



# Chapter 1

---

## Further ASEAN–China Cooperation for Joint Prosperity: Envisioning the ACFTA 3.0

Lurong Chen  
Aladdin D. Rillo  
Yuanita Suhud  
Michelle Chandra Kasih  
*ERIA*

# 1. Introduction

Relations between the Association of Southeast Asian Nations (ASEAN) and China are vital to regional stability and prosperity in Asia. Within 30 years, bilateral trade, investment, and cooperation ties were strengthened significantly following the conclusion of the Agreement on Trade in Goods of the China–ASEAN Free Trade Area (ACFTA) in 2004, followed by the agreements on services in 2007 and the agreement on investment in 2009. The ACFTA 1.0 was officially launched in January 2010. With the ACFTA 1.0, businesses in both ASEAN and China have found it easy to access each other's markets, as a broad range of export products enjoy duty-free or preferential tariff rates. China has been ASEAN's largest trading partner since 2009, while ASEAN has been China's second largest trading partner since 2019.

The upgrade of the agreement (ACFTA 2.0), which was signed in 2015 and entered into force in 2018, brought ASEAN–China economic relations to a new high. Over 90% of items traded between ASEAN and China are subject to zero tariffs. According to statistics published by Embassy of China in Brunei Darussalam, the total trade volume between China and ASEAN in 2021 was US\$878 billion, comprising US\$484 billion in Chinese exports to ASEAN and US\$395 billion in imports from ASEAN (Embassy of China to Brunei Darussalam, 2022). In 2022, these figures increased to US\$975 billion, US\$567 billion, and US\$408 billion, respectively.

With the ACFTA's provisions for investment protection and promotion, the confidence of investors on both sides has grown. Statistics published by ASEANstats (2022) have shown that China's foreign direct investment (FDI) in ASEAN increased from US\$6.57 billion in 2015 to US\$13.83 billion in 2021, and the top three sectors of Chinese FDI in ASEAN in 2021 were (i) manufacturing (25.4%), (ii) information and communication technology (ICT) (17.6%), and (iii) real estate activities (17%). In the ICT sector, one-third of ASEAN inward FDI in 2021 was from China. From the other side, the top three sectors of ASEAN FDI in China in 2020 were (i) manufacturing (27.4%), (ii) real estate (22.4%), and (iii) leasing and business services (18.5%) (Ministry of Commerce, 2022).

The implementation of the ACFTA (both 1.0 and 2.0), together with the ASEAN Economic Community (AEC) and many other free trade agreements (FTAs) signed by ASEAN and East Asian countries, built the foundation of the production sharing network in Asia (so called 'Factory Asia'). It opened the door for both parties to enhance economic cooperation, especially in trade facilitation, connectivity, energy, services and tourism, and capacity building. This is evident not only in the increasing intra-industry trade and specialisation within the region, but also in the region's increasing weight in global value chains (GVCs).

The implementation of the Regional Comprehensive Economic Partnership (RCEP) and the establishment of the ASEAN–China Comprehensive Strategic Partnership have consolidated the foundation for deeper cooperation and more efficient production sharing between ASEAN and China. The ACFTA 3.0 has the potential to level up the degree of bilateral cooperation, as well as that of market integration in East and Southeast Asia.

## 2. Changing Economic Conditions

For over 30 years, ASEAN–China cooperation has made steady progress and extended from the economic and technological domains to culture, the environment, and social development. When ASEAN and China launched the ACFTA 3.0 negotiations, the world economy was still recovering from the coronavirus disease (COVID-19) pandemic. The ASEAN–China Joint Statement on Cooperation in Support of the ASEAN Comprehensive Recovery Framework (ASEAN, 2021) highlighted five areas of bilateral cooperation: cooperation on public health, cooperation on social security, economic integration, digital transformation, and sustainable development. In addition to its long-term objectives, the ACFTA 3.0 should contribute to a faster recovery of the regional economy.

Both sides should fully consider significant changes in the global economic situation when negotiating the ACFTA 3.0. The digital economy, the green economy, and GVC restructuring are amongst the global trends that will be most influential for regional development in the coming decade. Additionally, both sides' achievements in development in the past 2 decades and the consequent changes in economic interests will affect the future direction of ASEAN–China relations.

### 2.1. The digital economy

The digital economy refers to an economy that is highly dependent on the application of digital technologies, data, and human–machine interaction. It encompasses all economic activities. Internationally, digitalisation can affect economic growth via its effect on reducing trade costs, similar to the effect of the industrial revolution in the 18th and 19th centuries, when the use of steamships and railways drove down the cost of mass transportation and created a boom in international trade; and that of the information revolution in the 20th century, when the application of ICT facilitated communications and set the stage for the birth of GVCs. The idea of economic liberalisation became widely accepted as the way a country could facilitate its involvement in GVCs to pursue economic prosperity and development (Kimura and Chen, 2018). Service links – especially those of business and financial services – were making great strides forward as well. As a result, the world economy became further interconnected via GVCs (Chen, 2021). ASEAN and China benefited from participating in GVCs and achieved fast economic growth.

The development of the digital economy in the 21st century extends the coverage of GVCs and increases their sophistication. It deepens the international division of labour from industry-wide to task-wise by lowering the cost of people-to-people connections, increasing information transparency of the GVCs operation, and blurring the boundaries between production and services. The related transformation will be a process marked by strong competition and conflicts between different values, cultures, and social systems, and the ongoing dispute between the United States (US) and China should be considered in this broader context. Asia will be the first to bear the brunt of the shocks resulting from their possible decoupling.

The digital economy has transformed various sectors, including retail, media, finance, and transportation. It has enabled new business models, increased efficiency, and expanded global reach. But it also presents challenges such as the digital divide, privacy concerns, cybersecurity risks, and job displacement. China–ASEAN bilateral cooperation in digital economy cooperation will be an important development issue highlighted in the ACFTA 3.0. Both sides could consider operationalising the Action Plan on Implementing the ASEAN–China Partnership on Digital Economy Cooperation (2021–2025) and strengthening cooperation under the ASEAN Digital Masterplan 2025.

## 2.2. The green economy and sustainability

Since the late 1990s, with the increasing awareness of the challenges posed by climate change, pollution, and global warming, the concept of a 'low-carbon green economy' has gradually filtered into the public's minds the significance of balancing economic development and sustainability. In 2015, the United Nations General Assembly created the 17 Sustainable Development Goals.

The transition to a low-carbon green economy is critical to many of these goals. It requires measures such as promoting cleaner and renewable energy,<sup>1</sup> reducing energy consumption and waste (energy efficiency), minimising carbon emissions from transportation (sustainable transportation), promoting infrastructure projects with environmental considerations (green infrastructure), and adopting a circular economy model. All these call for international collaboration, not only between governments but also involving society as a whole.

## 2.3. Value chain restructuring

The world economy entered an age of 'turbulence' during the 2008 global financial crisis, which was followed by a series of negative economic events such as the US–China trade tensions and the impacts of the COVID-19 pandemic. The process of US–China decoupling has accelerated, although the world economy is still recovering from the COVID-19 pandemic.

Economically, the network of regional production sharing that involves both the US and China has been the cornerstone of Asian development (Chen and Intal, 2017). Factory Asia functions well based on a multilayered network intertwined with intensive cross-border activities (Chen, De Lombaerde, and Cuyvers, 2017).

---

<sup>1</sup> Shifting from fossil fuels to renewable energy sources such as solar, wind, hydro, and geothermal power. This involves investing in clean energy infrastructure and technologies.

Close links with both the US and China have enabled ASEAN to benefit from capital inflows and technology diffusion, as well as access to both large markets. But distrust has risen between the US and China, especially in high-tech areas such as digital technologies. This has posed serious threats to the integrity of GVCs. To offset the consequent shocks to regional production sharing, ASEAN should ensure that both the US and China remain committed to the ASEAN market despite the increasing tensions between them (Chen, 2021). This would help increase the region's significance in the world economy by strengthening bilateral economic relations with China and participating in the US Indo-Pacific Economic Partnership for Prosperity.

## 2.4. 2003 versus 2022

Both ASEAN and China experienced substantial growth in their consumer markets before the ASEAN–China Agreement on Trade in Goods became effective. China, with its large population, has become one of the world's largest consumer markets. ASEAN, on the other hand, has witnessed a rising consumer base and increased purchasing power. Tables 1.1–1.3 show some changes in development conditions that both sides face today compared with 2 decades ago.

**Table 1.1 Changes in Economic Sizes**

Indicator	2003			2021		
	ACFA	ASEAN	China	ACFA	ASEAN	China
GDP (US\$ billion)	4,950	1,346	3,604	18,915	3,064	15,851
GDP per capita (US\$)	2,697	2,461	2,797	9,066	4,546	11,223
Population (million)	1,835	547	1,288	2,086	674	1,412
Age 15–64 (million)	1,261	353	908	1,433	455	977
Exports to the world (US\$ million)	783,483	345,255	438,228	5,077,292	1,714,990	3,362,302
Imports from the world (US\$ million)	682,272	294,606	387,666	4,146,600	1,619,057	2,527,543
China exports to ASEAN (US\$ million)		30,927			483,530	
ASEAN exports to China (US\$ million)		47,328			395,154	

ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product.

Note: Totals may not be exact due to rounding.

Source: Raw data from World Bank (2023), World Development Indicators. <https://databank.worldbank.org/source/world-development-indicators> (23 August 2023).

**Table 1.2 Changes in Market Motivation – Main Sectors of Bilateral Cooperation**

Sector	2003	2021
Manufacturing and industrial cooperation	AMS were known for their manufacturing and industrial strengths, while China had a growing export-oriented manufacturing sector, which led to increased trade in intermediate goods and manufacturing parts and components.	Manufacturing and industrial cooperation between ASEAN and China had deepened, with increased integration of supply chains and production networks.
Resources and energy trade	ASEAN is rich in natural resources, such as minerals, energy, and agricultural products, which were in demand in China's growing economy.	The resources and energy trade between ASEAN and China had expanded, with increased cooperation in areas such as oil and gas, minerals, and renewable energy.
Services and tourism	Chinese tourists were increasingly visiting AMS, contributing to the growth of the services sector.	The complementary trade structure in services and tourism had strengthened, with AMS benefiting from Chinese tourists' spending and Chinese companies expanding their presence in ASEAN service sectors.
Agricultural trade	ASEAN and China have complementary agricultural sectors. AMS, with their diverse agricultural production, have been able to supply China with various food products.	Agricultural trade had continued to grow, with increased demand for high-quality agricultural products and cooperation in areas such as food security and agricultural technology.
Consumer market	China's large consumer market potential was expected to create opportunities for AMS to export their products.	The complementary trade structure had deepened, with AMS benefiting from increased exports of consumer goods, electronics, and other products to China

AMS = ASEAN Member State/s, ASEAN = Association of Southeast Asian Nations.

Source: Authors.

**Table 1.3 Changes in Economic Policy Environment**

Sector	2003	2021
General	<ul style="list-style-type: none"> <li>• China's accession to the WTO</li> <li>• ASEAN's agreement to establish AEC</li> <li>• In recovery from the 1997 Asian financial crisis</li> </ul>	<ul style="list-style-type: none"> <li>• US–China decoupling</li> <li>• In recovery from the COVID-19 pandemic</li> <li>• Establishment of the RCEP</li> <li>• ASEAN centrality</li> </ul>
Global power dynamics	ASEAN and China were conscious of the need to balance influence within the region. The ACFTA served as an avenue for China to engage with AMS and strengthen its relationships.	China's economic rise and its growing role in global affairs triggered discussions on how to maintain a balance of power and ensure mutual benefits within the region.
Driving force	AMS sought to tap into China's economic growth and emerging markets. China, in turn, recognised the importance of engaging with ASEAN for its own economic interests and regional influence.	Mutual interests remained a driving force, with both sides seeking to deepen economic integration, expand trade relations, and promote sustainable development.
Importance of connectivity	ASEAN and China recognised the need for improved physical connectivity to enhance economic cooperation and regional integration.	Geopolitical considerations focusing on the impact of infrastructure development on regional connectivity, trade flows, and influence had increased.
ASEAN centrality	ASEAN's unity and its role as a driver of regional cooperation were emphasised.	ASEAN's centrality remained a cornerstone of geopolitical considerations, with ASEAN playing a key role in shaping the regional architecture and promoting dialogue platforms.

ACFTA = ASEAN–China Free Trade Area, AMS = ASEAN Member State/s, ASEAN = Association of Southeast Asian Nations, COVID-19 = coronavirus disease, RCEP = Regional Comprehensive Economic Partnership, US = United States, WTO = World Trade Organization.

Source: Authors.

## 3. Policy Recommendations for the ACFTA 3.0 Negotiations

To enrich the content of the ACFTA 3.0 and make the agreement relevant to the needs and challenges of the changing global economy, we recommend ASEAN and China to have an in-depth exploration of the following issues during the negotiations. They are either new issues that were not contemplated in the previous versions of the ACFTA or existing issues with new elements and emphases.

### 3.1. Bilateral rule-setting on digital trade

The rapid growth in digital trade and its rising importance in the world economy demand common international rules and norms to level the playing field. Through the ACFTA 3.0, ASEAN and China can work together on a bilateral regulatory framework on digital trade by applying multilateral rules and disciplines.

Given that the ACFTA was signed before the 'big bang' of e-commerce, and the available policy tools in the World Trade Organization (WTO) were designed in the pre-digital era,<sup>2</sup> the ACFTA 3.0 negotiations could cover the discussion on rule-setting for digital trade in favour of an open, reliable, and secure cyberspace that facilitates doing business online. New digital-enabled means of communication, such as social media, instant messages, and videotelephony, have extended the coverage of GVCs and enriched their content. The ACFTA 3.0's rules on digital trade should aim at governing the whole GVCs, including trade in intermediate products and service activities that weave through the production network.

Above all, the agreement should apply the disciplines of pre-establishment non-discrimination and national treatment; and include explicit provisions to ensure equal treatment of foreign supplies of goods, services, or items of intellectual property. These principles should cover cross-border data flows as well as payment, investment, and labour movement related to the internet of things.

For instance, Chinese e-commerce platforms should open up to ASEAN sellers and buyers; and ASEAN e-commerce platforms should open up to Chinese sellers and buyers as well. ASEAN users registered on Chinese e-commerce platforms have to obey the same regulations and enjoy the same privileges as Chinese users, and vice versa. The approach undertaken should be in line with both ASEAN and China's interests. Setting international standards and ensuring interoperability between digital systems and platforms will be vital for facilitating smooth cross-border digital trade.

---

<sup>2</sup> The General Agreement on Trade in Services (GATS) is considered to have the most significance to digital trade amongst the existing WTO set of rules (Wu, 2017; Nakatomi, 2019). When the GATS was negotiated and agreed in 1995, many digital products and services did not exist.



## 3.2. Cross-border e-commerce

ASEAN and China are amongst the world's fastest growing e-commerce markets. Setting international regulations that govern online transactions will facilitate bilateral digital trade and foster the development of the digital economy. The ACFTA 3.0 should help promote the alignment and mutual recognition of technical standards, quality control, and assessment procedures to facilitate bilateral trade and investment. The negotiations need to focus on specific features of cross-border electronic transactions, especially when touching upon provisions that address issues related to customs procedures, trade facilitation, consumer protection, and taxation.

For example, the number of low-value parcels in cross-border e-commerce is increasing, driven by the growth in international business-to-consumer activities. Exempting these low-value parcels from tariffs and possibly other taxes could help cross-border e-commerce transactions to expand, which could particularly benefit individuals and micro, small, and medium-sized enterprises to explore business opportunities in the regional market (Hufbauer and Wong, 2011).

It would also be beneficial for both sides to enshrine binding commitments in the ACFTA 3.0 on 'not imposing customs duties on electronic transmissions' based on the agreement in the 1998 Geneva Ministerial Declaration on Global Electronic Commerce and the 2019 moratorium.<sup>3</sup> ASEAN and China could explore the possibility of setting unilateral binding provisions on the lowest ceiling of *de minimis*, with the flexibility to choose a higher amount voluntarily<sup>4</sup> under the non-discrimination principle. The required amount could be indexed based on the stage of country development.

## 3.3. Trade in services

Digital trade includes trade in final products as well as trade in intermediate goods and services, which could be either the output of substage activities or service links that work on facilitating the fragmented pattern of production. Technological progress in ICT has driven down the cost of people-to-people communication, and it will keep doing so. With digitalisation, businesses and individuals utilise digital technologies to create, distribute, and consume goods and services. This includes activities such as e-commerce, online advertising, digital content creation and distribution, software development, cloud computing, and data analytics. In addition to its effect on enabling online trade and facilitating transactions, digitalisation has introduced new service activities and turned more non-tradable sectors to tradable.

---

<sup>3</sup> With the Geneva Ministerial Declaration on Global Electronic Commerce (WT/MIN(98)/DEC/2) and the 1999 moratorium, member states promised not to impose customs duties on electronic transmissions and have continued this duty-free practice since then.

<sup>4</sup> The higher the amount of *de minimis*, the more the consumers will gain.

Digital-armed service links – either digitally enabled or ‘born-digital’ – will improve the capacity of GVC coordination, facilitate network extension, and allow GVCs to evolve towards an ecosystem that is better connected (Chen, 2022). By introducing new sources of value added to business, digitalisation has sharpened the competitiveness of data-driven business models, especially servicification.

Broadly speaking, trade in services is of increasing importance for regional production sharing in the digital era, as are the related rules and commitments. FTAs are a useful complement to the General Agreement on Trade in Services (GATS) in promoting trade in services, as the GATS was written in 1995 but lacks updates thereafter. The ICT sector is making progress at a fast pace. But one of the biggest limits of multilateral governance on trade in services is the lack of adaptation to technological change (Nakatomi, 2019).

While the ACFTA 1.0 and 2.0 have facilitated trade in goods, the ACFTA 3.0 needs to focus on facilitating trade in services, with emphasis on service-related rules and commitments that accommodate continuing adoption of digitalisation in economic activities, such as financial services, telecommunications, tourism, and professional services. The design of digital trade rules on services in the ACFTA 3.0 could refer to the progress of the negotiation of the ASEAN Trade in Services Agreement (ATISA). For instance, it could adopt the negative list approach, with broader liberalisation commitments and better clarification of general exceptions and security exceptions, especially for new products and services that even the latest agreements (e.g. the RCEP and ATISA) have not covered.

## 3.4. Digital-related NTMs

Non-tariff measures (NTMs) often come in the form of laws or red tape that hamper free trade or discriminate against foreign suppliers in terms of market access, such as discriminatory regulations or local content rules (Fefer, Akhtar, and Morrison, 2019). Variations in regulatory standards, technical requirements, and certification procedures can pose challenges for businesses. NTMs concerning traditional trade-related measures can extend to digital trade and lead to a discretionary pattern favouring certain local players (Wu, 2017).

Market access restrictions on international services and factor mobility, whether specific to digital trade or not, can create obstacles for foreign competitors entering the market. In this regard, the ACFTA 3.0 should consider including binding provisions that require countries to clarify their policy objectives, content, and scope when setting new laws or regulations related to digital trade.

It is worth noting that while digitalisation could help reduce existing NTMs,<sup>5</sup> it may also enable new forms of NTMs that would probably hinder international trade and investment. For instance, when digital technologies are widely used in tradable goods and services, administrative measures on digital products or services, such as the technical standards of digital products and qualification inspection of digital services, could pose technical barriers that restrict market access and international trade.

The seven principles proposed by the 2018 Asia-Pacific Economic Cooperation (APEC) Ministerial Meeting are worth considering when the ACFTA 3.0 negotiations address these potential barriers and seek solutions to reduce unnecessary measures. First, information on NTMs, including the development processes, needs to be transparent. Second, the consequence of imposing NTMs should be predictable, coherent, and non-discriminatory. Third, NTMs should be non-discriminatory. Fourth, NTMs should be based on relevant international standards. Fifth, NTMs need to be consistent with members' WTO commitments and obligations. Sixth, the use of NTMs needs to be minimised and have a precise legitimate objective. Seventh, NTMs should not pose unwarranted barriers to technological progress and innovation.

## 3.5. Intellectual property rights

The digital economy fosters a culture of innovation and encourages the rapid adoption of new technologies. Digitalisation intensifies the cross-border exchange of intellectual property and increases the prominence of intellectual property rights (IPR) protection in endorsing cross-border technology transfer.<sup>6</sup> Inadequate IPR protection in a country makes investors worry about their proprietary information, trade secrets, or copyright material being misused. This may discourage them from entering the market. From the host country's perspective, ensuring effective IPR protection is crucial for attracting FDI and fostering innovation. Indeed, protecting intellectual property has been part of the entry requirements for countries becoming involved in GVCs (Chen and Kimura, 2021).

As ASEAN and China work on deeper cooperation in GVCs, setting robust IPR standards should be accorded increasing importance. In the ACFTA 3.0, provisions related to IPR protection<sup>7</sup> should aim for levels higher than those of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements, coupled with effective enforcement mechanisms, to ensure that both producers and consumers can benefit and that such protection can subsequently contribute to technology transfer and innovation (Chen, 2022). In this regard, useful references for the ACFTA 3.0

---

<sup>5</sup> For example, adopting modern trade facilitation measures could improve the efficiency of customs procedures.

<sup>6</sup> On the one hand, digitalisation helps separate intellectual property ownership and the right to use it, allowing its owner and user to take different roles in the GVCs and share the value added generated by the intellectual property. On the other hand, digitalisation makes IPR infringement easy, especially in online marketplaces.

<sup>7</sup> Such as patent protection, copyright, trademarks, and enforcement measures to combat intellectual property infringement.

negotiations on IPR protection are Chapter 11 of the RCEP and Chapter 18 of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Both introduced provisions that go beyond member countries' commitments in multilateralism and surpass the level under TRIPS ('TRIPS-plus'), as well as detailed obligations on enforcing TRIPS-plus protection.

The negotiations should on the one hand highlight equal treatment of online violations of copyright, trademarks, and other related rights with their offline equivalents; on the other hand, they should consider the development gaps in the 10 ASEAN Member States as well as country-specific schedules and technical assistance requests.<sup>8</sup>

### 3.6. Pivot for free flow of data with trust

The digital economy involves the transfer and storage of vast amounts of data. News, opinions, and speech disseminated via the internet and social media have increasing influence on real-life activities and decision-making. Rules and regulations on online behaviour, such as data flow, privacy, consumer protection, competition, and cybersecurity, are reshaping the cyber landscape and extending the current international order to cyberspace. Particularly, measures that hinder the free flow of data<sup>9</sup> tend to increase costs and lower the efficiency of doing business across borders. For that reason, promoting the free flow of data is a high priority for trade liberalisation in the digital era.

The diversity of countries' attitudes towards the governance of cyberspace ('cyber-governance') and the consequent policies reflect differences in the economic and legal systems, institutions, social values, and even ideologies that are present amongst countries. Since cross-border data transfers are subject to different privacy and data regulations across countries, they raise concerns regarding the jurisdictions and legal frameworks governing data. The challenge lies in striking a balance between the need for data flow in facilitating digital trade and the legitimate concerns regarding data protection of individuals<sup>10</sup> and nations.<sup>11</sup>

It would be constructive for the ACFTA 3.0 to involve provisions that regulate cross-border data flows. Rule-setting on data governance could help reduce barriers to the free flow of data, which would then drive cross-border flows of goods, services, capital, and people. Moreover, bilateral cooperation on improving data security and privacy legislation would be an important step towards trust building amongst people and businesses in the region. Including the data-related issues in the negotiations would increase data-related policy transparency and accountability and build trust amongst ASEAN and China to pave the way for establishing harmonised regulatory frameworks and fostering international cooperation on data practice.

---

<sup>8</sup> Taking this into account in the negotiations could facilitate implementation and smoothen the transition period of a country's domestic adjustments/reforms.

<sup>9</sup> Measures such as requirements on data localisation, web filtering or blocking, cybertheft, and requirements for source code or algorithms disclosure.

<sup>10</sup> For instance, concerns regarding the protection of personal information, privacy rights, and data security.

<sup>11</sup> Some countries limit cross-border data flows in the name of national security or data localisation requirements.

The provisions on data governance in the ACFTA 3.0 should cover (i) general provisions that can be applied to regulating data flows, (ii) specific provisions for certain types of data flows, and (iii) exceptional terms designed for exceptional circumstances.

## 3.7. Trade-related cybersecurity

The changes triggered by digitalisation could be wider, deeper, and less predictable than ever before, especially with the development and use of artificial intelligence, big data, and the internet of things. The advance of technologies in data storage, processing, transition, and monetisation could increase the likelihood of data being leaked, stolen, or misused. This has drawn increasing attention, especially as the advance of digital technologies is evaporating the boundaries between cyberspace and reality over time. For individuals, their virtual identity in the online world has to be mapped with their physical one; for countries, cyberspace, which was conceived as borderless, is becoming an ever more integral part of national sovereignty.

For that reason, cybersecurity has become one of the prime concerns in the digital economy. Cyberthreats can disrupt business operations and supply chains, particularly when cyberattacks are organised transnationally. According to *Cybercrime Magazine*, cybercrime<sup>12</sup> cost \$6 trillion economic loss globally in 2021, and this figure is expected to reach \$10.5 trillion in 2025 (Morgan, 2020).

Given the rising importance of cybersecurity in trade and investment, but the lack of international law in regulating transnational cybercrime and cyber fraud,<sup>13</sup> ASEAN and China will see the inclusion of cybersecurity clauses in the ACFTA 3.0 as a useful approach to bilateral rule-setting in this field. Indeed, the ASEAN–China Strategic Partnership Vision 2030 has highlighted the importance of ASEAN–China cooperation on cybersecurity policy and digital connectivity.<sup>14</sup> Both sides have agreed to ‘enhance digital governance and cyber security and continue to support the ASEAN–China Cyber Dialogue, and work together to expand practical cooperation on cyber security and digital governance...’ (ASEAN, 2021).

The ACFTA 3.0 could apply this strategy to the negotiations on security standards and compliance regarding the design, testing, and certification of digital products and services. In principle, ASEAN–China bilateral cooperation in cybersecurity should address the vulnerabilities of interconnected systems between countries to ensure network safety, reliability, and trustworthiness. In addition to the effort on strengthening bilateral collaboration in identifying and mitigating malicious intrusions and the dissemination of malicious code, the ACFTA 3.0 could also aim for (i) promoting the use of a risk-

---

<sup>12</sup> Cybercrime costs include productivity loss, revenue loss, disaster recovery, liability, and customer loss (Dübendorfer, Wagner, and Plattner, 2004).

<sup>13</sup> Other than the Budapest Convention on Cybercrime (2001).

<sup>14</sup> The Co-Chairs’ Statement on the 1st ASEAN–China Cyber Dialogue stated that ‘... cyber cooperation has played a more important role in spearheading all-round cooperation on innovation between ASEAN and China’ (Ministry of Foreign Affairs, 2020).

based approach in decision-making; (ii) facilitating the movement of cyber experts, including lawyers, engineers, researchers, students, and trainers; and (iii) supporting capacity building and sharing of best practices in incident response, disaster management, and increasing public awareness.

## 3.8. Regional cooperation on connectivity

Issues related to connectivity and trade facilitation should not be neglected. With new solutions to ease and increase the security of data exchange, trade facilitating measures, such as electronic certification, electronic authentication, and digital signatures, have been widely accepted by business. Upgrading the related technical standard could help increase interoperability across different national systems and provide a useful reference in the case of dispute settlement.

In Asia, development cooperation has been a key feature of ASEAN-plus FTAs since their inception. The ACFTA 3.0 should extend what the ACFTA 1.0 and 2.0 have achieved in streamlining customs procedures and harmonising related regulations to facilitate the adoption of digital technologies in trade facilitation measures, such as the ASEAN Single Window and electronic customs platforms, to reduce the administrative burden by simplifying documentation requirements for bilateral trade.

With the success of bilateral cooperation in infrastructure building in ASEAN ports, railways, and highways, the ACFTA 3.0 should support both sides in exploring opportunities for deeper cooperation in areas such as energy, manufacturing, and tourism. From China's perspective, this could establish synergies with its Belt and Road Initiative and Global Development Initiative and enhance Chinese involvement in sustainable connectivity and green infrastructure development in the region. From the ASEAN perspective, such development cooperation could improve the socio-economic infrastructure, incorporate trade and investment linkages to unleash market potential, and help address social issues such as financing climate change mitigation.

## 3.9. Bilateral dispute settlement mechanisms

Provisions on dispute settlement are important elements of FTAs to ensure compliance with the agreement and prevent the parties from violating the terms agreed. A dispute settlement mechanism, defined in the FTA, should adequately address and provide resolution processes for disputes that occur between countries, business to business, investor to state, or state to state.

Since the legal systems and approaches to international law differ significantly in ASEAN and China, it could be challenging to find common ground to resolve disputes based on different interpretations of legal norms. Moreover, despite the progress in bilateral relations for deeper cooperation and

partnership, disputes involving historical, legal, and geopolitical factors may hinder the implementation of the FTA. A cooperative approach to address these issues bilaterally could prevent escalation; manage tensions; help increase stability and accountability in doing business; and safeguard and deepen trade, investment, and economic cooperation.

Upgrading the ACFTA 3.0 should particularly focus on improving its effectiveness in dispute settlement to facilitate the implementation of the agreement, especially regarding the use of e-signatures, e-certificates, and e-invoices. It could consider (i) enhancing the binding enforcement mechanisms to ensure that all parties comply with rules agreed; (ii) balancing countries' interests and enabling even small countries to achieve favourable outcomes in disputes; (iii) improving the timing and efficiency of dispute settlement, (iv) increasing the transparency and public awareness of the process and results; and (v) harmonising countries' arbitration laws and providing guidance on alternative resolutions for disputes between sellers and consumers in different countries, which is of increasing importance as digital platforms can remove intermediaries in the value chain and enable direct connections between producers and consumers.

## 3.10. Green economy

Sustainable development has been a global trend. ASEAN and China have realised the importance of balancing economic growth with environmental sustainability. During the 25th ASEAN–China Summit in November 2022, both sides issued a joint statement on strengthening common sustainable development.

Incorporating provisions related to sustainable development, environmental protection, and related responsible business practices in the ACFTA 3.0 could facilitate bilateral cooperation in frontiers such as the low-carbon transition, knowledge sharing on renewable energy, and investment in the green economy. Promoting the development of the green economy should also encourage businesses to adopt socially responsible approaches to trade and investment that take into account issues such as labour rights, environmental impacts, and gender equality.

Basically, the ACFTA 3.0 could upgrade and extend environmental provisions that require the parties' commitments to uphold environmental laws, regulations, and standards. It will also be useful to provide a structured process of dispute resolution for parties to address alleged violations of environmental commitments. Furthermore, information disclosure requirements on environmental regulations and related decisions could help promote policy transparency. These efforts could contribute to the establishment of a bilateral cooperation framework on environmental matters, such as pollution control, natural resources management, biodiversity protection, and sustainable forestry and fisheries development.

Some priorities of ASEAN–China cooperation in this area include (i) encouraging trade and investment in eco-friendly goods and services by reducing tariffs or non-tariff barriers on these products, (ii) facilitating trade in renewable energy technologies and services to accelerate countries' transitions to cleaner energy sources, and (iii) promoting sustainable agricultural and fisheries by adhering to sustainable supply chain practices and through joint efforts on combating illegal fishing.

### 3.11. Capacity building and technical assistance

Capacity building initiatives and technical assistance programmes are useful in facilitating knowledge diffusion and technology transfer. Including clauses on capacity building in FTAs can help developing countries strengthen export capabilities, improve access to finance, and better understand international trade procedures and regulations. Originally, 'the Parties agree to implement capacity building programmes and technical assistance, particularly for the newer ASEAN Member States, in order to adjust their economic structure and expand their trade and investment with China' (ASEAN, 2002: Article 7, Item 4). The ACFTA 3.0 will go beyond this and contain initiatives addressing new trade issues.

For instance, capacity building will be necessary in supporting ASEAN and China's cooperation on e-commerce.<sup>15</sup> Providing training, networking, and technical support for individuals and small and medium-sized enterprises, and improving their utilisation of e-commerce platforms, will be a practical way to help bridge the digital gap and foster inclusiveness.

In supporting the development of the green economy, the ACFTA 3.0 could include initiatives that support infrastructure building on renewable energy installations, waste management facilities, and sustainable transportation systems. The implementation of the FTA could include technical support that helps countries conduct environmental impact assessments on projects and prepare backup policies to mitigate the risks. This effort could complement the capacity building roadmap on energy investments and financing for ASEAN and accelerate ASEAN Member States' transformation towards cleaner energy.

Moreover, via capacity building and technical assistance, the ACFTA 3.0 could encourage businesses in both China and ASEAN to adopt socially responsible business practices in sustainable supply chains, thus reducing carbon emissions and minimising environmental harm.

---

<sup>15</sup> Capacity building initiatives, endorsed during the 22nd ASEAN Economic Ministers–Ministry of Commerce of China Consultation on 21 August 2023, focus on boosting e-commerce collaboration between ASEAN and China.



## References

- ASEAN (2002), 'Framework Agreement on Comprehensive Economic Co-Operation Between the Association of South East Asian Nations and the People's Republic of China'. [https://asean.org/wp-content/uploads/2021/08/Framework-Agreement-on-Comprehensive-Economic-Co-Operation\\_ASEAN-Rep-of-China.pdf](https://asean.org/wp-content/uploads/2021/08/Framework-Agreement-on-Comprehensive-Economic-Co-Operation_ASEAN-Rep-of-China.pdf)
- (2018), *ASEAN–China Strategic Partnership Vision 2030*. Jakarta: ASEAN Secretariat.
- (2021), 'ASEAN–China Joint Statement on Cooperation in Support of the ASEAN Comprehensive Recovery Framework', 26 October. Jakarta: ASEAN Secretariat.
- ASEANstats (2022), Flows of Inward Foreign Direct Investment (FDI) into ASEAN by Source Country. <https://data.aseanstats.org/fdi-by-hosts-and-sources> (23 August 2023).
- Chen, L. (2017), 'Developing Asia in the Era of Cross-Border E-Commerce', *ERIA Discussion Paper Series*, No. DP-2017-11. Jakarta: Economic Research Institute for ASEAN and East Asia (ERIA).
- (2021), 'Digital Asia: Facing Challenges from GVCs Digitalisation, US–China Decoupling, and the COVID-19 Pandemic', *ERIA Policy Brief*, No. 2021-05. Jakarta: Economic Research Institute for ASEAN and East Asia (ERIA).
- (2022), 'The Indo-Pacific Partnership and Digital Trade Rule Setting: Policy Proposals', *ERIA Discussion Paper Series*, No. DP-2022-37. Jakarta: Economic Research Institute for ASEAN and East Asia (ERIA).
- Chen, L., P. De Lombaerde, and L. Cuyvers (2017), 'Markets Matter: The Potential of Intra-Regional Trade in ASEAN and Its Implications for Asian Regionalism', *Asian Economic Papers*, 16(2), pp.1–19.
- Chen, L. and P.S. Intal, Jr. (2017), 'ASEAN Foreign Trade, Investment, and Integration in Comparative Perspective', in P.S. Intal, Jr. and L. Chen (eds.) *ASEAN and Member States: Transformation and Integration, ASEAN @ 50*, Volume 3. Jakarta: Economic Research Institute for ASEAN and East Asia (ERIA), pp.13–33.
- Chen, L. and F. Kimura, eds. (2021), *Intellectual Property Rights and ASEAN Development in the Digital Age*. New York: Routledge.
- Dübendorfer, T., A. Wagner, and B. Plattner (2004), 'An Economic Damage Model for Large-Scale Internet Attacks', *13th IEEE International Workshops on Enabling Technologies: Infrastructure for Collaborative Enterprises*, Modena, Italy, pp.223–28.
- Embassy of China in Brunei Darussalam (2022), 'Brief Status of China–ASEAN Economic and Trade Cooperation in 2021', 29 January. [http://bn.china-embassy.gov.cn/eng/zwgx/202201/t20220129\\_10636735.htm](http://bn.china-embassy.gov.cn/eng/zwgx/202201/t20220129_10636735.htm)

- Fefer, R.F., S.I. Akhtar, and W.M. Morrison (2019), 'Digital Trade and US Trade Policy', CRS Reports, No. R44565. Washington, DC: Congressional Research Service. <https://crsreports.congress.gov/product/pdf/R/R44565/18>
- Hufbauer, G. and Y. Wong (2011), 'Logistics Reform for Low-Value Shipments', *PIIE Policy Briefs*, No. PB11-7. Washington, DC: Peterson Institute for International Economics.
- Kimura, F. and L. Chen (2018), 'Value Chain Connectivity in Indonesia: The Evolution of Unbundlings', *Bulletin of Indonesian Economic Studies*, 54(2), pp.165–92.
- Ministry of Commerce (2022), 'Head of the Department of Outward Investment and Economic Cooperation of MOFCOM on China's Outward Investment and Cooperation in 2022', Spokesman's Remarks, 11 February. <http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/202303/20230303396433.shtml>
- Ministry of Foreign Affairs (2020), 'Co-Chairs' Statement on the 1st ASEAN–China Cyber Dialogue', 16 December. [https://www.mfa.gov.cn/mfa\\_eng/wjb\\_663304/zzjg\\_663340/jks\\_665232/kjfywj\\_665252/202012/t20201216\\_599781.html](https://www.mfa.gov.cn/mfa_eng/wjb_663304/zzjg_663340/jks_665232/kjfywj_665252/202012/t20201216_599781.html)
- Morgan, S. (2020), 'Global Cybercrime Damages Predicted to Reach \$6 Trillion Annually By 2021', *Cybercrime Magazine*, 26 October. <https://cybersecurityventures.com/annual-cybercrime-report-2020/>
- Nakatomi, M. (2019), 'Cross-Border Digital Trade and E-Commerce Governance and Necessary Actions Ahead', in L. Chen and F. Kimura (eds.) *Developing the Digital Economy in ASEAN*, London: Routledge, pp.31–55.
- Wu, M. (2017), 'Digital Trade-Related Provisions in Regional Trade Agreements: Existing Models and Lessons for the Multilateral Trade System'. Geneva and Washington, DC: International Centre for Trade and Sustainable Development (ICTSD) and Inter-American Development Bank.
- Zhang, F. and L. Zhang (2021), *The Investment Opportunities and Risks of the Belt and Road Initiative*. Oxford: Cambridge Scholars Publishing.

## Annex: Summary of Background Papers

The report is supplemented with eight background papers. The first paper, Investment-Related Issues and Solutions for the Improvement of the ASEAN–China Free Trade Area, prepared by **Junji Nakagawa**, is a technical paper that attempts to elucidate the expected content of the new investment chapters in the ASEAN–China Free Trade Area (ACFTA) 3.0 based on a comparison of the related provisions in the five recent free trade agreements (FTAs) and bilateral investment treaties that involved the Association of Southeast Asian Nations (ASEAN) or/and China: (i) Chapter 10 of the Regional Comprehensive Economic Partnership (RCEP), (ii) the ASEAN Comprehensive Investment Agreement, (iii) the European Union (EU)–Viet Nam Investment Protection Agreement, (iv) the EU–China Comprehensive Agreement on Investment, and (v) the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) Investment Chapter.

The paper states that an enhanced chapter on investment liberalisation, clear and transparent provisions on investment protection, detailed rules on investment facilitation, as well as a transparent and timely investor–state dispute settlement (ISDS) mechanism would empower the ACFTA 3.0 to provide a reliable legal basis for businesses in response to challenges originating in dramatic shifts in supply chains, the impact of the coronavirus disease (COVID-19) pandemic, and the embrace of digital technologies in trade and investment.

First, for further investment liberalisation, the ACFTA 3.0 could refer to the RCEP as a baseline and include provisions on pre-establishment national treatment with a negative list, as well as a list of performance requirements that will be prohibited under the new agreement. Second, the inclusion of post-establishment national treatment and most favoured nation treatment and the linking of fair and equitable treatment to the customary international law minimum standard of treatment would maximise efforts on investment protection. Third, the ACFTA 3.0 may refer to the Agreement on Investment Facilitation for Development and add new provisions on investment facilitation. Fourth, if ASEAN and China decide to include an ISDS mechanism in the ACFTA 3.0, they may consider having detailed rules on ISDS, or the establishment of an investment court system or a forum for regional arbitration.

The second background paper, Issues on the ASEAN–China Free Trade Area, was prepared by **Inkyo Cheong** and **Yeri Ryu**. From the third-party aspect, it affirms the significance of the ACFTA in promoting East Asian regionalism and points out the necessity of updating the related terms of market access and trade rules as part of the regional response against growing geopolitical risks against globalisation in recent years.

Like many other countries, ASEAN Member States (AMS) have witnessed a substantial increase in trade with China in the past 2 decades. The regional economy relies heavily on inputs from China for production and consumption. The Chinese market has accounted for 15% of ASEAN's total exports annually. Between 2016 and 2020, ASEAN's exports to China surged by 51%, outpacing exports to the rest of the world. But both parties should realise that the initial ACFTA was developed at a time when both parties lacked experience and know-how in establishing FTAs. Despite the creation of the RCEP, it is acknowledged that it has shortcomings in market access and trade rules, including sanitary and phytosanitary measures and technical barriers to trade. The ACFTA 3.0 could address the limitations of the RCEP through advancing market openness for service and investment, tariff elimination, and benchmarking trade rules and intellectual property rights with the CPTPP.

When the trade tensions between China and the United States (US) drove an industrial relocation from China, ASEAN became a premier destination. Enhancing links with China will help ASEAN leverage the gains from this opportunity and smoothen the transfer of raw materials, intermediate goods, machinery, facilities, and technology from China. The experience of the Republic of Korea shows that FTA policies could effectively ease excessive regulations and improve the country's business environment. Given this, the focuses of the ACFTA 3.0 should include strengthening supply chain stability and resilience, reforming their legal and trade frameworks to improve the ease of doing business, and investing in infrastructure and sophisticated manufacturing capabilities.

ASEAN aims for a duty-free zone by 2025, following the launch of the ASEAN Economic Community (AEC) in 2015. The ACFTA 3.0 should consider providing 'AEC plus' provisions. Structurally, it would be beneficial to have one integrated agreement with global standard trade rules, rather than a framework with supplementary agreements like its predecessor. Content-wise, the new agreement must emphasise expanding the scope of market opening and the tariff elimination schedule.

The other six papers present viewpoints from a country's perspective. In **Evi Fitriani** and **Fithra Faisal Hastiadi**'s paper, Indonesia's Perspective on the ASEAN–China Free Trade Area 3.0, the two professors provide a thorough assessment of the ACFTA based on an investigation of its economic consequences on ASEAN and then identify key areas for further cooperation between the two parties, taking into consideration some main challenges facing ASEAN–China economic relations in recent years.

It is evident that the ACFTA has provided enormous opportunities for ASEAN to take advantage of China's economic and technological development. In the past 20 years, trade liberalisation between ASEAN and China has brought benefits as well as challenges for domestic industries in AMS. While the ACFTA has ushered in significant benefits from increasing bilateral trade and investment, and deepening economic cooperation, there are particular economic and political concerns on issues such as trade imbalances, industrial relocation, and the existence of non-tariff barriers.

Looking forward, ASEAN and China could explore ways to enhance financial integration, foster investment cooperation through the Belt and Road Initiative (BRI), promote digital integration, and strengthen institutional cooperation. This could generally increase the economic and political bargaining positions of AMS towards the US and its allies. This would require the ACFTA to be upgraded to better suit the new economic environment and to respond to contemporary political reality. When designing trade policies and strategies, policymakers need to understand the specific sectoral impacts of trade agreements and take these factors into consideration.

A priority of the ACFTA 3.0 is to ensure that investors from both parties receive fair and equitable treatment. On the one hand, it should facilitate China's continuous investment in ASEAN; on the other hand, it should reflect ASEAN's market openness for foreign investment and trade liberalisation, especially in trade in raw materials and components. Preferential market access under the ACFTA 3.0 could help strengthen ASEAN's export capacity, especially in the intermediate or substages of industries where China has global competitiveness. Extensively, the ACFTA 3.0 should be consistent with ASEAN's global strategy of maintaining an independent policy towards the major powers.

The next paper, Thailand's Perspective on the ASEAN–China Free Trade Area 3.0, was written by **Sineenat Sermcheep, Chayodom Sabhasri, June Charoenseang, and Danupon Ariyasajakorn**. It identifies impediments and potential areas for further cooperation between ASEAN and China based on an analysis of the existing ACFTA's economic impacts on ASEAN in general and Thailand in particular.

Since the establishment of the ACFTA, bilateral relations have been improving steadily – ASEAN–China bilateral trade increased tenfold within 2 decades. China is now ASEAN's most important trading partner. In the case of Thailand, the share of trade with China in Thailand's total trade increased from 13.4% in 2012 to 19.2% in 2021. More than 80% of Thailand–China bilateral trade has been either duty-free or with ACFTA-applied tariff rates, making the ACFTA one of Thailand's top utilised FTAs.

Nevertheless, some non-tariff measures, such as trademark issues, limited opening hours of cross-border customs and inspections, and certification on data sharing, still exist and hinder bilateral trade. The ACFTA 3.0 should therefore aim at further ASEAN–China collaboration in eliminating/reducing these barriers.

Moreover, given the existence of common challenges faced by ASEAN and China, such as the increasing risk of global recession, the acceleration of supply chain and value chain restructuring, the digital and green transformation, and the implementation of the United Nations' Sustainable Development Goals in 2030, the ACFTA 3.0 should aim for deepening ASEAN–China collaboration in (i) developing the digital economy and complementing ASEAN's ongoing process towards regional digital economy integration; (ii) providing technology and financial support for industry's adjustment to a green and sustainable mode of growth; (iii) generating resilient supply chains amongst ASEAN and China; and (iv) facilitating seamless cross-border e-commerce transactions via aligning product standards, data protection and privacy regulations, electronic signatures, and cybersecurity measures.

**Nguyen Anh Duong and Vo Tri Thanh's** paper on Viet Nam's Perspective on the ASEAN–China Free Trade Area 3.0 argues that the implementation of the ACFTA has contributed to the fast growth of trade and investment between Viet Nam and China since 2010. For instance, Viet Nam was the second largest exporter (following Singapore) to China and the largest importer of Chinese goods within ASEAN in 2021. By the end of 2022, China was Viet Nam's fourth largest source of foreign direct investment (FDI).

Viet Nam sees trade liberalisation and international economic cooperation as vital to its development strategy. This is evident in the country's membership of the CPTPP, the EU–Viet Nam FTA, and the RCEP.

From the Vietnamese perspective, the upgrade of the ACFTA should focus on strengthening bilateral cooperation in areas such as rules of origin (ROOs), trade facilitation, sanitary and phytosanitary and technical barriers to trade regulations, capacity building, and services liberalisation. The authors recommend that the ACFTA 3.0 preserve the harmonisation approach embodied in existing ASEAN FTAs, emphasise improving trade management and administration in Viet Nam, generate leverage effects to enhance the competitiveness of Vietnamese products, and promote Vietnamese firms' involvement in GVCs.

The paper prepared by **Juita Mohamad, Jazreen Jefri, and Low Zhen Ting**, Malaysia's Perspective on the ASEAN–China Free Trade Area 3.0, also hails the ACFTA as a significant step towards boosting economic ties between ASEAN and China, as is evident in Malaysian trade and investment. Malaysia is one of China's top trading partners in ASEAN. To Malaysia, China is the most significant export destination as well as a large source of imports. In 2021, Malaysian exports to China reached US\$41 billion, while imports from China amounted to US\$49 billion.

Malaysia sees China as an important development partner. The ACFTA 3.0 should provide the driving force for both parties to commit to higher standards of trade regulation, in addition to those to be applied under the RCEP. Malaysia is particularly concerned about how the ACFTA 3.0 could help promote FDI to accelerate technology transfer and industrialisation, strengthen international cooperation in e-commerce and environmental sustainability, and eliminate non-tariff measures for further trade liberalisation.

It will be in both Malaysia and China's interest to make the ACFTA 3.0 complement the BRI by ensuring the safety and transparency of bilateral investments. It is desirable to have the ACFTA 3.0 work on (i) simplifying ROOs and certificate of origin procedures, (ii) service sector liberalisation, (iii) investment promotion and facilitation, and (iv) capacity building for e-commerce development capabilities. To promote the development of the digital economy, both parties may consider prioritising rule-setting on taxation and personal data protection.

**Chap Sotharith's** paper, *Cambodian Perspective on the ASEAN–China Free Trade Area 3.0*, reveals the ACFTA's significant contributions to the increase in trade and investment between Cambodia and China. In 2021, total bilateral trade reached US\$11.2 billion. China remained Cambodia's largest source of FDI, mainly in the energy and infrastructure sector. In 2022, the Cambodian government approved US\$4.4 billion of FDI, of which more than half was from Chinese investors. Trade liberalisation has also facilitated the movement of people and bilateral economic cooperation. For instance, China is now Cambodia's largest source of development aid, and at its peak, over 2 million Chinese tourists visited Cambodia yearly.

Cambodia took the first move to liberalise bilateral trade with China by signing the Cambodia–China Free Trade Agreement in 2021. The implementation of that FTA extended tariff-free trade to over 340 products, such as seafood products, garlic, cashew nuts, and dried chilli. It further paved the way for bilateral cooperation under the BRI, especially in technology, e-commerce, and regulation.

The ACFTA 2.0 touched upon issues such as ROOs, customs procedures and trade facilitation, market access for services, as well as enhanced economic and technical cooperation. Cambodia sees the ACFTA 3.0 as another big step forward to enhance bilateral economic ties by reducing non-tariff barriers, improving product and service standardisation, and building trust. Negotiations on quarantine protocols to promote ASEAN's exports of food and fruit to China should effectively reduce the existing non-tariff barriers facing trade in agriculture products. Moreover, the higher 'quality' of the ACFTA 3.0 will help shape the direction of domestic reforms. This must be accompanied by technical assistance and capacity building for Cambodia, the Lao PDR, and Myanmar (the CLM countries), especially in the digital economy, the green economy, and research and development activities.

The background paper titled China's Perspective on the ASEAN–China Free Trade Area 3.0, which was written by **Jianping Zhang**, reviews good practices and draws lessons in utilising ACFTA terms since its establishment. It points out that the ACFTA (2002) was China's first FTA, and since then has been widely seen as another significant step to open the Chinese market after its accession to the World Trade Organization. The total trade volume between China and ASEAN increased from US\$55 billion in 2002 to US\$975 billion in 2021. China is now ASEAN's largest trading partner, and vice versa. Amongst the emerging markets, ASEAN has been the largest destination of Chinese FDI. By the end of 2021, the cumulative amount of bilateral investment between China and ASEAN exceeded US\$280 billion. For China, ASEAN is an important market for overseas project contracting and labour service cooperation. Nearly one-quarter of China's signed project contracts in 2021 were in ASEAN. China also sees the ACFTA as an opportunity to expand its global influence.

The ACFTA 3.0 needs to address not only economic elements related to (i) the digital economy and cross-border e-commerce, (ii) global value chains and East Asian production networks, and (iii) the low-carbon green economy and sustainable development, but also economic elements that could threaten China–ASEAN value chains in the context of increasing China–US trade tensions. Bearing this in mind, the negotiations for the ACFTA 3.0 will aim for a higher level of institutional arrangements for economic and trade cooperation and contribute to the multilevel dialogue mechanism on coordinating China–ASEAN macroeconomic policies by improving the business environment and facilitating trade, investment, and the movement of skilled labour between ASEAN and China.