

## **Global and Regional Economic Cooperation:**

### **China's Approach**

(Zou Mingrong)

Thank you, Jusuf (Co-Chair), for giving me the floor. I shall use the slot to cover briefly my interpretation on regional cooperation vis-à-vis APEC, EAS and G20.

#### I. The end of the Cold War accelerated globalization and regionalization

The end of the cold war marked the breakdown of the barrier between the East and the West. Many countries, including China, took the road of opening-up and reform and began to restructure their economies and adopted the road of a market economy. The global volume of trade, investment, monetary flow and labour mobility reached unprecedented level. The 3 organizations, the World Bank, IMF and WTO become increasingly important in the global economic governance. On the other hand, regionalization is also on the rise. We have seen the emergence and expansion of EU, North America Free Trade Agreement (NAFTA), APEC, EAS, etc. It is quite certain that regional organizations have exerted greater external influence on countries concerned.

China, as the largest emerging economy, has taken an active part in both globalization and regionalization. It also faced grave challenges in the process. The situation China faces today is how to facilitate a relatively fair, rational and efficient global and regional regime for cooperation. Such a regime is not only conducive to China's future growth, but also in compliance with the interests of majority countries in the world.

#### ■ Globalization and regionalization in acceleration

Globalization has been interpreted in many different ways by different interest groups. I would say that a globalized economy should be the major aspect of it. This is seen in the multiplication of capital flow across borders, increasing economic interdependence, greater international division of production, integration of the domestic market with the international market, free global acquisitions, etc. However, Globalization is a double-edged sword. We should be sober-minded and try to ward off its negative impact on our economic life.

Regionalization, or economic integration, has given rise to and constitute an important aspect of globalization. It covers investment, trade, financing, technological transfer, labour mobility and distribution, Globalization and regional economic integration are like two wheels, driving the world economy forward. Today, the 3 major regional groupings, namely, NAFTA, EU and APEC are the pillars of regionalization, supported by numerous small regional groupings. While regionalization may accelerate economic growth, facilitate trade and investment, we should guard against its negative side, for instance, its exclusive nature, occurrence of economic imbalance and impact on individual state sovereignty.

It must be noted that while regional economic integration may be conducive to trade facilitation and economic growth of the member economies, it may also give rise to trade protectionism and become a hindrance to a united, closely-integrated world economy.

- 1997 Asian financial crisis accelerated Asia's regional economic integration

1997 Asian regional financial crisis brought to light defects in East Asian regional economic cooperation and put an end to Southeast Asia's short-lived economic boom and prosperity of the 80s. However, it later accelerated Asia's economic and financial restructuring and integration. The last 10 years since then has witnessed another boom and simultaneous development of ASEAN, ASEAN+1, ASEAN+3, EAS, etc.

- 2008 global economic crisis has led to a strengthened role of G20 and a call for restructuring of global economic governance

G20 took up an entirely new role in coping with the 2008 world financial crisis since its inset in 1999. Today G20 is as important as the World Bank and IMF. Global attention has been shifted onto international economic governance and its reform ever since.

## II. China has benefited from globalization and regionalization through opening-up and reform

- The last 30 years of China's reform and opening-up constitute 30 years of China's involvement in globalization

China's basic assessment of the international situation over the last 30 years is that "peace, development and cooperation" shall prevail and shall be the major trends of the world. To achieve modernization through economic development has been the major endeavour of the Chinese Government and people over the last 30 years since China's reform policy. To go global, face squarely globalization and be part of it have been a strategic decision of the Chinese Government.

- China attributes its high economic growth partly to globalization and regionalization

It is inconceivable that China would achieve the world's top GDP growth, trade expansion and huge capital investment without international trade, without foreign direct investment or without opening up the country.

- China's trade has become increasingly dependent on global economy

China's two-way trade last year reached 2,972 billion US dollars, 100 times larger than that of 30 years ago when China started its reform policy. It is about 48% of last year's GDP. This ratio is much too high compared with that of the US or Japan. Measures should be taken to lower trade/GDP ratio and trade surplus/GDP ratio so as to help achieve a global economic balance.

- Capital investment to China will continue

FDI has played a vital role in China's economic expansion. The aggregate FDI in China reached 1,100 billion US dollars over the last 30 years. The year 2010 alone absorbed 105 billion US dollars, an increase of 17.4% over the previous year.

- China's investment overseas has grown markedly

China's investment overseas began to grow in recent years. Direct overseas investment in 2010 (non-financial) reached 60 billion US dollars. Though this figure is rather modest today, China is the biggest investor overseas among developing countries. Major causes for China's growing overseas investment are: accumulation of domestic capital, surplus domestic production capacity; both public and private, over the past 30 years; growing technological

competitiveness. To go global is a key to China's future economic growth.

### III. China will continue its active participation in regionalization

China has adhered to its foreign policy of "good-neighboring relations of friendship and partnership with the countries around China" and persisted in bringing "harmony, security and prosperity to neighbors". China stands for an open, not closed regionalization. Over the past years, China has always adopted a tolerant approach towards development of relations with countries outside the region.

Towards regional development, China has all along shown respect for ASEAN's leading role in East Asia economic integration and taken an active part in economic cooperation at different levels. In January 2010, China-ASEAN free trade zone came into force with over 7,000 commodities enjoying zero tariff.

China stands for open and inclusive regional economic integration. China welcomes US participation in East Asian affairs and the "ASEAN+US" since 2009, dialogue between ASEAN and the US, and a constructive role of US for regional peace and development. With regard to East Asia Community, China's Vice President Xi Jinping once said: "East Asia Community is a system project. ...Countries in this region should strengthen dialogue and exchanges so as to achieve consensus among all concerned. "

#### ■ China's participation in APEC in 1991 is an important and strategic decision

China has all along been an active member of APEC since its participation in 1991. China pursues the following 3 principles in its involvement with APEC: active participation; seeking common ground while putting aside differences; and promoting cooperation. The following seven words are essential to portray the APEC spirit, namely, openness, a progressive approach, voluntary nature, through consultations, seeking development, mutual benefit and ensuring common interests.

Being the largest and the most important regional organization, APEC has achieved successes but also faced difficulties and problems which need to be addressed seriously. For

example, economic and technological cooperation has failed to achieve its anticipated goal. APEC's diversity has also brought about difficulties to economic cooperation. An applicable and efficient regime remains to be worked out to further advance regional economic cooperation.

■ China actively pursued East Asian economic cooperation after 1997 Asian financial crisis

The outbreak of Asian financial crisis 14 years ago and the inability of the 3 major economic bodies (WB, IMF, WTO) to address the issue gave rise to a strengthened East Asia economic cooperation. In compliance with the regional urge for better and effective economic, financial cooperation, China began to take a more positive approach to promote region's economic integration. Today, we see four levels of such cooperation: 1) China-ASEAN, the free trade zone; 2) ASEAN+3 (China, Japan, Korea); 3) East Asia Summit; 4) China-Japan-Korea cooperation which came into being in recent years. I should say that China-ASEAN cooperation is making good progress today.

In the absence of WTO's free trade arrangement, the East Asia cooperation regime incorporating ASEAN countries and China-Japan-Korea may prove to be a desirable choice for this region.

Economic integration seems to be the general trend of the world today. The tripolar map of the world economy, EU, North America and East Asia is a matter of fact. The GDP of EU, NAFTA and East Asia are 1,600 billion, 1,700 billion and 1,500 billion US dollars respectively. Their aggregate constitute about 80% of the world economy. Among them, East Asia has shown the fastest growth, dynamic and vigorous. It is expected that by 2015, East Asia economy shall be the biggest one among the three, reaching 2,000 billion US dollars.

The dynamic East Asia economy and the growing economic interdependence among them call for even stronger and more vigorous economic cooperation and regional integration. This is the most urgent desire of the people of this region, which needs the wisdom of the region's politicians to address.

The first East Asia Summit (EAS) in 2005 in Kuala Lumpur is a great inspiration to the countries concerned in this region as they agreed to leave aside their differences for a

common goal. However, the ensuing development has brought about frustrations among those who were zealously working for EA free trade zone or EA community. After the 5 summit meetings, the following questions remain to be answered: 1) the membership issue. Now it is 10+8. 2) a parallel movement with 10+1 and 10+3. 3) the orientation: a forum or cooperative entity? I find it sad to see that East Asia regional cooperation is still marking time, perplexed by some basic issues like membership and others. It is still searching a way out.

- China's active participation in G20, to promote restructuring of international economic governance

The emergence of G20 is precisely because G7 was no longer able to portray the world's economic map. Today, G20 should play a leading role in the global economic governance. People have placed high hopes on the last 5 summits, which are quite useful to the global economic recovery and growth.

Efforts should be made today to strengthen global economic governance and continue restructuring the international financial system. The new global economic governance should reflect the changes of the world's economic map, upgrade representation of the emerging economies, and follow the principle of mutual respect and joint decision-making. China will continue to support G20 to play a greater role so as to help a comprehensive recovery and growth of the world economy. I must say that a strengthened role by G20 is in the interests of all us. But the question remains: What will happen to G20 in the post-crisis period?

IV. China differentiates various regional cooperative organizations to advance their different roles

- The coexistence of various regional organizations shall continue for a considerable period of time

In the region where we are, we see both East Asia and Asia-Pacific movement. We also see bilateral and multilateral movement. This pattern, complex and inefficient, may continue for some time. Despite of useful research studies and thoughts by politicians and scholars, it may take perhaps the time of one generation before these new ideas and thought could be

accepted by the people of the region.

- It is in China's interest to participate in various regional cooperative organizations.

China is one of the latest comers in regional economic cooperation. China will be a positive partner in promoting regional cooperation and prosperity.

- APEC shall continue to be a major carrier for regional cooperation

China has all along taken APEC as the major carrier for this region's economic cooperation. China is not in favour of APEC to look into political or security issues which should be addressed through other regimes. Some say China is a bit passive towards FTAAP or TPP. This is not true. China may be cautious but has never rejected any form of cooperation. Today, my organization CNCPEC, one of the top 10 think tanks in China, is actively working on the study of TPP. A plan has been set for a expert's forum on TPP scheduled in early December in Beijing. Experts and scholars, both domestic and regional will be invited to the forum and a report after the forum shall be presented to the Foreign Ministry for action.

- EAS is a major forum to explore regional cooperation

Of China's involvement in East Asia economic cooperation, China-ASEAN cooperation is our priority. It is on top of the list, followed by China-Japan-Korea cooperation, then ASEAN+3, and EAS. China believes that EAS is a good forum to explore regional cooperation and integration.

- G20 should be a leading body for reform of global economic governance

It is too early to predict the role G20 in future global economic governance. G20 is still in the process of change. However, it is generally accepted that it helps improve global economic governance if G20 is taken as "a major platform for international economic cooperation". Of course, IMF, WB and WTO should also take up new mandate and play useful roles in coordinating regional groupings of cooperation.

## V. China expects a fair, rational, and efficient global or regional cooperative regime

The emergence of G20 is revolutionary in the recent crisis management. It is a forum, yet mandatory in certain areas. But whether G20 is a capable, legitimate and authoritative body to address global economic issues, we should wait and see. Next few years will be crucial to its future role. So far as China is concerned, a unified and progressively self-reforming international economic regime is far better than a divided, low-efficient and bureaucratic one to meet the needs and desire of the majority of countries in the world.

In Asia-Pacific today, we have a situation of both EAS and APEC, going parallel with each other. Along with the deepening of the cooperation process, convergence in membership and content of cooperation may happen. By then, reorganization seems the only way out.

We are in a period of integration and reorganization with regard to global or regional cooperative regimes since the last World War. This period may take another 10 or even 20 years to complete. We look forward to a fair, rational, and highly efficient global or regional cooperative regime for this region in the interests of all of us. Thank you all.