Changing Patterns of Trade and Global Value Chains in ASEAN-China Free Trade Area

Topic:
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The China-ASEAN Free Trade Area brought transformative effects on the economic and trade dynamics between China and ASEAN nations. This article aims to examine the mechanisms through free trade zones facilitate the profound integration of these economies into the global value chain. It explores the eradication of trade barriers, augmentation of bilateral trade volumes, diversification of trade structures, and the promotion of dynamic processes within FTA economic integration. By generalizing the WWZ (2013) export accounting framework, we are able to fully decompose the total value added of bilateral trade into domestic value added (DVA) and foreign value added (FVA) exports at the inter-country and sectoral levels of the ACFTA. This provides a comprehensive understanding of the different categories of goods and services that are being traded as well as the different stages of production that are involved within GVCs.We present the disaggregated decomposition results among China and ASEAN countries in selected sectors from 2000 to 2021 based on the ADB MRIO tables and show how they help us better understand the changing patterns of trade and GVCs in the ASEAN-China FTA.The results show Chinaâ€™s escalating significance in ASEANâ€™s trade ecosystem, marked by a pronounced export surge, particularly in intermediate and final products. These results underscore Chinaâ€™s central role in regional supply chains and its successful ascension within the value chain, evidenced by a notable increase in DVA exports. Such advancements denote Chinaâ€™s growing influence and a strategic shift towards higher production stages. Furthermore, the substantial rise in FVA content, alongside the variations in returned value added and double-counted content, captures economic participation and integrationâ€™s dynamic and multifaceted nature, shedding light on the intricate supply chains and production processes that characterize contemporary GVCs. The ASEAN-China FTA emerges as a catalyst in this context, enhancing economic connectivity and fostering deeper integration. The FTA has promoted economic upgrading and shifting towards more complex manufacturing and service sectors by easing the exchange of goods and services regionally, thereby accelerating ASEANâ€™s incorporation into GVCs. This has fortified economic ties and introduced a heightened level of complexity and evolved interrelations, paving the way for further collaborative growth within the region.