

## **CHINA'S ECONOMIC EMERGENCE AND ITS IMPACT**

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### **I. Introduction**

The continuous high growth of China's economy and its growing impact to the outside world, especially to the neighboring region has increasingly received great attention. In 2003, China's GDP rate was as high as 9.1% and its foreign trade size exceeded 850 billion US dollars, a 36% jump. The optimistic view argues that considering its immense potential, China's high economic growth trend will continue for another decade or two. It is estimated, within a few years, China's economic size will be the third largest in the world after the United States and Japan, and may be the second largest after the US within two or three decades in the future.

China's economic power has generated important effects, both challenges and opportunities, to the outside world. With its continuous growth, China's contribution to the world economy, to the regional economy in particular has become larger and larger. For some years in the past, China's economic growth is one of the key factors in pushing the world economic growth. At the same time, its economic growth has generated bigger domestic demand, thus, China's capacity of imports from the outside market has been greatly enhanced.

China's economic emergence is highly based on its opening to the outside policy. China has very high trade-GDP ratio and the largest market for FDI flow in the developing economies. As a result, Chinese economy has been increasingly integrated to the world economy and to the Asia-Pacific region in particular. FDI plays a significant role in supporting China's economic growth. A striking feature of FDI is that they are not just a single direction flow. FDIs in China are closely interconnected to those in other countries. Following China's economic emergence, a new network of production and services has been developed based on the linkages of FDIs, which has been witnessed especially in the Asia-Pacific region. The intra-regional economic activities are increasingly based on exchange of parts, components and other intermediate products, reflecting the development of intricate intra-regional production networks, in which production processes are subdivided among many different countries.<sup>1</sup>

The new economic convergence in the Asia-Pacific region and in the East Asian region in particular, has created greater interests for the economies in the

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<sup>1</sup>The World Bank, East Asia Update: Looking beyond short-term shocks, April 2003, p. 15.

region to strengthen their economic cooperation and integration. Regional free trade arrangements (RFTAs) are considered to be rational on at least the following factors: one is to realize harmonization through institutional arrangements (rules, standards, regulations, policies); another is to work through collective management to preventing from crisis (contagion). China's economic emergence has become a stimulating new factor to facilitate RFTAs. Due to its closer economic integration to the region, China has become more and more interested to the RFTAs after its accession to WTO.

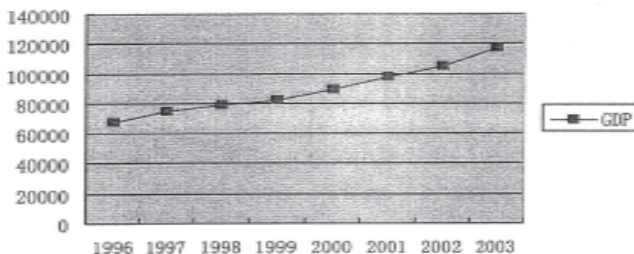
East Asian region used to be few regions in the world without RFTAs. This is changing. ASEAN started its own AFTA as early as 1992, but real progress (if taking the intra-regional trade as an indicator) was made slow for quite some time. 1997 financial crisis gave a great push to the regional cooperation, that gave the birth of "10 plus 3" (TPT) process. TPT is still a regional dialogue forum for East Asia. But the trend shows that it may lead to a more institutionalized "East Asian regionalism" with the direction toward an East Asian FTA (EAFTA) and a community as recommended by the East Asian Vision Group (EAVG). It is too early to predict the final future, but the direction seems clear. In this movement, China shows its great interest and active role. China's active participation and respective role in the East Asian cooperation process is surely coming from its successful economic development.

## **II. China's Economic Growth Trend**

China has achieved remarkable progress in economic development since its reform and opening policy. According to the statistics, the average growth rate of Chinese GDP is as high as 9.4% from 1979-2002. In the first half of 1990s, Chinese economy experienced an "over heating" period, the growth rate even to 12%. With a successful readjustment policy, it came down to 7.6% during the second half.<sup>2</sup> The growth rates slowed down to about 7% after 1997 with the negative effect from the Asian financial crisis though China avoided a direct crisis. The growth has started to move up again since 2000, even to 9.1% in 2003, an unexpected high rate even with SARS impact in the first half of the year. It is really a "miracle" for China to keep so long time high economic record. Today, China becomes the fifth world largest economy in GDP term and moved to the rank of a middle-income country according to GDP per capita level (exceeding 1000 US dollars in 2003).

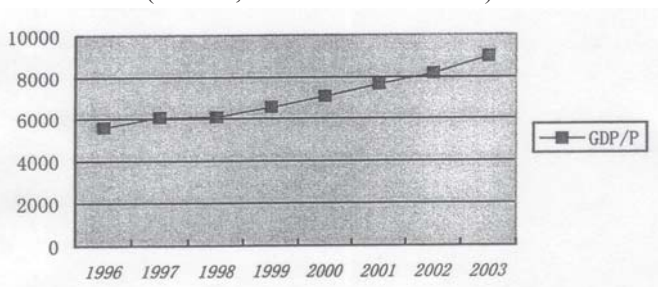
<sup>2</sup> World Bank: China country economic memorandum: promoting growth with equity, 2003 Washington DC p. 15.

**Figure 1 Growth trend of China's GDP**  
(in 100 mil. RMB, 1 US Dollar=8.27 RMB)



Source: China Statistical Year book, [www.cei.gov.cn](http://www.cei.gov.cn).

**Figure 2 Growth trend of China's Per Capita GDP**  
(in RMB, 1 US Dollar=8.27 RMB)

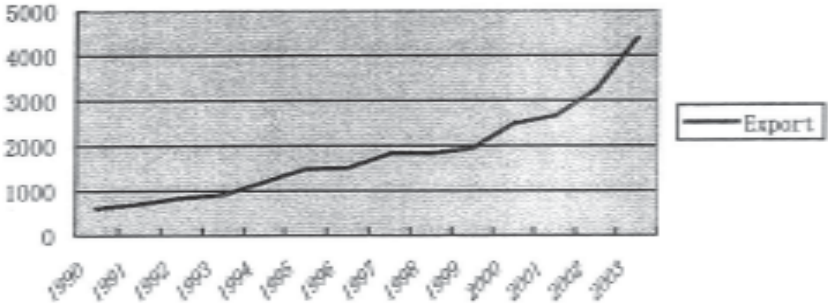


Source: China Statistical Year book, [www.cei.gov.cn](http://www.cei.gov.cn).

With such high growth of the economy, Chinese people become richer. Aside from the steady increase of GDP/P, there also emerges a sizeable middle class. Thus, the internal strength supporting Chinese economic growth will be gradually built up. In new sectors, like in telecommunication sector, the numbers of mobile phone, internet, computer users in China are all growing to the world top rank. It is expected that the domestic consumption, other than export, may become a major strength to sustain the economic growth in the future.

Along with the high economic growth, China's production capacity has been significantly increased, and in many areas, it becomes the world largest, or among the major producers, like, color TV sets, refrigerators, DVD players, computers etc. Based on this expansion of the capacity, China's export has increased remarkably, now the world fourth largest. If the current trend continues, China may become the world second largest country in foreign trade by 2005, and in GDP by 2025 after the United States.

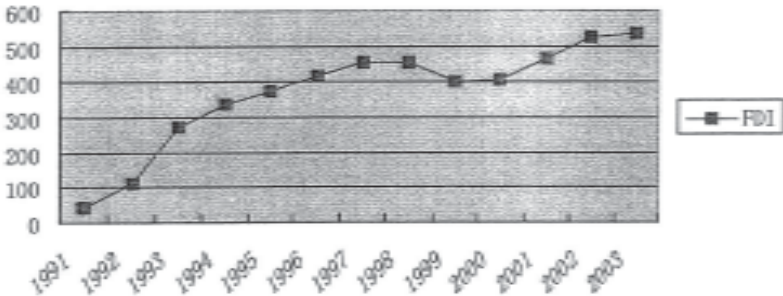
**Figure 3. China's export growth (1990-2003)**  
(In 100 million US dollars)



Source: [www.mofcom.gov.cn](http://www.mofcom.gov.cn)

Due to its huge size of population, 1/5 of the world population, together with its successful economic development, China owns great potential in expanding its market. Thus, China becomes increasingly attractive to foreign investors. Until 2003, the accumulated FDI in China exceeds 500 billion US dollars. Except for few years slow down after 1997 financial crisis, FDI flow to China has increased continuously since 1990s in both annual growth rate and the volume. The FDI enterprises have played a special important role in making Chinese economy dynamic since they have not just contributed more than half of the exports, but also invested intensively in new industries.

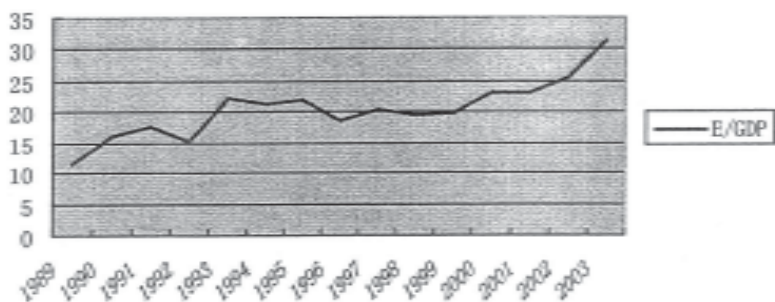
**Figure 4 Annual FDI inflow to China (1991-2003)**  
(In 100 million US dollars)



Source: [www.mofcom.gov.cn](http://www.mofcom.gov.cn)

Chinese economic growth is highly dependent on the outside factors. Among them, export and import, capital inflow and general economic situation of the outside world are of great importance. Export/GDP ratio has been on an increasingly high level, which means that there is a close correlation between the expansion of exports and growth of China's GDP. The contribution of export to the Chinese economic growth has become much larger in recent years. However, from a long-term perspective, such pattern of growth seems very vulnerable on the one hand, and not sustainable on the other hand. No an economy as such large in the world has so high export/GDP ratio. However, considering gradual built up of the domestic consumption and increasing accumulated FDI production capacity in China, the export expansion will have to continue in the years to come.

**Figure 5 Ratio of Export to GDP in Chinese Economy**



Source: Yearbook of China Statistics.

The majority economists in China are optimistic on China's longer term future economic development. They argue that China has entered a new period of time for economic restructuring and growth.<sup>3</sup> The high growth trend may keep for another 20 years. Nevertheless, such long-term high economic growth may create serious imbalance.

Chinese economic growth still largely follows the traditional industrialization model with high raw material and energy consumption. Due to its low efficiency, the input/output ratio of the production in China is only 1/3-1/5 of many developed economies. The result: high economic growth rate creates unreasonable demand of raw materials and energy. In 2003, China's oil consumption surpassed Japan and become the second largest only after the United States.

<sup>3</sup> Xiao Bin: Chinese economic expansion can be sustainable, [www.chinanews.com.cn/407111.html](http://www.chinanews.com.cn/407111.html)

China's steel consumption accounts for more than 1/3 of world total steel consumption. China's such fast and high increase of demand and imports have not just brought about significant effects to its own economy, but also to the world market.

China is under the way of restructuring and transition. Many difficulties and destabilizing factors are there and will continue to exist in the future. Among them, high ratio of bank bad loans, restructuring of state owned enterprises and huge surplus rural labors are of the great impact to the future economic sustainability and social stability. Many scholars warned that while the world enjoy the benefits brought by China's continuous high economic growth, we have to prepare the possible risk by a sudden slow down, or even a crisis of the Chinese economy.<sup>4</sup> Nevertheless, I am generally optimistic on the growth future of Chinese economy since its growth potential has not been fully realized as a large developing and transitional economy.

### **III. Impacts of Chinese economic growth**

Following China's economic emergence, its impact to the outside economies becomes strong. For some years in the past, in face of its high economic growth, quick expansion of exports and continuous large inflow of FDI, together with the background of the WTO accession, China was described as a "threat" since people worried that China would take away the market share and investments from the others. But with China's growing role in creating large imports and stimulating the regional economies, China has been also seen as a positive factor.<sup>5</sup> However, the debates on China's economic emergence will continue since both stable and instable factors are there.

### **Growth contribution and Challenge**

China's share of global GDP grew from 1.7% in 1990 to 3.9% in 2002. It is clear that China's economic growth makes greater contribution to the world economic growth. For example, if by PPP term, China contributed 1/4 of world economic growth during 1995-2002. In the past 4 years, China and the United

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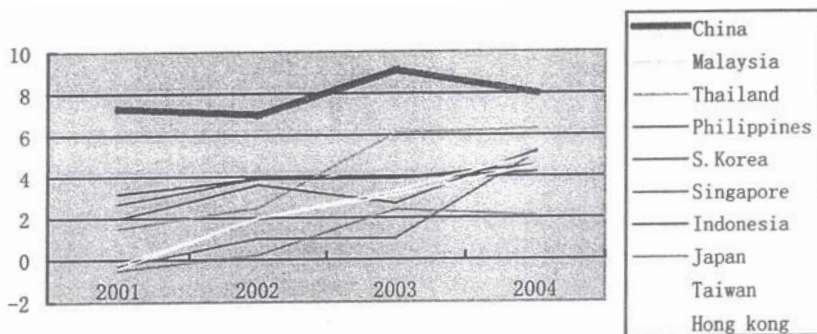
<sup>4</sup> The "worst scenario" for Chinese economy has been always raised since so many problems existed. Pamela C.M. Mar & Frank-Jurgen Richter: China: Enabling a new era of Changes, World Economic Forum, 2003, p.7.

<sup>5</sup> As pointed out by Mr. Stanley Fischer, "there is little cause for fear," a big dynamic economy in the neighborhood is a benefit". "Don't fear China threat," *The Straits Times*, 4 September 2001.

States contributed 2/3 of new output of the world economy.<sup>6</sup> Although China's economic weight is still limited, but its role as an added value (a large increment) in stabilizing and stimulating the world economy, and the regional economy in particular has been greatly enhanced.

China's economic growth is based on an open model. However, the out linkage of Chinese economy is significantly weighted in the Asia-Pacific region and in the East Asian region in particular since 2/3 of China's foreign trade and almost 90% of FDI inflow comes from the Asia-Pacific region and more than half of the foreign trade and 70% of FDI inflow from East Asia. So that, the greatest impact of the Chinese economic surge has been witnessed in the Asia-Pacific region and to the East Asia in particular. As Chinese economy becomes bigger (its size is larger than the total of all East Asian economies excluding Japan), its high growth significantly shapes the curves of the regional economies.

**Figure 6 The linear connection of the regional economic growth**



Source: Year Book of China Statistics, Far Eastern Economic Review, Jan. 29, 2004, for 2004 rates, forecast.

Considering the fact that Japan as the largest economy in the region experienced a decade long slow growth, China's economic emergence plays a special role in supporting the regional economic stability. After 1997 financial crisis, both Japanese imports from and FDI to the East Asian region have been declined. If without China's economic high growth, the regional economies would be much worse. We have witnessed a clear positive linear relationship between

<sup>6</sup> JETRO: White paper on international trade and foreign direct investment, summary, 2003, p.4; Asian Wall Street Journal, Dec. 2, 2003. p.1; Business Week, February 2, 2004, p. 12.



Chinese economic growth and the rest of the economies in East Asia in recent years.

At the same time, China's high growth has also creates challenges. As showed above, China's high economic growth has been highly relied on the expansion of exports and large inflow of FDI. The question is whether China has taken away the market from the others and dried up the pool of FDI flow. For the competition on the third market, it is easy to understand that the challenge from China's competition is there. According to C.H. Kwan, the competition between China and East Asian economies on the US market increased remarkably during 1990s, the competition ratios between China and Indonesia as high as 82.8%, Thailand 65.4%, Malaysia 48.7%, The Philippines 46.1%, S. Korea 37.5%, and Japan even 16.3% in value terms in 2000.<sup>7</sup> But however, it should be cautious to look at the figures about the "product similarity" since they may be significantly different in each product category and level as well as quality of the products. So that, if compared China's export expansion and exports of the other East Asian developing economies, the tradeoff effects between them does do not clearly exist,<sup>8</sup> which do not mean that there is no tradeoff effect to some specific products at all. As a matter of fact, China is also facing competition from other developing economies in the low labor cost products and the discriminated arrangement in the textile quarto in the textile exports.

As for FDI flow, China has been criticized to take away the others capital resource since it has continuously receive the lion's share of FDI flow to developing economies. As shown above, FDI's flow plays a critical role in sustaining China's economic high growth. China becomes more attractive than the other economies for MNCs to invest become China's improving economic condition and potential domestic market in particular. ASEAN is often taken as an example as a looser in face of China's competition in receiving FDI flows. This is misleading since the slow down of FDI flow to ASEAN after 1997 financial crisis is not because of China's competition, but because the worsened economic and political situation there. China enjoys some special advantages in attracting more FDI flow: abundant labor supply and low cost and a huge potential market based on its unique large population. Nevertheless, the resources that can be used for FDI are rich, not a fixed volume at all. Thus, to large extent, FDI flow to China should

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<sup>7</sup> C. H. Kwan, Overcoming Japan's "China Syndrome", paper presented on the Conference "Asian Economic Integration", RIETI, April 22, 2002, p.8.

<sup>8</sup> Kathic Krumm and Homi Kharas, East Asia Integrates - A trade policy agenda for shared growth. World Bank, 2003.



not be an alternative to the other economies. As a matter of fact, we have already seen the recovery of FDI flow to some ASEAN countries in recent years due to the unproved economic situation there,<sup>9</sup> as a matter of fact, from long round, it is vulnerable for a economy being too dependent on FDI flow. Chinese economy would become less dynamic if lacking real progress in its own innovation capacity.

### **Network Building**

In nature, FDI flow to China is not one side story since investments in China have close connection to those in other economies linked by the networks of the multinational companies (MNCs). Based on its large accumulated investments and production capacity, China becomes a production hub to develop network linkages not just between the host and the home countries, but also with many other economies. This kind of network is considered to be a kind of “parallel development”, different from the traditional vertical and hierarchic transfer of technology.<sup>10</sup> That is to say, with its continuous high economic growth, China is increasingly a “central player” in this production network, which seems beneficial significantly to the regional economic growth.<sup>11</sup> David Roland-Hoist called this as a phenomenon of “bamboo capitalism” in East Asia since this culminating feature of FDI-driven supply chain has created diverse and vibrant local industries around the East Asian region. The further supply chains (the root system) are decomposed and extended geographically, the faster and more profuse will be the proliferation of new enterprises.<sup>12</sup> This new development in East Asia tells that this region may accumulate a new strength for future economic dynamism.

### **Import Surge**

With its very high ratio of the foreign trade/GDP, China’s high growth generates sizable trade exchanges. The direct impact of Chinese economic growth to the region is its import surge. China became the third largest import market after the US, Germany in 2003. China’s import in 2003 is close to 8 times of the size

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<sup>9</sup> The Japanese accumulated FDI volume in ASEAN is still four times of that in China today.

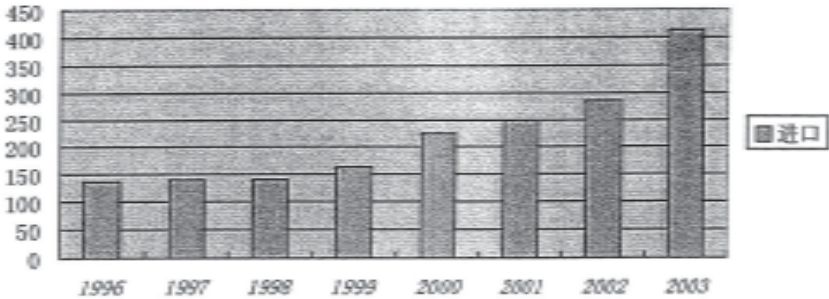
<sup>10</sup> It is called as “a new paradigm for East Asian economic development” Chen Yushi, “A new paradigm shift in East Asian economic studies”, *Ritsumeikan Journal of Asia Pacific Studies*, Vol. 10, December 2002, p.10

<sup>11</sup> Kathic Krumm and Homi Kharas, p. 23.

<sup>12</sup> David Roland-Holst Iwan Aziz, Li Gang Liu: *Regionalism and globalism: East and Southeast Asian trade relations in wake of China’s WTO accession*, ADB Institute Research Paper Series No. XX, January 2003, P.16

in 1990, almost doubled from 2000-2003. This trend seems to be strengthened. The increase of China's import helps greatly the exports for many economies. China's increasing demand, especially for raw materials, also helps to raise the export price level, a positive contribution to the resource export economies.

**Figure 7. China's import growth**

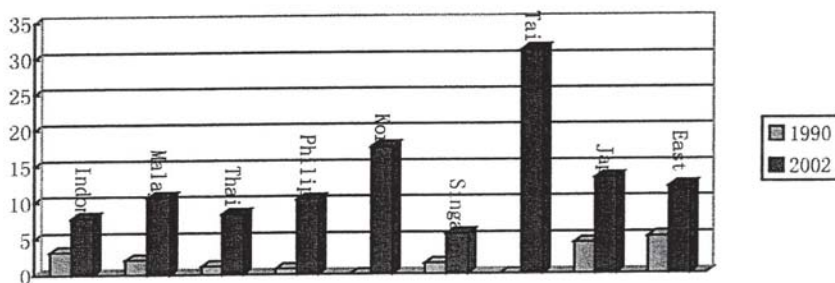


Source: Year Book of China Statistics, [www.mofcom.org.cn](http://www.mofcom.org.cn)

The importance of China's role as a big import market can be well demonstrated if comparing with the trend of exports to two largest economies, the United States and Japan. The exports of ASEAN as a whole to China has been quadrupled in the past two decades, raised its share to China close to 10%. The share of NIEs (Singapore, S. Korea, Hong Kong and Taiwan) exports to China in their total exports are now surpassed that to the United States. All East Asian economies increased their export share on Chinese market. For example, the exports share to China from East Asian 8 economies rose from 8% in 1990 to 16% in 2002, higher now than to Japan, and closing to the US.<sup>13</sup> The strength of China's imports is coming from two sources: one is the increase of its own demand due to the expansion of domestic consumption; another is the surge of exports, i.e. imports for exports. From the future perspective, the increase of internal demand of China will be more significant along with rising level of Chinese income since there is a clear positive linear linkage between import increase and per unit of GDP in China.

<sup>13</sup> The World Bank, East Asia Update, p.15.

**Figure 8 Export share to China**



Note: The share represents the export percentage to China in its total export. 2001 figure for Indonesia, Malaysia, Philippines. Source: [www.mofcom.gov.cn](http://www.mofcom.gov.cn); [www.aseansec.org](http://www.aseansec.org)

The influence of China’s role as a big market for the regional exports showed typically strong in 2003. China’s total foreign trade increased 25%, to 851.2 billion US dollars, imports increased 40%, to 413 billion US dollars, 126 billion US dollars more than 2002. China’s imports from ASEAN and S. Korea increased more than 50%, from Japan close to 40%, from the US close to 25%.<sup>14</sup> For many economies, exports to China represent the lion’s share in their trade increase, for Japan, 70% of its export increase in 2003 is to China, for S. Korea, 40%, even for the United States, 25%. For many of Japanese products, Chinese market becomes the major export destination. According to Japanese trade statistics, for the first time, Japan-China trade value exceeds Japan-US trade value in 2003. Export surge to China become an important factor to stimulate the Japanese economic recovery in 2003.<sup>15</sup>

China’s market still has big potential. By 2003 China already became the Asia’s largest individual importer. If this trend continues, by 2020 China’s foreign trade size may be equal the U.S. With its growing integration to the East Asian region, China will play a unique role in recycle capital through its trade balance in the East Asian region. According to the estimation done by Hoist, Aziz and Liu, in next two decades, China will gain huge trade surplus with US, EU, while at the same time, large trade deficit with East Asia.<sup>16</sup> More than that, it is expected that China may become another important engine for the world economic growth

<sup>14</sup> Economic Daily, Feb. 27, 2004, p.2.

<sup>15</sup> Economic Daily, Dec. 3, 2003; Lianhe Zaobao, Feb. 17, 2004.

<sup>16</sup> David Roland-Holst Iwan Aziz, Li Gang Liu, p. 19

(for the regional economies in particular) based on its sizable increase of the domestic consumption parallel to the United States.

However, currently the surge of China's imports is still highly relied on its export expansion since about half of China's imports are for exports, with even much higher proportion of the imports in the area of manufactured parts. A domestic consumption-lead import structure still needs time to be built up.

Of course, on the other side of the coin, China's huge import increase has made price inflated sharply for many goods, especially for some raw materials and energy. As a double edge sword, it may kill itself and also some others by raising the cost of the economic activities.<sup>17</sup>

#### **IV. China and East Asian Regionalism**

##### **Emerging Regionalism**

East Asian cooperation process started as a response to an emergent call for dealing with the financial crisis. When the Asian financial crisis broke out from ASEAN in 1997, not just ASEAN, but also the whole East Asian region was suddenly plunged into the great difficulty. This gave the birth to the first ASEAN plus three (China, Japan and ROK) (APT) leaders' meeting in Kuala Lumpur in November of 1997. The aim of the meeting is clear: dealing with the crisis through regional cooperation. This is a very important historical event since it opened the way for regional cooperation process based on the regional interests and a newly defined regional identity, i.e. East Asia.

As a process, East Asian cooperation generates more and more governmental involvements and institutional building.<sup>18</sup> At the same time, regionalism in East Asia finds its rationale in not just economic benefits, but also political interests. Comparing with other regions, East Asia is late in forging RFTA and other institutional establishments. Aside from intra-regional desire for a closer partnership, East Asian new regionalism is also considered to be a rational response to the progress of other regions.<sup>19</sup>

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<sup>17</sup> We saw significant increase of the prices of steel, oil and some other raw materials on the world market in 2003 due to China's import surge.

<sup>18</sup> Shujiro Urata argued "a shift from market-led to institutional-led regional economic integration in East Asia", paper prepared for the conference on Asian economic integration organized by Research Institute of Economy, Trade and Industry, Japan, April 22-23, 2002, Tokyo, P. 1.

<sup>19</sup> It is considered that Prime Minister Mahathir's proposal of forming East Asian Economic Caucus (EAEC) is a direct response to NAFTA. Peter Drysdale & Kenichi Ishigaki editors, East Asian trade and financial integration. New issues, Asia-Pacific Press, Canberra, 2002, p.6.

Until now, an integrated framework for East Asian cooperation is emerging. The major one is annual leaders' meeting for official dialogue and consultation on regional immediate and long-term issues ranging from economic situation, macro-economic policy, sub-regional development to political stability as well as security. Although the leaders' meeting are divided into several tracks, i.e. ASEAN 10, ASEAN to 1 (China, Japan and South Korea separately), 3 (China, Japan and ROK) and ASEAN plus 3, they are all under a "10+3" framework. Aside from leaders' meeting, there are 8 tracks of ministers' meeting.

East Asian cooperation process has moved beyond simple dialogue. Some real institutional arrangements have been developed. Among them, Chang Mai Initiative (CMI), i.e. swap arrangements among East Asian countries, is the most significant, which may leads further to a higher level financial and monetary integration for East Asia. East Asian FTA (EAFTA) has not been on the agenda yet, but different efforts are made in moving toward this direction.

However, the major concern is still there: what is the direction of this process? EAVG recommended an "East Asian Free Trade Area (EAFTA)", "the East Asian summit", gradual monetary integration, regional institutional building and finally, toward a regional entity - "East Asia community (EAC)".<sup>20</sup> This is the first time for East Asia to have a clearly dressed long-term vision by eminent persons. However, it is not easy to reach consensus on these recommendations among all partners.

Considering great diversity of East Asian region and complexity of the relations among the countries, the process of East Asian cooperation and integration can only follow a pragmatic approach. It is necessary to encourage multi-layered arrangements and gradually move to a unique regional framework.

Institutional building is inevitable for the process of East Asian cooperation. Although the institutional building starts from low level and on a multi-layered structure, but progress will be made along with the development.

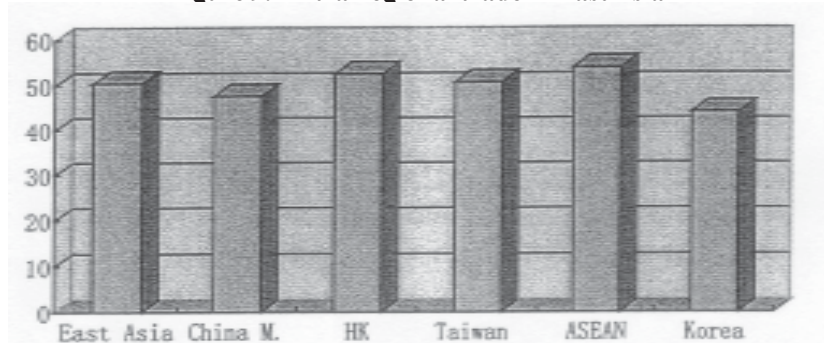
### **Economic Foundation**

The foundation of East Asian regionalism is its growing economic integration through intra-regional trade and investment. Intra-regional trade in East Asia started to grow fast from late 1980s, which reached the level as high as 50% before the financial crisis. It began to decline after 1997 with the negative impact from the financial crisis, but to climb up afterwards, to 50.5% again in 2001. Then, the ratio of intra-regional trade continues to increase. For example, the intra-regional exports of

<sup>20</sup> East Asian Vision Group Report, 2001.

East Asia 8 economies rose 13%, as compared to an increase of exports to the rest of world of only 3% in 2002. Exports of these economies to East Asia contributed 2/3 of their total export increase in the same year.<sup>21</sup> China's import surge is of course an important factor to enhance the trend of intra-regional trade in East Asian region. This helps to change the views on China's economic emergence from a "threat" to "an opportunity".

**Figure 9. Intra-regional trade in East Asia**



Source: JETRO, Perspective on East Asian FTA, March, 2003, p. 42

Importantly, this intra-regional trade is increasingly based on exchange of parts, components and other intermediate products, reflecting the development of intricate intra-regional production networks, in which production processes are subdivided among many different countries.<sup>22</sup> FDI flow plays a key role in creating this network. From future perspective, China will change its image just as a market receiving FDI inflow and become an important resource for FDI outflow this kind of network based on exchange of trade and capital has profound impact to East Asian economic development and interest for cooperation and integration.

### **China's Active Role**

China has become active in joining the regional trade arrangement after its accession of WTO. A surprising move is its initiative to forge a FTA with ASEAN. This shows its new interest and confidence in regionalism.

<sup>21</sup> The 8 economics are: Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan(China), Thailand and Vietnam.

<sup>22</sup> The World Bank, East Asia Update: Looking beyond short term shocks, April 2003, p.15.

In 2000 at their meeting in Singapore, with the background of the WTO accession, Chinese Premier Zhu Rongji proposed to have a free trade arrangement with ASEAN, and the next year, leaders of China and ASEAN agreed to establish a free trade area (FTA) within 10 years, and the framework agreement was signed in during the leaders' meeting in late 2002.

The question has been often raised is: Why did China make such initiative? The answer lies in its growing confidence and the potential gains. According to the estimation, the establishment of a FTA between China and ASEAN will create an economic region with huge benefits.<sup>23</sup> It is considered that with the formation of a FTA with China, ASEAN would gain from an easy market access to China and improving its own investment environment. The significance of establishing a FTA between China and ASEAN goes beyond economic benefits. The close economic integration will contribute immensely to peace and stability between China and ASEAN, and East Asian region. China-ASEAN FTA commitment pushes Japan and ROK to take actions to formulate the trade arrangement with ASEAN.

In fact, China plays a central role in driving East Asia toward a new regionalism. From China side, it believes that East Asian regional cooperation and integration could help to create a stable and cooperative environment, which is crucial for realizing its ambitious modernization dream. It seems that China's active role in promoting East Asian regional integration has been accepted by its regional partners.

### **Concluding Remarks**

China has great development potential. Due to its size, the impact of China's economic emergence is significant and comprehensive, either because of its high growth, or the slow down. We have never experienced such a country with such huge population, such quick change in such short period of time. This is a challenge both to China itself and the outside world.

We have witnessed a changing China, not just in the area of economic power, but also in other areas. However, what China requires is not an order for its own domination and control, but for its development in a peaceful and favorable environment. This may help us to understand why China should identify itself as "peaceful emergence". China's such new thinking and strategy has been reflected in its recent active and responsive behavior of its foreign policy.

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<sup>23</sup> According to the simulation conducted by the ASEAN Secretariat, a China-ASEAN FTA will increase ASEAN's export to China by 48% and China's export to ASEAN by 55.1%. It will increase China's GDP by 0.3 percent or by US \$ 2.2 billion in absolute term, ASEAN's GDP by 0.9 percent or by US \$ 5.4 billion. See "Forging closer ASEAN-China economic relations in the twenty-first century", report by ASEAN-China Expert Group on Economic Cooperation, 2001.