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## China's Role in the Asian Economic Unification Process

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## **Abstract:**

Presently the regional economic cooperation in Asia developing fast and well with the ASEAN as a center and with the positive participations of major Asian nations such as China, India and Japan. The cooperation has shown that the Asian economic unification is in process. Believing the economic unification process shall result in an Asian economic community be built up and finally an "Asian Union" turned out. The integrated cooperation should be the best way for Asian nations to make common development and the "fault lines" as proposed in Sumual Huntington's paradigm<sup>1</sup> can be repaired and transcended in the unification process.

In recent years, China has been positively engaging in the globalization process and actively participating the regional cooperation in Asia. To answer the contention of the "China threat", the thesis too shall be analyzing and elaborating China's role in the Asian economic unification process, holding an opinion that the process shall enhance China's political and democratic reform and help China becoming a solid pier in the world and Asian peace structure, instead of becoming a threatening force to the international structure.

## **1. The FTAs Development Trend in Asia**

The rapid economic growth of 7per cent in recent years in the Asian region has laid a solid material foundation for the Asian-wide regional cooperation.

A FTA agreement had been signed by China and the ASEAN in November 2002 to establish a free trade zone by the year of 2010 including 10 ASEAN member nations and China referred to as the 10 + 1. The future free trade zone will be the third largest one in the world with 1.7 billion consumers and trade volume of \$1.2 trillion annually, next to the NAFTA and the EU. On October 7, 2003, China, Japan, Korea and the ASEAN had agreed a plan on setting up a bigger free trade zone by 2020 referred to as the 10+3.<sup>2</sup>

India, the largest economy in south Asia, is taking active approaches to join in the eastern Asia's faster regional economic cooperation. In September 2003, in Jakarta, capital of Indonesia, a free trade (including 2.5 billion consumers taking 75per cent of the total Asian population) agreement plan had been reached by the ASEAN, China, Japan, and India. It is reported that the agreement shall be fulfilled in the years of 2012-2017 step by step.<sup>3</sup> It is quite likely that the set-up will be evolved into a "10+4" (ASEAN and China, Japan, Korea and India).

On December 23-24, 2003, members of the Experts Committee of the SAARC held a meeting in New Delhi, India, to have a final assessment and approval of the proposed program of setting up the South Asia Free Trade Zone. It means to launch formally the program which has been in discussion for about ten years.

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<sup>1</sup> Horst Rolly " Concerning India and China, Huntington sees no way of removing the existing fault line between the two nations." , 1999.10 p.354

<sup>2</sup> HU Yue Qiang www.xinhua.com 2003-9-30 16:26:15 The (10+3)Meeting of Leaders of the ASEAN, China, Japan and Korea, p.2

<sup>3</sup> Tempointeraktif.com - ASEAN to Form Free Trade Zone with China, Japan and India 05/09/2003 11:06

It is expected that Asia will witness more bilateral FTAs, and a larger regional trade agreement is also likely to emerge. Bangkok Agreement is another notable regional trade arrangement in Asia that includes six countries, three from East Asia (China, Korea and Laos) and three from South Asia (India, Bangladesh and Sri Lanka). It has special meaning in that it might be a platform to link the East Asia and South Asia into broader regional trade agreement.<sup>4</sup>

In the annual meeting of BOAO Asian-Forum 2003, Mr. Lamos, former president of the Philippines had formally put forward a new concept of building up a Grand Asian Family for all Asian nations. Dr. Robert A Mandel, the 1999 Nobel Prize laureate for economics predicted in his speech in Sun Yat-Sen University, Guangzhou, South China, in April 2002 that Asia would have a single currency in the near future. On June 22, in Qingdao, China, on the opening ceremony of the 3<sup>rd</sup> Session of Foreign Ministers of the Asian Cooperation Dialogues, Chinese Premier WEN Jiabao made his speech entitled “Promote a New Centennial Asian Cooperation with Common Efforts”, introducing a new concept of constructing a new Asia.

The above facts show that the Asia nations have entered the primary stage of economic unification. Chapter VIII of the United Nations encourages the regional social & economic cooperation. The UN has set up the Economic and Social Commission for Asia and the Pacific (UNESCAP), the main function of which is to promote economic and social development through regional and sub-regional cooperation and integration. The ASEAN with its ten member states is playing an important role as the center axle of the Asian economic unification process due to its advantages of political system and market mechanism after developing for 36 years.

It proved that even though Asia is too large with excessively complicated differences in terms of culture, political systems, economic strengths, as well as religious diversity, Asian nations might also cooperate with each other developing a consensus on the basis of mutual respect towards the existing differences. The most dangers shall not be from the “fault-lines”, but from the ignorance of the policy-makers who are not working positively on the issue. Even if the “fault lines” exist, there should still be some alternatives to harmonize with each other.

## **2. The Rise of China**

When entering the new century, the world is moving on in three basic trends: the changes of population centers and economic centers; the pervasion of advanced production methodology and political & social structures; and the change of the international political order. The three trends reveal that a few non-western nations will be emerging as the world superpowers. China carries most potentials.

“25 years ago, China cautiously and firmly had taken steps on the new long march of opening and reform. Today, China has replaced the US and Japan in Asia becoming the locomotive of Asian economy.” as commented in “The World Economic Situation and Prospect in 2003” , a report by the UN Trade and Development Council.

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<sup>4</sup> LI Wei: A Road to Common Prosperity -- Examination of An FTA between India and China, March 2003, p-1

The outcome of China's opening & reform, regarding as an economic miracle greater than the Eastern Asian Miracle achieved by the "Four Dragons", has drawn attention of the world. In his book named "Will China Be Number 1?" published in May 2002, Paul Bracken, an American professor from the Business School of Yale, reminds people as, "500 years ago, China was the world's sole superpower. When many Europeans were living in mud huts and scratching the soil with sticks, China was the greatest economic and military power on earth. Now, with a growing economy and a young population, the nation is again rising to superpower status--with the U.S. as nemesis." Another American scholar Engus Maddison elaborated in his book "Reviewing the World for 200 Years" that, in the year of 1820, China's GDP was No.1, followed by India, France, and UK. Due to the well known historical reasons, China lagged behind in the century afterwards. GDP of the US took the world leading position in 1895 when China lost Taiwan in the Jiawu War with Japan. And Japan's GDP overtook China and became the world's No.2 in 1968 when China was plunged into the "Cultural Revolution". China's pragmatic opening & reform policy since 1978 made her economy recover quickly.

Prof. Maddison predicted that, assuming China's growth rate persists at 7per cent and US at 3per cent, China will once again be the No.1 in the world by the year 2020, based on the calculation of Purchase Power Parity (PPP) method. China has not yet agreed to the PPP calculation. According to China's own calculation, China now is the No.6 economic power in the world and by 2020 will be one of the biggest three in the world with GDP doubled to 4 trillion USD.<sup>5</sup>

Since 1985, China's GDP, growing annually by 9.7per cent on average, has reached to one trillion USD in the year of 2003 taking the position of No.2 in Asia. It can be extrapolated that within 15 years China's GDP will overtake Japan and by the mid of the 21<sup>st</sup> century will match that of USA, if China's economic growth rate persists.

	<b>2001</b>	<b>2025</b>	<b>2030</b>	<b>2040</b>	<b>2050</b>
CHINA	1000	5672	<b>8114</b>	16785	<b>34595</b> (in billion USD)
JAPAN	3881	7019		<b>7942</b>	
USA	8000	16262	16749	25336	<b>34049</b> (in billion USD)

(Assuming the growth rates of 7.5per cent for China, 2.5per cent for Japan and 3per cent for US)

In his new book "Reoriented: Economic Globalization in Asian Age", Prof. Andre Gunder Frank, of the University of Toronto, points out, "..... to recover its traditional dominance. As a result, the center of of the world economy is once again moving to the Middle Kingdom of China."

It is not the first time for the world to face a rising nation in the long human history. However, a rising China should be different. The US had about 30-40 million of population only and Japan 100 million when they became the rising powers in the world, but China has 1.3 billion. It is indeed the first time for the world to see such a populous nation rising.

### **3. China's Role in the Asian Economic Unification**

Being the beneficiary of the economic globalization, China made her strategic decision to deepen the domestic economic reform, to open further to the world, and to positively

<sup>5</sup> HU Jintao: www.sina.com.cn 2003.06.China's Goal in the first 20 years of the Century p.1

participate in the Asian economic unification processes. On Oct.8, 2003 China formally joined the Asean Treaty of Amity of Cooperation (TAC) becoming the first member nation outside of the southeast Asian area. China has played leading roles in the FTA programs of “10+1”, “10+3”. Meanwhile China is negotiating FTAs with Thailand, Malaysia and Philippines an FTA. One FTA plan with India is under study. Oct. 7, 2003, China put forward a four points proposal in the meeting of “10+3” to deepen the economic cooperation in eastern Asia, inc. (1) Doing the feasibility study on the Eastern Asian Free Trade Zone; (2) Booster the cooperation on finance and monetary and set up “Asian Bonds Market”; (3) Strengthening the political and security cooperation; (4) Expanding the social, cultural and technological cooperation.

In the year of 2002, trade volume between China and 26 Asian nations was totally 215.521 billion USD increased by 21.59 . Among it, exports and imports were 96.267billion and 119.254 billion, increasing by 16.74% and 25.81% respectively. In recent two years, while the world economy was in recession and markets of US, Europe as well as Japan hardly expanding, China’s trade volume particularly the imports with neighbor nations were increased by two digits, pulling up the Asian economic growth. In first half of 2003, China’s imports from the northeast Asia, southeast Asia and south Asia were increased respectively by 48.5% 55.7% and 81.9% with total volume of 128.6billion USD. Among the total increased import volume of 160 billion USD of China in 2003, more than 60 percent were done with Asian-Pacific nations. It is estimated that by the year of 2020, China’s total volume of import and export shall be reaching to two trillion USD annually, annual import of one trillion USD. China shall become a bigger market for other Asian nations then.

So far, there have been about 30,000 Chinese companies doing multinational business operations worldwide. Asia shall be their first choice for doing direct investments.<sup>6</sup>

The “10+1” and “10+3” free trade zone plans reflect the deepening interdependence of economies of eastern Asian nations. In 2003, internal trade volume in eastern Asia had been much higher than that with US. Huge favorite balances were achieved by the ASEAN, Japan and Korea in trading with China. Among them, the Sino-Japan trade volume reached 133.58 billion USD increased by 31.1 per cent than that of 2002, and Japan successfully becomes the largest trading partner of China. In the year of 2003, the internal trade volume of eastern Asia largely overtook the Asian trade volume with US and huge surpluses were achieved by Japan, Korea and the ASEAN from the trading with China. In 2003, 18 percent of the increased amount of the global trade volume was attributed to China’s strong economic growth. The percentage is further growing in 2004 since China’s total foreign trade volume is estimated to increase by 20 percent up to one trillion USD.<sup>7</sup>

On Oct. 28, 2004, China increased the bank annual interest rates by 0.27 per cent. The slight increase has put “shocks” on world and Asian regional economies as commented by Financial Times on the following day. In the past, the US economy directly influences the world economy and the slow-down of the US economy will have great impact and even constraint on Chinese economy. However, today, it goes the other way round.

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<sup>6</sup> SUN Jian Zhong: Going out Strategy, China Economic Reform, Nov. 23, 2003

<sup>7</sup> LIAO Xiaoqi: www.chinanews.com 2003.12.22,09:36 Healthy Economic Grow of China, 2003 p.1

China's trade with another Asian giant, India, is going on in very strong manner. The bilateral trade has climbed from virtually nothing a decade ago up to 10 billion USD today.<sup>8</sup> Comparing the trade volumes between China-Japan and China-Korea, the Sino-Indian trade has larger space to explore in new century since two nations can compliment with each other in many fields. Both China and India are positive towards the Asian economic unification. Economically the two fast growing nations are forming the major part of the "fourth engine" in the world economy. The cooperation and coordination between China and India is vitally important in the Asian economic unification process.

Some Chinese economists are proposing to build up step by step the Great China Free Trade Zone inc. Mainland China, Taiwan, Hongkong and Macao. If the idea becomes true, the FTZ shall have overall GDP of 1.5 trillion USD with the economic capacity ranking as the No.4 in the world, with overall trade volume of one trillion USD taking the 8.3 percent of the world total and ranking as the No.3 after US and Germany, with total foreign exchange reserve of 330.3 billion USD replacing Japan as the No.1 in the world.<sup>9</sup>

The European unification shows that it is the German-France axle that has propelled the regional unification process. The US is the natural leader in the region of NAFTA. In the Asian economic unification process, there is also the need of leadership by super nations. Could the rising China play the role?

China has been re-positioning herself to be an equal partner in the regional and international cooperation instead of pursuing the position of the leader of developing nations or the third world as in the "cold war" period. Under the new policy, China is trying to be the promoter in the regional unification process, but not the leader, accepting the ASEAN as the center of the regional cooperation structure. China realized that the equal partnership is the best way for China to gain respect of other Asian nations. China's rise will also make impact on the geopolitical power structure of the world. China has long pursued a policy that opposes hegemonism and favors a multi-polar world. As the only permanent member of the UN Security Council from Asia, with the growing economic capacity and stronger regional and global influence, China, coordinating with other Asian partners, certainly will be more active on the international political stage to protect Asian interests and to contribute to the world peace and justice.

With regard to the question whether China will be able to play the leading role in the Asian economic unification or not, the authors believe that, to be the political leader in Asia, China still needs the following things: a tangible force big enough to influence the regional economy; a large enough economic scale; an adequately open market; a free convertible currency; a sufficient amount of capital reserve to be used for overseas investment; and the cultural civilization and political civilization matching with the current international standard. Considering that China's economy is of more foreign dependent type, the nation's influence on Asia and the world is still limited. Therefore, a solution can be drawn that China will stick to the existing policy of concentrating on her domestic political and economic affairs and promoting in the mean time the regional social and economic cooperation in Asia in collective leadership instead of seeking the sole leadership.

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<sup>8</sup> WANG Guo Zhong: Complemented Trade of Sino-India in New Century, 2004.5 p.32

<sup>9</sup> CHI Fu Lin: China Business Daily, Idea to Build Up the Great China Free Trade Zone, May 11, 2002

Learning from Europe, China should try to improve relationship with other two big Asian nations Japan and India with more tolerance and magnanimousness. Japan is the No.2 world economic power and the No.1 regional economic power in Asia with GDP of 5 trillion USD, five times of that of China; whereas India is the No.1 economic power in south Asia and the second largest nation in Asia economically growing almost as fast as China in recent years. China and India take almost half of the world total population and have largest markets in the world. If the three big nations could get rid of the historical resentments and be united as one like Germany and France did, the Asian economic unification process will achieve velocity and gravity.

#### **4. On the “China Threat”**

The rising China inevitably makes her neighbors psychologically worried about. Besides, China is regarded as a challenge to the traditional strategic position of US in Asia. Some Asian nations fear that China will rise to become a threatening superpower and a challenging force to the international order. So, how should we see the contention of “China Threat” which came out together with China’s rising?

Looking back into the long history of China, China had nearly no records for military expansion. The only military expansion took place in the Yuan Dynasty ( 1206 –1259 AD) which was launched by the Mongolian heroes Genghis Khan and his grandson, Kublai Khan, founder of the Yuan Dynasty. In Ming Dynasty, Mr. ZHENG He had ever traveled for seven times ( 1405 – 1433 AD) to southeast Asia bringing there Chinese culture and native products without wars or colonialism.<sup>10</sup> The war in 1950s between China and India along the border and the one between China and Vietnam in 1970s resulted from ideological differences mainly. And, the two wars proved that China has no territorial desires.

China’s near-contemporary history, as a matter of fact, is full of records suffering from foreign invasions and humiliations. For a long time China had been a semi-colony under the invasive occupation of imperialism. In fact, China will not go for military expansion, because of knowing how terrible the foreign imperialist invasions were. Taking Taiwan as an example, China did not use the military way to liberate the province though it possesses the capacity. If the “threat” is truly there, it should be the normal outcome of the market competition. To develop the national economy, it is normal that there will be competitions between China and other Asian nations on markets and natural resources. The conflicts and disputes may come up. The key point is how the politicians concerned would use their intelligence and consciousness to transcend and repair the “fault lines”, if there exist any, between the Asian nations as said by Samuel Huntington, and how the conflicts and disputes would be resolved within the frames of WTO and international laws. The newly resumed relationship between India and Pakistan has shown the intelligence and consciousness of the politicians of the two nations. At the moment, quality standards of politicians of China, Japan and Korea are being tested by the issues of the East China Sea and Yellow Sea oil/gas resources.

As early as in 1954, China and India put forward a proposal known as the Five Principles of Peaceful Coexistence which is still of great significance nowadays to international cooperation among the Asian nations and regions. On March 4, 2004, China’s premier WEN Jiabao stressed again in Beijing, “China’s rise should not be of block or threat to anyone. No nations will be sacrificed due to the rise. China does not and will never seek to be a superpower”.

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<sup>10</sup> ZHANG Kaizhi Chinese History Volume of Dynasties of YUAN, MING, QING 2000.03 pp.30-39

It seems that China's growing economic capacity serves the justification for the belief of "China Threat". However, it is not the case. China is faced with many internal and external problems, especially the internal ones, such as the higher cost for economic growth, the big disparity of the east and west, inefficiency of the state-owned enterprises, a large number of unemployed and laid-off workers, the delayed political system reform, environmental problems, energy shortage, etc. All of these limit China's economic development.

Even if China's GDP overtakes the US in mid 21<sup>st</sup> century, it does not mean that China would be qualified as the world's leader. For instance, Japan's GDP per capita was once higher than US, yet it does not mean Japan was powerful enough to lead the world. Therefore, China's rise should not only rely on economic growth, but also be supported by the forces of modern civilization and culture complying with the common international value so as to win the respects of other Asian nations. The new ideology of the "Three Represents"<sup>11</sup> putting forward by the fourth generation of China's political leaders shows that China wishes to make progress on civilization and culture.

Obviously, China has her own interests in promoting and participating in the Asian regional economic unification. The foreign direct investment has played an important role in China's economic development. According to the statistics of Ministry of Commerce of China, by the end of Sept. 2002, the ASEAN nations had invested in 19,281 projects in China with total FDI of 57.766 billion USD in contract volume. In 2003, total actually utilized FDI in China were of 53.505 billion USD. HK, Japan and Korea are three top investors in China market. China's foreign trade dependence rate is getting higher year by year, reaching to 47 per cent in 2003 and in next five years being predicted to be 65 – 70 percent. The Chinese economy has become an inseparable part of the world economy.

The nations seeking for higher social and economic efficiency by participating the regional economic unification shall in turn have to conform to the international norms and standards. The Asian economic unification will accelerate China's political reform. To become an international partner committing herself to closer cooperation with other Asian nations as an equal member, China will have to go democratic step by step. This will certainly help the nation to grow to a strong and solid pier of world peace instead of becoming a challenging force to the international order.

## 5. Conclusion

As a consequence, there must be disputes and conflicts occurred continuously in economic interests amongst Asian nations in course of the unification. But the unification may provide a dynamic platform of democratic exchange and peaceful negotiations within the frames of international laws for the common good. It is submitted, that national interests can find a higher gratification and fulfillment in international coordination and cooperation and can increase synergetic efficiency of all Asian nations. The tension between particular interests and whole regional or universal benefits will keep the economic unification process open-ended and never complete as a necessary condition for steady improvements. The unification even demands a continuous incompleteness of any endeavor to keep development in a dialectical state for productive opposition and consensus building.

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<sup>11</sup> JIANG Zemin: On the "Three Represents", (Beijing Foreign Language Press 2001) p.7  
The "Three Represents" refers to that the Communist Party of China as the ruling party in China should represent the advanced productivity, the advanced culture and interests of majority of Chinese people

Prof. Mandel's prediction is not a fairy tale. The regional economic unification process in Asia as part of the economic globalization going on in an irreversible manner shall no doubt produce a pan-Asian economic community. Asians shall have their own unified currency in future, perhaps in 50 years time, as Europeans experienced.

Of course, China's role in the Asian economic unification should never be neglected. The striving goal and value of the nation will not only greatly influence the unification process, but also exert impact on moving direction of the world of the 21<sup>st</sup> century. However, as a philosopher said, "Only when you have changed yourself, can you change others", the largest impact of the rising China on Asia and the world shall finally lie in the outcomes of her internal reform.

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