

The Asean-China Free Trade Area was upgraded. Now what?

ACFTA 3.0 strengthens supply chain links and resilience, but Asean still needs diversification for true risk insurance. **BY LIU JINGTING, BANH THI HANG AND TRAN THI NGOC MY**

THE Asean-China Free Trade Area (ACFTA) 3.0 was signed on Tuesday (Oct 28), at the 2025 Asean Summit. Praised by Malaysia Prime Minister Anwar Ibrahim as a pivotal milestone to strengthen the region's collective economic resilience, the upgrade builds on a deeply intertwined relationship that has grown over two decades.

Bilateral trade surged from US\$160 billion in 2006 to nearly US\$1 trillion in 2024, making Asean China's largest trading partner. Services trade expanded just as rapidly, from roughly US\$19 billion in 2007 to over US\$89 billion by 2023, driven by digital and professional services. Investment links also thickened: Chinese foreign direct investment (FDI) into Asean reached US\$17.6 billion in 2023 (7.5 per cent of total inflows), cementing China as a top investor.

The upgraded ACFTA 3.0 aims to further bind regional supply chains and enhance resilience. But interdependence alone is not insurance – greater integration can mean overreliance and concentrated risks. To truly safeguard growth, Asean must continue diversifying trade while strengthening resilience with key partners.

The Covid-19 shock exposed a harsh truth: Asean's deep integration with China – long a competitive edge – had become a systemic liability. Border closures, export curbs and travel bans choked not only shipments but also the cross-border movement of engineers, technicians and logistics crews essential to keeping production running.

The fallout was concrete. In Vietnam, clothing and footwear factories struggled to fulfil export orders as the supply of Chinese materials for items such as sneakers and apparel dried up. Construction sectors were hit by surging material costs – steel prices in Singapore soared by over 1.5 times between mid-2020 and early 2021 – as factory shutdowns in China choked raw-material output.

At the same time, severe congestion at major Chinese ports such as Shanghai and Zhoushan caused shipping delays, further compounding shortages of critical inputs globally.

Asean-China trade plunged in Q1 2020. Although it largely recovered by Q4, the episode underscored just how fragile those linkages were. Value chains that are overly China-centric and too linear lack the redundancy to survive major shocks, and the "China +1" idea moved overnight from policy debate to operational imperative.

How ACFTA 3.0 helps plug the gap

The ACFTA 3.0 upgrade is new in both scope and ambition. It adds nine fresh chapters covering the digital economy, the green transition and explicit supply-chain cooperation – moving beyond tariff reduction to the rules, systems, and infrastructure that sustain modern trade.

Notably, the protocol specifically commits to "strengthen the resilience and sustainability of regional supply chains" and to prioritise the seamless cross-border



Ensuring smooth flows of essential goods and manpower helps prevent choke points that delay export orders and trigger spikes in input prices. PHOTO: REUTERS

flow of essential goods and services. Such commitments are especially critical in crises. Ensuring smooth flows of essential goods and manpower helps prevent choke points that delay export orders and trigger spikes in input prices, as seen during the pandemic.

In short, ACFTA 3.0 reframes the pact. While the original agreement focused on tariff cuts and market access, the upgrade shifts toward connectivity, resilience, and future-oriented sectors – from digital integration to green transformation.

A broader shift in the design of trade agreements

The new elements in ACFTA reflect a wider transformation in the architecture of trade deals. Traditional free trade agreements (FTAs) tended to focus narrowly on tariff cuts, services liberalisation and investment protections. Today's next generation of FTAs goes further – embedding rules on supply-chain connectivity, digital trade or green cooperation.

The upgraded Asean-Australia-New Zealand FTA (AANZFTA) already points the way forward. Article 14 of its second protocol establishes special provisions on non-tariff measures on essential goods during humanitarian crises, epidemics or pandemics.

It urges members to share information quickly, refrain from unnecessary trade restrictions, and ensure that any emergency measures are targeted, proportionate, transparent, and temporary. It even allows the Committee on Trade in Goods to convene urgently to address bottlenecks and requests for essential supplies – a clear recognition that trade rules must stay flexible when lives and livelihoods are at stake.

ACFTA 3.0 mirrors this logic, incorporating provisions aimed at enhancing supply chain resilience. Like the upgraded AANZFTA, which entered into force earlier this year and includes a standalone chapter on Trade and Sustainable Development, ACFTA 3.0 similarly adds new areas on the green and digital economies. Together, these developments show that FTAs are evolving from market access instruments to comprehensive frameworks for future growth and crisis preparedness.

For Asean, ACFTA 3.0 offers an opportu-

nity to capture greater value from regionalisation. By codifying supply-chain connectivity and introducing digital and green economy chapters, the pact could enhance Asean's appeal to firms seeking to diversify production, establish regional bases, or expand digital operations.

In turn, these provisions open opportunities for local industries to move up the value chains, from assembly and processing to design, logistics, and digital services. It also embeds rules that formalise cross-border coordination – making the region's trade and production networks more shock-resistant.

Yet, the benefits come with caveats. Implementation will vary across member states with differing infrastructure, customs efficiency, and digital capacity. For less developed members, these gaps may slow adoption. Meeting advanced standards on data governance or environmental compliance could burden less-developed economies and risk widening intra-Asean disparities.

More importantly, deeper integration with China comes with a price. The upgrade could entrench China's dominance in regional value chains, leaving many Asean producers trapped in lower-value segments or exposed to waves of Chinese industrial overcapacity flooding local markets.

The geopolitical dimension is equally significant: Economic interdependence can easily become strategic leverage. China's December 2024 export ban on the US covering gallium, germanium and antimony – minerals critical to semiconductor production – underscored how supply chains can be deployed as instruments of policy influence.

For Asean, the lesson is clear: Diversification and resilience are not optional add-ons, but essential safeguards against potential shocks.

The way forward

The new chapters on supply-chain connectivity and the green and digital economies represent a strategic evolution in trade agreement architecture. Next-generation FTAs like ACFTA 3.0 go beyond mere market access, embedding resilience and future readiness. Strengthening supply-chain links between Asean and China is particularly valuable in uncertain times, given the depth of their integration.

Yet, resilience cannot rely on a single partner. To achieve true "double insurance", Asean must balance deeper integration with China by expanding parallel partnerships – embedding similar supply-chain and crisis-response mechanisms into future FTAs with other major partners. Only through diversified interdependence can Asean enjoy the benefits of deep connectivity while protecting itself from concentrated risks.

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