153, Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong. (In Chinese)
- . 2005b. "Basic Infrastructure Development in the Pan-Pearl River Delta Research Series: II. Railways". Hong Kong: Occasional Paper No. 155, Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong. (In Chinese)
- . 2005c. "Basic Infrastructure Development in the Pan-Pearl River Delta Research Series: III. Ports and Waterways". Hong Kong: Occasional Paper No. 158, Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong. (In Chinese)
- . 2006. "Basic Infrastructure Development in the Pan-Pearl River Delta Research Series: IV. Airports and Civil Aviation".

Hong Kong: Occasional Paper No. 163, Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong. (In Chinese)

Yeung, Yue-man and Shen Jianfa (eds.). 2005. *The Pan-Pearl River Delta and Its Interactive Development with Hong Kong*. Hong Kong: Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong. (In Chinese)

Zang, Xiuling. 2004. "East Asian Regionalism and Its Trend", *Contemporary Asia-Pacific Studies*, 9:30-37. (In Chinese)