



Working

PAPER

China in EU-East Asia Economic Relations

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Abstract: China attaches great importance to the development of good relations with its East Asian neighbours both from security and economic considerations. It has benefited greatly from the rapid economic growth of the region, and has also contributed its share. There is, however, still a very long way to go for East Asia, and China with it, to shake itself of the underdevelopment. To achieve this goal, it needs to strengthen its economic ties with the EU and the outside world, but first of all it has to strengthen the economic cooperation and integration within the region.

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I. Introduction: the economic importance of East Asia

East Asia¹ came to attract world attention economically, largely through what has been termed as the “East Asian Economic Miracle”. The East Asian Miracle began with Japan, when, through 1960’s and 1970’s, it rose from a wreck of World War II to the second largest economy in the world in the 1980’s. Then came the rise of the so-called four “Tigers” or “Dragons” of Singapore, South Korea, Hong Kong and Taiwan in the 1970’s and 1980’s, which shocked the world with very fast economic growths based on the development of export-oriented manufacturing industries. The East Asia Economic Miracle—the rapid industrialization of the comparatively under-developed East Asian economies—did not, however, stop here, it was soon followed by the quick rise of the Chinese economy in the 1980’s: this most populated and very under-developed country has, in about 3 decades, grown to be the second largest economy and the largest exporter in the world. The impact of the East Asian Economic Miracle could hardly be overstated in economic terms, as well as in psychological terms.

Another factor worth noting is that East Asia is increasingly assuming a kind of regional economic identity, after the Association of Southeast Asian Nations (ASEAN) of 1967 transformed from a regional political and security organization to take up regional economic integration goals since the 1990’s, and has been pushing, especially after the 1997 Asian financial crisis, for a wider regional scheme, together with its other major East Asian partners—China, Japan and South Korea—in the framework of ASEAN 10 + 3, with the immediate goal of a free trade area, and also arrangements for freer capital movements and monetary cooperation.

Table 1. East Asia in World Economy (2010)

Country	Area	Population	GDP	GDP per capita	Foreign trade
	1000 km ²	million	billion \$	\$	billion \$
China	9598	1341.41	5878.3	4382	2972.9
Hong Kong		7.12	224.5	31514	843.1
Taiwan		23.16	428.8	18558	525.8
Japan	378	127.59	5855.4	42783	1463.9
Mongolia	1564	2.76	6.2	2267	6.2
South Korea	100	48.88	1014.5	20756	891.6
Brunei	6	0.42	12.4	29675	12.2
Cambodia	181	14.29	11.6	912	12.5
Indonesia	1905	237.64	706.8	2974	289.6

¹ Geographically, East Asia is often further differentiated into Northeast Asia including 5 countries: China, Japan, Mongolia, North Korea, and South Korea, Southeast Asia consisting 10 countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam, which are now all grouped into the Association of Southeast Asian Nations (ASEAN). A difficult case here is with the 3 special areas of China: Hong Kong, Macao, and Taiwan, as in international statistics they are often separately calculated, and the economic scales of Hong Kong and Taiwan are too big to be dropped in statistics altogether; but otherwise, they are not included. North Korea has to be dropped here altogether, because its economy is still very closed, and few data and statistics could be found. So, what is mentioned as “East Asia” here in this paper, is practically the so-called “ASEAN Plus 3”, namely the 10 ASEAN countries as a whole plus China, Japan and South Korea, with some injustice to Mongolia.

Laos	237	6.44	6.5	1004	3.4
Malaysia	330	28.25	238.0	8423	363.5
Myanmar	677	61.19	45.4	742	13.6
Philippines	300	94.01	199.6	2123	109.7
Singapore	1	5.17	222.7	43117	662.7
Thailand	513	63.88	318.9	4992	377.7
Vietnam	331	88.26	103.6	1174	157.0
ASEAN total	4481	599.55	1865.5	3116	2008.2
East Asia total	16241	2150.47	15273.2	7102	8705.4
World total	134425	6895.10	58228.2	8445	30639.0

Source: compiled and calculated from statistics of the *World Economic Outlook* database of the IMF

(<http://www.imf.org/external/ns/cs.aspx?id=28>) and statistics of *International Trade Statistics 2011* of the WTO (http://www.wto.org/english/res_e/statis_e/its2011_e/its11_toc_e.htm)

Table 1 shows how East Asia now stands in the world economy. East Asia taken as a whole accounted about 19.8% and 23.4% respectively of the world's GDP in 1990 and 2000. In 2010, the proportion rose to 26.2%; the marked rising trend indicates that, with its much faster growth rates than the world average, the economic gross (15273.2 billion \$ of the whole East Asia, and 14610.7 billion \$ of the ASEAN 10 + 3) is now nearly comparable to those of the other two regional trade blocks--EU 27 and the NAFTA of the US, Canada and Mexico (respectively at 16253.7 and 17137.9 billion \$), and is very likely to surpass them not long in the future, if a comparable growth pace to the present one could be maintained

In the context of foreign trade, East Asia has also taken up a very important place: In 2010, it accounted for more than 28% of total world trade, higher either than the EU or the NAFTA, and 3 countries/regions of the group (China, Japan and South Korea) were among the world's top 10 exporters, and 4 (China, Japan, Hong Kong and South Korea) among the top 10 importers². Behind this thrust is the concentration in this region of a great part of the world manufacturing industries in the recent wave of industrial reallocation and redeployment driven by the so called economic globalization process.

On the other hand, the figures also show that the development in East Asia is very uneven. While a part of it is quite developed already, such as Japan, Singapore and also South Korea, the bulk of it both in population and area terms is still very much underdeveloped: Judged from GDP per capita, the region as a whole is still quite a way below the world average, and a great part of its countries/regions rank after the hundredth in the world, and quite a number of them are among the least developed. This underdevelopment should leave us two messages: First, in spite of the past fast development, there are still in East Asia great time and space scopes for rapid growths; and second, the huge gaps in development also mean great potentials for outside economic exchanges and cooperation. It is, therefore, quite justified to conclude that East Asia has already assumed a significant position in the world economy, and that it will remain for quite some time as one of the driving forces in world economy.

² WTO: *International Trade Statistics 2011* (http://www.wto.org/english/res_e/statis_e/its2011_e/its11_toc_e.htm)

II. EU-East Asia Economic Relations

The EU does not have yet a specific policy framework for East Asia, something like the Lome Convention it has had for the African-Caribbean-Pacific (ACP) countries. For many years, its relations with the region were mostly organized through a series of bilateral trade and economic agreements with the individual countries or regions. In economic terms, the relations had remained insignificant for many years to both sides.

The EU's Asia Strategy envisioned in the Commission Communication of 1994³ marked a new beginning. The Strategy was addressed to East Asia and South Asia (including India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, Maldives and Afghanistan) together⁴, the focus was apparently, however, more on the former. In the "Executive Summary", it cited the World Bank estimation that by the year of 2000, half the growth in global economy would come from East Asia alone, and went on to set as its first objective: "to strengthen the Union's economic presence in Asia in order to maintain the Union's leading role in the world economy". Under the framework of this Strategy, the EU worked out and implemented a series of strategies towards East Asian countries or regions, with the primary aim to strengthen economic ties with them.

Following the new Asia Strategy, there came a series of EU's country/region strategies towards East Asia. The list is too long to site, but it may suffice to say that they covered near all the major countries/regions in East Asia⁵, and with clear economic objectives, alongside with other ones.

Another important milestone in EU-East Asia relations is the establishment of an inter-regional structure between the EU and East Asia in 1996: the Asia-Europe Meeting (ASEM). The initial members of this forum consisted of the SEAN members, China, Japan and South Korea on the East Asian side, and the EU member states plus European Commission on the European side, and well corresponded to be the framework for cooperation between the EU and East Asia. Although as a forum people should not pledge a too high expectation on it, the economic and trade matters, as one of the three pillars of the ASEM, were very frequent on its agenda. It is true that not many substantial programmes have turned out that could benchmark EU-East Asia economic cooperation in the ASEM framework, and its two subsequent enlargements in 2006 and 2010 expanded its Asian membership well out of the East Asia scope⁶, the informal summits, ministerial meetings and expert consultations under its structure served as a very useful meeting point for exchange and cooperation between the two sides, and many have come to give the ASEM a quite high regard as a platform for exchanges among the Asian members for better understanding and for bilateral and multilateral cooperation.

It might also be worthwhile to note that in 2010, the EU concluded a free trade agreement with South Korea. It is the first sort between the EU and an East Asian country, and it would be

³ European Commission: *Towards a New Asia Strategy*, COM(93) 314 final, 13.07.1994

⁴ In Commission's second Communication towards Asia--*Europe and Asia: A Strategic Framework for Enhanced Partnerships* (COM(2001) 469 final, 4.9.2001), the "Asia" it addressed to was, however, extended to include New Zealand and Australia as well.

⁵ To China alone, for example, the Commission issued five strategic papers between 1995 to 2006, not including two towards Hong Kong and Macau.

⁶ Its current members on Asian side include also India, Pakistan, New Zealand, and Australia. And Russia is in, strangely not as Asian member, neither as European member.

interesting, if the precedent is followed⁷.

Meanwhile, the trade and economic relations between the EU and East Asia witnessed a tremendous growth. Trade volume increased from 269 billion Euro in 1995 to 449 billion Euro in 2000 and to 797 billion Euro in 2010 (about 27.9% of the EU's total extra-foreign trade). The East Asian group taken as a whole is by far the most important trade partner of the EU (the NAFTA's trade volume with the EU being 494 billion Euro in 2010). Of the EU's 10 top trade partners, 3 come from East Asia (China, No.2; Japan, No. 6; and South Korea, No. 9). Consequently, the EU is also an important investor and technology transfer to East Asia. It has to be admitted, however, that the real tremendous rise came with the rapid development of EU-China economic relations, especially after China's access to the WTO membership in 2001. Because of China's economic weight in East Asia, when China rose to be EU's No.2 trade partner, the region's economic importance to the EU also grew.

Table 2. EU's trade with East Asia (2010)

Country or region	Volume (billion Euro)	Balance (billion Euro)	% in total EU's foreign trade	Place as EU's trade partner
China	395.8	-169.2	13.8	2
Hong Kong	37.6	+16.2	1.3	16
Taiwan	38.9	-9.3	1.4	15
Japan	109.6	-22.0	3.8	6
South Korea	67.2	-11.3	1.4	14
Singapore	43.1	+5.7	1.5	12
Malaysia	32.1	-9.6	1.1	22
Thailand	27.3	-7.3	1.0	24
Indonesia	20.3	-7.5	0.7	36
Vietnam	14.3	-4.9	0.5	36
Philippines	9.1	-1.7	0.3	42
ASEAN total	148.1	-25.9	5.2	

Source: compiled from the statistics of the COMEX, EUROSTAT

Table 2 presents the EU's trade with East Asian in 2010. It shows that China is by far the most important trade partner of the EU in East Asia, accounting for nearly half of its total trade with East Asia.

The trade and economic relations between the EU and East Asia should be seen as mutually beneficial. From such exchanges and cooperation, the East Asian countries/regions obtained the products, capital, technology and management skills they need for their economic and social development. On the EU side, East Asia has become an important outlet of its capital and products; and the cheap imports from East Asia help to keep low the consumer as well as the producer prices in European markets: people in Europe might complain of their certain negative effects on the EU's labour market—that competition of the imports from East Asia increased unemployment in Europe by driving a part of the traditional industries out of market. It might be true, but it should not be forgotten that they also helped to create new trades and industries and hence new employment as

⁷ It is reported that the first round of negotiation for an EU-Singapore free trade area has been concluded already.

well, and supported the upgrade of the European industries by releasing resources from the obsolete manufactures. So if looked from an economic perspective, and not just judged from social terms, the negative effects should be more than compensated.

III. China and East Asian Economy

As part of the group, China has had vital interests in its economic relations with the East Asian partners, in addition to, and above of, the great geopolitical and geo-economic considerations. And this interest and concern are reciprocal.

Table 2. China's trade with its East Asian partners (2010)⁸

Country or region	Volume (billion Euro)	Balance (billion Euro)	% in total China's foreign trade	Place as China's trade partner
Japan	224.3	-42.5	10.5	3
South Korea	156.4	-52.2	7.3	5
Malaysia	56.1	-20.1	2.6	7
Singapore	43.0	+5.8	2.0	10
Thailand	40.1	-10.1	1.9	12
Indonesia	32.3	+1.0	1.5	14
Vietnam	22.8	+12.2	1.1	16
Philippines	21.0	-3.5	1.0	18
Myanmar	3.4		0.2	46
Mongolia	3.0		0.1	50
ASEAN total	221.3	-12.1	10.3	
East Asia total	774.0		36.0	

Source: compiled from the statistics of the COMEX, EUROSTAT

This relationship may be more directly illustrated by their trade exchanges. The EU is now China's No. 1 trade partner, and the trade volume between them reached to over 363 billion Euro in 2010, and accounted for about 17% of China's total foreign trade and 13.8 of the EU's total foreign trade with third partners. But less known is that the trade volume between China and the rest of East Asia was 774 billion Euro in the same year, and accounted for about 36% of China's total foreign trade, that is, more than the double of China's trade with the EU. To put it in another way, China's trade with the EU (363 billion Euro in 2010) was less than its trade either with Japan plus South Korea (380 billion Euro), or with the ASEAN 10 plus South Korea (377 billion Euro). On the other hand, the EU's trade volume with the rest of East Asia stood at some 416 billion Euro in 2010, and accounted about 54% of China's trade with its East Asian partners. To each of its major East Asian neighbours (Japan, South Korea, and the ASEAN as a whole), China is inevitably the No. 1 trade partner. Although foreign trade is not to be evaluated just by volume, and its contents and compositions are also very important, the above-cited figures should be quite sufficient to show the mutual economic interdependence between China and its East Asian partners.

Further more, when the Chinese economy began its reform and opening up to the outside world in the late 1970's, the inflows of investments and other things with them from its East Asian

⁸ The table is compiled from EURSTA statistics, as no comparable statistics of Chinese source are available yet.

neighbours, such as Japan, South Korea, and Singapore, played a quite significant role in its take-off, and they are now still very important in China's economic development today: together with Hong Kong and Taiwan, Japan, South Korea and Singapore are all among the 10 top DFI donors in China in recent years. To its East Asian partners, China is not only an important supplier and importer of goods and services, but also an important balancing factor to their international payments—for many years, they all enjoy a trade surplus with China (106.9 billion Euro in 2010). Millions of Chinese tourists to the East Asian neighbours each year also contribute to their economic development. And when talking about the 1997 East Asian financial crisis, many people in Southeast Asian countries remember that China's promise to keep stable of the exchange rate of its currency helped to alleviate the deep crisis they were then confronted with.

IV. China in East Asian Regional Economic Cooperation and Integration

It is with the full awareness that China is part of East Asia and that the high level of economic interdependence it has had with its East Asian partners that it always give great priority to the development of closer economic cooperation and integration within the region, supporting all the initiatives towards this goal and taking an active part in the actions and measures reached among them.

The strengthening of East Asian economic cooperation and integration is very much in China's interest. And its concept for East Asian economic regionalism is clear, and could be summed up as consisting of 3 elements:

(1) First of all, it supports to work towards a free trade area in East Asia: at the current level of customs tariffs, the target should not be very difficult to achieve, if the countries concerned have had the political willingness and will. There would be some difficulties with for some sensitive agricultural products, which could, however, be exempted for time being, waiting for further negotiations either among the East Asian partners or in the WTO framework.

(2) A free trade area has to be supplemented by a programme for gradual free movement of capital, including investment protection and taxation arrangements. It is also necessary to develop further their cooperation in the operations, as well as the monitoring, of the financial markets, and the supporting roles of the Asian Development Bank existing for several decades already should be expanded.

(3) It is highly desirable to set up a mechanism for monetary cooperation and support, especially in time of difficulties. There have already been many studies and discussions for the creation of an Asian Monetary System (AMS) more or less in the patter of the European Monetary System (EMS) prior to Euro. This may be much too early in either Asia or East Asia, when the current political conditions are taken into consideration, but what have already been envisaged in the Chiang Mai Initiative of 2000 are more practical, which sets up a joint fund of foreign reserve within the ASEAN plus 3 framework of the scale of 120 billion \$ to support the member state's currency confronting difficulties.

Of these goals, China gives priority to establishment of an East Asian free trade area, as it is not only the most feasible, and a successful free trade area will necessarily bring forth the other two,

and lay down the foundation for further moves. And no less importantly, it will give the East Asian countries the confidence to bridge the political differences and historical grudges that are really the most important barriers for regional economic cooperation and integration. It is also believed that with a free trade area in East Asia, the region will be able to build up a sort of a common identity inter-regionally and internationally.

To move towards these goals, China took the initiative at the 3rd China-SEAN summit in Manila in 1999 to propose a China-ASEAN free trade area (the so-called ASEAN plus 1). The proposal met with the favourable response from the ASEAN members, and a framework agreement was signed in November 2002, which laid down measures, as well as a timetable, for its fulfillment. The targets were duly accomplished in August 2009 when an agreement on investment was signed, and the China-ASEAN free trade area was formally launched on 1 January 2010. This free trade area, encompassing a population of 1.8 billion, a combined GDP over 6000 billion \$ and a trade volume around 4500 billion \$ (about 13% of the world total), is the largest among the developing countries. Against the depressing world economic environment and with all other difficulties, the first year of the free trade area should be regarded as smooth and satisfactory. It is in this year that the ASEAN surpassed Japan as China's 3rd trade partner (after the EU and the US).

Meanwhile, a China-South Korea free trade area has finished joint study process and is about to enter into negotiation, and a joint study is undergoing for a China-Japan-South Korea free trade area. All these show that quite a lot are going on within East Asia, especially within the ASEAN plus 3 structure, and China has been taking an active part in them. .

Likewise, China also takes a constructive role in the inter-regional economic cooperation structures like the APEC, to which East Asia is an important part. China has been proposing quite a number of initiatives, and values it as a platform where exchanges of views and ideas among the members, including in the East Asia group, are beneficial for mutual understanding and future cooperation. So is in the ASEM. China once pledged high hopes that it could develop into a cooperation framework between the EU and East Asia, and would like to see a more solid and fruitful economic "pillar". Failing in these, China takes what it could, and the ASEM agendas show that China is among the most active to put forward practical proposals, and the accepting ratio has been quite high.

In this process, China has been, however, trying to keep a low profile. While willing to consider any proposals, it would rather let others to take the initiative. This has something to do with its self-consciousness as being the largest country in East Asia. And as such, it does not want to impose on or rush others, fully realizing that on matters where substantial national interests are involved, there need time and patience to reach a mutual understanding and to build up a kind of political trust.

V. Conclusion: the China -East Asia - EU triangle

To conclude, it might be of interest to look into the triangular economic relations among China, East Asia (here rather East Asia minus China) and the EU.

The figures cited in Section II show that China and East Asia is economically much closer to

each other than they are with the EU. China's trade volume with its East Asian neighbours is more than double of that with the EU. It may be due to their close geographical vicinity—the distance effects of trade. But this geo-economic effect may be strongly backed up by geopolitical considerations. To China, a peaceful neighbourhood and a good relationship with its neighbours—with close economic relations as its basis—weigh heavily in China's foreign policy. On pure economic terms, however, the EU markets might be more important to China, because as an export outlet China's products still enjoy a competitive margin, and as an import source it could offer more of the products and technologies it needs at the current stage of economic development. So, if the above analysis stands, it is in the fundamental interest of China to develop and maintain good economic relations both with the East Asian countries and with the EU, especially as these two relationships are not so much rival with each other, and would like to see if some tri-party economic cooperation arrangements could be reached in the future.

To the East Asian countries, the case is more complicated. Economically, they all welcome a fast developing China, as the Chinese market has been and will continue to be a huge outlet for their goods, capital and services. This benefit is certainly not to be neglected. The Chinese manufactured goods might pose some competition to their exports to the world markets, but it does seem to be less pungent, in so far as they mostly are still enjoying some trade surpluses. Politically, the picture might be different. The great asymmetry in sizes and strengths, historical leftovers of World War II, and existing territorial disputes, all these are casting some discordant notes in the China-East Asia economic cooperation, and also in the relations within the region. For instance, some of China's East Asian partners are, consciously or sub-consciously, trying to balance off China, by pulling in the US in security matters and maybe the EU in economic matters. And the current distrust between China and Japan is really the most important barrier to the further progress in regional economic cooperation and integration, in spite of the apparent need and benefit.

The EU is more detached in the China -East Asia - EU triangle. Without being too deeply involved in the geopolitics of the region as the US does, it could concentrate its attention more on the development of economic relations with the region, if it so chooses. EU as the world's largest trade and economic bloc, the value of a fast growing East Asia is apparent. If the EU could remain detached from the geopolitics in East Asia and be not so lofty about its values, it would not only be economically benefitted in its relations with East Asia, but would also have much stronger persuasive power in this region.

In spite of the rapid development in recent decades, the scopes for EU- East Asia and EU-China economic exchange and cooperation are far from being exhausted. Financial and monetary cooperation has hardly started, for example. In meeting the global issues like climate change, aging society, sustainable development, there also needs their cooperation, including economic cooperation. Just as the Commission predicated in its *Towards a New Asia Strategy* in 1994, East Asia will prove to be vital if the EU is “to maintain the Union's leading role in the world economy”.

As to East Asia itself, the important thing is to try to build a kind of East Asian identity. In this respect, China and Japan, as the two largest economic entities in East Asia, have the responsibility to take the lead, and improve their current political relations is the first step. It does seem that the

break-through may have to come from economic cooperation. With the growing economic interdependence in this globalization age, it may be easier than before for countries to identify their common economic interests; and through working together for the advancement of their shared interests, countries will be able to build up mutual understanding and trust. The European experience has taught us that what nation states tried to get by wars and confrontations could be much, much better achieved through national reconciliation and economic cooperation and integration.

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