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ECONOMIC INTEGRATION IN THE PACIFIC REGION

by

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RÉSUMÉ

La rapide intégration économique de la région Pacifique — qui inclut les États-Unis, le Canada et le Mexique — est due d'abord aux flux de capitaux intra-régionaux. Les conditions particulières du secteur économique privé entre les cotes est et ouest et les zones litterales au nord et au sud de la région Pacifique favorisent d'importants échanges de biens, de services, de capitaux, de technologies et de personnes entre ces économies.

Dans l'économie mondiale on peut distinguer sept tendances susceptibles de renforcer ces échanges régionaux. Il s'agit : (1) du changement des relations entre les États-Unis et l'ex Union soviétique qui ont évolué du conflit vers la coopération ; (2) de l'effondrement du communisme dans la CEI et les pays de l'Europe de l'Est ; (3) du renversement du rôle-moteur des États-Unis ; (4) de la dominance bancaire du Japon sur la scène mondiale ; (5) de l'intégration économique de l'Europe; (6) de l'intégration économique de l'Amérique du Nord ; et, (7) du déclin du rôle du GATT. Néanmoins, une tendance régionale, en l'occurrence, la tension grandissante entre le Japon et les États-Unis, introduit une note d'incertitude dans le processus d'intégration régionale de la région Pacifique. Dans cette perspective, trois scénarios sont envisageables : (1) un blocage des politiques et, dans ce cas, les affaires poursuivent leur cours normal, (2), une co-ordination des politiques ; les États-Unis et le Japon dirigent alors conjointement l'ensemble des opérations sur les littoral du Bassin Pacifique, (3), les politiques deviennent conflictuelles ; les États-Unis et le Japon dirigent alors séparément les opérations dans cette région.

Ces sept tendances montrent que les pays en développement devront améliorer leurs systèmes et conditions d'échanges afin d'attirer les capitaux étrangers ; ils devront rendre leurs produits plus compétitifs afin de pouvoir les négocier sur un marché américain déjà saturé ; enfin, ils devront se préparer à d'intenses négociations bilatérales à la suite du déclin du rôle du GATT. Quel que soit le scénario qui prévaudra dans la région Pacifique, ces économies vont devenir de moins en moins dépendantes des pays extérieurs à la région. Il apparaît même que pour les pays en développement situés hors de la région, sauf pour ceux de l'Europe de l'Est, il sera de plus en plus difficile de capter l'intéret des dirigeants industriels, tant américains, européens que japonais.

SUMMARY

Economic integration in the Pacific region — which includes the United States, Canada and Mexico — is rapidly occurring, primarily as a result of intra-regional capital flows. Private-sector business opportunities between the west and east coasts and the northern and southern rims of the Pacific region are stimulating ever-larger flows of goods, services, capital, technology, and people among these economies.

Seven trends in the world economy are likely to strengthen these regional business relationships. They are: (1) the evolution of US-Soviet relations from conflict to co-operation, (2) the collapse of communism in the Soviet Union and eastern Europe, (3) the reversal of the "locomotive" role of the United States, (4) the ascendancy of Japan as the world's banker, (5) the economic integration of Europe, (6) the economic integration of North America, and (7) the declining relevance of the GATT. However, a regional trend, the growing friction between Japan and the United States, introduces uncertainty into the regional integration process in the Pacific. Alternative paths that process might take are sketched by three scenarios: (1) Policy Paralysis: Business as Usual, (2) Policy Co-ordination: The United States and Japan as Co-Conductors of a Pacific Rim Orchestra, and (3) Policy Conflict: The United States and Japan Conduct Separate Orchestras.

The seven global trends indicate that developing countries will need to make their business environments more attractive in order to obtain foreign capital; they will need to make their products more competitive in order to sell into a saturated US market; and they will need to prepare for more intense bilateral negotiations as the relevance of the GATT declines. Whichever scenario prevails in the Pacific region, these economies will become less dependent upon countries outside the region. It is likely to become even more difficult for developing countries outside the region, except for those in Eastern Europe, to attract the attention of American, European, and Japanese business leaders.

PREFACE

The Development Centre is carrying out a major research project on Globalisation and Regionalisation as part of its 1990-1992 Work Programme. The Project aims to provide a better understanding of the economic and political forces that are working for, and against, the formation of regional economic groupings in Europe, the Western Hemisphere and Pacific Asia, and how those forces interact with the forces (essentially microeconomic) that are driving globalisation. The purpose is to assess their implications for the strategies and policies of various categories of developing countries.

This Paper takes a broad view of the forces working for and against greater economic integration among the countries of the Pacific Rim, and concludes that the former are likely to prevail. Pointing up seven major phenomena of global importance — ranging from the collapse of communism and the possible "peace dividend", to the reversal of the postwar US role of economic "locomotive", to the declining relative importance of the GATT — the Paper usefully sketches alternative scenarios for the evolution of regionalisation both in Pacific Asia and in the Pacific Rim as a whole.

In providing a broad and forward looking perspective, as well as useful data on trade, investment and productivity trends, and in arguing that a continuation of today's "Policy Paralysis" scenario is unlikely as Pacific Rim institutions gradually increase their effectiveness in promoting growth and development in the region without harming the global multilateral trading system, the Paper — written by a US business scholar and member of the US National Committee for Pacific Economic Co-operation (PECC) — constitutes a useful contribution to the Centre's research programme on Globalisation and Regionalisation.

Louis Emmerij
President of the OECD Development Centre
May 1992

I. INTRODUCTION

The evolving Pacific Rim economy is one in which economic and social relations among its members are rapidly intensifying. Between 1970 and 1989, intra-regional exports as a share of total regional exports increased from 54 to 66 per cent among the fourteen member countries of the Pacific Economic Co-operation Conference (PECC) — comprising the ASEAN countries, Asian's Newly Industrialising Economies (NIEs), Australia, Canada, China, Japan, New Zealand and the United States[1].

In the 1980s, the share of US exports going to the "Western Pacific" countries (PECC minus Canada) increased substantially, from 22.7 per cent in 1980 to 29.3 per cent in 1989. At the same time, the share of Japan's exports to the "Western Pacific" (PECC minus Canada and the United States) went through two phases. It was stable at about 28 per cent in 1980-85 and then increased steadily after the Yen appreciation from 25.7 per cent in 1986 to 31.3 per cent in 1989. This same two-phase pattern is evident for the share of exports of all twelve members of the Western Pacific (PECC minus Canada and the United States). Intra-regional exports were stable at about 30 per cent in 1980-85, and then increased steadily from 29.6 per cent in 1986 to 34.9 per cent in 1989.

This intensification of trade relations throughout the PECC and in the Western Pacific sub-region is occurring as a result of greater flows of capital, technology, services, and people between the "west" and "east" coasts and the northern and southern rims of the Pacific region. The capital movements include loans and aid, as well as portfolio and direct investments. The movements of people include salesmen, workers, tourists, managers, students, and immigrants. All of these trends increase the interpersonal contact among the Pacific Rim nations in a variety of overlapping roles as competitors, customers, suppliers, partners, classmates, and neighbours.

This paper addresses a number of questions about whether or not this intensification of economic relations will continue to grow, and, if it does, will it continue to be in the context of an open, outward-oriented trading group? Will this occur as a result of a PECC-process of policy consultation and co-ordination led by the United States and Japan? Or will Pacific integration occur as a more preferential, inward-oriented economic bloc? If so, would non-Asian nations such as the United States and Canada be deliberately excluded from the group as has been suggested by Malaysia's Prime Minister Mahatir[2]? Or, will the predominance of Japanese capital in the Western Pacific lead to the *de facto* creation of an Asian bloc as envisioned by the Nomura Research Institute? Nomura's forecast is that by the year 2000, as incomes rise and regional integration gathers pace, a West Pacific Economic Region with a combined GNP of $6.34 trillion (at 1987 prices and exchange rates) will become comparable to the European Community with a projected GNP of $6.04 trillion and North America with a projected GNP of $7.17 trillion[3].

To an important extent, answers to these questions about Pacific regionalisation depend upon important ongoing changes in the world economy which are discussed in Section II. In Section III, the present patterns of Pacific economic integration are described in terms of economic trends, policies, and institutions that have stimulated this process. In Section IV, three possible scenarios of Pacific regionalisation are described.

II. THE CHANGING WORLD ECONOMY

A number of trends that gathered strength in the late 1980s will shape the international economic environment of the 1990s. Six of these, which will shape the context for regionalisation in the Pacific, are described below: (1) the evolution of US-Soviet relations from conflict to co-operation, (2) the collapse of communism in the Soviet Union and eastern Europe, (3) the reversal of the "locomotive" roleof the United States, (4) the ascendancy of Japan as the world's banker, (5) the economic integration of Europe, and (6) the economic integration of North America. All of these changes are likely to combine to strengthen economic integration in the Pacific region.

Two other important global issues which could affect the Pacific regionalisation process are the success or failure of the multilateral GATT negotiations and the growing friction between the United States and Japan[4]. It now seems quite unlikely that the GATT negotiators will be able to achieve the "ambitious" results hoped for from the Uruguay Round. This is partly due to the complexity and scale of the negotiations, partly due to the intractability of the agricultural subsidies issues, and partly due to the fact that the world's political leaders had more pressing issues to focus on during the critical 1990-92 closing phases of the GATT negotiations, i.e. the Gulf War and the dissolution of the Soviet Union. Nevertheless, some sort of compromise "victory" will probably be declared to conclude the Uruguay Round.

However, the relevance of the GATT is likely to decline as regional integration proceeds, as intra-firm trade continues to grow, and as trade among strategic alliance partners increases. This decline in the GATT will stimulate the codification and strengthening of regional rules for trade and investment. As this occurs, it will become even more important for the Pacific trading nations to organise themselves along the lines of an open regional trading system. A key requirement will be to develop new, non-GATT dispute settlement mechanisms that are fair, effective and timely. The Asia Pacific Economic Co-operation (APEC) process will create a secretariat to implement this process, with the decision to do so possibly being taken at the APEC meeting in Bangkok in September 1992.

If the growing friction between the United States and Japan cannot be managed, these strains will accelerate the declining relevance of the GATT. Such tension between the United States and Japan could also prevent the trans-Pacific regional co-operation that was discussed above in terms of APEC. However, given the importance to both the United States and Japan of having productive bilateral relations, and given the growing salience of economic issues in the midst of a US recession that is dragging on into an election year, it seems likely that US and Japanese business and government leaders will finally develop a credible plan to manage and improve the relationship. Increasingly, Korea, Taiwan and all other APEC members realise the necessity of preventing a rupture in US-Japan relations and, therefore, they will try to build coalitions to preserve and strengthen the evolving APEC process. However, since the evolution of the US-Japan relationship is uncertain, in this paper, alternative outcomes have been addressed in the form of alternative scenarios in Section IV.

Evolution of US-Soviet Relations from Conflict to Co-operation[5]

This trend will lead to increased competitiveness of the US manufacturing sector as defence cutbacks shift hundreds of thousands of talented people from the defense labour force to the civilian labour force. The Department of Defense (DOD) is scrapping most all weapons procurement plans and taking action to reduce the force structure substantially. DOD's revised plans for downsizing the Armed Forces by 1997 are now considered "ceilings" rather than "floors" for defense cutbacks.

The DOD "base force" plan is to reduce the Army from 18 to 12 active-duty divisions, reduce the Air Force from 24 to 15 active-duty air wings, and reduce the Navy from 14 to 12 aircraft carrier groups. The cumulative (1992-97) savings from the President's proposed FY'93 defense budget are estimated by DOD to be $64 billion[6]. In constant dollars, this FY'93 budget amounts to an average decline of 4 per cent per year from 1992-97. The DOD share of Federal outlays drops from 27 per cent in 1987 to 18 per cent in 1993 to 16 per cent in 1997. As a share of GNP, DOD expenditures drop from about 6 per cent in 1987 to 4.5 per cent in 1993 to 3.4 per cent in 1997.

In spite of the apparent precision of these estimates, the ultimate size and disposition of the "peace dividend" are unknown. However, in an atmosphere in which even conservative Republican Senators like John McCain are proposing a $120 billion cumulative reduction by 1997, it is quite likely that the DOD expenditures will be cut even further. Some of the peace dividend will be used for public investments, some for the reduction of taxes and government debt, and some for the reduction of government spending. On balance, the peace dividend will put downward pressure on the cost of capital and increase the skills and technology base of the commercial sector of the US economy. In turn, each of these factors will accelerate the ongoing trend of the reversal of the US trade deficit.

In addition to these economic impacts, the change in US-Soviet relations will reduce the primacy of military-security issues in the management of US foreign policy. As a result, the relative importance of US commercial interests and trade policy are increasing, as economic rivalry between the United States, Japan, and the EC becomes less constrained by the mutual security glue that has bound them together for the past 40 years. The ultimate symbol of this changing emphasis was the sight of American business leaders accompanying President Bush on his January 1992 trip to Asia. To remind US citizens and the world of this new importance that the United States now attaches to trade issues, President Bush, in his State of the Union speech, ranked trade as the most important issue in his long-term plan to make the United States the world's economic leader:

> "First, trade: We will work to break down the walls that stop world trade. We will work to open markets everywhere."

In the 1990s, the United States will also reduce its troop deployments in Japan, Korea, and the Philippines, as well as in Europe. This process of disengagement will enhance the security presence of Japan in the Western Pacific and of Germany in central Europe, at the same time that Japan's and Germany's economic and financial influence are substantially expanding.

Collapse of Communism in Eastern Europe and the Soviet Union

The collapse of communism and the rise of reform-minded movements throughout eastern Europe will lead to the integration of these nations into the world trading system. These nations will attract public and private-sector capital that will be used to "connect" their inexpensive labour forces with the world market.

They will become a new source of demand for consumer and capital goods and are likely, in the medium term, to become a competitive source of supply of many labour-intensive manufactured goods which are presently supplied by Western Pacific nations. It is virtually certain that these goods will receive "infant industry" protection from a politically responsive European Community.

As a result of the collapse of communist regimes and EC integration, the attention of European business and government leaders — as well as U.S. and Asian leaders — has become more Europe-focused. An increasingly Eurocentric attitude in politics and business will keep European academics, businessmen, and government policy makers closer to home in the future[7]. Consequently, Japan's regional influence in Asia is likely to increase (as is US regional influence in Latin America). In a futile attempt to counter this trend, in February 1990, Prime Minister Lee Kwan Yew of Singapore made an eloquent request to a 1000 business leaders attending the World Economic Forum in Davos, Switzerland:

> "Western Europe should not concentrate on Eastern Europe to the exclusion of Asia...Europe can find good partners amongst the NIEs and ASEAN in the unavoidable global competition with Japan, because they [NIEs and ASEAN] are keen on an economic order which is not dominated by Japan"[8].

An important strategic issue in terms of how open the new European Economic Space will be is whether or not a Franco-German-Russian economic co-operation pact can be designed that will intertwine French, German, and Russian economic and security interests in a way that will promote peace and stability in the ex-Soviet Union and eastern Europe. In other words, can the Franco-German rapprochement that created the EEC be repeated and thus result in a reunified Germany that is committed to economic development at both ends of Europe and an ex-Soviet Union that becomes economically integrated into the European community? If so, then the EC is likely to develop a long-term preferential trade and industrial strategy to promote development in Russia and eastern Europe. The Pacific region will have to become more cohesive in order to develop countervailing bargaining power on international economic issues.

The Reversal of the "Locomotive" Role of the United States

US demand for imports and the stagnation of US exports between 1981 and 1985 created huge trade deficits and a strong stimulus to the world's export-oriented economies. As Americans increased personal consumption and reduced personal savings (without any substantial change in business savings and investment rates), the financing needs of a deficit-ridden US government had to be met by foreign creditors[9]. The United States substantially changed the nature of its economic relations with the world. It joined the world's capital importing countries, running annual current account deficits of $7 billion, $44 billion, $104 billion, $113 billion, $133 billion, $144 billion, $127 billion, $110 billion, $92 billion, and $4 billion from 1982 to 1991 (in 1991, Gulf War receipts nearly eliminated the deficit).

This produced the anomalous situation of the world's richest nation's borrowing and attracting investment capital from poorer nations to such an extent that in ten years the United States transformed itself from a net $141 billion capital export position to a net $533 billion capital import position. Unfortunately, this inflow of foreign capital did not increase United States' investment rate as a share of GNP.

By 1986, the competitive effects of the dollar depreciation had started to work and merchandise exports from the United States began their phenomenal expansion from $227 billion to $413 billion in 1991. In part this was due to the steadily improving competitiveness of the US manufacturing sector, where unit labour costs declined from 1982 to 1990 by 3 1/2 per cent, as compared to a 2 1/2 per cent decline for Japan, a 17 per cent increase for Germany, and a 22 per cent increase for France; for Taiwan, Korea, Hong Kong and Singapore, unit labour costs rose in 1986-90 by 17 per cent, 48 per cent, 21 per cent, and 26 per cent, respectively[10]. (In terms of US dollars, unit labour costs in Japan increased by 67 per cent, in Germany by 76 per cent, and in France by 48 per cent; for Taiwan, Korea, Hong Kong, and Singapore, these costs rose in 1986-90 by 29 per cent, 60 per cent, 9 per cent, and 34 per cent, respectively.) Also, between 1987 and 1988,the shrinking of the US Federal deficit and a rising personal savings rate began to improve the United States' macroeconomic imbalance. The merchandise trade deficit declined from $160 billion in 1987, to $127 billion in 1988, $115 billion in 1989, $108 billion in 1990 and $72 billion in 1991. In inflation-adjusted terms, between 1987 and 1991, exports of US goods and services grew at an annual average rate of about 10 per cent while imports only rose half as fast.

The trade improvement of the past five years is likely to continue as a result of the following: the October 1990 budget agreement and the peace dividend will reduce the United States' savings-investment imbalance; the current and expected dollar exchange rate will cause goods made in the United States to continue to be very price competitive; manufacturing productivity growth is likely to continue to match or exceed wage growth; income growth in U.S. trading partners is likely to exceed U.S. income growth; U.S. firms will continue to become motivated to export, given slow growth in the U.S market and the international price competitiveness of their products; and the United States' trading partners will be under continuous pressure to open their markets as negotiators in the Commerce Department and the U.S. Trade Representative's office continue to acquire more influence in U.S. government inter-agency debates.

If this reversal of the United States trade deficit trend continues to occur as expected, then the Western Pacific economies will need to find new export markets, as well as increase the role for domestic demand in their economic growth patterns. Given the likelihood of an increasingly inward-oriented European Community — in order to support reforms in eastern Europe and the Soviet Union — the amount and shares of intra-Asian trade will have to increase. As part of this process, Japan will have to play a more substantial role as an "absorber" of Asian manufactured products.

Ascendancy of Japan as the World's Banker

International financial power has shifted from the United States to Japan, and to a lesser extent to Germany[11]. The new reality is that Japan has replaced the United States as the world's pre-eminent creditor nation, while at the same time the United States has become the world's most heavily indebted nation. The rapidity and expected longevity of this epochal change of affairs can be seen by comparing the trends of the net external asset positions of the United States and Japan, as well as of Germany (Table 1).

As a result of the continued growth of Japan's trade surpluses, its current account surplus is forecast by the OECD to average about $80 billion in 1992 and 1993. Japan's cumulative current account surplus was $550 billion by the end of 1991 — which is about four times as large as the United States peak international creditor position of $141 billion in 1981 — and is expected to exceed $700 billion by the end of 1993.

The issue of recycling Japan's "export dollars" will continue to dominate tomorrow's financial and political headlines, much as the recycling of "petro-dollars" did in the 1970s. Clearly, Japanese capital will dominate Pacific Rim and worldwide flows of foreign direct investment, loans, and official development assistance for years to come. Along with this financial dominance, the business and political clout of Japan will increase substantially.

German capital will remain closer to home. Because of Germany's political commitment to rebuild eastern Germany quickly, strongly to support reforms in eastern Europe and Russia, and to play a leading role in EC integration, German capital will be fully utilised within Europe in the 1990s. In fact, OECD Europe's current account balance has already shifted from a $19 billion surplus in 1988 to a $52 billion deficit in 1991, and it is projected by the OECD to have an average annual deficit of $44 billion in 1992 and 1993.

Economic Integration of Europe with Germany as the Hub

As the Single European Act is implemented and the European Monetary System is strengthened, the European Community will become a much more integrated economic and financial market. The most obvious consequences of further reducing Europe's internal barriers to the flow of goods, labour, and capital are (1) Europe will have more bargaining power, (2) Europe will become more efficient, and (3) income growth in Europe will accelerate. Also, huge internal aid and investment programmes will push mountains of capital from the rich north to the poor south of the EC, as well as to eastern Germany, eastern Europe and Russia. European industries are likely to concentrate more on their new pan-European "domestic" market than on overseas markets and the growth of European exports outside of Europe will slow, if not decline.

In effect, the Bundesbank sets monetary policy for the European Community, and increasingly it will do so for the nations of eastern Europe as well. A reunified Germany will be the driving force of a new European Economic Space with a population of over 500 million. According to Helmut Haussmann, the former Economics Minister of Germany, it will be German capital, German technology, and German institutions that will invigorate Europe so that it can compete for world leadership against Japan and its Asian partners[12].

Economic Integration of North America with the United States as a Hub

The US-Canada Free Trade Agreement, which was negotiated in 1989, is being implemented ahead of schedule. In 1990, the political momentum for creating a free trade zone throughout North America sharply accelerated. A contributing factor was that Mexico's President Salinas was unable to convince European industrialists to invest in the rapidly reforming economy of Mexico. In February 1990, he had led a high level team of Mexican industrialists and cabinet secretaries to the World Economic Forum in Switzerland and went home convinced that European business leaders were so pre-occupied with intra-European affairs that they had no time to pay attention to new opportunities in Mexico[13]. Going against Mexico's traditional fears of being dominated by the United States, the Salinas team actively pursued the Bush Administration to begin negotiations for a US-Mexico Free Trade Agreement.

The US-Mexico-Canada FTA negotiations are virtually completed and will soon be available for review by the US, Canadian, and Mexican legislatures. Given the high level of personal commitment that Presidents Bush and Salinas have given to these negotiations and the strong business support for the FTA on both sides of the border, it appears quite likely that a Free Trade Agreement will be ratified. However, this will probably be delayed until after the US elections in November 1992.

The North American Free Trade Agreement will lead to the creation of a large preferential trading bloc that will divert trade and manufacturing investment to Mexico. Many US-based firms will locate some production facilities in Mexico in order to supply the North American market less expensively. They might even re-locate some of their Asian facilities that serve as low-cost "export platforms" to the United States. In any case, they are unlikely to invest as much in new export platforms in Asia. Asian firms can also be expected to invest in manufacturing facilities in Mexico to service the US market from a "preferred" location. Mexican investors will also return flight capital to Mexico to take advantage of the guaranteed access to the US and Canadian markets, as well as to provide goods and services to what will become a rapidly growing domestic market.

Preliminary macroeconomic evidence of such investment flows to Mexico is provided by a Ministry of Finance report which estimates foreign investment inflows rising to $4.6 billion in 1990 and $14.5 billion in 1991, compared to an average of $3 billion in each of the prior two years[14].

III. PACIFIC ECONOMIC INTEGRATION

Growth Patterns

Economic growth in the Pacific region has been outstanding for the past 20 years and is expected to continue to be so during the next decade. A 1990 Rand Corporation study shows that Japan's projected growth rate for the 1990s is 50 per cent faster than the projected growth rates of the leading European economies; for the 1990s, the growth rates of the other Asian economies are projected to continue to be twice as fast as European growth rates (Table 2)[15]. In 1991, growth rates of the Asian NIEs and ASEAN-4 were projected to be about three times higher than that of OECD Europe[16].

Along with this rapid economic growth, integration of the Pacific Rim economy (as defined by the PECC) is substantially increasing. Three of the principal causes (as well as indicators) of this integration are intra-regional trade, intra-regional direct investment flows, and intra-regional tourist movements. By 1988, 66 per cent of PECC exports went to PECC customers. Furthermore, it is estimated that 80 per cent of the foreign direct investments being made in PECC countries came from PECC investors and 90 per cent of the tourists going to PECC destinations came from PECC countries[17].

Export Patterns

The Pacific export dependence of the United States, Japan, and a sub-group that can be named the Asian-9 (NIEs + ASEAN-4 + China) is already quite significant. In terms of regionalisation, the question is whether or not these dependencies will increase or decrease in the future. As of 1988, the United States sent 12 per cent of its exports to Japan and 15 per cent to the Asian-9; Japan sent 34 per cent of its exports to the United States and 27 per cent to the Asian-9; the Asian-9 sent 26 per cent of their exports to the United States, 15 per cent to Japan, and 27 per cent to each other.

As a result of the factors contributing to the trend towards reversal of the US trade deficit, it is likely that a larger share of US exports will go to Japan and the Asian-9, as their growth continues to outpace European growth and as the EC becomes more protectionist. It is also likely that a smaller share of the exports from Japan and the Asian-9 will go to the United States. Given the trade surpluses and conflicts that Japan has with the United States and the Asian-9, it is likely that Japan will reduce the share of its exports to one or both of these traditional markets and substantially increase its imports from them.

The Asian-9 will probably reduce the share of their exports to the United States (given the projected slowing of the US economy and the rising trade frictions) and increase the share of their exports to Japan and to each other. In fact, from 1980 to 1988, the growth rate of the Asian-9's exports to each other has been 14.6 per cent per year compared to "only" an 11.4 per cent annual growth rate of their total exports. In absolute terms, the increase of intra-Asian-9 exports from 1985 to 1991 was very substantial[18]: Hong Kong, from \$11 to \$33 billion; China, from \$10 to \$31 billion;

Taiwan, from $9 to $25 billion (1989); Singapore, from $7 to $22 billion; Malaysia, from $5 to $13 billion; Korea, from $3 to $10 billion; Thailand, from $2 to $5 billion; Indonesia from $3 to $6 billion. Presumably, a substantial part of the expansion of intra-Asian-9 trade is a result of cross-border, intra-firm movements of components in the Hong Kong-Guangdong region and in the Singapore-Johore-Batam region.

During the same 1985-1991 period, there has also been a substantial increase of Asian-9 exports to Japan: Hong Kong from $1 to $5 billion; China from $6 to $9 billion; Taiwan from $3 to $9 billion (1989); Singapore from $2 to $5 billion; Malaysia from $4 to $6 billion; Korea from $4 to $11 billion; Thailand from $1 to $5 billion; Indonesia from $9 to $12 billion. Japan's export expansion to the Asian-9 dominates the region, with Japanese exports rising from $43 billion in 1985 to $95 billion in 1991.

Foreign Investment Patterns

Intra-Asian investment, trade and aid are growing substantially and will continue to do so. Some of the principal driving forces for this change are: (1) the appreciation of the Yen and the currencies of the NIEs and the depreciation of the US dollar, (2) the democratisation, rising wage rates, and stricter pollution controls in Korea and Taiwan, (3) the 1989 elimination of the Generalised System of Preference (GSP) status of the NIEs by the United States, (4) the liberalisation of trade and investment regimes throughout the PECC[19], and (5) the political changes which have led to the re-opening of regional trade relations with China.

These five forces have substantially changed national competitiveness, national asset values and the international purchasing power of the PECC countries. The exchange-rate and wage changes that occurred caused manufacturing unit labour costs in US dollar terms to rise significantly in Japan (67 per cent) and in the NIEs, especially Korea (60 per cent), Singapore (34 per cent) and Taiwan (29 per cent), as noted earlier. In combination, these forces are propelling waves of transnational direct investments and loans that are reshaping the Pacific Rim's industrial structure and trade patterns, as well creating new webs of economic and political interdependencies. In order to reduce production costs, Japanese, Taiwanese, Korean, Hong Kong, and Singaporean firms are investing heavily in manufacturing facilities in Thailand, Malaysia, Indonesia and China[20]. Although US firms continue to invest in these countries also, the post-1985 investment flows are dominated by capital from Japan and the NIEs. The export-oriented nature of these post-1985 investments is demonstrated by the rapidly growing share of manufactured products in total exports. For example, between 1985 and 1989, the manufactured products export share increased from about 10 to 30 per cent in Indonesia, from about 30 to 45 per cent in Malaysia, and from about 40 to 55 per cent in Thailand[21]. To a certain extent the ASEAN countries and China are rapidly becoming off-shore production centres for Japan and the NIEs.

The foreign investment boom in ASEAN since 1986 is obvious to all observers. However, it is difficult to quantify and compare the investment levels among countries because the recipient countries use different classifications for computing the value of investments and because actual investment data are difficult to obtain.

Nevertheless, a review of foreign direct investment **approval** data (which is compiled by the recipient countries) provides an indication of the rapid overall growth and major sources of foreign investment in ASEAN. (FDI approvals will almost always exceed actual investment, but can be utilised as a leading indicator.) These estimates, displayed in Table 3, show that foreign investment approvals between 1986 and 1990 increased by 80 per cent for Indonesia, 122 per cent for Thailand, 87 per cent for the Philippines, 107 per cent for Malaysia, and 26 per cent for Singapore. These estimates also clearly show that Japanese investment plans dominate the totals, with Taiwanese, US and Hong Kong investor's also being extremely important.

Pacific Rim Institutions

These regionalisation trends are being facilitated by three different, but overlapping institutions in the Pacific Rim. The Pacific Basin Economic Council (PBEC), which was founded in 1967, brings senior Pacific Rim business leaders together for annual discussions. The Pacific Economic Co-operation Conference (PECC), founded in 1980, brings together an elite group of academics, businessmen, and government policy makers from 18 Pacific Rim countries (Chile, Hong Kong, Mexico, Peru, and Russia became members in 1991.) The purpose of the PECC is to anticipate economic developments, explore new opportunities for regional co-operation, and to act in concert to promote a more open global trading system. The PECC also advises and counsels its member governments as a result of the ongoing research undertaken by nine task forces on subjects ranging from agriculture to telecommunications. The Asia-Pacific Economic Co-operation (APEC) process, which was founded in 1989, has created a regional inter-governmental forum for policy consultations among APEC trade, investment and foreign ministers. (In 1991 APEC was expanded from its original membership of Australia, Brunei, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and the United States, to include China, Hong Kong and Taiwan.) APEC's work programme and agenda are supported by the research of the PECC Task Forces[22].

Each of these three organisations has been creating an overlapping network of business, government, and academic leaders who are continuously becoming better informed about Pacific Rim business, economic, social, and technical trends. The participants are also developing bonds of friendship and professional respect that are becoming ever-more important in the development of Pacific Rim business and governmental strategies, as well as in policy negotiations. The principal objectives of all three organisations are to promote economic growth and development in the Pacific Rim, and to do so in ways that enhance regional integration without harming the global multilateral trading system.

These Pacific Rim institutions have evolved as a result of ongoing economic integration. They have not been imposed on the region as a result of political decisions. The benefits to be gained and problems to be avoided from Pacific Rim co-operation are obvious to all PBEC, PECC, and APEC participants.

The Role of the United States

In general terms, the critical role of the United States in promoting growth, development, and integration of the Pacific region can be summarised in terms of the following: providing markets for products made in Asia, providing capital to Asia, providing technology to Asia, providing training for Asian students, promoting the multilateral open trading system, providing aid, and providing a security umbrella, as well as massive infusions of war-related demand during the Korea and Vietnam conflicts. Although each of these U.S. stimuli to Pacific Rim growth could be (and has been) discussed at great length, for the purpose of this paper, it is sufficient to mention the importance of the US market and US investments as stimuli to Pacific Rim growth.

In the 1980s, the US market absorbed 30 to 40 per cent of the ever-rising export production of almost all the nations of the Western Pacific. This, of course, created jobs, business know-how, technology transfer, and massive foreign exchange earnings in Asia. US direct investment, aid, technical assistance programmes, and university education set the stage for Asia's fantastic export growth of the 1980s. These exports to the United States have provided high-quality industrial and consumer products and have forced US firms to become more competitive. At the same time, these exports have eliminated many US manufacturing jobs, led to an overblown US trade deficit and have sown the seeds for serious commercial and diplomatic confrontations between the United States and Asian countries. However, since 1988, the trade imbalances have been shrinking as Asia's markets have become important sources of demand for US products, ranging from agriculture to aerospace (Table 4). For example, US exports to Japan have grown about 70 per cent from 1987 to 1991, from $28 billion to $48 billion. In these years, Japan's demand for US products grew at more than 20 per cent per annum, while US demand for Japanese goods grew at only 5 per cent. The pattern of the United States export surge and import slowdown is similar with other Asian nations, except with China.

Asian capital flows to the United States have been an extremely important source of funds for the US Treasury, as well as for stock, bond, and property markets across the country, and for financing new factories and high technology entrepreneurs. US capital flows to Asia have been extremely beneficial in terms of creating jobs, transferring technology, providing access to the US market and generating export revenues for Asian economies. These investments have also provided low-cost, high-quality production bases for US firms. In the 1990s, the relative importance of US investments in Asia will continue declining as a result of the growth of intra-Asia capital exports from Japan, Taiwan, Korea, Hong Kong and Singapore. By 1990, the cumulative total of investments by US firms had reached $14.9 billion in the NIEs, $8.4 billion in the ASEAN-4, and $21 billion in Japan. Investments by US firms in 1990 were $2.8 billion in the NIEs (compared to $3.4 billion by Japanese firms) and $0.6 billion in the ASEAN-4 (compared to $3.2 billion by Japanese firms). (Table 5)[23]. These investments provided jobs, promoted technology transfer, helped earn foreign exchange, and provided global distribution networks.

Japan's Role

Prior to the Yen appreciation, Japan's role in integrating the Pacific-Asian region was primarily in terms of purchasing raw materials, investing in import substitution industries, and providing foreign aid. Since 1985, Japan's direct investment in the region, its imports of manufactured products, and its foreign aid disbursements have been expanding rapidly. For example, the investment flow (see Table 6) has increased from $1.4 billion in 1985 to a peak of $7.8 billion in 1989 and continued to grow by another $6.6 billion in 1990, resulting in a cumulative total in the Asian-9 of $46.9 billion (plus investment in China in 1990)[24]. This has led to the transfer of technology and management practices, as well as created jobs throughout the region. Japan's massive foreign aid and portfolio investments are financing a large portion of Asia's capital requirements, and Japanese direct investments are integrating the Asian economies into Japan's production systems. This surge of Japanese direct investment, accompanied by the anticipated increases in Japanese loan and foreign aid capital, will contribute to the economic and financial integration of Asia with Japan as the hub of the regional economy[25].

Although ASEAN leaders are concerned about the prospect of increased Japanese influence, they are resigned to their lack of other alternatives. Nothing much is likely to come of their efforts to increase intra-ASEAN economic co-operation without capital, technology and guidance from Japan. However, unless this *de facto* regional integration is thoughtfully managed, many observers worry that it will unduly reduce the self-reliance and independence of the social-economic systems of the other Asian nations. As the chairman of a Japanese international management research institute notes:

> "Many of these manufacturing operations are joint ventures between Japanese and local corporations, which means that industrial developments in Asian countries have been substantially influenced by the international business strategies of Japanese companies. In many respects, therefore, Asian countries have had to adjust their policies to the (Japanese) business strategies taking place in their countries."[26]

Role of the Asian NIEs

Since 1987, Taiwan, Korea, Hong Kong, and Singapore have all become important suppliers of direct investments in the Pacific-Asian region. Capital exports from these countries are another powerful force for increasing the economic integration of the Pacific Rim economies and they provide some counterbalance to the flood of Japanese investments. The NIEs' investments also transfer technology and management practices, create jobs, and connect the ASEAN countries to a pre-established global distribution network.

Estimates of the cumulative current account balances of the NIEs, which provide the "ammunition" for their capital exports, are provided in Table 7. It can be anticipated that the importance of the NIE's direct foreign investments will continue to expand.

Two specific regional growth zones are being stimulated by the NIEs. First, is the Hong Kong-China-Taiwan triangle. The limitless labour resources of southern China are being plugged into the world economy by direct investments from Hong Kong and Taiwan in Guangdong, Fujian, and Shanghai. It has been estimated that as many as two and one-half million people in Guangdong are working for firms from Hong Kong. Two-way Taiwan-China trade in 1990 was estimated to be $4 billion and the direct investments made by Taiwan in China between 1987 and 1990 may total $1.7 billion[27].

A second regional growth triangle is being created between Singapore, Batam Island, and Johore. Singaporean capital is seeking inexpensive land and labour, and the governments of Indonesia and Malaysia are welcoming foreign investment for exported-oriented projects.

IV. THREE SCENARIOS FOR PACIFIC REGIONALISATION

As described earlier, the Pacific-Asian economies are high-growth and exported-oriented and increasingly trading with each other. Although their trade growth has substantially spurred their economic growth, their trade dependence also presents potential vulnerabilities. The Asian-9 are heavily dependent on markets in the United States, Japan, and the European Community; Japan is heavily dependent on markets in the United States and the EC; the United States is quite dependent on markets in the EC and somewhat so on markets in Japan. In 1988, the Asian-9 sent 26 per cent of their exports to the United States, 15 per cent to Japan, and 14 per cent to the EC. They also sent 27 per cent to themselves, some portion of which was sent on to the United States, Japan, and the EC. Japan sent 34 per cent of its exports to the United States and 18 per cent to the EC; the United States sent 24 per cent of its exports to the EC and 12 per cent to Japan.

The economic strength and openness of OECD markets is vital to the economic strategies of the Pacific Rim countries. A prolonged period of slow economic growth in OECD nations (which could possibly result from the correction of financial excesses of the late 1980s in the United States and Japan, as well as from unanticipated difficulties in re-integrating the former Soviet bloc economies into the European economic structure), a substantial increase in protectionism in the EC or the United States, unmanageable trade conflicts between the United States and Japan, or a collapse of the multilateral GATT-system would force changes in economic strategies throughout the region.

Thus, even though economic integration has occurred rapidly in the PECC during the 1980s, one should not be overly confident that these patterns will continue in the 1990s. The speed and nature of the economic and social integration in the Pacific region in the 1990s will depend on the effects of ongoing changes in the global political-economic environment. To explore the types of Pacific integration that may occur in the 1990s, three scenarios which attempt to frame the possible situations of regionalisation are briefly described below. Each of them is a product of different outcomes of the major factors in the changing global economy discussed in Section II.

Scenario 1: Policy Paralysis: Business as Usual

The ongoing patterns of open economic integration in the Pacific region continue in the 1990s. Intra-PECC trade and investment shares continue to grow even though no formal trade or investment preferences are given to any actor. However, in fact, Japan as the dominant investor and donor in the Asian-9, does have access to insider information on government policy initiatives. Furthermore, Japanese firms often shape or influence government policies to make them compatible with their business strategies[28]. The "weight" of Japanese capital allows Japanese firms to obtain *de facto* preferential treatment in terms of such things as quasi-monopoly status for investments and obtaining government procurement contracts.

The Asian-9 continue to have bilateral deficits with Japan which are financed by their trade surpluses with the United States. This triangular trade pattern continues because the United States is unable to regain its competitiveness, Japan continues to develop superior technologies and remains as a major supplier of capital goods, technology, and management practices, the NIEs continue to follow export-led development strategies, and Japan does not replace the United States as the major absorber of the trade surpluses of the NIEs[25].

In this scenario, Japan continues to run a substantial bilateral trade surplus with the United States and a current account surplus with the world of $60 to $80 billion per year. Many Japanese analysts argue that such a surplus is necessary in order for Japan to supply the necessary foreign aid and investments to a capital-hungry world. Japan's influence in Asia continues to grow and it becomes the "conductor" of the Pacific regionalisation process and orchestrates national policy and business strategy of the other Pacific nations (including the United States). In this scenario, Japanese firms engage in ever larger amounts of intra-firm trade between their subsidiaries in the region, as well as exporting directly from these subsidiaries.

The improvements in the US trade and current accounts stall at deficits of about $50 to $60 billion per year. By the year 2000, the net foreign debt of the United States approaches $1.2 trillion. This means that the United States would need to continue to modify its monetary, fiscal, and trade policies in order to make the country attractive for foreign investors. Nevertheless, US leaders continue to use the PECC and APEC policy forums to try to convince other Pacific members about the benefits of the US model of free trade.

In order for this "Policy Paralysis" scenario to occur, almost all of the global economic changes described in Section II would have to be turned upside down. That is, one would have to assume that US foreign policy does not become more commercially oriented; that the EC does not try to protect new east European firms; that the United States does not become competitive enough to achieve trade surplus by the mid-1990s; that the US-Mexico FTA negotiations fail; and the GATT negotiations are revived.

This scenario is unstable. It implies perpetual conflict between the United States and its Asian trade partners, as well as the unlikely reversal of the six global economic trends discussed in Section II. Such conditions would probably trigger a substantial US retreat from its commitment to an open multilateral trading system. It would slow the globalisation of the world economy and lead to excess export capacity in most of the Asian-9.

Scenario 2: Policy Co-ordination: The United States and Japan as Co-Conductors of a Pacific Rim Orchestra

The United States and Japan actually restructure their economies in keeping with the themes of the Structural Impediments Initiative (SII) agreements of 1990. After recovering from the 1990/91 recession, the United States follows the fiscal path agreed to in its October 1990 budget accord, consumption growth stays slow, and the economy is pulled along by export-led growth. Japan follows a path of domestic demand-led growth and continues to open its economy to imports. The US-Japan bilateral trade deficit is eliminated by the mid-1990s and Japan becomes a major absorber of imports from the Asian-9.

With the United States and Japan reaching agreement that "harmony requires balance", it is relatively easy to strengthen the PECC and APEC processes from ones of *ad hoc* consultation to a regular exchange of views, co-ordination of policies, and adjudication of disputes. The NIEs also accelerate their policies of domestic demand-led growth and liberalisation of their trade regimes. The PECC and APEC processes of policy analysis and policy co-ordination, and the balancing of US-Japan interests within the context of a regional framework, are important factors in achieving these outcomes.

No formal preferential privileges are given to PECC members, other than what was involved in the US-Mexico-Canada Free Trade Agreement. However, due to the enhanced consultation and policy co-ordination processes developed by the PECC and APEC, intra-PECC trade and investment shares grow rapidly and economic and social integration of the region is accelerated[30]. Also, APEC uses its bargaining power to countervail potential EC tendencies to develop overly restrictive preferential policies. As a consequence, a relatively open worldwide trading system is maintained.

The stimuli for this "Policy Co-ordination" scenario consist of the following factors. First, the United States becomes serious about eliminating its twin deficits. After taking the politically painful actions to reduce its federal deficit, the United States needs to stimulate growth by promoting exports. Second, with the reduction of security concerns in the aftermath of communism's collapse in Europe, Americans realise that economic rivalries will dominate their relations with the EC and Japan. This realisation helps the United States do two things: (1) take micro and macroeconomic measures to promote its long-term competitiveness, and (2) seriously negotiate trade issues with the objective being to improve commercial results, rather than to improve the processes of the multilateral trade system. These new perspectives cause the United States to: (1) develop a set of "industrial" policies that make the nation more producer-oriented and less consumer-oriented, and (2) make credible threats to limit the access of Japan and the NIEs to the US market, unless they stimulate domestic growth and open their economies. The specter of a protectionist US-Mexico FTA and a potentially more protectionist EC, motivate Japan and the NIEs to respond in a way to strengthen a more open and dynamic Pacific region.

Scenario 3: Policy Conflict: The United States and Japan Conduct Separate Orchestras

A tri-polar world of relatively protectionist trading blocs in Europe, North America, and Pacific Asia emerge. Slow growth in the United States, frustration at the failure to shrink the budget deficit, resentment over Japan's reluctance to balance its trade account, the failure of the GATT negotiations, and the emergence of a more protectionist EC combine to motivate the United States to follow a "hardball" strategy in its trade and economic policy negotiations with the EC, Japan, and the NIEs.

The "unreasonable" US negotiation posture, rising nationalism in Japan, and the "revealed superiority" of Japan's model of managed economic and trade policies, encourages Japan to develop the Pacific-Asian Economic Region. Building upon the substantial foundation of Japanese trade, investment, and aid relations throughout Asia, more foreign aid funds are channelled to the Asian-9. This is done in order to accelerate the infrastructure development needed to support the continued expansion of Japanese private sector investments. Japanese subsidiaries in the Asian-9 increase their exports to Japan, but are limited in their ability to substantially expand their exports to the EC and the United States, as a result of the new preferential access given by the EC to production sourced in eastern Europe and given by the United States to production sourced in Mexico.

Japan's financial flows, its supply of capital goods, technology, and management expertise, and its ability to bargain for access to the North American and EC markets, are critical factors that compel the Asian-9 to subsume some of their latent fears and distrust of Japan's leadership. Political and business leaders in the Asian-9 came to reluctantly accept the idea that preferential relations with Japan were necessary in order for their nations to prosper in the more protectionist world of the 1990s.

Since Japan no longer needs to follow US security policies in Asia, it steps up its commercial relations with China, North Korea and Vietnam. To some extent, these nations will compete with Japan's other Asian-9 partners for capital and markets. However, the integration of these nations into the Western Pacific Structure also creates new markets and new destinations for low cost foreign investments for other members.

Inter-regional trade and investment still continues to grow, but at a slower pace than in the 1980s. The US, German, and Japanese regional "conductors" focus most of their new initiatives and capital on developing "their" regions. Whether or not these regional groups becoming "stumbling blocs" or "building blocs" for a more open world trading systems depends, of course, on how discriminatory and how acrimonious relations between the groups become. Theoretically, regional integration processes that lower internal barriers are consistent with a progressively liberalised world trading system. The outcome will depend on the vision, courage and trust of business and government leaders.

V. CONCLUSION

This paper asserts that the ongoing economic integration in the Pacific Rim will continue in the years ahead. It identifies six changing trends in the world economy that will shape the speed and nature of this integration process. Although three scenarios were described — Policy Paralysis, Policy Co-ordination, and Policy Conflict — only the last two seem plausible. The Policy Paralysis scenario appears inconsistent with the direction of change of the six global trends. It was included, however, because it happens to be the scenaric that seems to reflect today's conventional wisdom. Of the remaining two scenarios, Policy Co-ordination and Policy Conflict, which is more likely?

The answer, of course, depends on the policy actions taken by key actors over the next few years. The growing phenomena of creating strategic business alliances between US and Japanese firms, between US and Korean firms, and between US and Taiwanese firms, should help promote the Policy Co-ordination Scenario, as should the trend towards the institutionalisation of governmental policy co-ordination that is rapidly evolving in the APEC process.

NOTES

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Table 1

NET INTERNATIONAL INVESTMENT POSITION OF THE UNITED STATES, JAPAN AND GERMANY

($ billion)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
United States*	+164	+64	-74	-135	-306	-440	-412	-416	-472	-533
Japan**	+88	+138	+223	+310	+390	+447	+482	+552	+634	+714
Germany**	+28	+42	+78	+123	+171	+226	+274	+253	+239	+227

Notes: * Data through 1990 are computed from the 1992 *Economic Report of the President*, p. 411; the 1991-93 estimates are computed from current account forecasts in the OECD *Economic Outlook*, December 1991, p. 67. This data reflects the new practice of using replacement costs of direct investments and valuation of the US gold stock at market value (see 1992 *E.R.P.*, pp. 205-207).

** Japan's and Germany's cumulative current account balances (from 1970) are used as a proxy for net external assets. The source of the historical data is IMF, *World Economic Outlook* (various issues). The 1991-93 estimates are computed from current account forecasts in the OECD *Economic Outlook*, December 1991, pp. 72 & 77.

Table 2

GNP GROWTH RATES 1970-2000
(per cent per year)

AREA	1970-80	1980-90*	1990-2000
United States	2.8	2.8	2.6
Japan	4.7	3.9	3.0
Asian NIEs & ASEAN-4	7.9	6.2	5.3
China	5.5	9.1	4.6
West Germany	2.7	1.8	2.1
France	3.6	1.7	2.8

Source: Adapted from Yeh, Sze, and Levin, "The Changing Asian Economic Environment and US-Japan Trade Relations", Santa Monica: Rand Corporation, R-3986-CUSCJR, September 1990, p. 7. The 1980-1990 growth rates are based on historical data from 1980-88 and projections for 1989 & 1990.

Table 3

TRENDS OF FOREIGN INVESTMENT APPROVALS IN ASEAN COUNTRIES BY MAJOR INVESTING COUNTRIES: 1986-90

($ million and [%])

Recipient Investor	Thailand	Indonesia	Malaysia	Singapore	Philippines
Japan	10 102(33)	4 117(20)	1 379(29)	1 524(36)	630(26)
Taiwan	2 819(9)	1 712(8)	1 439(30)	NA	422(17)
United States	2 526(8)	1 399(7)	243(5)	1 627(38)	402(16)
Hong Kong	1 923(6)	1 776(9)	163(3)	NA	403(16)
Singapore	1 346(4)	778(4)	372(8)	-	41(2)
Korea	563(2)	1 433(7)	100(2)	NA	41(2)
NIEs Sub-total	6 651(22)	5 699(28)	2 075(44)	NA	907(37)
Total	30 903(100)	20 187(100)	4 749(100)	4 261(100)	2 462(100)

Source: Adapted from Junko Sekiguchi, "Transformation of the ASEAN Manufacturing Industry and Its Outlook", *RIM*, Vol IV, 1991, Tokyo: Mitsui Taiyo Kobe Research Institute p. 5. (Original investment approval statistics obtained from each recipient country.)

Table 4

PACIFIC RIM TRADE DATA
($ million — merchandise trade)

Country		Exports (total)	Imports (total)	Exports to US	Imports from US
China	1988	48 000	54 000	8 500	5 000
	1989	52 500	59 100	12 000	5 800
	1990	62 300	53 200	15 200	4 800
	1991			17 600	6 000
Hong Kong	1988	63 200	63 900	10 200	5 700
	1989	73 100	72 200	9 800	6 200
	1990	81 000	80 100	9 600	6 800
	1991			8 900	8 100
Taiwan	1988	60 600	46 800	24 700	12 100
	1989	66 200	52 200	24 000	11 300
	1990	67 200	54 700	22 700	11 100
	1991			22 500	12 600
Korea	1988	60 700	51 800	20 100	11 200
	1989	62 400	61 500	19 700	13 500
	1990			18 400	14 000
	1991			16 800	14 800
Japan	1988	264 900	187 300	89 500	37 700
	1989	275 400	211 100	93 600	44 500
	1990	286 900	234 800	89 700	48 000
	1991			90 200	47 700

Source: US Department of Commerce, *Business Statistics: 1961-88* and *Survey of Current Business*, (various issues).

Table 4 (continued)

PACIFIC RIM TRADE DATA
($ million — merchandise trade)

Country		Exports	Imports	Exports to US	Imports from US
ASEAN	1988	102 600	102 600	21 700	15 150
	1989	121 500	125 900	25 850	18 400
	1990				
Indonesia	1988	19 800	14 300	3 200	1 100
	1989	23 800	17 400	3 500	1 300
	1990	25 900	20 000	3 500	2 000
Malaysia	1988	20 400	16 000	3 500	2 800
	1989	25 100	22 600	4 700	3 800
	1990				
Philippines	1988	7 100	8 200	2 500	1 700
	1989	7 800	10 400	2 900	1 900
	1990	8 700	12 000	3 400	2 300
Singapore	1988	39 300	43 800	8 000	5 700
	1989	44 700	49 700	8 900	7 400
	1990			9 800	8 000
	1991			9 600	8 800
Thailand	1988	16 000	20 300	3 200	2 750
	1989	20 100	25 800	4 350	2 900
	1990	23 000	32 000	5 100	3 600

Source: US & Foreign Commercial Service, US Department of Commerce, "Country Marketing Plans - 1991" and *Survey of Current Business*, December 1991, pp. 68-69.

Table 5

US DIRECT INVESTMENT IN ASIA

($ million — annual flow historical cost basis)

Country	1986	1987	1988	1989	1990	Cumulative Total
South Korea	39	396	323	354	241	2 096
Hong Kong	617	3 772	851	708	589	6 537
Taiwan	119	503	249	300	352	2 273
Singapore	382	128	73	7	1 653	3 971
Thailand	4	196	-142	139	244	1 515
Indonesia	-1 258	-147	-149	849	57	3 827
Malaysia	-119	-69	183	39	251	1 425
Philippines	-267	97	117	144	8	1 665
China	-144	40	100	63		
Asian-9	-93	1 621				
Japan	2 237	4 212	2 325	479	2 506	20 994
WORLD	29 550	54 507	21 586	34 198	51 403	421 494

Source: US Department of Commerce, *Survey of Current Business*, August 1987, 1988, 1989, & 1990, as reported in Ramstetter and James, "Inward and Outward Direct Foreign Investment Among the United States and Pacific Basin Economies" (draft), presented at PECC Structural Issues Conference, Osaka, September 4, 1991 and *Survey of Current Business*, August 1991, pp. 86-88.

Table 6

JAPANESE DIRECT INVESTMENT IN ASIA
($ million — annual flow, notification basis)

Country	1984	1985	1986	1987	1988	1989	1990	Cumulative Total	
South Korea	$107	$134	$436	$647	$483	$606	$250	$4 104	
Hong Kong	412	131	502	1 072	1 662	1 898	1 800	9 866	
Taiwan	66	114	291	367	372	494	450	2 735	
Singapore	225	339	302	494	747	1 902	850	6 565	
Thailand	119	48	124	250	859	1 276	1 150	4 418	
Indonesia	374	408	250	545	586	631	1 100	11 535	
Malaysia	142	79	158	163	387	673	750	3 257	
Philippines	46	61	21	72	134	202	200	1 522	
China	114	100	226	1 226	296	438	na	2 912	
Asian-9	1 605	1 414	2 310	4 836	5 526	8 200	na	46 914	(w/o China'90)
US	3 359	5 395	10 165	14 704	21 701	32 540	27 200	131 600	
Europe	1 937	1 930	3 469	6 576	9 116	14 808	na	44 972	(w/o'90)
Latin America			4 700	4 800	6 400	5 200	3 600	40 500	
WORLD		12 000	22 300	33 400	47 000	67 500	56 800	310 800	

Source: Ministry of Finance, *Okurasho Kokusai Kinyukoku Nenpo*, 14th edition, 1990, pp. 443-444, as reported by Edward Lincoln, "Japan's Rapidly Emerging Strategy Toward Asia", Paris: OECD Development Centre (Mimeo), October, 1992, Table 1; Japan Economic Institute, No. 31A & No. 39A; Mitsuru Taniuchi and Masatoshi Inouchi, "Foreign Direct Investment in the Asia Pacific Region", (p. 19), a paper presented at the PECC Structural Outlook Conference, Osaka, September 4, 1991

Table 7

CUMULATIVE CURRENT ACCOUNT BALANCES OF ASIAN NIES
($ billion)

	1986	1987	1988	1989	1990	1991	1992	1993
Taiwan (1972-)	+46	+64	+74	+85	+96	+107	+117	+125
Korea (1972-)	-23	-14	0	+5	+2.9	-5.6	-14.5	-18
1986-93	+4.5	+15	+29	+35	+30.4	+21.9	+15.9	+12.4
Hong Kong (1987-)		+2.5	+5.3	+10.6	+14.4	+15.9	+16.9	+17.9
Singapore (1987-)		+0.5	+1.2	+3.5	+5.9	+6.9	+9.9	+13.9

Source: The historical data for Taiwan are from Council for Economic Planning and Development, Taiwan *Statistical Yearbook 1988* and for Korea are from Bank of Korea, *Economic Statistics Yearbook 1987*. Estimates of subsequent years and estimates for Hong Kong and Singapore are computed from forecasts in OECD, *Economic Outlook*, December 1991, p. 58 (and earlier issues).