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China’s Role in the Asian Economic Unification Process

Yao Chao Cheng

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Abstract: The 21st century, as being said the world over, will belong to Asia. The regional economic cooperation in Asia is 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. We believe that the economic unification process shall result in an Asian economic community. The integrated cooperation is the best way for Asian nations to make common development and the “fault lines” as proposed in Samuel Huntington’s paradigm1 can be repaired and transcended in the unification process.

Guided by this vision, China has been in recent years positively engaging in the globalization process as well as actively participating in efforts towards regional cooperation in Asia. Responding to the contentions of “China threat”, this paper shall be analyzing and elaborating on China’s role in the Asian economic unification process; arguing that the process shall enhance the country’s political and democratic reform and help China become a solid pier in the world and Asian peace structures.

1. The FTA Trend in Asia
The rapid economic growth rate of 7 per cent, in recent years in the Asian region, has laid a solid material foundation for Pan Asian regional cooperation.

China and the ASEAN signed an FTA agreement in November 2002 to establish a free trade zone by 2010. This future free trade zone comprising of 10 ASEAN countries and China (referred to as ASEAN+1) will be third largest in the world with 1.7 billion consumers and a trade volume of $1.2 trillion annually, next only to the NAFTA and the EU. On October 7, 2003, China, Japan, Korea

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and the ASEAN also agreed on to a plan of setting up a bigger free trade zone by 2020, embracing the region currently referred to as the ASEAN+3.2

India, the largest economy in South Asia, is also actively taking steps to join East Asia’s economic integration movement. In September 2003, a free trade (including 2.5 billion consumers and comprising 75 per cent of the total Asian population) agreement plan had been reached by the ASEAN, China, Japan, and India, at Jakarta, in Indonesia. It is reported that the agreement shall be gradually implemented between 2012 and 2017.3 It is quite likely that the set-up will evolve into ASEAN+4 (ASEAN and China, Japan, Korea and India).

Also, 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 approve the proposed program of setting up a South Asia Free Trade Zone.

In addition, it is expected that Asia will witness more bilateral FTAs leading up to various other larger regional agreements. 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). The significance of the agreement lies in the fact that it might serve as a platform to link East Asia and South Asia into a broader regional trade agreement.4

In 2003, at the annual meeting of BOAO Forum for Asia, Mr. Ramos, former president of the Philippines had formally put forward the concept of building up a Grand Asian Family comprising all Asian nations. In April 2002, Dr. Robert A Mandel (Nobel Prize laureate for economics) predicted in his speech, at the Sun Yat-Sen University, Guangzhou, South China, that Asia would have a single currency in the near future. On June 22, at the opening ceremony of the Third Session of Foreign Ministers of the Asian Cooperation Dialogue, in Qingdao, China, Chinese Premier Wen Jiabao made a speech titled “Promote a New Centennial Asian Cooperation with Common Efforts”, introducing the concept of constructing a new Asia.

The above statements by Asian leaders and experts show that the Asian nations have already entered the primary stage of economic unification. Chapter VIII of the United Nations also encourages 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 is playing an important role as the center axle of the Asian economic unification process with its well developed political and market mechanisms.

The ongoing regional economic unification processes shall make Asia the fulcrum of economic activity in the world and contribute substantially to global security in the 21st century. Even though Asia is too large and beset with complicated differences in terms of culture, political systems, economic strengths, as well as religious diversity, the continent’s nations can cooperate with each other by developing a consensus on the basis of mutual respect towards the existing differences. Also, the maximum danger will not be from the “fault-lines”, but from the ignorance of the policy-makers who are not working positively on the issue.

2. The Rise of China
In the 21st century, three trends are clearly visible: shifting population and economic centers; pervasion of advanced production methodology and political & social structures; changing international political order. These three trends reveal that few non-western nations will be emerging as the world superpowers. China, among all, carries the maximum potential.

A report by the UN Trade and Development Council, The World Economic Situation and Prospect in 2003, commented, “Twenty Five 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”.

The outcome of China’s opening & reform, an economic miracle greater than the one achieved by the “Four Dragons”, has drawn attention of the world. In his book, Will China Be Number 1? (May 2002), Paul Bracken, an American professor from the Yale Business School, reminisces, “Five hundred 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 western scholar, Angus Maddison, in his book Reviewing the World for 200 Years, elaborates that in 1820, China’s GDP was the highest, followed
by India, France, and UK. Due to the well known historical reasons, China lagged behind in the following centuries. US GDP took the world leading position only in 1895 when China lost Taiwan in the Jiawu War with Japan. Japan’s GDP overtook China and became the second largest in the world, as late as, in 1968 when China was plunged into the “Cultural Revolution”. China’s pragmatic opening up and policy reforms since 1978 has made her economy recover quickly.

Professor Maddison also predicted that assuming China’s growth rate persists at 7 per cent and US at 3 per cent, China would once again be largest economy in the world by the year 2020, based on the calculations made through Purchase Power Parity (PPP) method. China has not yet accepted the PPP calculation. According to China’s own calculation, it is currently the sixth largest economic power in the world and by 2020 will be one of the three biggest economies in the world with its GDP doubled to 4 trillion USD.6

Since 1985, China’s GDP has been growing annually by 9.7 per cent on an average and reached one trillion USD in 2003, becoming the second largest in Asia. It can be extrapolated that within 15 years China’s GDP will overtake Japan and by the mid of the 21st century, it will match to that of USA, assuming the similar growth rates persist (See Table 1).

In his new book, Reoriented: Economic Globalization in Asian Age, Professor Andre Gunder Frank, points out, “The center of the world economy is once again moving to the Middle Kingdom of China”.

It is not for the first time that the world is facing a rising nation. However, a rising China should be different. The US had only about a population of 30-40 million and Japan of 100 million when they rose to power. China, on the other hand, has a population of 1.3 billion. It is indeed the first time for the world to see such a populous nation rising.

Table 1: GDP Estimates for China, Japan and USA

<table>
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<th>2001</th>
<th>2025</th>
<th>2030</th>
<th>2040</th>
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<td><strong>8114</strong></td>
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<td>3881</td>
<td>7019</td>
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<td>8000</td>
<td>16262</td>
<td>16749</td>
<td>25336</td>
<td><strong>34049</strong></td>
</tr>
</tbody>
</table>

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

3. China’s Role in Asian Economic Unification

Being a beneficiary of economic globalization, China took the strategic decision to deepen domestic economic reforms, to open further to the world, and to positively participate in the Asian economic unification process. On October 8, 2003, China formally signed the ASEAN Treaty of Amity of Cooperation (TAC) becoming the first member nation outside Southeast Asia to sign the TAC. China has played leading roles in the FTA programs of ASEAN+1 and ASEAN+3. Meanwhile, China is also negotiating FTAs with Thailand, Malaysia and Philippines. The FTA plan with India is under study. In October 2003, China also put forward a four points proposal in the meeting of ASEAN+3 to deepen the economic cooperation in eastern Asia, viz. doing a feasibility study on the Eastern Asian Free Trade Zone; boosting cooperation in financial and monetary sectors and set up “Asian Bonds Market”; strengthening political and security cooperation; and expanding the social, cultural and technological cooperation.

In the year 2002, trade volume between China and 26 Asian nations increased by 21.59 per cent. The exports and imports increased by 16.74 per cent and 25.81 per cent respectively. In the last two years, while the world economy was in recession and the markets of US, Europe as well as Japan were hardly expanding, China’s trade volume, particularly the imports with neighbouring countries increased by two digits, pulling up the overall Asian economic growth. In first half of 2003, China’s imports from Northeast Asia, Southeast Asia and South Asia increased respectively by 48.5 per cent, 55.7 per cent and 81.9 percent with a total volume of 128.6 billion USD. More than 60 percent of the total increased import volume of China, worth 160 billion USD, was from the Asia-Pacific nations in 2003. It is estimated that by the year of 2020, China’s total volume of import and export will increase to two trillion USD annually. In such a scenario, China will become a larger market for other Asian nations.

So far, there are about 30,000 Chinese companies conducting multinational business operations worldwide. Asia will be their first choice for doing direct investments.6

The “ASEAN+1” and “ASEAN+3” free trade zone plans reflect the deepening interdependence among the economies of East Asia. In 2003, internal trade volumes in East Asia had been much higher than those with the US. Huge favourable balances were achieved by ASEAN, Japan and Korea while trading with China. The Sino-Japanese trade volume reached 133.58 billion USD with an increase of 31.1 per cent from 2002 to 2003. Japan also became the largest
trading partner of China. In 2003, 18 percent of the increase in global trade volume was attributed to China’s strong economic growth. The percentage further grew in 2004 as China’s total foreign trade volume was estimated to increase by 20 percent up to one trillion USD.\(^7\)

In October 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 influenced the world economy and a slow-down of the US economy use to greatly impact and even constrain the Chinese economy. However, today, it is the other way round.

China’s trade with another Asian giant, India, is progressing strongly. The bilateral trade has climbed from virtually nothing, a decade ago, to 10 billion USD today.\(^8\) Compared to trade volumes between China-Japan and China-Korea, the Sino-Indian trade has much room for exploration in the new century since the two nations compliment each other in many fields. Both China and India are positive towards the Asian economic unification. Speaking economically, the two fast growing nations largely comprise the “fourth engine” in the world economy. The cooperation and coordination between China and India is vital to the Asian economic unification process.

Some Chinese economists are proposing to gradually build a Great China Free Trade Zone inc. Mainland China, Taiwan, Hong Kong and Macao. If realized, the Free Trade Zone will have a GDP of 1.5 trillion USD, fourth largest economic capacity in the world, overall trade volume of one trillion USD - 8.3 percent of the world total, and a total foreign exchange reserve of 330.3 billion USD surpassing that of Japan as the highest in the world.\(^9\)

The European unification process exemplified that the German-Franco axle 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 strong nations. Could a rising China play the role?

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

However, to be able to play a leading role in the Asian economic unification China still needs the following things: a tangible force big enough to influence the regional economy; a larger economic scale; an adequately open market; a freely convertible currency; a sufficient amount of capital reserve to be used for overseas investment; and cultural and political civilizations that match up to the current international standards. Having not been possessed with these things, China’s influence on Asia and the world is still limited. Therefore, the middle solution is that China stick to its existing policy of concentrating on domestic political and economic affairs and in the mean time promotes regional social and economic cooperation in Asia through collective leadership instead of seeking sole leadership.

Learning from Europe, China should try to improve its relationship with the other two big Asian nations, i.e. Japan and India with more tolerance and magnanimity. Japan is the second largest economic power in the world and the largest regional economic power in Asia with a GDP of 5 trillion USD (five times that of China). India is also the largest 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 include almost half of the world population and have the largest markets in the world. If these three nations could get rid of the historical resentments and unite like Germany and France did, the Asian economic unification process will achieve velocity and gravity.

4. The China Threat

A rising China inevitably makes her neighbours psychologically worried. Besides, China is regarded as a challenge to the traditional strategic position of US in Asia. Some Asian nations also fear that China will rise to become an intimidating superpower and a challenging force to the international order.

Looking back into the long history of China, it has nearly no records of any military expansion. The only military expansion took place under the Yuan Dynasty (1206–1259 AD), which was launched by the Mongolian heroes
Even if the Chinese GDP overtakes the US in mid 21st century, it would not qualify China as a world leader. For instance, Japan’s GDP per capita was once higher than US, yet it did not mean that Japan was powerful enough to lead the world. Therefore, China’s rise would have to not only rely on economic growth, but also on the support of the forces of modern civilization and culture complying with the common international values so as to win the respects of other Asian nations. The new ideology of the “Three Represents” put 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 September 2002, the ASEAN nations had invested in 19,281 projects in China with a total FDI of 57.766 billion USD in contract volume. In 2003, the total actually utilized FDI in China was 53.505 billion USD. Hong Kong, Japan and Korea are the top three investors in the Chinese market. China’s foreign trade dependence rate is increasing every year, reaching to 47 per cent in 2003 and is predicted to be 65-70 percent in the next five years. The Chinese economy has become an inseparable part of the world economy.

The ideological differences may also cause disputes or conflicts among Asian nations. However, the nations seeking higher social and economic efficiency by participating in the regional economic unification will have to conform to the international norms and standards. The Asian economic unification will no doubt accelerate China’s political reform and its move towards democracy. This will certainly help the nation to grow into a strong and solid pier of world peace instead of becoming a challenging force to the international order.

5. Conclusion
The Asian economic unification is taking shape indeed. In course of the process of unification, there will be occurring disputes and conflicts with clashing economic interests amongst Asian nations. But the unification may provide a dynamic platform for democratic exchange and peaceful negotiations within the framework 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.
Professor Mandel’s prediction is not a fairy tale. The regional economic unification process in Asia as part of economic globalization shall no doubt produce a pan-Asian economic community. Asians shall have their own unified currency in future, perhaps in 50 years time or even longer, as experienced by the Europeans.

Of course, China’s role in the Asian economic unification can never be neglected. Not only will it greatly influence the unification process, but also exert impact on the nature of the world in the 21st 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 the country’s internal reforms.

Endnotes
1 Horst Rolly ‘Concerning India and China, Huntington sees no way of removing the existing fault line between the two nations’, p.354., 1999.
3 ‘ASEAN to Form Free Trade Zone with China, Japan and India’, Tempointeraktif.com September 5, 2003.
11 Jiang Zemin, On the “Three Represents”, (Beijing Foreign Language Press 2001) p.7. The “Three Represents” refer to the Communist Party of China, as the ruling party in China, which should represent the advanced productivity, the advanced culture and interests of majority of Chinese people.

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