

Asian Economic Integration:

The Chinese Economy and the Challenge for Japan and the United States

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The Challenge

What challenge does the Chinese economy pose for Japan and the United States over the next decade as they seek to encourage greater Asian economic integration?



Four Assumptions About China and Its Policies

- 1. China's economy will grow at 7% to 10% annual levels for the next decade.**



Four Assumptions About China and Its Policies

- 2. China will continue its current efforts to replace Japan as the premier financial center for Asia.**

Four Assumptions About China and Its Policies

- 3. Hu Jintao and his Administration will place the highest priority on promoting and sustaining the economic growth of the Chinese economy and a lesser priority on environmental and political (*i.e.* Taiwan) concerns.**

Four Assumptions About China and Its Policies

- 4. The Chinese government will not permit the renminbi to become a fully convertible currency for at least the next five years.**



The Role of the Private Sector

- 1. The private business sector in China is now and will remain less important than public sector companies. It is the Chinese government that will determine future economic initiatives in China.**



The Role of the Private Sector

- 2. Private (non-Chinese) businesses outside China as well as those companies investing in China have little influence over the creation and direction of policy issues in China.**



The Role of the Private Sector

- 3. There are two areas, however, where private sector businesses may play a role in policy development within Asia:**
 - a. Advocating stronger and more enforceable intellectual property laws within both China and throughout Asia; and**
 - b. Pressuring government officials to make sure that national courts and laws are unbiased when resolving commercial disputes between foreign investors and local partners. This is important to all international private companies that seek to do business in the region.**



Private Sector

Conclusion: Private sector companies in China, Japan, and the United States will play only a limited role in influencing the future direction of Asian economic integration. It is the national governments which have the real power to either promote or to retard economic integration in Asia.



The Role of the Public Sector

- 1. National governments, in theory, have the potential to promote economic integration in Asia. A number of multilateral organizations and groups have been created over the years to improve economic integration.**



The Role of the Public Sector

- 2. For example, the Asia-Pacific Economic Cooperation (APEC) forum was formed in 1989. Its 21 member countries have all pledged to promote trade and economic cooperation throughout Asia. Japan and the United States are both key members of APEC. ASEAN is another multilateral effort to promote liberalization of trade within the region.**



The Role of the Public Sector

- 3. Unfortunately, APEC has not achieved significant results since its creation. This failure undercuts the potential leadership roles of Japan and the United States in APEC and the region.**



The Role of the Public Sector

- 4. In recent years, China has pursued a broad-based strategy by seeking to forge economic ties between China and individual countries throughout Asia. China appears to favor “bilateral” rather than multilateral efforts to raise its profile as an economic power in Asia.**



The Role of the Public Sector

5. India also appears to be implementing a bilateral approach toward its neighbors in Asia.



The Role of the Public Sector

6. China's bilateral approach lessens the likelihood of advances in:

- a. Liberalization of trade and investment regimes in Asia;**
- b. Currency and financial cooperation;
and**
- c. Joint conservation of environmental resources.**



The Role of the Public Sector

Conclusion: It is clear that China prefers a bilateral approach toward economic relationships within the Asian region. This weakens the opportunities for multilateral organizations to provide a comprehensive framework for Asian economic integration.



What Happens to Japan if Multilateral Efforts Fail?

- 1. China will remain on a course of creating bilateral relationships with its neighbors, and this will undercut the effectiveness of multilateral efforts.**



What Happens to Japan if Multilateral Efforts Fail?

2. India also seems to be pursuing bilateral relationships. This trend will strengthen.



What Happens to Japan if Multilateral Efforts Fail?

**3. Japan will find its influence
in the region declining.**



What Happens to Japan if Multilateral Efforts Fail?

Conclusion: Unless Japan and the United States can dramatically improve the poor performance of APEC and its programs, the relevance of APEC as well as Japan and the United States are likely to diminish over time. Within the next decade, I predict we will see some nations within the Asian region publicly align themselves with China in exchange for perceived economic (bilateral) incentives. Others will align themselves with India. In a way, Asia may begin to look much like it did several hundred years ago when both China and India had their “spheres of influence”. If this occurs, the future prospects for Japan and the United States in promoting multilateral economic integration are poor.



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