

CHINA'S ECONOMY:

**NEW CHALLENGES IN THE PACIFIC
RIM TOWARD 21ST CENTURY**



ZHU NAI XIAO, Ph. D.

GUANGZHOU PUBLISHING HOUSE

CHINA'S ECONOMY : NEW CHALLENGES IN THE PACIFIC RIM TOWARD 21ST CENTURY

ZHU NAI XIAO, Ph.D.
Economics Associate Professor

GUANGZHOU PUBLISHING HOUSE

粤新登字 16 号

责任编辑 迈 之

封面设计 张 文

责任校对 麦志强

CHINA'S ECONOMY:

New Challenges in the Pacific Rim

Toward 21st Century

Printed in the People's Republic of China

书名 面向 21 世纪：中国经济在环太平洋
经济圈中的新挑战（英文版）

作者 朱乃肖

出版 广州出版社

印刷 广东省公安司法管理干部学院印刷厂

规格 850×1168 毫米 32 开本 6.5 印张 350 千字

版次 1996 年 12 月第 1 版

印次 1996 年 12 月第 1 次

书号 ISBN 7-80592-561-5/F·65

定价 38.00 元

*To my family,
my tutors and
my motherland*

ABSTRACT

China, as a big developing socialist country in the Pacific Rim, has received more and more attention by economists in the world. Now China is carrying on economic reform and trying to set up a socialist market economy system in order to speed up the process of modernization. Because of China's high economic growth rate and growth of its economic force, many foreign economists suggest that China will be the new economic power in the 21st century. Is that true?

In this book, I give my answer to this question. After analyzing the four networks in the Pacific Rim, i.e. natural resource network; commodity exchange network; capital supply and demand network and technology transfer network, I point out that these four networks offer a good material base for economic cooperation in the Pacific Rim. More important is how to better use these four networks for economic development of each country. As we know, different countries have different roles in the international division of labour in the Pacific Rim. The main point of this book is to do some research on China's role in the international division of labour in the Pacific Rim, especially in commodity

exchange; capital import and export; technology transfer; and labour service development. What will be China's main contribution to the economic integration of the Pacific Rim and what difficulties will China face in the process of modernization.

Furthermore, I analyse the impact of the third science and technology revolution which has made China face new challenges and new opportunities in economic development. China will strengthen economic cooperation with developed countries, developing countries and the newly industrialized countries. And in the next century, China will play an important role in the Pacific Rim.

Contents

<i>Abstract</i>	
<i>Introduction</i>	1
 <i>Chapter 1</i>	 5
The History of the New Economic Integration of the Pacific Rim and Its Development	
 <i>Chapter 2</i>	 15
The Material Basis of the New Economic Integra- tion of the Pacific Rim	
 <i>Chapter 3</i>	 35
The Main Reasons for the Rapid Development of Economic Cooperation in the Pacific Rim	
 <i>Chapter 4</i>	 43
The Changes in the International Division of	

Labour in the Pacific Rim After the Second World War

Chapter 5 69

The Present National Condition of China

Chapter 6 86

The Theory and Strategy of China's Open-door Policy and Its Economic Reform

Chapter 7 111

Chinese Commodity Imports and Exports and Their Role in the Economic Integration of the Pacific Rim

Chapter 8 129

Chinese Capital Imports and Exports and Their Role in the Economic Integration of the Pacific Rim

Chapter 9 146

Chinese Technology Imports and Exports and Their Role in the Economic Integration of the Pacific Rim

Chapter 10 161

Chinese Labour Service Imports and Exports and Their Role in the Economic Integration of the Pacific Rim

<i>Chapter 11</i>	174
The Characteristics of the New Economic Integration of the Pacific Rim	
 <i>Chapter 12</i>	 184
The Contribution of China to the New Economic Integration of the Pacific Rim	
 <i>Bibliography</i>	 192

Introduction

The Pacific Ocean, the biggest ocean in the world, is situated among Asia, North America, Latin America, Australia and New Zealand. The total area of the ocean is about 179,600,000 square kilometres. The north of the Pacific is surrounded by Asia and America, the south of the Pacific is opened to the Atlantic Continent and to its east is Latin America. It also joins with the Indian Ocean and the Atlantic Ocean.

From an economic point of view, the Pacific Rim is a very wide region which includes 6 economic circles: NAFTA (North American Free Trade Agreement), Latin American Circle, Northeast Asian Circle, Shanghai and Yangtze River Circle, South China Sea Circle and Australia-New Zealand Circle. From table 1, we can get the following information:

- (1) NAFTA: The United States, Canada and Mexico.
- (2) Latin American Circle: 25 countries in Latin American Economic System which was set up in 1975.
- (3) Northeast Asian Circle: including Japan, North Korea, South Korea, Russia (Siberia), Mongolia, China (Northeast region).

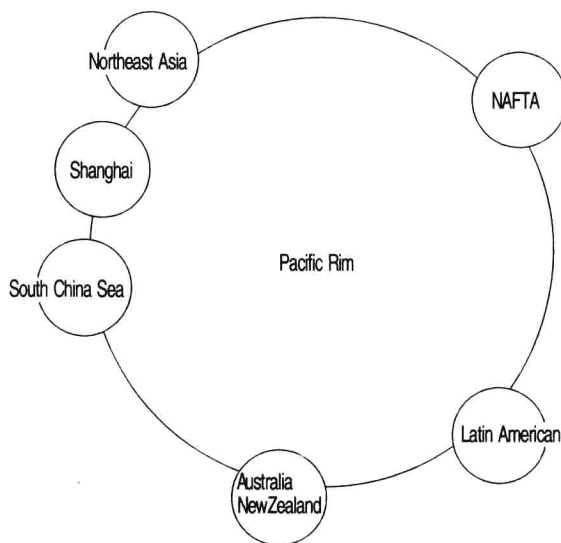
There are two rings inside, the Tumen River Ring and the Yellow Sea-Bo Sea Ring (including the Shangdong Peninsula and the Liaotong Peninsula).

(4) Shanghai and Yangtze River Circle: including the Yangtze River Delta, Jiangsu Province and Zhejiang Province. Shanghai is the biggest industrial and commercial city in the region.

(5) South China Sea Circle: there are two rings inside the circle: South China Economic Ring and the ASEAN Economic Ring. South China Economic Ring includes Guangdong Province (Pearl River Delta Area), Fujian Province (Ming River Delta Area) in China, Hong Kong, Macau and Taiwan.

The ASEAN Economic Ring includes the Association of South East Asian Nations (Indonesia, Malaysia, the Philippines, Thailand and Singapore), Vietnam, Laos and Cambodia.

Fig 0.1



From the information above we can know that the Pacific Rim is a very complex region which contains different economic system (socialist and capitalist), different cultures and histories (east and west), different political and social structures and different standards of living (rich and poor). So we can say there is not any economic rim as complicated as the Pacific Rim in the world.

In my book, when I talk about the Pacific Rim, it does not mean a common market or a economic community, it means a loose, multi-level economic association (or economic cooperative) which is based on mutual economic benefit, and promoted by the comparative advantage principle. This economic association has the following features:

- a. The Pacific Rim is a very big rim with many circles and rings.
- b. Inside the rim, only NAFTA, ASEAN and Latin American Economic System have government agreements; other circles and rings are non-governmental arrangements.
- c. China is the only country which has close economic and geographic relationships with three circles: the Northeast Asian Circle, the Shanghai Circle and the South China Sea Circle. That is why I focus my attention on the role of China in the new economic integration in the Pacific Rim.
- d. Japan and America, two economic superpowers, have different economic interests in the rim. Both of them want to be the only leader in the area which induces keen competition. Other countries such as China, ASEAN and the four little dragons (Hong Kong, South Korea, Singapore and Taiwan) are keeping a close eye on their activities.

In the future, all countries in the Pacific Rim may achieve more or less progress in economic development. Economic cooperation will be further improved by the efforts of the different countries. But in my opinion, the basic characters of the Pacific Rim will not be changed; it

will continue to be a loose, multi-level economic association, not a common market. Even though there exist some common market , for example NAFTA, within the Pacific Rim, it is difficult to set up an Economy Community in the whole area because of the vast differences among the countries involved.

Chapter 1

The History of the New Economic Integration of Pacific and Its Development

1.1 The History

The suggestion of the “Economic integration of the Pacific” has been put forward since the early 1960s. But as a matter of fact, up to now, we could only say that the new economic integration is being formed according to the closer economic integration in the region. When will the new economic integration initially be formed; at the end of the 20th century or at the beginning of the 21st century? This is one of the questions I am going to research in my book. Before I answer this question, it is necessary to summarize the history of the suggestion of economic integration of the Pacific.

The suggestion of establishing an integrated economic organization in the Pacific area has been brewing for a long time.

In 1961, Asian Economy Cooperation Group formed by economist from India, Thailand and Japan put out a project of cooperation among Asian countries.

In May, 1963, Japanese Economy Investigation Commission put forward a report of “The Direction of Economic Cooperation in the Pacific”. This was the first important report from the Japanese government. The report concluded that countries within the Pacific need to do the following: (i) develop mutual trade, (ii) strengthen economic information exchange, (iii) promote technology and capital exchange, (iv) promote cultural exchange and mutual understanding, (v) increase economic cooperation with developed countries, as well as with developing countries. This report concentrated on the ideas of the Japanese government.

In February, 1964, a famous Japanese economics professor Kojima Kiyoshi who was always enthusiastic about Pacific economic cooperation, put out the project of "Pacific Combination" in the meeting of Trade and Development in the Pacific Area which was held in Hawaii. Later in 1965, he again put forward a suggestion of "Establishing a Free Trade Zone in the Pacific".

In 1967, the former Japanese foreign minister Toda Yoji presented a report which was intended to decrease the gap between "South and North" among the countries in the Pacific.

In April, 1967, the Pacific Basin Economic Commission was established by entrepreneurs of Japan, the United States, Canada, Australia and New Zealand. Later in 1975, some developing countries in Asia also took part in this commission. The aim of this organization was to promote economic cooperation among the countries in the Pacific.

In July, 1979, research report on establishing economic organization in the Asian Pacific which was called "America Project" was put forward by two professors from the U. S. A. and Australia. This report reflected the ideas of the American government and had a widely international influence.

In January, 1980, when the former Japanese president Oohira Masa Yoshi visited Australia, he raised "the concept of economic integration of the Pacific" as the Japanese foreign strategy.

After all, despite the heterogeneity of Pacific countries, the process of establishing an infrastructure for close economic cooperation was begun in 1980 through the Pacific Economic Cooperation Conference (PECC). PECC's forums and task force, which deal with regional cooperation in trade, agriculture, fisheries, minerals and energy investment, transport, telecommunications and tourism, service both policy and commercial strategic purposes. In this, their tripartite structure (involving government, industry and academic participation) and quasi-official status is a considerable advantage. Since the 1980s, there have been eight PECC meetings:

In September, 1980, the first PECC meeting was held in Canberra, Australia.

In June, 1982, the second PECC meeting was held in Bangkok, Thailand.

In November, 1983, the third meeting of PECC was held in Barry, Indonesia.

In April, 1985, the fourth PECC meeting was held in South Korea.

In 1986, the fifth meeting of PECC was held in Canada.

In 1988, the sixth meeting of PECC was held in Japan.

In 1989, the seventh PECC meeting was held in Auckland, New Zealand.

In May, 1991, the eight PECC meeting was held in Singapore.

Each PECC meeting made some achievements in different areas. For example at the seventh PECC meeting, an important policy achievement, which grew out of consultation with PECC, was the development of Pacific support for the comprehensive round of multilateral trade negotiations under the way of the Uruguay Round. Another achievement has been the facilitation and broadening of the economic dialogue between China and Taiwan. This was an important advantage in drawing China, Taiwan and Hong Kong into high-level APEC (Asia-Pacific Economic Cooperation) dialogues which

have already begun.

In brief, it had been over twenty years since the first suggestion of economic cooperation in the Pacific was put out. Through long time research and discussion, we can summarize the characteristics as follows:

1. 1. 1 The general principles of economic cooperation were acknowledged by the countries in the Pacific.

1. 1. 1. 1 It was necessary to establish an integrated organization in order to promote negotiation between governments and promote mutual understanding.

1. 1. 1. 2 The aim of the organization was to expand mutual trade, capital and technology exchange, train talent and have cooperation in the development of energy and sea resources.

1. 1. 1. 3 The organization had to be based on multilateral cooperation between governments which did not damage the benefit of other cooperative organization.

1. 1. 1. 4 The organization was to have economic cooperation. It would not be allowed to have political or military cooperation.

1. 1. 1. 5 The organization must be gradually formed over time.

1. 1. 1. 6 The organization must be open to all countries who are willing to join. Both developed countries and developing countries should be equal in position.

1. 1. 2 the main form of the economic cooperation was to stay in academic discussion and nongovernmental talk. There was a great difference in economy, culture, history, race and religion among the countries in the Pacific area. So it was better to have mutual understanding first.

1. 1. 3 At the initial stage, ASEAN countries had a cold response to the Japanese suggestion. During that time the countries in ASEAN began to carry out an import-substitution development strategy. It was impossible for them to eliminate tariffs. Furthermore, they were still keeping a close eye on the Japanese military force, because of their history of military aggression.¹

1.2 The New Development

Economic cooperation in the Pacific has received more and more attention by the governments of the countries in the region since the 1980s. Up to now, the new achievements of the economic cooperation have been as follows:

1. 2. 1 From nongovernmental dialogue to governmental dialogue.

In July, 1984, an ASEAN foreign ministers' meeting was held in Jakarta, Indonesia. Six countries in ASEAN and five developed countries² took part in this meeting which was later called "Six and Five Dialogue". In the meeting they came to an important agreement: (a) This kind of dialogue would be held by the governments once a year in order to discuss economic cooperation in the Pacific. (b) The first cooperative project was to train talent for developing countries. This agreement showed that ASEAN had changed its cold response and was beginning to be active in economic cooperation in the Pacific.

Since then, the governments of the Pacific countries have begun to support eco-

economic cooperation and have established the National Pacific Economic Cooperation Conference in their own countries. For example, in October 1984, American Secretary of State Schury made a speech in San Francisco in which he claimed clearly that the object for the American government was to build up the "Pacific Community". Later in September 1984, the American National PECC, which consisted of 55 people, was established. In November 1984, Japanese president Nakasone claimed that Japan would continue to increase the economic cooperation as usual. At the same time, the prime minister of Canada claimed that he would keep in step with Japan in economic cooperation of the Pacific. In January 1985, Australia and New Zealand said that they would also make some contributions to economic cooperation in the Pacific. All this meant that the governments of the Pacific countries began to pay more attention to mutual cooperation in the region.

1.2.2 China, a socialist country in the Pacific area, became a member of the PECC at the fifth meeting which was held in Canada in 1986. In the meantime, China also joined the Development Bank of Asia and was appointed a permanent member state of the council. This showed that cooperation in the region had begun to go beyond the differences of social and political systems. This was a new step to economic cooperation of the whole Pacific.

1.2.3 Seeking common ground on major issues while ignoring differences on minor ones in economic cooperation in the Pacific.

In November 1989, the meeting of "Economic Cooperation in the Asian Pacific" was held in Canberra, the capital of Australia. There were about 26 ministers from Japan, the United States, South Korea, Canada, Australia, New Zealand and the countries in ASEAN who attended the meeting. This meeting was held under the pressure of the single-market program of the European Community and the United States-Canada Free Trade Agreement. More and more people in the Pacific have begun to voice the need for better Pacific economic cooperation. A regional grouping among Pacific Rim countries no longer appears to be as unrealistic and undesirable as it did only a few years ago.

The 26 ministers agreed that there were many differences among their countries but that shouldn't be an obstacle to cooperation. The best way, according to them, was to seek common ground while ignoring differences. At present, it was impossible to establish a "Pacific Economic Community" like the EEC in Europe. But it was possible to strengthen mutual trade, capital and technology exchange. At the meeting they also discussed the qualification of China to attend their meeting. All of them agreed that it was unthinkable if China couldn't participate in the economic cooperation of the Pacific.³ In short, economic cooperation began to match the direction of seeking common ground while ignoring differences.

1.3 The Reflection on Economic Integration Among the Pacific Rim Countries

JAPAN: the Japanese government is always encouraging with great enthusiasm the economic community in Pacific as I have already mentioned before. Why? The first