

# Country Report **4**

## China Country Report

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## **China and the East Asian economy**

East Asia is crucial to China's interests. China is, in fact, actively participating and promoting the East Asian cooperation process. Based on a regional production network in East Asia, the Chinese economy becomes an integrated part of the regional economy. A liberalized, secured and stable regional market is for China's interest, encouraging it to adopt an active policy in participating and promoting regional trading agreements (RTAs) and other regional cooperation initiatives.

The role for East Asian FTAs (or CEPs) is to make rules and to develop the legal mechanism among countries in the region. This has profound significance since both "rule of standards" and "rule of law" will help to improve the systems of regional members and to create a reliable foundation for the regional cooperation process. In overcoming the "noodle bowl" effects, it should move to an integrated East Asia FTA (EAFTA).

The ASEAN, because of its pioneering experience in regional cooperation, plays a key role in bringing East Asia together and shaping the direction. The "ASEAN way" may be the major approach in the development of the East Asian Community (EAC). The fundamental role of EAC is to nurture more and more shared principles and rules for regional relations in a new international and regional setting.

## **Challenges of EAC building and China's proposed "easy first" approach**

China well understands that there are great difficulties ahead for EAC building. The first difficulty is the development gap of the regional members. It is crucial that the EAC process helps to reduce this gap and lets every partner benefit from the process. The second difficulty is the relations of the regional members, especially the China-Japan and Korea-Japan political relations, as well as the relations with the United States. The third difficulty is the consensus building on the modality, approach, and steps of EAC. Thus, in realizing EAC, China favors a gradual and "easy first" approach.

## **Recommendations for the roadmap**

The roadmap for East Asian cooperation and integration should take the following steps and measures:

- To support ASEAN's effort on establishing the ASEAN Communities by 2015;
- To support the existing regional cooperation framework, combining different cooperative mechanisms with different functions. It is important to define different roles for different mechanisms. The ASEAN +1, ASEAN+3, ASEAN +6 each has its role. There is no hurry in trying to merge them into one in the near future.
- To create EAFTA, the first step is to complete ASEAN+1, then ASEAN+3, and then to extend to other members of the region. The Comprehensive Economic Partnership in East Asia (CEPEA) may start from an economic cooperation framework with functional cooperation in important areas such as macroeconomic coordination, energy efficiency, environment improvement, capacity building, trade and investment facilitation, opening sky, infrastructure, and logistics.
- To strengthen monetary and financial cooperation through the Chang Mai Initiative mechanism, from bilateral swaps to regional framework, then to regional institutions. The regional monetary and financial cooperation should mainly focus on developing regional monetary coordination, improving monetary and financial stability, developing the regional capital market, but not urging for a regional monetary and financial hard organization or single currency.
- To expand the regional cooperation framework to cover economic, social, cultural, and political areas. The East Asian community building should rest on a comprehensive foundation.

The intellectual inputs are very important for East Asian integration and cooperation. The ERIA's role can be unique since it will act as a permanent institution with its own budget and research network. It will surely serve as both a strong vehicle for capacity building for developing countries and a high-level think tank that provides policy recommendations to leaders.