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# **EXTERNAL ECONOMIC RELATIONS DEVELOPMENT AND ISSUES IN CHINA**

**HUANG WEIPING (PhD)**

**SCHOOL OF ECONOMICS, RUC**

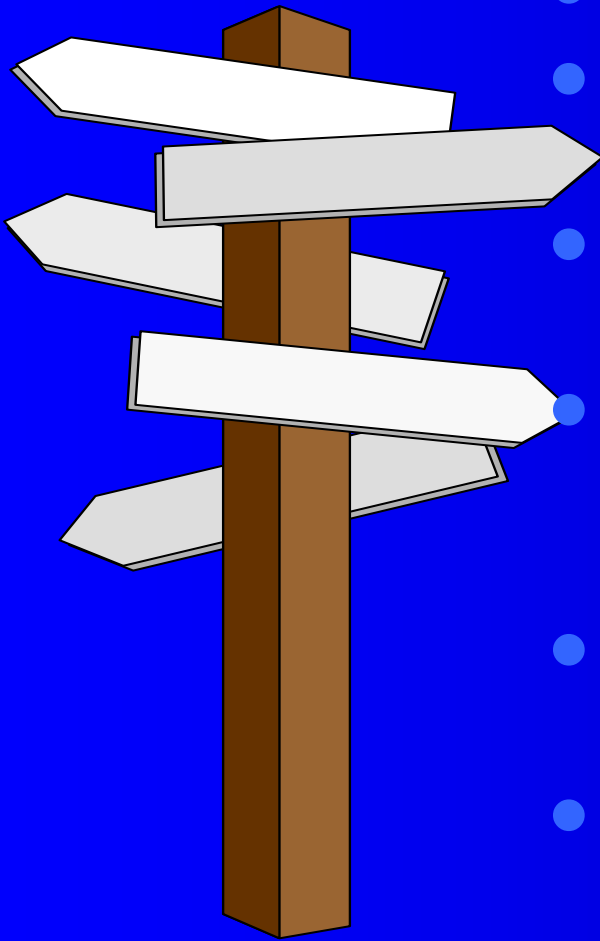
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# **ECONOMY OF CHINA IN LATE 1940'S AND 1990'S**

- **In 1947 - 1948, just before founding of the new Republic, China could only produced 1/87 of American Steel production, 1/8 of Japan's; 1/9 of American coal production, but the same as Japan's; and 1/35 of American electric power production, 1/6 of Japan's.**
- **In 2000, China already ranked first in Steel, Coal, Cement, Cloth, Airconditioner, TV sets, Motorcycles, Taperecorders, Washingmachines, Grain, Cotton, Meat, Seafood, Egg production. And with the production capacity of TV sets, Refrigerators, Washingmachines, Airconditioner accounted for the 1/3 of the world capacity total. Industrial production of China today ranks the 5th-4th in the World.**

# ECONOMIC PICTURE IN EARLY 1980'S



- There were 5 Super Economies in the World.
- The USA was the overall Super Power with largest economic size, and other influences.
- Soviet Union was a political and military Super Power with 60% of USA's GDP.
- Japan was economic Super Power and economically ranked the second just following the States.
- The 4th Big one was China - as the population Super Power.
- EEC, the Super Economic Group as one, with economic power as US.

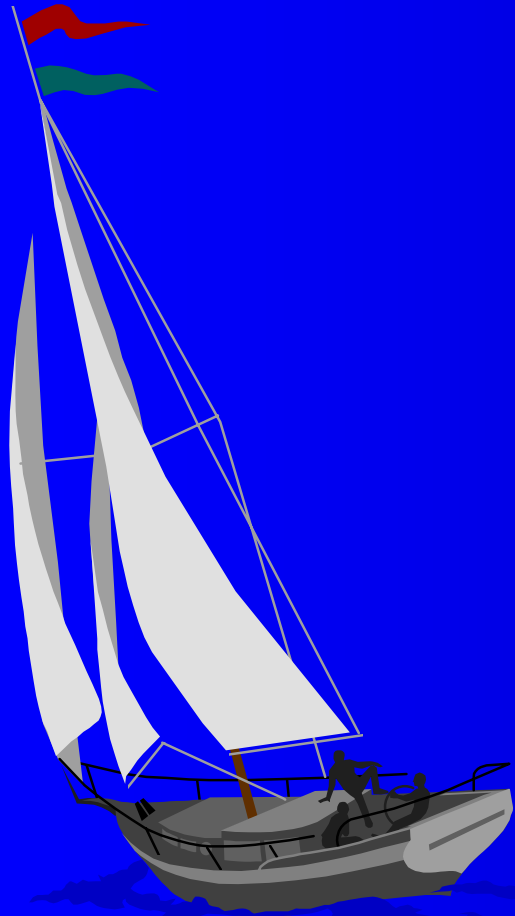
# ECONOMIC PICTURE IN LATE 1990'S

- USA is the only overall Super Power left.
- Russia is only a potential Super Power.
- Japan is still the economic Super Power but with some difficulty in structure.
- China with the largest population, steadily modernizing economy, made big progress.
- EEC progressed from an economic group to EU, played important roles in the world.
- During 1970's, USA and UK lost decade's growth; during 1980's, Latin America and Africa lost 10-year for development and during the 1990'S, Russia and Japan lost the decade for development.



# THEORITICAL PROGRESS AND DEVELOPKMENT

- Centralized planning economy;
- Planning as main stream, market as supplementary instrument
- Planned commercial economy;
- Socialist market economy;...Next?



# **MARKET DRIVEN ECONOMY ON ITS WAY(I)**

- **1979-1984, reform in agriculture, grain overproduced, people's basic needs met,**
- **1984-1989, reform in industries, social conflicts with development going on,**
- **1990-1992, adjust the imbalance,**
- **1992-1996, assets market developed, land and labor with its price, overall overproduction appeared in China,**
- **1996-2003 strike to deflation and overproduction.**
- **2004- Cooling Down, soft landing,**



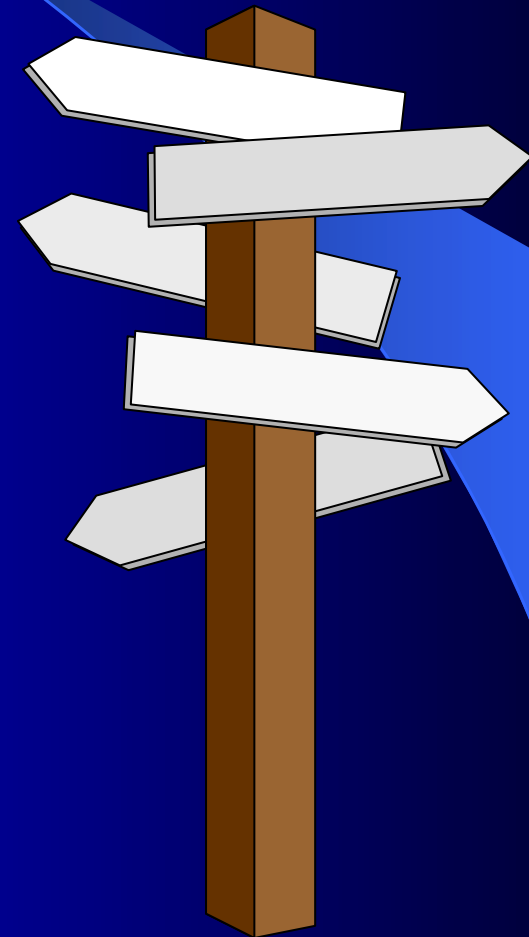
# **MARKET DRIVEN ECONOMY ON ITS WAY(II)**

- **Goods, Financial, Labor, Information and service markets have been being established, and covered most of the economy(50-90%),**
- **For consumer goods, market regulated pricing accounted for 94.7% of total in China,**
- **For producer goods, market regulated pricing is 86% of total input, State Administration less effect,**
- **For agricultural goods market regulated pricing accounted for 84% of total products.**



# MARKET DRIVEN ECONOMY ON ITS WAY(III)

- **Reform begin in rural region: harsh life driven,**
- **initial target: maxim the production to meet basic need - quantitative style strategy for reform;**
- **Target then: better well strategy for reform ;**
- **policy orientation: from supply to demand side.**



# **GLOBALIZATION**

**BESIDES CENTER-PREPERY:**

**FINANCIAL CENTER- NY CITY?**

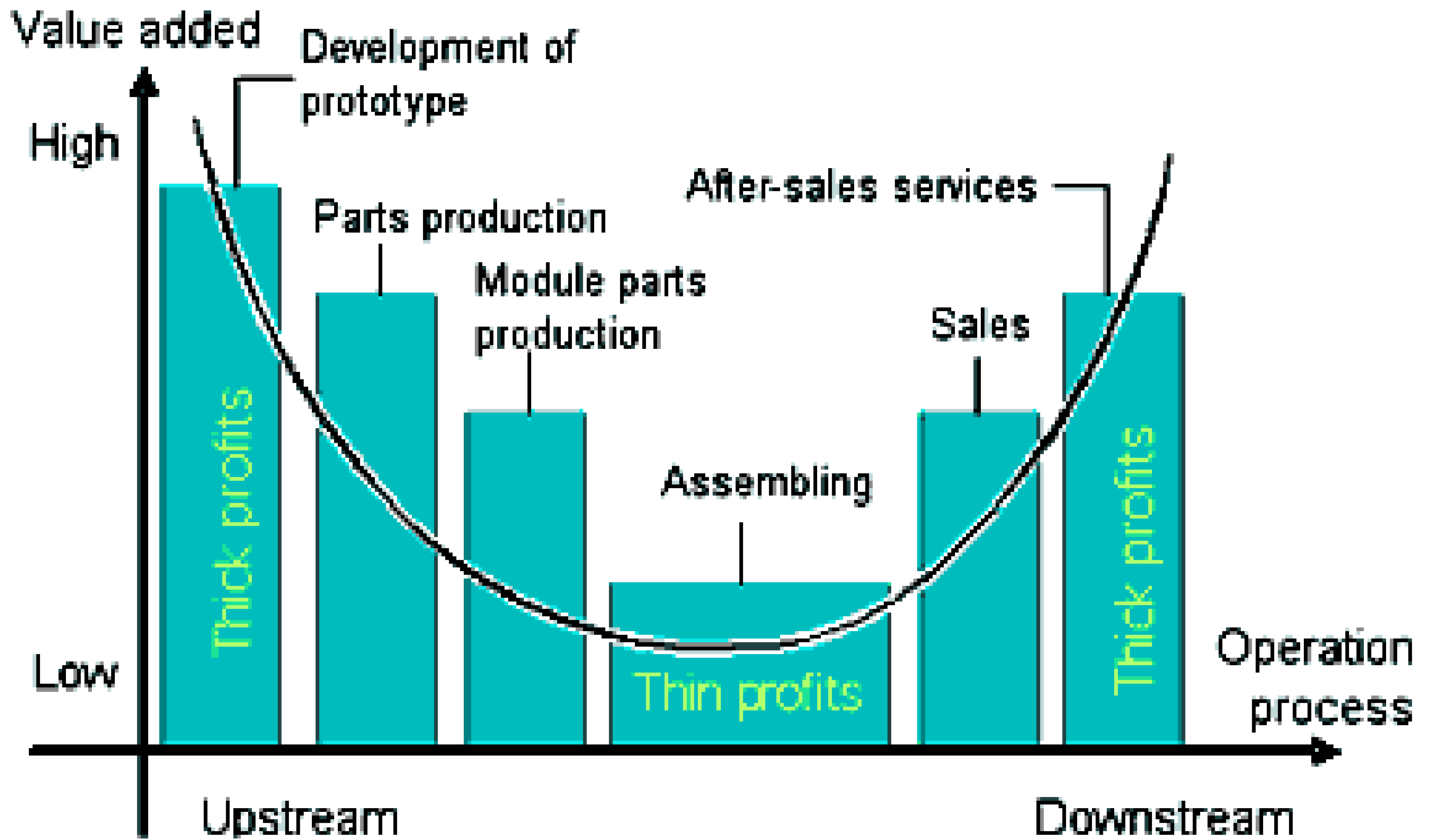
**R & D CENTER - CALIFORNIA?**

**MANAGEMENT CENTER - ?**

**DISTRIBUTION CENTER-?**

**SERVICE CENTER-?**

**PRODUCTION CENTER- CHINA: PEARL AND  
YANGTZE RIVERS DELTA**

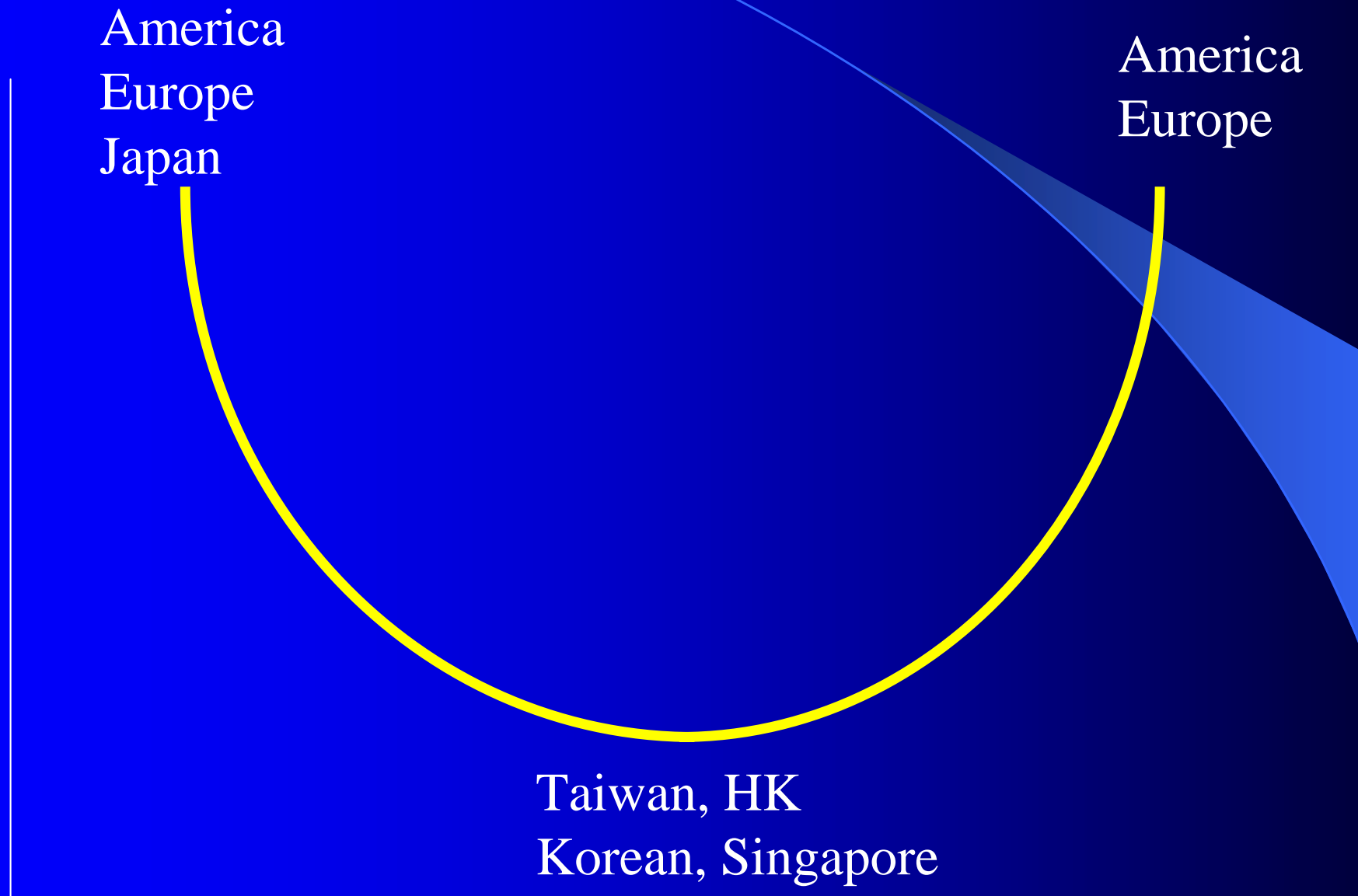


# New production system

- **Parts: dis-integration and interchangeability**
- **Process: modularization**
- **Parts standardization**

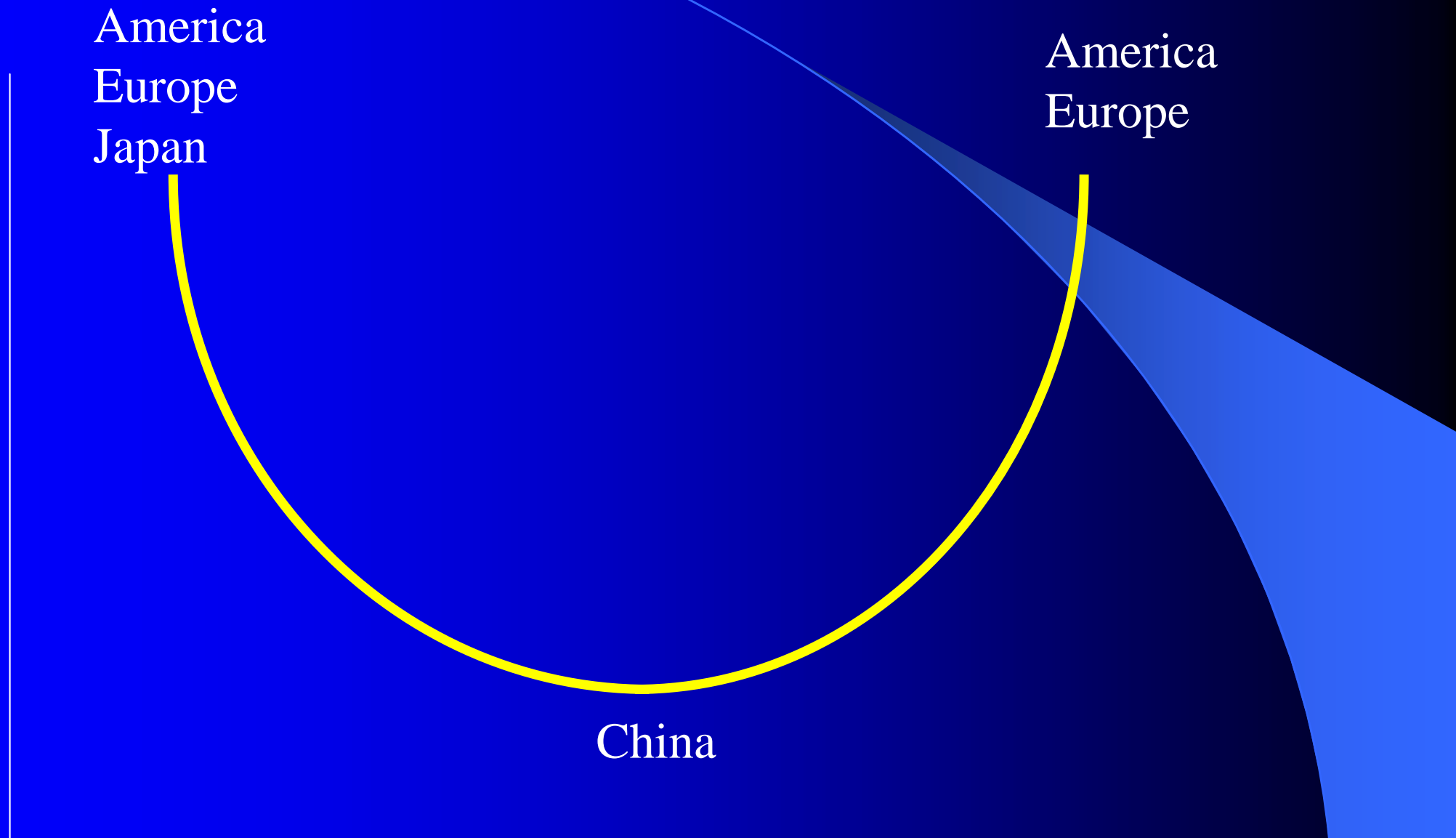


# Smiling curve in 70's and 80's





# Smiling curve in 90's





New Manufacturing  
Centre - China



Old Manufacturing Centre -  
Four Dragons



# STRATEGY OF CHINA

- **COULD CHINA TAKE TODAY'S DEVELOPED ECONOMIES' MODEL AS ITS TOMORROW'S?**
- **COULD CHINA FOLLOW ITS OWN SPECIAL WAY OF DEVELOPMENT?**
- **HOW?**



# IMPORTANCE OF PRODUCTIVITY

- **CAPACITY TO PRODUCE WEALTH IS MUCH MORE IMPORTANT THAN WEALTH ITSELF.**



# FOUR GAPS FOR DEVELOPMENT



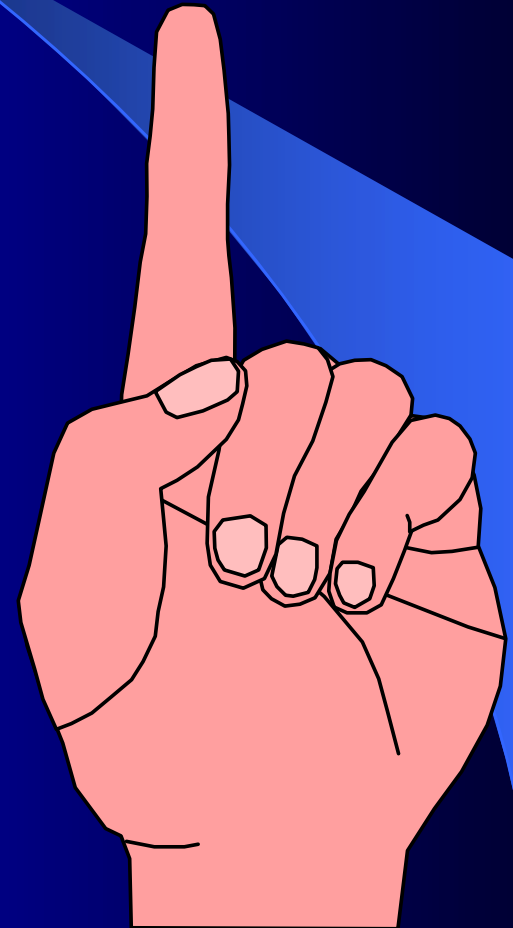
- **TECHNOLOGY GAP**
- **SAVING GAP**
- **FOREIGN EXCHANGE GAP**
- **FISCAL GAP**

# **GENERAL PICTURES**

- **Overall Economic Output In China Ranks the 7th in the World in 2003,**
- **China is the Second or Third Largest Foreign Capital Inflow Country in the World in 1990's**
- **Foreign Exchange Reserve Ranks the Second After Japan**
- **Export Trade is the 4th Largest in the World in 2003**

# ECONOMIC DEVELOPMENT RECENTLY

- In 1994, using PPP approach, estimated by the World Bank, it was the first time China's economy already ranked the second in the World, 20% larger than that was in Japan,
- In 2003 the global economic growth rate was about 3%, 4% in USA, but 9.2% in China, GDP reached USD 1400 billion



# CHINA'S INTERNATIONAL COMPETITIVENESS

- **《WORLD COMPETITIVENESS YEARBOOK 2004》 BY INSTITUTE FOR MANAGEMENT AND DEVELOPMENT IN SWISERLAND SHOWED: CHINA RANKED 24, JAPAN 23, INDIA 34, KOREA 35, COLUMBIA 41, BRASIL 53, MEXICO 56, ANGITINA 59, USA 1, SINGAPORE 2, CANADA 3.**



# CHINA SHOULD PAY ATTENTION TO IMPACT OF SHIFTING FROM BILATERAL TO MULTILATERAL TRADE SYSTEM - M. MOORE



# Changes in Tariff

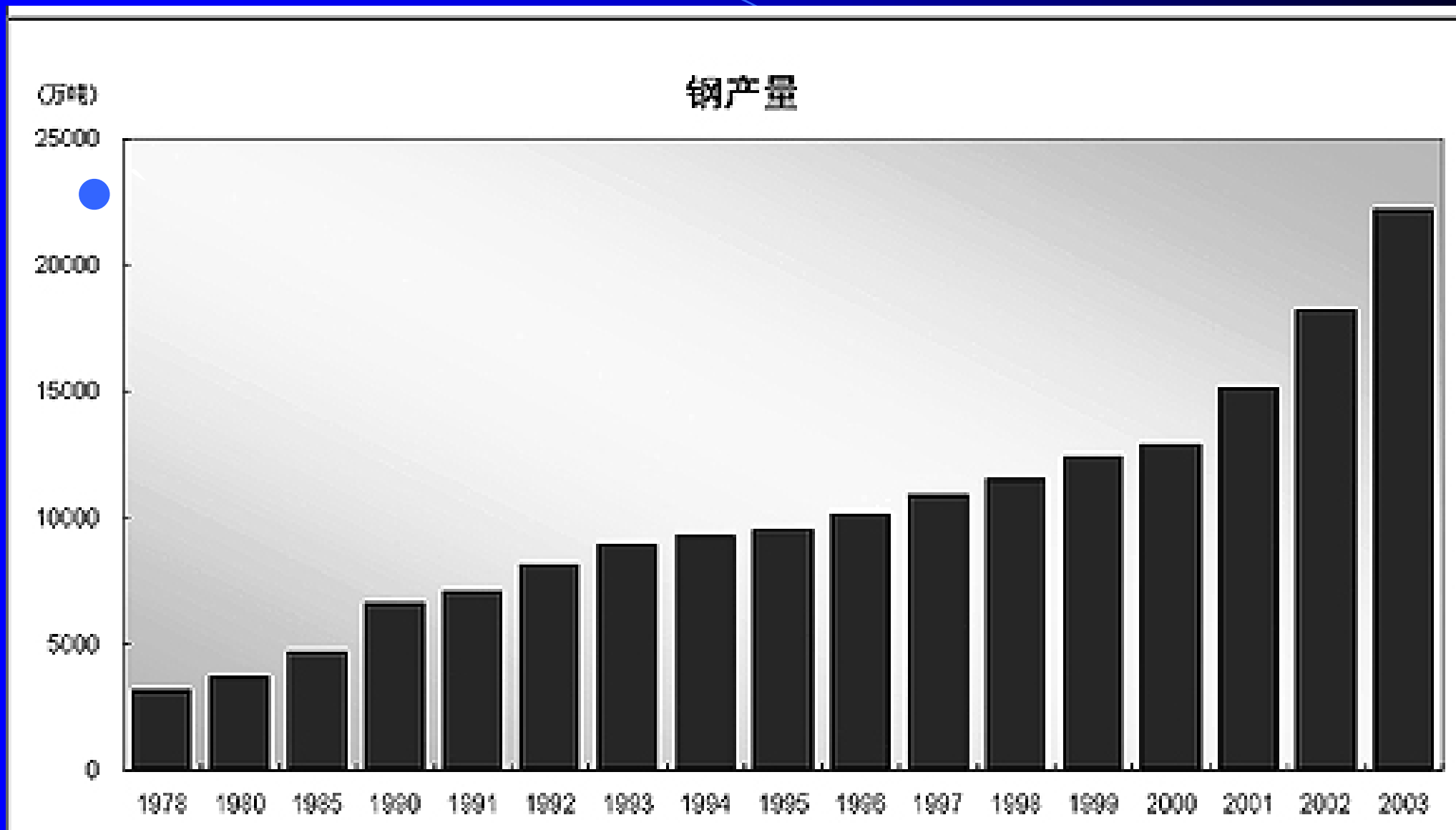
	<b>Average</b>	<b>Industry</b>	<b>Agriculture %</b>
<b>2000</b>	<b>15.6</b>	<b>14.7</b>	<b>21.3</b>
<b>2001</b>	<b>14</b>	<b>13</b>	<b>19.9</b>
<b>2002</b>	<b>12.7</b>	<b>11.7</b>	<b>18.5</b>
<b>2003</b>	<b>11.5</b>	<b>10.6</b>	<b>17.4</b>
<b>2004</b>	<b>10.6</b>	<b>9.8</b>	<b>15.8</b>
<b>2005</b>	<b>10.1</b>	<b>9.3</b>	<b>15.5</b>
<b>2006</b>	<b>10.1</b>	<b>9.3</b>	<b>15.5</b>
<b>2007</b>	<b>10.1</b>	<b>9.3</b>	<b>15.5</b>
<b>2008</b>	<b>10</b>	<b>9.2</b>	<b>15.1</b>

# China's Foreign Economic Relations

Item	1985	1990	1996	1999	2000	2003
M+X	69.6	115.4	280.9	360.6	474.3	851.2
X	27.4	62.1	148.8	194.9	249.2	438.4
M	42.2	53.3	132.1	165.7	225.1	412.8
FI Used	1.7	3.5	37.5	40.3	40.7	53.5
<u>FEC</u>	<u>.8</u>	<u>1.9</u>	<u>6.6</u>	<u>11.2</u>	<u>11.3</u>	<u>12.1</u>

In Billion USD , Resource: Statistics Year Book 2004

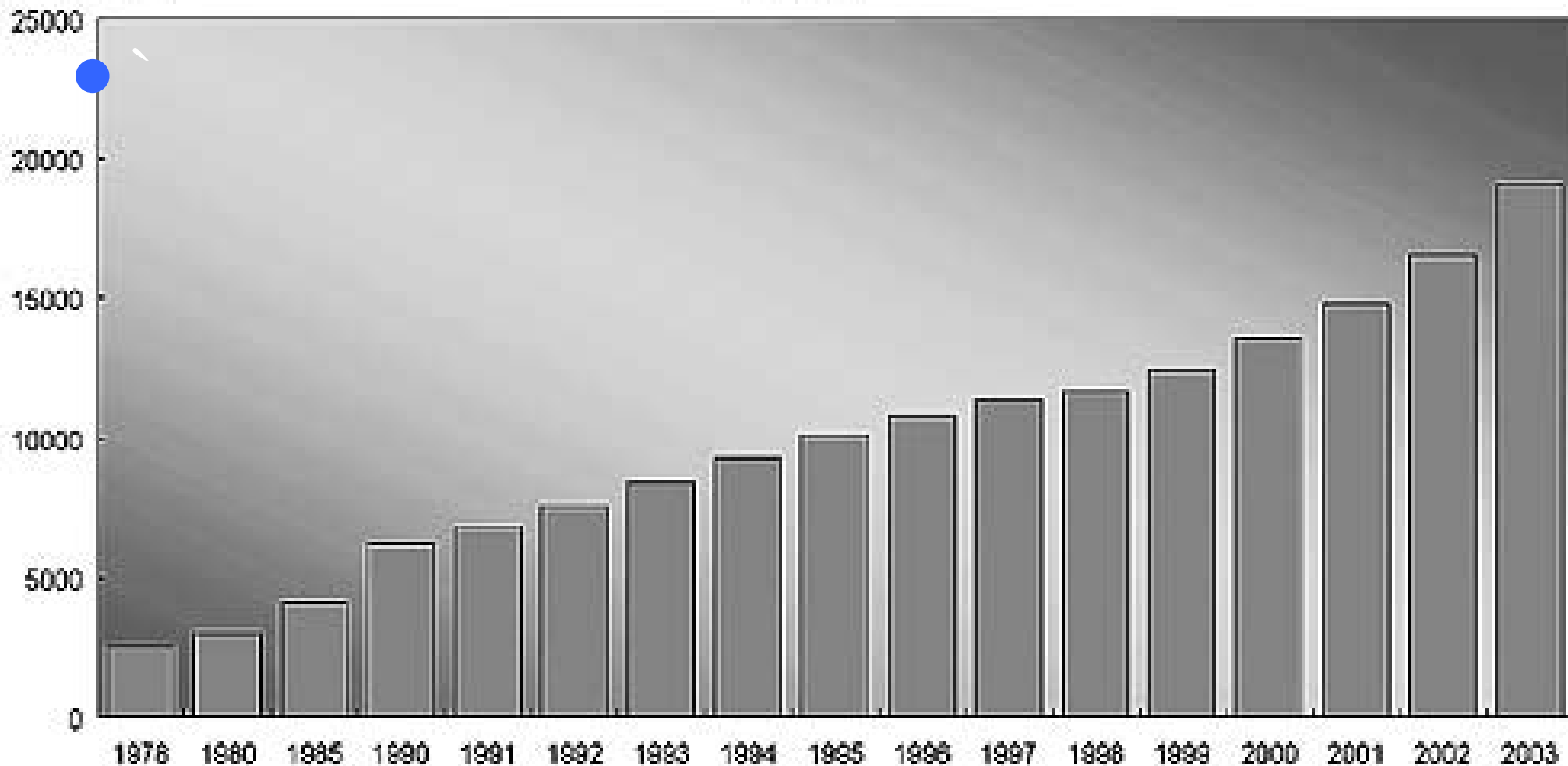
# PRODUCTION OF STEEL



# PRODUCTION OF POWER

发电量

(亿千瓦时)

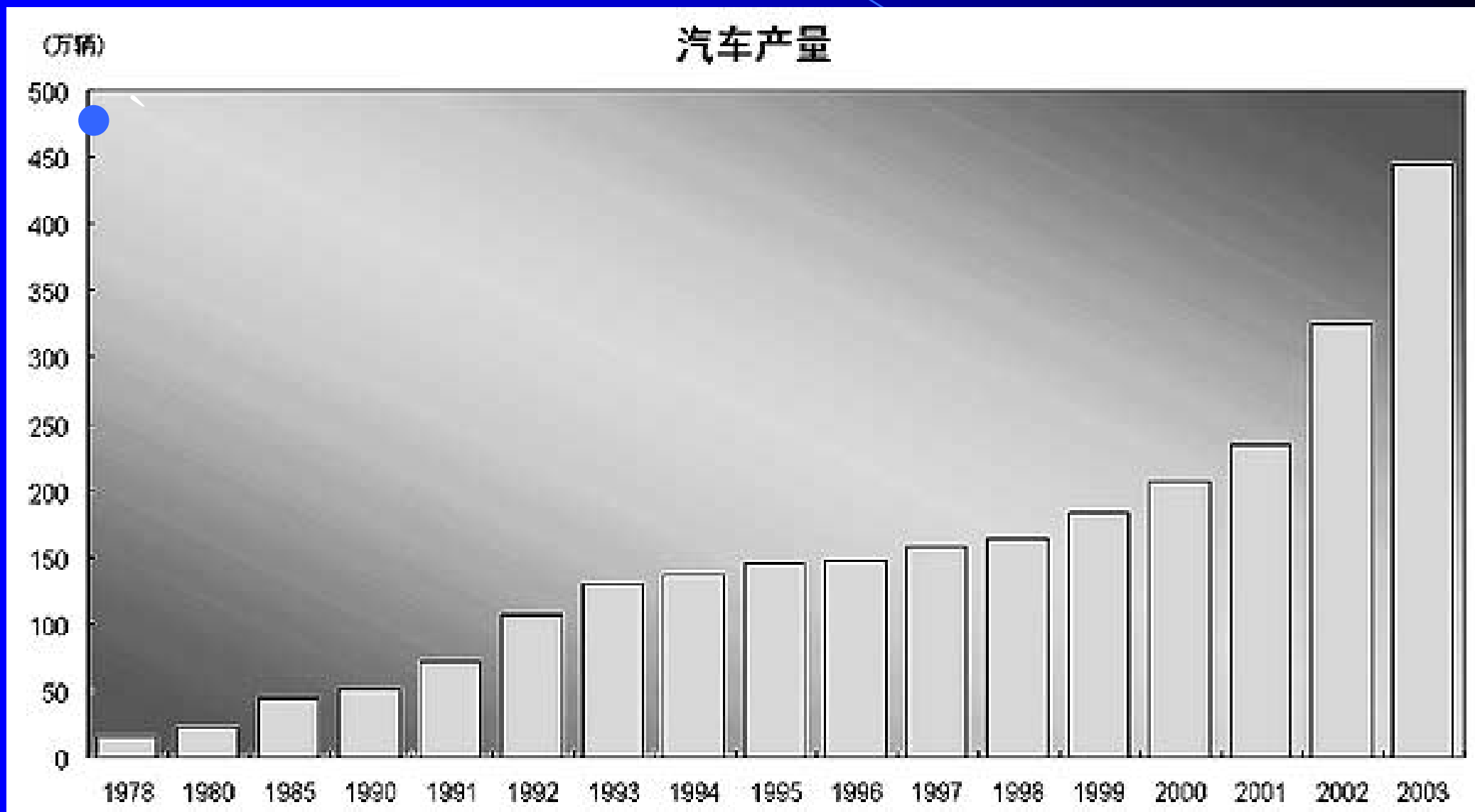


# CASE:AUTOMOBILE

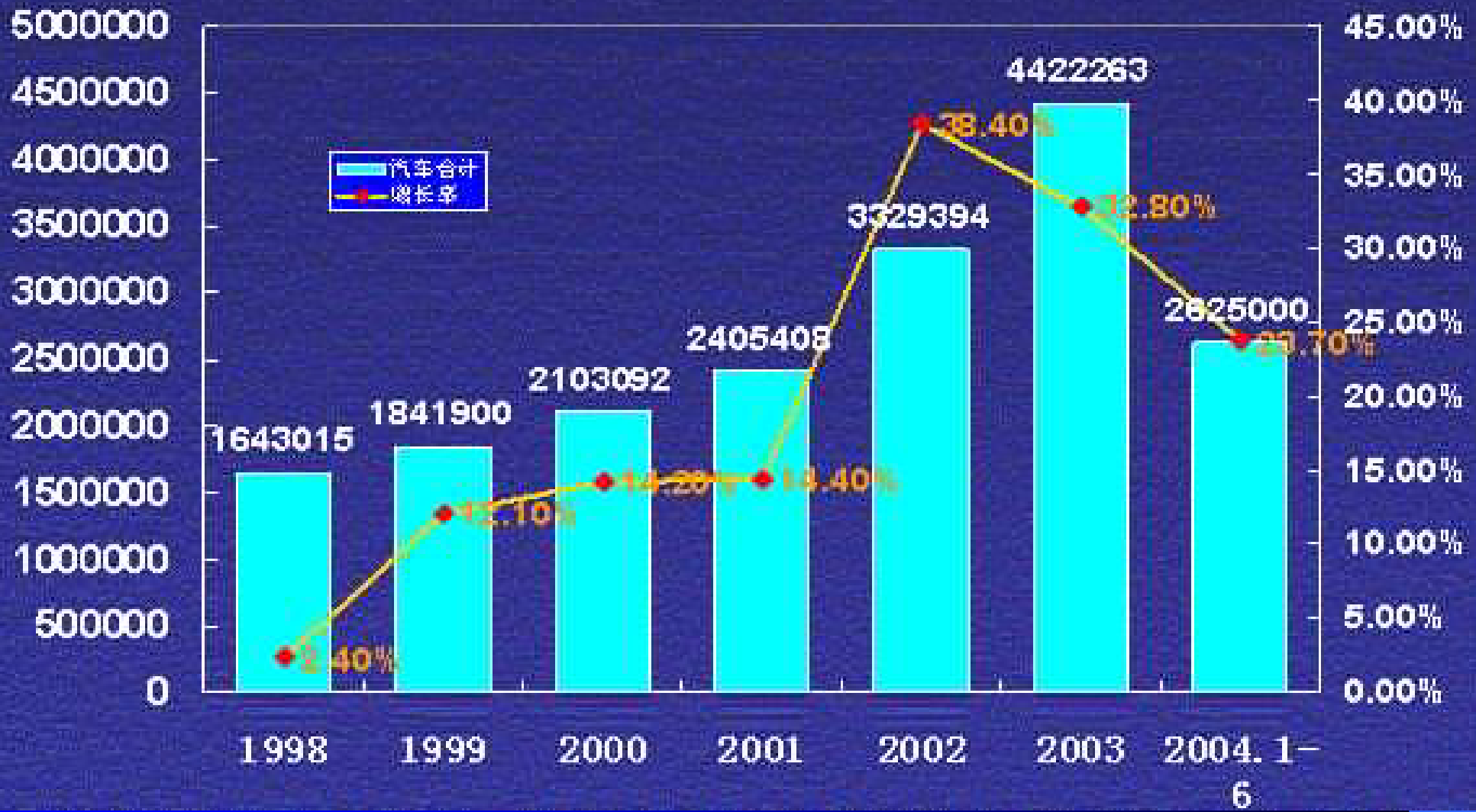


- CHINA'S AUTO PRODUCTION IN THE WORLD RANKED 8<sup>TH</sup> IN 2001, AND 4<sup>TH</sup> IN 2003.
- IT TOOK 38 YEARS TO GET CAPACITY OF ONE MILLION AUTO PRODUCTION, AND 8 YEARS TO GET THE TWO MILLIONS, AND 2 YEARS TO GET THE THREE MILLIONS, BUT ONLY 1 YEAR TO GET THE FOUR MILLIONS.

# PRODUCTION OF AUTOMOBILES

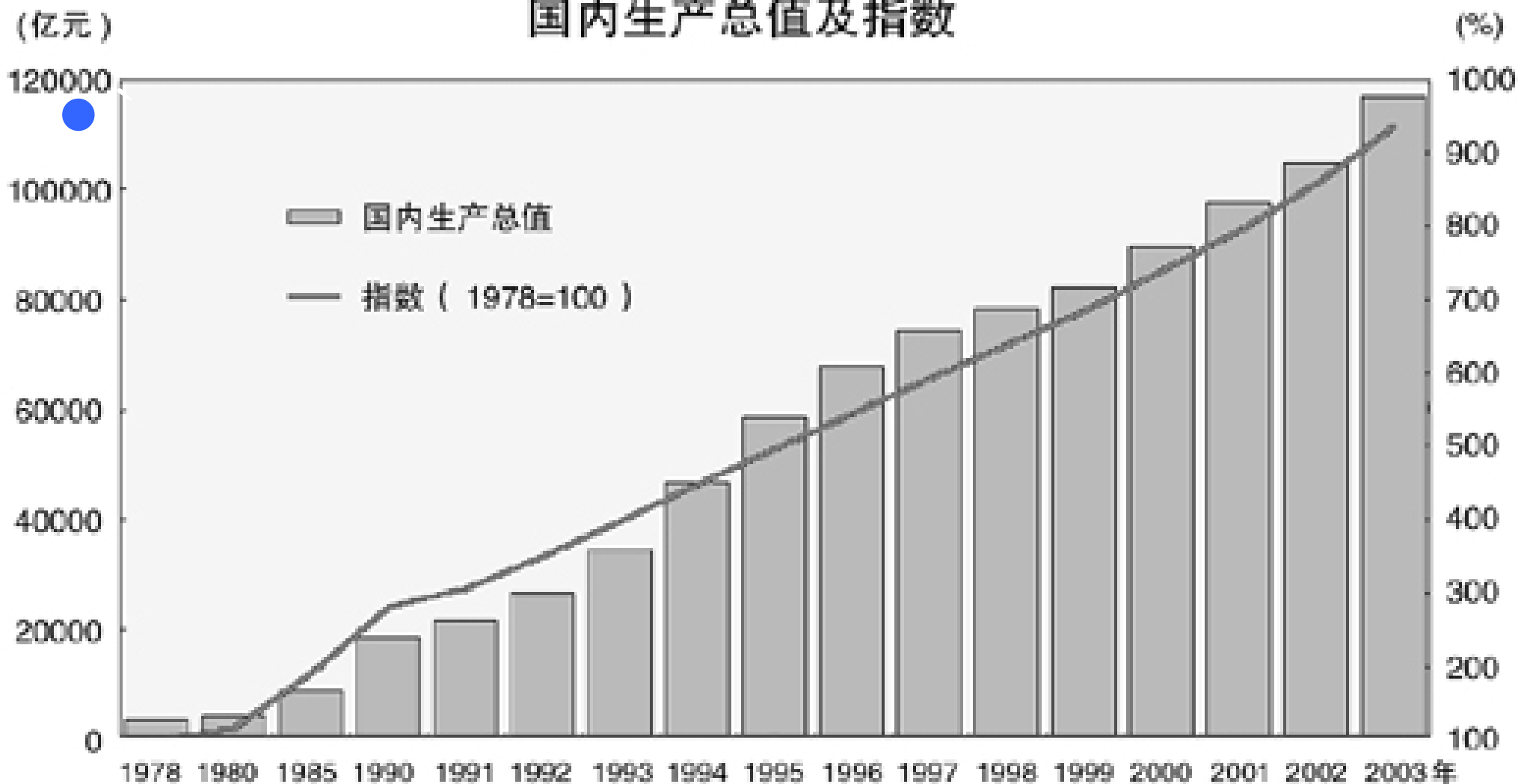






# GDP AND INDEX

## 国内生产总值及指数

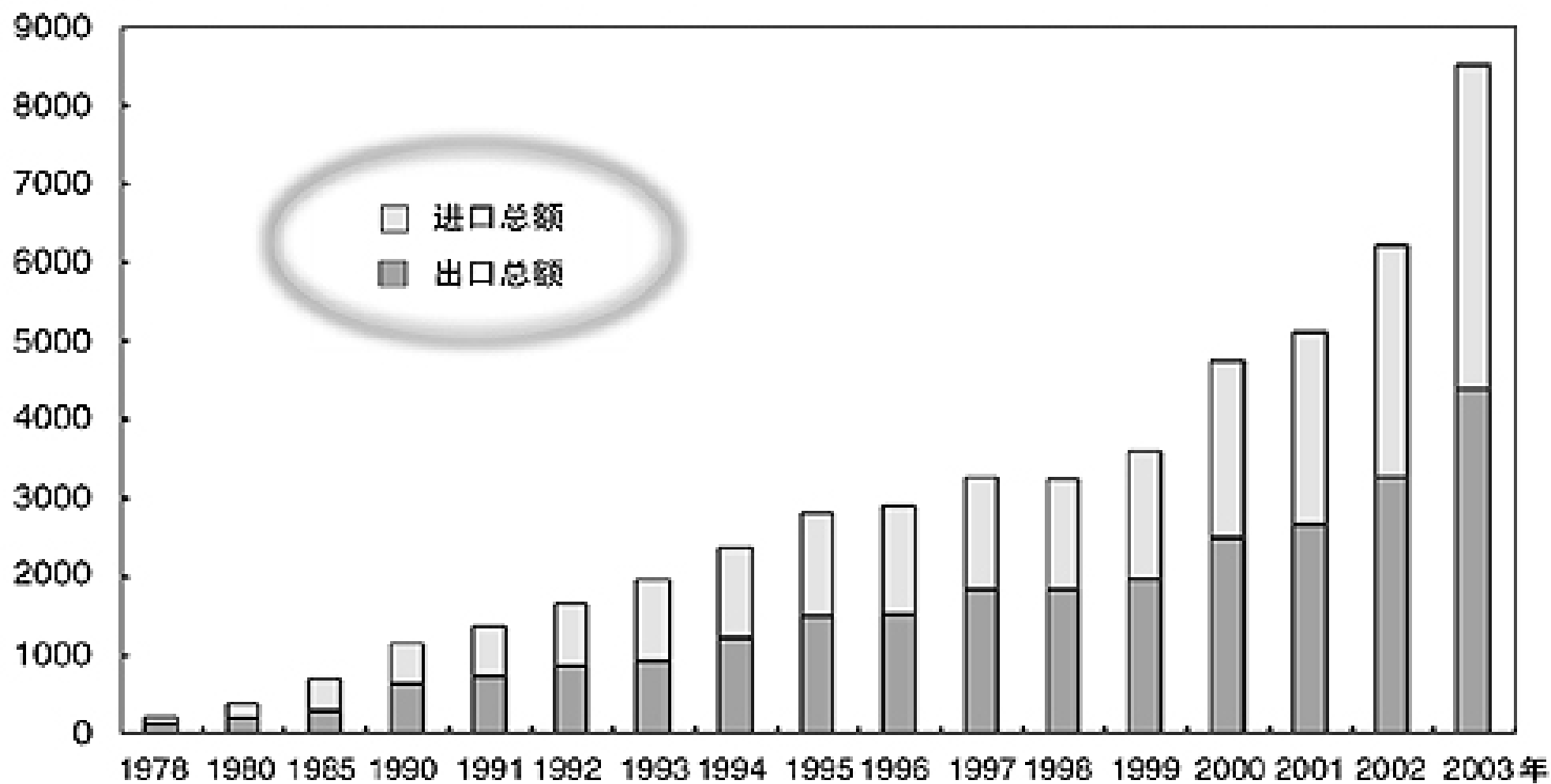




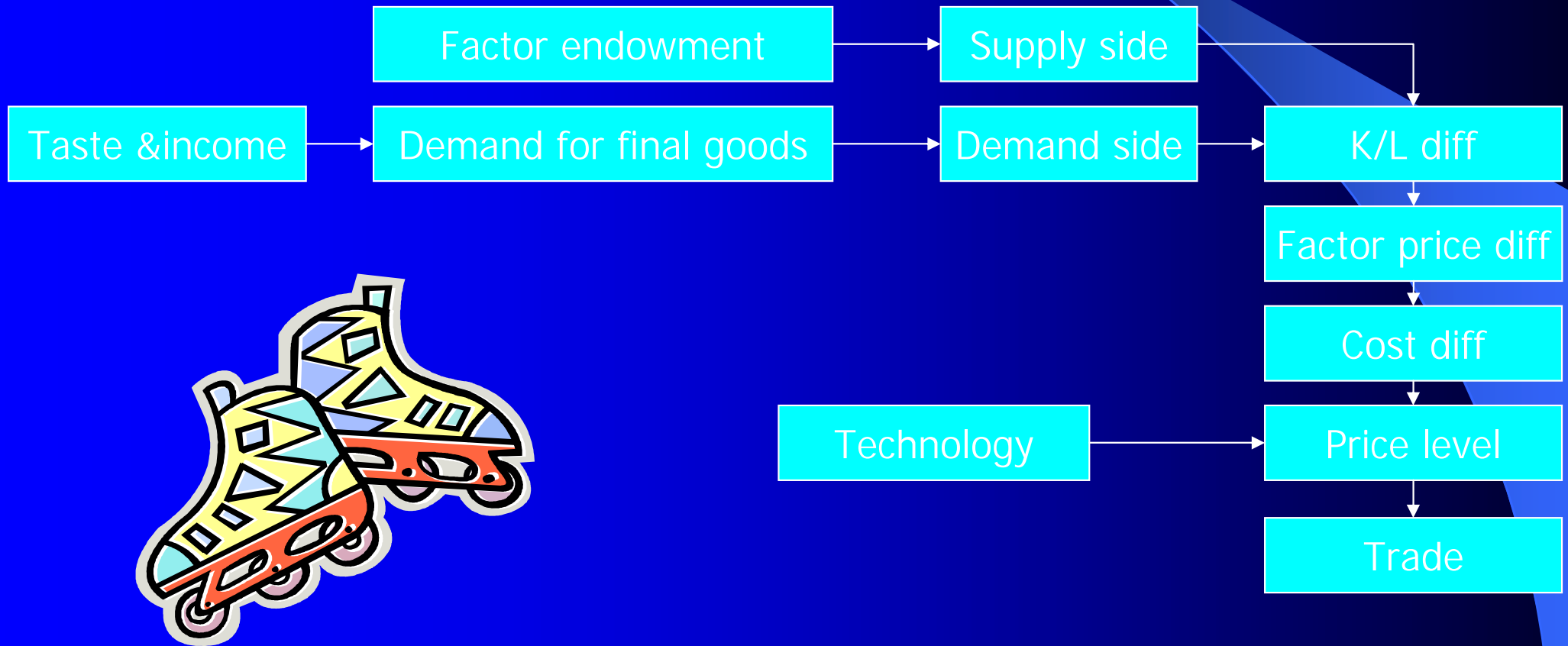
# EXPORT AND IMPORT

进出口总额

(亿美元)

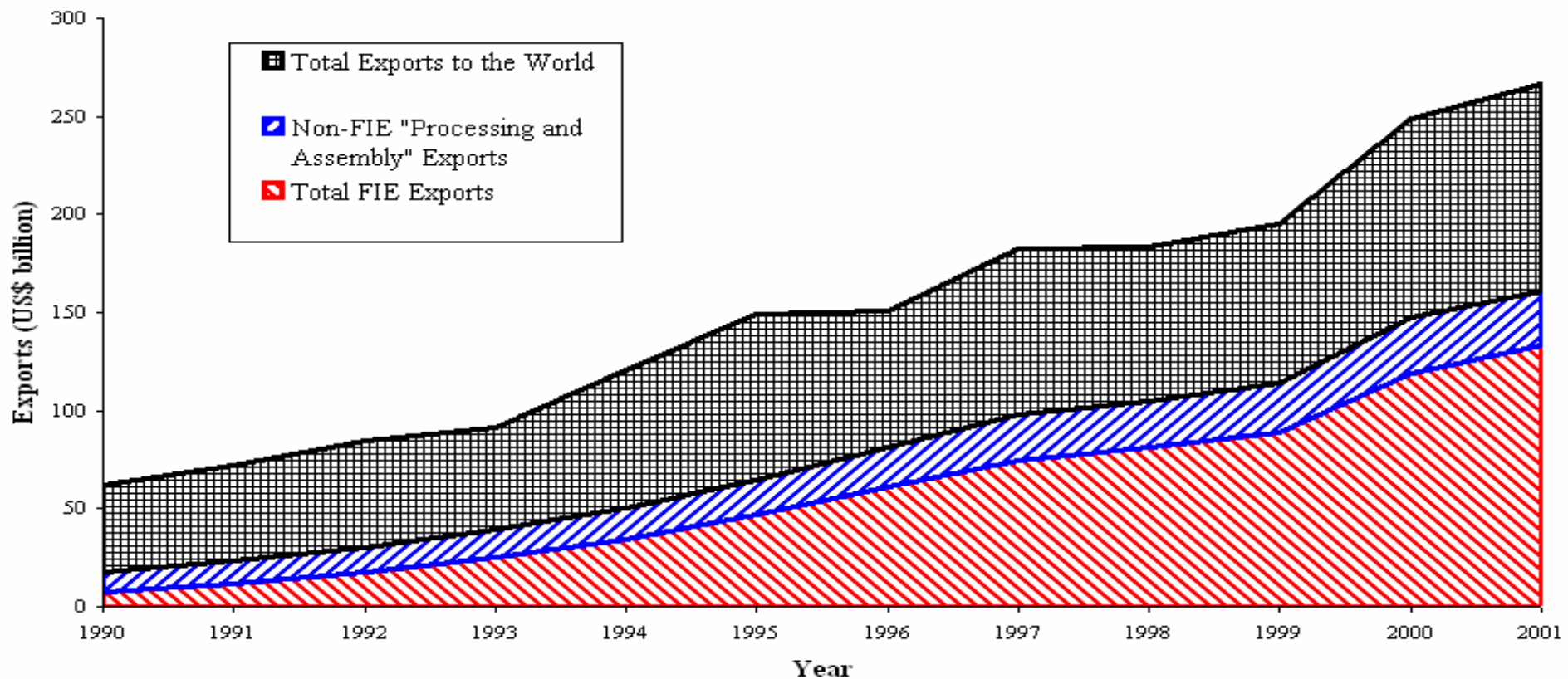


# H-O model

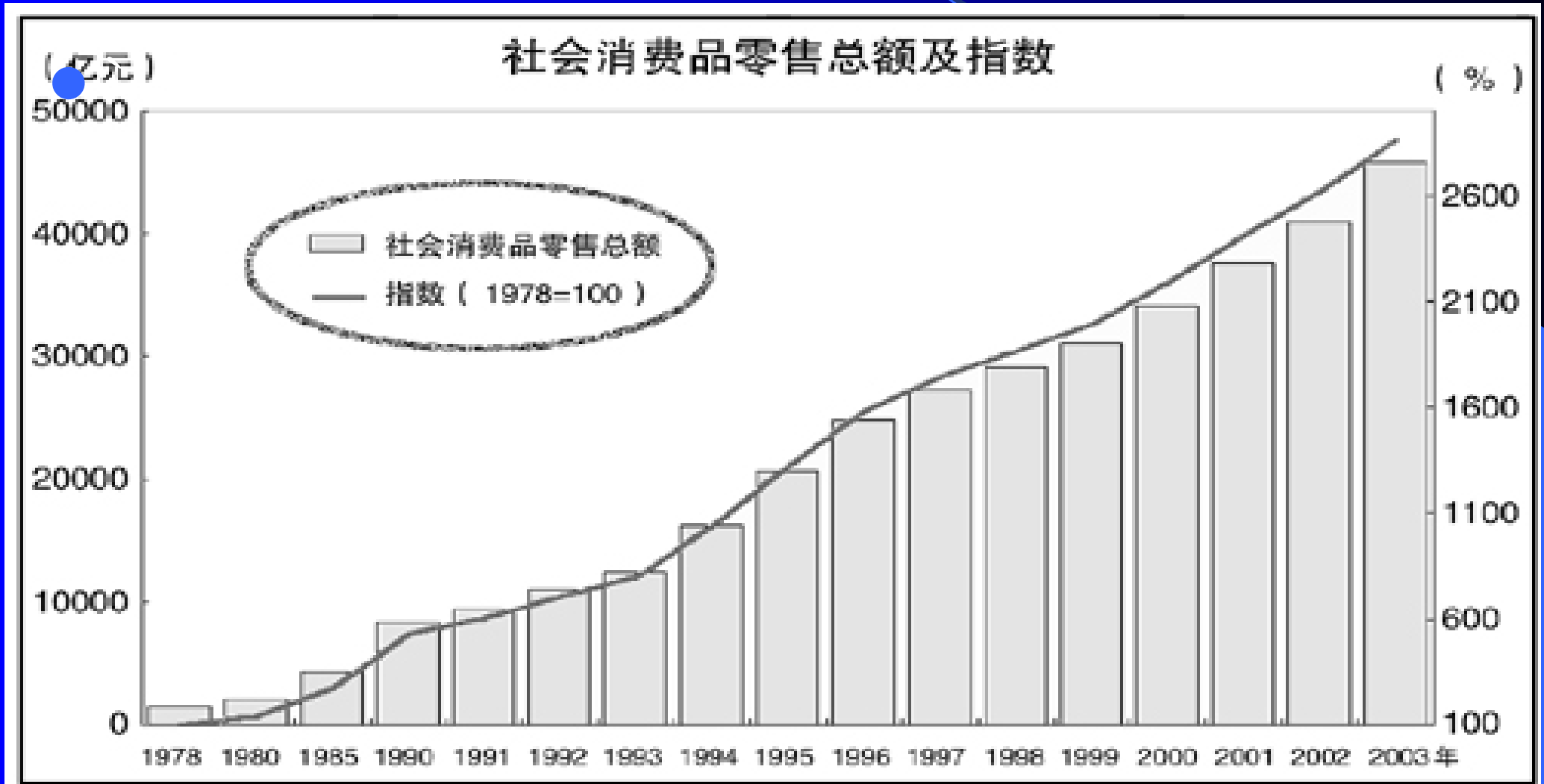


# Composition of Chinese Exports

Figure 1.1: Total FIE Exports, Non-FIE "Processing and Assembly" Exports, and Total Exports of Goods to the World



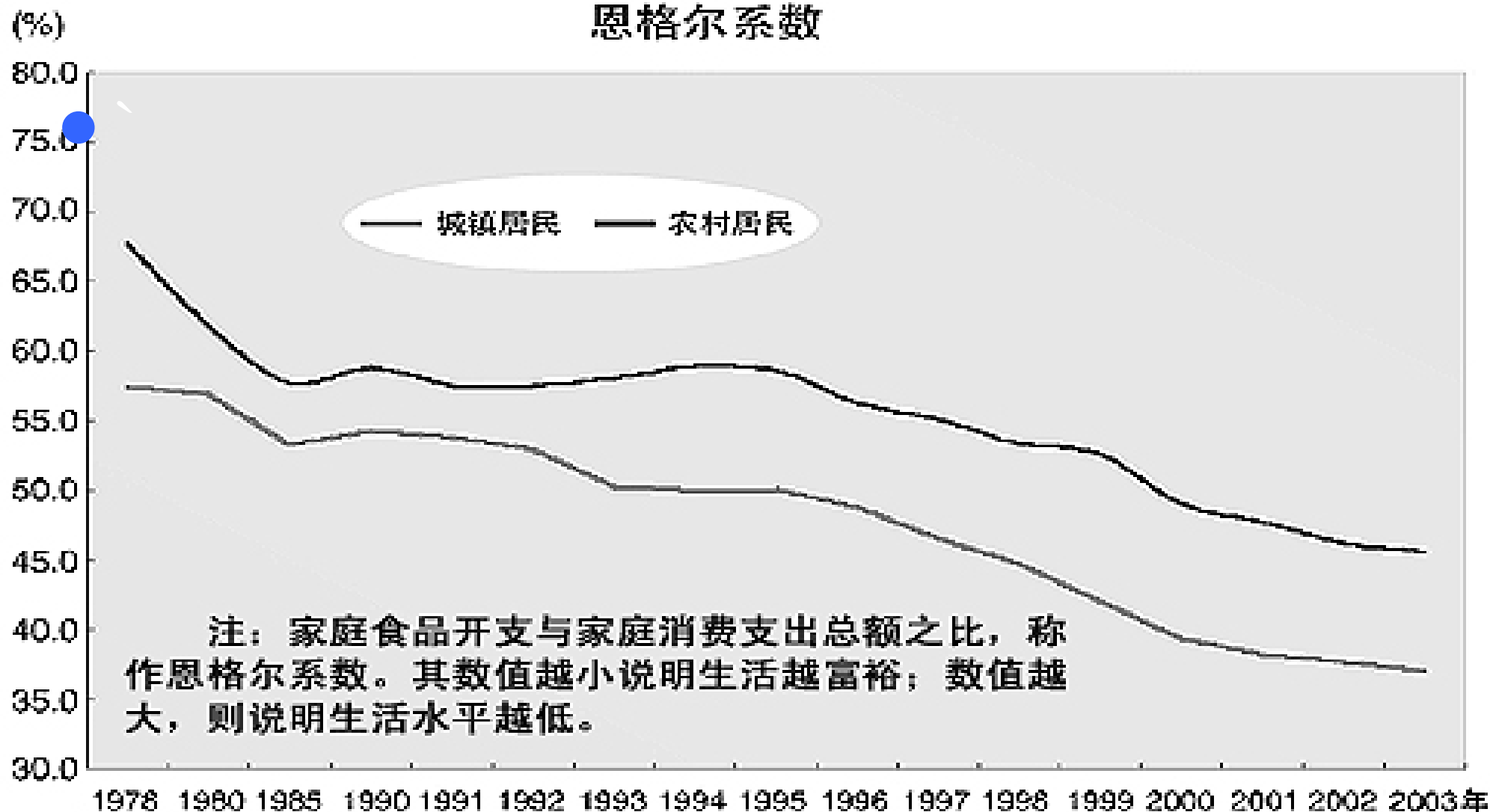
# CONSUMPTION



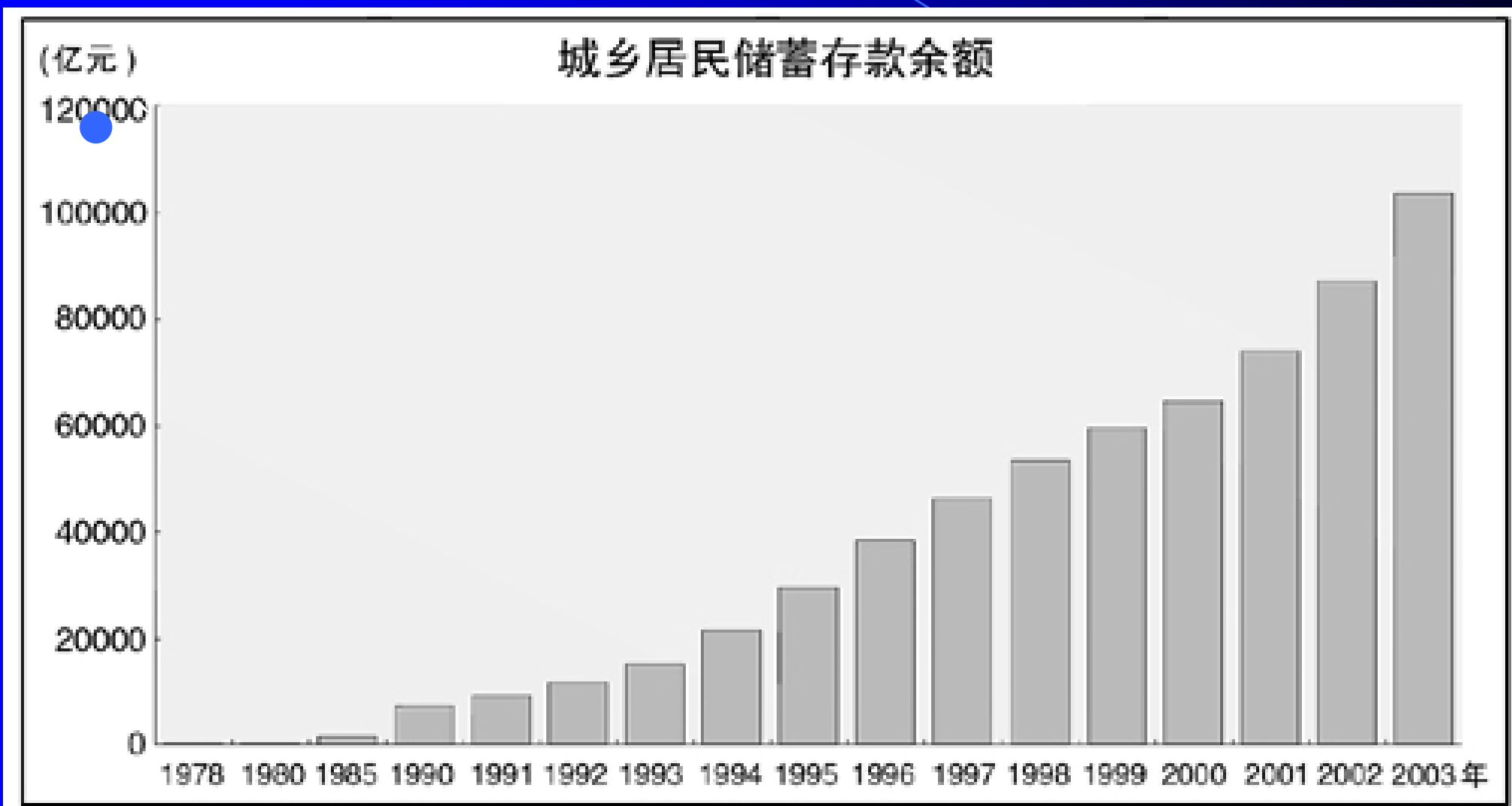


# ENGLE COEFFICIENCY

恩格尔系数



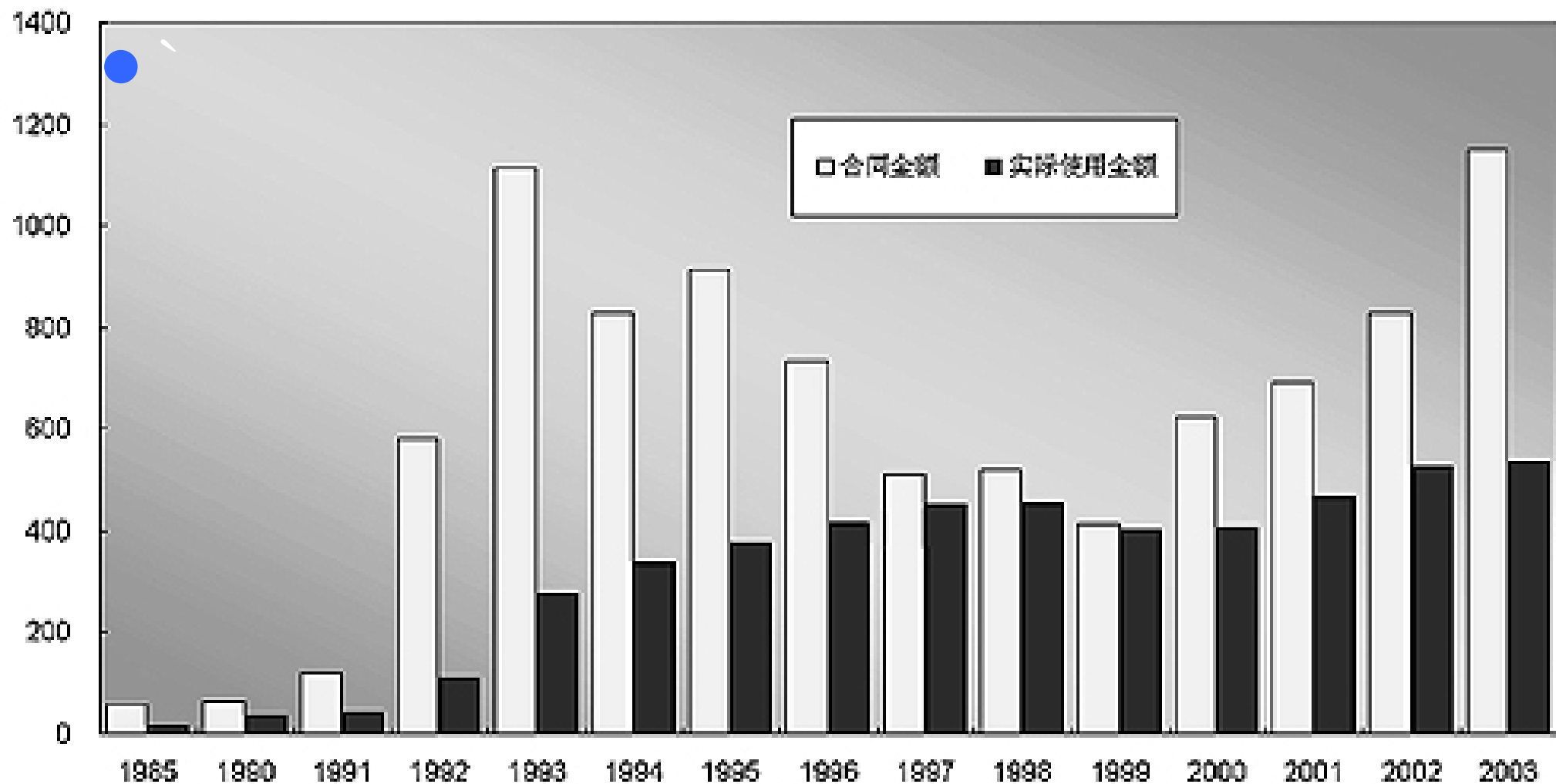
# PERSONAL BANK SAVING



# FDI

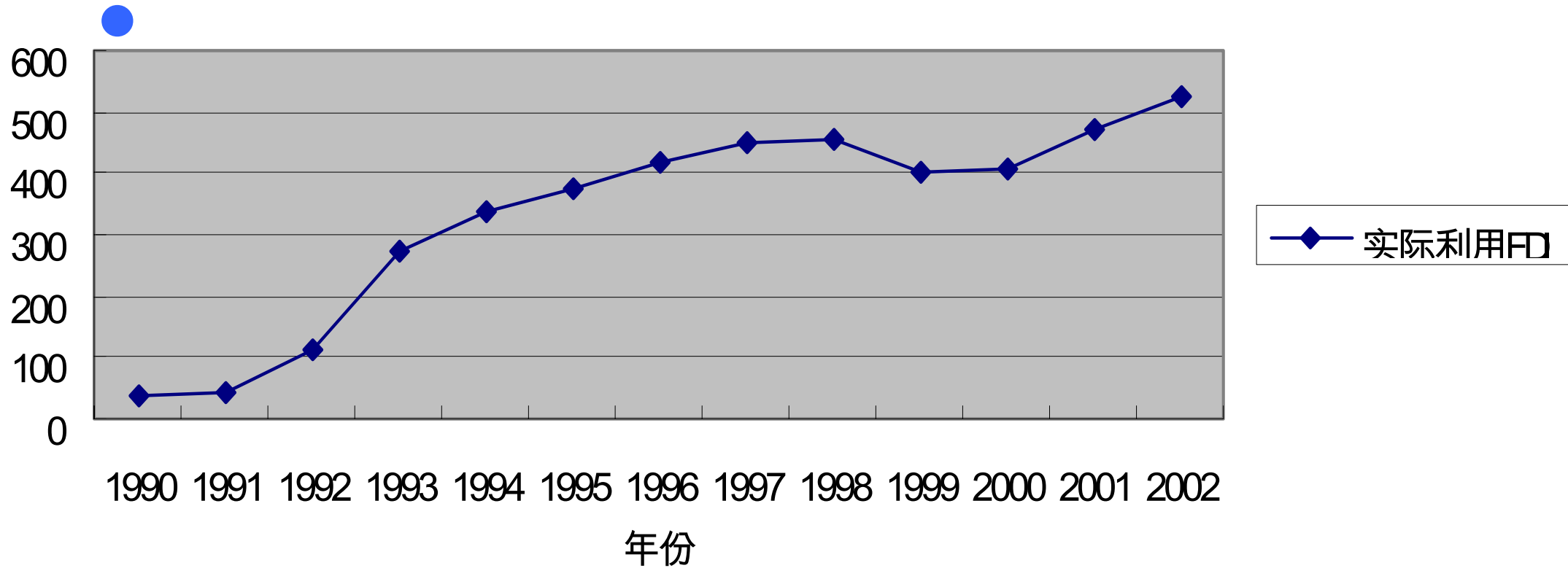
## 外商直接投资

(亿美元)



# FDI USED

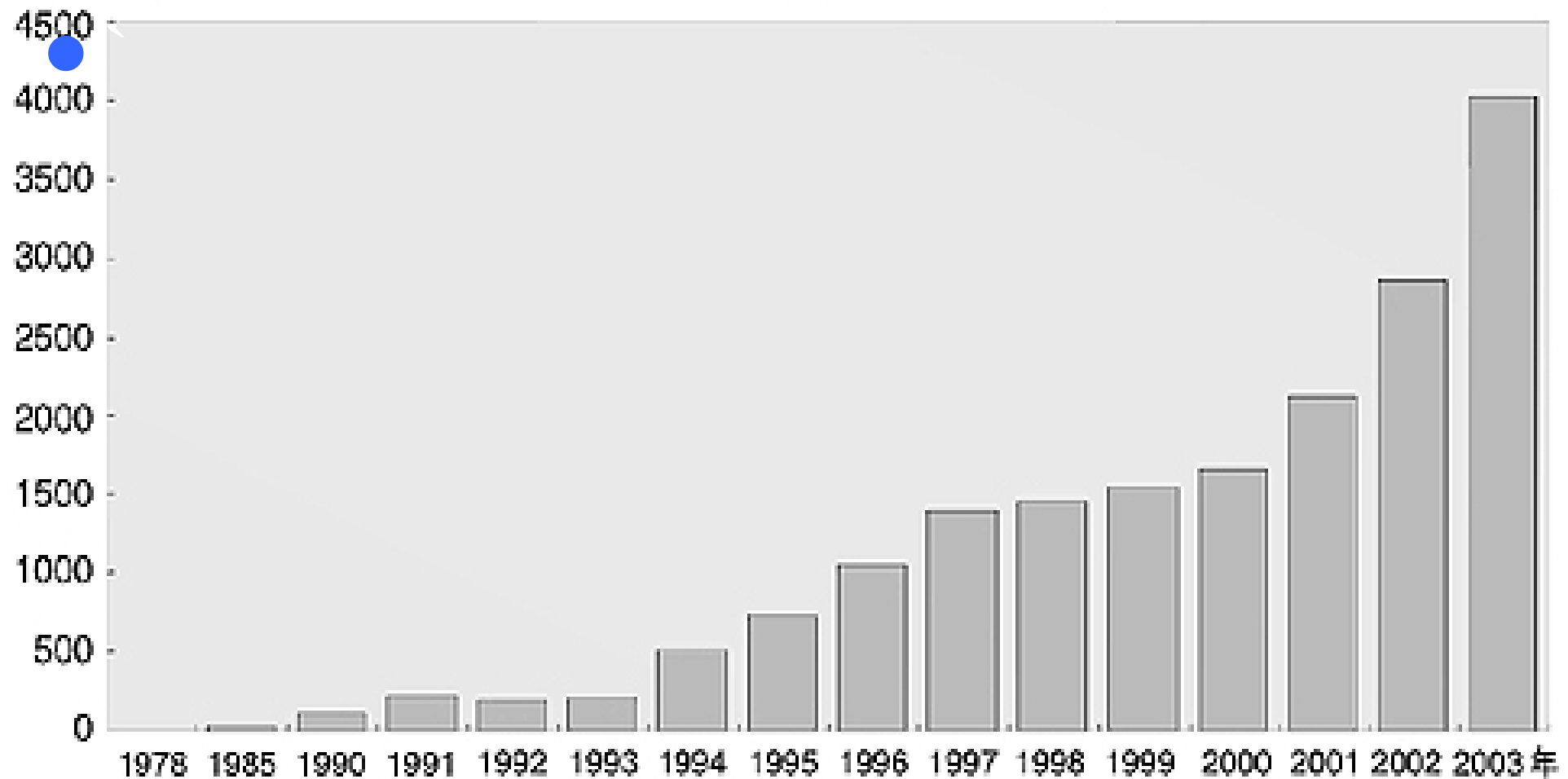
实际利用FDI



# FOREIGN EXCHANGE RESERVE

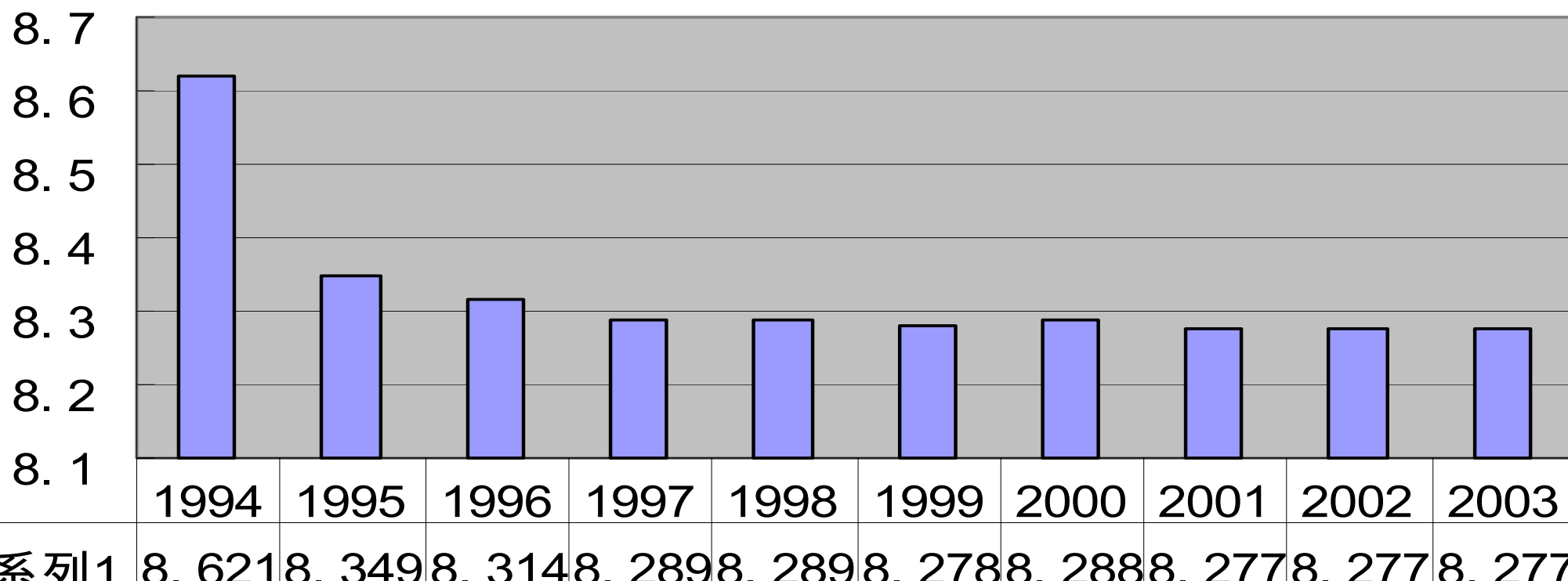
外汇储备

(亿美元)



# EXCHANGE RATE

1994- 2003 Exchange Rate of RMB to US\$



■ 系列1

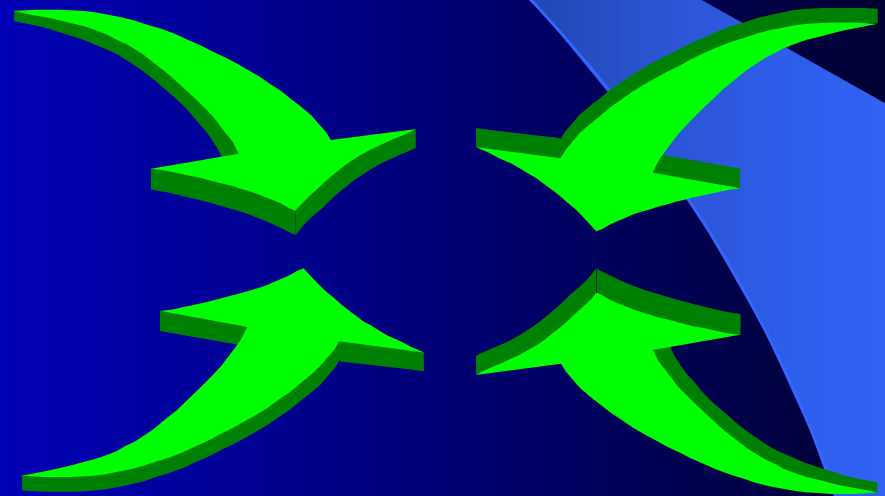
8.621 8.349 8.314 8.289 8.289 8.278 8.288 8.277 8.277 8.277

# **DIFFICULTY CHINA MET DURING 1997 - 1998 (I)**

- **currencies in Eastern Asian countries devaluated seriously, for example, Indonesian Rupiah depreciated almost 83.6%, Thailand Baht depreciated 42%, Korean Won devaluated 35.3%, and Singapore Dollar depreciated 15.4% from July 1997 - June 1998**

# QUESTION RAISED

- whether RMB, the China's Currency depreciate or not under the pressure from other economies' devaluation





# **REASONS TO SUPPORT (I)**

- **FROM THE WAY OF ANALYSIS OF THE SUPPLY AND DEMAND OF THE FOREIGN EXCHANGE IN CHINESE MARKET;**
- **FINANCIAL CRISIS IN EASTERN ASIAN REGION KEPT SOME POSSIBILITY OF RE-BREAK -OUT DURING 1997-1998**

# **REASONS TO SUPPORT (II)**

- **EXCHANGE RATE OF RMB WAS SET BY THE DYNAMIC OF THE MARKET IN CHINA WHICH ADJUSTS THE RATE TO BECOME EFFECTIVE**
- **THE RATE CHANGING OF RMB, WOULD BE FOLLOWING AND REFLECTING THE NEED OF ECONOMIC DEVELOPMENT OF CHINA**

# **REASONS TO SUPPORT (III)**

- **NEGATIVE IMPACT OF OTHER ECONOMIES DEVALUATION OF THEIR CURRENCIES UPON CHINESE EXPORT MAINLY CAME FROM THE SHRINK OF THE DEMAND OF EAST ASIAN FOR IMPORT OTHER THAN DEPRECIATION**

# REASONS TO SUPPORT (IV)

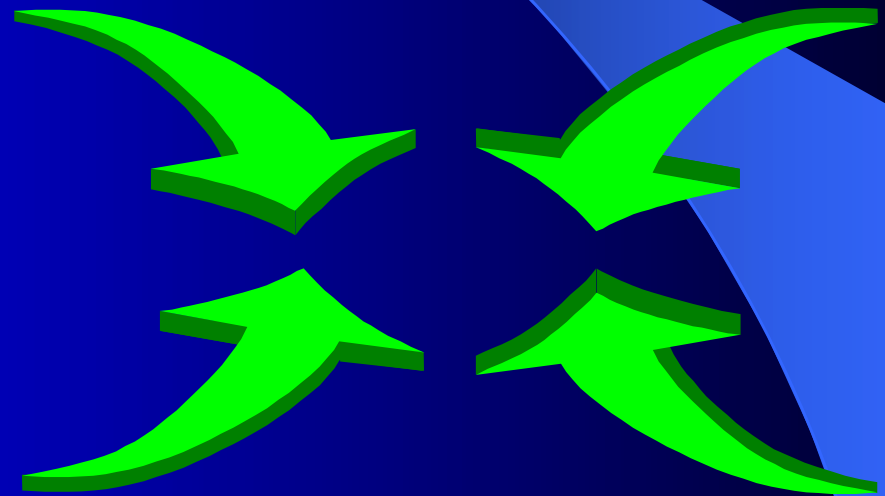
- **TRADE COMPETITION IS A TERM WHICH COMES FROM DIFFERENT FACTORS AND ELEMENTS, IT IS NOT SO EASY TO DRIVE OUT CHINESE PRODUCTS FROM HER TRADITIONAL MARKET, ESPECIALLY FROM THE DEVELOPED MARKET WITH DEPRECIATION OF CURRENCIES DURING 1997 - 1998**

# **REASONS TO SUPPORT (V)**

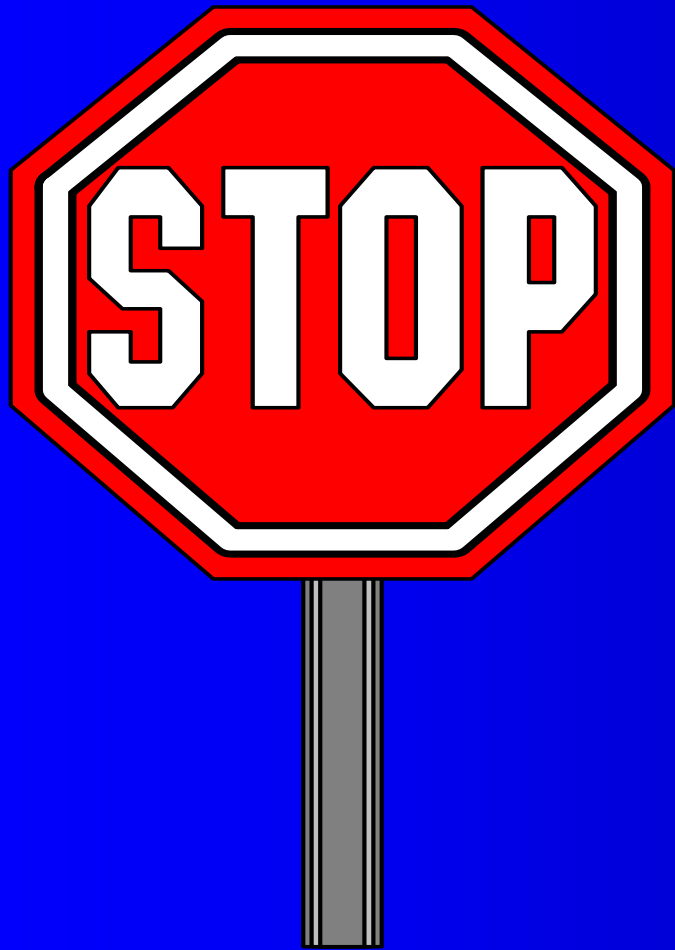
- **CHINESE GOVERNMENT TOOK BOTH MONETARY AND FISCAL POLICY TO COPE WITH THE ECONOMIC DIFFICULTY**
- **DEPRECIATION WOULD GIVE NO GREAT IMPROVEMENT TO CHINA'S EXPORT (10% - NO HELP, 30% NO MARKET CAPACITY)**

# QUESTION RAISED

- whether RMB, the China's Currency appreciate or not under the pressure from other economies' devaluation



# MY ANSWER TO THE QUESTION



- In the short term ( for example by the end of the year 2005 ) RMB, the Chinese currency has no reason to be revaluated, and in a long run, RMB, the Chinese currency has no reason not to keep the flexibility in the way of development and in the change of World Economy.

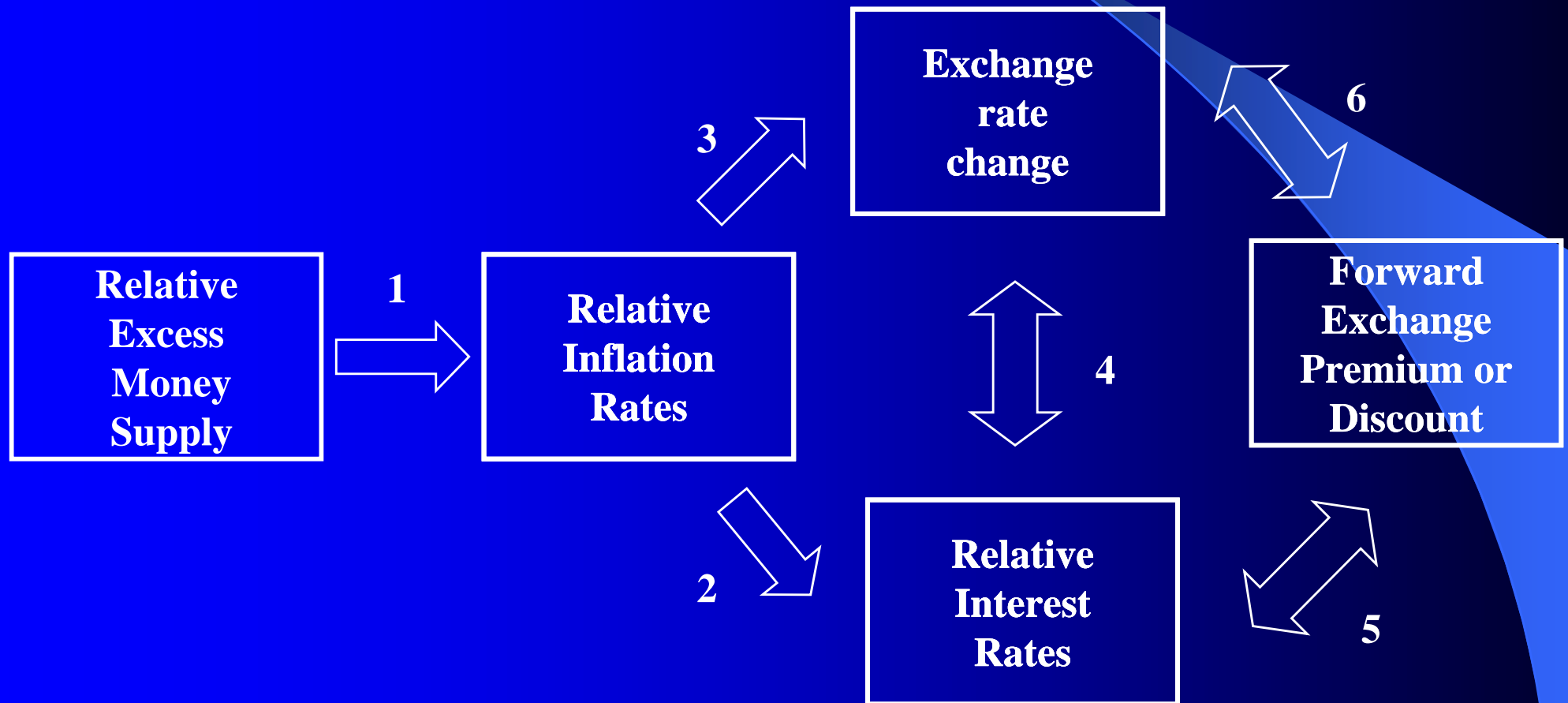


# The Big Mac Around the World

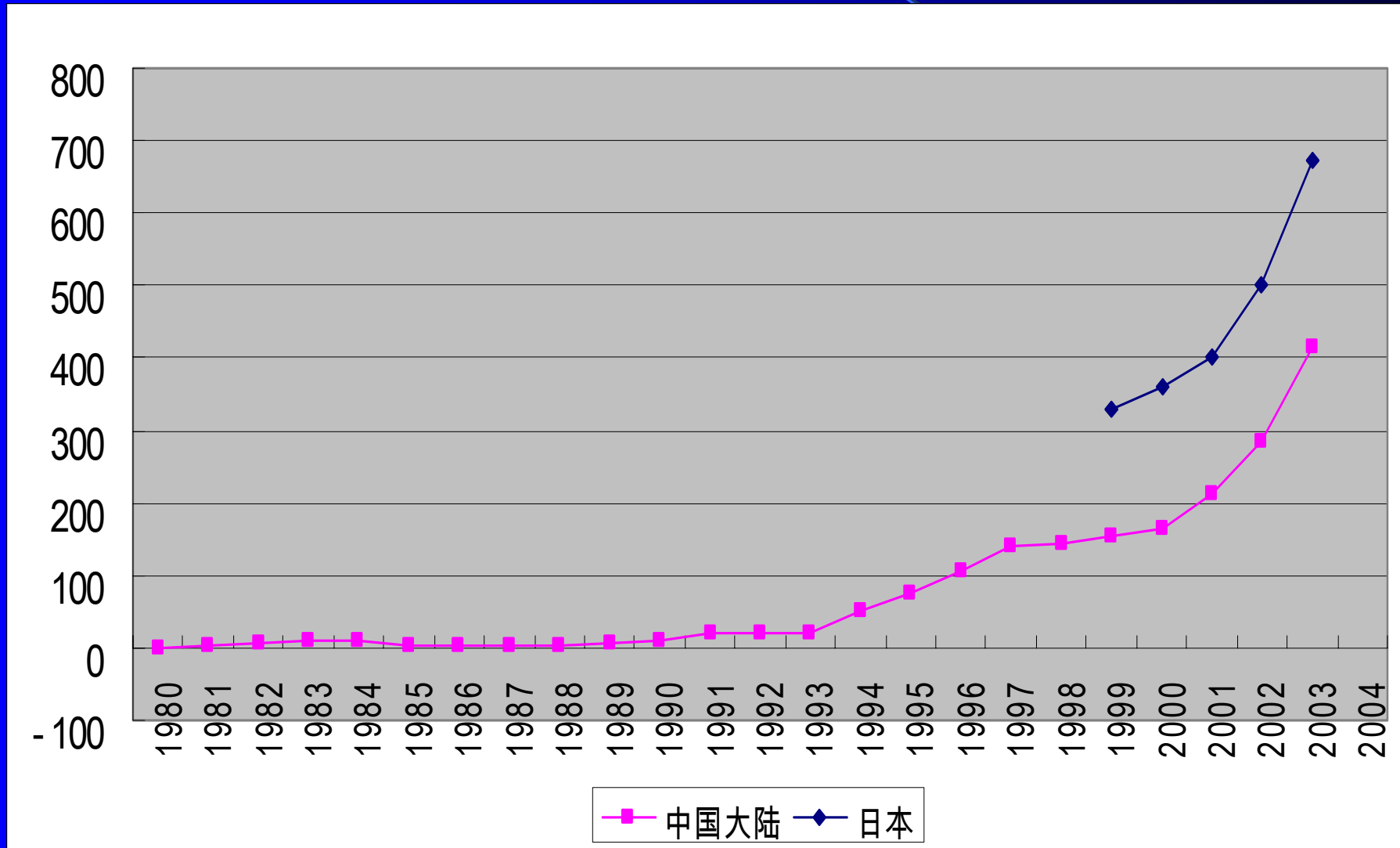
<i>Country</i>	<i>Price of a Big Mac in Local Currency</i>	<i>Price of a Big Mac in Dollars</i>	<i>Predicted Purchasing Power Exchange Rate (Foreign Currency per Dollar)</i>	<i>Actual Exchange Rate (Foreign Currency per Dollar)</i>
United States	2.54 dollars	\$2.54		
United Kingdom	1.99 pounds	\$2.85	1.28	1.43
Hong Kong	10.7 HK dollars	\$1.37	4.21	7.80
Switzerland	6.30 Swiss francs	\$3.65	2.48	1.73
Mexico	21.9 pesos	\$2.36	8.62	9.29
Singapore	3.30 Singapore dollars	\$1.82	1.30	1.81



# International Linkages between Inflation, Interest & Exchange Rates



# FER IN CHINA AND JAPAN



# TWO GAP MODEL

$$Y = C + S + T + M$$

$$Y = C + I + G + X$$

$$S + T + M = I + G + X$$

if:  $T = G$

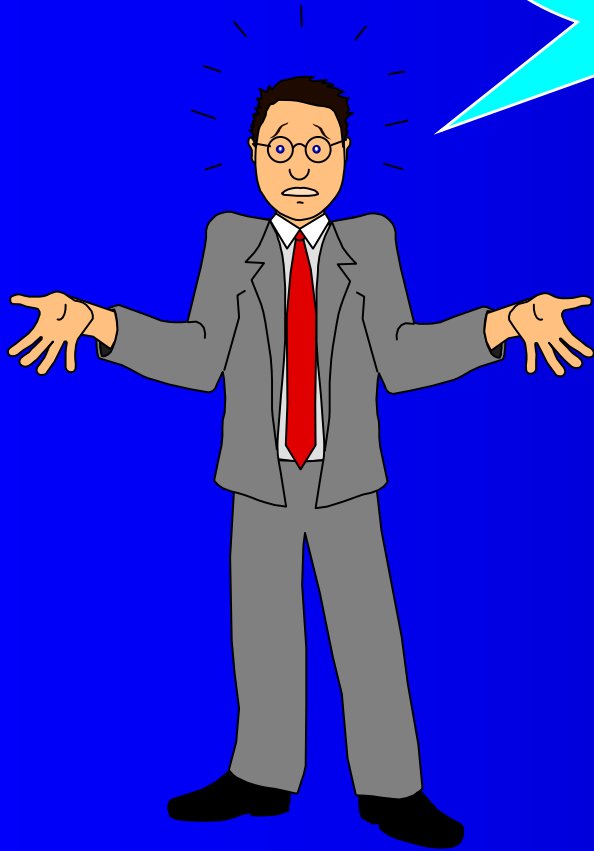
$$S + M = I + X$$

$$S - I = X - M$$

$$S > I = X > M$$

# $S > I = \text{Recession}$

What's to be done?



- **Money Oversupply**



**Low interest**

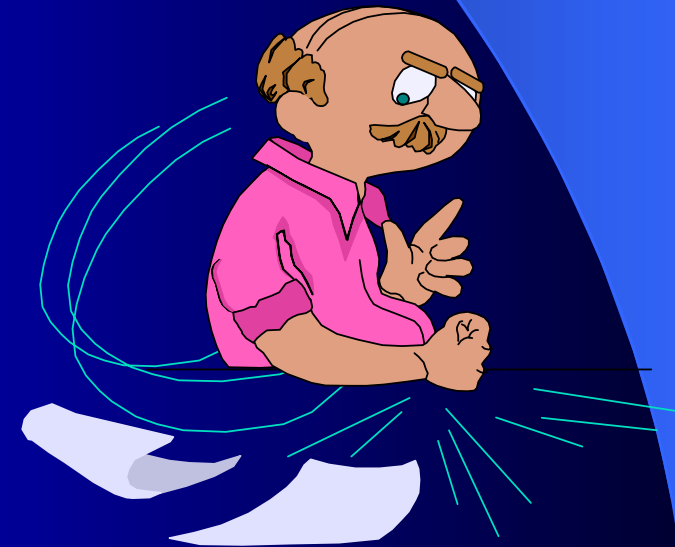


**Ineffective  
monetary policy**

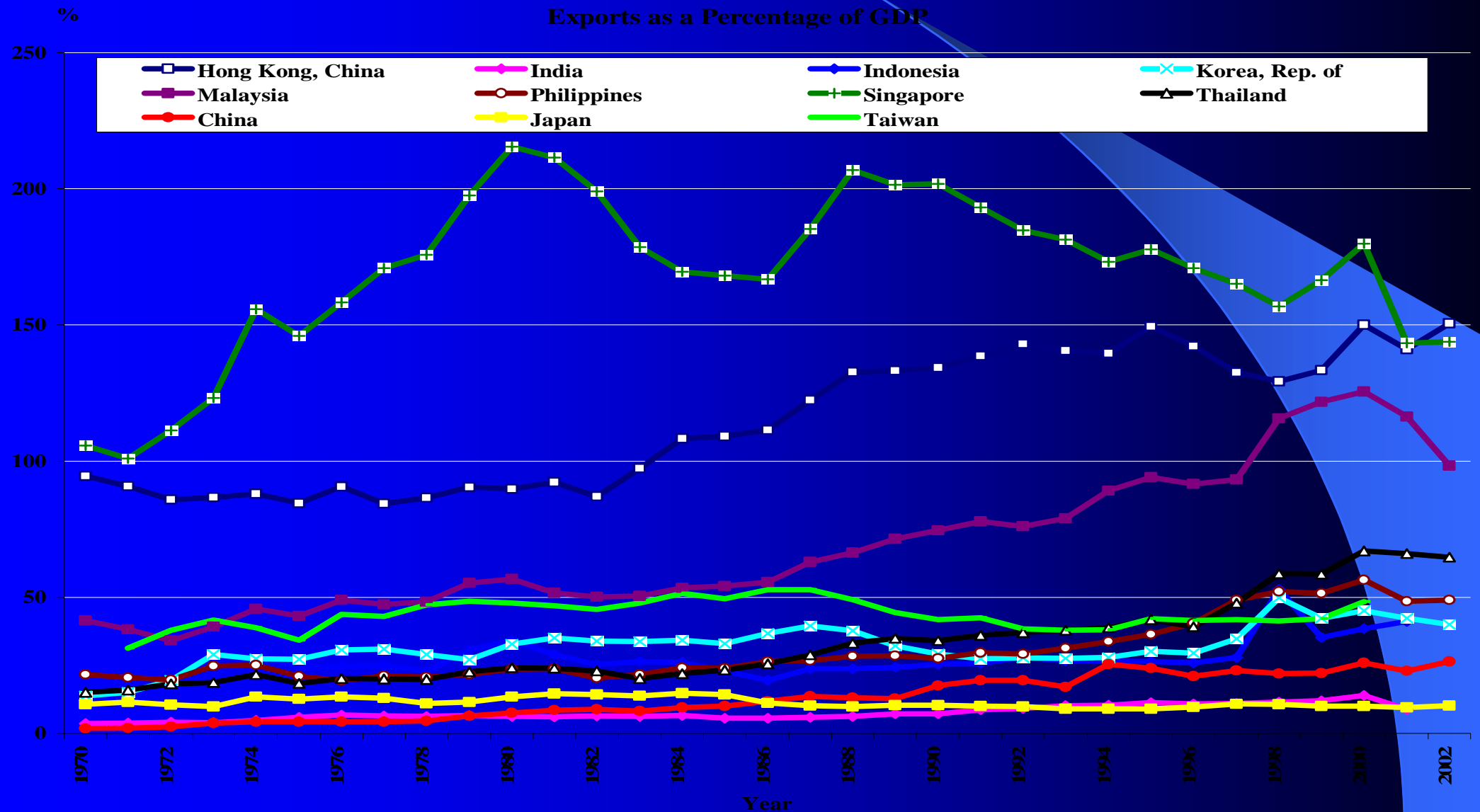
# $X > M \rightarrow$ Capital Outflow

- Capital outflow
- Capital accounts and current accounts cannot be balanced.

We must fix it!

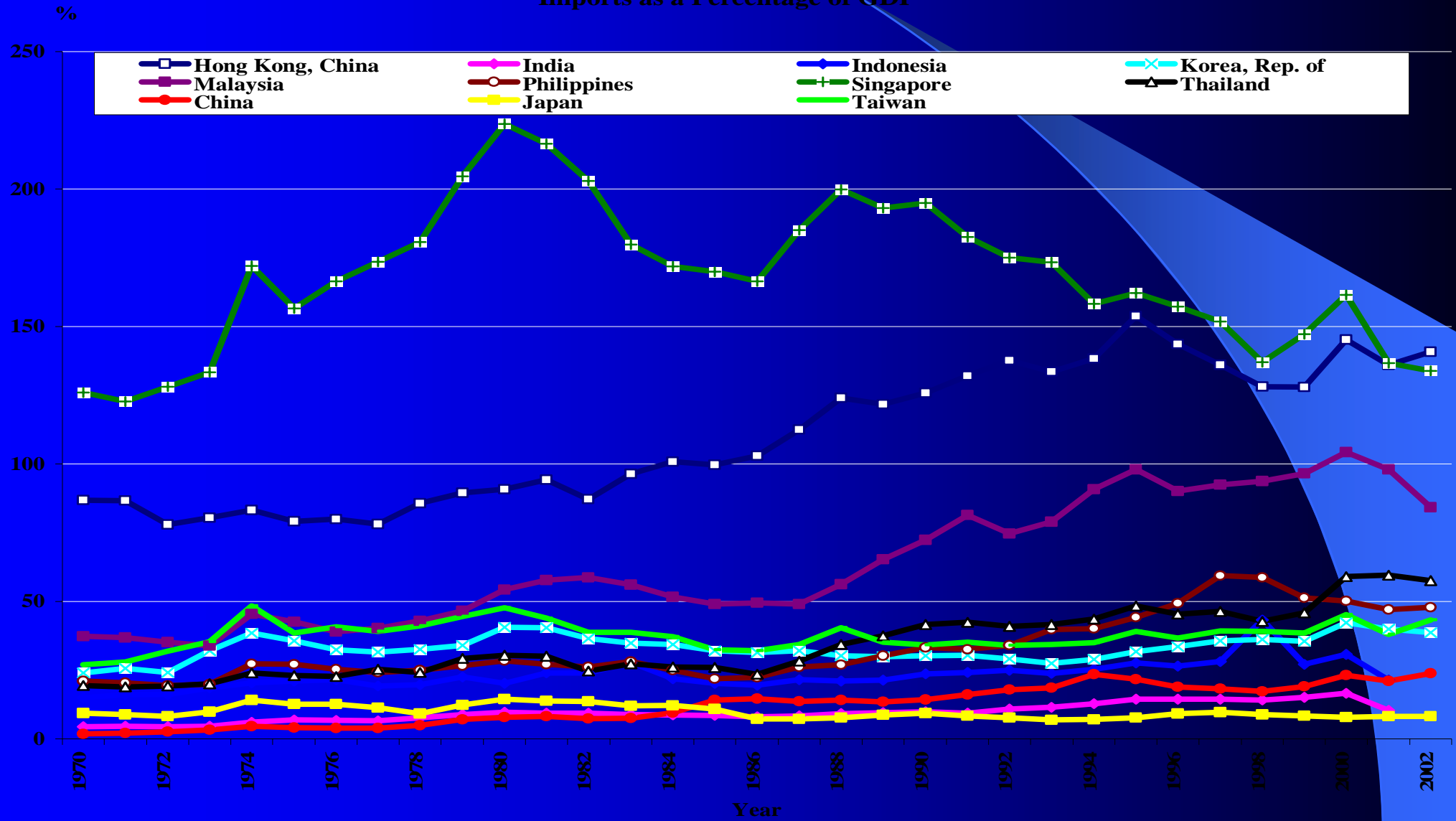


# WHY TRADE: Exports as a Percent of GDP: Selected East Asian Economies and U.S.



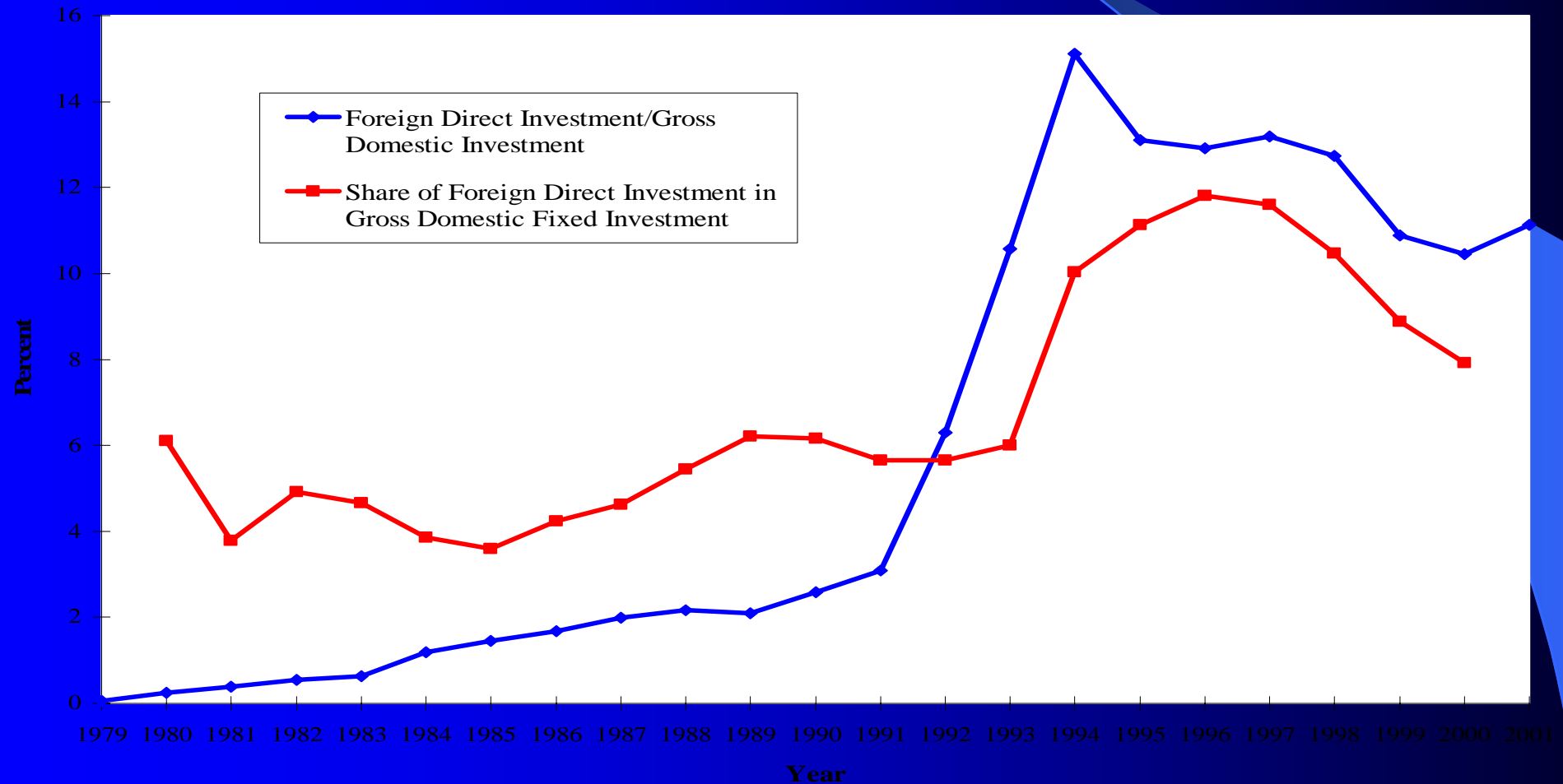
# WHY TRADE: Imports as a Percent of GDP: Selected East Asian Economies and U.S.

Imports as a Percentage of GDP



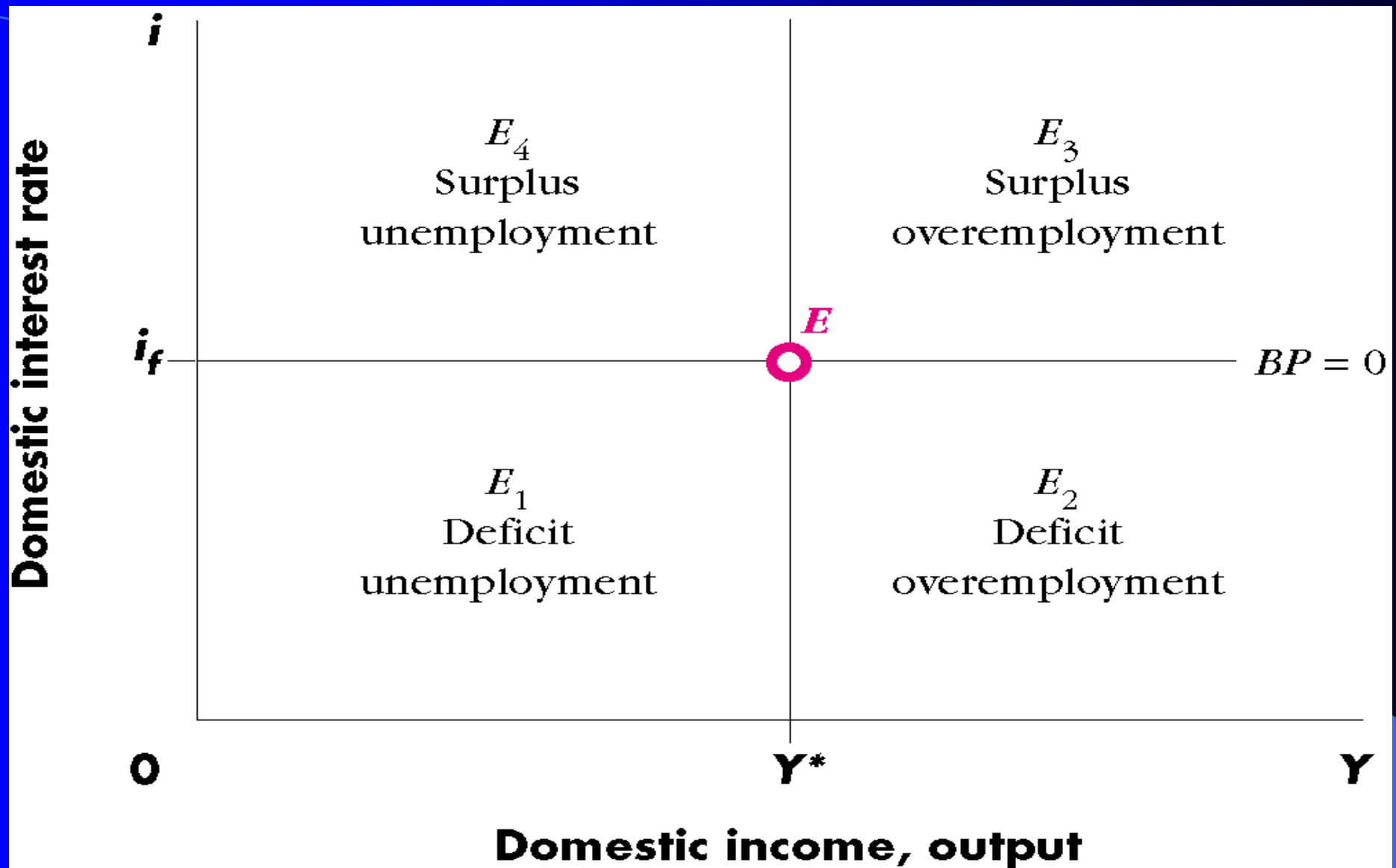
# The Shares of FDI in Chinese Gross Domestic and Gross Domestic Fixed Investment

Fig. 1.2. The Share of Foreign Direct Investment in China (Percent)

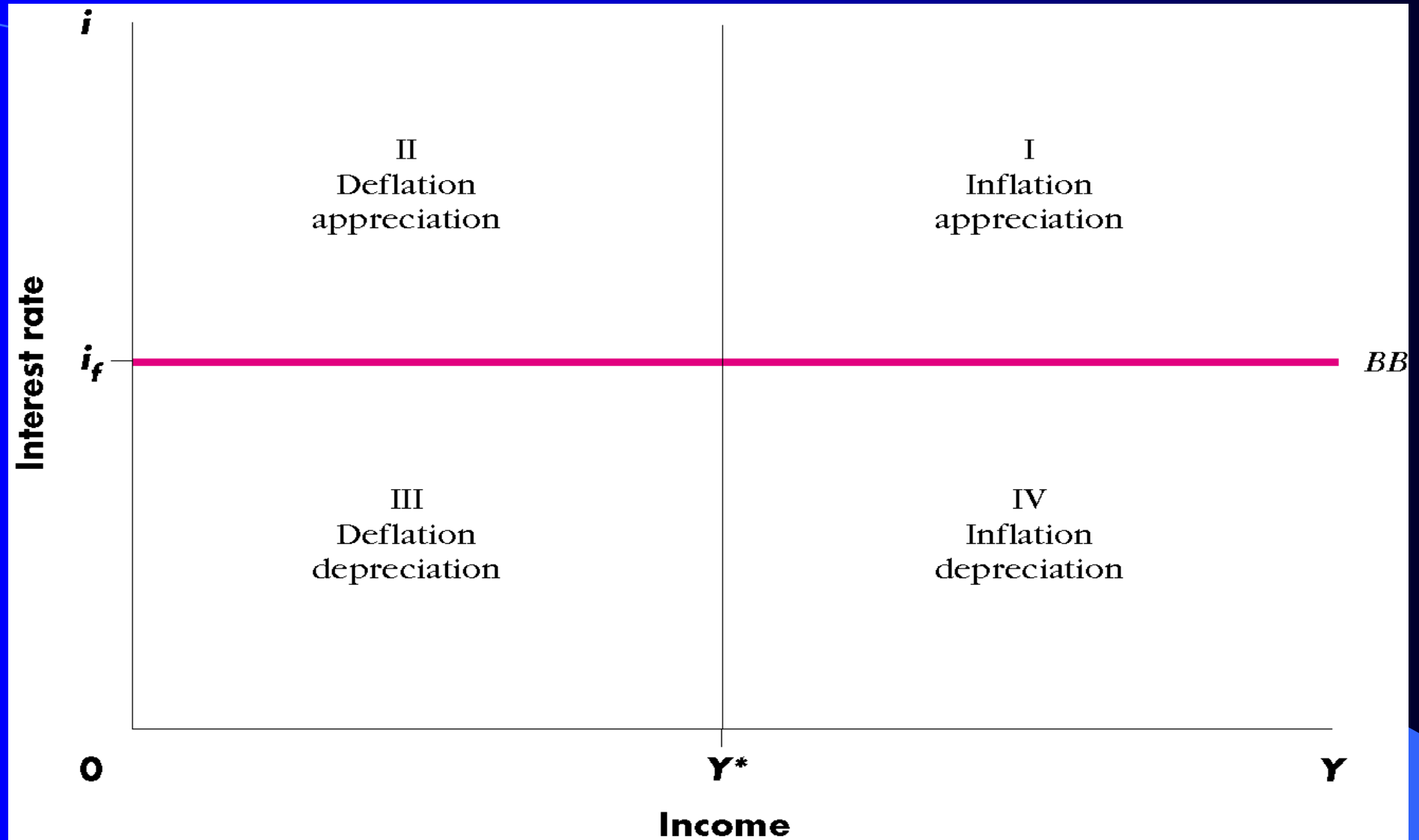




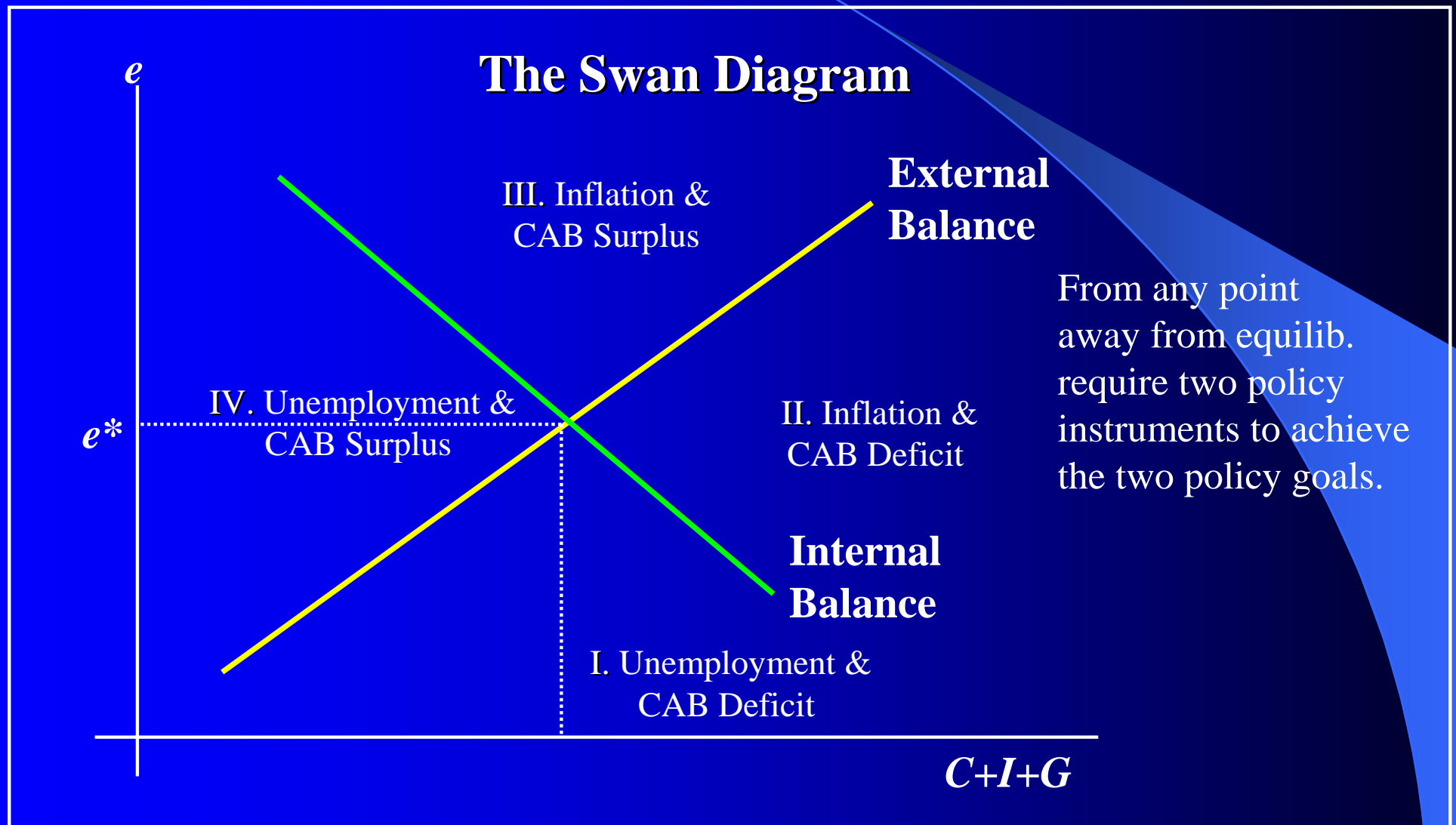
# SWAN DIAGRAM



# SWAN DIAGRAM



# Internal vs. External Balance Diagram



# The Impossible Trinity

- A concept due to Prof. Robert Mundell, Nobel Laureate in Economics
- Interest rate autonomy—**independence of monetary policy**
- Exchange rate autonomy (including a fixed exchange rate)
- Capital mobility

# **China: The First Choice for Investment Outflow**

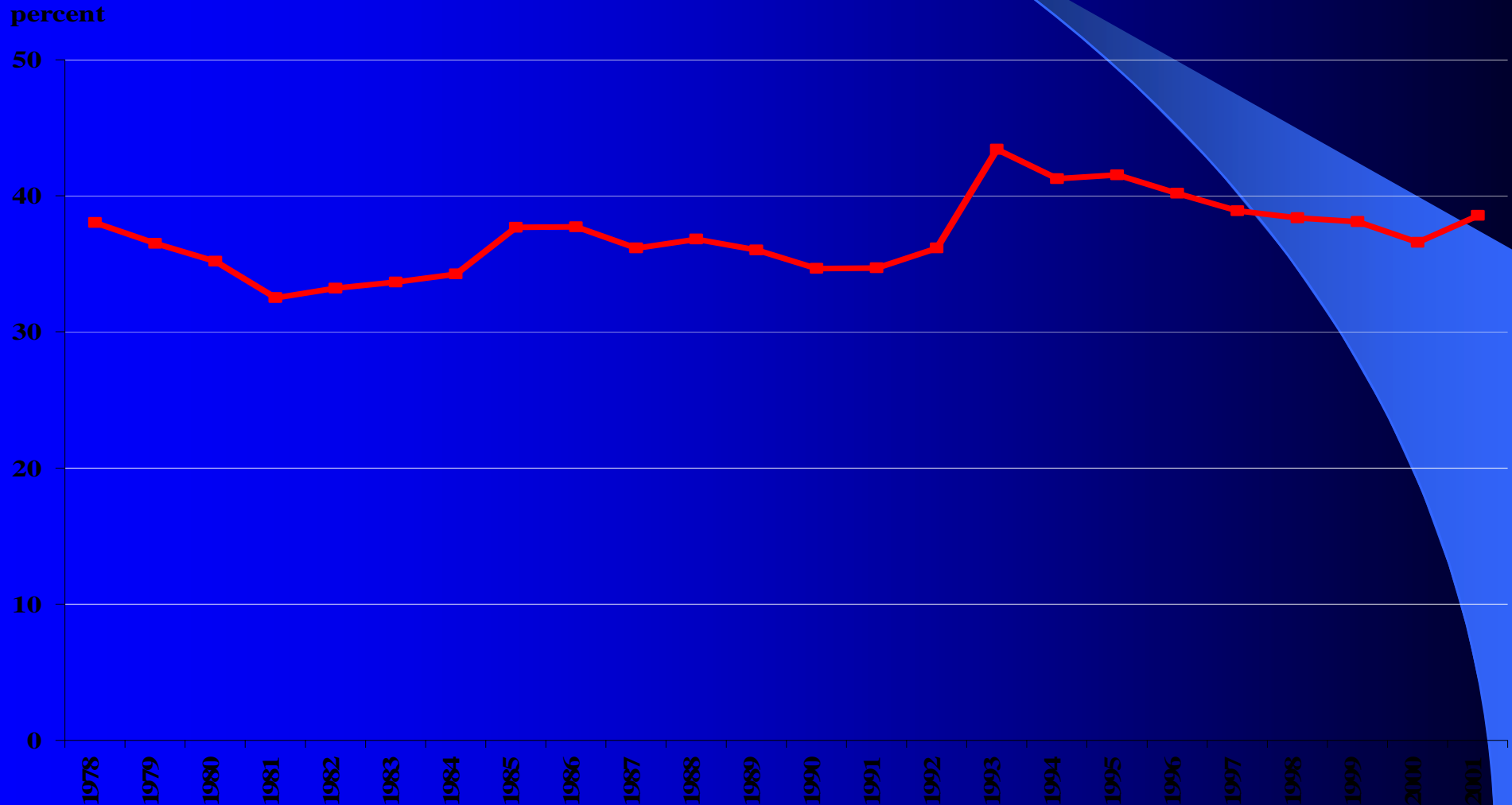
- **sample for questionnaire : 4573 Foreign Investors from APEC Members, 29/12/98**
- **87% of Investors Considered China is the Most Attractive in APEC Group**
- **34.4% of Investors with Very Strong Confidence, 61% with Confidence**
- **70.5% of Investors with Business Planning for Next 10 Years in China.**

# Foreign Direct Investment

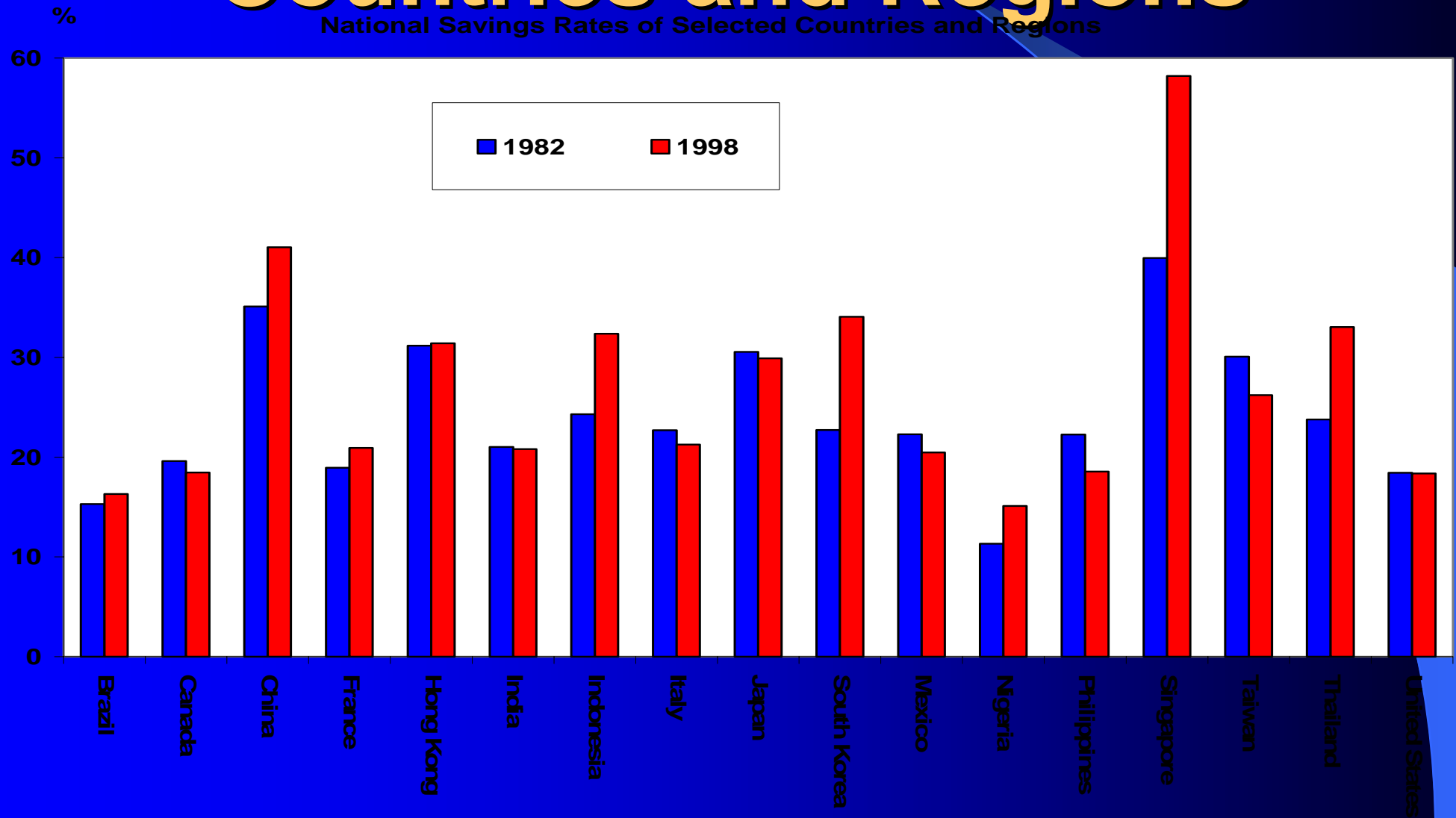
- Chinese economic growth is mostly driven by the growth of domestic aggregate demand—both fixed investment and consumption.
- Foreign direct investment is a relatively small proportion of total Chinese gross domestic investment.
- Chinese fixed investment is mostly financed by domestic savings and not by foreign loans or portfolio investment.

# China's Gross Domestic Investment as a Percent of GDP

China's Gross Domestic Investment as a Percentage of GDP



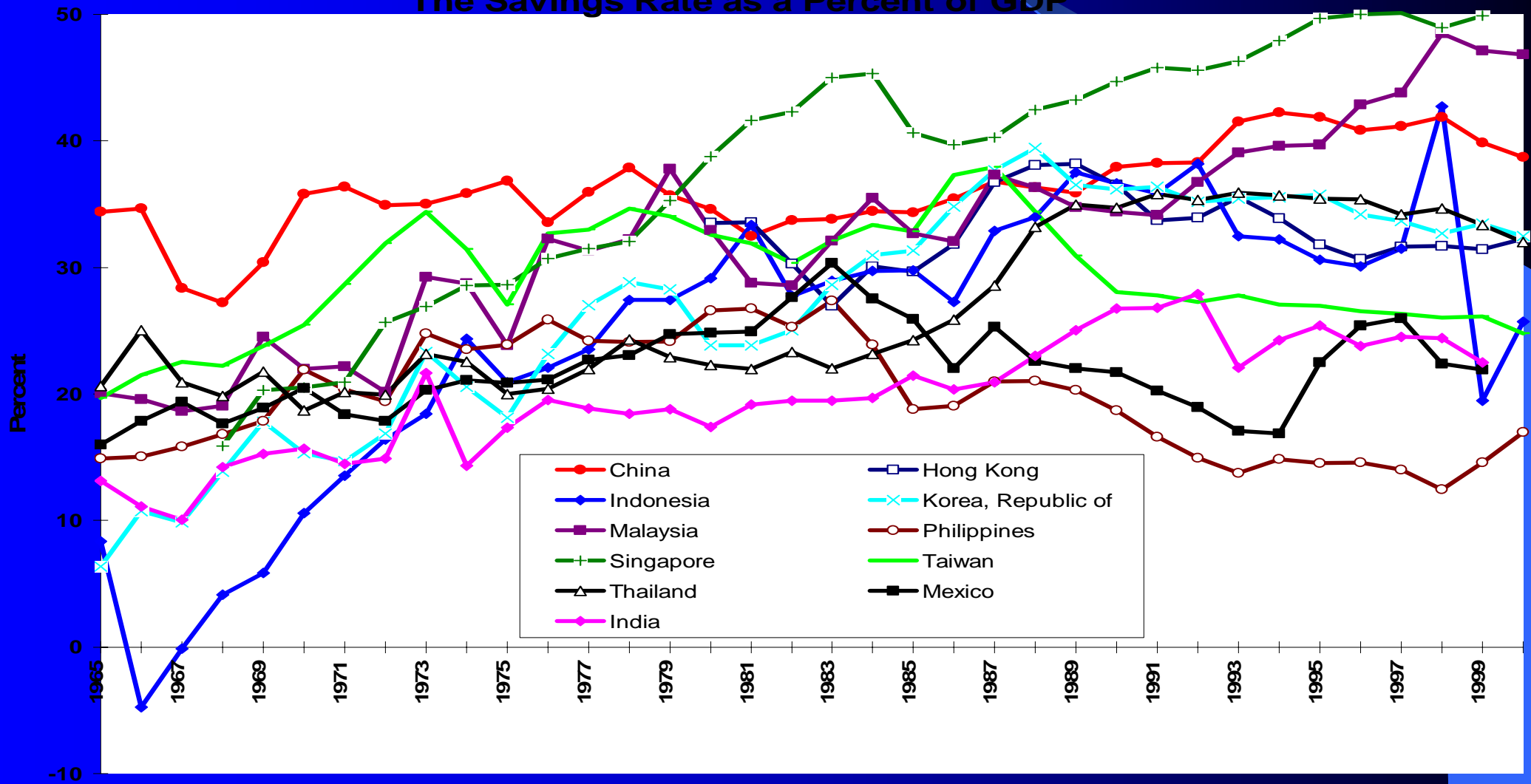
# National Savings Rate as a Percent of GDP: Selected Countries and Regions





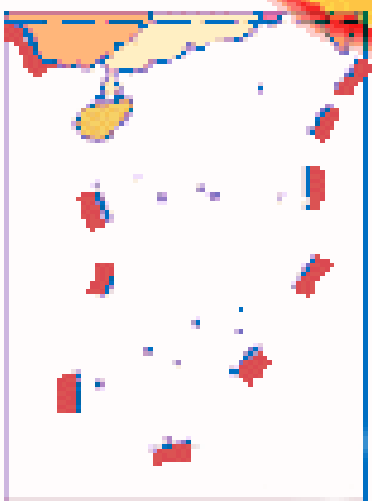
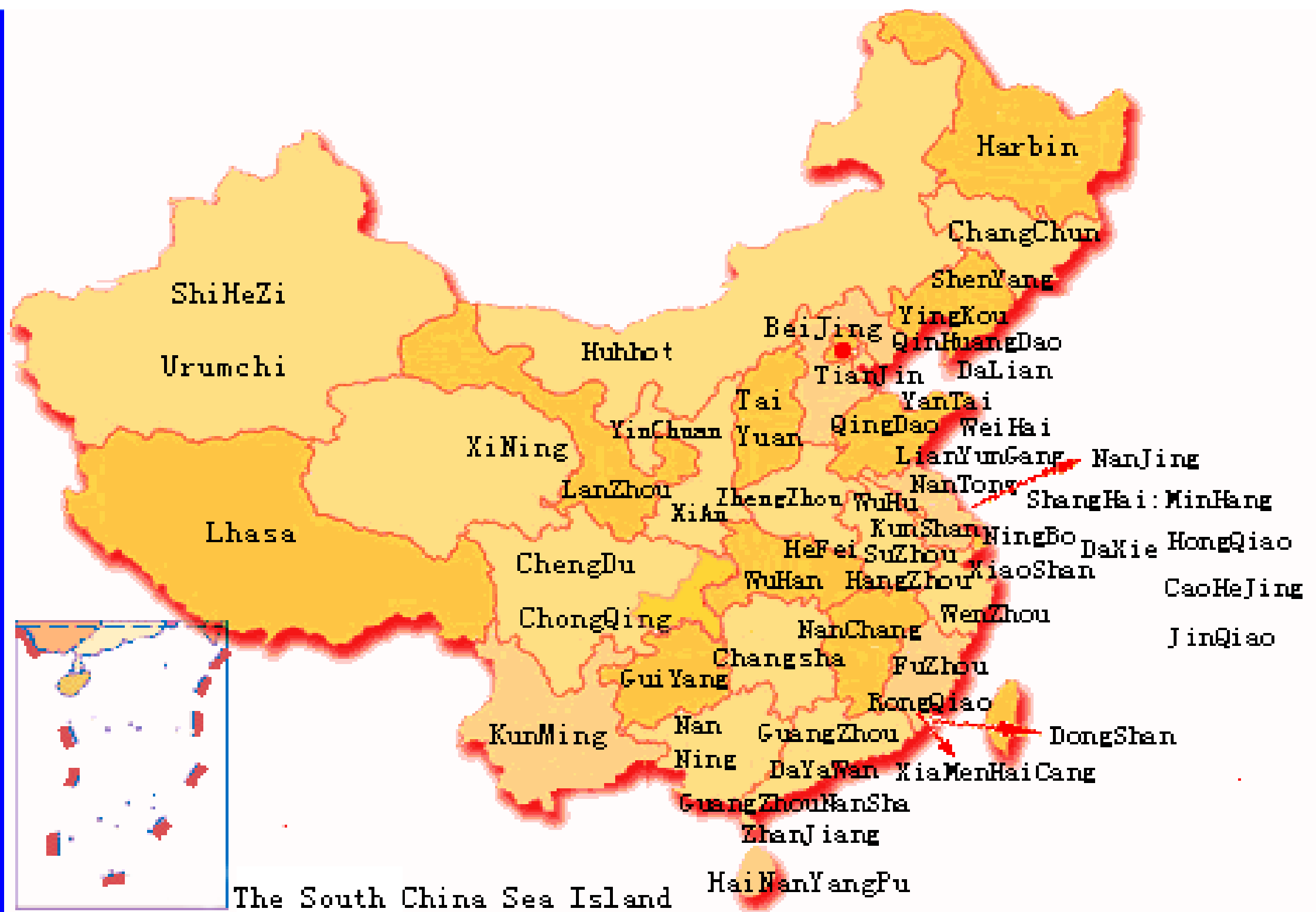
# The Savings Rate as a Percent of GDP: Selected East Asian Countries and Regions

The Savings Rate as a Percent of GDP



# Foreign Direct Investment (FDI)

- FDI, at US\$50 billion a year, amounts to approximately 10% of the annual Chinese aggregate gross domestic investment of US\$500 billion. Moreover, a significant proportion of it is what is known as “recycled” or “round-tripped” investment ultimately originated by Chinese entities and individuals. Quantitatively, FDI is not critical to the Chinese economy. Cumulative FDI at year end 2002 amounted to US\$ 448.17 billion. Qualitatively, FDI is probably more important because it brings in technology, know-how, business methods, management techniques and markets that will otherwise be unavailable in China. China became the World’s leading recipient of FDI for the first time in 2002, with US\$52.7 billion, overtaking the United States with approximately US\$44 billion. However, its share of total World FDI is still relatively low—approximately 10%. (The U.S. was the largest recipient of FDI in the world in 2001, with US\$124 billion.) FDI has been responsible for most of the growth of exports (and imports). However, the nature of FDI has also changed--from export-oriented to domestic-market oriented; from light industry to heavy and high-technology industries; and from small projects to large projects.
- China as the World’s Factory as well as the World’s market.



The South China Sea Island

# INCOME TAX

Policies		State Regulations	Special Economic Zones	National Development Zones				Open cities and areas (including those along seas and rivers, inland and border) and provincial Development Zones
				Economic and Technological Zones and Export Processing Zones in which	High-tech Industrial Zones	Free Trade Zones	The Border Economic Cooperative Areas	
I、 Enterprises Income Tax rate	1.Productive enterprises	30%	15%	15%	15%	15%	24%	24%
	Non-productive enterprises	30%	15%	30%	30%	30%	30%	30%

# ATTRACTIVENESS

**“ 9 Circulations and 1 Platform” is presented. 9 Circulations are circulations of information, market, rules, fittings, logistics, capital, talents, technologies and services. 1 platform is China economic platform in 21 century.**

- **Many ETDZs have established their own websites and implemented online government service. Developing finance and modern logistics, strengthening human third party industries, optimizing human environment and protecting natural resources are important goals of ETDZ.**

# CHARACTERISTICS

- **Regions with foreign investment most centralized**
- **Regions with economic developing most rapidly**
- **Regions with capital and technology intensive enterprises, hi-tech industries in the leading place**
- **Regions with development potential, geographic advantages**
- **Regions with advanced infrastructures, support system**
- **Regions in line with international practice and regions of high standard of opening-up**
- **Regions with good investment policies, legal environment**
- **Regions with good economic system advantages**

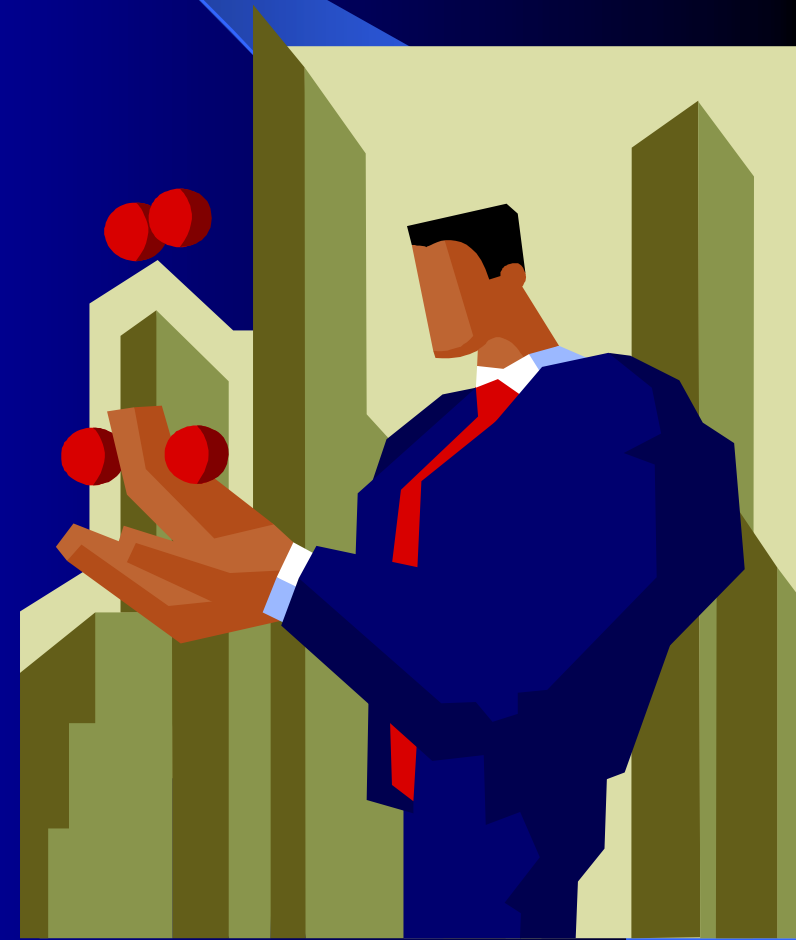
# BRIEF CONCLUSION

- To date, there are **54 national-level ETDZ**, among which, eastern coastal regions 33, Middle West regions 21 (Nanjing ETDZ is newly approved to be established).



# FDI IMPORTED

- **The 54 ETDZs have developed a total area of around 400 to 500 square kilometers, which is only a portion of country land with their accumulated foreign direct investment accounting for 15% of the whole country.**



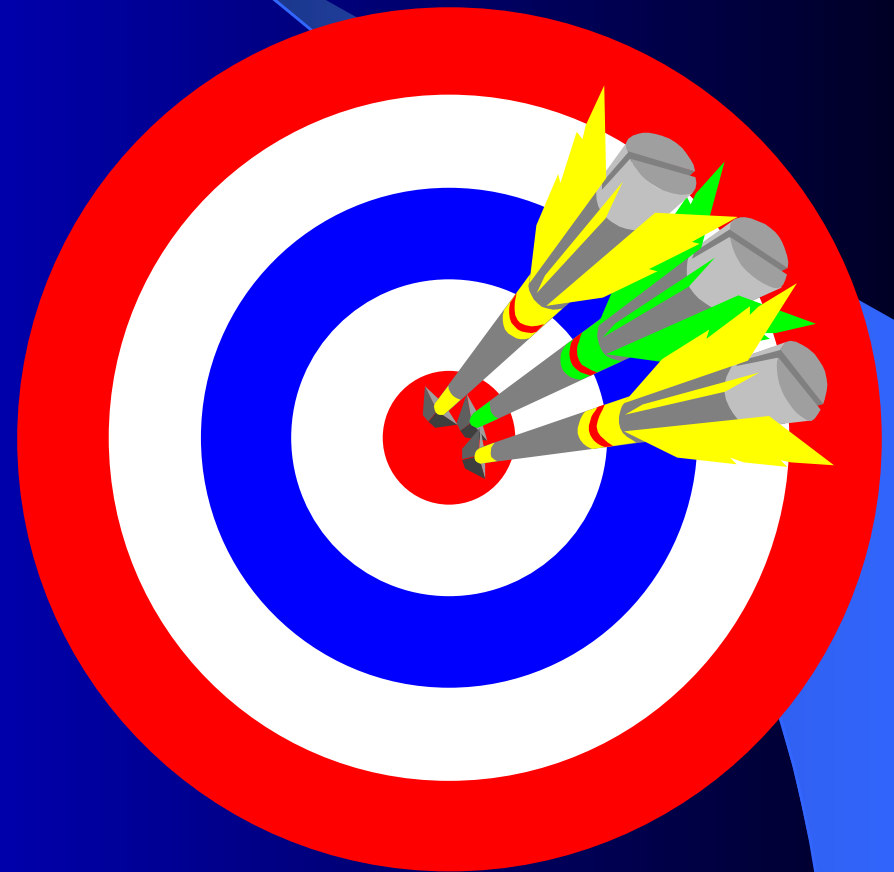


# WHAT WOULD BE DONE?

- **SOEs : Clear ownership, clear rights and responsibility, disconnection between enterprises and government, scientific management**
- **Develop other non-public ownership economic entities**
- **Perfect market mechanism Established**
- **Deepening reform and opening policy**

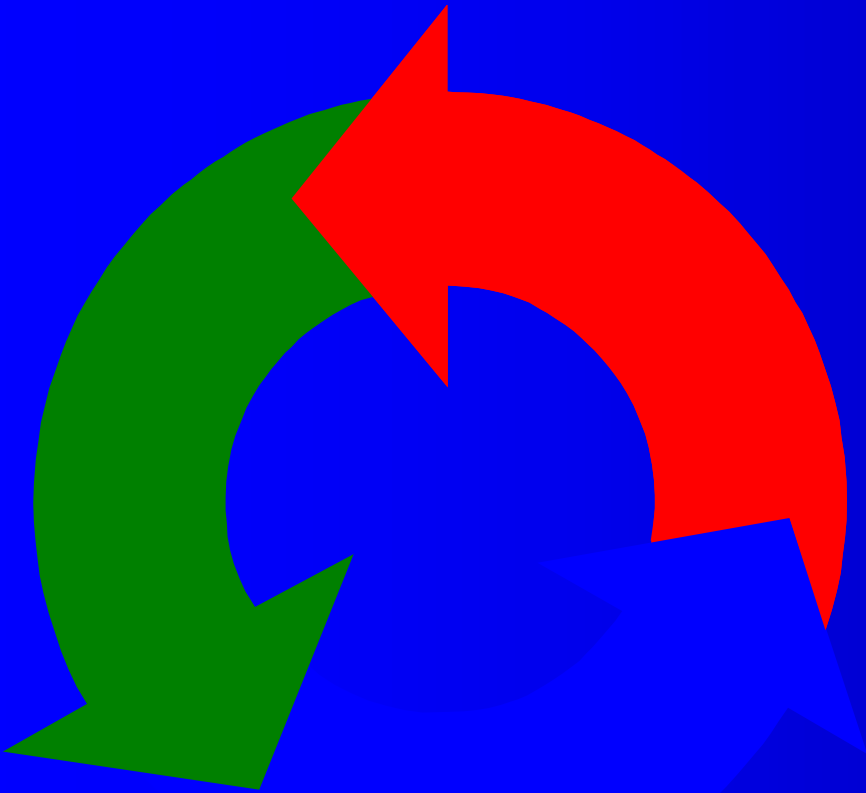
# KEY POWER OF COMPETITIVENESS

- **HIGH TECH ;**
- **THE POWER OF CONTROL: FLOW OF RESOURCES AND OUTPUT**
- **INFLUENCE ON THE RULE OF GAME DECISION MAKING**



# COMPETITIVE ADVANTAGES IN CHINA

- **LARGE SKILLED AND QUALIFIED POPULATION WITH LOW COST;**
- **INSTITUTIONAL CHANGES SINCE 1980'S;**
- **TECHNOLOGY PROGRESS SINCE 1990'S**
- **MODEL OF MOBILIZATION OF RESUORCES;**
- **OTHERS**



# CONSIDERATIONS COMPETITION IN THE REAL WORLD

- **BASIS FOR COMPETITION:** THE DEVELOPED - HIGH TECH, CAPITAL; THE DEVELOPING - LABOR, NATRUAL RESUORCES
- **WORLD IS CHANGING:** THE DEVELOPED'S TODAY WILL NOT BE THE TOMORROW OF THE DEVELOPING
- **WIN-WIN MODEL NEEDED:** THE PRINCIPLE SHOULD BENEFIT BOTH

# PRINCIPLES IN CONSIDERATION

- **MARKET DRIVEN: ACCEPTABLE BOTH BY THE DOMESTIC AND INTERNATIONAL MARKET**
- **GOVERNMENT REGULATED: FOLLOWING THE CORRECT DIRECTION - BALANCE THE BENEFIT AND COST, RIGHTS AND RISKS;**
- **TOWARD THE RULE OF WTO: WITH THE BASIC SURVIVAL , THEN FOLLOW THE RULE OF WTO, AND**

# **EXTERNAL RELATIONS' ISSUE**

**Uniform administration ; Transparency**

**Nondiscrimination**

**Right to Trade & State Trading**

**Foreign Exchange Control**

**Dumping & Subsidy**

**Taxes, Charges Levied on Import and Export**

**Defined as Non-market Economy**

# **ECONOMIC DEVELOPMENT IN EXTERNAL RELATION**

- **Establishments of Foreign Funded Enterprises**
- **Contracted Foreign Investment**
- **Export from Foreign Funded Enterprises:  
Half of Total Export form China**
- **Offers 25 Million Jobs to China**

# **International Trade in Goods and Services**

- **Chinese exports and imports are a relatively large proportion of Chinese GDP.**
- **Chinese exports and imports are not price-sensitive but are income-sensitive.**
  - **Chinese exports have significant import content. Thus, a change in the exchange rate affects the costs of both the output and the imported inputs.**
- **The domestic value-added content of Chinese exports is relatively low.**
- **The challenge of the accession to the World Trade Organization (WTO).**
- **Trade disputes and sanctions.**
  - **Anti-dumping**



# **Impact of the Entry of China into the World Economic System**

- **The impact of the fluctuations in the world economy on China**
- **The world's factory and the world's market**
- **Large domestic markets as potential platforms for new alternative technologies and standards**
- **Lack of upward pressure on the wage rate of unskilled labor due to the abundance of surplus labor**
- **Economic integration of East Asia**
  - **Free Trade Areas**
  - **Co-operation among currencies and eventually approximately fixed relative parities**

# **The Challenge of the Accession to the World Trade Organization**

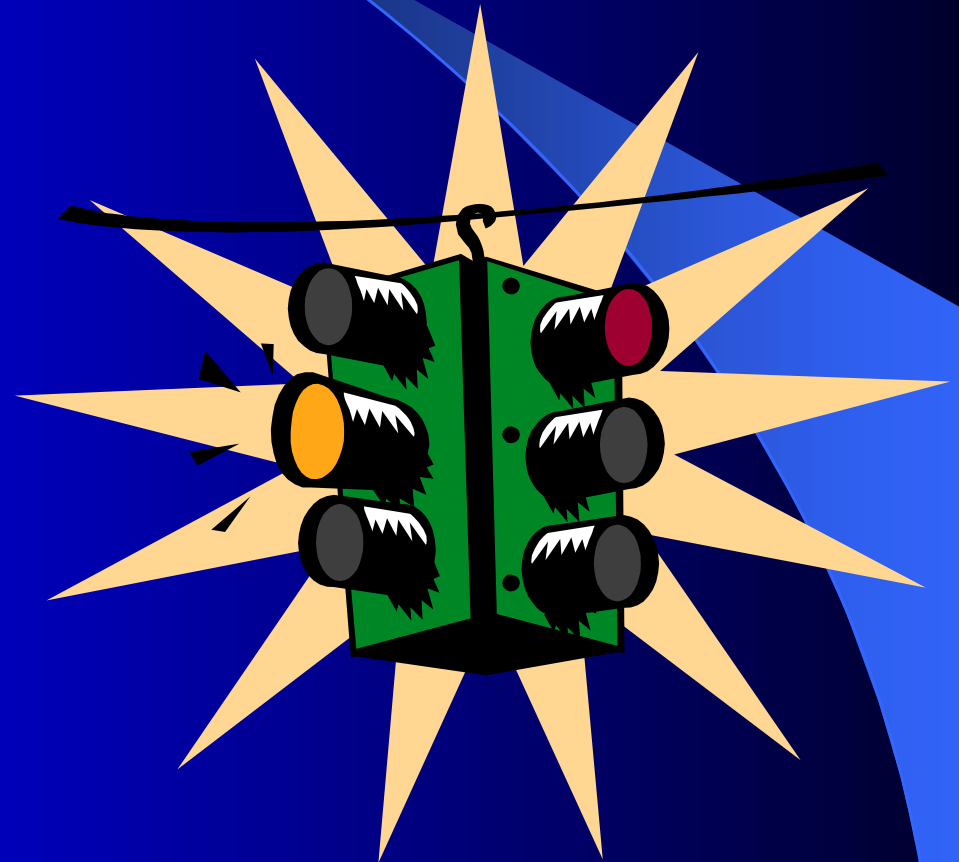
- **The real long-term significance of Chinese accession to the WTO—an open economy to assure efficiency through competition**
- **Impact on specific sectors**
  - **Agriculture**
  - **Industry--Automobiles**
  - **Financial Services—commercial banking**
- **National treatment**
  - **Elimination of the internal barriers**
  - **Establishment of a national commercial and tax court for the settlement of disputes**
  - **Protection of both foreign and domestic investors**

# **EFFECTS AND IMPACT OF ACCESSION**

- **Lower tariff rate would not much hurt China's economy (Manufacturing Center in 21st Century)**
- **Accession would push economic structure transit and help employment**
- **Accession would help China to build market driven economy and participate rule making in the multilateral trade system**
- **China's currency, RMB would keep stable with accession to WTO**

# DIFFICULTY

- ANTIBIOTIC
- METAL
- CHEMICAL FERTILIZER
- PESTICIDE POLLUTION



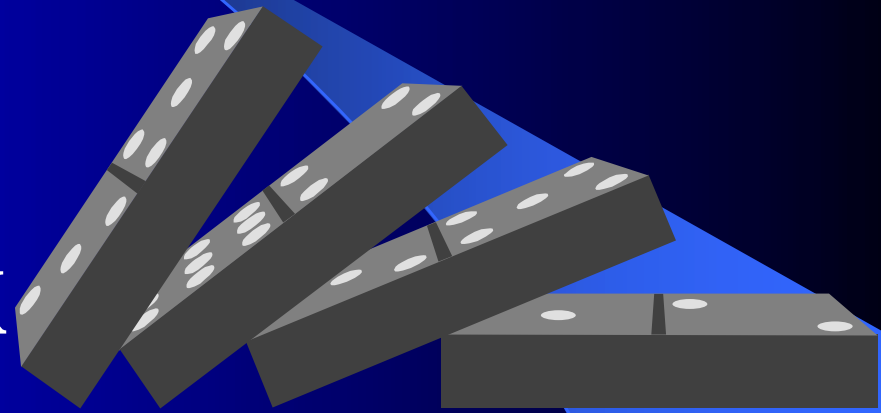
# DISPUTES IN ACCESSION



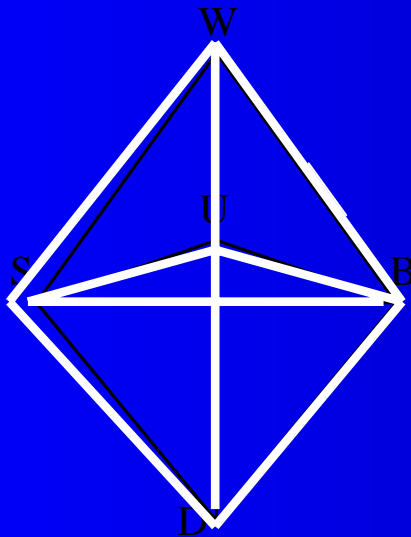
- China's non- market economy status
- Unified trade and economic policy compliance
- Quantitative & tariff restriction on import and export
- SPS,TBT,IPR,TRIMS,...
- Safeguards
- Preshipment inspection
- others

# WHAT WILL BE NEXT?

- **FISCAL DEFICIT -  
NONPERFORMANCE LOAN  
- ASSETS SALING -  
SHAREHOLDERS IN STOCK  
MARKET CAUGHT - WTO  
ENTRY - WHAT WILL BE  
NEXT(PRIVATAZATIO)?**

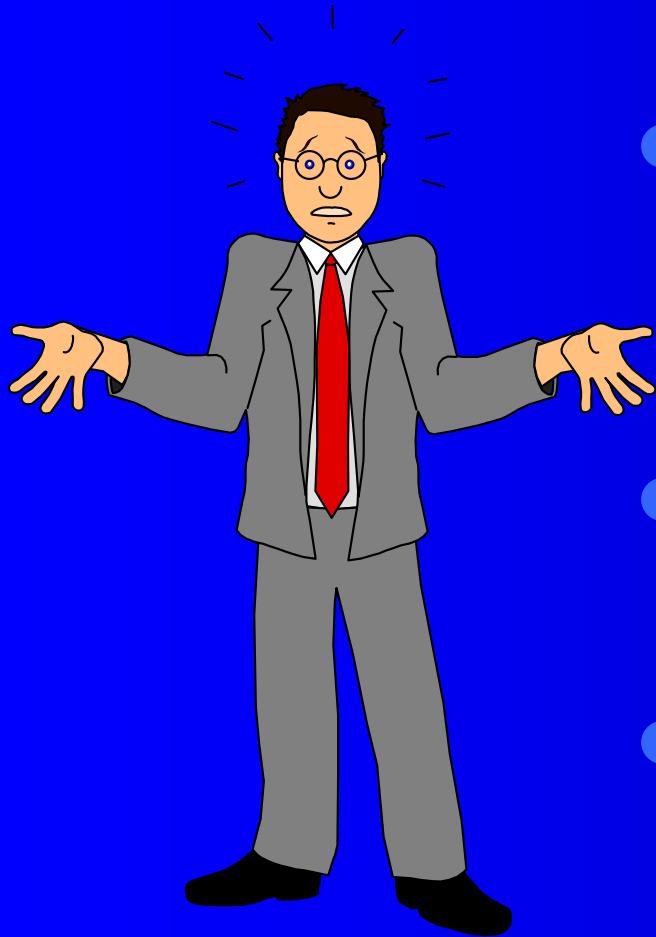


# PROBLEMS TO DEAL WITH



- **B: BANKING SYSTEM IN CHINA**
- **S: SOEs IN CHINA**
- **D: FISCAL DEFICIT**
- **W: WTO ENTRY**
- **U: UNEMPLOYMENT**

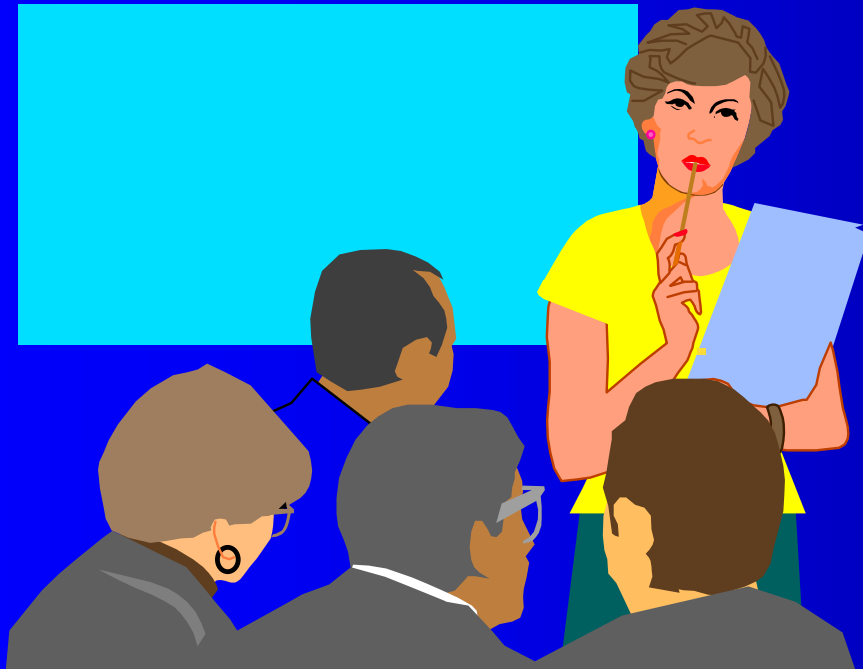
# KEY PROBLEM IN THE ECONOMY



- **MARKET WITHOUT RULES:  
NO CREDIBILITY (OLD  
LADIES STORY)**
- **WITH CENTRALIZED:  
INSTRUCTION AND OBEY**
- **WITH MARKET :  
CONTRACTING BETWEEN  
PLAYERS**

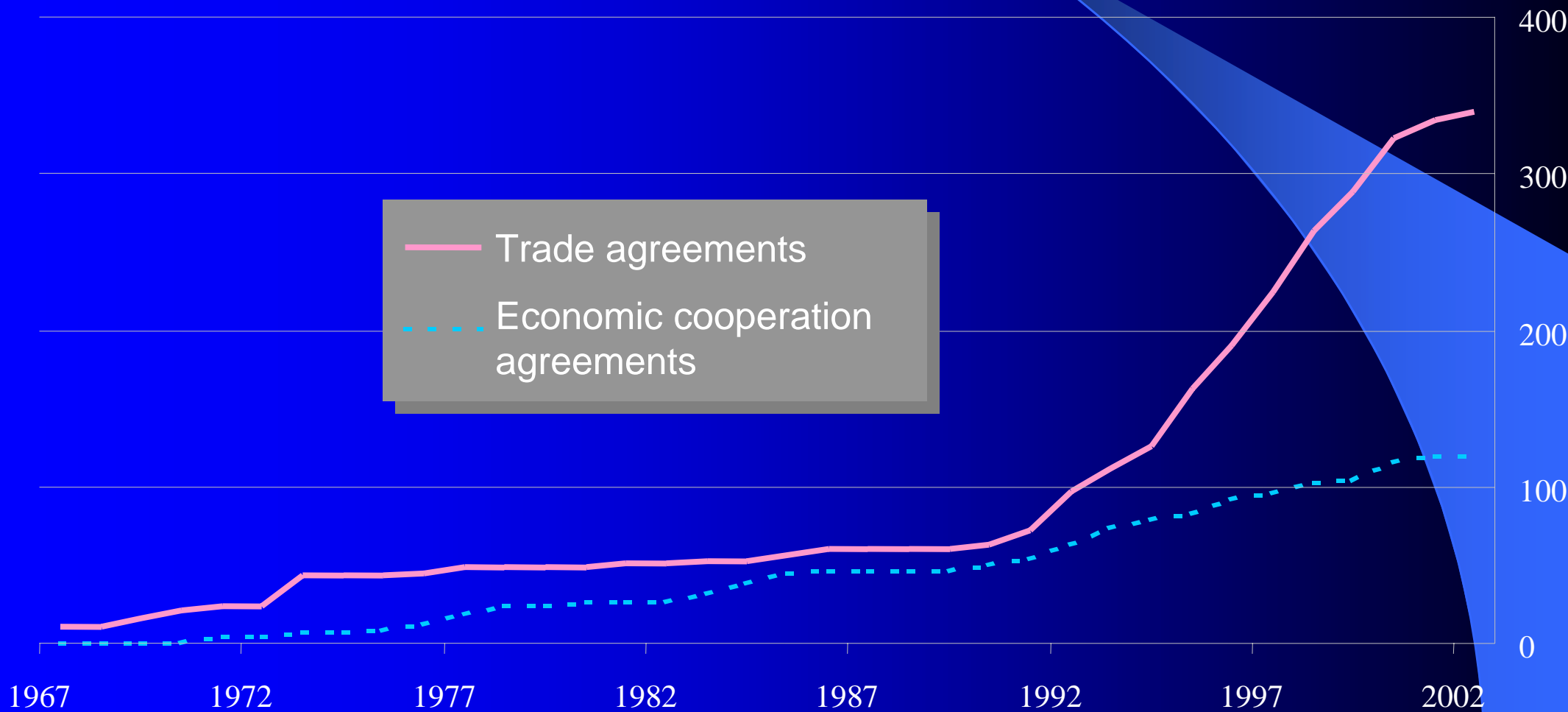


# Q & A : DISCUSSION



- **COMMENTS?**
- **DISCUSSION?**
- **SUGGESTION?**
- **AND ...?**

# WHY REGIONAL ECONOMIC AND TRADE COOPERATION



# Preferential Trade Agreements

- **Countries seek lower trade barriers within their regions.**
- **Of all WTO members, only Japan, South Korea have not signed preferential trade agreements.**

## **Free Trade Area:**

**two or more countries agree to abolish all barriers to trade but maintain independent trade policies with third countries**

## **Customs Union:**

- a) eliminate internal barriers to trade**
- b) establish common external barriers**

## **● Common Markets:**

- a) remove internal barriers to trade**
- b) establish common external barriers**
- c) allow for free movement of factors of production, including labor, capital and information**

## **Economic Unions:**

**coordinate economic and social policy to facilitate the free flow of capital, labor, and goods and services from country to country**

**A full economic union involve a central bank, a single currency, and common policies on agriculture, social welfare, development, taxation, competition etc.**

# Western, Central, and Eastern Europe

## European Union (EU):

- **Members:** Belgium, France, Holland, Italy, Luxembourg, Germany(1958)/, UK, Denmark, Ireland (1973)/Greece (1981)/Spain and Portugal (1986)/Sweden, Finland, Austria (1995)/Czech, Hungary, Poland, Estonia, and Slovenia (2002)
- **378 million people, \$8.3 trillion, and 39 percent of world trade (15 nations)**
- **The objective is to harmonize national laws and regulations so that goods, services, people and money can flow freely across countries.**
- **Euro: 12 members:** Austria, Belgium, Finland, Ireland, Holland, France, Germany, Italy, Luxembourg, Portugal, Spain, and Greece

# North America: NAFTA

- **Members: US, Canada and Mexico**
- **Size: more than 400 million people, \$9.2 trillion GNP**
- **Canada-US Free Trade Area came into existence in 1989.**
- **The North American Free Trade Agreement (NAFTA) became effective in 1994.**
- **Canada is the No. 1 trading partner of US, Mexico is second, and Japan ranks third for US exports.**
- **US companies have more invested in Canada than any other country.**

# Asia-Pacific

- **With 56 percent of the world's population, the 23-country Pacific Rim region accounted for approximately one-third of global income in 1997.**
- **Japan: Population density and geographic isolation**
- **Four tigers (NIEs): South Korea, Taiwan, Hong Kong, and Singapore**
- **Thailand, Malaysia, Indonesia and China were getting close to the industrial take-off point before Asia crisis 1997. China remains unaffected and other three's growth halted.**

# Asia-Pacific Economic Cooperation (APEC)

- **21 members**
- **2.5 billion people, 19 trillion GDP**
- **Objective: free and open trade, and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies**
- **Early Voluntary Sectoral Liberalization (EVSL) targeted 15 sectors for trade liberalization by the year 2005.**



# **BRIEF HISTORY**

- **NOV.1996, MANILA, MANILA DECLARATION FOR STRENGTHENING ECONOMIC COOPERATION AND DEVELOPMENT**
- **1997-1998, VANCOUVER, KUALA LUMPUR, DISCUSSION ABOUT FINACIAL CRISIS**
- **NOV.1999, AUCKLAND, APEC PRINCIPLES FOR COMPETITION AND DEREGULATION**
- **NOV.2000, SERI BEGAWAN, CAPA.-BUIL.**
- **2001, SHANGHAI AGENDA, TRADE AND COOPERATION**

# **PRIMARY OBJECTIVE FOR REGIONAL COOPERATION**

- **TO SUSTAIN THE GROWTH AND DEVELOPMENT OF THE REGION FOR THE COMMON GOOD OF ITS PEOPLES AND, IN THIS WAY, TO CONTRIBUTE TO THE GROWTH AND DEVELOPMENT OF THE WORLD ECONOMY**

# **PRINCIPLES OF REGIONAL COOPERATION**

- **OPENESS, MUTUAL RESPECT, EVOLUTION**
- **COMMITMENT TO OPEN REGIONALISM**
- **VOLUNTARY PROCESS OF COOPERATION**
- **NOT AN IMPLEMENTING AGENCY, NO FORMAL DECISIONS ARE BINDING ON MEMBER ECONOMIES**
- **ECONOMIC COMPLEMENTARY...**

# **Association of Southeast Asian Nations (ASEAN)**

- **Members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam**
- **Implement ASEAN Free Trade Area by 2003 to reduce tariffs to 0 to 5 percent.**
- **Singapore accounts for more than one-third of US trading activities with ASEAN countries.**
- **ASEAN-China Free Trade Area: 2010 for developed members and 2015 for all members  
1.7 billion consumers, 2 trillion GDP**

# Latin America

- **Caribbean, Central and South America (Mexico is excluded due to NAFTA)**
- **Size: 480 million people**
- **Has begun economic transformation. Free market, open economies, deregulation, privatization are underway.**
- **Central American Integration System (SICA), the Andean Community, The Common Market of the South (Mercosur), the Caribbean Community and Common Market (CARICOM)**

# **Central American Integration System (SICA)**

- **Members: El Salvador, Honduras, Guatemala, Nicaragua, Costa Rica, and Panama**
- **1994 Central American Common Market (CACM)**
- **1997 SICA, with Panama as a member**
- **Common external tariff: 5 to 20 percent for most goods**
- **Common rules of origin allows for free movement among SICA countries.**

# **Andean Community**

- **Members: Bolivia, Colombia, Ecuador, Peru, and Venezuela**
- **Founded in 1969**
- **1992 marked the formation of a sub-regional free trade zone.**
- **Common external tariffs were established.**

# Common Market of the South (Mercosur)

- **Members: Argentina, Brazil, Paraguay and Uruguay**
- **Internal tariff were eliminated, and common external tariff of up to 20 percent were established. Now Mercosur operates as a *customs union*. Ultimately, goods, services and product factors will move freely (*common market*).**
- **Chile and Bolivia are the associate members of Mercosur. They participate in the *free-trade-area* aspect of Mercosur.**
- **EU and Mercosur: *free trade area* by 2005**
- **Possible merge with Andean Community**

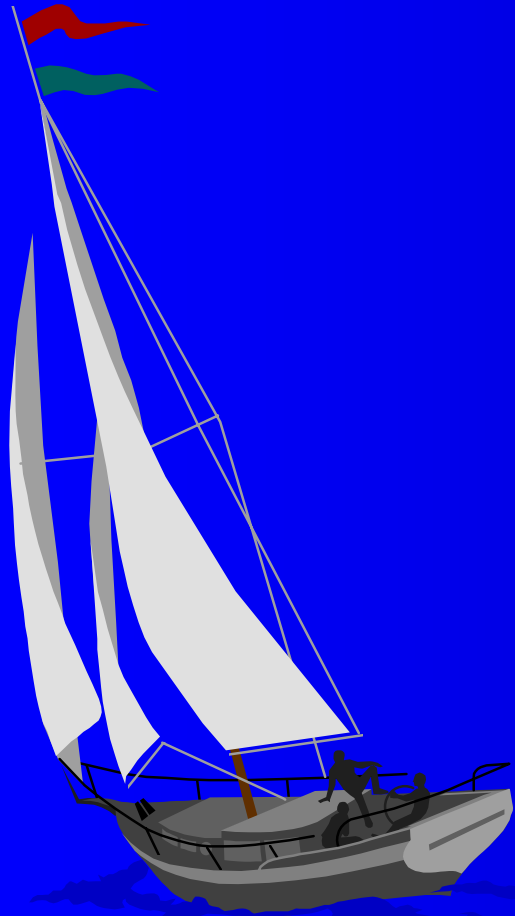


# **Caribbean Community and Common Market (Caricom)**

- **Members: 15 Caribbean countries**
- **Founded in 1973**
- **Size: 13.9 million population**
- **In 1998, leaders agreed to establish an economic union with a common currency.**

# THEORITICAL PROGRESS AND DEVELOPKMENT

- Centralized planning economy;
- Planning as main stream, market as supplementary instrument
- Planned commercial economy;
- Socialist market economy;...Next?



# **OPTIONS FOR THE REGION**

**OPTION 1: ESTABLISH 3 “ ASEAN+1 ”S  
FTA FORMULA AND FINALLY MERGE IN  
ONE (EAFTA);**

**OPTION 2: NORTHEAST ECONOMIES  
ESTABLISH FTA, THEN INTEGRATE  
INTO AFTA;**

**OPTION 3: LAUNCH EAFTA IN EARLY  
STAGE; WHY NOT 10+5?**

# ASEAN +3

- **Consists of 10 ASEAN countries, and China, Japan, and South Korea, and as a forum founded a decade ago, but formal institutionalized needed.**
- **Objective: to provide the natural basis for a comprehensive East Asia Trade Cooperation**

# **ASEAN+3**

- **Within the framework of ASEAN+3, China made the first significant move among three Northeast Asian nations through the China-ASEAN (10+1) Free Trade Agreement**

# **Background of ASEAN-China FTA**

- **Established consultative relationship in 1993**
- **Efforts to promote economic cooperation officially began in 1995**
- **Proposed the idea of creating free trade Agreement at ASEAN-China summit 2000**
- **First meeting of the ASEAN-China Expert Group ..April 2001**
- **China-ASEAN FTA signed in 2002**

# THE CHINA-ASEAN FTA

- Chinese Premier ZHU Rongji first proposed in Brunei in November, 2001 a new free trade Agreement, covering China and the ASEAN, to be created within ten years.
- A 3 trillion US\$ market and 1.7 billion consumers.
- Complementary (primary raw materials) and competition (light manufactures).
- Opening the economies for trade—China will become a major export market for the ASEAN and vice versa.

# THE CHINA-ASEAN FTA

- **The free trade Agreement will promote foreign direct investment in the ASEAN region itself through the enlargement of the potential market.**
- **Further agreement was reached in a second meeting in November, 2002 at which a framework agreement for the establishment of the China-ASEAN Free Trade Agreement was signed.**
- **Negotiations to be completed by 2004 with “early harvest” for ASEAN countries in the reduction of tariffs on agricultural and food products. Full free trade between China and Brunei, Indonesia, Malaysia, Philippines and Singapore by 2010; full free trade extended to Khmer Republic, Laos, Myanmar and Vietnam by 2015.**



# The China-ASEAN FTA

- **A mutual support program for the currencies of one another, leading possibly to an Asian currency snake, and eventually an Asian currency Agreement.**
- **Simultaneous, coordinated expansions among the East Asian economies can accelerate the economic growth of one another.**
- **The China-ASEAN Free Trade Agreement and other parallel initiatives such as the Mekong River Project and security cooperation with the ASEAN countries have significant diplomatic, political and security implications**

# Potential benefits from economic cooperation

**China serves as a new mega-market for ASEAN**

**Reduction of trade barriers**

**Average duty will vary between 0-5% by 2010**

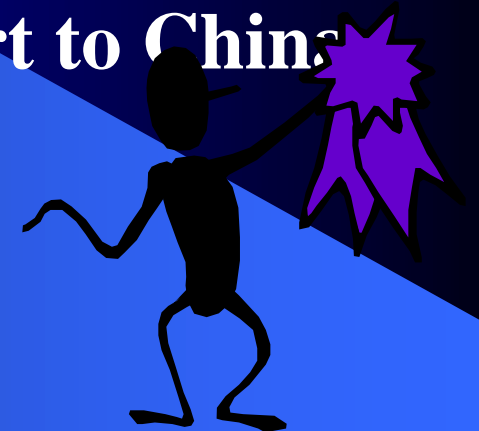
**More trade and investment opportunities for ASEAN**

**Bilateral trade Development**

**Expected increase of 55% in China's exports to ASEAN**

**Expected increase of 48% in ASEAN's export to China**

**Collaborating infrastructure projects**



# Potential problems from economic cooperation

- Shift in investment from ASEAN countries to China
- Identical export structure between ASEAN and China
- Similar market structure between ASEAN and China
- Political implications for ASEAN and China
- In terms of competition
- Cheap labor cost



# ECONOMIC IMPROVEMENTS NEEDED IN CHINA

- **WTO accession pressure**
- **SOEs Problems**
- **Fiscal Deficit increasing**
- **Unemployment problem**
- **Banking System**
- **Environment Problems**
- **RMB Revaluation**
- **Others: overpopulated, lack of resources, income differences,...**

