

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: The United States in the World Economy

Volume Author/Editor: Martin Feldstein, editor

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-24077-0

Volume URL: <http://www.nber.org/books/feld88-1>

Publication Date: 1988

Chapter Title: U.S. and Foreign Competition in the Developing Countries of the Asian Pacific Rim

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Chapter URL: <http://www.nber.org/chapters/c6217>

Chapter pages in book: (p. 79 - 160)

2 U.S. and Foreign Competition in the Developing Countries of the Asian Pacific Rim

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1. *Robert E. Baldwin*

2.1 Introduction

The ability of the major developing countries of the Asian Pacific rim (APR)—Hong Kong, the Republic of Korea (henceforth referred to as Korea), the Republic of China (henceforth referred to as Taiwan), the Philippines, Malaysia, Singapore, Thailand, Indonesia, and the Peoples' Republic of China (henceforth referred to as China)—to compete in the markets of the United States is well known and frequently cited by many domestic industries as a matter for national concern. Much less is known about the competitive performance and potential of American industries in the markets of the major developing countries of the APR, and interest in this matter is only beginning to develop;¹ it is the focus of this paper.

Section 2.2 provides an economic overview of the APR by comparing the main economic characteristics of the countries in the region and those of the region as a whole with other major groupings of countries. Since the prospects for exporting goods and services to the countries of the region depend on the policies these countries follow in such matters as promoting economic growth and the opening of domestic markets, section 2.3 briefly describes the economic policies pursued by each APR country in the recent past. This section also analyzes the success of major trading partners in penetrating the market for imports

in each country and the success of each country in exporting to major foreign markets. Finally, the trade and development policies likely to be followed in the future in each country are briefly discussed.

Section 2.4 analyzes the competitive performance of the United States and its major competitors in the markets for imports in three groups of APR countries, namely, the advanced developing countries (ADCs) of the region—Hong Kong, Korea, Taiwan, and Singapore; the resource-rich countries (RRCs) of the region—the Philippines, Malaysia, Thailand, and Indonesia; and China. It also examines changes since the early 1960s in the shares of the import markets in these APR country groups captured by the United States, Canada, Japan, the European Community, Australia and New Zealand, and other countries within the region, together with changes in the commodity composition of exports to the APR groups from these countries and country-groups. A technique for revealing the sources of a country's comparative advantage is used to determine the relative factor-price advantages and disadvantages the United States has in its trade with the countries of the region.

Section 2.5 briefly looks at the performance of the three APR country-groups in exporting to the United States and other major foreign markets and examines changes since the early 1960s in the share of their exports absorbed by the United States and other countries and shifts in the commodity composition of their exports.

Because trade and investment are closely linked, it is necessary to take foreign investment into account in evaluating U.S. competitive prospects in the region. Section 2.6 examines the volume and country distribution of direct foreign investment in the region by the United States and its main competitor in the area, Japan. Changes in the relative importance of U.S. direct investment in different sectors in the APR countries are also studied. The final section summarizes the main conclusions of the paper.

2.2 An Overview of Economic Characteristics and Performance

2.2.1 The Developing Countries of APR Compared to Other Regions

The tremendous market potential in the developing countries of the Asian Pacific rim lies simply in their being not only the most populous but the fastest-growing region of the world. The population of the nine countries totals 1.33 billion, whereas that of the next most populous region, South Asia, amounts to 0.87 billion. Gross national product (GNP) per capital in the nine countries grew at a remarkable average rate of 5.75 percent between 1965 and 1984. In contrast, GNP per capital

in the industrial market-economy countries increased at an average rate of only 2.5 percent during this period and at average rates of 1.9 percent in both South Asia and the countries of South America (*World Development Report 1986*, annex table 1).

Table 2.1 compares the APR countries with a selected group of countries outside of the area in terms of basic economic characteristics and performance indicators. Except for the Philippines, per capita income grew much more rapidly in the developing countries of the Asian Pacific rim than in mature developed countries such as the United States and West Germany and, in most cases, even Japan, the newest and most dynamic developed country. Yet, although per capita income levels in the APR countries rank among the highest for all developing nations, there is still a wide per capita income gap between the advanced industrial market economies and these countries. West Germany's 1984 per capita income, for example, is more than five times as large as South Korea's and almost seventeen times as large as the Philippines' per capita income in that year.

The magnitude of the APR's output and imports is also small when compared to that of the developed countries. The total of all nine countries' gross domestic product in 1984 was \$656 billion, only slightly more than one-half of Japan's and not much greater than West Germany's GDP. The difference in imports is less striking due to the high degree of dependence on trade of most countries in the region. Their total 1984 imports of \$181 billion are roughly equal to those of Japan and of West Germany in that year. Thus, the major market opportunities for the United States are still in other developed countries; the major developing countries of Southeast Asia and East Asia represent an important potential market rather than a major current one.

Compared with other developing regions, however, the developing countries of the Asian Pacific rim already rank as the largest market. The 1984 \$656 billion GDP level of the region compares with GDP levels of \$623 billion for all of South America, Central America, and the Caribbean and of \$406 billion for South Asia, for example. Moreover, the 1984 \$181 billion import level of the region compares with only \$64 billion for South America, Central America, and the Caribbean and \$25 billion for South Asia. This market-size advantage is likely to widen during the rest of the century, given the currently higher growth rates in the Pacific rim countries.

Table 2.2 indicates the growth and trade experience of APR and selected other countries before and after the first oil crisis. The general slowdown in growth in both the developing and developed countries after the first oil shock is evident from the table. However, the relative decline in growth rates has been less in the APR countries than in such developed countries as the United States, Japan, and Germany. In the

Table 2.1 Basic Economic Indicators

Area	Population			Income			Goods Trade			
	(thousands Km ²)	Size (million)	Growth Rate 1973-84 (%)	GDP 1984 (billions of \$)	Growth 1965-84 (average annual % rate)	GNP per Capita 1984 (\$)	Exports 1984 (billion \$)	Imports 1984 (billion \$)	Exports Share in GDP, 1984 (%)	Imports Share in GDP, 1984 (%)
Singapore	1	3	1.3	18	7.8	7,260	24	29	133	161
Hong Kong	1	5	2.4	31	6.2	6,330	28	29	90	94
Taiwan	35	19	1.6	57	7.0	3,050	30	26	56	45
South Korea	98	40	1.5	83	6.6	2,110	29	31	35	37
Malaysia	330	15	2.4	29	4.5	1,980	16	14	55	48
Thailand	514	50	2.2	42	4.2	860	7	11	17	26
Philippines	300	53	2.7	33	2.6	660	5	6	15	18
Indonesia	1,919	159	2.3	81	4.9	540	22	14	27	17
China	9,561	1,029	1.4	281	4.5	310	25	26	9	9
United States	9,363	237	1.0	3,635	1.7	15,390	216	338	6	9
Japan	372	120	1.0	1,255	4.7	10,360	170	134	14	11
West Germany	249	61	0	613	2.7	11,130	171	153	28	25
Australia	7,687	16	1.3	182	1.7	11,740	23	23	13	13
India	3,288	749	2.3	162	1.6	260	9	15	6	9

Source: *World Development Report*, 1986.

Table 2.2 Savings and Investment Rates

	Gross Domestic Investment as Share of GDP (%)		Gross Domestic Savings as Share of GDP (%)		Resource Gap (%)	
	1960	1984	1960	1984	1960	1984
Singapore	11	47	3	43	-8	-4
Hong Kong	19	24	1	29	-18	5
Taiwan	20	22	13	33	-7	12
South Korea	11	29	1	30	-10	1
Malaysia	14	31	27	32	13	1
Thailand	16	23	17	21	1	-2
Philippines	16	18	16	18	0	0
Indonesia	8	21	8	20	0	-1
China	25 ^a	30	25 ^a	30	0	0
United States	18	19	19	16	1	-3
Japan	34	28	34	31	0	3
West Germany	27	21	29	23	2	2
Australia	29	21	25	19	-4	-2
India	17	24	14	22	-3	-2

Sources: *World Development Report*, 1979 and 1986; Asian Development Bank, *Key Indicators of Developing Country Member Countries of ADB*, 1984, and *ADB Annual Report*, 1985.

^a1965.

United States, the percentage decline in the average annual growth rate of GDP between 1965–73 and 1973–84 was 28 percent; in Japan, 56 percent; and in Germany, 57 percent. The average annual GDP growth rate actually increased in Hong Kong and Malaysia (also India) and declined by only 18 percent on the average in the other seven developing countries in the Asian Pacific rim.

2.2.2 Diversity among the APR Countries

As shown in table 2.1, there are significant economic differences among the developing countries of the Asian Pacific rim. It is usual to divide the countries into three groups, the first comprising South Korea, Taiwan, Hong Kong, and Singapore; the second consisting of the Philippines, Malaysia, Thailand, and Indonesia; and the third being China. The first group is usually designated the newly industrializing countries (NICs) of Asia, a term indicating their relatively early emphasis on export-oriented industrialization. While the words *newly industrializing* were appropriate in the 1960s and early 1970s when these countries first adopted policies aimed at significantly increasing the exports of manufactures, it seems more appropriate to use Hong and Krause's

(1981) term, "advanced developing countries" (ADCs), especially since other countries of the region later also adopted policies aimed at export-oriented industrialization. Per capita income in all of the ADCs is higher than in the countries of the other two groups, though if per capita income alone is the basis of the classification, it seems reasonable to include Malaysia in the first group. There is also a significant gap between income levels in Singapore and Hong Kong and in Taiwan and South Korea.

The second group of four nations is usually described as the four resource-rich countries (RRCs) that are ASEAN members to indicate the much greater share of primary products in their exports compared to the ADCs (see table 2.3).² The greater share of production devoted to agriculture is an indication of their greater land resources as well as their lower per capita income levels. Except for Malaysia, the RRCs are less open than the ADCs of Asia in terms of trade's share of GDP; these countries have pursued import-substitution policies more vigorously than the ADCs. Another difference is the higher natural rate of population growth in the RRCs than in the ADCs.³

China is unique in several respects. It is by far the most populous country in the world, and it ranks third in area. Although it has become much more outward-looking in recent years, it remains, as the export and import shares presented in table 2.1 indicate, a very closed econ-

Table 2.3 External Public and Private Debt

	Total Long-Term Debt Disbursed and Outstanding (millions of \$)		Total Long-Term Debt Service as Percentage of Exports of Goods and Services	
	1970	1984	1970	1984
Singapore	152 ^a	1,911 ^a	.6	.8 ^d
Hong Kong	2 ^a	270 ^a	0 ^a	0 ^a
Taiwan	1,195 ^b	6,147 ^c	—	4.3 ^c
South Korea	1,972	29,990	20.3	15.8
Malaysia	390 ^a	11,846 ^a	3.6 ^a	5.1 ^d
Thailand	726	10,936	14.0	21.5
Philippines	1,494	14,135	7.5 ^c	17.9
Indonesia	2,904	26,683	13.8	19.0

Sources: *World Development Report*, 1984 and 1986; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, April 1984.

^aLong-term public and publicly guaranteed debt.

^bExternal public debt outstanding, 1971.

^cExternal public debt outstanding, 1981.

^dLong-term public and publicly guaranteed debt, 1982.

^eExternal public debt outstanding.

omy compared to other countries in the region, although not in comparison to such countries as India and the United States. While its GDP growth rate since 1965 compares favorably with the RRCs, China's low per capita income level makes the country more similar to the countries of South Asia than to those of the Asian Pacific rim.

2.2.3 Savings-Investment, Foreign Debt, and Trade Adjustment

A necessary, though not sufficient, requirement for a country to raise its growth rate is to increase its investment and savings rates significantly. As table 2.4 shows, such an increase has occurred in the ADCs, the RRCs, and China. In five of the nine countries, investment as a share of GDP rose by more than ten percentage points between 1960 and 1984, and in three others the increase was at least five percentage points. The investment ratio in Singapore in 1984 was an incredible 47 percent, and it was 30 percent or more in Taiwan, Malaysia, and China. The increase in domestic savings has been even more impressive, especially in Singapore, Hong Kong, Taiwan, South Korea, and Indonesia. Gross domestic savings is now about 30 percent or more in six of the nine countries. The only developed countries that can match these savings rates are Japan (31 percent) and Norway (35 percent).

An excess of domestic investment over domestic savings indicates that savings by foreigners are financing part of a country's investment activities. Such was the case for the ADCs in the initial phases of their takeoff to high rates of growth, as the figures in table 2.4 on the resource gap indicate. The large positive number for Hong Kong in 1984 indicates that domestic savers were investing some of their savings abroad, probably because of their uncertainty about the political future of the city-state.

A more direct indication of the extent to which a country has relied on external sources of finance is the magnitude of its external debt and the ratio of the external debt to the country's GNP. The debt service share of exports of goods and services is a rough indicator of the degree of difficulty the country has in meeting its external obligations. Table 2.5 presents information on these various debt indicators for the APR countries, except for China, on which debt data are unavailable. As with developing countries generally, the data show a very rapid increase in external borrowing for APR countries over the last fifteen years. This ability to draw upon external sources, especially private capital markets, has been an important factor in enabling growth to continue at high rates. It has, however, also led to serious debt-servicing problems for some nations that borrowed heavily and then around 1980 were suddenly faced with both much higher real interest rates and falling prices for their export products. Four APR countries—South Korea, Thailand, the Philippines, and Indonesia—are on most lists of

Table 2.4 **Growth Rates of GDP and Foreign Trade**

	GDP (%)		Exports (%)		Imports (%)		Terms of Trade (1980 = 100)	
	1965–73	1973–84	1965–73	1973–84	1965–73	1973–84	1982	1984
Singapore	13.0	8.2	11.0	7.1	9.8	7.1	100	101
Hong Kong	7.9	9.1	11.7	12.9	10.6	9.3	110	109
Taiwan	7.9	9.3 ^a	23.7 ^b	16.7 ^c	17.9 ^b	13.5 ^a	—	—
South Korea	10.0	7.2	31.7	15.1	22.4	9.7	100	100
Malaysia	6.7	7.3	8.0	7.5	4.4	8.9	85	93
Thailand	7.8	6.8	6.9	10.4	4.4	5.9	77	81
Philippines	5.4	4.8	4.2	5.6	3.0	2.3	89	101
Indonesia	8.1	6.8	11.1	1.4	14.0	10.5	105	101
China	7.8	6.6	—	10.1	—	10.2	106	101
United States	3.2	2.3	6.8	2.3	9.4	3.8	106	112
Japan	9.8	4.3	14.7	7.5	14.9	1.6	103	109
West Germany	4.6	2.0	10.7	4.5	11.3	3.9	97	96
Australia	5.6	2.4	9.3	3.0	6.8	3.4	98	95
India	3.9	4.1	2.4	3.3	-5.7	5.4	104	107

Sources: *World Development Report*, 1979 and 1986; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, 1984.

^a1973–83.

^b1960–70.

^c1970–77.

Table 2.5 Commodity Structure of Production and Trade (percentage shares)

	Production, 1984			Exports, 1983		Imports	
	Agriculture	Industry	Services	Primary Goods	Manufactures	Primary Goods	Manufactures
Singapore	1	39	60	44	56	44	56
Hong Kong	1	22	78	8	92	25	75
Taiwan	—	—	—	6 ^a	94 ^a	—	—
South Korea	14	40	47	9	91	49	51
Malaysia	21	35	44	78	22	28	72
Thailand	20	28	52	68	32	36	64
Philippines	25	34	41	49	51	40	60
Indonesia	26	40	34	92	8	38	62
China	36	44	23	43	57	34	66
United States	4	43	54	30	70	37	63
Japan	3	41	56	3	97	77	23
West Germany	2	46	52	13	87	42	58
Australia	—	—	—	77	23	20	80
India	35	27	38	47	53	50	50

Source: *World Development Report*, 1986.

^a1982.

countries faced with significant debt-servicing problems; debt-servicing charges in 1984 claimed more than 15 percent of the foreign exchange they earned from exporting goods and services. The drain of debt servicing on the foreign exchange earnings of Singapore and Hong Kong is negligible and only about 5 percent for Taiwan and Malaysia.

To cope with increased debt-servicing charges, a country must generate additional foreign exchange by improving its balance of trade. Table 2.6 shows that the trade balance of the four main indebted countries—South Korea, Thailand, the Philippines, and Indonesia—improved between 1983 and 1985. Korea, whose balance of trade has improved steadily since 1981, achieved the most desirable type of trade adjustment between these years—an expansion of imports and exports. Thailand's improved trade balance between 1983 and 1985 came about through an expansion of exports and contraction of imports, whereas the recent trade adjustment in the Philippines and Indonesia occurred by reducing both exports and imports.

Table 2.6 Merchandise Trade of Four Indebted Countries in the Asian Pacific Rim, 1981–85 (billions of dollars, exports [f.o.b.], imports [c.i.f.])

	Korea	Philippines	Thailand	Indonesia
1980				
Exports	21.1	5.7	7.0	22.3
Imports	26.1	8.5	9.9	13.3
Balance	4.9	-2.8	-2.9	9.0
1982				
Exports	21.9	5.0	7.0	22.3
Imports	24.3	8.3	8.6	16.9
Balance	-2.4	-3.3	-1.6	5.4
1983				
Exports	24.5	4.9	6.4	21.1
Imports	26.2	8.0	10.3	16.3
Balance	-1.7	-3.1	-3.9	4.8
1984				
Exports	29.2	5.3	7.4	21.9
Imports	30.6	6.4	10.4	13.9
Balance	-1.4	-1.1	-3.0	8.0
1985				
Exports	30.3	4.6	7.1	19.7
Imports	31.1	5.5	9.2	10.2
Balance	-.8	-.9	-2.1	9.5

Sources: *International Trade, 1984–85*, table A-4; and *International Trade, 1985–86*, table A-14, both from General Agreement on Tariffs and Trade (GATT).

2.3 Development Policy and Trade Performance

As with most developing countries in the world, the major economic goal of those in the Asian Pacific rim over the last forty years has been to increase the rate of economic development. Their success in achieving this goal and the extent to which their development policies involve a willingness to open their own markets to the products of other countries largely determine the trading opportunities of the United States and others in the region. This section briefly describes the nature of the development strategies pursued by the individual APR countries and analyzes the shifts that have taken place in the commodity composition and geographical distribution of their exports and imports. It also speculates as to each country's likely future trade and development policies.

2.3.1 The Advanced Developing Countries

Hong Kong

Trade and development policy. The British colony of Hong Kong is unique among developing economies in that it has achieved its remarkable post-World War II growth under a policy of "positive non-intervention."⁴ Imports and exports of both goods and capital were completely free from government taxes, subsidies, or other controls, and no effort was made to direct investment into particular sectors. The standard tax rate on earnings and profit was also the lowest of any industrial state, being set at the level of 12.5 percent from 1951-66.

Until the early 1950s, Hong Kong's prosperity was based on reexporting products from South China throughout the world and serving as an entry port for foreign products destined for the mainland. Two external events in the 1950s disrupted this entrepôt role. The first was the change of government as the Communists took control of the mainland. The inward-looking policies of the Communist government resulted in a significant diminution in China's trade with Hong Kong. In addition, dissatisfaction with the new form of government led to massive immigration from China, which increased Hong Kong's population by almost 50 percent in a few years. The second event that reduced Hong Kong's role as a trade facilitator was the United Nations embargo imposed on China because of its role in the Korean War.

Fortunately, the immigrants included entrepreneurs who had both industrial experience, especially in textiles, and the capital necessary to establish manufacturing activities. Utilizing the abundant supply of low-wage workers who also became available through immigration, these individuals spearheaded the shift in Hong Kong's economic structure from that of entrepôt to exporter of labor-intensive manufactured

products. The industrialization effort was also helped by the existence of an excellent infrastructure of port, banking, insurance, and shipping facilities and a long history of commercial ties with overseas traders. Manufacturing employment increased from 82,000 in 1950 to 216,000 in 1960, while the share of reexports in total exports declined from 88 percent to 27 percent in that decade.

Trade performance. As can be seen from table 2.7, which indicates the colony's pattern of exports and imports in 1960, 1978, and 1983, Hong Kong has gradually diversified its manufacturing activities and, in particular, reduced its dependence on textiles and clothing. Exports in the machinery and transport equipment category have become significant. This diversification has been due in part to the efforts of the government, which, beginning in the late 1970s, backed away somewhat from its hands-off policy and began to arrange industrial support facilities and technical services to facilitate the shift toward more capital-intensive, high-skill manufacturing sectors.

A more detailed breakdown of the composition of Hong Kong's trade with its major trading partners is presented in table 2.8. Between 1963 and 1980, both the United States and Japan moderately increased their share of the combined exports to Hong Kong by the United States, Canada, Japan, Australia and New Zealand, the European Community, other ADCs, the RRCs in the region, and China. The U.S. share in-

Table 2.7 Structure of Hong Kong's Merchandise Trade, 1960, 1978, and 1983 (percentage distribution)

Exports					
	Fuels, Minerals, and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport Equipment	Other Manufactures
1960	5	15	45	4	31
1978	1	2	46	15	36
1983	2	6	33	22	36
Imports					
	Food	Fuel	Other Primary Commodities	Machinery and Transport Equipment	Other Manufactures
1960	27	3	16	10	44
1978	15	5	7	19	54
1983	12	7	6	21	54

Sources: *World Development Report*, 1981 and 1986.

Table 2.8 **Distribution of Singapore's Imports from and Exports to Selected Countries or Regions, 1963, 1970, 1980, and 1984 (in percentages)**

	1963		1970		1980		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
U.S.	16.5	35.0	19.4	50.3	18.3	40.7	12.1	50.1
Canada	1.9	3.0	1.0	3.7	1.0	3.2	0.6	3.6
Japan	29.3	4.3	34.2	4.7	33.8	4.2	28.0	4.2
Australia and New Zealand	0.0	4.9	3.6	4.4	2.7	3.9	1.8	3.5
European Community	31.2	43.9	25.6	29.2	21.3	36.3	13.4	22.9
ADCs	8.4	0.4	11.1	4.3	16.5	5.1	11.8	3.7
RRCs	8.4	7.8	4.8	2.3	6.1	3.4	2.2	2.6
China	—	0.2	—	0.2	—	2.8	29.7	9.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD trade data tape.

creased from 16 percent to 18 percent. The countries that increased their export share the most, however, were the other ADCs, that is, Taiwan, Korea, and Singapore; their share rose from 8 percent to sixteen percent between these years, despite the exclusion from the figures of exports from Taiwan to Hong Kong in 1980 (and 1984). The European Community and the four resource-rich countries, namely, the Philippines, Malaysia, Thailand, and Indonesia, were the losers in terms of export shares between 1963 and 1980.

The major change between 1980 and 1984 was the emergence of China as a major supplier to the Hong Kong market. In 1984 almost 30 percent of exports to Hong Kong came from China. Of course, much of this reflects the reemergence of entrepôt trade for Hong Kong as China became more open. The U.S. market share declined about a third between 1980 and 1984 (from 18 percent to 12 percent), due no doubt in part to the appreciation of the dollar relative to other major currencies after 1980. Japan's share also declined between these years but less in relative terms than the U.S. share.

Table 2.8 also shows the country-region distribution of Hong Kong's own exports between 1963 and 1984. The share of exports to the United States increased from 35 percent in 1963 to 50 percent in 1970 and then declined to 41 percent by the end of the 1970s, a decade in which the dollar depreciated. As the dollar appreciated in the early 1980s, the share of Hong Kong's exports absorbed by the United States again rose to 50 percent. The value of Hong Kong's exports to the United States in 1984 was \$7.8 billion compared to \$2.8 billion of imports from the United States. Remarkably, the share of exports absorbed by Japan remained at about 4 percent over the entire period. In contrast, the trend in the EC share was downward over the period, with an especially sharp fall evident after 1980.

The main factor in Hong Kong's long-term economic outlook is the coming return of sovereignty over Hong Kong to China in 1997. The agreement reached in 1984 between the United Kingdom and China called for the maintenance of Hong Kong's market-oriented economy for at least fifty years after 1997, but, despite this provision, there is understandably a great deal of uncertainty about the future.

Singapore

Trade and development policies. The economy of Singapore, like that of Hong Kong, was for many years based on entrepôt trade, specifically, the processing, repackaging, and reexporting of the primary products of Southeast Asia to other areas and the reexporting of imported industrial goods to other parts of Asia.⁵ Following the attainment of self-government in 1959, Singapore adopted an industrialization strategy that has passed through three stages: an import substitution

phase from 1960 to 1966; a labor-intensive, export-oriented phase from 1966 to 1970; and since 1970 a higher-technology, skill-intensive phase that is also export oriented (Yue 1980).

The first phase, which involved the use of tariffs and quotas to stimulate domestic manufacturing, was closely tied to the prospect of a Malaysian common market. Government officials thought that this market would be of sufficient size for Singapore to become an efficient supplier of manufactured products, given temporary protection. But the political union of Malaya, Sabah, Sarawak, and Singapore lasted only from 1963 to 1965, and with Singapore's withdrawal from the federation, the proposal for a Malaysian common market collapsed.

Although import protection was increased to ease the domestic adjustments related to the country's withdrawal from the federation, the development strategy shifted around 1966 to one of attracting foreign investment to expanding exports of labor-intensive manufactures. In addition to establishing new tax incentives to attract foreign investors, the government introduced restrictive labor legislation to restrain wage increases and maintain stable labor relations, restructured the educational system to provide more technical workers, and provided a wide range of facilities and services to industrialists. The outcome was a rapid decrease in unemployment, an increase in the share of domestic exports in total exports from 25 percent in 1965 to 38 percent in 1970, and a marked acceleration of the growth rate.

As the upward pressure on wages increased due to the success of these measures, Singapore began to shift to a new development strategy in the early 1970s, emphasizing exports of skill-intensive, higher-technology products. To stimulate the export of these products, the government provided equity and loan assistance to firms producing them, expanded training facilities and gave financial support to private sector training activities, allocated funds for financing export bills below the prime rate, subsidized the insurance of export activities, and undertook extensive export-promotion programs. Beginning in 1969, most tariffs and quotas also were reduced or abolished to enable exporting firms to obtain needed inputs at competitive world prices, and by the mid-1970s, Singapore's level of protection was very low.

The extent to which Singapore has relied on foreign investment to increase its exports of manufactured goods is indicated by the fact that, in 1980, export sales by wholly foreign-owned firms constituted 72 percent of the economy's total exports of manufactured goods, export sales by joint ventures 21 percent, and export sales by wholly locally owned firms only 7 percent. Another notable feature of the country's development policy is the high rate of domestic savings achieved by compulsory retirement contributions by employers and employees. By 1978 the contribution rate reached 38.5 percent of wages and salaries

and contributed 22 percent of total national savings. The government has used these funds to provide an infrastructure that is conducive to development.

Trade performance. Unlike Hong Kong, Singapore never relied on textiles and clothing as an important export product, as table 2.9 shows. Instead, its industrialization via the export route has been based mainly on oil refining and, to an increasing extent, on skill-intensive machinery and other manufactures. Industrialization has also expanded the market within Singapore for high-skill, high-technology products, as the changes in the country's import pattern indicate.

The United States has done very well in the Singapore market (table 2.10), increasing its export share from 7 percent in 1963 to 21 percent in 1984—a performance that outdid the Japanese export share increase. The other ADCs also gained in market share, while the EC and, especially, the RCCs lost in relative terms. On the export side, the figures show that the shares of Singapore's exports taken by both the United States and Japan rose between 1963 and 1984, the United States from 13 percent to 27 percent, and Japan from 8 percent to 12 percent. As would be expected from exchange rate developments, the increase in the share of exports going to the United States was especially large between 1980 and 1984. Export to the United States in 1984 totaled \$4.7 billion, while imports from the United States in that year amounted

Table 2.9 Structure of Singapore's Merchandise Trade, 1960, 1978, and 1983 (percentage distribution)

Exports					
	Fuels, Minerals, and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport Equipment	Other Manufactures
1960	1	73	5	7	14
1978	31	23	5	25	16
1980	31	13	4	31	22
Imports					
	Food	Fuels	Other Primary Commodities	Machinery and Transport Equipment	Other Manufactures
1960	21	15	38	7	21
1978	10	24	9	29	23
1983	7	31	6	30	26

Sources: *World Development Report*, 1981 and 1986.

to \$3.5 billion. Shipments to other ADCs also increased in relative terms over the twenty-one-year period. In contrast, the share of Singapore's exports received by the EC fell from 29 percent to 12 percent from 1963 to 1984.

There is no alternative for Singapore, if it is to continue to raise its living standard, but to remain an open, export-oriented economy. At the same time, one can expect to see a continued shift in the composition of its exports toward higher-labor-skill products, while importing high-technology goods as well as products where scale economies are important.

Korea

Trade and development policies. From 1945 to 1960, Korea followed an import-substitution development policy, using high protective tariffs, quantitative import restrictions, and a multiple exchange rate system with a generally overvalued currency to stimulate domestic production for local markets.⁶ While growth was fairly impressive during the 1950s, it was largely induced by substantial U.S. aid following the Korean War. For example, 74 percent of Korean investment was financed by foreign aid between 1953 and 1960. The growth rate began to decline in the late 1950s as the easy import substitution opportunities were exploited and U.S. economic aid was reduced. The degree of inwardness of the economy at that time is indicated by the fact that exports of goods and services were only 3 percent of GDP in 1960, whereas they had climbed to 36 percent by 1980.

A significant shift in Korean development policy toward an outward-looking strategy occurred following the student revolution in 1960 and the military coup in 1961. The won was devalued and a unitary exchange rate system established, the interest rate was permitted to rise to encourage domestic savings, and a stabilization program was implemented. A number of export incentives were introduced, including exemption from tariffs on imported inputs and capital equipment for use in export production, accelerated depreciation on capital facilities employed in export production, and a lowering of direct taxes on income earned from exporting. Exporters also had access to credit below the market rate of interest, received preferential electricity and transportation rates, and were granted generous wastage allowances on imported inputs.

In the late 1970s another change in development policy occurred as government leaders, fearing that Korea was losing its competitive advantage in labor-intensive manufactures due to rising real wages, began to encourage the production of capital-intensive intermediate products. This policy shift was reversed in the early 1980s and priority again given to export expansion as the major engine of growth.

The rate of growth that followed the shift in development strategy toward export promotion can only be described as phenomenal. Per capita incomes rose at an average annual rate of 7 percent between 1960 and 1980. During the export-led industrial transformation, the share of manufactures in total exports increased from 14 percent in 1960 to 91 percent in 1983 (table 2.11), and domestic savings as a fraction of GDP rose from 1 percent to 30 percent between 1960 and 1984 (table 2.4).

A feature of Korean policy of considerable concern to the United States and other industrial countries with which Korea has a large export surplus is the continuing high levels of protection in both the agricultural and industrial sectors that make it difficult for foreign suppliers to sell in the Korean market.

Trade performance. As table 2.12 indicates, the United States' export share in the Korean import market, after falling sharply from 49 percent to 31 percent between 1963 and 1970, increased slightly to 34 percent between 1970 and 1980 and then remained constant thereafter. Japan was the main gainer at U.S. expense between 1963 and 1970, with its share rising from 35 percent to 49 percent, but this share had fallen back to about 41 percent by 1984. Australia and New Zealand, Canada, and the RRCs have all gained steadily in market share throughout the twenty-one-year period.

Table 2.11 **Structure of Korea's Merchandise Trade, 1960, 1978, and 1983**
(percentage distribution)

Exports					
	Fuels, Minerals, and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport Equipment	Other Manufactures
1960	30	56	8	—	6
1978	1	10	32	21	36
1983	3	6	25	32	34
Imports					
	Food	Fuels	Other Primary Commodities	Machinery and Transport Equipment	Other Manufactures
1960	10	7	25	12	46
1978	8	16	17	33	26
1983	8	27	14	29	22

Sources: *World Development Report*, 1981 and 1986.

Table 2.12 Country Distribution of Korea's Imports from and Exports to Selected Countries or Regions, 1963, 1970, 1980, and 1984 (in percentages)

	1963		1970		1980		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
U.S.	49.5	32.5	31.1	50.7	33.7	35.2	33.5	46.4
Canada	0.7	0.3	1.1	2.5	3.3	2.6	3.2	3.8
Japan	34.7	34.5	49.4	29.8	40.4	23.0	41.2	20.2
Australia and New Zealand	1.8	0.3	0.9	1.0	3.9	1.9	5.3	1.9
European Community	7.1	9.3	9.4	8.6	10.0	20.8	10.1	14.5
ADCs	4.0	18.4	2.5	5.9	2.3	9.9	2.2	8.9
RRCs	1.8	4.5	5.2	1.3	6.0	6.3	4.1	3.9
China	—	—	—	—	—	—	—	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD trade data tape.

The distribution of Korean exports exhibits considerable volatility. Exports to the United States, for example, constituted 50 percent of all exports to the regions listed in the first column in 1970, rising from 32 percent in 1963, then dropping to 35 percent in 1980, only to rise again to 46 percent during the period of dollar appreciation in the early 1980s. In value terms, Korean exports to the United States in 1984 came to \$10.5 billion compared to imports of \$5.8 billion. The share of exports sent to Japan shows a steady decline over the entire period. In contrast, exports to the European Community display an upward trend.

Because the country's poor endowment of natural resource and comparatively small size leave no alternative for achieving continued rapid growth but to retain the emphasis on exporting manufactured goods, Korea is likely to remain an outward-looking economy. Like Singapore, it can be expected to move into higher-skill, more capital-intensive export production, however. At the same time, with some prodding it should become a better market for high-technology goods and agricultural products.

As regards international political relations, the Republic of Korea's relations with North Korea are of major concern to the United States. Because of the perceived threat of aggression from the north, the United States still maintains military forces in South Korea and has a treaty commitment to the country's security. The U.S. government favors gradual reunification between North and South Korea, but there seems little prospect for that to take place in the short term. Yet the prospect for reasonably peaceful relations between the two countries in the short term seems favorable.

Taiwan

Trade and development policies. There was great political and economic turmoil in Taiwan in the period immediately after World War II.⁷ The end of fifty years of Japanese rule and thus the loss of the country's traditional export market was followed by the Communists' takeover of mainland China, the Nationalists' assumption of power in Taiwan with a large immigration from the mainland, and the loss of another important market in China.

The government's first response to the economic problems it faced was to undertake a land reform program in the agricultural sector and an import substitution policy with high levels of protection for the manufacturing sector. The country's adjustment efforts were assisted by a substantial inflow of foreign aid, mainly from the United States. Between 1951 and 1959, 37 percent of total investment was financed by foreign aid.

Beginning in the late 1950s and continuing into the early 1960s, the government introduced policies that changed Taiwan's development strategy from one of import substitution to one that emphasized the export of labor-intensive manufactures. The multiple exchange rate system was abolished and the overvaluation of the country's currency corrected by a series of devaluations. Import controls were eased and tariffs reduced on many manufactured goods. (As in Korea, the Taiwanese government still highly protects some domestic industries with import controls and tariffs.) Investment by foreigners and local residents was encouraged by such measures as a five-year income tax holiday for certain new industrial establishments, a sharp reduction in the maximum business income tax, and tax exemption for undistributed profits retained for investment purposes. Exporting was also encouraged directly by rebating customs duties on imported inputs, permitting the deduction from taxable income of an amount equal to 2 percent of annual export earnings, and allowing a 10 percent tax deduction for manufacturing, mining, and handicraft firms that exported more than 50 percent of their output. In addition, some industries received direct export subsidies that were financed by levies on domestic sales. Low-interest loans and government assistance in the form of marketing, managerial, and technical services were also available for exporting activities. Beginning in the mid-1960s, the government also established duty- and tax-free export-processing zones.

Trade performance. As in the Korean case, the post-World War II development policies of Taiwan transformed the country from an agricultural to an industrial economy within a comparatively short period. In the period 1952-54, industrial exports made up only 9 percent of total exports, but in 1970 the share of industrial exports in total exports was up to a level of 78 percent; by 1982, this figure had risen to 88 percent.

As table 2.13 shows, changes in the country or regional distribution of Taiwan's imports between 1963 and 1984 are similar to those of Korea. The U.S. share of imports into Taiwan declined sharply from 43 percent to 26 percent between 1963 and 1970, then increased to 33 percent in 1980 and remained constant thereafter. As in the Korean case, Japan's export share rose considerably between the first two years (from 35 percent to 52 percent), then declined to 40 percent by 1980 and remained there over the next four years. The EC's export share also rose over the entire period. In contrast to the Korean case, however, the export share of the other ADCs rose, whereas that of the RRCs fell.

Since the UNCTAD trade data tape does not contain exports from Taiwan for 1980 and 1984, the country-region composition of Taiwanese

Table 2.13 **Distribution of Taiwan's Imports from and Exports to Selected Countries or Regions, 1963, 1970, 1980, and 1984 (in percentages)**

	1963		1970		1980		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
U.S.	43.1	19.9	25.7	44.2	33.0	—	31.7	—
Canada	1.1	2.1	1.3	3.9	1.6	—	3.5	—
Japan	34.7	38.4	51.7	16.7	40.4	—	40.7	—
Australia and New Zealand	5.0	1.2	3.0	1.6	3.4	—	4.9	—
European Community	7.1	10.2	8.7	11.0	9.8	—	10.4	—
ADCs	2.4	20.5	3.3	15.6	5.3	—	5.6	—
RRCs	6.4	7.3	6.0	6.6	6.1	—	2.8	—
China	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	—	<u>0.0</u>	—
Total	100.0	100.0	100.0	100.0	100.0	—	100.0	—

Source: UNCTAD trade data tape.

exports is given for 1963 and 1970 only. These years show the marked shift in the direction of Taiwanese exports toward the United States. From accounting for only 20 percent of these exports in 1963, the U.S. share had increased to 44 percent by 1970. U.S. trade data indicate that in 1982, Taiwanese exports to the United States amounted to \$8.8 billion, whereas imports from the United States totaled \$3.9 billion. The European community's share rose slightly. The most significant other shift between these years was the fall in Japan's share from 38 percent to 17 percent.

Like Korea, to achieve continued rapid growth, Taiwan has no alternative but to concentrate on exporting manufactured goods, but it can be expected to shift toward higher-skill-requiring, more-capital-intensive products. As it is pressured to liberalize its own trade barriers, Taiwan should improve as a market for high-technology manufactures and agricultural products.

There is, of course, considerable uncertainty about the political future of Taiwan. In proposing unification, China has offered to make Taiwan a special administrative region, following the Hong Kong approach, and allow it to maintain its economic and social system. Thus far, however, no visible progress has been made toward reunification, despite Taiwan's increasing political isolation in the world. The official position of the U.S. government seems to be that a gradual and natural process of unification is the best solution and that other countries should neither speed up or slow down this process.

2.3.2 The Resource-Rich Countries

The Philippines

Trade and development policies. The development policy of the Philippines since the late 1940s can be characterized as initially one of import substitution, followed by a series of modest and short-lived efforts to liberalize the trade and exchange-rate regimes.⁸ Exchange controls were first introduced in late 1949 as a consequence of a balance of payments crisis caused immediately by the election-related easy credit and liberal spending policies of the government and more basically by the country's overvalued currency and pent-up demand for consumption goods. Rather than lifting the controls after the crisis passed, the government used them during the 1950s to promote the development of domestic manufacturing activities. As often happened in developing countries that follow this strategy, growth rates initially were quite high, but by the late 1950s, as the easy stage of import substitution had passed, they had fallen significantly.

Devaluation, the elimination of most exchange controls, and the establishment of a unified exchange rate system occurred in the early 1960s, but these changes were in response to charges of maladminis-

tration of the controls and pressures from traditional exporters rather than to a conscious decision to promote exports of manufactures. High tariffs still protected the manufacturing sector, although its growth rate fell even further in the early 1960s. An effort in the late 1960s to stimulate growth through credit and fiscal expansion led to a new balance of payments crisis and the reintroduction of exchange controls.

The 1970s began with the floating of the peso and the passage of legislation aimed directly at stimulating exports of nontraditional agricultural and manufactured goods. Firms exporting more than 50 percent of their output were exempt from sales or customs taxes on materials used in export production and permitted to deduct part of their export revenue from taxable income. The government also constructed the first export-processing zone. Partly in response to these measures but probably due more importantly to the 50 percent decline in real wage costs in manufacturing between 1969 and 1974, there was sustained growth in manufacturing exports until 1981 (Alburo and Shepherd 1986). The share of manufacturing exports in total exports rose from 12 percent in 1970 to 44 percent in 1980.

Further liberalization efforts were undertaken in the early 1980s, the most important of which was the reduction of tariffs under a new, more rational system of import protection, but the exchange crisis of 1983, related to the country's external debt problems, prevented the full implementation of the measures as exchange controls were introduced once again. Since 1984 the cutoff of foreign capital, the austerity measures the government was forced to adopt, and the political crisis in the country have brought about a decline in real GNP.

Trade performance. The commodity distribution of the Philippines' exports and imports is given in table 2.14. Primary product exports other than minerals have declined significantly between 1960 and 1983 as the share taken by manufactured goods rose from 4 percent to 50 percent. In contrast, due to the greater importance of fuel imports, the share of imports of manufactured goods fell from 75 percent to 65 percent between 1960 and 1983.

The Philippines is another case where the U.S. share of the country's import market decreased significantly between 1963 and 1970, while Japan's share increased significantly (table 2.15). The U.S. export share rose in the 1970s and, despite the exchange rate developments, rose again in the 1980s. The other major gainers were the ADCs, whose share of the Philippines' imports went up from 2 percent to 11 percent between 1963 and 1984. In contrast, the Japanese and EC export shares of the Philippine market fell in both of these periods.

The country-region distribution of Philippine exports shows a decreasing dependence on the United States as a trading partner. The share of the country's exports sent to the United States declined from

Table 2.14 Structure of the Philippine's Merchandise Trade, 1960, 1978, and 1983 (percentage distribution)

		Exports				
	Fuels, Minerals, and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport Equipment	Other Manufactures	
1960	10	86	1	0	3	
1978	14	52	6	2	26	
1983	13	36	7	5	38	
		Imports				
	Food	Fuels	Other Primary Commodities	Machinery & Transport Equipment	Other Manufactures	
1960	15	10	5	36	34	
1978	8	21	7	27	37	
1983	8	27	5	21	39	

Sources: *World Development Report*, 1981 and 1986.

47 percent in 1963 to 27 percent by 1980.⁹ In absolute terms, Philippine exports to the United States amounted to \$1.8 billion in 1982, while imports from the United States were also valued at \$1.8 billion in that year. The share of exports taken by Japan rose somewhat from 1963 to 1980; the EC share remained about the same. The most important shift was the increase from 3 percent to 11 percent in the relative importance of the ADCs as an export market between these years. This may be due to trade diversion associated with the establishment of the Association of Southeast Asian Nations (ASEAN), since ADC Singapore is an ASEAN member. Export shares of the other ASEAN members, the RRCs, remained roughly the same, however.

The economic history of the Philippines over the last forty years and the present political turmoil do not give reason to expect the country to shift its development strategy in the foreseeable future and focus on becoming an outward-looking exporter of manufactured goods. Periodic attempts to liberalize can be expected, but the conflicting economic and political pressures within the country seem likely to result in the same pattern of on-again, off-again government controls on trade and development that has been seen over the last forty years. Yet, because of the richness of its human and physical resources, the Philippines is likely to continue to grow at a respectable rate.

U.S. concerns with the Philippines go beyond the historically close political and economic relationships between the two countries. Clark Air Force Base and Subic Bay Naval Base are the largest overseas

Table 2.15 **Distribution of the Philippine's Imports from and Exports to Selected Countries or Regions, 1963, 1970, 1980, and 1984 (in percentages)**

	1963		1970		1980		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
U.S.	46.4	46.6	30.3	42.7	34.3	26.6	38.6	—
Canada	2.9	0.1	2.4	0.2	1.6	1.0	1.0	—
Japan	22.1	28.0	38.0	40.5	29.1	32.7	24.5	—
Australia								
and New Zealand	2.8	0.3	4.5	0.4	4.2	2.1	3.2	—
European								
Community	17.4	21.7	17.7	8.7	14.0	20.6	11.8	—
ADCs	2.4	2.9	2.2	6.7	9.6	11.0	10.9	—
RRCs	5.6	0.0	4.6	0.4	6.9	4.6	4.3	—
China	—	—	—	—	—	1.0	5.4	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD trade data tape.

American air and naval facilities, and they are generally regarded as vital to a U.S. military presence not only in the Pacific but also in the Indian Ocean and Persian Gulf. It would be a severe blow to U.S. military strategy if a Philippine government forced the United States to relinquish control over these bases. Since poor economic performance in the Philippine economy contributes to the possibility of such an outcome, the United States may wish to consider establishing closer economic ties with the Philippines, for example, by granting the country more favorable treatment under the Generalized System of Preferences or perhaps by negotiating a free trade arrangement with the country.

Malaysia

Trade and development policies. Peninsular Malaysia achieved political independence in 1957; Sabah and Sarawak gained their independence and became part of Malaysia in 1963.¹⁰ Fortunately, Malaysia already had a per capita income that was considerably above the other three resource-rich countries. As in most developing countries, the Malaysian government began its industrialization endeavors with import substitution fostered by moderate levels of protection and generous fiscal incentives, such as were provided in the Pioneer Industries Ordinance in 1958 and the broader Investment Incentive Act in 1968. In the late 1960s and early 1970s, a deliberate effort was made to promote exports. This included permitting a double deduction from taxable income for export expenses and a further tax deduction based on Malaysian raw material and wage costs. Free-trade and export-processing zones, in which firms can freely import materials and capital goods used in export production, were also established in various parts of the country. Furthermore, the government provided low-cost export insurance, helped keep shipping rates low, and engaged in the promotion of Malaysian exports throughout the world.

The country's development efforts have been successful in achieving an impressive degree of diversification of both primary product and manufacturing activities. For example, palm oil and timber production has increased to the point that these sectors are now as important as the rubber and tin industries as earners of foreign exchange. Impressive processing activities have been established in the palm oil and rubber sectors. The oil and natural gas industries have also become major export-earning industries. In addition, textiles and apparel, electrical machinery, and, especially, electronics products have become important export items. As can be seen from table 2.16, exports of manufactured products increased from 6 percent of total exports in 1960 to 22 percent in 1983.

Trade performance. The Malaysian import figures for 1963 seem unreliable, due perhaps to its political union with Singapore in that year.

Table 2.16 Structure of Malaysia's Merchandise Trade, 1960, 1978, and 1983 (percentage distribution)

Exports					
	Fuels, Minerals, and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport Equipment	Other Manufactures
1960	20	74	—	—	6
1978	27	52	2	11	8
1983	35	43	2	14	6

Imports					
	Food	Fuels	Other Primary Commodities	Machinery and Transport Equipment	Other Manufactures
1960	29	16	13	14	28
1978	17	13	7	34	29
1983	9	14	5	44	28

Sources: *World Development Report*, 1981 and 1986.

Subsequent data show a steady increase in the share of the Malaysian import market captured by the United States, this share rising from 11 percent in 1970 to 16 percent by 1984 (table 2.17). Japan's share increased significantly between these years, from 4 percent to 25 percent, while the EC's share decreased significantly. Import trade with the ADCs also rose appreciably but dropped with the other RRCs.

The country-region distribution of Malaysian exports indicates that the United States gradually increased its share between 1963 and 1980.¹¹ In 1982, Malaysia exported \$1.8 billion worth of goods to the United States and imported \$1.7 billion. Shipments to Japan, the ADCs, and the other RRCs remained about the same in share terms over the time period; those to the EC fell in relative importance.

Malaysia has been successful in achieving an export-oriented industrialization strategy that is based on processing its abundant natural resources and on utilizing its abundant supply of low-cost labor. There seem to be no major reasons why this pattern will not continue, at least in the medium term.

Thailand

Trade and development policies. The modern industrialization efforts of the government of Thailand can be dated as beginning around 1960 when a board of investment, set up to promote domestic investment with the use of tax incentives, was established (1959) and a new, mildly protective customs schedule put into effect (1960).¹² The government

Table 2.17 **Distribution of Malaysia's Imports from and Exports to Selected Countries or Regions, 1963, 1970, 1980, and 1984 (in percentages)**

	1963		1970		1980		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
U.S.	—	12.6	10.7	14.9	14.4	18.3	15.6	—
Canada	0.4	2.0	2.3	2.2	0.9	0.5	1.2	—
Japan	4.4	24.7	3.6	21.0	23.1	25.7	24.8	—
Australia and New Zealand	2.6	2.5	11.6	3.0	6.2	2.0	4.3	—
European Community	16.7	24.8	42.4	23.2	15.7	19.8	11.8	—
ADCs	66.4	28.8	22.6	30.3	35.2	27.9	36.6	—
RRCs	9.2	4.1	6.6	3.6	4.3	3.6	3.7	—
China	—	0.1	—	1.4	—	1.8	1.7	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	—

Source: UNCTAD trade data tape.

also influenced industrial expansion by means of entry controls and the use of preferential credit arrangements. The net effect was a development policy that to some extent favored manufacturing industries producing for the domestic market.

With the passage of the Export Promotion Act in 1972, greater attention was given to the promotion of manufactured exports. Its provisions included exemption from paying import duties on imported materials used in production for export, exemption from business taxes on export-producing activities, and a Bank of Thailand discount facility at below-market rates for short-term export loans made by commercial banks. Since 1972, exporters are also eligible for a 20 percent rebate on electricity charges incurred in export production. The Department of Commerce began export-promoting activities in 1975.

Beginning in 1974, as the sharp increase in the price of oil caused a deterioration in the country's balance of payments, there was an increase in industrial import protection. Nominal protection on import-competing manufactured goods increased from 35 percent to 50 percent between 1974 and 1978 (World Bank 1980). Greater increases in business taxes on imports than on comparable domestic products, the imposition of import surcharges on certain products, and the increased use of import controls were other policies favoring import-substituting activities. The debt crisis of the early 1980s and a sharp deterioration in Thailand's terms of trade brought about further import restrictions.

Trade performance. Despite the somewhat contradictory nature of Thailand's recent development policies, export growth has been very high in the last decade (table 2.2), with exports of textiles and apparel, machinery and equipment, and other manufactures continuing to make up an increasing share of the country's total exports (table 2.18).

As in a number of the other APR countries, the U.S. share of Thailand's imports from its major trading partners decreased between 1963 and 1970 as Japan's share increased (table 2.19). In the Thai case, however, these share changes were not as great as in the other cases. The pattern of a U.S. share gain and a Japanese loss in the 1970s, as the dollar depreciated, and the reverse of these changes in the 1980s, as the dollar appreciated, also took place in Thailand. The EC share in Thailand's imports fell steadily throughout the period. The other important change in export shares was the increase in the ADCs' share from 11 percent in 1963 to 22 percent in 1984. The share of the other RCCs in exports to Thailand remained about the same over the period.

The share of Thailand's exports absorbed by the United States rose significantly from 10 percent to 22 percent between 1963 and 1984. Shipments to the EC also increased between these years but only from 23 percent to 27 percent. Thailand's exports to the United States in

Table 2.18 Structure of Thailand's Merchandise Trade, 1960, 1978, and 1983 (percentage distribution)

Exports					
	Fuels, Minerals, and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport Equipment	Other Manufactures
1960	7	91	0	0	2
1978	11	64	10	3	12
1983	6	62	11	6	15
Imports					
	Food	Fuels	Other Primary Commodities	Machinery and Transport Equipment	Other Manufactures
1960	10	11	11	25	43
1978	4	21	9	31	35
1983	4	24	8	29	35

Sources: *World Development Report*, 1981 and 1986.

1984 amounted to \$1.2 billion and its imports from the United States to \$1.0 billion. Japan's share fell after 1970 from 30 percent to 17 percent. Interestingly, Thai exports to other RRCs and the ADCs diminished in relative importance over the entire period.

The Thai government's policy of modest intervention in the market economy seems likely to continue into the foreseeable future and result in high growth rates and a growing degree of export-oriented industrial diversification.

Indonesia

Trade and development policies. Indonesia has been the least successful of the resource-rich countries in shifting from an inward-looking policy that protects domestic producers of manufactured products from foreign competition to a strategy of promoting exports of manufactures.¹³ The 8 percent share of manufactures in total exports in 1983 (table 2.3) is much lower than that for the other three resource-rich countries. The unusual richness of its resources and especially its ability to take advantage in export markets of the sharp oil price increase in the 1970s may in part be responsible for this low manufacturing share by reducing the balance of payments pressures for the expansion of manufactured exports.

Four separate periods can be distinguished since Indonesia achieved its independence in 1949: the period of constitutional democracy (1950–

Table 2.19 **Distribution of Thailand's Imports from and Exports to Selected Countries or Regions, 1963, 1970, 1980, and 1984 (in percentages)**

	1963		1970		1980		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
U.S	18.7	9.6	14.8	15.0	19.1	15.3	15.7	22.4
Canada	0.5	0.0	0.7	0.1	2.1	0.4	1.2	1.5
Japan	34.6	25.6	44.9	29.5	33.6	18.9	36.7	17.0
Australia and New Zealand	1.9	0.3	3.6	0.5	3.2	1.3	2.6	2.3
European Community	28.7	22.9	24.3	22.2	18.0	32.6	15.9	26.9
ADCs	11.6	26.3	9.6	23.1	18.8	18.0	22.2	19.2
RRCs	<u>1.5</u>	<u>14.9</u>	<u>1.7</u>	<u>9.3</u>	<u>4.9</u>	10.7	1.4	7.1
China	—	—	—	—	—	<u>2.4</u>	<u>3.8</u>	<u>3.1</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD trade data tape.

57); the “guided democracy” of 1958–65; the liberalization of the “new order” (1966–71); and developments up to the present after the period of liberalization (Pitt 1985). The first period saw sporadic attempts to dismantle the elaborate system of foreign exchange controls and import quotas that had existed under Dutch rule. But lobbying pressures on the government to grant preferential import privileges to the new class of indigenous importers and to monopolistic organizations of domestic industrial firms formed to import a common raw material tended to undermine these liberalization efforts.

The second period, 1958–65, was marked by President Sukarno’s implementation of his concept of “guided democracy” under which there was an aversion to free markets and foreign capital. The traditional Dutch trading houses were nationalized so that by 1959 only 20 percent of the import trade remained in private hands. The government allocated all foreign exchange and, in doing so, favored inward-oriented state enterprises. Moreover, the government’s policy of allocating raw materials on the basis of a firm’s existing productive capacity encouraged the expansion of capacity, though this capacity was underutilized; in 1965, manufacturing as a whole operated at only between 20 percent and 30 percent of capacity.

The period 1966–71 was one of sweeping liberalization in Indonesia, beginning with a scheme to encourage exports that permitted exporters to sell a portion of their foreign exchange earnings at free market prices. The government ended the direct allocation of foreign exchange to manufacturing firms, and importers were permitted to buy almost any good they wished. Subsidies and preferential credit rates to state enterprises were cut sharply. Another important change was the enactment of a law to encourage foreign investment by exempting firms that undertook priority investments from taxes on as much as 60 percent of their profits for up to six years. A unified exchange rate system was established in 1970.

In the period immediately after the liberalization phase, the new government shifted back toward import substitution with the increased use of quantitative import controls, including the banning of imports of many consumer goods, an increase in tariffs, and the introduction of numerous regulations covering investment activities. In 1978, however, the currency was devalued and an export certificate scheme was introduced that tended to subsidize exports of manufactured goods. This led to a significant percentage increase in such exports, though starting from a very low level. Nevertheless, the government’s policies are still biased toward capital-intensive, import-substituting activities and include cumbersome regulations that discourage exports of labor-intensive manufactures.

Trade performance. Unlike in the other countries analyzed, Indonesia's structure of production has not shifted significantly toward export-oriented manufacturing. Only 7 percent of the country's exports were manufactured goods in 1983 (table 2.20), while the share of fuels, minerals, and metals in exports rose from 33 percent to 80 percent between 1960 and 1983.

The country-region composition of Indonesian imports (table 2.21) shows a rise in shares from both the United States and Japan between 1963 and 1970 and a decline in the export shares of the ADCs, the RRCs, and the EC. In the 1970s the U.S. share fell and Japan's increased, while in the 1980s their shares remained unchanged. In contrast, the share of imports from the European community increased in the 1980s. Imports from the ADCs dropped sharply from 19 percent to 5 percent between 1963 and 1970 but remained roughly constant thereafter.

Indonesian exports to both the United States and Japan rose significantly in the 1970s, while exports to the EC and the ADCs fell appreciably during this period. Indonesian exports to the United States in 1984 amounted to \$4.5 billion compared to imports of only \$1.2 billion. In the period of the 1980s covered in table 2.21, the pattern of Indonesian exports by country destination remained roughly the same.

As in the Philippines, there seem to be no strong reasons to expect that Indonesia will change its development strategy from that of recent

Table 2.20 **Structure of Indonesia's Merchandise Trade, 1960, 1978, and 1983**
(percentage distribution)

Exports					
	Fuels, Minerals, and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport Equipment	Other Manufactures
1960	33	67	0	—	—
1978	72	26	—	1	1
1983	80	12	1	1	6
Imports					
	Food	Fuels	Other Primary Commodities	Machinery and Transport Equipment	Other Manufactures
1960	23	5	10	17	45
1978	18	9	6	36	31
1983	8	25	5	35	28

Sources: *World Development Report*, 1981 and 1986.

Table 2.21 **Distribution of Indonesia's Imports from and Exports to Selected Countries or Regions, 1963, 1970, 1980, and 1984 (in percentages)**

	1963		1970		1980		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
U.S.	21.8	—	28.2	15.9	17.3	20.9	16.8	22.4
Canada	0.2	—	1.7	0.0	2.2	0.1	3.1	0.2
Japan	20.7	—	34.5	37.9	42.8	52.5	43.0	51.7
Australia and New Zealand	0.8	—	3.9	3.9	5.3	2.1	4.0	2.4
European Community	29.2	—	23.2	18.4	22.3	6.9	26.8	5.3
ADCs	19.3	—	5.2	20.8	5.2	15.9	4.3	15.9
RRCs	7.6	—	3.0	2.8	4.6	1.3	0.6	1.8
China	—	—	—	0.0	—	—	0.9	0.0
Total	100.0	—	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD trade data tape.

years. Strong vested interests have been created that favor an inward-looking industrialization strategy, and they are likely to continue to prevail in the political decision-making process determining development policy into the foreseeable future.

2.3.3 China

Trade and Development Policies

Undoubtedly, the developing country in the APR whose policies are of greatest potential significance to the United States and other competitors in the region is China.¹⁴ The modernization reforms initiated in the late 1970s could eventually transform the Chinese economy into both a major competitor and market in the area and the world. But the possibility of a return to Maoist economic policies, involving autarky and a deemphasis on the acquisition of Western technology, cannot be ruled out.

China's current trade policies are aimed at increasing exports in order to pay for the capital equipment, intermediate inputs, and advanced technology needed for industrial and agricultural modernization. One means of stimulating exports has been the establishment of Special Export Zones in which Western know-how, managerial skills, and capital can be combined in joint ventures with low-wage Chinese labor. As table 2.22 indicates, the share of exports of manufactures in total exports equaled 57 percent in 1983, with textiles and clothing being the most important export category. Among the country's primary

Table 2.22 **Structure of China's Merchandise Trade, 1978 and 1983**
(percentage distribution)

		Exports				
	Fuels, Minerals, and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport Equipment	Other Manufactures	
1978	13	38	24	3	22	
1983	22	21	19	6	32	
		Imports				
	Food	Fuels	Other Primary Commodities	Machinery and Transport Equipment	Other Manufactures	
1978	17	0	43	18	22	
1983	15	1	18	19	47	

Sources: *World Development Report*, 1981 and 1986.

product exports, crude petroleum and petroleum products have become increasingly important.

Encouraged by government policy, foreign investment in China exceeded \$3.5 billion by 1985, but firms doing business in China face many difficulties, including arbitrary tax and tariff charges, inadequate supplies of skilled labor, poor transportation and communication facilities, and the resistance of vested interests to the economic reforms.

Trade Performance

After U.S. trade with China opened up, the United States quickly became an important supplier, furnishing by 1980 about a quarter of China's imports from its major market-oriented trading partners (table 2.23). The U.S. share dropped to 18 percent by 1984, perhaps reflecting the overvalued dollar. Japan's share rose from 11 percent in 1963 to 43 percent by 1984, and the ADCs became more important as exporters to China over the period, whereas the shares of exports supplied by the EC and Australia and New Zealand declined between these years.

Chinese export figures are only available for 1984 on the UNCTAD data tape. The 42 percent share going to Hong Kong indicates the importance of that colony as an entrepôt for China. Japan is the next largest recipient of Chinese goods at 27 percent, while the United States and the European Community each absorbed about 12 percent in 1984. In value terms, Chinese exports to and imports from the United States were \$2.3 billion and \$3.0 billion, respectively, in 1984.

It seems much too early to predict, even in the medium term, what China's future role in the world trading and foreign investment system will be.

2.4 The Competitive Performance of the United States and Its Major Competitors in the APR Market

In the preceding section the major country-region distribution of the imports and exports of each of the nine developing countries in the Asian Pacific rim was examined. As is apparent from this analysis, no single pattern emerges as to how well the United States has competed in the area. In three markets, Singapore, Malaysia, and China, the share of U.S. exports in total exports from the countries' major trading partners was greater in 1984 than in 1963. In four countries, the Philippines, Hong Kong, Indonesia, and Thailand, this export share declined but by six percentage points or less. In two countries, Korea and Taiwan, the U.S. share of exports dropped by more than ten percentage points over the period. Interestingly, except for Hong Kong, Korea and Taiwan ship a larger proportion of their exports to the United States than do any other countries in the group.

Table 2.23 **Distribution of China's Imports from and Exports to Selected Countries or Regions, 1963, 1970, 1980, and 1984 (in percentages)**

	1963		1970		1980		1984	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
U.S.	0.0	—	—	—	26.5	—	17.9	12.1
Canada	18.5	—	10.1	—	5.2	—	5.5	1.3
Japan	11.9	—	42.3	—	35.5	—	43.0	26.9
Australia and New Zealand	38.6	—	9.9	—	6.5	—	5.1	1.3
European Community	29.1	—	33.8	—	19.0	—	17.4	11.5
ADCs	1.2	—	2.0	—	4.2	—	9.7	42.7
RRCs	0.3	—	1.6	—	2.7	—	1.1	3.9
China	—	—	—	—	—	—	—	—
Total	100.0		100.0		100.0		100.0	100.0

Source: UNCTAD trade data tape.

In only two countries, Hong Kong and China, is there a more than 5 percent decline in the U.S. export share between 1980 and 1984, when the dollar appreciated significantly. Indeed, the U.S. export share rose between these years in the Philippines, Singapore, and Malaysia. During the 1970s, however, when the dollar depreciated against the major currencies, the U.S. share of the export market increased in Korea, Taiwan, Thailand, Malaysia, Singapore, and the Philippines. Furthermore, in all of these countries the share of exports supplied by the United States was higher in 1984 than in 1970. In four countries, Thailand, Korea, the Philippines, and Taiwan, the U.S. competitive position worsened between 1963 and 1970. (Data are not available for these two years for China and Malaysia.)

Table 2.24 indicates the importance of developing countries of the APR as an export market for the United States. The shares of total U.S. exports going to the ADCs, the RRCs, and China all increased between 1968 and 1982, the combined share for all three rising from 6.5 percent in 1968 to 13.1 percent in 1982. If one adds Japan's share of U.S. exports to these figures, which increased between 1968 and 1982 from 8.5 percent to 9.9 percent, the combined exports of the United States to the major developing and developed countries of the APR constituted 15.0 percent of all U.S. exports in 1968 and 23.0 percent in 1982. There is no doubt that the Asian Pacific rim is becoming a major area of export interest to the United States.

Table 2.24 **Distribution of U.S. Exports to and Imports from Selected Regions, 1968, 1975, and 1982 (in percentages)**

	All Goods					
	1968		1975		1982	
	Exports	Imports	Exports	Imports	Exports	Imports
ADCs	3.7	3.4	4.6	5.7	7.1	9.3
RRCs	2.8	3.1	3.1	4.8	4.6	4.5
China	—	—	0.3	0.2	1.4	0.9
South Asia	3.1	1.2	2.0	0.7	1.1	0.7
European						
Community	27.0	25.7	23.5	18.0	24.2	17.8
Other						
Western Europe	4.6	4.2	3.6	3.1	3.4	3.2
Japan	8.5	12.6	8.8	12.0	9.9	15.8
Australia						
and New Zealand	2.9	1.4	2.1	1.4	2.6	1.2
Canada	23.5	26.8	20.1	22.5	15.4	18.8
Rest of world	23.9	21.6	31.9	31.6	30.3	27.8

Source: Trade data bank of author.

Table 2.25 examines the success in trade of the United States relative to its major competitors in the import markets of developing countries of the APR, not on an individual-country basis but in the ADCs and the RRCs, as groups of countries, and in China. The competitive record of the United States is shown to be a mixed one. The U.S. export share in the import market of the ADCs in the area remained at around 20 percent between 1963 and 1984, being 20 percent in 1963, 18 percent in 1970, and 21 percent in both 1980 and 1984, whereas its share of the goods exported by the major suppliers to the four RRCs dropped steadily from 24 percent in 1963 to 16 percent in 1984.¹⁵ In contrast, after U.S. trade with China was opened, the U.S. share of the Chinese market rose to 27 percent by 1980, then declined to 18 percent in 1984. For the region as a whole, the trend in the U.S. export share was slightly upward, moving down from 21.6 percent in 1963 to 19.0 percent in 1970 but then rising to 23.5 percent in 1980 and remaining almost unchanged at 23.2 percent in 1984, despite the sharp appreciation of the dollar. The significance of this upward trend in export performance in the APR market can be appreciated by noting that the U.S. share in world exports declined between 1963 and 1984, falling from 14.6 percent in 1963 to 13.6 percent in 1970 and 11.0 percent in 1980 and then rising slightly to 11.2 percent in 1984.

The most successful competitor in the APR market was Japan. Its shares of total exports to the ADCs, the RRCs, and China from the countries listed in the first column of table 2.25 rose for all three between 1963 and 1984. By 1984, Japan was their largest supplier, supplying 30 percent of the ADCs' import market, 26 percent of the RRCs' import market, and 43 percent of China's imports from the countries listed. The main loser in competition for sales in these markets was the European Community; its export shares declined steadily in all three parts of the APR market over the twenty-one-year period.

An important change in the markets of developing countries that is only beginning to be appreciated (e.g., see Ahmad 1985) is that the more advanced developing countries are beginning to be important suppliers of manufactured goods to other developing countries. This is occurring in the APR market. As table 2.25 shows, the export share of the ADCs in their own import market increased from 8 percent in 1963 to 12 percent by 1984, while their export share in the RRCs' market rose from 1 percent to 10 percent between these years. The less industrially advanced RRCs did not participate in this trend, however; their shares to the ADCs and to other RRCs declined over the period.

Another aspect of the growing importance of the market for international goods in the developing countries of the APR is that total exports to these countries by the United States, Canada, Japan, Aus-

Table 2.25 Shares of the United States and Selected Foreign Competitors in Exports to APR Countries (in percentages)

	1963			1970			1980 ^a			1984 ^a		
	ADCs	RRCs	China	ADCs	RRCs	China	ADCs	RRCs	China	ADCs	RRCs	China
Total Exports From All Row Countries												
U.S.	20	24	0	18	20	0	21	16	27	21	16	18
Canada	1	1	18	1	2	10	1	1	5	2	1	6
Japan	22	21	12	33	30	42	28	26	36	30	26	43
Australia and New Zealand	3	2	39	3	5	10	3	4	7	3	3	5
EC	17	20	29	14	22	39	12	14	19	11	13	17
ADCs ^b	8	23	1	10	15	2	12	30	4	12	35	10
RRCs ^b	29	9	0	21	7	2	23	8	3	11	4	1
China	0	0	—	0	0	—	0	0	—	10	2	—
Natural Resource-Intensive Exports from All Row Countries ^c												
U.S.	21	22	0	20	27	0	20	13	52	23	13	28
Canada	1	3	26	1	2	28	2	3	12	4	3	20
Japan	7	7	2	13	13	9	8	7	7	10	6	11
Australia and New Zealand	6	3	55	5	9	27	5	10	15	9	8	19
EC	7	8	14	7	10	26	5	5	4	6	5	11
ADCs ^b	9	34	2	8	19	5	13	40	3	13	47	7
RRCs ^b	49	23	0	46	20	4	50	22	6	24	12	4
China	0	0	—	0	0	—	0	0	—	11	6	—

Labor-Intensive Exports from All Row Countries^c

U.S.	11	20	0	6	13	0	7	7	22	5	7	6
Canada	0	0	0	0	0	0	0	1	0	0	1	0
Japan	49	33	35	53	37	40	42	23	47	31	24	37
Australia and New Zealand	1	0	0	1	1	0	1	1	1	1	1	0
EC	21	8	59	12	13	60	12	8	8	9	8	4
ADCs ^b	13	37	6	26	33	2	27	56	21	18	54	51
RRCs ^b	5	2	0	2	3	0	10	4	2	4	4	1
China	0	0	—	0	0	—	0	0	—	32	2	—

Technology-Intensive Exports from All Row Countries^c

U.S.	23	30	0	24	20	0	27	22	15	25	20	22
Canada	1	0	0	0	2	0	1	1	1	1	1	1
Japan	35	23	32	43	34	56	39	32	50	40	32	44
Australia and New Zealand	1	1	0	1	2	0	1	1	0	1	1	0
EC	33	32	68	23	33	44	17	20	30	15	17	23
ADCs ^b	2	12	0	6	8	0	8	22	5	11	28	9
RRCs ^b	5	1	0	2	1	0	7	2	0	4	1	0
China	0	0	—	0	0	—	0	0	—	3	0	—

Table 2.25 (continued)

	1963			1970			1980 ^a			1984 ^a		
	ADCs	RRCs	China	ADCs	RRCs	China	ADCs	RRCs	China	ADCs	RRCs	China
Human-Capital-Intensive Exports from All Row Countries ^c												
U.S.	14	17	0	9	9	0	9	4	4	9	3	1
Canada	0	1	0	0	0	0	1	1	2	0	1	0
Japan	47	41	43	59	50	71	63	51	70	59	47	79
Australia and New Zealand	2	1	6	3	6	0	3	3	5	1	2	2
EC	26	24	51	16	18	29	13	11	17	16	13	15
ADCs ^b	4	16	0	9	16	0	8	28	1	7	32	2
RRCs ^b	7	1	0	3	1	0	3	2	1	2	1	0
China	0	0	—	0	0	—	0	0	—	4	1	—

Source: UNCTAD trade data tape.

Note: Figures represent shares of total exports of countries listed.

^aData for Taiwan are not included in the 1980 and 1984 figures since the United Nations no longer recognizes Taiwan as a separate country; therefore U.N. agencies no longer collect data on Taiwan.

^bThe shares of the ADCs and RRCs in their own regions measure trade within these regions.

^cThe commodity breakdown into goods that are natural-resource-intensive, unskilled-labor-intensive, technology-intensive, and human-capital-intensive is adapted from Krause 1982.

ustralia, New Zealand, the European Community, as well as by the countries of the region to each other amounted to 2.97 percent of world exports in 1963, 3.56 percent in 1970, 4.74 percent in 1980, and 5.85 percent in 1984.

Changes in the commodity composition of U.S. exports to the ADCs, the RRCs, and China between 1968 and 1982 are indicated in the first part of table 2.26. The comparative advantage of the United States in agricultural products and high-technology goods is evident. As would be expected, agricultural imports are more important for the resource-scarce ADCs and China than for the RRCs. For both the ADCs and the RRCs, exports of machinery have grown significantly in relative importance over the period, from 21 percent for the ADCs in 1963 to 34 percent in 1982 and from 30 percent to 49 percent for the RRCs between these years. The relative decline in exports to China of machinery between 1975 and 1982 may reflect special circumstances. Another commodity class that gained somewhat in relative importance over the period is chemicals, whereas transportation equipment declined.

Further insight into which categories of goods the competitors in the APR market have been successful in exporting can be gained by utilizing Krause's (1982) breakdown of goods into four groups: natural-resource-intensive, unskilled-labor-intensive, technology-intensive, and human-capital-intensive. Table 2.25 divides the exports to the APR region of the United States and its competitors to the region into these four categories. As would be predicted under the factor-proportion theory of international trade, the commodity groups in which the United States has the largest market share are natural-resource-intensive and technology-intensive goods. In trade with the ADCs, the U.S. export share increased modestly over the 1963–84 period for both types of goods. For the RRCs, the U.S. export share declined for natural resource products—a not unexpected result—and also for technology-intensive products, though less than in the other product categories. U.S. performance in the import market of the APR countries declined, as expected, for labor-intensive products and also, rather surprisingly, for human-capital-intensive products. As table 2.27 indicates, the fastest growing category of exports to ADCs and RRCs was, except for the 1980–84 period, technology-intensive goods. The United States is in the fortunate position of specializing in commodities for which market demand is growing rapidly.

Another picture of the nature of the U.S. exports, utilizing the U.S. Department of Commerce (1976) breakdown of all goods into those that are technology-intensive and non-technology-intensive, is presented in table 2.28. The analytical framework behind this division emphasizes temporary differences among countries in developing and introducing new technological knowledge as the basis for differences

Table 2.26 **Distribution of Major U.S. Exports to and Imports from APR Countries, 1968, 1975, and 1982 (in percentages)**

SIC Industries	1968			1975			1982		
	ADCs	RRCs	China	ADCs	RRCs	China	ADCs	RRCs	China
Exports									
Agricultural-crops (1)	23	14	—	26	11	28	18	10	51
Food and kindred products (20)	9	13	—	7	2	0	5	3	1
Lumber and wood products (24)	1	0	—	0	0	0	1	0	7
Chemicals	8	8	—	7	12	2	10	11	22
Primary metal industries (33)	2	2	—	3	5	19	2	2	3
Fabricated metal products (34)	7	4	—	4	4	13	5	4	0
Machinery, exc. electrical (35)	13	24	—	16	29	30	18	22	5
Electrical and electronic machinery (36)	9	6	—	14	17	1	16	27	2
Transportation equipment (37)	13	13	—	10	9	1	7	9	1
All other products	15	16	—	13	11	6	18	22	8
Imports									
Agricultural-crops (1)	0	15	—	0	2	5	0	3	1

Agricultural- livestock (2)	1	0	—	0	0	6	0	0	1
Forestry (8)	1	16	—	0	7	0	0	5	0
Oil and gas (13)	0	5	—	0	41	0	0	30	8
Food and kindred products (20)	4	27	—	4	17	4	1	7	5
Textile products (22)	10	1	—	8	1	22	3	1	10
Apparel (23)	26	3	—	24	3	7	22	6	28
Lumber and wood products (24)	10	6	—	5	2	3	2	2	3
Chemicals (28)	0	0	—	0	0	12	0	0	6
Petroleum products (29)	0	0	—	1	5	0	1	3	18
Rubber and misc. plastic products (30)	6	0	—	6	0	0	4	0	1
Leather and leather products (31)	2	0	—	3	0	1	10	1	3
Primary metal industries (33)	0	18	—	3	6	29	4	3	3
Electrical and electronic machinery (36)	16	0	0	23	10	1	23	30	1
Miscellaneous mfg. (39)	7	1	3	9	1	3	11	2	3
All other products	7	8		14	5	7	19	7	8

Source: Trade data bank of author.

Note: An industry is included if the export or import share of the industry is at least 5 percent in any region in any of the three years.

Table 2.27 Comparative Growth Rates by Factor-Intensity Breakdowns of Exports to APR Countries, 1963–70, 1970–80, and 1980–84 (average annual growth rates in percentages)

	ADCs	RRCs	China
1963–1970			
Natural-resource-intensive	18.6	9.8	4.9
Unskilled-labor-intensive	35.2	4.8	17.3
Technology-intensive	36.8	18.3	45.1
Human-capital-intensive	27.7	17.9	15.6
1970–80			
Natural-resource-intensive	72.5	74.8	97.3
Unskilled-labor-intensive	37.9	43.3	168.3
Technology-intensive	91.6	82.7	107.0
Human-capital-intensive	76.5	62.0	56.6
1980–84			
Natural-resource-intensive	– 1.3	– 0.5	– 5.7
Unskilled-labor-intensive	21.6	4.3	17.4
Technology-intensive	7.8	2.7	11.5
Human-capital-intensive	0.5	– 2.2	12.7

Source: UNCTAD trade data tape.

Note: Exports are from the United States, Canada, Japan, Australia and New Zealand, the European community, the ADCs, the RRCs, and China.

among countries in the commodity composition of trade. Though not always explicit, the ability to create new technology and undertake innovation depends, in turn, on there being high levels of research and managerial skills. The table shows that over the 1968–82 period, the United States has shifted the composition of its exports to every country or region toward high-tech goods. Imports from every region have also moved in this direction, but the percentage by which technology-intensive exports to the world by the United States exceed technology-intensive imports was still about the same in 1982 as in 1968.

Consistent with the factor-proportion theory, table 2.25 shows that the main U.S. competitor in the APR, Japan, gained market-share position over the period in the ADCs, the RRCs, and China in technology-intensive and human-capital-intensive goods, while it lost in the labor-intensive category. The EC lost in every category between 1963 and 1984. In contrast, the ADCs gained in export shares within their own market in every category, registering an especially impressive gain in the high-technology group.

A technique developed by Hilton (1983) provides still another means of revealing the comparative cost position of the United States vis-à-vis the countries of the Asian Pacific rim. It involves regressing the ratio of U.S. exports to U.S. imports to a country by commodity on

Table 2.28 **Composition of U.S. Exports to and Imports from Selected Regions by Technology Intensity, 1968, 1975, and 1982 (in percentages)**

	1968		1975		1982	
	Exports	Imports	Exports	Imports	Exports	Imports
Technology-intensive goods						
ADCs	38	15	41	26	42	27
RRCs	24	0	40	25	52	54
China	—	—	86	94	47	96
South Asia	30	0	42	1	42	4
European Community	42	13	51	17	47	20
Japan	32	26	33	25	37	30
Australia and New Zealand	41	11	40	21	41	29
Canada	19	4	16	5	23	11
World	31	13	31	16	37	20
Non-technology-intensive goods						
ADCs	62	85	59	74	58	73
RRCs	76	100	60	75	48	46
China	—	—	86	94	47	96
South Asia	70	100	58	99	58	96
European Community	58	87	59	83	53	80
Japan	68	74	67	75	63	70
Australia and New Zealand	59	89	59	79	59	71
Canada	81	96	85	95	77	89
World	69	87	69	84	63	80

Source: Trade data bank of author.

the cost shares of capital, unskilled labor, skilled labor, land, and other natural resources in the individual commodities. The coefficients on the various factor shares are a measure of the differences in relative factor prices between the United States and the other country. If, for example, the coefficient on a particular factor is positive, this implies that the relative price of the factor is lower in the United States than in the other country. A negative sign means that the factor is relatively cheaper in the other country and, thus, that the other country has a comparative advantage in producing goods in which that factor constitutes a relatively large proportion of production costs.

The results of regressing bilateral export-import ratios for the United States and the countries of the APR for (in most cases) over two hundred commodities on a fivefold division of factor shares for these commodities are presented in table 2.29. For all the countries listed, the United States has a relative factor-price advantage in skilled labor and a disadvantage in unskilled labor. Furthermore, for all countries except Indonesia (and that coefficient is not significant at the 10 percent level or better), the United States has a comparative factor-price ad-

Table 2.29 Estimated Order of Relative Factor-Price Differences between the United States and Selected Countries or Regions, 1978

	Capital	Unskilled Labor	Skilled Labor	Land	Natural Resources	# Obser- vations
Singapore	4.23 (2.88)	-3.50 (-2.97)	4.81 (3.11)	-.96 (-.22)	-89.61 (-2.02)	203
Hong Kong	4.39 (3.07)	-5.39 (-5.02)	4.63 (3.12)	14.88 (3.47)	9.71 (.13)	240
Taiwan	3.10 (2.07)	-9.40 (-8.25)	6.99 (4.68)	10.74 (3.15)	121.80 (2.55)	240
Korea	3.76 (2.42)	-8.52 (-6.98)	7.63 (4.86)	4.05 (1.03)	116.26 (2.37)	236
Malaysia	7.56 (2.92)	-6.36 (-3.31)	4.44 (1.81)	-9.36 (-1.70)	-128.82 (-1.48)	139
Thailand	2.49 (1.19)	-6.33 (-4.03)	10.29 (4.82)	-4.34 (-.96)	14.50 (-.14)	157
Philippines	2.39 (1.25)	-5.36 (-3.71)	10.03 (4.78)	-2.97 (-.61)	-.04 (.02)	193
Indonesia	-.05 (-.02)	-4.92 (-2.86)	13.27 (4.77)	-12.52 (-2.75)	-201.86 (-2.27)	109
All	4.26 (3.30)	-6.81 (-6.55)	5.67 (4.07)	8.45 (2.64)	-7.50 (-.18)	274
ASEAN	3.35 (2.26)	-4.30 (-3.68)	6.69 (4.26)	-5.51 (-1.36)	-92.68 (-2.00)	242
China	.47 (.11)	-6.45 (-1.96)	10.84 (2.82)	5.45 (.89)	-183.90 (-1.22)	89
Japan	5.42 (4.57)	-4.12 (-4.30)	-1.92 (-1.51)	18.29 (6.04)	130.50 (3.18)	281

Source: Trade data bank of author.

Note: The t-statistic is in parentheses under each coefficient. A t-statistic of 1.67 is significant at 10 percent.

vantage in physical capital. As expected, the United States has a comparative advantage in land-intensive and natural-resource-intensive products vis-à-vis Hong Kong, Taiwan, and Korea. The land coefficient has the wrong (but not significant) sign for Singapore, while the negative sign on the natural resource coefficient reflects Singapore exports of refined petroleum.

The four resource-rich countries, Malaysia, Thailand, the Philippines, and Indonesia, all have a factor-price advantage in both land and natural resources relative to the United States. The U.S. trade pattern with Japan reveals that the United States has a relative factor-price advantage in natural resources, land, and capital and a disadvantage in unskilled labor. Interestingly, though not quite significant at the 10 percent level, the coefficient on skilled labor indicates that Japan has a comparative price advantage in this factor, too.

2.5 Export Performance of the Developing Countries of the APR

Although this paper is primarily concerned with the performance of the United States and its competitors in the APR market, data have also been collected on the performance of the developing countries of the region in the markets of the United States, Canada, Japan, Australia and New Zealand, the European Community, and in the region itself. Analysis of the trade of the individual countries in section 2.3 revealed that every country except the Philippines shipped a larger proportion of its exports to the United States at the end of the period covered (usually 1984) than in the beginning (usually 1963). In most cases the increase was very significant. In contrast, the share of exports from Korea, Taiwan, the Philippines, and Thailand to Japan declined over the period, while the export shares from Hong Kong and Malaysia to Japan remained unchanged. Only the export shares of Indonesia and Singapore to Japan rose. The share of exports taken by the EC declined for Malaysia, Indonesia, and Hong Kong, remained about the same for Singapore, Taiwan, and the Philippines, and increased for Korea and Thailand.

In value terms, the ADCs had a very large trade surplus with the United States in 1984, with exports of \$23.1 billion and imports of only \$16.7 billion. In contrast, the RRCs' exports to and imports from the United States in 1984 both equaled \$5.7 billion.

The relative position of the APR countries as sources of imports for the United States is given in table 2.24. The developing countries of the region supplied 6.5 percent of all U.S. imports in 1968, 10.7 percent in 1975, and 14.7 percent in 1982. The share of the ADCs in these figures rose from 53 percent in 1975 to 63 percent in 1982. Adding Japan's import share to the shares of the developing countries brings the figures to 19.1 percent, 22.7 percent, and 30.5 percent, respectively, in the three years. However, as table 2.30 indicates, although the developing countries of the APR (excluding China) significantly increased their share of total exports directed to the United States between 1963 and 1970, this proportion decreased slightly between 1970 and 1984.

The U.S. export share to the developing countries of the APR rose 6.5 percentage points between 1968 and 1982, while the U.S. import share from these countries increased 8.2 percentage points. The U.S. export share to Japan rose 1.2 percentage points, and the U.S. import share from Japan rose 3.2 percentage points in the same period.

The most important category of imports into the United States from the ADCs and China is textiles and apparel (table 2.26). The proportion that these goods make up of total U.S. imports from the ADCs is declining, but textiles and apparel have become more important in U.S. imports from China. Oil and gas was the main import from the RRCs

Table 2.30 Distribution of Total Exports of APR Countries to the United States and Other Selected Countries and Regions, 1963, 1970, 1980, and 1984 (in percentages)

	1963			1970		
	ADCs	RRCs	China	ADCs	RRCs	China
United States	18.5	19.0	—	37.0	17.9	—
Canada	1.7	0.8	—	2.8	0.7	—
Japan	11.2	20.9	—	11.9	25.0	—
Australia and New Zealand	3.8	1.1	—	2.8	1.7	—
EC	23.8	18.9	—	18.2	14.6	—
ADCs	12.3	31.6	—	15.1	33.8	—
RRCs	28.1	7.2	—	11.3	5.5	—
China	0.3	0.0	—	0.5	0.4	—
Total	100.0	100.0	—	100.0	100.0	—

	1980			1984		
	ADCs	RRCs	China	ADCs	RRCs	China
United States	24.6	16.4	—	34.4	18.7	12.1
Canada	1.7	0.3	—	2.4	0.4	1.3
Japan	10.5	31.8	—	10.9	36.8	26.9
Australia and New Zealand	3.7	1.6	—	2.8	2.0	1.3
EC	18.9	12.3	—	13.4	8.4	11.5
ADCs	16.7	31.0	—	14.2	27.9	42.7
RRCs	22.1	5.6	—	19.2	4.9	3.9
Total	100.0	100.0	—	100.0	100.0	100.0

Source: UNCTAD trade data tape.

in the early part of the period covered, but by 1982 the 30 percent share for this category was matched by a 30 percent share for imports of electrical and electronic machinery. Electrical and electronic products are also an important category of imports from the ADCs.

The change in composition of U.S. imports from the APR developing countries toward more complex products such as electrical and electronic machinery is also apparent from table 2.28, which divides all imports into technology-intensive and non-technology-intensive goods. As this table indicates, imports from all the countries or regions listed are becoming more technology-intensive.

2.6 Direct Investment in the APR Countries

Achieving a market position abroad by means of direct foreign investment, in addition to exporting goods, has become an increasingly important element in corporate strategy over the last twenty-five years. Table 2.31 indicates the extent to which U.S. and Japanese companies

Table 2.31 Outstanding Direct Investment, 1980 (millions of dollars)

Country of Investment	Investment by United States	Investment by Japan
Japan	6,274	—
United States	—	8,878
South Korea	587	1,137
Taiwan	510	370
Hong Kong	1,969	1,095
Indonesia	1,334	4,424
Malaysia	618	650
Philippines	1,244	615
Singapore	1,196	936
Thailand	360	396
ASEAN: Subtotal	4,752	7,021
ADME ^a Subtotal	7,818	9,623
World Total	213,460	36,497

Source: Patrick, 1983.

^aAdvanced developing market economies.

have pursued this strategy in the APR countries. Although total Japanese direct investment in the ADCs and RRCs combined is nearly \$2 billion more than U.S. investment, American investment in the ADCs is greater than Japan's, \$4.2 billion versus \$3.5 billion. In view of Japan's lack of natural resources, it is to be expected that Japanese direct investment in the RRCs is greater. Japanese investment in oil-rich Indonesia alone amounted to 46 percent of its total investment in the region. Korea and Hong Kong were Japan's next most important direct investment markets. Hong Kong, followed by Indonesia and the Philippines, was the most important U.S. investment market in the area.

Tables 2.32–2.35 provide additional information on U.S. direct investment. Tables 2.32 and 2.33 indicate the share of total U.S. direct investment received by individual APR countries and industries in these countries. U.S. direct investment in the APR is a small but rapidly growing proportion of total U.S. direct investment, with the share of total U.S. direct investment rising from 3.6 percent in 1977 to 6.7 percent in 1984. The shares in each country except the Philippines increased between these years. The most important APR countries for U.S. foreign direct investment in 1977 (and, as seen from table 2.31, also in 1980) were, in order of relative importance, Hong Kong, Indonesia, and the Philippines; in 1984 the rank order was Indonesia, Hong Kong, and the Philippines/Malaysia.

U.S. investment in the region is focused more on the primary and service sectors than on manufacturing, which absorbed only 3.6 percent of total U.S. manufacturing investment abroad in 1984, whereas the

Table 2.32 Country Shares of All U.S. Foreign Direct Investment in an Industry, 1977 (percentage)

Country	All Industries	Mining	Petr.	Total Mfg.	Food	Chem.	Prim.	Mach.	Elect. Eqpt.
							Metal Fab.	exc. Elect. Eqpt.	
Indonesia	0.7	a	2.6	0.2	0.0	0.3	a	b	0.2
Malaysia	0.3	0.1	a	0.1	0.1	0.1	0.0	0.0	0.8
Philippines	0.6	b	1.0	0.5	1.8	0.7	0.3	0.0	0.6
Singapore	0.4	0.0	0.8	0.2	0.1	0.0	0.6	0.1	0.8
Thailand	0.2	0.1	a	0.1	0.2	0.1	0.0	0.0	0.2
Korea	0.3	0.0	a	0.3	0.1	0.8	0.0	a	0.3
Taiwan	0.2	0.0	0.1	0.3	0.2	0.4	0.0	0.0	1.6
Hong Kong	0.9	0.0	1.0	0.3	0.1	0.4	a	0.1	1.1

Country	Transp.	Other	Trade	Bank-	Finance	Other Industries
	Eqpt.	Mfg.		ing	exc. Banking	
Indonesia	b	a	0.1	0.2	0.0	a
Malaysia	b	0.1	a	0.2	0.0	0.2
Philippines	a	a	0.5	2.1	0.1	0.7
Singapore	0.0	0.1	0.4	1.1	0.1	0.5
Thailand	b	0.1	a	0.6	0.0	0.1
Korea	a	0.0	a	0.4	0.1	0.1
Taiwan	0.1	0.1	0.1	0.8	0.0	0.0
Hong Kong	b	a	2.2	3.0	0.8	2.5

Source: U.S. Department of Commerce, 1981.

^aSuppressed to avoid disclosure of data on individual companies.

^bIndicates an amount between-\$500,000 and + \$500,000.

shares were 8.7 percent for petroleum, 10.7 percent for banking, 6.4 percent for trade, and 4.7 percent for banking. Indonesia and Malaysia were the major countries in which petroleum investments were undertaken. Hong Kong, Singapore, and the Philippines were important as host countries for U.S. investment in service activities.

Table 2.34 and 2.35 show the industry distribution of U.S. direct investment in each country in 1977 and 1984. Except for Indonesia, there has been a relative shift away from investment in primary-product sectors and toward manufacturing and/or service activities. In Korea and Taiwan the relative importance of U.S. manufacturing investment declined between 1977 and 1984, perhaps reflecting their advancing industrialization. The share of investment in manufacturing increased significantly in Malaysia and Singapore and remained about the same in Hong Kong and the Philippines. Service activities investment increased in relative terms in Korea, Hong Kong, and the Philippines.

Table 2.33 Country Shares of All U.S. Foreign Direct Investment in an Industry, 1984 (percentage)

Country	All Industries	Mining	Petr.	Total			Prim. Metal Fab.	Mach. exc. Elect. Eqpt.	Elect. Eqpt.
				Mfg.	Food	Chem.			
Indonesia	1.9	a	6.1	0.2	0.1	0.2	a	0.0	0.3
Malaysia	0.5	0.0	1.1	0.4	a	0.1	0.1	a	3.1
Philippines	0.5	0.0	a	0.5	1.1	0.8	0.4	0.0	a
Singapore	1.0	0.0	0.8	1.1	a	0.5	1.2	a	5.2
Thailand	0.4	0.2	a	a	0.0	0.2	a	0.0	a
Korea	0.4	0.0	a	0.2	0.5	0.0	a	a	1.0
Taiwan	0.4	0.0	0.2	0.5	0.2	0.6	a	a	1.8
Hong Kong	1.6	0.0	0.5	0.7	0.2	0.7	0.9	a	2.0

Country	Transp. Eqpt.	Other Mfg.	Trade	Bank-ing	Finance exc. Banking	
					Other Industries	
Indonesia	0.0	a	0.2	0.2	0.0	a
Malaysia	a	0.2	0.3	0.1	a	a
Philippines	a	a	0.2	2.0	a	a
Singapore	a	a	1.0	1.6	0.5	0.8
Thailand	a	a	0.2	0.4	0.0	a
Korea	0.3	0.1	0.4	1.6	a	a
Taiwan	0.2	a	0.4	0.9	0.0	0.1
Hong Kong	0.0	a	3.7	3.9	4.2	4.7

Source: U.S. Department of Commerce 1981.

^aSuppressed to avoid disclosure of data on individual companies.

2.7 Conclusion

A number of conclusions can be drawn from this analysis of the economic performance of the United States and its competitors in the developing countries of the Asian Pacific rim, defined to include Singapore, Hong Kong, Taiwan, Korea, the Philippines, Malaysia, Thailand, Indonesia, and China. First, and perhaps most important, is that the APR is a rapidly growing, though still small, international market for goods and services and foreign direct investment. Exports to the countries of the region by their major trading partners, defined as the United States, Canada, Japan, the European community, Australia and New Zealand, and the APR countries themselves, amounted to 3.0 percent of total world exports in 1963 and 5.8 percent in 1984. The share of total U.S. exports going to the APR has risen from 6.5 percent in 1968 to 13.1 percent in 1982. If Japan's share of U.S. exports is added to these figures, the share of U.S. exports taken by the devel-

Table 2.34 Industry Distribution of a Country's Total Direct Investment from the United States, 1977 (percentage)

Country	Mining	Petr.	Total			Prim. Metal	Mach. exc.	Elect. Eqpt.
			Mfg.	Food	Chem.		Elect. Eqpt.	
Indonesia	0.9	74.8	9.9	0.2	3.0	a	0.0	1.3
Malaysia	0.0	a	18.5	0.6	3.2	0.4	0.9	9.9
Philippines	0.0	32.6	37.9	11.9	10.5	1.7	0.1	4.1
Singapore	0.0	45.0	20.5	1.0	0.6	5.4	2.9	8.7
Thailand	2.5	a	21.5	3.8	3.8	1.7	0.0	4.6
Korea	0.0	a	41.5	2.0	22.8	0.3	a	4.3
Taiwan	0.0	6.2	68.7	3.5	19.7	0.4	1.2	34.0
Hong Kong	0.0	20.4	15.1	0.4	3.8	a	1.2	4.4

Country	Transp. Eqpt.	Other Mfg.	Trade	Banking	Finance exc.	Other
					Banking	Industries
Indonesia	0.0	a	0.9	0.8	0.5	a
Malaysia	a	3.2	a	1.7	0.4	3.0
Philippines	a	a	9.1	11.1	3.1	6.2
Singapore	0.2	1.7	14.5	9.5	3.5	7.2
Thailand	0.0	7.6	a	11.4	2.5	3.4
Korea	a	1.3	a	4.3	2.8	2.3
Taiwan	2.7	6.9	8.5	13.9	1.9	0.8
Hong Kong	0.0	a	28.2	10.0	12.3	13.9

Source: U.S. Department of Commerce 1981.

^aSuppressed to avoid disclosure of data on individual companies.

oped and developing countries of the APR increased from 15.0 percent in 1968 to 23.0 percent in 1982.

The United States has performed quite well in competing with the other major trading partners (defined as in the preceding paragraph) of the APR countries. The U.S. export share of this market rose from 21.6 percent in 1963 to 23.5 percent in 1980 and remained at 23.2 percent in 1984, despite the appreciation of the dollar relative to the currencies of Japan, the countries of the European Community, and other U.S. competitors in the region after 1980. Within the region, the U.S. gained slightly in market share in the markets of the ADCs (defined as Hong Kong, Korea, Taiwan, and Singapore), moving from 20 percent in 1963 to 21 percent in 1984, but lost in the RRCs (defined as the Philippines, Malaysia, Thailand, and Indonesia), falling from a 24 percent share in 1963 to a 16 percent share in 1984. In the Chinese market the United States had no market position in 1963, but by 1984 the U.S. share of China's imports from its major trading partners was 18 percent.

Table 2.35 Industry Distribution of a Country's Total Direct Investment from the United States, 1984 (percentage)

Country	Mining	Petr.	Total			Chem.	Prim. Metal Fab.	Mach. exc. Elec. Eqpt.	Elec. Eqpt.
			Mfg.	Food	Trade				
Indonesia	a	88.3	3.4	0.3	0.9	a	0.0	0.6	
Malaysia	0.2	62.4	32.1	a	2.5	0.8	a	23.2	
Philippines	0.0	a	37.4	8.8	15.0	1.9	0.4	a	
Singapore	0.0	24.0	45.4	a	4.3	3.4	a	20.4	
Thailand	1.1	a	a	0.2	4.8	a	0.0	a	
Korea	0.0	a	25.6	5.7	1.1	a	a	10.2	
Taiwan	0.0	12.8	56.0	1.9	15.6	0.0	a	19.9	
Hong Kong	0.0	9.2	16.6	0.5	3.8	1.4	a	4.7	

Country	Transp. Eqpt.	Other Mfg.	Trade	Bank- ing	Finance exc. Banking	Other Indus- tries
Malaysia	a	3.6	8.3	1.6	a	a
Philippines	a	a	4.6	22.0	a	a
Singapore	a	a	13.7	9.4	3.2	4.3
Thailand	0.0	a	7.9	5.7	0.2	a
Korea	3.5	2.6	13.2	26.1	a	a
Taiwan	3.1	a	14.5	13.8	0.7	2.2
Hong Kong	0.0	a	30.0	13.5	15.7	15.1

Source: *Survey of Current Business*, August 1985, p. 36.

*Suppressed to avoid disclosure of data on individual companies.

The major competitor of the United States in the region is Japan. In 1984 Japan's share of the ADCs' market was 30 percent compared to the U.S. share of 21 percent, and the Japanese share of the RRCs' market was 26 percent compared to the U.S. share of 16 percent in that year. Japan supplied 43 percent of China's imports from its major trading partners in 1984, whereas the United States supplied only 18 percent.

Japan has also been the most successful competitor over the period in terms of gains in market shares. In 1963, for example, the U.S. and Japanese shares of imports into the ADCs and RRCs from their main trading partners were about the same, whereas, as noted above, the 1984 Japanese market shares exceeded the U.S. shares by about ten percentage points. The biggest loser in the competition for market shares has been the European Community. The EC's shares of the market for foreign goods in the ADCs and RRCs were only slightly below those of Japan and the United States in 1963, but they are now below the ADCs as supplier to the ADCs themselves and to the RRCs.

The rapid growth in the market shares achieved by the ADCs is one of the most important developments in the area. These countries are beginning to supply an increasing proportion of the market for manufactured goods in the APR. China, too, is now taking an appreciable part of this market.

The various methods used to reveal the comparative advantage position of the United States in the region indicate, as would be predicted from the factor-proportion theory of international trade, that the United States has a competitive advantage in commodities utilizing relatively large capital and skilled-labor factor shares. Furthermore, in the resource-scarce ADCs, the United States has a comparative advantage in land-intensive and other natural-resources-intensive commodities. The United States tends to be at a disadvantage in producing labor-intensive goods in the entire market and in providing land-intensive and natural-resource-intensive goods in the RRCs.

One observes the results of these basic factor conditions in the commodity composition of U.S. exports to the region. They tend to be concentrated in natural resource-intensive goods such as agricultural products and in technology-intensive goods, which, in turn, require a relatively high supply of professional and managerial skills to market successfully. Furthermore, the United States is competing most successfully against its export rivals in the APR market in high-technology products and, to some extent, natural-resource-intensive commodities. One would expect this pattern to continue, though it must be recognized that not only Japan but the ADCs and RRCs are shifting into the high-tech area. The United States must continually upgrade its level of high-tech products to maintain its market positions in the APR market as well as in other world markets.

Market opportunities for the United States depend on economic and political conditions in the countries of the region as well as on U.S. competitive abilities. It appears that the existing ADC governments will continue to pursue export-oriented economic policies. However, there is some political uncertainty stemming from outside pressures in Hong Kong and Taiwan, and from both outside and inside pressures in Korea. It is conceivable but unlikely that these pressures could bring governmental changes that reduce market opportunities in these countries. Even with the present governments in Korea and Taiwan, there is a need for the United States to apply pressures for the removal of various import barriers.

There is considerable political uncertainty in another important market for U.S. goods, the Philippines. One would expect economic policies to continue as they have, with alternate cycles of liberalization and control, resulting in a moderate rate of growth. But, there is also

the possibility of a political shift resulting not only in more inward-looking economic policies but in the loss of U.S. military bases in the country. Indonesia is another country where there are strong political interests favoring import-substitution rather than export-promotion policies. Unlike the ADCs, resource-rich countries like Indonesia and the Philippines are not forced to promote exports of manufactures in order to produce a politically acceptable growth rate. Thailand and Malaysia are not only rich in resources but have adopted policies to utilize their abundant supplies of unskilled labor in producing manufactured goods for the export trade. They should continue to do well, but like the other countries must be pressured to open their own markets to a greater extent.

While this paper has been mainly concerned with the export opportunities of the United States and others in the APR market, data has also been collected on the performance of the APR countries in world export market. The picture that emerges is a familiar one. The developing countries of the APR have sent an increasing share of their exports to the United States, in many cases a significantly larger share. In 1984, U.S. trade with the RRCs was roughly in balance, but the United States bought \$6 billion of goods from the ADCs than those countries purchased from the United States. The shares of exports sent to Japan by the APR countries have generally declined or, in a few cases, remained about the same. For the EC the share changes are mixed—some rising, some staying the same, and others declining.

Textiles and apparel are the most important category of imports from the ADCs and China, but products requiring higher skills, in particular, electrical machinery and electronic products, are becoming more significant. For the RRCs, oil and gas dominated their pattern of exports to the United States, but in recent years electrical and electronic products have challenged these products as the most important export category. Clearly, the APR countries are increasing the degree of complexity of their export product mix.

The 1980 volume of direct investment by the United States was greater in the ADCs than was Japan's, but Japanese direct investment in the entire region was greater than that by the United States. The United States is, however, increasingly enlarging its share of its total investment in the region, though this share is still quite small. It grew from 3.6 percent in 1977 to 6.7 percent in 1984. Oil and service activities, such as banking and trade, are the sectors in which direct investment in the APR countries takes the largest share of world investment in an industry. Services and manufacturing are the sectors in which investment in the developing countries of the Asian Pacific rim is growing most rapidly.

Notes

1. In this paper, APR will refer only to the developed countries of the Asian Pacific rim; Japan is not included.
2. The high proportion of primary product exports for Singapore reflects the large imports of crude petroleum and reexports of refined petroleum products.
3. Hong Kong's rate of population increase is relatively high because of immigration.
4. The account of Hong Kong's trade and development policies is based on Lin and Mok 1985; Chen 1984; Lin and Ho 1981; and Cooper 1986.
5. The account of Singapore's trade and development policies is based on Yue 1980 and 1986; Wong 1981; Roberts 1985; and Cooper 1986.
6. The account of Korea's trade and development policies is based on Frank 1975; Nam 1981; Hong 1977; Balassa 1986; and Cooper 1986.
7. The account of Taiwan's trade and development policies is based on Liang and Liang 1981; Kuo and Fei 1986; Ranis and Schive 1986; Balassa 1981; and Cooper 1986.
8. The account of the Philippines' trade and development policies is based on Bautista 1980; Baldwin 1975; Albuero and Shepherd 1986; and Niksch 1986.
9. Philippines export data for 1984 are not yet on the UNCTAD trade data tape.
10. The account of Malaysia's trade and development policies is based on Ariff 1980; Lim 1984; and Niksch 1986.
11. There are no export figures yet on the UNCTAD trade data tape for 1984.
12. The account of Thailand's trade and development policies is based on Akrasanee 1977 and 1980; World Bank 1980; Adjanant 1984; and Niksch 1986.
13. The account of Indonesia's trade and development policies is based on Rosendale 1977; Anwar 1980; World Bank 1981; and Pitt 1985.
14. The account of China's trade and development policies is based on Hardt and Boone 1986, and Ahearn 1986.
15. In interpreting the percentages in the table, note that the 1980 and 1984 figures do not include trade data on Taiwan.

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2. Robert S. Ingersoll

East Asia and the U.S. Economy

In 1974 when I served as assistant secretary of state for East Asian and Pacific affairs, Henry Kissinger, recently installed as secretary of state, directed our bureau to draft a policy statement for our region. All of us realized immediately that this would be difficult because the countries we covered were so diverse. In our region there was no straightforward Communist/non-Communist rivalry, no cohesive structure like the EEC, no major issue that wove its way through all the nations of the region.

East Asia is still very diverse. Today, Japan is a world economic power and a power unto itself in the region. China, along with several other nations of the region, is still economically backward. The so-called newly industrializing countries—Hong Kong, Taiwan, Singapore, South Korea—have exhibited some of the fastest growth rates in the world. While China manages its economy through central planning, Japan employs market competition and government-business co-operation. Hong Kong's approach is almost *laissez-faire*.

Today, when I consider our economic relations with this diverse set of countries, I feel compelled to start not with a description of East Asia, but with a statement of the policy needs of the United States. First, year after year we have been suffering huge, utterly unacceptable trade deficits. Last year our overall deficit amounted to an unprecedented \$170 billion, and 57 percent of that was with East Asia. This is a problem we have to solve, and the nations that are part of the problem are inevitably going to be affected. We want them to contribute to the solution.

Second, we are a major industrial power in an age of technological diffusion. Nations throughout the world are absorbing industrial know-how, and they are innovating. As a natural result, some of our industries are simply no longer competitive, and our economy is going through a wrenching adjustment. East Asia is a major cause for this adjustment. It is a source of products we love to buy, but at the same time it is a focus of resentment, especially among Americans whose jobs have moved to the region.

Deficits and resentment both lend themselves to protectionism, but this supposed remedy would only delay the inevitable for our uncompetitive industries and needlessly burden our competitive ones. Our economic policy in East Asia should be to support the multilateral framework of GATT and encourage the countries of the region to open their markets wide to foreign goods and foreign investment. We will not achieve our objectives without judicious pressure, and the United States—the chief market for these countries—will have to make clear that the alternative to GATT is a regime of ad hoc agreements on less than desirable terms.

Definition and Description of the Region

I view East Asia from a perspective acquired at the State Department, where East Asia and the Pacific are seen as one region. When I speak of East Asia or cite statistics for East Asia, I include, in addition to the nations already mentioned, Australia, Burma, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and the islands of the Pacific. I exclude the Soviet Union, Cambodia, Laos, North Korea, Outer Mongolia, and Vietnam—nations whose political and economic relations with the United States are severely circumscribed. Let me take a moment to describe the main features of the region.

Altogether, East Asia comprises about one-third of the world's population, compared to the 5 percent share of the United States. Total output of the region is around 13 percent to 15 percent of world GNP, compared to the roughly 23 percent to 25 percent share of the United States.

Japan has by far the largest economy in East Asia. With only one-thirteenth of the region's population, it produces an overwhelming 70 percent of the region's output. China, with two-thirds of East Asia's population, produces only 9 percent of the region's output. This nevertheless makes China the second largest economy in the region. Australia ranks third, South Korea fourth, Indonesia fifth, and Taiwan sixth.

In terms of per capita income, Japan leads the major nations of the region at about \$16,000 per year, according to data for 1986 (table 2.36). That figure was fairly close to U.S. per capita income of over \$17,000

Table 2.36 Population, Gross National Product, and Per Capita Income of East Asia, 1986

	Population (000)	GNP/GDP (billion US\$)	Per Capita GNP/GDP (US\$)
Australia	15,900	164	10,275
Burma	39,300	9	220
China	1,056,000	252	239
Hong Kong	5,500	37	6,740
Indonesia	166,700	78	468
Japan	121,500	1,960	16,150
South Korea	41,600	94	2,371
Malaysia	16,000	26	1,620
New Zealand	3,300	31	9,300
Philippines	55,700	30	500
Singapore	2,590	18	7,025
Taiwan	19,400	73	3,748
Thailand	52,300	41	785
East Asia	1,595,790	2,813	1,762
Asian NICs	69,090	222	3,213
USA	241,900	4,207	17,390

Source: U.S. Department of State.

Note: Asia's newly industrializing countries (NICs) are Hong Kong, South Korea, Singapore, and Taiwan.

last year. Down the scale in East Asia is Australia, at about \$10,000 per year. Thereafter comes New Zealand at about \$9,000 and Singapore and Hong Kong, both around \$7,000 per year. Far lower are Burma, with per capita income of about \$220 per year, and China, at about \$240 per year. Not surprisingly, many of the poorest countries are those in which the labor force is engaged primarily in agriculture.

East Asia has been the scene of some of the most remarkable stories in the history of economic development. Postwar Japan grew at breathtaking rates until the 1970s, and it has continued to grow impressively, despite oil shocks and its now advanced stage of development. Today Japan builds on a tremendous base. Its 4 percent average growth rate in the 1980s is more than the equivalent of adding a new Taiwan to the world's economy each year.

The newly industrializing countries, or NICs, began registering high rates of growth in the early 1970s, and generally they have continued to grow even in the difficult world economy of the 1980s. Recently, however, Singapore and Hong Kong have slowed considerably, although Taiwan and South Korea continue to move ahead.

The less developed countries of the region have grown fairly impressively since the early 1970s—6 percent to 7 percent annually in Indonesia, Malaysia, and Thailand, for example. But in the last two

years, growth has slowed in most less developed countries, even registering zero or negative in Indonesia, Malaysia, and the troubled Philippines. GNP is still rising in China, however.

Exports have been a driving force behind much of the pace-setting growth in East Asia. As a consequence, the economies that have grown fastest are now highly dependent on exports, particularly exports to the United States (table 2.37). Taiwan, for example, exports over one-half of GNP, of which 53 percent goes to the United States. South Korea exports over one-third of GNP, of which 40 percent goes to the United States. Japan, having a more developed domestic economy, exports about one-tenth of GNP, of which 42 percent goes to the United States. Thus, the NICs and Japan depend heavily on exports, and they also depend heavily on the continued openness of the U.S. market. This means that we have considerable bargaining power in our relations with them.

Investment Issues

What problems does the United States face in its economic relations with this diverse and dynamic region? For the most part, frictions in our relations with East Asia can be divided into investment problems and trade problems. Where investment is concerned, Japan and the United States are by far the two dominant players in the region. U.S. direct investment in East Asia is \$33 billion, which constitutes 14 percent of all U.S. investment abroad (table 2.38).

Of the \$33 billion that the United States has invested in East Asia, only \$9 billion is invested in Japan (table 2.39). This is a very low level,

Table 2.37 **Export Dependence of East Asian Nations, 1986**

	Exports as Percent of GNP	U.S. Share of Total Exports
Australia	13.6%	12.9%
Burma	5.4	3.3
China	11.1	18.6
Hong Kong	85.6	29.6
Indonesia	16.9	27.8
Japan	10.5	41.5
South Korea	36.0	39.8
Malaysia	55.1	17.8
New Zealand	19.0	18.9
Philippines	16.2	44.8
Singapore	122.5	21.9
Taiwan	54.9	53.4
Thailand	21.3	21.4

Source: Calculated from U.S. State Department data.

Table 2.38 **Composition of U.S. Direct Investment in East Asia, 1985**

	\$ Millions	% Share
Petroleum	9,993 ^a	30.6
Manufacturing	11,102	34.0
Wholesale trade	4,632	14.2
Banking	1,752 ^a	5.4
Finance, insurance, real estate (excluding banking)	2,375	7.3
Services	565 ^a	1.7
Other industries	1,824	5.6
Total	32,616	

Source: Calculated from *Survey of Current Business*, August 1986, table 15, p. 49.

^aFigure is at least this amount. Disclosure limitations for individual countries prevent publication of exact amount.

given the size of the Japanese economy. In fact, the level of all foreign investment in Japan—U.S. and otherwise—is very low compared to the levels in other advanced nations of the world. This situation is a legacy of the strict laws against foreign investment that Japan maintained during much of the postwar period. These laws have been rescinded, but the government still retains broad administrative powers to reject investments that might endanger national security, damage existing Japanese businesses, or adversely affect the government's ability to guide the national economy.

Table 2.39 **Composition of U.S. Direct Investment in Japan, 1985**

	\$ Millions	% Share
Petroleum	2,178	23.9
Manufacturing	4,621	49.7
Food and kindred products	127	1.4
Chemicals	1,244	13.7
Primary and fab. metals	50	0.5
Nonelectrical machinery	1,620	17.8
Electrical equipment	337	3.7
Transportation equipment	578	6.4
Other manufacturing	665	7.3
Wholesale trade	1,442	15.9
Banking	177	1.9
Finance, insurance, real estate (excluding banking)	519	5.7
Services	74	0.8
Other industries	83	0.9
Total	9,095	

Source: *Survey of Current Business*, August 1986, table 15, p. 49.

This means that many potential investors still face regulation. Usually this regulation follows the standard Japanese practice of private consultation between Japanese officials and Japanese companies in the potential investor's industry, often with the intention of maintaining "orderly markets" and preventing "excessive competition." While entrants to expanding markets may face few difficulties, entrants to mature or declining markets are likely to deal with Japanese officials who are under great pressure to obstruct the investment.

South Korea, perhaps following Japan's example, has maintained tight control over foreign investment. In recent years it has instituted new, more liberal guidelines, but the power of entrenched special interests is strong and the attitudes of many Koreans remain autarkic. The People's Republic of China partially opened to foreign investment in 1979, but procedures there are bureaucratic, foreign exchange is difficult to obtain, and control over local personnel is often limited. Potential investors face similar difficulties in many other countries of East Asia.

U.S. policymakers should recognize that fears of foreign economic domination on the part of the less developed nations of East Asia are legitimate, but at the same time they should strive to convince these nations to open their economies to the technology, jobs, and managerial skills that flow from foreign investment.

From Japan and the NICs, on the other hand, we should accept no excuses for restricting foreign investment. Japan is itself the world's greatest net holder of assets abroad. Apart from only the clearest reasons of national defense, Japan has no grounds for hindering foreign investment. And the NICs have advanced well beyond the point where they can justify restricting investment by claiming the vulnerability of a less developed economy.

Trade Issues

Greater freedom of investment is vital, but clearly the biggest issue in our relations with East Asia is trade. Last year we sold goods worth \$59 billion to the region and purchased goods worth \$155 billion from the region. We exported industrial machinery, high-technology goods such as aircraft and computers, and agricultural products and processed resource-based commodities such as aluminum and lumber. We imported a wide array of consumer goods and industrial products.

The United States' number one trading partner in the region is Japan. Last year the total value of United States–Japan trade—that is, the value of exports plus imports—was \$112 billion. This constituted over half of total U.S. trade with the region. United States–Taiwan trade ranked second at \$26 billion or 12 percent of total United States–East Asia trade. The volume of our Taiwan trade was over three times the

volume of our trade with the People's Republic of China, despite the expansion of United States–China trade in recent years.

United States–East Asia trade is complementary—each party improves its welfare by importing goods that can be produced more cheaply abroad than at home. However, the net flow of goods has grown tremendously out of balance (fig. 2.1). In 1970 the U.S. deficit with the region was slightly less than \$2 billion. In 1980 it was \$18 billion. In 1985 it was \$80 billion, and last year it reached \$96 billion. With only two nations of the region—Australia and Brunei—did the United States run surpluses last year. Fifty-nine billion dollars of our trade deficit was with Japan, which sold over three times more goods to the United States than it bought from the United States. Sixteen billion dollars of our deficit was with Taiwan, which sold over four times more goods to the United States than it bought from the United States.

The United States' trade deficit with East Asia is clearly a problem of major proportions, and it should be acknowledged at the outset that U.S. economic policy is partly to blame. The need to fund staggering budget deficits has propped up dollar interest rates and consequently the dollar itself. An overvalued dollar has made imports attractive and has hampered the ability of U.S. industry to export. This has caused the United States to run record-high deficits with almost all of its trading partners, not just with East Asian countries (table 2.40).

Recently the value of the dollar has gone through a year-long fall, and the latest trade data suggest that the trade deficit may finally be declining. However, changing exchange rates will not eradicate the

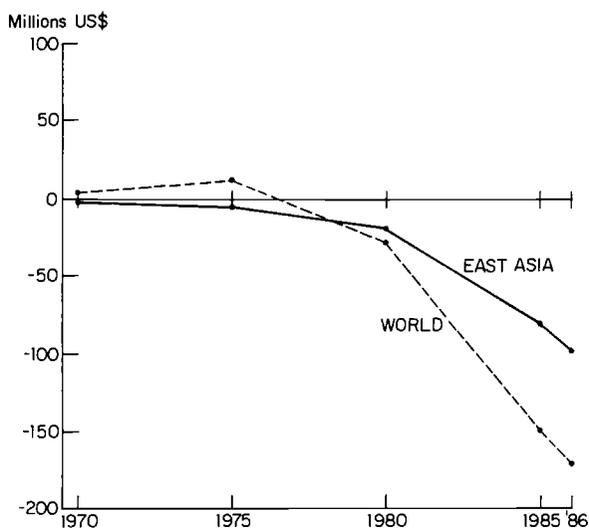


Fig. 2.1 U.S. Trade balance with East Asia and the world, 1970–86.

Table 2.40 U.S. Trade Balance with East Asia, 1986

	U.S. Surplus (deficit) (millions US\$)	Percentage of Total U.S. Deficit
Australia	2,380	—
Brunei	137	—
Burma	(2)	0.0
China	(2,135)	1.3
Hong Kong	(6,444)	3.8
Indonesia	(2,757)	1.6
Japan	(58,837)	34.7
South Korea	(7,588)	4.5
Malaysia	(807)	0.5
New Zealand	(224)	0.1
Philippines	(805)	0.5
Singapore	(1,519)	0.9
Taiwan	(16,069)	9.5
Thailand	(1,018)	0.6
East Asia	(96,022)	56.6
Asian NICs	(31,619)	18.6
Western Europe	(33,583)	19.8
Latin America	(13,227)	7.8
World	(169,777)	—

Source: U.S. Department of State.

Note: Asia's newly industrializing countries (NICs) are Hong Kong, South Korea, Singapore, and Taiwan.

deficit—at least not soon. While the dollar has fallen about 40 percent against the Japanese yen over the past year, it has dropped less dramatically against the currencies of many other trading partners, particularly other East Asian trading partners (table 2.41). Even more important, a major component of the deficit problem is restrictions on the access of U.S. goods to many East Asian markets, and this situation is changing slowly.

Japan, for example, is a notoriously hard market for U.S. companies to crack. Although tariffs are low, domestic competition is keen, language is a nettlesome obstacle, and not least of all, many Japanese businessmen prefer the certainty of dealing with other Japanese to the uncertainty of dealing with foreigners. Japan should not be faulted for these barriers. They are facts of economic life in Japan, and our companies simply must work to overcome them.

However, there are barriers for which Japan should be faulted. For example, the Japanese government targets industries for growth. These industries receive, in addition to subsidies, a veil of official and unofficial protection against threatening foreign competition. This can

Table 2.41 Japanese Yen/U.S. Dollar Exchange Rate Yearly Average, 1970–86

Year	Rate
1970	358.15
1971	348.03
1972	303.11
1973	271.31
1974	291.90
1975	296.75
1976	296.48
1977	268.37
1978	210.40
1979	219.18
1980	226.53
1981	220.41
1982	249.05
1983	237.45
1984	237.58
1985	238.47
1986	168.50

lead to unending frustration for foreign companies that try to sell to Japan, even when they enjoy clear competitive advantages.

Barriers in Japan were once overt, legal, systematic, and pervasive. This is no longer the case. However, the protectionist orientation of the nation's early postwar period lives on in the minds of the business and governmental bureaucrats who administer, regulate, and purchase in Japan today. Certainly, Japan has carried out an extensive program of trade liberalization, and for this it deserves credit. In fact, Americans have probably been slow to grasp the changes. Clearly, our companies have not taken full advantage of the new access to Japanese markets. Nevertheless, Japan is still not as open as it ought to be, especially in view of the benefits it derives from the free trade policies of other nations.

What is most unfortunate about this situation, though, is that Japan is a model for other East Asian nations. Its constant reluctance to liberalize—indeed, almost never to concede except under pressure—is not going unobserved by other nations in the region. Perhaps with Japan in mind, perhaps not, these other nations are collaborating with local businesses to nurture infant industries until they are strong enough to compete on world markets. Sometimes this policy works. Sometimes it does not. When it does work, the result is trade friction. When it does not, the protectionist nation ends up, first, denying itself the

benefits of foreign investment and second, creating hothouse industries that can survive only through protection and subsidy.

This is especially true for the smaller nations of the region. Their domestic markets are not big enough to do what Japan has done, that is, grow domestic industries to a scale sufficient to compete in international markets. When they try and fail, the result is misallocation of resources and harm to the national welfare.

Structural Adjustment

Trade is a tremendous problem in East Asia, but to properly understand it we should view it in the context of history. For a brief period after World War II, devastation in Europe and Asia gave the United States world superiority in industrial technology. So decided was this dominance that we produced more than 60 percent of the world's manufactures in the late 1940s. The revival of the industrial economies of Europe and Japan has eroded our share of world manufactures and exports.

Today we are witnessing the extension of industrial technology beyond Europe and Japan to regions of the world that were not industrialized prior to World War II. In East Asia, the NICs are assimilating industrial technology at a ravenous pace. Eventually China will follow the same path, though it is still very far behind, building on a relatively small economic and educational base. As industrial technology continues to diffuse, East Asian economies will continue to shift the scales of comparative advantage in the world.

This will cause major changes in the United States. Heretofore, the United States has, both before and after its temporary postwar dominance, exported goods that are long on engineering and short on unskilled labor. We have imported goods that are short on engineering and long on unskilled labor. The traditional sources of our comparative advantage have been our high level of technical education and our experience organizing for production. These are now being challenged by the nations of East Asia.

This need not harm us. Some of our industries will move offshore, but some will stay here and prosper. The real challenge to us is the challenge of adjustment. If we protect our industries, we will do no more than create uncompetitive subsidy-sustained cripples that will siphon resources from true job-creating enterprises. Instead we must retrain the workers in our uncompetitive industries. This is not a simple task, because education in the United States has fallen to the point where many of our workers today are not able to read, write, and calculate well enough to make retraining practical.

We must, of course, make every effort to increase our access to East Asian markets, whenever justified, so that our industries that are world

competitive can achieve their full potential. Greater access to East Asian markets would also deflect U.S. domestic political pressure for protectionism. It is vital that we gain the access we deserve, and we should use our leverage with export-dependent NICs and Japan to ensure that we get it.

Conclusion: GATT or a Less Desirable Alternative

How do we translate this into policy? First, we should be careful not to throw our weight around until we have put our own house in order. We should cut our huge budget deficit and establish meaningful programs to retrain displaced workers. Also, we have to work harder to export to East Asia, rather than rely on our own domestic market as we have so much in the past. Once we have embarked on these tasks, however, we should carry out an active East Asian economic policy based on the premise that free trade under GATT is best for all nations of the region. This approach, with due safeguards for the economic independence of the less developed nations, clearly provides the best framework for balanced, equitable economic growth within the region.

However, not all nations will perceive their interests in this fashion. Some for reasons of ideology, others due to excessive nationalism, and still others because they misinterpret Japan's economic development will attempt to gain the benefits of GATT without meeting its obligations. For these nations a carrot and stick are called for. We should offer them a choice between GATT and tough bilateral agreements that restrict their exports to the United States, if necessary. The so-called voluntary restraint agreements are an example.

These are not tools we should want to use. They are protectionist measures, and they violate the multilateral spirit of GATT. When we use them we should recognize that we are courting the danger that they will cause world trade to degenerate into a melange of minor trading systems, each protectionist vis-à-vis the others. But this is a risk we must take when other nations follow policies that hinder the ability of our own industries to do what they do best.

This sounds threatening, perhaps, but it is based on the positive premise that free trade serves us better than protectionism. We know that tremendous structural adjustments are on the horizon for American industry. If we forget about protecting dying industries and instead devote ourselves to educating and retraining our people, we will continue to maintain our sources of comparative advantage. Then our own standard of living will increase along with the standard of living of the peoples of East Asia, as they and we increase our productivity.

3. *Woo-choong Kim*

The Era of Pacific Coprosperity

Many people think of Asia when the word *Pacific* is mentioned, but the Pacific is actually a huge area that includes North, Central, and South America, and Oceania, as well as the Far East and Southeast Asia.

This vast area includes nations highly divergent in history, culture, language, and stages of economic development, so it is easier to pinpoint differences rather than similarities among these many nations. Consequently, I focus on those nations where political, cultural, and economic considerations are closely interrelated, and where Western and Oriental civilizations come together, namely, the United States, Korea, Japan, and China.

Recent Changes in the Pacific Theater

The world has focused greater attention in recent years on the Pacific Theater. In recent decades, nations in the Pacific Theater have shown the largest and most consistent growth in trade volume and GNP in the world, accompanied by correspondingly rapid changes in their economic and social structures. These nations have quickly emerged as new markets and new competitors in the international economy.

This area of the world has most dramatically demonstrated the superiority of capitalism over communism, an ideology that had been dazzling many people in the region for a long time. In recent months, even the Soviet Union, the Eastern bloc nations, and China have been paying greater attention to the benefits of the capitalist system. In particular, the Asian NICs, by taking resolute steps for increased trade and the international division of labor, have aptly demonstrated the importance of free trade in promoting economic welfare and political stability.

For a variety of reasons, American interest in the Asian Pacific has developed rapidly in recent years. But we can look to World War II for the seeds of this interest. The role of the United States in the Pacific during the war was obvious, but it was in the postwar period that America had the opportunity to spread the development of democratic and capitalistic ideologies to highly different cultures and distant regions. Through national defense and foreign aid programs, the United States began to exert increased influence, while at the same time developing more interest in the Pacific at home.

As ties increased, so did trade. One result has been that the trade volume with the Pacific totaled \$116.5 billion in 1985, some \$20 billion larger than total American trade with the Atlantic for that year.

With the birth of a new international economic order influenced by the Asian Pacific, the United States has been required to make important changes in its trade and industrial structures. This has focused greater attention on the western Pacific as well. Competition by these nations with the United States on the global market has vastly increased.

Japan's targeting-industry strategy has been highly effective. And the NICs, mainly in the Asian Pacific, mass-produce and export low-cost, reasonable-quality products to world markets. This is made possible through their relatively low labor costs and use of newer equipment and improved medium-level technology. As a result, the American industrial structure is changing rapidly.

Also, we observe the gradual migration of population and industry from the northeastern United States to the South and West. As a result, the United States is looking increasingly more to neighbors to its west. Consequently, we see an increasing number of Americans with a more accurate understanding of Oriental society.

Rapid progress in shipping, transportation, and communications has led to tremendous increases in both material and human movement in the Pacific region. Also, the presence of American troops in many nations and the influx of large numbers of Asian students, military personnel, and civilians to the United States have resulted in adaptation of Western concepts and models of managerial strategies, the spread of Western production technology, and the promotion of cultural exchange.

One major result has been the rapid development of a production basis for multinational companies. This, in turn, has resulted in the proliferation of reasonably priced, quality industrial products for both domestic and world markets. But at the same time, a number of important questions have arisen concerning managerial strategies for such multinational companies.

For example, each of these big companies, competing with fewer domestic firms, has to develop strategies to become the lowest-cost producer in the international market. Or the companies are forced to induce flexible manufacturing systems which are, at this stage, rather unstable in the ever-changing international economic climate. And there is the important question of sharing profit margins between the home office and overseas operations. Furthermore, in addition to adapting to each host nation's policies and regulations, such firms must develop a total global strategy to encompass production, finance, personnel, and other facts of international operations. All of this becomes exceedingly complex.

Rapid technological development has also arisen as a major concern for all. Until recent decades, technological development has largely been centered in the United States and Europe. But Japan and the NICs have been rapidly expanding their technological development

capabilities, and the technological gap with the United States continues to narrow. This means even greater and more diverse international competition in the years ahead. But the full impact of the importance of this issue is not yet clear.

With increased world and American attention on the Pacific, we are seeing greatly activated study on comparative culture. These efforts are aimed at defining the best that both East and West have to offer in terms of social and cultural development.

Considerable interest is now being shown in the merging of cultural differences. Western experts are showing marked interest in traditional Asian culture for the social and moral cohesion it provides. In the Pacific and particularly in East Asia we are seeing successful industrial development based on the gradual amalgamation and digestion of traditional Asian thought with Western concepts of practicality and individualism. Until now, much of Asia has been preoccupied with idealistic value and suppression of individualism for the common good through organizational control.

In contrast, Western industrialized society is based largely on contract, law, and the quest for individual profits. But with increased economic and cultural cooperation, the time has come for the West to realize the importance of restraint on short-term individual interest for the common good as found in Asian mentality. Acceptance of this notion should result in a strategic design that should affect not only short-term effectiveness in managing organizations, but also long-term motivations for improving interrelationships among different interest groups with different experiences or cultures.

The contrasts between East and West are interesting enough, but the merger of these two distinct approaches to life is proving to be even more so.

The Future of the Pacific Theater

It is safe to say that the Pacific region will continue with rapid economic growth, and we will see continued growth in terms of quality as well as quantity. Growth of the past, based mostly on extended trade, will become supplemented by increased technological improvements and advances. The nations mentioned should be increasing their role in becoming main suppliers of technology to the world in years to come. At the same time, their economic prosperity, good work ethics, and habitual frugality should bring continued increases in domestic savings, which in turn will make these nations future suppliers of capital to the rest of the world.

We can also expect a continued rise in the prominence of multinational conglomerates. They will become more realistic in adapting to ever-changing situations and more efficient in setting up global strat-

egies, through increased experience and through harmonizing Eastern and Western cultures. This will, of course, result in expanded economic development as well.

Politically, through weakening support for the Communist system, we will see greatly reduced tensions between East and West, with the previous "ideological war" being replaced by détente and "ideological amalgamation." The Pacific region will also serve as evidence that democracy is possible even in Oriental countries, where no great respect for democracy has existed in their long history.

We can find many reasons to be optimistic about continued economic development for the Pacific Theater. One is the prospect for future markets. A full two-thirds of the world's population is in Asia, and much of this market is yet to be tapped.

Additionally, we can be optimistic about resources. China, ASEAN countries, the United States, and Australia have huge deposits of untapped natural resources which can be put to use over an extended period of time. They have human resources as well: There is plenty of manpower. People work hard, and there are relatively high levels of education in many nations in the region. And as China and India become more liberalized and open, we can expect increased practicalism and better utilization of both natural and human resources in the region.

Economic barriers to trade are also expected to lessen. This will be attributed to continued technological developments in shipping, transportation, and communications, wider use of information systems, and general trends toward international cooperation on all levels.

The current rigorous exchange of culture is developing a worldwide sympathy never experienced before. International understanding, as a result, should promote such a global consciousness even further and restrain unnecessary international frictions. However, a favorable environment cannot be the only factor in determining the future. A more important factor would be who will do what, and how.

We have seen history being made by people, especially by leaders of each era. Consequently, to see into and understand the future of the Pacific Theater, we should look to projected leading nations and ask about their approach to solving the problems before us.

Expected American Responses to the Pacific Era

Considering all regional aspects, we expect both the United States and Japan to maintain their positions as leaders in the region, sort of the locomotives pulling the train; the other nations will follow as manufacturers and suppliers to the world market. This is the reality. Therefore, it is useful for us to speculate on what would be the American response to the emerging Pacific era. Some of these responses and strategies may contribute considerably to further promotion of Pacific coprosperity, while others may be harmful even to America itself.

On the bright side, many Americans are proud that the United States is the international leader in all aspects and believe in her ability to accommodate to ever-changing situations and to compete with any nation in the world. I personally agree with this view. And I am happy to see that Americans have already started to heighten international competitiveness through greater fusion of economic and social issues. These movements of curing social incompetence include attempts to reduce the drug problem and to increase sociopsychological education for workers, to improve productivity at various levels, and to revitalize entrepreneurial culture and technical manpower—pursuing advanced technologies.

On the other hand, for political reasons, we may see increasing American protectionism, which had been the exclusive right of less developed countries. Current sectional or regional interests may easily become too influential on a national level. We may see American consumers begin to outspend themselves. And the extreme convergence of brains upon such careers as lawyer and investment banker may result in even lower productivity in the manufacturing industry in general.

America is now faced with some difficult economic situations. These situations may easily induce ordinary people to seek easy, short-term solutions rather than difficult, long-term, yet highly effective solutions for lasting prosperity. These situations are not unlike those that other nations are facing.

New Attitude for a New Era

Neither protectionism nor currency depreciation can be a valid recipe for this situation. No one will benefit from these measures. Only productivity increase itself can serve as a means of solving current and future problems intrinsically.

To promote this new era of coprosperity in the Pacific, all nations involved must develop new attitudes that will drive out the temptation for short-term and one-sided profits and that could bring long-term, mutual benefit for international society. In this sense, I ask you to reconfirm the belief in free trade. The new round of GATT talks is a necessary and urgent step in this direction.

Second, by restricting such movements as isolationism or new nationalism, we minimize the risk of making political issues of economic problems.

In the arena of international trade, some Americans have often asserted that the uncompetitiveness of American goods is due mainly to “unfair” trade practice by Japan and the NICs. We often hear about “manipulated” or “assaulting” industrial policies and “unfairly managed” exchange rate systems of other governments. But those people may not clearly perceive the total picture. In Japan and other NICs,

people really work hard. They save as much as possible. They study foreign markets as much as their own domestic markets. Americans should be aware that the leaders and people of recently prospering countries have been ready to sacrifice their own short-term interest for their common good and better competitiveness. American pioneers did the same things, with the spirit of challenge, when they built this great society. The present situation may be different from the past in some ways, but the solution seems to be the same.

Also, fairness in all aspects of international cooperation must be stressed. For being fair in the long run, leader nations should bestow short-term favors to follower nations for their own, as well as for everyone's, long-term interests. History tells us that, in a solid society, leaders are willing to sacrifice their own interests for the long-term prosperity of the whole of society. Ultimately, followers are expected to accomplish their roles by learning from leaders.

Pacific Economic Community: An Example

I know this is not the time for vague ideas and soft rhetoric. It is the time to implement idealistic values with practical, concrete programs without further delay. Therefore, I propose a kind of "Pacific economic community" to create reliable and fruitful ways for the everlasting expansion of trade and coprosperity within the region.

Too many economic theories tell us the advantages of the free trade system, which we can never give up. But history tells us that no nation seeks a free trade policy without confidence in its ability to compete, without heartfelt needs for complementarity, and without deep trust in its trading partners. To satisfy these conditions we should have a synthetic agreement covering the forward directions each country should go into and the time schedule every government must keep in mind. Let me give an example.

Because we are aware that trade cannot be a zero-sum game, we need to prepare not ceaseless piecemeal negotiations but an omnibus plan that provides us with the steps to correct in a short time the ill-balanced balance of payment problems.

To resolve current problems with some nations' balance of payments, each government involved should draft a list of products that it would buy and that it could produce more economically than other nations. The products and related industrial policies should be adjusted gradually and with forward strategy by an intergovernmental committee considering balance of payment situations and industrial capabilities of each country. This would help make long-term planning by governments more reasonable and guide private companies to invest, produce, and market with higher confidence in the future international business environment.

At the same time, a new principle on a new international division of labor would have to be established; this would prevent any one nation from completely monopolizing any one industrial sector. In principle, the United States could concentrate on innovative technology, capital investment, and venture business, while Japan could make use of commercialization of technology development and capital investment. Korea and China would offer plenty of diligent manpower with acceptable levels of education and great willingness to learn from more advanced nations. Of course, formation of a research team backed up by every government would bring us more concrete programs.

In promoting further inter-Pacific cooperation, the leader nations could provide greater capital and technical support for the development of large deposits of natural resources in China and the ASEAN countries, while aiming at greater industrial development in these areas. The leader nations should keep in mind that an eternally poor nation can never be their market and that it is in their own interests to help bring nations out of poverty.

Essential to the success of the new system would be not only the willingness of all nations to establish valid systems for the efficient use of abundant resources, but also the determination to sacrifice short-term, sectional, and unilateral self-interest as well as the wisdom to develop more concrete programs to implement politically.

Since it is hard for any nation to sacrifice its own interests, even if they are sectional or regional, there is little chance of developing a common-benefit system without great efforts. So the development of a Pacific economic community requires decisive political action and determination to convince people that such a community would benefit all.

We are confronted with a difficult and historically important assignment which should be done without failure. The time has come for ideas and theories on such an economic community to be implemented for true coprosperity. Wishful thinking and vague ideas never build a better tomorrow. We all have a moral and historical responsibility to forge ahead into that better tomorrow through action and cooperation today.

Summary of Discussion

Woo-choong Kim noted that Hyundai had sold only about seven cars to Japan and remarked that it is difficult to market to Japan, suggesting that the Japanese should open their economy more. If they did so, he predicted, within five years Korea would have a favorable trade balance

with Japan. Korea will produce parts and import the facilities from the United States and Europe. If the Japanese do not use Korean parts, they will not be able to compete.

Kim proposed that many people underestimate American competitiveness. Most American companies, he thought, have increased their competitiveness. He has some doubts, however, about whether American workers can work hard enough. Another concern is the brain drain in the United States into law and investment banking, both of which hurt industry. Furthermore, Americans overemphasize high technology to the detriment of medium technology. Americans must develop a consensus to support the country, not just themselves. Service industries are not sufficient in their own right. Financial markets, for example, follow the underlying industrial base; the Japanese are fast becoming financial powers because of their underlying strength.

Korea has succeeded because it has a new generation of leaders who graduated from school after independence. The country has a wonderful work force of educated, hardworking people. Koreans are ready to sacrifice, to work hard as a duty.

Korea's exchange rate is not necessarily undervalued. There remains \$43 billion in debt. Furthermore the country faces the North and has to buy defense hardware, as well as satellites and other goods unavailable at home.

By 1990 or 1991, American trade will be in balance, Kim continued. In any case, Korea is not the problem since it is taking the Japanese or European share of the American market. The Japanese price six months to one year ahead, so they take time to adapt to the currency fall. They will soon start having problems.

The focus of the discussion shifted to the restrictive trade policies of Japan, Korea, and the other newly industrialized countries. Robert Baldwin pointed out that we cannot attribute the U.S. trade deficit to the trade policy of Japan and the NICs because they were always closed while the trade deficit is only five years old; instead he emphasized macroeconomic factors and the budget deficit. He also argued that a nonmarket means of allocating production between countries would be politically unfeasible and economically inefficient.

Baldwin contended that reducing the large amount of protection in these countries should nonetheless be pursued. They will open up, he predicted, and when they do we will all benefit; recent economic history teaches that a liberal trade policy leads to rapid growth. The question is how to achieve this openness. Baldwin argued that bilateral pressure, a new phenomenon, is quite effective, partly since small countries get a free ride in GATT. For this approach to work, retaliation must be a possible recourse, and the voluntary export restraint is too much against GATT to be the weapon of choice. Rather, Baldwin prefers antidumping and countervailing duties as part of well-defined fair trade laws.

One participant said that in 1987 Korea was almost 94 percent free to imports, and he predicted close to 100 percent opening of the market by 1990. Koreans are willing to open to the United States in light of its growing trade deficit problems with Korea and other countries, but there is general apprehension that a broad opening up of the market might end up benefiting only countries like Japan, more so than the United States. So the problem is with countries that have no trade deficit problems; because they would attack a more open market aggressively, the Americans and Koreans should arrange for mutually profitable trade between themselves. The problem, he contended, is that U.S. companies think domestically, while exporting to Asia requires a more international perspective. Most Korean leaders, for example, have been educated in the United States.

Saburo Okita agreed with one aspect of the discussion, that inter-Asian trade is too small, amounting to something like 15 percent of Asian trade, while trade with the United States is 40 percent of the total. In Europe, by contrast, intraregional trade is 50 percent of the total while trade with the United States is 10 percent. Thus one way to reduce pressure on U.S. markets is to open markets to Asians.

Robert Ingersoll and Woo-choong Kim agreed, but both emphasized the need for mutual opening. Ingersoll suggested that the Japanese should take some responsibility in this area and should be the first Asian country to open up.