

Submission for APEA 2006

The Progress of East Asia Regional Economic Cooperation & Tropism of Policy in China

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Abstract: Since the end of world war II, the economy of East Asia has been developed rapidly, and the world economic pattern has been formed with East Asia, North America & Europe as three dominant economic zones. However, the development of regional economic cooperation in these three regions is rather imbalanced. EU continuously deepens its integration, North America Free Trade Area advances quickly, yet the development of East Asia economic cooperation is lagged far behind. The East Asian financial crisis resulted from currency devaluation of Thailand in 1997 has far-reaching influence. Economy fluctuation of East Asia after the financial crisis has made Asian countries realize the importance of deepening regional economic cooperation and fending off external risks. Therefore, they need to set up a systematic organization, set out the overall goal for cooperation and major cooperation fields, choose suitable paths to achieve the goal, further develop regional economy and strengthen risk-defending capabilities. At present, relevant countries in this region have reached consensus on establishing East Asia Free Trade

Zone. Therefore, China should take appropriate measures to actively promote the economic cooperation in East Asia.

Key words: East Asia Cooperation Mechanism, Cooperation Goal, Cooperation Fields, Selected Paths, Policies of China

East Asia is characterized by the common origins of history and culture and geographical adjacency. Besides, it boasts of favorable conditions for economic cooperation in the fields of economic benefits and international labor division. Owing to the differences in natural conditions, development levels and economic types, every level of economic development in East Asia is complementary, including capital, technology, human resources, trade, energy, environment, fishery, tourism, transportation and so on. That is to say, this region has a broad scope for cooperation. The emerge of East Asia regional cooperation has profound historic and practical significance. It, for the first time, achieves East Asia regional cooperation in a relatively complete sense, marking a major step towards the organized and procedural East Asia economic cooperation. As a sub-regional organization in Asia-Pacific region, East Asia regional cooperation is more practical. Therefore, it is expected to play a leading role in further promoting the Asia-Pacific regional cooperation in the foreseeable future.

I. The Course of Development and Latest Progress of East Asia

Cooperation Mechanism

The informal meetings of heads of state/government from ten ASEAN countries (Singapore, Malaysia, Thailand, Indonesia, Philippines, Brunei, Vietnam, Burma, Laos and Cambodia) and three countries, i.e., China, Japan and Korea, is regarded as “East Asia”. This is the major mechanism for East Asia regional economic cooperation. East Asia cooperation originated from Mahathir, Malaysian prime minister, who put forward the proposal in 1990 to establish East Asia Economic Group, combining ASEAN and several economies of East Asia. It was renamed as East Asia Economic Caucus (EAEC) in 1995. Owing to America’s opposition and Japan’s inactivity, this caucus failed to function. Driven by Asian-European cooperation, ASEAN put forward the proposal for summit meeting among the heads of state/government from ASEAN and China, Japan and Korea in Bangkok in 1995. Since then, East Asia cooperation has entered the stage of preparation. The propeller of East Asia cooperation is the 1997 Southeast Asian financial crisis. After the burst of the crisis, APEC’s performance on relieving the crisis was far from satisfactory. East Asian countries could hardly take concerted actions to jointly cope with the crisis. Some members even adopted the policy of “Sweeping the snow in front of one’s own door”. Thus, the crisis took the turn for the worse. The lessons from the Southeast Asian financial crisis made East Asian countries realize that

only by uniting and establishing their own regional economic cooperation organization can they jointly fend off external blast and prevent the spread and reoccurrence of the crisis. In November 1997, the first informal meeting of East Asian leaders was held, which shaped the embryonic form of East Asia mechanism.

East Asia cooperation mechanism mainly includes the following items:

- A) The informal meeting of leaders. Since the first informal meeting was held in Kuala Lumpur Malaysia in January 1997, the meeting is to be held annually. By the end of 2005, nine informal meetings of leaders have been held.
- B) Ministerial meetings. At present, the meetings on the ministerial level include foreign ministers meeting, senior officials meeting, financial ministerial meetings, deputy finance and central banks Ministers Meeting, Trade ministers meeting, senior trade officials meeting.
- C) non-governmental activities. This includes multi-faceted cooperation mechanism such as East Asia Vision Group Meeting, major industries-business forums, and cooperation among Chinese, Japanese and Korean policy research institutions.

In addition, greater progress has been made in bilateral and multilateral cooperation mechanism of East Asia. In 2002, China and ASEAN signed “Framework Agreement on Comprehensive

Economic Cooperation Between the People's Republic of China and the Association of Southeast Asian Nations". In 2003, Japan and ASEAN signed "Framework for Comprehensive Economic Partnership between the Association of Southeast Asian Nations and Japan". On July 8, 2003, China and Korea announced "Joint Statement on Establishing Comprehensive Cooperation Partnership between the People's Republic of China and the Republic of Korea". On October 7, 2003, China, Japan and Korea announced "Joint Declaration on the Promotion of Tripartite Cooperation among the People's Republic of China, Japan and the Republic of Korea" in Bali Island, Indonesia. On October 8th, 2003, China officially joined in "Treaty of Amity Cooperation in Southeast Asia", both sides signed "Joint Declaration of the Heads of State/Government of Association of Southeast Asian Nations and The People's Republic of China on Strategic Partnership for Peace and Prosperity" and announced to build strategic partnership facing towards peace and prosperity.

II. Cooperation Goal and Selected Paths

The third meeting of East Asian leaders was held in Manila, capital of Philippines, on November 28, 1999. It announced "Joint Statement on East Asia Cooperation", which sets out the overall goal for East Asia regional economic cooperation, and points out that the mutual relations

should be handled in line with the well-recognized international principles such as the purposes and principles of the UN Charter, the Five Principles of Peaceful Coexistence and Treaty of Amity Cooperation in Southeast Asia. The Joint Declaration puts emphasis on enhancing the dialogue and cooperation among East Asian countries and promoting mutual understanding, trust and good-neighborly relations.

“Joint Statement on East Asia Cooperation”, clearly defines the eight major fields of cooperation, that is, economy, currency and finance, social and human resources development, science and technology, development cooperation, culture and information, political security and transnational issues. With regard to economic cooperation, efforts should be made to speed up trade, investment and technology transfer, encourage technological cooperation in IT and E-commerce, promote industrial and agricultural cooperation, strengthen small- and medium-sized companies, accelerate the tourism development, encourage active involvement in East Asia Growth Area, including the development of Mei-Gong River Basin. Efforts should also be made to promote private sectors to participate in economic cooperation in a broader sense by linking up the proposals such as establishing East Asia Economic Committee and setting up industry forums for major regional industries. At the meantime, seeing that the above-mentioned actions have achieved sustained economic growth and played an indispensable role in preventing the

reoccurrence of East Asian financial crisis, the participating countries agreed to continue the structural reform and enhance their dialogue. As for the field of currency and finance cooperation, efforts should be made to strengthen political dialogue, coordination and cooperation in the issues of common concern including finance and currency. The initial stage should focus on managing macroeconomic risks, strengthening company management and regional supervision of capital circulation, reinforcing banking and financing systems, reforming international financial system, upgrading self-relief and self-service mechanism through ten plus three framework, including the mechanism of the dialogue and cooperation among leaders and officials from ten plus three financial sectors and central banks.

East Asia Vision Group put forward the ultimate goal of establishing the “East Asia Community” in “Towards an East Asia Community---Regional Peace, Prosperity and Progress”. We could say that this goal is a controversial concept. However, it undoubtedly raised the idea of “East Asia Community” to and found a tentative common spiritual pillar for East Asian countries. Along with the deepening of East Asia regional economic cooperation, the idea and spiritual pillar will inevitably become deeply rooted in the hearts of East Asian people. The construction of EU provides an inspiration for the world, that is, it is practical to establish a highly integrated organization in one region. Yet

East Asia cannot copy the experience of Europe because it differs from Europe. East Asia regional economic cooperation has not only many favorable conditions but also great differences and historical reasons. East Asia cooperation can only proceed in a step-by-step way, and it will take a longer period of time to achieve the goal of East Asia Community. In the course of establishing the East Asia Community, we need to accomplish the following goals: prevent conflict and promote peace among East Asia countries, achieve closer economic cooperation in such fields as trade, investment, finance and development, promote human security especially through environmental protection and sound management cooperation, strengthen cooperation and achieve common prosperity in education and human resources development, and foster East Asia consensus.

Founded in November 2000, the East Asia Study Group submitted the final report in East Asia summit meeting, which was held in November 2002, in Cambodia. This report evaluated the suggestions made by East Asia Vision Group and the significance of East Asia summit meeting. It also set out 26 concrete measures, which should be carried out in the fields with top priority including economy, financial cooperation, politics, security, environment, energy, culture, education, society, systems and so on.

On the way to the East Asia Community, what kind of path will East Asia

regional economic cooperation follow? The author's opinions are as follows:

A)The First Step is to Seize the opportunities and advance the establishment of China-ASEAN Free Trade Zone. Pushed forward by the wave of economic integration, how could the Chinese government grasp the trend, open wider to the outside world, and develop export-oriented economy? Especially after China's entry into the WTO, how could the Chinese government position and react in the worldwide and East Asia regional economic cooperation? We may say that advancing the establishment of China-ASEAN Free Trade Zone is the far-sighted decision of the Chinese government. The purpose is to seize the opportunities and take the lead to form the trend of regional cooperation with a view to compelling developed countries in East Asia such as Japan and Korea to participate in the regional cooperation.

B) The Second Step is to promote the early formation of the Japan-ASEAN and Korea-ASEAN Free Trade Zones. East Asia regional economic cooperation can hardly be complete without the involvement of Japan and Korea, the two economic powers in East Asia. From another side, the role of Japan and Korea, Japan in particular, in East Asia regional economic development will be

weakened. Japan has experienced consecutive recession in economic development and many frictions in foreign relations due to historical reasons. Therefore, to bring along by the Japanese mode of words and deeds is impractical and doesn't conform to the real situations of East Asia. Driven by the establishment of China-ASEAN Free Trade Zone, only by strengthening cooperation with other benefit groups in East Asia can Japan and Korea hold a place in the future East Asia cooperation. To speed up the formation of Japan-ASEAN and Korea-ASEAN Free Trade Zones is the best choice and the only choice as well.

C) The Third Step is to promote East Asia cooperation on the basis of the three ten plus three. The cooperation of ten plus three is the foundation of East Asia cooperation. Owing to the political, historical, cultural and economic differences in China, Japan, Korea and ASEAN, East Asia must take the cooperation of ten plus three as the basis. The reason is that on the basis of ten plus three, each side needs to coordinate and dovetail their policies with ASEAN in such fields as trade, investment, tariff and finance. In doing so, they can avoid frictions, promote communication, gain experience, foster trust and mutual understand so as to push forward the complete cooperation of East Asia.

D) The Fourth Step is to facilitate the formation of Northeast Asia Free Trade Zone. In addition to China, Japan and Korea, Northeast Asia also includes some other countries and regions like Russia, DPRK, Mongolia, Taiwan, Hong Kong and Macao. In view of the current issues existing in Northeast Asia, it is a must to form core countries in Northeast Asia by thorough cooperation among China, Japan and Korea. Thus, mobilize the development with all sides, promote the cooperation of each side with China, Japan and Korea, eliminate historical resentment and reduce trade frictions. On this basis, form a relatively complete Northeast Asia Free Trade Zone.

E) The Fifth Step is to establish East Asia Free Trade Zone. After the development of several decades, ASEAN Free Trade Zone has gained lots of successful experience. In the course of forming Northeast Asia Free Trade Zone, within the framework of East Asia Free Trade Zone, ASEAN will certainly step up the construction of the Free Trade Zone, narrow the gap with developed countries, stabilize regional politics and economy, mutually integrate the different cultures and unify their policies. The inevitable outcome of development of these two major free trade zones is combination. In their respective course of development, they will certainly achieve the coordination and

dovetail of policies and in the long run form East Asia Free Trade Zone.

F) The Sixth Step is to establish the East Asia Community. The East Asia Community is not only the shared wish of the people in East Asia but also the common goal of development of East Asian countries. At present, it is only an ideal and its concept is still ambiguous, but this cannot prevent the cooperation of East Asia. The road of East Asia cooperation will be a bumpy one, and it may have all kinds of difficulties and frustrations. This requires the efforts of several generations. It takes Europe half a century to make the dream of unification come true. It may take much more time to achieve the goal of the East Asia Community. However, as pointed out by East Asia Vision Group, the East Asia Community is the best hope that we place on East Asia region. In view of our mission and contribution to humankind, we must take immediate actions to achieve this goal. We must jointly do our utmost to build this bright future for the interests of both our generation and the coming generations.

III. The Tropism of Policy in China

East Asia is a region where China's political and economic interests lie as well as a critical field of foreign policy and economy. Its development has a significant influence on China. Therefore, China must play a more

active role in the economic and trading cooperation while we are participate in ten plus three free-trade area.

A) Establish a research group composed of government, industry and academic. Set up a unified coordinating organization.

In the establishment of ten plus three free-trade area, we should form a research group composed of government, industry and academic to explore and advise the ways and methods of further strengthening regional cooperation through massive data collecting and deep information study. The research group should serve as the bridge between the academic society and government decision makes, and launch a warning to the government and nongovernmental body before the situation become worse. It will help to find new problems if we focus on weighty problems and investigate into the potential problems existing in politics, economy and social development trends in several coming years. Besides, it should also help the decision maker to fine the suitable solution and policy to deal with the new situation. To research from strategic aspects the specific form and type of the participation of the Eastern Asia Free-Trade Area, the objectives, scope and the content, as well as the ways, mechanism, periodical task and timetable of the establishment of the Free-Trade Area. Analyze from aspects of short-term, long-term, static and dynamic

the advantage against disadvantage of the cooperation in trade, investment, finance, technique, information and environment protection, especially the influence upon economy restructuring, industry upgrade, and increase of international competitiveness.

B) Drive forward ten plus three regional economic cooperation mechanism.

i) Capitalize the influence of China-ASEAN Free-Trade Area to promote the establishment of the East Asia Free Trade Area.

The Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN guides the way of trade and investment liberalization between China and ASEAN. The methods used to promote the liberalization of trade and investment during the establishment of the China-ASEAN Free-Trade Area, can also play an important part in promoting the trade cooperation among China, Japan and Korea, as well as forming the Eastern Asia Free Trade Area.

ii) Make use of the sub-regional economic cooperation to push for the forming of Free Trade Area.

China has taken part in the development of Tumen River and Lancang River-Mekong Sub-region cooperation.

Through active trading and investment practice, implement and improvement of the trading mechanism and environment, China provides the legal protections and convenience in system for the bilateral trading and investment. To establish regular meeting system for Custom, Inspection and Quarantine of crucial trading port require the liberalization and facilitation of the Custom clearance, inspection and quarantine, certification process, ect. Enhance the coordination of the GMS Agreement on the Facilitation of Transnational Passenger and Cargo Transportation. We make effort together with the sub-regional countries to create a favorable policy environment and information mechanism for the sub-regional cooperation and try to improve the environment for trade and investment, share information, serve the investor and drive for the formulation of the China-ASEAN Free Trade Area, and realize the regional economic cooperation in East Asia.

iii) Make use of the trade and investment cooperation among China, Japan and Korea to drive forward the progress of the Free Trade Area.

Any kind of regional economic cooperation requires the

leading role of one or several countries. In terms of East Asia economic cooperation, it is globally recognized that the cooperation among China, Japan and Korea is a proper choice, just the same as the leading influence of France, Germany and UK in EU. Three countries enhance the communication, mutual understanding, overcome the barrier caused by different system and historical issues, in order to push cooperation ahead. China should stick to the principal of “National interests should take precedence over all the other interests”, keep to the course of Deng Xiaoping’s “No lineation based on ideology”. We shouldn’t give up or make the worse of cooperation just because of the difference in system or ideology. On the contrary, we should make full use of the common demands and huge cooperative potential in trade, finance, investment, resource, science and technology development, information, education, talents’ cultivation and communication. Because Japan is now experiencing a long-term low-growth of economy while Korea just suffered a lot in the Southeast Asia Financial Crisis, they are anxious about further cooperation with China. We should grab this opportunity to promote the negotiation and coordination among three governments,

make full effort to standardize and systematize the cooperation in all areas, therefore to form a solid base of further cooperation in three countries as well as all ten plus three regions.

C) Push for liberalization and facilitation of trade and investment.

i) Smooth tariff and non-tariff barrier gradually.

According to WTO requirement on liberalization of trade and investment, the member states are required to lower the tariff to below 5% before 2010. However, China is having a high tariff level, and we have to working harder to work out a plan to drive for the liberalization. There is also tariff difference issue in ten plus three Free Trade Area negotiation. China should take this chance to work out a policy adapt to the reality of our country. We can learn from APEC that to realize liberalization in certain sectors first before widening the application range. In terms of tariff, list the early achievements of the Tariff Concession, sensitive products and common products. In term of non-tariff measurements, to ensure the transparency, gradually deregulate the control on import and export quantity, eliminate import and export license system, export subsidy, and ect. The implementation of Anti-dumping policy or

inspection and quarantine on animals and plants should always conform to the International Common Practice. We should reach the agreement to use anti-subsidy or emergent safeguards practice on the premise of not breaking the competition policy. But the limitation of the implement of these practice should be specific and defined, in case there is any abuse to cause protection on domestic industries.

- ii) Promote the liberalization of investment with the combination of the industry policy.

It can be a complete open-up for those industries which has a certain competitive ability, that means no encouragement or restriction put on foreign capital. For those industries which has a big market capacity as well as potential competition, such as home application and automobile, we can adopt the policy has both effect of encouragement and restriction. Encourage the JV, restrict the exclusive investment, encourage the technical investment and restrict the facility investment. Despite of different measurements, the liberalization of investment should be realized no later than 2015. On the same time of protection, we should put more emphasis on the development of those industries, to make them more efficient and more competitive in the

international market.

Reach agreement on the framework for investment with Japan, Korea and ASEAN countries, prompt the capital flow within East Asia area, make it more attractive to the FDI of this region, reinforce the investment regulation and management transparency and establish a more flexible investment system which is favorable for the capital's free flow. The agreement of framework for investment should include contents as following:

- National treatment and most-favored-nations course
- Measurements on transparency. Countries in East Asia region should share with each other the information of the laws and regulations, product standards and hygiene and disease control methods.
Build up annual dialogue system on investment
- Allow the investor to repatriate or transfer the capital related with investment, such as profit, dividend, royalty, interest on loans and settlement fund.
- Prohibit the regulations on performance requirement.
- Regulations on confiscation and compensation.
Prevent from the arbitrary confiscation or unfair compensation.

- Regulations on technicians flow.
- Establish the deliberative function. Build up investment committee and Community committee. The investment agreement applies for the direct investment only, the restriction on investment and the regulations of stock ownership should be bounded by relevant civil laws. The process of liberalization and facilitation of investment should take precedence over the objectives raised by “Bogor Goals”.

iii) Reinforce the cooperation of Customs, build up Green channel.

Refer to the Framework of Mutual Authentication (to establish the system of mutual authentication for various products) and Agreement on Transportation Facilitation (to facilitate the custom clearance procedure, including the remission of custom inspection in specific region), signed by the member states of ASEAN, reach agreement on liberalization and facilitation in service trading area between member states, expand the green channel, realize the fast custom clearance, including the standardization of the passenger clearance procedure; facilitation of the custom clearance process; promotion of E-channel; standardization

of the products testing and certification standards, inspection and quarantine; unification of the regulations, competition policies, common business practice and e-business standards; agreement on Mutual commitment and facilitation of Visa procedure; unbar the channel of people, goods, capital and information. Promote the transparency, unification, accordance of the products from all the sub-regional countries on the basis of WTO agreement on Price-fixing. Reform and upgrade the custom risk-management and approval system.

iv) Expand the scope of service trade.

Properly ease the trade restriction on service industry. The regulations on service trade should mainly include: National treatment, most-favored-nations course, non-discrimination treatment; the conditions, number restrictions, reserved and limitation policies for establish business offices. Tele-communication and finance industry are relatively sensitive service sector. But refer to NAFTA, we can list solitary secondary law and commitment for these two industries. Promote steadily on the Finance, Insurance and Tele-communication industries according to GATS regulations and WTO commitments. Further enhance the

cooperation on Tourism service, distribution service and business service with other countries of East Asia.

D) Identify the cooperative areas of great importance and priority.

i) Economic cooperation

China is a great country among East Asia countries, but in terms of technology, there is still a gap compared with Japan and Korea. China should strengthen the negotiation on technology cooperation; make the full use as possible of the advanced technology from Japan, Korea and Singapore. In this aspect, we can utilize other countries demands of our domestic market; combine with the progress of WTO and APEC, to open up some markets in exchange of the advanced technology. Meanwhile, we can also transfer some industry out of China, cooperate with other ASEAN countries. This is beneficial in taking more market share, making more profit, as well as strengthening the relationships between China and ASEAN countries. By means of improving investment environment, increase the transparency, it is good for bringing in advanced technology, developing economy. It also makes China more attractive to the investment from Japan, Korea and other ASEAN countries.

ii) Human resource exploration

The government should provide financial support to encourage the cooperation on human resource exploration for the intellectual industries, such as colleges and institutes; establish the network for regional education, scientific research, information and environment monitoring. Enhance the communication in cultural and other fields; encourage the communication between non-government organizations, communication of information and intellectual property; facilitate the application of patents. Establish the invention and patents mechanism in Asia if it is necessary. Provide platform for training and communication; encourage and help the professionals and technicians of small and middle-size enterprises. In crucial areas, such as information, biotech, medical technology, new material, new energy, new resource and environment protection technology, we should reinforce the international cooperation, such as building up international laboratory and encouraging cooperation on papers publish.

iii) Information communication

The IT industry in China is now experiencing a high-speed growth, and China is now among the biggest IT countries in

the world. China should firstly open up the IT manufacture industries to the Northeast Asia and ASEAN; play an active role in developing the manufacture base and international material transmission base, such as the tele-communication, basic IT products and service, cable, internet service and e-business. Allow competitor to hold the stock share, manage the fund and train the professionals; encourage e-business and paper-free trade; establish public information safety and identification system; encourage the competitors to take part in the infrastructure construction of information and tele-communication; build up facilities for e-communication technology to provide more access to internet. Take into consideration to establish unified e-society, e-bank, e-custom and e-library.

iv) Infrastructure

Most of the countries in East Asia including China have the bottleneck restriction of development due to the unsubstantial infrastructure of transportation, energy and water conservancy. With the progress of the 10+3 cooperation, there must be a great amount of cargo and population flow. Therefore we should facilitate the construction progress on infrastructure. It is not suitable to

bring in the direct investment due to the particularity of this industry. The way of introducing investment should be flexible, combining with loans from international financial organization and financial leasing from over-seas stock markets.

v) Mekong river development

Drive for the development of the infrastructure construction of transportation, communication, energy and so on; promote the exploration of human resource in Mekong River area; push the development and utilization of Mekong River area.

vi) Tourism

The development of tourism industry has already has priority, and opening up the tourism market is a important measurements for development and management of this industry. China should firstly open up this market to Japan, Korea and ASEAN, to promote the development and exploration of related industries. Support the cooperation between small and middle-size airplanes and the air transportation industry; explore tourism resource in small and middle-size cities, especially those cities with various characterized tourism resources in West and Center China;

push for the development of the general aviation, such as air-rescue, air-exploration, air-travel and aircraft exhibition.

E) Co found the financial risk prevention mechanism.

Chinese government should strengthen the exchange of the information on frequent and in-time data of capital flow in financial area within the 10+3 framework; establish network of contacts, strengthen the dialogue on economic policies; establish the network of bilateral exchange and repurchase agreement to include ASEAN countries and China, Japan, Korea; attach great importance to the cultivation of financial professionals; reinforce the cooperation on the financial research; strengthen the financial supervision; facilitate the regional financial activities; set up a coordinating currency system in accordance with the financial steadiness and economic development. Push for a wholesome regional financial releasing system in East Asia area, such as the establishment of East Asia Loan Agreement and East Asia Monetary Fund to complete IMF; serve as a safety shed, and become the final regional accommodator in accordance with IMF and other international system. Launch warning against financial risk; prevent Financial Crisis. Provide relative information for the assessment on the demands on financial aids or potential requirement on financial leasing.

F) Enhance the upgrade of the domestic industry structure; prevent cutthroat competition against developing countries in East Asia region.

Although there is a great complementarity in economy among the East Asia countries, it is undeniable that we also share some similarity in industry structure with some of the developing countries in East Asia, especially the ASEAN countries. Therefore, it is unavoidable to have competition among the similar products in some extent (mostly labor-intensive products). We ought to accelerate the adjustment on the industry structure; make hard effort on developing hi-tech industries and industries with advantages; encourage the export of products with high additional values; improve the techniques, lower the cost, improve the quality, raise the technical effect; encourage the export of hi-tech products; realize the adjustment upgrade of the industry structure to avoid the repetition with other countries; increase the competitive ability in the international market. In addition to these, we should stick to the Walk-out course to avoid the cutthroat competition with ASEAN countries. We should support capable enterprises to go out of the country, to invest in surrounding countries and regions and operate cross countries. Meanwhile, according to theory of Location advantage, on one hand, we should bring our advantages in

techniques to play and expanding the direct investment in other developing countries in East Asia area, especially ASEAN countries; on the other hand, for the mature labor-intensive industry, we can take into consideration that to move these industries to other developing countries including ASEAN countries. The form of investment should be flexible, combining currency investment, technology investment and facility investment, ect.

- G) Seize the opportunity of entering WTO, enhance the domestic reform progress

Establishment 10+3 Free Trade Area and the promotion of the regional cooperation in East Asia should be in accordance with WTO regulation. To establish a fair and predictable free trade market environment should include the international cooperation on liberalization of commodity, service trade, investment and capital flow, as well as the co-work on economy, technology, education and cultures. China is now experiencing the transmission stage to the Market Economy Mechanism, there is still a great gap between us and the developed countries and regions in East Asia in aspect of the Market Economy level. Thus, we must seize the opportunity of entering WTO, accelerate the progress of domestic economic reform, further open up to the world; establish a proper

system in accordance with the market economy in aspects of laws and regulations; create a well-grown market circumstance, and provide conditions for a better ten plus three regional cooperation.

H) Keep to the sustainable development strategy

Push for the build-up of policies on energy reservation and environment protection; drive for the protection of energy and environment and push towards the direction of industrialization; strengthen the nation's awareness on environment protection and sustainability. Make full use of laws and regulations to put severe punishment on pollution; raise the non-economic external operation cost for those who pollute the environment and break the nature balance; support the development of environmental industry; promote the green-certification mechanism; to increase international market share by developing the environmental industry, activating the environmental trade, coordinating the international trade rules on environment industry; manufacture green products oriented by international market; impose industry-incline policy; regularly reduce or release value-added tax on environmental industry, and postponed the taxation on the new green products. Launch a plan to build up research and development base for environmental-protecting and hi-tech products in certain area; strengthen the technology development of

the industry; drive for the industrialization and merchandizing of the environmental protective hi-techs.

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