

How the World Economy Affects the Chinese Economy

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Beijing, China, July 2, 2003

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A Preview

- ◆ The Trends of Globalization and De-Verticalization, Facilitated by the Advances in the Information and Communication Technology
- ◆ The Chinese Economy Today
- ◆ The External Shocks
 - ◆ Income Shock
 - ◆ Price Shock (interest rate and exchange rate)
 - ◆ War, Revolution and Terrorism
 - ◆ Asset Prices (stock, bond and property prices)
 - ◆ Natural Disasters and Epidemics
- ◆ The Channels of Transmission
 - ◆ International Trade in Goods and Services
 - ◆ Foreign Direct Investment
 - ◆ Foreign Portfolio Investment (Loans, Bonds and Equity Investment)
 - ◆ Inflation or Deflation
 - ◆ Exchange Rates
 - ◆ Tourism, Travel and Migration

The Chinese Economy Today (1)

- ◆ East Asia is the fastest-growing region in the world over the past two decades, the East Asian currency crisis of 1997-98 notwithstanding.
- ◆ China is the fastest growing country in East Asia—approximately 9% p.a. since beginning of economic reform (1979) and 7.7% over the past five years.
- ◆ Between 1979 and 2002, Chinese real GDP grew from \$177 billion to \$1.24 trillion (2002 prices) (6th largest GDP in the world) and real GDP per capita grew from \$183 to \$980. The U.S. GDP (approximately \$10.5 trillion) and GDP per capita (approximately \$37,000) are respectively more than 8 and 37 times the comparable Chinese figures in 2002.
- ◆ China survived the East Asian currency crisis relatively unscathed.
- ◆ China is one of the very few socialist countries that have made a successful transition from a centrally planned to a market economy—the 10th Five-Year (2001-2005) Plan is only indicative and not mandatory; the rate of interest (the price of money) and the exchange rate are the only prices that are still administratively determined on the margin.

The Chinese Economy Today (2)

	1979	2002
	US\$	(2002 prices)
Real GDP	177 bill.	1.24 trill.
Real GDP per capita	183	980

The Chinese Economy Today (3)

	U.S.	China
	US\$ (current prices)	
2002 GDP	10.5 trill.	1.24 trill.
2002 GDP per capita	37,000	980

The Chinese Economy Today (4)

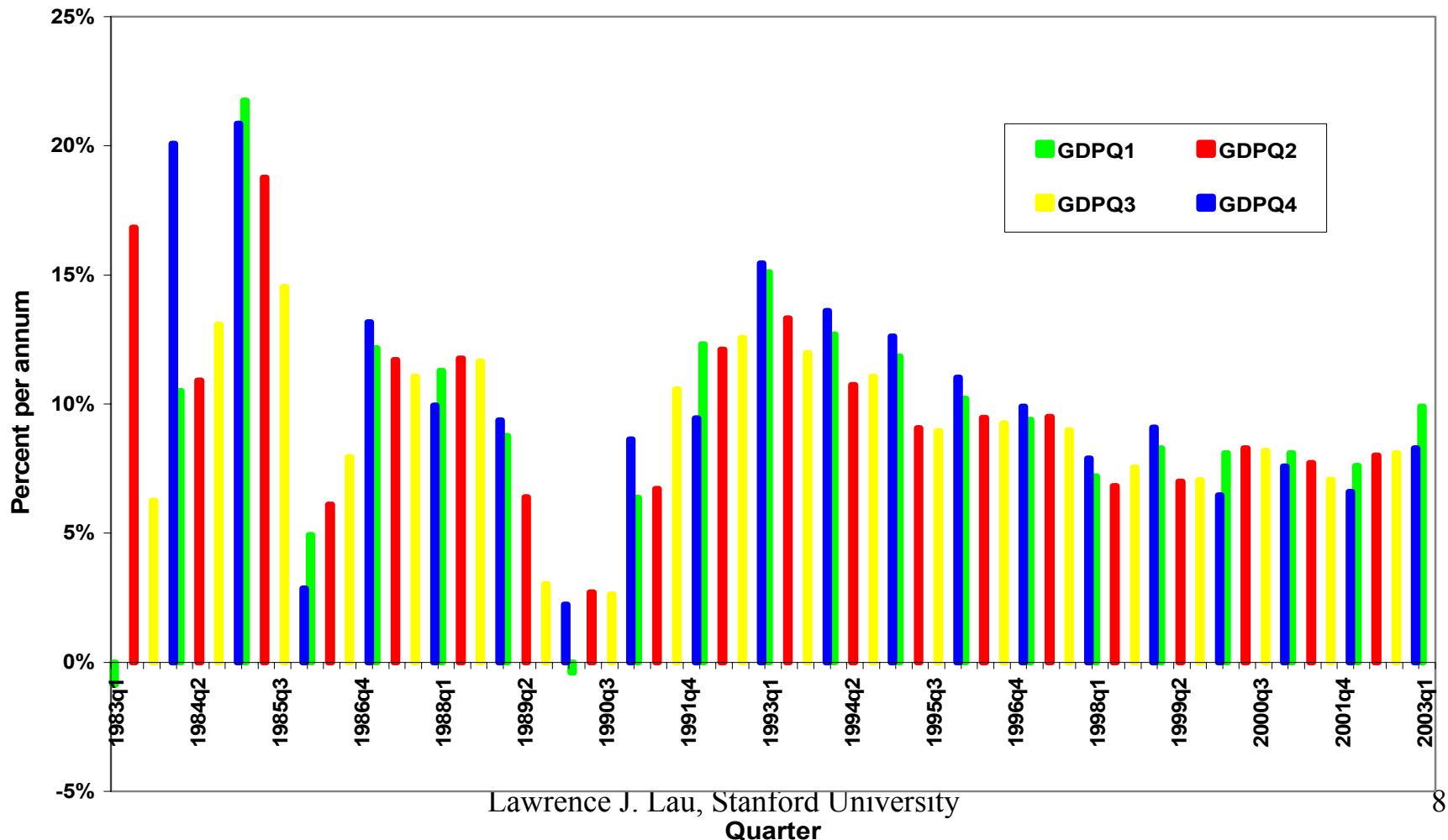
- ◆ The private (non-state) sector accounts for more than 65% of GDP and an even greater percentage of employment in 2002—non-state-owned firms face hard budget constraints and ordinary citizens can make a good living without being beholden to the state.
- ◆ China is no longer a “shortage” economy--insufficient aggregate demand is a real possibility.
- ◆ China is the 6th largest trading country in the world (exports of goods of US\$325.6 billion—an increase of 22.3% over 2001—and imports of goods of US\$295.2 billion—in increase of 21.1%— totaling US\$620.8 billion in 2002).
- ◆ Trade with East Asian economies, both exports and imports, have been increasing at rates of 20% and higher. In particular, China has become a major export destination for and has trade deficits vis-à-vis most East Asian economies.
- ◆ Chinese accession to the World Trade Organization has been very smooth; many anticipated negative effects have not occurred. The WTO General Council has said that “China has basically completed the commitments and obligations for the first year.”

Rates of Growth of Real GDP and Inflation (% p.a.)

◆ Actual	Real GDP	RPI	CPI
1997	8.8	0.8	2.8
1998	7.8	-2.6	-0.8
1999	7.1	-2.9	-1.3
2000	8.0	-1.5	0.4
2001	7.3	-0.8	0.7
2002	8.0	-1.3	-0.8
2003Q1	9.9		0.5
2003/04	8.9		1.0

Quarterly Rates of Growth of the Real GDP of the Chinese Economy, Y-o-Y

YoY Quarterly Rates of Growth of Real GDP



International Trade in Goods and Services

- ◆ Chinese exports and imports are a relatively small 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
- ◆ The effects of natural disasters and epidemics.
 - ◆ The importance of second or multiple sourcing.

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 (WTO)

- ◆ 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

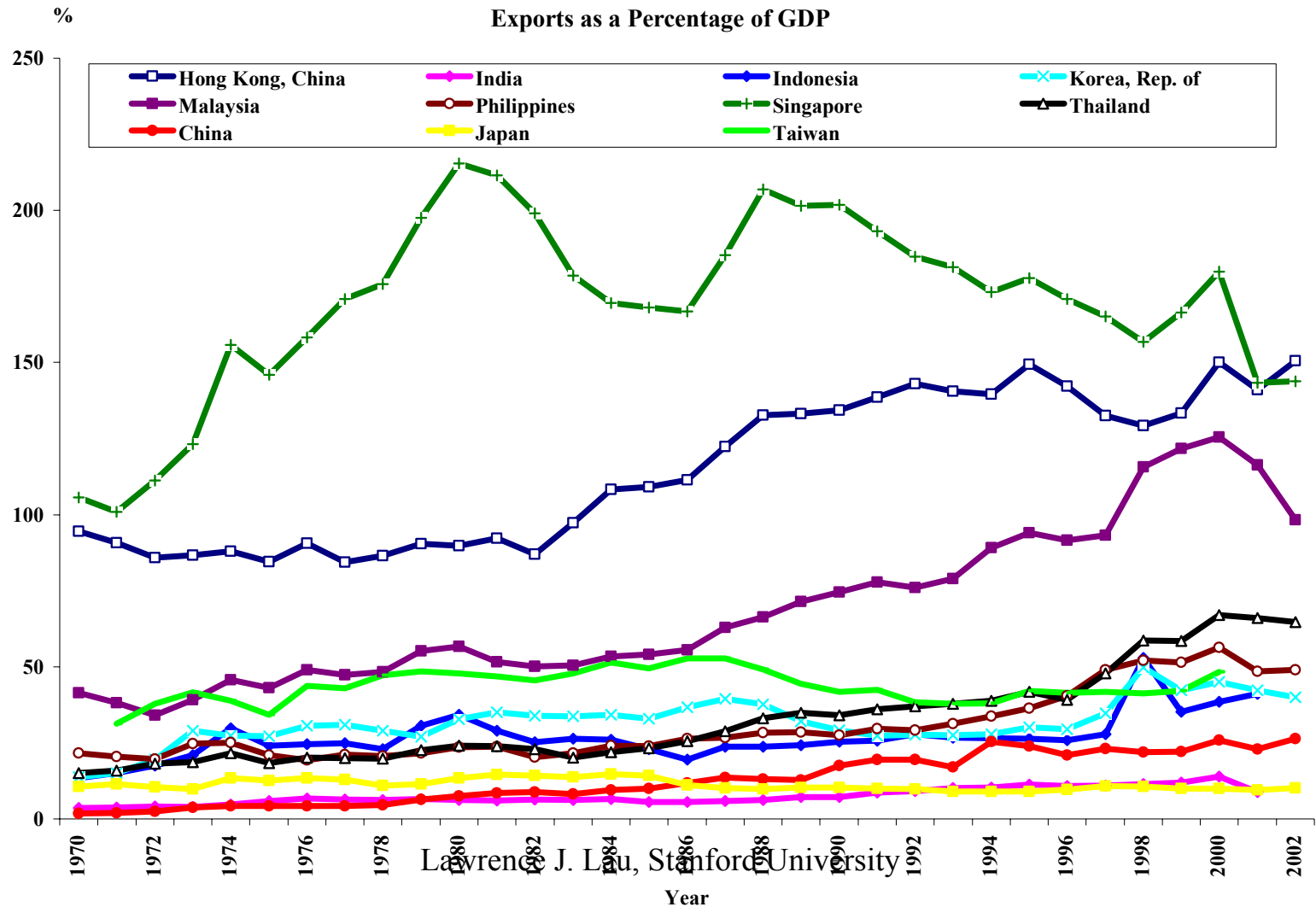
Exports and Imports

- ◆ In 2002, exports of goods totaled US\$325.6 billion (an increase of 22.3% over 2001) and imports of goods US\$295.2 billion (an increase of 21.1%) with a trade surplus of US\$30.4 billion (the current account surplus, including trade in both goods and services, was US\$35.4 billion).
- ◆ In 2003Q1, exports increased 33.5% YoY to US\$86.32 billion and imports increased 52.4% to US\$87.34 billion, resulting in a trade deficit of US\$1.03 billion, the first quarterly trade deficit since 1993. In 2003/M1-M4, exports increased 33.5% YoY to US\$122.03 billion and imports increased 46.8% to US\$121.93 billion, resulting in a trade deficit of US\$0.1 billion. It is anticipated that there will be a trade deficit of between US\$2 and \$3 billion for the entire year (it will be the largest annual trade deficit since 1993). In 2003/05, exports increased 37.4% YoY.
- ◆ Chinese tourists traveling abroad reached 16.6 million in 2002, an increase of 36.8% from 2001; 10 million Mainlanders are expected to visit Hong Kong in 2003, and the rate of growth is projected to be 20% per annum over the next five years. Chinese tourists are in general big spenders. The tourism component of the balance of payments turned negative in 2000 and remained so.

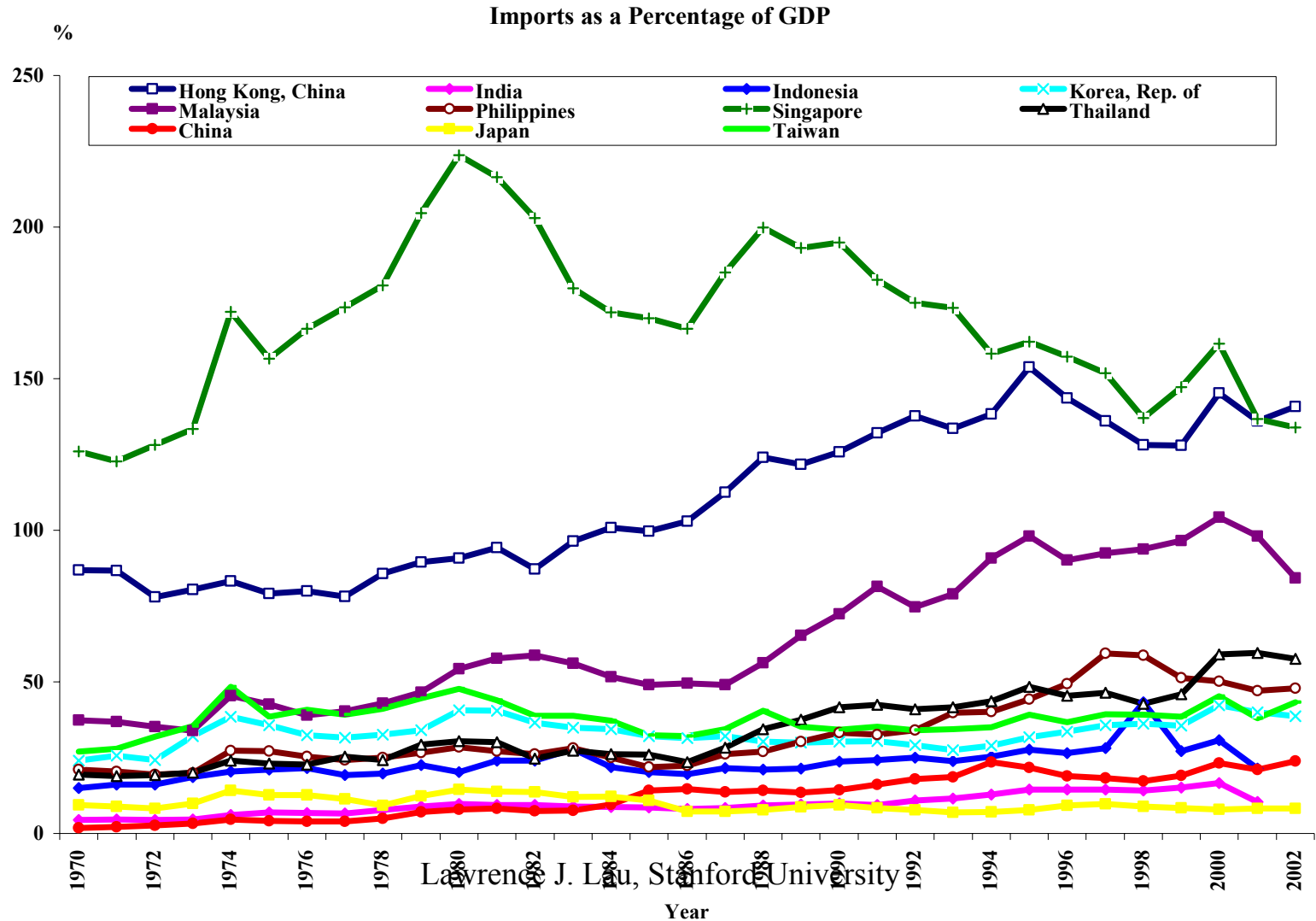
The Relative Stability of the Rate of Growth of Real GDP

- ◆ Gross domestic investment is mostly financed through domestic savings rather than foreign investment or loans.
- ◆ Foreign direct investment (FDI) accounts for approximately 10% of gross domestic investment in China, a relatively small proportion.
- ◆ Despite fluctuations in exports and imports, the rate of growth of real GDP has remained remarkably stable at 7-8%. Exports are approximately 25% of GDP, but the value-added content of exports is only approximately 30%, resulting in an export-generated value-added to GDP ratio of 7.5%. Chinese exports to the U.S. is approximately 8% of Chinese GDP (according to adjusted U.S. data), with a value-added content of 20%, resulting in a value-added to GDP ratio of 1.6%.
- ◆ The contribution of net exports of goods and services to the economic growth of 2002 is approximately 1%. The volatility of the Chinese annual rates of growth has also declined over time, indicating an improved capacity for macroeconomic management.

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

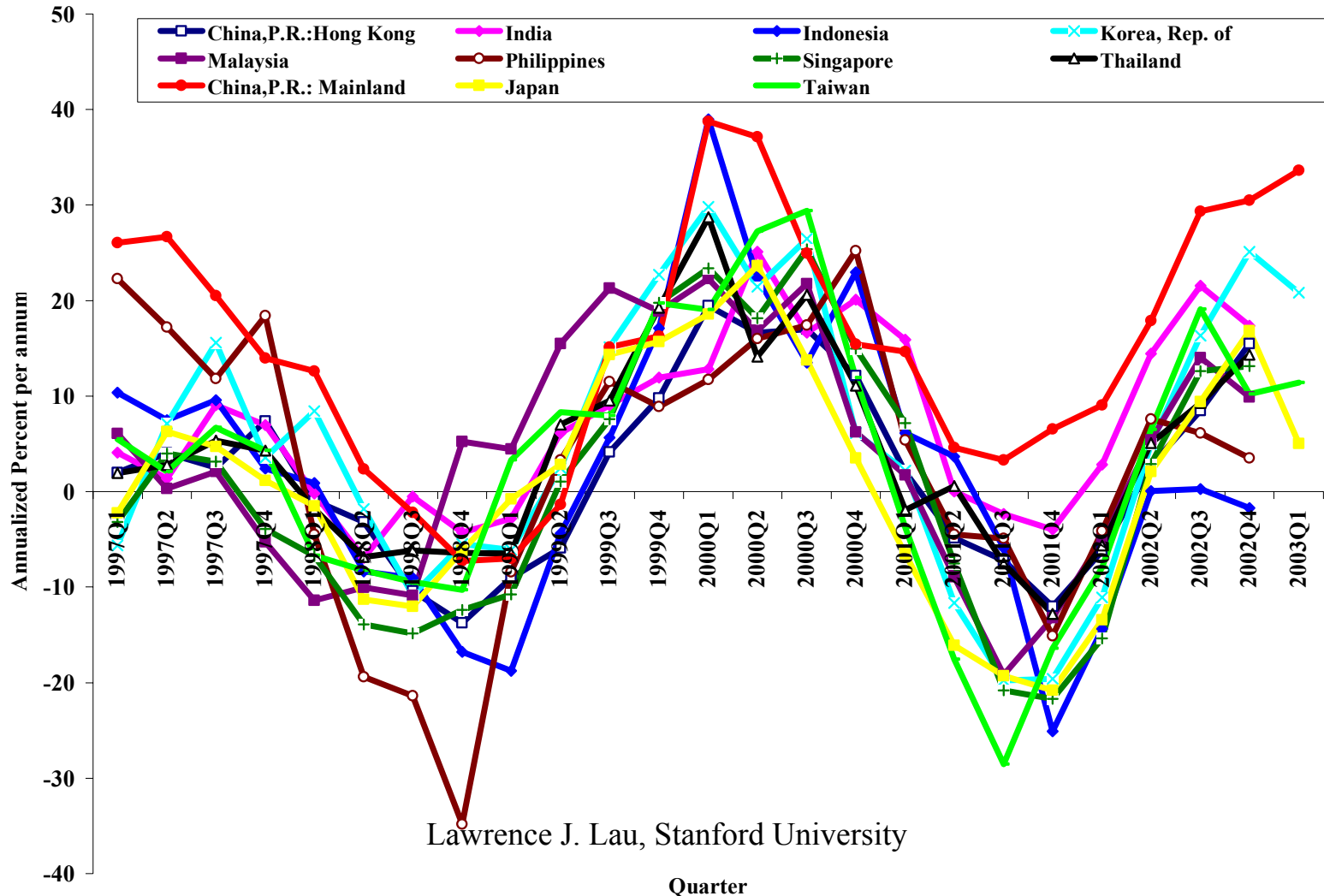


Imports as a Percent of GDP: Selected East Asian Economies and U.S.



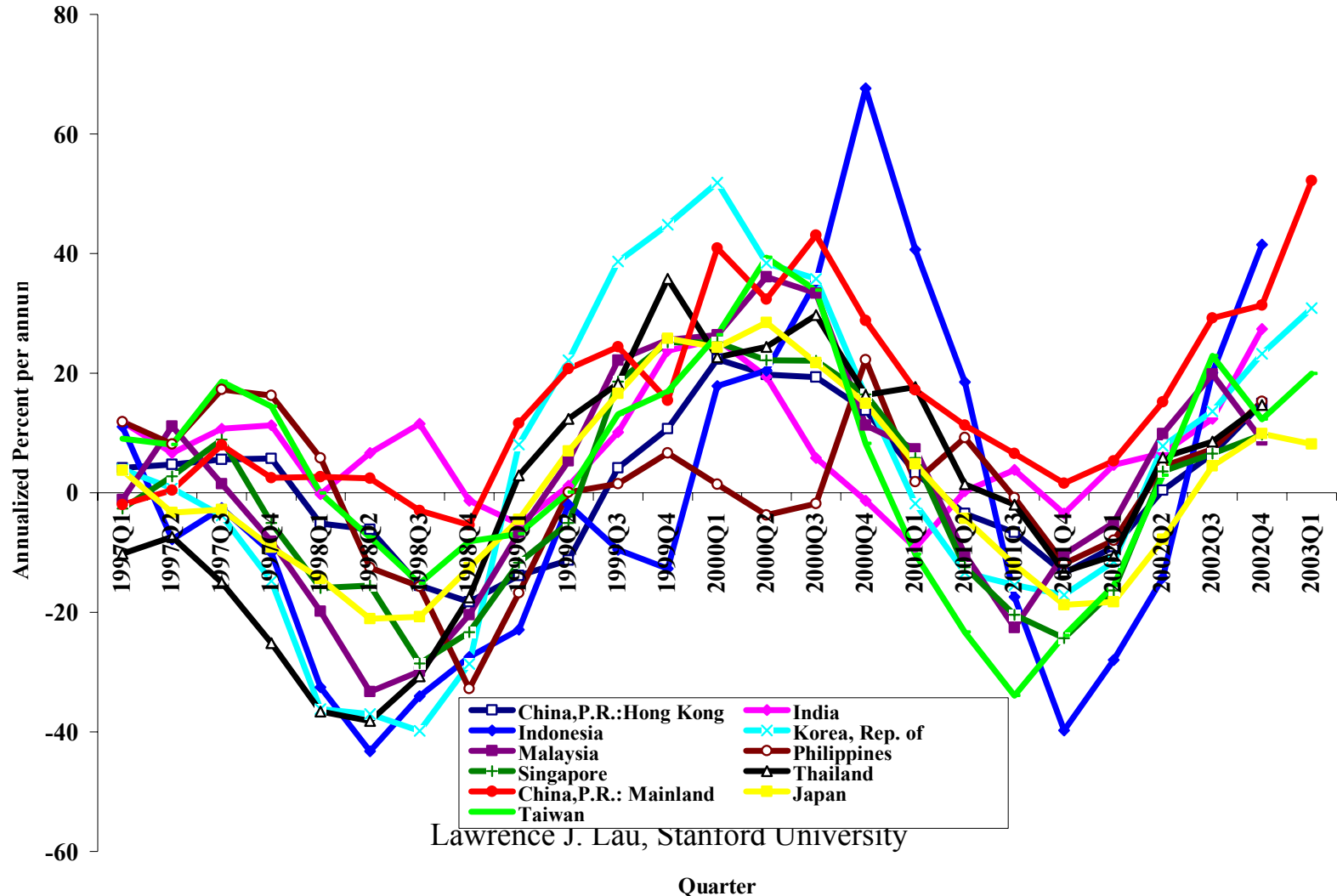
Quarterly Rates of Growth of Exports: Selected East Asian Economies

Year-over-Year Quarterly Rates of Growth of Exports in U.S.\$ (Percent)



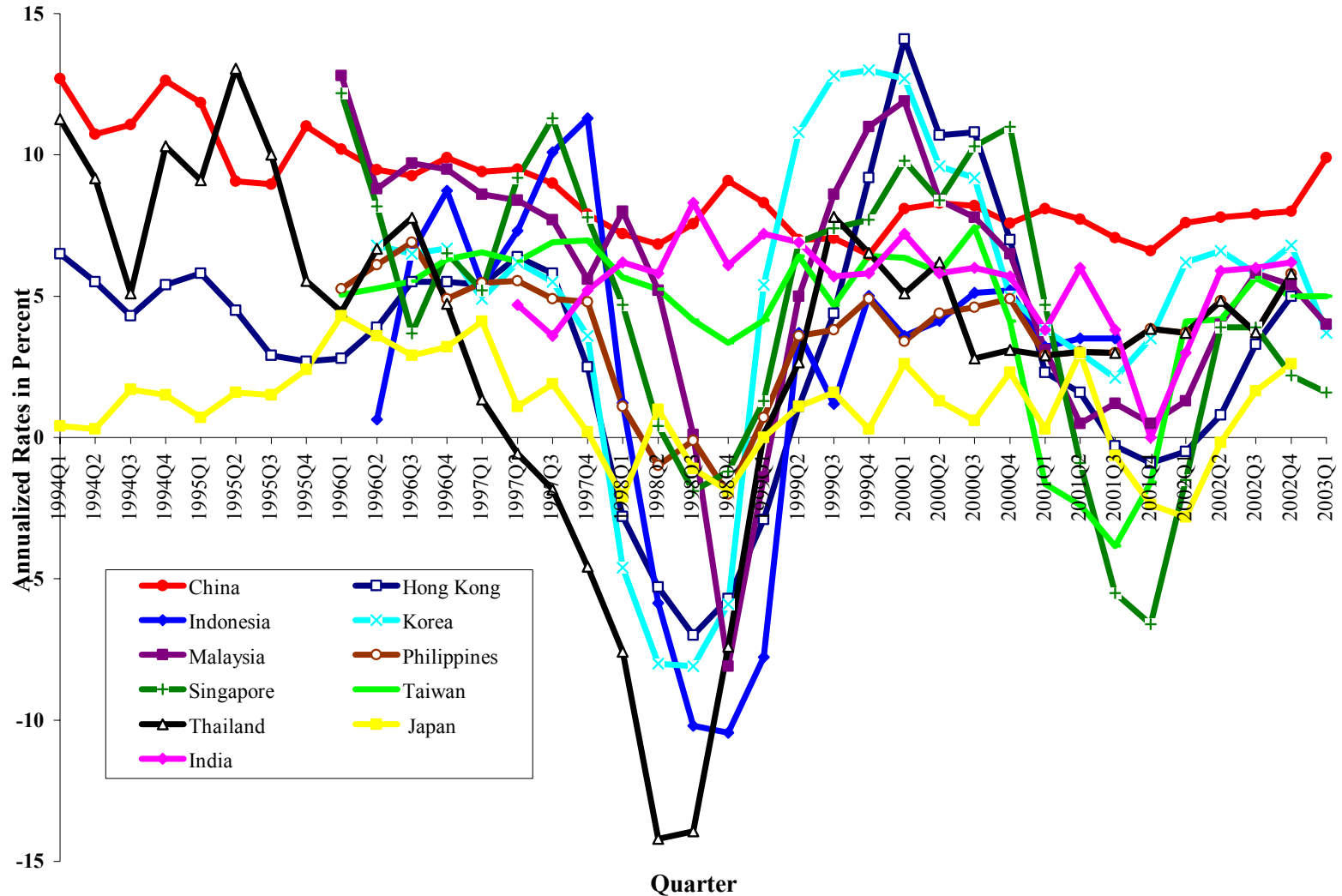
Quarterly Rates of Growth of Imports : Selected East Asian Economies

Year-over-Year Quarterly Rates of Growth of Imports in U.S.\$ (Percent)



Quarterly Rates of Growth of Real GDP: Selected East Asian Economies

Quarterly Rates of Growth of Real GDP, Year-over-Year, Selected East Asian Economies



Direct Value-Added Content of Chinese Exports

	Direct
◆ Processing Exports	0.153
◆ Textiles	0.147
◆ Wearing Apparel	0.158
◆ Non-Processing Exports	0.329
◆ Textiles	0.195
◆ Wearing Apparel	0.229
◆ All Exports (Weighted Average of Processing and Non-Processing Exports)	0.240
◆ Textiles	0.178
◆ Wearing Apparel	0.183

The Entry of New Players on the Global Market (China, India and Russia)

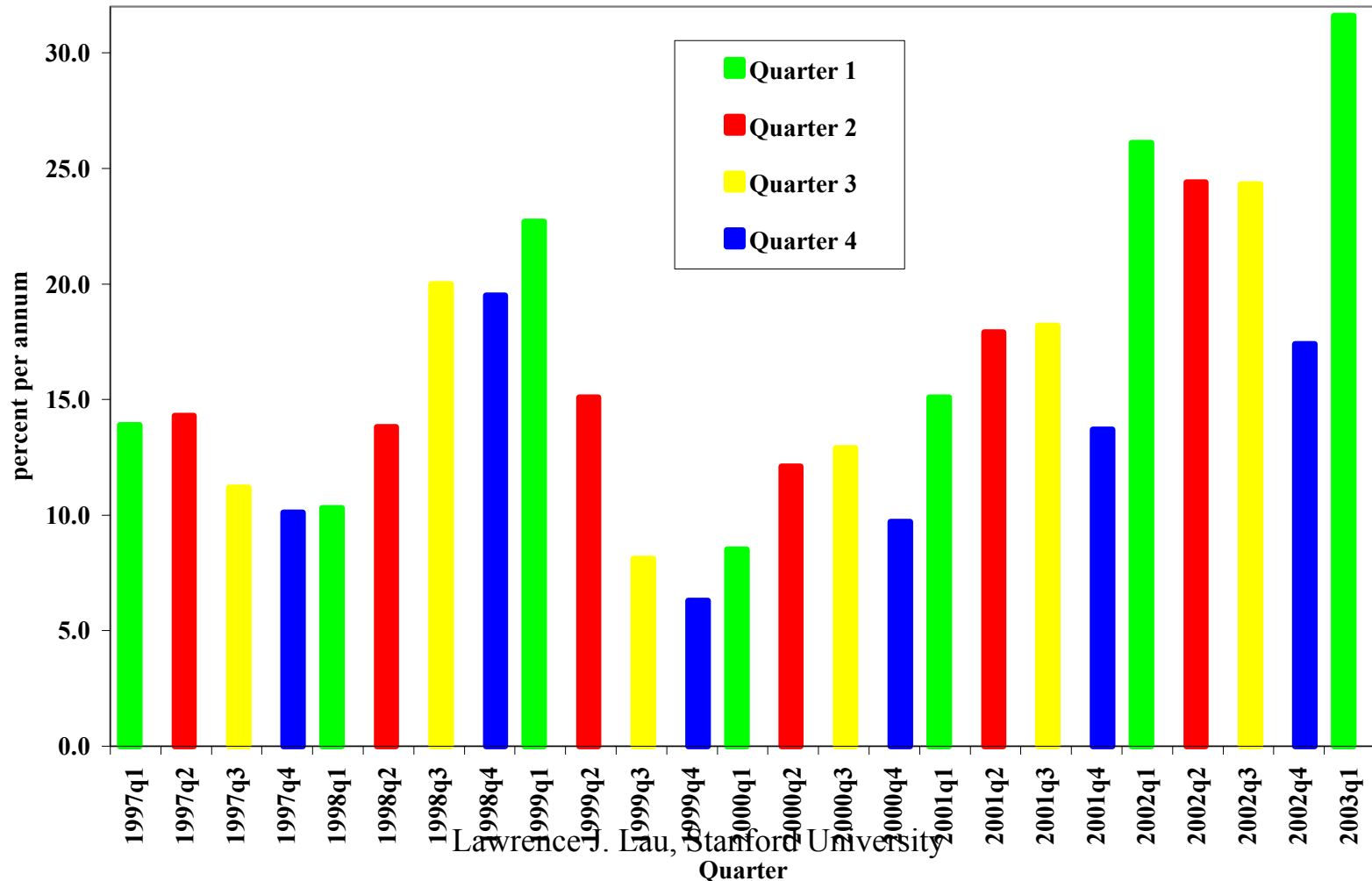
- ◆ Re-alignment of comparative advantages
 - ◆ Both existing and new players can benefit
 - ◆ Comparative advantages will change
 - ◆ Adjustments will be necessary
 - ◆ There should be sufficient gain for everyone to more than compensate all the losers
- ◆ There will be increased demands for goods and services (capital goods, intermediate goods, aircrafts, cell phones, computers and tourism services, raw materials and natural resources). China is expected to become Asia's leading importer by 2005, with much of the imports originating from East Asian economies.
- ◆ There will be little upward pressure on the real wage rate of unskilled labor for many years to come, which in turn implies that there will be little upward pressure on prices.

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.

Quarterly Rates of Growth of Real Gross Fixed Investment of the Chinese Economy, Y-o-Y

YoY Quarterly Rates of Growth of Real Gross Domestic Fixed Investment

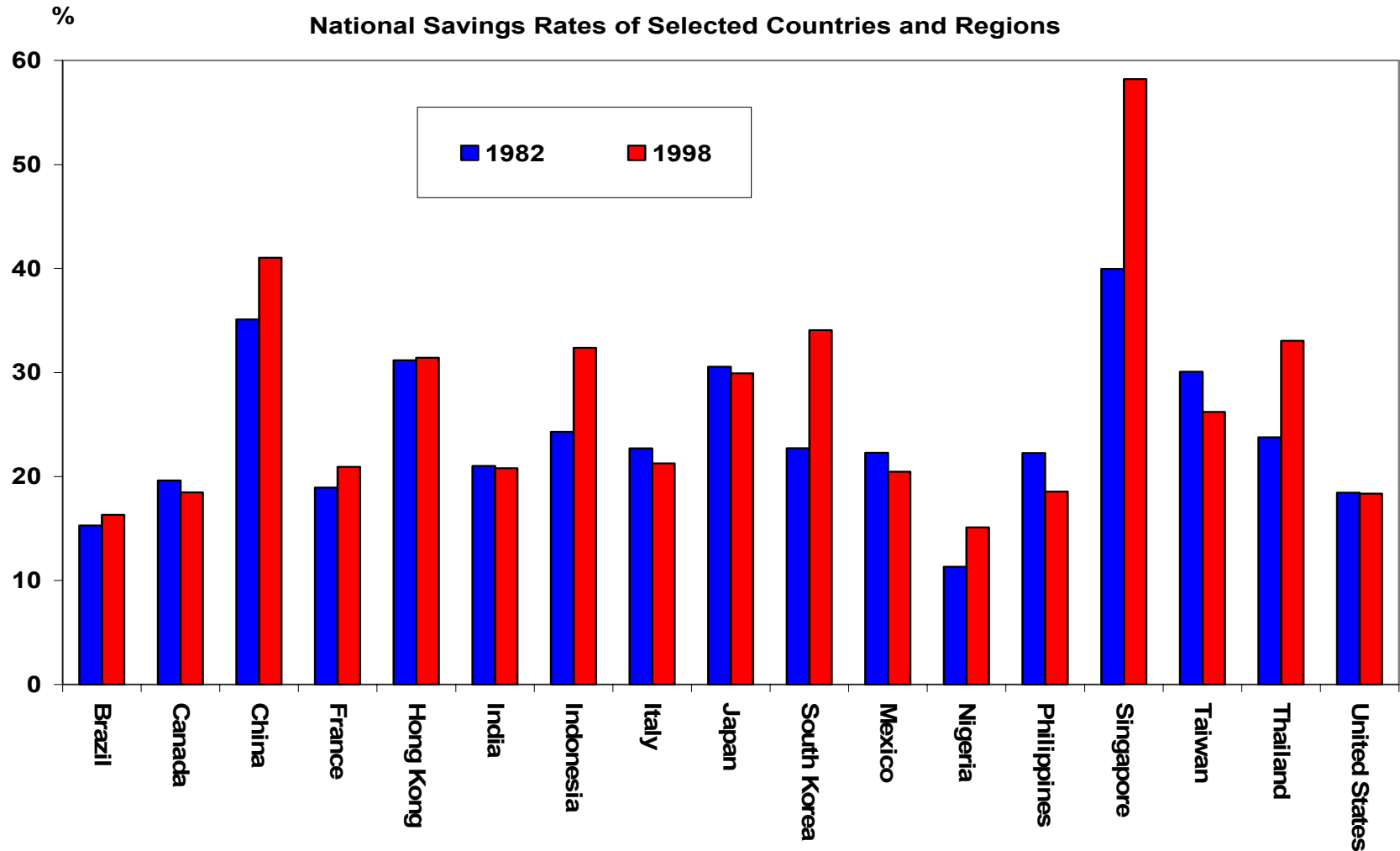


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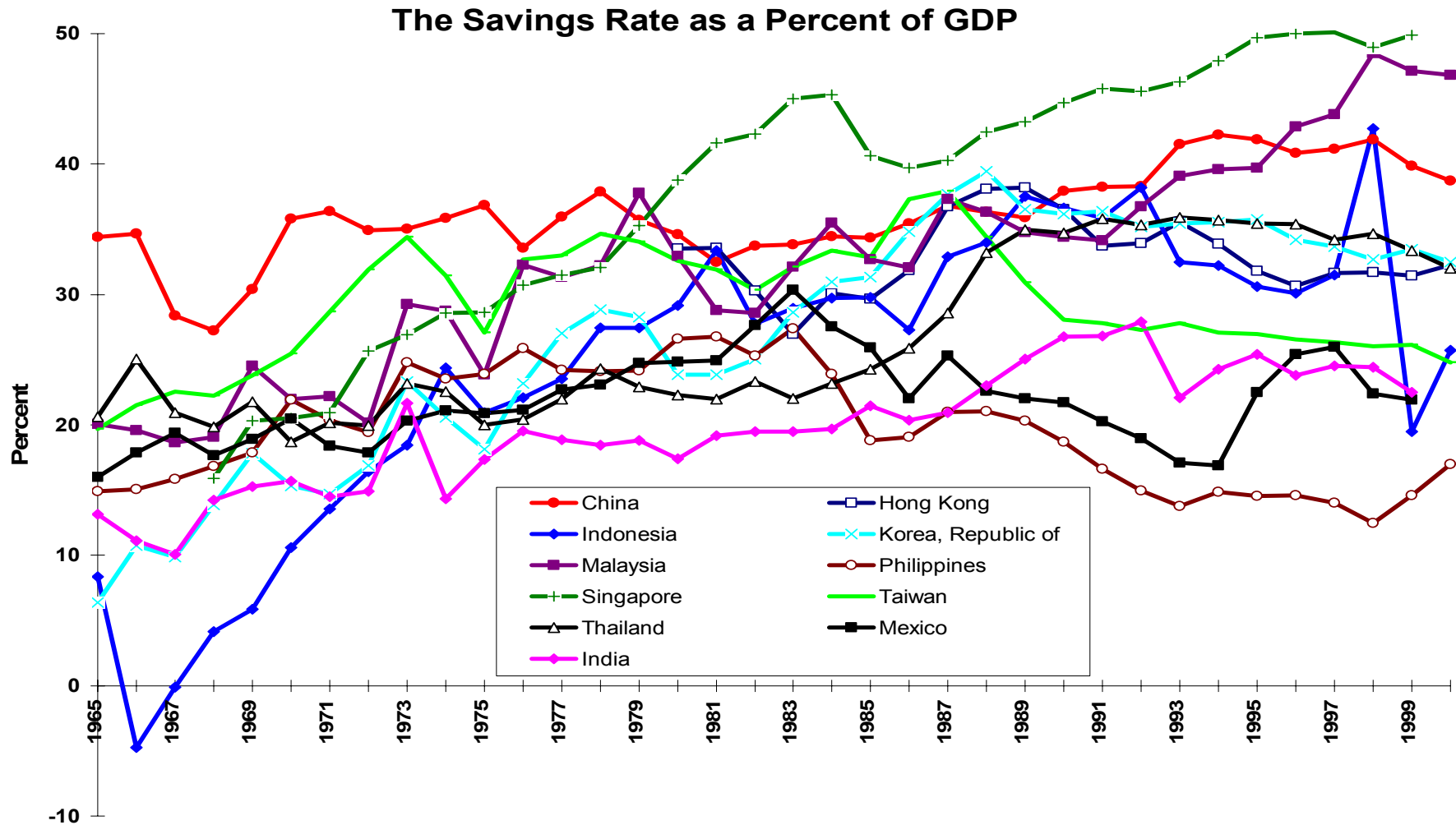
China's Gross Domestic Investment as a Percent of GDP



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 and Real Output per Capita: East Asian Economies

National Savings Rate and Real GNP per Capita

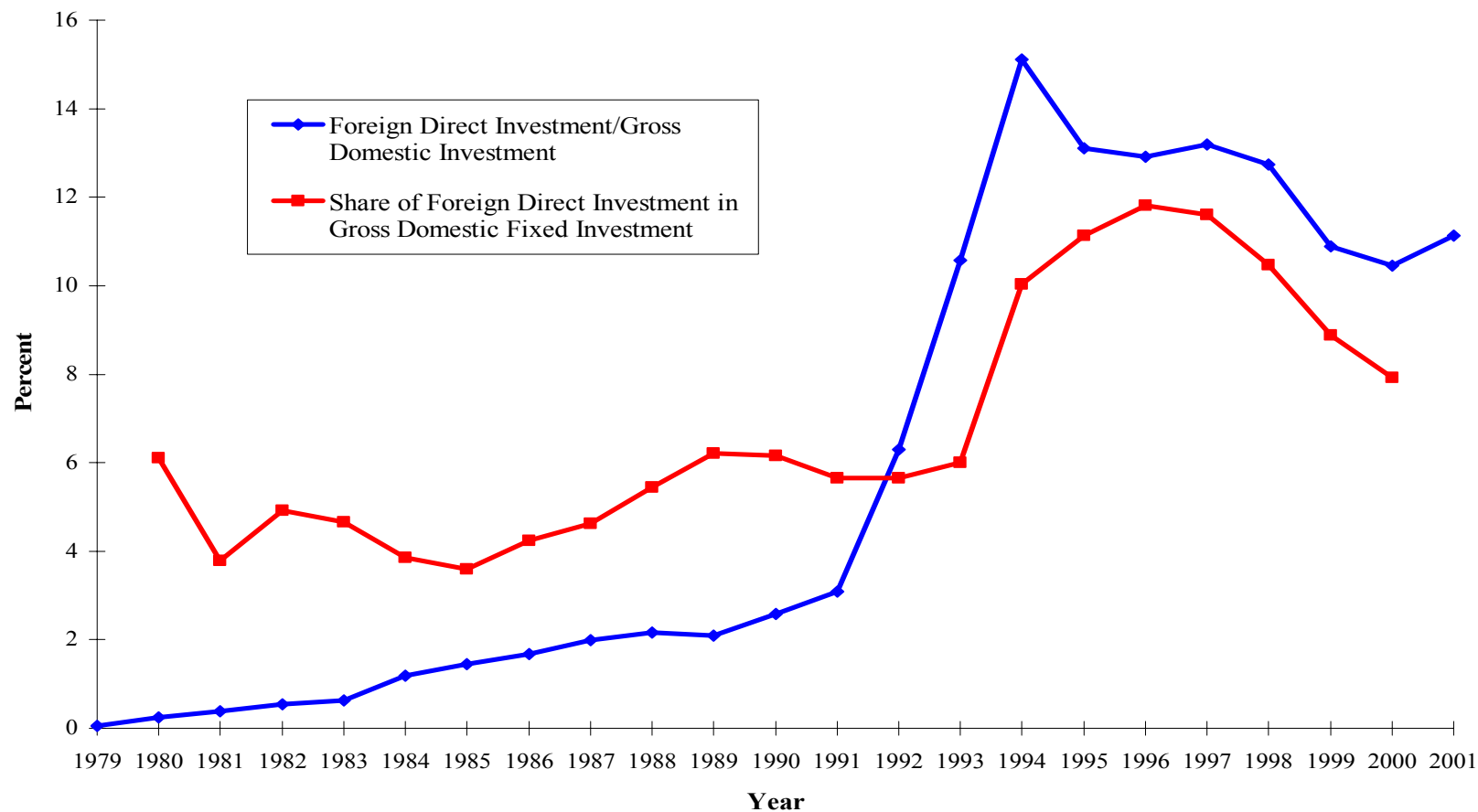


Foreign Direct Investment (FDI)

- ◆ FDI, at US\$50 billion a year, amounts to approximately 10% of the annual Chinese aggregate gross domestic investment of approximately 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.

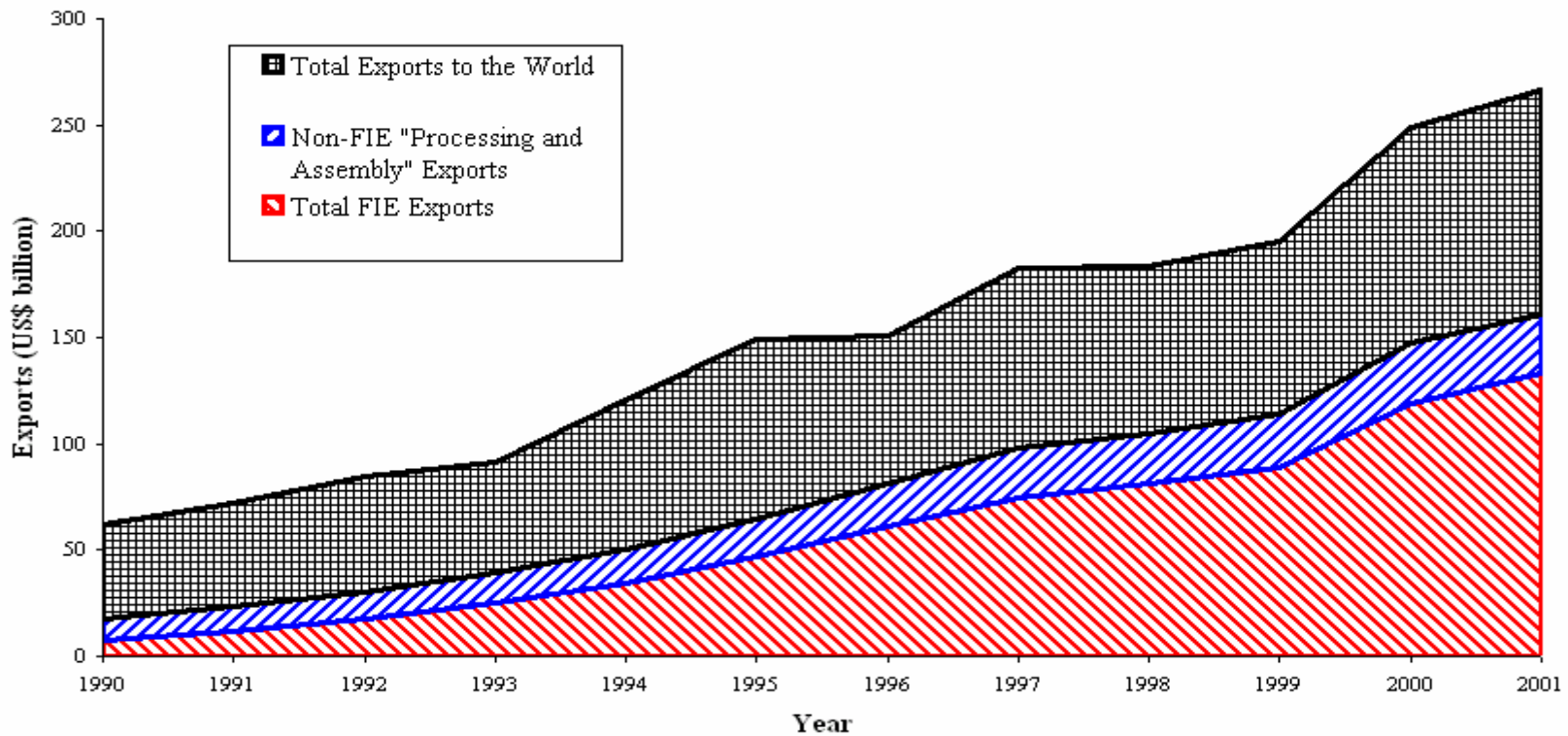
The Shares of FDI in Chinese Gross Domestic and Gross Domestic Fixed Investment

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



Composition of Chinese Exports

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



The New Technology and China: The Advantages of Backwardness and Size

- ◆ The possibility of leap-frogging--there are no vested interests to protect; no existing businesses to be cannibalized; there can be “creation without destruction”
 - ◆ e.g., facsimile machines instead of telexes; video compact discs instead of VCRs; a new keyboard layout; mobile and wireless telephones instead of fixed lines; debit and credit cards instead of checks
- ◆ The possibility of influencing/setting standards--the markets are potentially large enough in China for the benefits of economies of scale to be realized and for it to have a significant influence on future standards
 - ◆ e.g., Linux; wireless telephone standards (CDMA)
- ◆ The possibility of local adaptation--taking advantage of local conditions
 - ◆ e.g., the Legend story—language; local supply and demand conditions, e.g., stability of the voltage of the electric power supply
- ◆ Transformation of the “Old Economy” through the information and communication technology

The New Economy Levels the Playing Field between Large and Small Firms

- ◆ Small firms can have access to services and supplies heretofore only available to large firms
 - ◆ E.g., by bringing down the cost of securities trading, Charles Schwab and E-trade benefit small investors proportionally much more than large investors
 - ◆ Rapid delivery services and warehousing facilities, e.g., Federal Express, are available to both large and small firms
- ◆ Small firms can also become more accessible to their customers and potential customers through the Internet with only marginal expenditures on advertising and public relations
- ◆ Small firms have access to large firms as potential suppliers in a global supply chain
- ◆ The Chinese economy with its high and potentially even higher concentration of smaller firms and more primitive information infrastructure (and thus the potential for leap-frogging) may benefit much more from the new economy than other more developed economies
 - ◆ E.g., B2B dot.coms seem to have relatively greater success in East Asia than in the United States

Foreign Portfolio Investment

- ◆ External loans may be estimated at US\$170 billion.
- ◆ Foreign portfolio investment is low (mostly consisting of B-shares).
- ◆ Control on both portfolio inflows and outflows on the capital account.
- ◆ Foreign direct investment, both inbound and outbound, have relatively few restrictions.

Inflation or Deflation

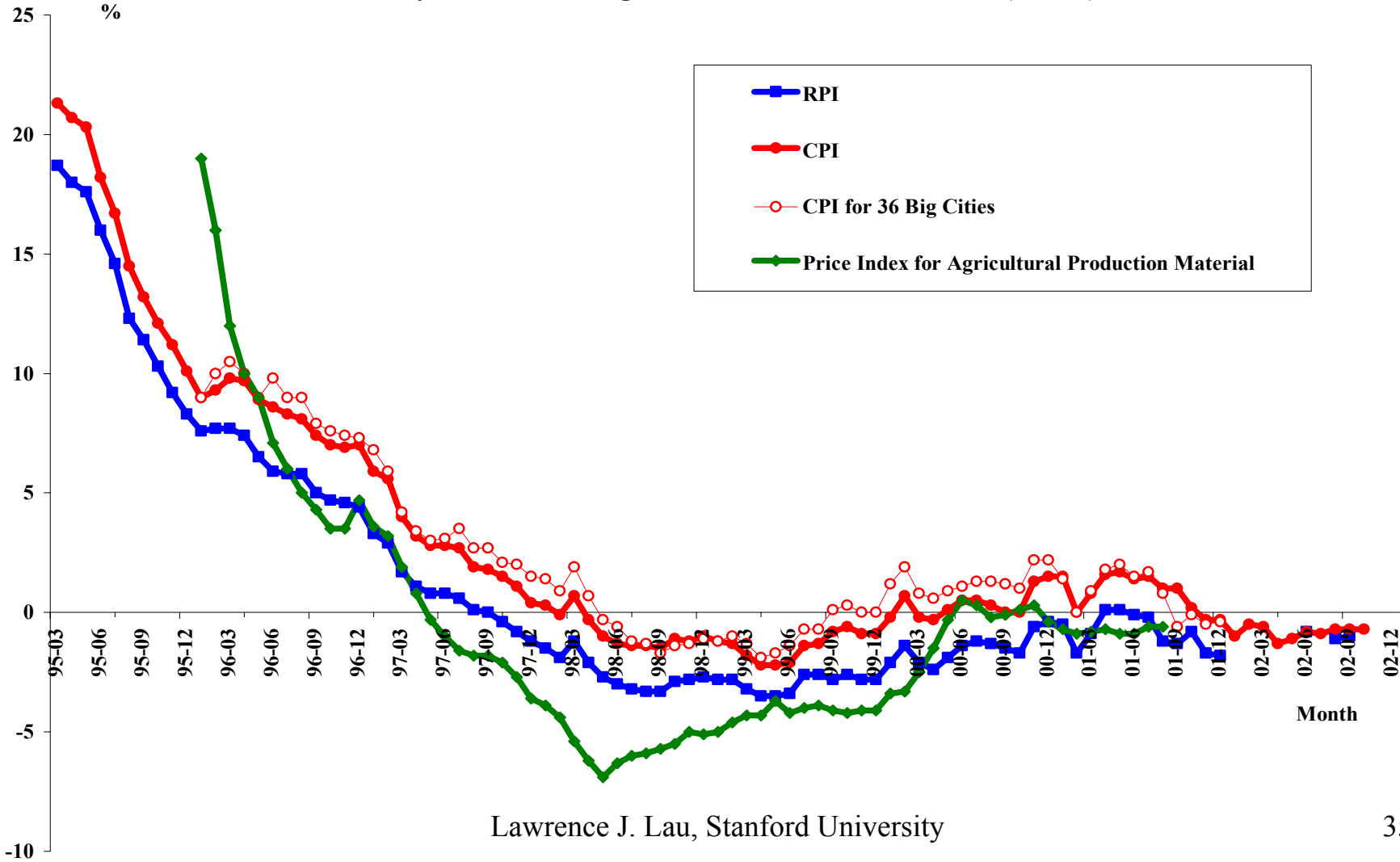
- ◆ The transmission of inflation or deflation.
- ◆ The real wage rate of unskilled labor will continue to be low worldwide because of the effective unlimited supply in China and India.

Has “Deflation” Stopped?

- ◆ Deflation has slowed. In 2003Q1, the rate of growth of the consumer price index (CPI) is a positive 0.5%. In 2003/M1-4, the rate of growth of the CPI was 0.6% YoY.
- ◆ The “core” rate of inflation is—the rate of inflation net of the effects of changes in the price of energy (oil) and agricultural products--is non-negative
 - ◆ The decline in prices over the past few years was due in part to the fall in the prices of energy, in particular oil, and agricultural products, in particular food.
 - ◆ It was also due in part to the increase in productivity (reduction in cost) and in competition, the decrease in the degree of monopolistic market power (reduction in profit margin), and more recently by the decrease in prices induced by realized and expected import tariff reductions mandated by the accession agreement to the WTO.
 - ◆ The long-term core inflation rate--inflation rate net of changes in the prices of energy and food--may be estimated at between 0 and 1 percent--there is no deflation.
 - ◆ The key to determining whether there is deflation in the classic macroeconomic sense is whether the components of aggregate demand—real consumption and investment—are growing. They have been growing at respectively 10.2% and 16.1% in 2002. In 2003Q1, gross fixed investment grew 31.6% YoY.
- ◆ Lack of upward pressure on the wage rate of unskilled labor and hence on the price level.
- ◆ The target for the growth of the money supply for 2003 is 16%. In April, 2003, M1 grew 18%. M2 grew 19.2% and 20.2% YoY in April and May respectively.
- ◆ The People’s Bank of China may raise the reserve ratio from 6% to 8% if the growth of credit continues to exceed the target.

The Consumer and Retail Price Indices

Monthly Rates of Change of Price Indices Since 1995 (Y-o-Y)



Exchange Rates

- ◆ The fundamentals—real exchange rate
 - ◆ A major argument against a revaluation of the Renminbi vis-à-vis the U.S. Dollar at this time is that it is not warranted by either (1) relative inflation or (2) relative growth in total factor productivity or relative inflation. The Chinese rates of inflation over the past five years are not significantly lower than those of the U.S. The Chinese rate of growth of total factor productivity is lower than that of the U.S. The fundamental relative competitiveness between China and the U.S. has not changed in favor of China. An adjustment is therefore not necessary.
- ◆ The balance of payments equilibrium—China has a substantial overall balance of payments surplus, which puts upward pressure on the exchange rate (to appreciate) and on the rate of growth of the money supply—hence the need to reduce the surplus by facilitating increased imports and permitting selectively regulated and orderly capital outflows.
- ◆ The Nash equilibrium in exchange rates of competitor countries—no country has an incentive to either revalue or to devalue its currency.
- ◆ Contagion
 - ◆ Competitive devaluation
 - ◆ Rational panic
 - ◆ Predatory speculation
- ◆ A revaluation of the Renminbi, while it may boost public confidence in the currency, may deprive some unskilled Chinese workers of the opportunity for employment in the non-agricultural sector

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

The Exchange Rate and Employment of the Unskilled Labor in China

- ◆ There is currently an estimated 150 million persons strong “reserve army of the unemployed” in the rural areas in China, or almost half of the total “employment” in the agricultural sector.
- ◆ This unskilled “surplus labor” is willing and able to work in the non-agricultural sector at a constant subsistence real wage rate in Renminbi terms. At the current Renminbi-US\$ exchange rate, some, not all, of this “globally substitutable” unskilled labor is gainfully employed by enterprises supplying exports to the rest of the world.
- ◆ As long as the real exchange rate between the Renminbi and the US\$ remains unchanged, the employment of the unskilled labor can continue and perhaps even expand. However, a significant real exchange rate appreciation by the Renminbi will imply a higher real wage rate of unskilled labor in US\$ terms, since the subsistence real wage rate in Renminbi terms cannot be lowered. The higher real wage rate in U.S.\$ terms will essentially price some of the “globally substitutable” Chinese unskilled labor out of the world market.

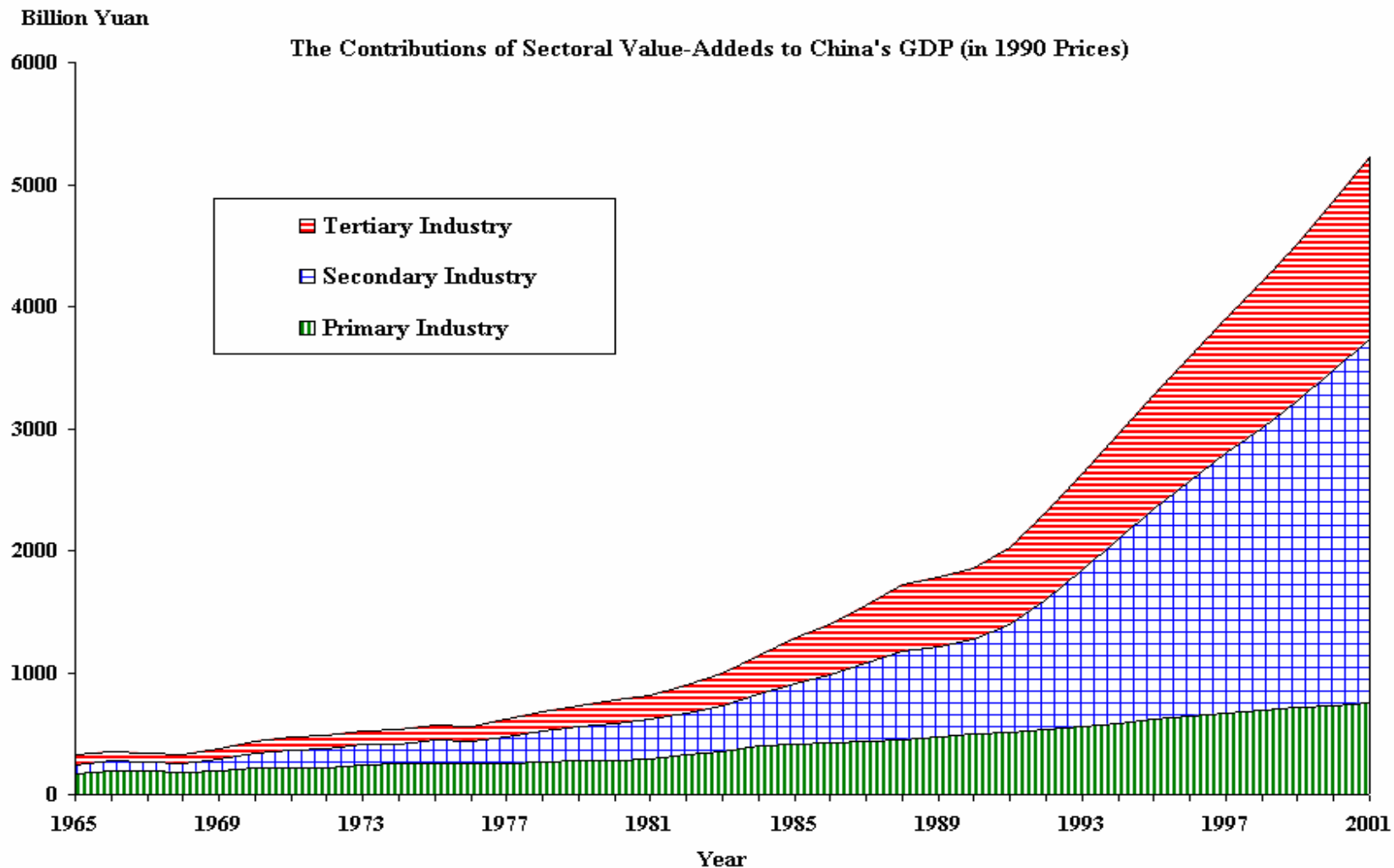
The Exchange Rate and Employment of the Unskilled Labor in China

- ◆ (The Chinese unskilled labor faces kinked labor demand curve from the rest of the world.) It will thus worsen the unemployment and underemployment of labor in the rural areas and retard the movement of surplus unskilled labor from the agricultural sector to the non-agricultural sector. In order to provide employment for the unskilled labor, eventually direct or indirect government subsidies, and/or protection, or regulation, will be required, leading to over-employment in the non-tradable sectors (e.g. services). Despite the protection, the tradable sector is likely to be under-employed, because of the artificially higher real wage rate in US\$ terms. The end result is often a very inefficient non-tradable sector, as exists currently in Japan. As China is a large continental country in which non-tradable sector looms large, this potential outcome cannot be regarded as a positive development.

Foreign Exchange Reserves

- ◆ Official foreign reserves continued to rise, reaching US\$212.2 billion and US\$286.4 billion as of the end of 2001 and 2002, respectively. These represent respectively increases of US\$46.6 billion and US\$74.2 billion over the previous year and much larger than the trade surpluses of US\$22.5 billion and US\$30.4 billion. The official foreign reserves also surpass total outstanding external loans (approximately US\$165 billion as of year end 2002) by a wide margin.
- ◆ At the end of 2003/Q1, official foreign exchange reserves stood at US\$316 billion. The increase of almost US\$30 billion during 2003/Q1 occurred despite a trade deficit of US\$1 billion in the same quarter.
- ◆ At the end of 2003/M4, foreign exchange deposits in Chinese financial institutions reached US\$148.6 billion, an increase of 5.4% YoY, out of which corporate deposits constituted US\$48.7 billion and savings deposits US\$90.2 billion.
- ◆ The exchange rate of the Renminbi vis-à-vis the U.S. Dollar has remained stable since 1994 (in fact, there has been a slight appreciation from 8.7 Yuan/US\$ to 8.3 Yuan/US\$) and is expected to remain so.

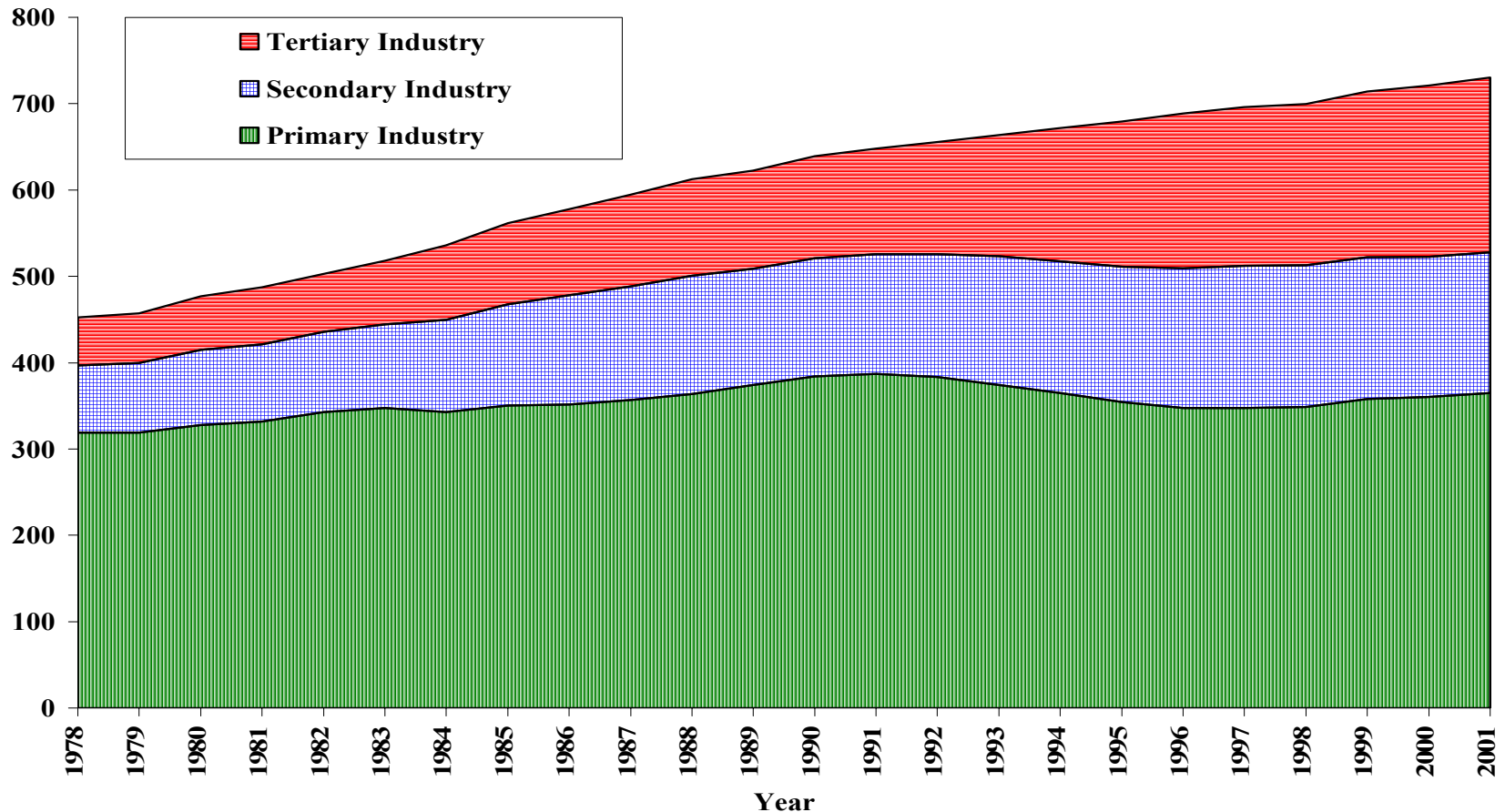
The Contributions of Sectoral Value-Added to China's GDP



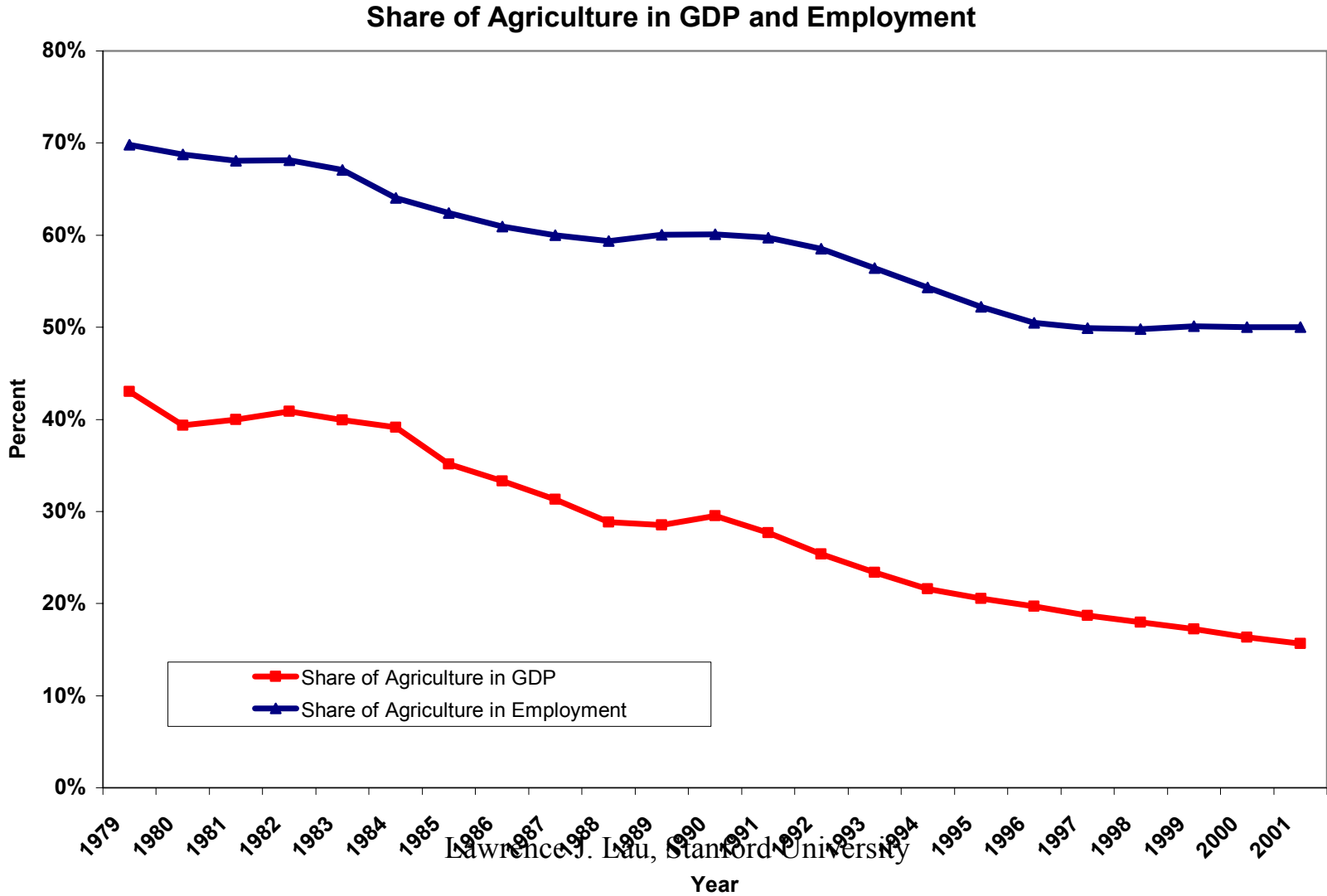
The Sectoral Contributions to China's Employment

The Sectoral Contributions to China's Employment

Million Persons



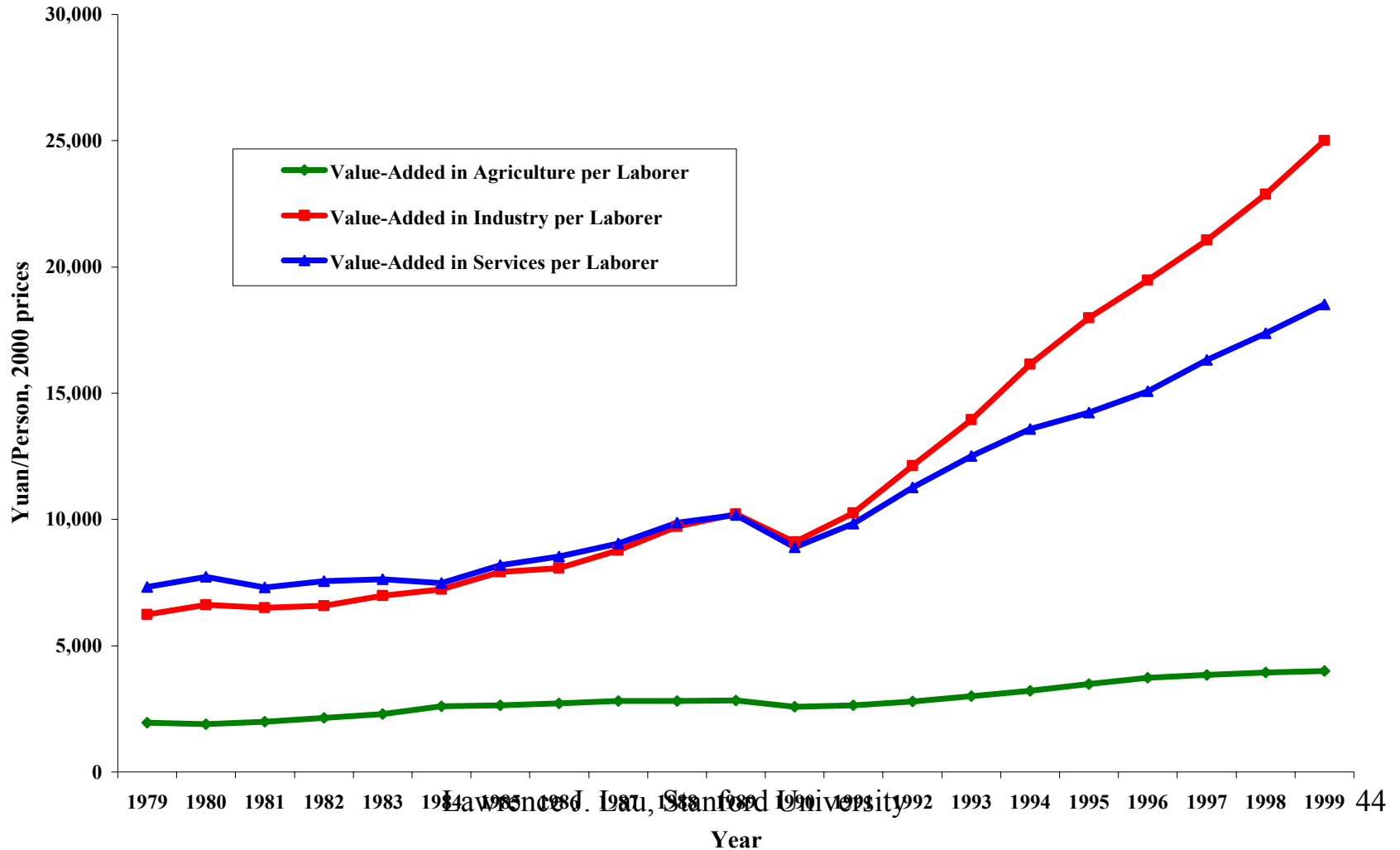
The Share of Agriculture in GDP and Employment



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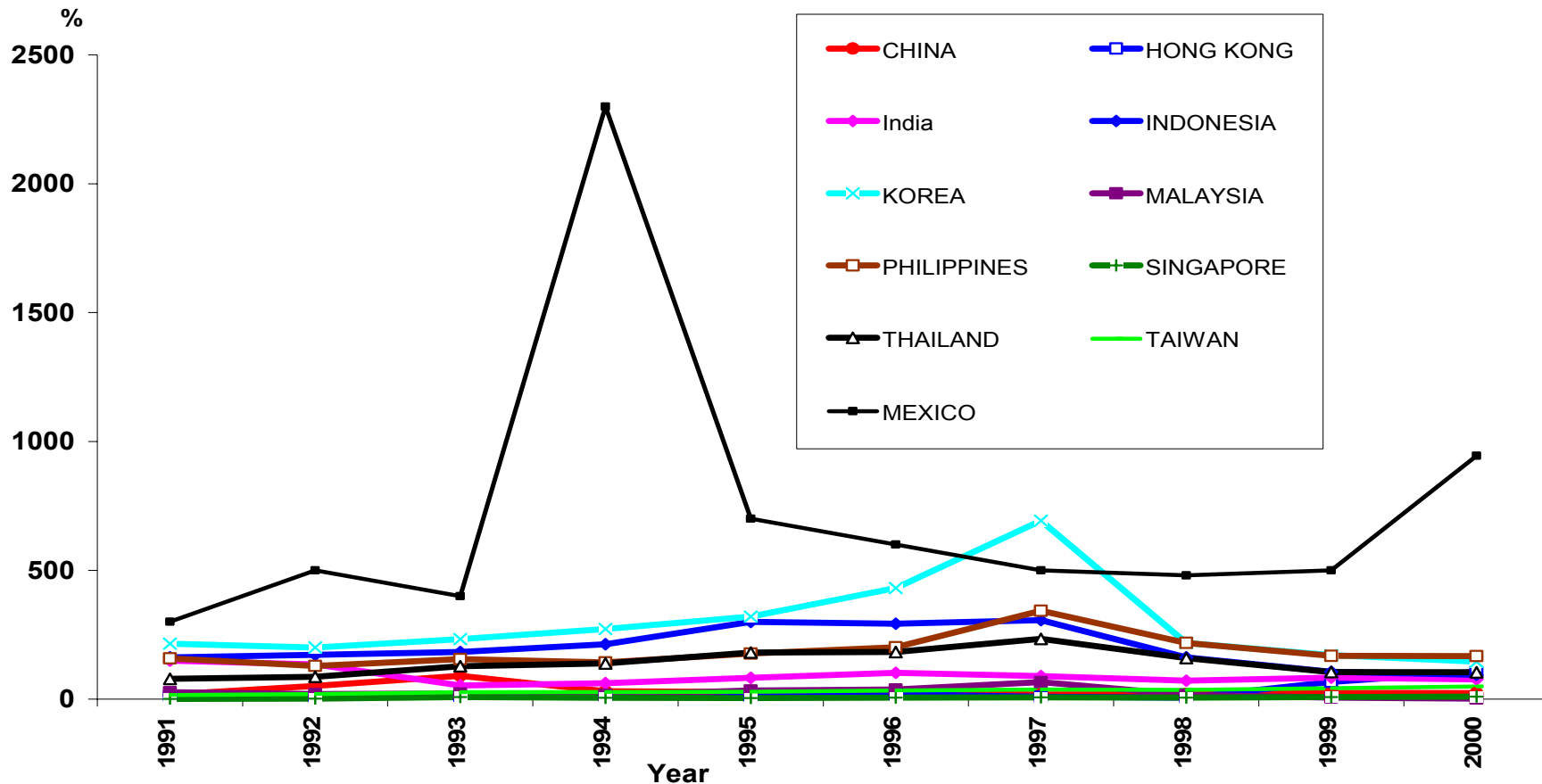
Comparison of Values-Added per Laborer in Agriculture, Industry and Services

Value-Added per Laborer by Sector, 2000 prices



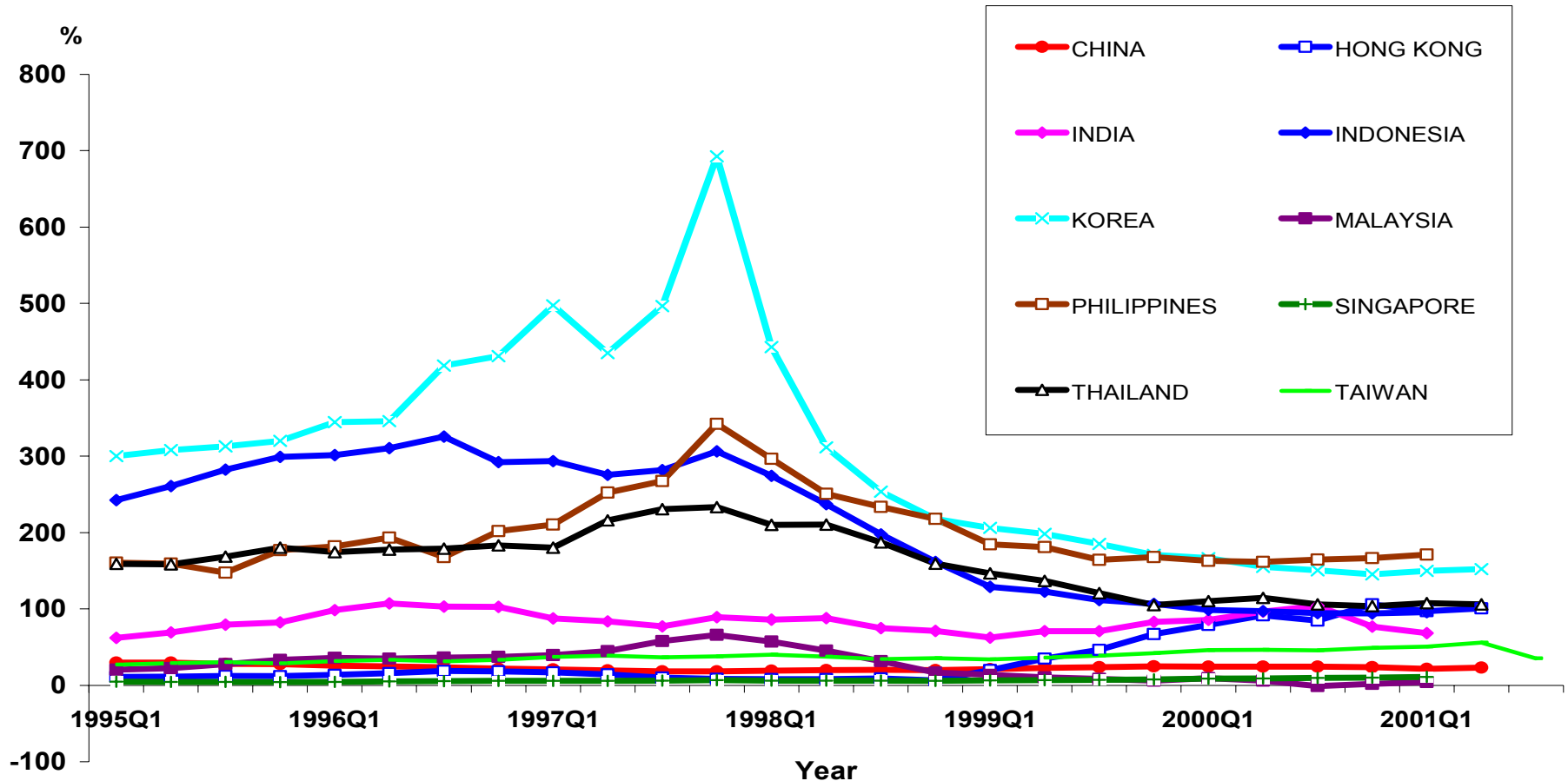
Ratio of Liquefiable Foreign Exchange Liabilities to Official Foreign Reserves

Ratio of Short-Term Foreign Currency Liabilities, Including Current Account Balance, to Foreign Exchange Reserves



Ratio of Liquefiable Foreign Exchange Liabilities to Official Foreign Reserves

Ratio of Short-Term Foreign Currency Liabilities, Including Current Account Balance, to Foreign Exchange Reserves



Tourism, Travel and Migration

- ◆ The benefits of travel and exchange
- ◆ The impact of SARS
 - ◆ Largely contained in Mainland China
 - ◆ Limited to 2003Q2
 - ◆ The importance of accurate and timely information—multiple independent channels (a freer press?)
 - ◆ Multiple-sourcing by customers (diversification or supplies both within China and between China and the rest of the world)
- ◆ A “brain drain”?

Recent Developments

- ◆ In 2003/04, gross fixed investment grew 28.9% YoY, retail sales grew 7.7% YoY, and industrial value-added grew 14.9% YoY.
- ◆ In 2003/05, gross fixed investment grew % YoY, retail sales grew % YoY, and industrial value-added grew 13.7% YoY. For 2003/M1-5, industrial value-added grew 15.9% YoY.
- ◆ In 2003/05, exports grew 37.4% YoY, showing little impact of SARS.
- ◆ The SARS epidemic has peaked in Beijing and the number of new cases has begun to decline. As of mid-June, 2003, nationally, the number of new cases in all municipalities, provinces and regions, including both Beijing and Guangdong, has declined to one a day (with 0 new cases in 29 of them). It is anticipated that in another four weeks, the number of new cases in Beijing should essentially decline to zero and the SARS epidemic should be over.
- ◆ In 2003/05, actual foreign direct investment (FDI) reached US\$5.45 billion, an increase of 39.47% YoY; committed FDI reached US\$7.70 billion, in increase of 17.62% YoY. However, these rates of increases represented declines from the rates of increases of the previous four months by 10.07% and 32.04%, indicating a slowdown due to the SARS epidemic. For 2003/M1-5, actual and committed FDI grew 48.15% YoY and 42.22% YoY respectively to reach US\$23.27 billion and US\$38.22 billion.
- ◆ The major economic impacts of SARS are likely to be in new business rather than on-going business. Thus, new committed FDI has shown a decline in the rate of growth. It will also impact the retail sector in the affected provinces and regions, and service sectors such as tourism, hotels, restaurants, and entertainment and recreational activities.

The Challenge of the Chinese Economy

- ◆ The large and rapidly growing domestic market enables the realization of economies of scale, and the possibility of amortization of significant investments in innovation and brand name building, standard setting, and other forms of intangible capital. E.g. Kangsifu's success in brand building in the Mainland; Acer could have become No. 1 on the Mainland; Mainland China is potentially a large enough market for Linux-based software to challenge the Windows operating system of Microsoft; and for a global mobile phone standard to emerge--GSM of Europe versus CDMA of the U.S. versus the TDCDMA of China itself; and for determining the relative success of Airbus versus Boeing.
- ◆ Leading firms in the world cannot afford to leave a large and rapidly growing potential market alone because a large enough market may nurture in time a major competitor.
- ◆ Taiwan firms have a comparative advantage over the firms of other countries and regions because of cultural, ethnic and linguistic affinities.

The ASEAN Free Trade Area (AFTA)

- ◆ Intra-ASEAN tariff rates have been lowered to 5% on Jan. 1, 2002 with the inauguration of the ASEAN Free Trade Area (AFTA) among Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. The goal is to reach zero tariff rate within AFTA by 2010. The reduction in tariffs applies to 90% of products provided the ASEAN content of the product exceeds 40%.
- ◆ Khmer Republic, Laos, Myanmar and Vietnam are expected to join AFTA in 2006 and reach zero tariff rate within AFTA by 2015.
- ◆ Specific protection on manufactured and agricultural products still remains.

The China-ASEAN Free Trade Area

- ◆ Chinese Premier ZHU Rongji first proposed in Brunei in November, 2001 a new free trade area, covering China and the ASEAN (Brunei, Indonesia, Khmer Republic, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam), to be created within ten years.
- ◆ A 3 trillion US\$ market and 1.7 billion consumers.
- ◆ Complementarity (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 free trade area 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 Phnom Penh, Khmer Republic in November, 2002 at which a framework agreement for the establishment of the China-ASEAN Free Trade Area 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 Free Trade Area

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

The Internationalization of the Renminbi?

- ◆ In time, the Renminbi will be acceptable as a medium of exchange by the neighboring countries and regions in East Asia.