

**TRUNCATED GLOBALISATION: THE FATE OF  
THE ASIA PACIFIC ECONOMIES?**

**Ross Garnaut and Ligang Song\***

**Research School of Pacific and Asian Studies and  
Asia Pacific School of Economics and Government  
The Australian National University**

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The Asia Pacific region has returned to strong growth in the early twenty first century, leaving the financial crisis and the US “tech wreck” and recession behind it. East Asia is again the main locus of growth in output and trade in the world economy, as it was in the decade before the financial crisis. Intra-regional trade within East Asia continues to grow much more strongly than total East Asian, Asia Pacific or world trade. Trade in components expands more rapidly than in final goods as firms, many of them formed through direct foreign investment in or from East Asia, relentlessly search for and find more cost-effective ways of supplying goods and services.

Some things are different in this new era of internationalisation of and growth in the Asia Pacific economies. This era is centred on economic growth, internationalisation and more general structural change in China. The first East Asian global boom had Japan at its centre (Drysdale 2003).

This time Southeast Asia is more ambivalent about the processes of internationalisation, and experiencing strong but less spectacular growth than in the earlier period. The main Southeast Asian states and ASEAN are less prominent in leadership of the conceptual and political currents of Asia Pacific affairs. The caution comes to some extent from the hard lessons from the experience with the earlier period of optimistic expansion that came to a painful and unexpected end. It is affected by the scale and pace of change in China, which offers immense opportunity, the realisation of which requires constant change in specialisation in production and trade to stay out of the way of emerging Chinese comparative advantage.

Most importantly of all, this time there is no ground for confidence that the continued strengthening of an open multilateral trading system will provide continually expanding access on a non-discriminatory basis for exports from each Asia Pacific economy’s most productive industries as they evolve over time. The old Western Pacific doctrine of Open Regionalism, and a conceptual framework within which unilateral trade liberalisation, regional cooperation within ASEAN and APEC and multilateral liberalisation under the aegis of the WTO complement each other, have gone. No conceptual or institutional alternative has emerged to provide confidence that the international environment will support continued rapid, internationally-oriented growth. The consequence is a feeling of vulnerability, and a rush into

defensive discriminatory trading arrangements, the overall effect of which at best will be extremely disappointing for those who hold most hope in them. At worst, the contemporary disintegration in commitment to open multilateral trade threatens to truncate the beneficent process of globalisation in the Western Pacific and Asia Pacific economies, with its promise of rising and eventually high living standards throughout the region.

The paper describes and analyses the internationalisation of the Western Pacific economies over the past several decades, the policy and institutional environment in which it has evolved, the effects on the Western Pacific and Asia Pacific economies, and the effects on the global economy. It then focuses on the sea-change in trade policy orientation in recent times and its consequences, including weakened support for domestic reforms, implications for the international trading system, higher transactions costs in trade and the loss of potential gains from trade. It suggests ways of reducing the prospects of the worst outcomes.

Few governments in the Asia Pacific have comprehended the costs and risks of favouring discriminatory over multilateral trade. The new trend towards preferential trade in the Asia Pacific may prove to be unable to support continued strong trade liberalisation, trade expansion and economic growth in the Asia Pacific. The hope for sustaining reform, productive internationally-oriented structural change and economic growth lies with early recognition that our region has driven into a dead-end, leading to early return to multilateral trade expansion. Only multilateral trade can provide a context for the globalisation of production according to comparative advantage in finely differentiated parts of the supply process. Only multilateral trade can accommodate the immense structural strains associated with rapid growth and structural change in China.

## **Open Regionalism and the Old Framework of East Asian Trade Expansion**

The rapid, internationally-oriented growth of East Asia required a supportive international framework of international economic relations. This was provided

initially by the post-war system of multilateral trade managed through the GATT. Only developed countries were active and influential members of the GATT before the 1980s. In the Western Pacific, the GATT framework was underpinned by the strong participation of an economically prosperous and increasingly open United States, which was until the 1970s overwhelmingly the most important market for East Asian exports.

The GATT provided for East Asia access to rapidly expanding North American and international markets on a most favoured nation basis. This was appreciated most poignantly by Japan, whose exclusion from the preferential trading blocs that emerged from the stress of the Great Depression had curtailed economic opportunity in the 1930s, and helped tip the balance of internal Japanese politics disastrously towards war. All members of the GATT enjoyed the protection of Article 1, the most favoured nation clause. Almost all other substantial trading economies received most favoured nation treatment in practice. The significant exceptions in the Asia Pacific region all had their origins in Cold War strategic relationships: restrictions on China-US trade prior to the establishment of diplomatic relations in 1979; trade between the Republic of Korea and the People's Republic of China until the thaw in political relations associated with political change in the former Soviet Union in the late 1980s; China-Taiwan, involving a ban on trade until the Taiwan liberalisation of contacts with the mainland in 1987 and still inhibiting much trade today; and United States trade with Vietnam until the restoration of normal relations in the late 1990s.

The most favoured nation clause was the first article of the GATT. The Roosevelt and Truman administrations were determined that there would be no return to the fractured trading system that had exacerbated and slowed recovery from depression in the 1930s. There was one exception under the rules: Article 24 allowed trade discrimination in a free trade area or customs union that removed barriers to substantially all trade amongst members. This exception allowed the emergence of the new economic relationships amongst European states that became the European Union, favoured by the United States as a matter of security policy in the early post-war period. The Article 24 exception was expected to be applied rarely. The founding fathers of the GATT never envisaged that it would cover more than an occasional

special case, and undoubtedly would have put more effort into its design if they had envisaged that its use would one day be common.

Rapid export expansion in labour-intensive exports from Japan in the 1960s created conditions for one important new exception to the most favoured nation clause. To secure Congressional support for the Kennedy Round of multilateral negotiations, the Kennedy administration introduced country quotas on textile products, the demonstration effects of which generated the Multifibres Arrangement (MFA). The MFA was to control comprehensively imports of textiles and clothing into Western Europe and North America. As it turned out, the main effects of the MFA were to inhibit export expansion from newly competitive East Asian economies, at first the NIEs and later China: by the mid-1960s Japan's comparative advantage was evolving rapidly into more capital-intensive and technologically sophisticated products.

Agriculture was the other major exception to the post-war rules securing liberal trade in goods. It suited the developed countries that managed the system to exclude agriculture from the disciplines of the GATT. The US wanted freedom to continue the New Deal agricultural policies. In the absence of any countervailing international forces, protection for agriculture rose to previously unimaginable heights in Europe, then in Japan, and, in retaliation against European export subsidies, in the United States in the 1980s.

The textiles exception to non-discriminatory trade and the agriculture exception to liberal trade were especially damaging in the Western Pacific. Textiles had been the leading manufactured export product of every East Asian economy as it embarked on a strategy of internationally-oriented growth: Japan, Hong Kong and Taiwan in the 1950s; Korea and Singapore in the 1960s; Malaysia and Thailand in the 1970s; China and Indonesia in the 1980s; Vietnam in the 1990s; and the Philippines from time to time but decisively under the Ramos administration in the 1990s. Australia and New Zealand and each of the more populous ASEAN economies (Indonesia, Thailand, the Philippines and Malaysia) retained strong comparative advantage in agriculture into the twenty first century.

The extension of the GATT disciplines to textiles and agriculture was therefore the basis of Western Pacific cooperation from 1983 to launch a new round of multilateral negotiations with a wide agenda, and through to the successful conclusion of the Uruguay Round. The success in textiles was qualified by the back-ended nature of developed country commitments, so that there is still anxiety about whether the US will phase out the MFA by 2005. In agriculture, while a start was made with the introduction of normal international disciplines, major steps were left to a “built-in agenda” for a subsequent round of negotiations, therefore requiring a successful outcome to the Doha Round.

The US commitment to non-discrimination in trade remained until the 1980s. When early Japanese and Australian exploration of ideas for Asia Pacific economic cooperation drifted into consideration of a “free trade area” (FTA), the idea was combated vigorously from Washington DC and the Boston academics. The interests of all Western Pacific economies and the realities of emerging patterns of trade spoke as eloquently as the Americans for non-discrimination. Liberal trade on a most favoured nation basis supported rapid change in patterns of trade as comparative advantage changed quickly in response to rapid economic growth in one after another East Asian economy. It allowed the region to strengthen its position in global markets for final products through the fragmentation of production and supply across the Western Pacific according to competitiveness in parts of the supply process. It secured all economies’ interests in the extension of internationally-oriented growth to newcomers, through its avoidance of discrimination against economies that were not yet part of the regional and international division of labour.

This consonance of interests shaped the discussion of institutions for strengthening Asia Pacific economic cooperation. The first Pacific Economic Cooperation (later PECC) meeting, at The Australian National University in Canberra in 1980, concluded that the model for Asia Pacific cooperation would not be a European Union-style customs union or FTA (Crawford and Seow 1981 and Drysdale 1988). Subsequent exchanges in this and other regional fora defined the Asia Pacific interest in deeper integration without discrimination against outsiders. Trade and investment facilitation would reduce costs of international transactions across the Asia Pacific. Unilateral liberalisation in each economy would strengthen the liberalising economy

and also expand the gains from liberalisation in other Asia Pacific economies. Concerted unilateral liberalisation would increase the feasible extent of liberalisation in each economy. And the Asia Pacific region would cooperate to support the multilateral trading institutions, the GATT and after the Uruguay Round the WTO, and trade liberalising negotiations under their auspices (Soesastro 1994).

This unique Western Pacific approach to regional cooperation came to be known as “Open Regionalism”. (Elek 1992 and Garnaut 1996). Open Regionalism was adopted explicitly as the approach to regional cooperation by Asia Pacific Economic Cooperation (APEC) at its first meeting in Canberra in 1989.

Open Regionalism was always the only feasible guiding principle for Asia Pacific Economic Cooperation. The practical barriers to a European-type preferential area across the Asia Pacific, including the political economy barriers to free agricultural trade in Japan and Korea, the strategic barriers to free trade between China and the United States, and the high costs of excluding such potential participants as India and Russia in internationally-oriented growth from Asia Pacific markets (Drysdale and Garnaut 1993). But it was never accepted with commitment by Eastern Pacific participants in Asia Pacific cooperation, some of whom came to hanker after old-style discriminatory regionalism in this region as inhibitions against preferential trade diminished in the United States through the 1990s.

The Eminent Persons Group established by APEC leaders in Seattle in 1993 became a locus of contest between open regionalism and traditional trade discrimination as an organising principle. The differences were never resolved, and the two reports of the Eminent Persons’ Group were flawed by internal contradictions on this critical conceptual matter. The Western and Eastern Pacific entered a commitment to free and open trade and investment without sharing an understanding of whether it would be achieved through an old-style FTA, or through the new open regionalism. The Chinese classics would describe it as a case of “same bed, different dreams”.

But that is a later story. The early to mid-nineties were the high tide of open regionalism. Every one of the Western Pacific economies embarked on far-reaching unilateral liberalisation of trade and in many economies investment. Trade and

investment facilitation to reduce transaction costs was given substantive form in APEC. The Bogor Declaration in 1994 established a commitment to free and open trade in the Asia Pacific region by 2010 for developed and 2020 for developing economies. The Osaka (1995) and Manila APEC leaders' meetings established "concerted unilateralism" as the approach towards the Bogor goals, disciplined by detailed exposure of progress within a framework established in Osaka. Western Pacific and APEC support was important to maintaining progress and to eventual success in the Uruguay Round, and in establishing a core of support for the entry of China and Taiwan into the WTO. The Soeharto government in Indonesia, Ramos in the Philippines and Jiang Zemin and Zhu Rongji in China used the Bogor declaration skilfully to accelerate domestic trade liberalization. The Australian and New Zealand governments found the Bogor Declaration useful against pressures to compromise earlier commitments on trade liberalisation. By 1997, liberalisation in every Western Pacific developing member of APEC had proceeded more rapidly than the linear rate required to achieve the Bogor goals.

Two sub-regional trade agreements in the Asia Pacific from the 1980s were potentially discriminatory against outsiders, but in practice only marginally so at this time. In practice, the ASEAN FTA was implemented by each Southeast Asian country reducing barriers to trade on a most favoured nation basis. The 1983 Closer Economic Relations agreement between Australia and New Zealand, was preferential, but its implementation was accompanied by radical reductions to barriers to external trade on a most favoured nation basis by both countries.

At the new WTO's first ministerial meeting in Singapore in 1996, the first Director-General of the WTO, Renato Ruggiero, saw the Asia Pacific concept of open regionalism as providing the instrument for productive deflection of a new and dangerous tide of preferential trade in the global economy:

"I see the ensuring that national barriers are not just replaced by regional ones, but that, on the contrary, regionalism and multilateralism converge at the end of the road as the main challenge facing the multilateral system at present, one which will shape its future and help shape the world of the 21<sup>st</sup> century.

The trading system is now moving forward on two tracks—regional and multilateral...



Some of the newer regional groups (such as APEC and MERCOSUR) contain a commitment which is very important for the future of the multilateral system: this is *open regionalism*.

Of course, we need to be clear about what *open regionalism* means. Among the different possibilities, I see two basic alternatives.

The first is based on the assumption that any preferential area under consideration will be consistent with the legal requirements of the multilateral system. This would mean that such areas could at the same time be legally compatible with the WTO's rules and preferential in their nature, which means they would be an exception to the m.f.n. clause which is the basic principle of the multilateral system. The possibility of making such a legal exception to the m.f.n. principle within the rules was conceived in a completely different time and situation. Today, with the proliferation of regional groupings, the exception could become the rule, and this would risk changing completely the nature of the system.

The second interpretation of *open regionalism* is the one I hear from a number of governments who are members of APEC. In this scenario, the gradual elimination of internal barriers to trade within a regional grouping will be implemented at more or less the same rate and on the same timetable as the lowering of barriers towards non-members. This would mean that regional liberalisation would be generally consistent not only with the rules of the WTO but also—and this is very important—with the m.f.n. principle.

The choice between these alternatives is a critical one; they point to very different outcomes. In the first case, the point at which we would arrive in no more than 20 to 25 years would be a division of the trading world into two or three intercontinental preferential areas, each with its own rules and with free trade inside the area, but with external barriers still existing among the blocs. Is this the sort of world any of us would want?

I leave you to imagine the consequences of this vision in terms of economic and political equilibrium; the problem of those who did not fit into any of the blocs would be a serious one—and where would China and Russia be in such a world?

The second alternative, on the other hand, points towards the gradual convergence on the basis of shared rules and principles of all the major regional groups.” (Renato Ruggiero, Director-General of the World Trade Organization, first WTO Ministerial Meeting, Singapore, 1996; cited in Garnaut, 1996, p.2-4.)

## **Internationally-oriented Development Strategies and East Asian Growth**

Over the past half century, one after another of the East Asian economies has undergone domestic economic reform to facilitate deeper integration into the international economy. This has everywhere been associated with a lift in average growth rates, and movements towards the productivity and income levels of the old developed economies. Sustained rapid growth has been associated with rising trade shares in output and expenditure, absorption of more productive technology and approaches to business and government management from the advanced economies, and rising and eventually high rates of savings and investment including investment in human capital. It has required acceptance of rapid change in industrial structure as the process of economic growth at home and in neighbouring East Asian economies have generated change in comparative advantage (Drysdale 1988, Garnaut 1989, and World Bank 1993).

In the North American and to some extent Australian, and even in some East Asian, comprehension of the East Asian growth story, the Asian financial crisis 1997-98 marks a dislocation in growth performance, with the subsequent growth trajectory being much lower than before the crisis. It is difficult to find support for this perspective in the data. Figure 1 shows continued growth in total output after 1998 at rates well above those in the rest of the world, with the margin of superiority not markedly different from before the crisis. In Figure 1, the financial crisis appears as a modest and temporary dip in the East Asian growth trend.

While the East Asian growth pattern was everywhere characterised by increasing openness to the international economy, the character of the openness varied greatly. Hong Kong and Singapore have been very open to trade from the beginning; other economies increasingly so over time, with the exception of agriculture in Northeast Asia. A high tide in liberalisation throughout the region as a whole was experienced in the dozen years preceding the financial crisis, but continued and rapid trade and investment liberalization has caused the opening of the region as a whole to expand at a considerable rate since 1997. Different approaches have been adopted to direct

foreign investment (DFI), with Hong Kong, Singapore and China at the open and Japan at the restrictive end of the spectrum. Much of Southeast Asia is at or towards the China end of the spectrum, and Korea near the Japanese end. Whereas trade liberalisation slowed after the financial crisis in the economies most deeply affected by it, the liberalisation of direct foreign investment accelerated after 1998 in Korea and much of Southeast Asia. As with direct foreign investment, there are varied approaches to portfolio capital flows, with Vietnam, China and Malaysia the most cautious, and more so after the financial crisis.

Direct foreign investment is an important and efficient source of advanced technology and management approaches from the advanced economies. It has been supplemented by the purchase and theft of technology, by educational exchanges and domestic commitments to applied technological development.

The distinctive feature of the East Asian growth path is the speed with which relatively backward countries approached the developed country frontiers of productivity and incomes, rather than a capacity to grow exceptionally once the frontiers were near. Those East Asian economies that have attained incomes in the range of developed countries—so far, Japan, Singapore, Hong Kong and Taiwan—have grown unexceptionally since catching up with the rich countries. The especially low rates of growth in Japan over the past decade are significantly the result of demographic structures that are unfavourable to economic growth.

The trade shares of East Asian output were initially low, but have increased rapidly through the period of rapid growth (Tables 1 and 3). For the region as a whole, the ratio of exports to GDP is now close to the European Union and several times higher than North America.

Each of the East Asian economies began its internationally-oriented growth relying strongly on exports of labour-intensive products. This reflected the relative abundance of labour at the beginning of the growth process. The accumulation of capital in the process of growth saw comparative advantage shift swiftly to increasingly capital-intensive products (Song 1996).

Figure 2 demonstrates the large shifts in individual East Asian economies' shares of world exports of labour-intensive manufactures over the past several decades. It is interesting for the relatively stable shares of East Asia as a whole. After Japan established a large position in global markets for labour-intensive manufactures in the 1960s, the rapid rise in the NIEs' shares in the 1970s was mainly accommodated by their taking over the Japanese position. Continued growth in NIEs' exports through the 1980s was mainly accommodated by further falls in the Japanese share, although the total East Asian share of global imports rose by about 5 percentage points in the first half of the 1980s. The huge expansion in Chinese exports of labour-intensive products through the second half of the 1980s and 1990s was achieved entirely through contraction of the relative position of more advanced East Asian economies.

Figure 3 illustrates the decline in the relative position of labour-intensive products in individual economies' exports in the process of rapid growth. The share of labour-intensive exports in the NIEs peaked in the early 1970s and in China in the early 1990s.

Table 4 illustrates the process of changing comparative advantage by reference to individual commodities. Japan's export specialisation in the labour-intensive products travel goods, clothing and footwear was still above the global mean in 1970, but fell well below unity after, virtually to zero by the end of the century. There was a corresponding rise over the period in export specialisation in such capital-intensive products as machinery and electrical machinery. The NIEs' export specialisation in individual labour-intensive products reached a peak between 1970 and the early 1980s. It then fell away rapidly to well below unity for most products by the end of the century. The NIEs' export specialisation in machinery rose rapidly from low levels in 1970 to above unity at the end of the century. The NIEs export specialisation in electrical machinery was more stable, reflecting a wider range of relative factor requirements in production of these goods.

Individual labour-intensive products tended to rise in proportion to ASEAN countries' total exports until the mid 1980s. That their peaks were much lower than Northeast Asian economies' is a reflection of the ASEAN economies larger per capita endowments of natural resources. ASEAN export specialisation in electrical

machinery exceeded unity by the 1980s and stabilised around 2 late in the 1990s. Export specialisation in machinery exceeded unity in the mid-1990s and continues to rise.

China's export specialisation in most labour-intensive products peaked at very high levels between the mid-1980s (travel goods and clothing) and the mid-1990s (footwear). It has tended to stabilise at the high levels: China's internal economic differentiation means that the country as a whole can retain comparative advantage in labour-intensive products for longer, as lower-cost labour from the inland replaces the labour from coastal China as the coastal provinces absorb more valuable skills and their labour costs rise. China's export specialisation in machinery rose rapidly from the mid-1980s and was around unity and rising at the end of the century.

By contrast, the US export specialisation in the products for which data are recorded in Table 4 remained relatively stable throughout the last several decades. It was consistently low for labour-intensive goods and high for machinery.

An outstanding feature of the changing pattern of East Asian comparative advantage and trade specialisation is the huge expansion of trade in components. There is no longer a Japanese car or Chinese television set. Components are sourced from many countries to minimise total supply costs. This is a feature of the contemporary global economy, but it has been taken further in East Asia than in other major economic region.

Greater openness leads to the internationalisation of a manufacturing process in which many countries participate in different stages of the manufacture of a specified product. There is increasing trade in intermediate goods such as machinery parts and components. The process allows stages of production to be located where they can be undertaken most efficiently and at the lowest cost. As a result, countries are becoming more interdependent on each other (Yeats 1998) and global value chains (GVCs) offer significant opportunities to many Asian firms to take advantage of the potential benefits of globalisation (ADO 2003).

Closer regional economic integration emerges through market processes. A central feature of deeper East Asian economic integration has been the remarkable growth of trade in intermediate goods and components. China is now a major element in this process. Athukorala (2003) shows that in 2000, over 60 per cent of ‘final exports’ from developing Asia went to countries outside the East Asian region, especially North America and Europe, up from 55 per cent in 1992.

Table 5 shows that East Asia has been more deeply involved into fragmentation trade than other regions. Fragmentation trade is damaged more than conventional trade by transactions costs. For this and other reasons, it is damaged more than traditional trade by FTAs with their rules of origin. While trade in components is mainly within East Asia, a majority of the markets for the final products is still extra-regional. The fragmentation of the supply chain accelerates the growth of trade in components and makes the region more heavily dependent on extra-regional trade for ‘growth dynamism’ than is suggested by data that does separate out the trade in components (Findlay 2003).

The large increases in fragmentation trade have been associated with rising intra-industry trade. The previously low intra-industry trade indexes were once seen in the US as evidence of the closed nature of the East Asian and especially the Japanese economies (Lawrence 1987). Table 6 shows that by 2000, a few East Asian economies (Singapore, Korea, Taiwan, Thailand) had similar indexes of intra-industry trade with the world as a whole as the North American economies. Most global indexes for the East Asians were moderately lower. Hong Kong was very low, reflecting characteristics of trade and industry structure rather than any failure of openness. Japan’s global index had more than doubled between 1985 and 2000, but remained fairly low.

When the focus shifts from global to regional intra-industry trade indexes, it is apparent that the high scores for Europe and North America are mostly associated with trade within their own regions. East Asian intra-industry trade is more widely spread geographically. Japan in 2000 had similar indexes in trade with East Asia as with North America, Europe and the world as a whole.

Intra-industry trade within East Asia is different in character from that in East Asian long-distance trade. The former is mainly in components, and the latter in differentiations of finished products.

The large increase in the trade shares of East Asian production and consumption over the past several decades has had a large intra-East Asian component, but has been more broadly based geographically than the trade expansion of any other region. Over time, the increase in scale of East Asian trade made intra-regional markets more important in providing markets for regional export expansion. Between 1985 and 2002, 4.9 percentage points of the 5.6 percentage point lift in the export share of East Asian GDP comprised sales to East Asian markets.

The ratio of intra-East Asian exports to regional GDP increased strongly from 1975 through to the present (Table 3). But the ratio of East Asian exports to each of Europe, North America, Australia-New Zealand and Rest of World rose even more rapidly from a lower base (Table 2). This contrasts with the experience of North America and Europe, each of which experienced an increase in the ratio of intra-regional trade to GDP, and also of trade with East Asia to GDP, but after 1985, not in the ratio of trade with each other or with the Rest of the World to GDP.

Australia is as deeply integrated into Western Pacific trade patterns as the East Asian economies themselves (Tables 1, 2 and 3), and this integration has been increasing over time.

## **Effects on the International Economy**

Examination of import shares suggests that East Asia's international trade is more strongly concentrated in its own region than that of either of the other two regional concentrations of production and trade, North America and the European Union (Table 2). East Asia drew over 60 per cent of its imports from its own region in 2002, double the proportion of the mid-1960s and continuing to rise rapidly. The corresponding ratio for Western Europe is a bit over 50 per cent, having hardly

changed over a quarter century. The ratio for North America is just above 40 per cent, having lifted since the mid-1980s after a long period of decline.

A somewhat different picture emerges from examination of export data. (The difference arises to a considerable extent because of the North American trade deficits and the East Asian surpluses). Table 3, using export shares of GDP, shows that the intra-regional share of export trade is greatest in North America, followed by the European Union and then East Asia.

Europe remains the most strongly oriented towards foreign trade of the three regions, but East Asia has been catching up rapidly. North America is a long way behind both and its orientation to foreign trade has not been increasing over the past decade (Table 2). By 2002, intra-regional exports represented 42.8 per cent of the total in North America, 54.4 per cent in Western Europe and 61 per cent in East Asia.

East Asia has been a participant in most of the world's intercontinental trade expansion since the mid-1980s. By 2002, the dollar value of East Asia's exports beyond its own region greatly exceeded that of North America, but was substantially lower than that of the European Union (Table 1). The share of intercontinental trade in North American GDP was only 3.9 per cent in 2002, compared with 12 per cent for East Asia and 13.8 per cent for Western Europe (Table 3). The intercontinental export share of GDP rose in East Asia but not in the other regions from the mid-1980s to 2002.

Table 7 allows us to assess the extent to which the expansion of East Asian intercontinental and intra-regional trade has simply reflected the increase in scale of East Asia's trade with the rest of the world, and the extent to which it has involved changes in trade intensity with one or other set of partners. It does this through the presentation of intensity indexes as originally developed by Kojima (1964). It also breaks down the intensity index into complementarity and bias indexes, following Drysdale (1969) (see also the synthesis in Drysdale and Garnaut (1982)) The latter step allows assessment of the extent to which changes in intensity of trade reflect respectively a closer match of the commodity composition of the two partners' trade,



relative to their trade with the rest of the world, and the extent to which it resulted from changes in intensity of trade commodity by commodity.

Between 1985 and 2000, the intensity of intra-regional trade fell in East Asia, but rose in North America and Western Europe. Relative to the respective regions' shares in world trade, East Asia has come to trade relatively less within its own region, and the other two regions relatively more. Complementarity in intra-regional trade rose in East Asia, remained steady in Europe and fell in North America.

How has East Asia's rapid growth in output and trade, and tendency to trade globally rather than within its own region to a greater extent than North America and Europe, affected the rest of the world economy?

The main effect is to expand the potential gains from trade in the rest of the world. This follows simply from the expanded scope for other economies to specialise in supply of goods and services in which their comparative advantage is strong.

The utilisation of these opportunities has required acceptance of structural change. The relatively steady East Asian share of global markets for the products in which the region's export specialisation has been strongest, labour-intensive manufactures, suggests that the costs of structural change for the world outside East Asia have not been high since the early 1980s, that is, since the early entry of East Asia into the international economy. The pressures for continuing structural change of a radical kind have been greatest within East Asia itself.

The skewed nature of East Asia's resource endowment relative to the rest of the world, with extreme relative scarcity of land and other natural resources, has made East Asia disproportionately and increasingly an importer of resource-based products. This has reduced the pressures on these old industries to decline in the industrial economies of the North Atlantic. (Increased agricultural protection with the decline in comparative advantage in Japan, Korea and Taiwan has reduced the contribution of East Asian growth to moderating the pressures to decline in the natural resource-based industries in the old industrial economies).

Much has been made from time to time about the large surpluses in East Asia's current payments, and the corresponding deficit in the United States. This is the other side of the coin to the large capital flows from East Asia to the United States, which sustain American expenditure at levels that could not otherwise be attained. There is a sense in which the East Asian surpluses are creating the United States opportunity to expand public expenditure at the same time as cutting taxation in the early twenty first century. It could be said that this is supporting a pattern of public finance that is damaging to the long-term interests of the citizens of the United States. But it is making possible a choice that for the moment seems to be favoured by a democratic majority in the United States.

### **International and Regional Adjustment to Rising China**

The internationalisation of the Chinese economy has extended the longevity and importance of the East Asian growth process. If China had remained a centrally planned, inward-looking economy in the pre-1978 mould, the period of superlative East Asian growth would now be moving towards its close. Japan, Taiwan, Singapore and Hong Kong have completed the process of moving rapidly to the world's frontiers of productivity and incomes. Korea is nearing the frontiers. Malaysia and Thailand, are moving closer, having been interrupted for a few years by the financial crisis. The Philippines, Indonesia and Vietnam have further to go, but in each case with structural impediments to sustained rapid growth that suggest more moderate speed limits than in the most successful East Asian economies.

China can be expected to grow strongly through the first half of the twenty first century. Of course there is much that could disrupt the process for a while. There is one development—the failure of the political system to adapt to the rapidly changing political forces of an increasingly wealthy, well educated and internationally connected society—that might threaten its continuation altogether. But the most likely course now is for the dynamism of coastal China in the era of reform to spread inland. This would cause sustained rapid growth in East Asia to reach its apogee with the industrialisation of the Chinese hinterland in the second quarter of the twenty first

century. By then, China alone would be a larger economy than Western Europe or North America.

On the patterns of East Asian and Chinese growth so far, this prosperous China would be deeply integrated into the East Asian and global economies, providing a large proportion of the potential gains from international trade for people everywhere. This is a natural development. It should take no-one by surprise, although it does involve radical rearrangement of power relationships in the global economy and eventually in the world's political system.

But that is running ahead of our story. What we know without speculation is that China's foreign trade and investment have been growing much more rapidly than its strongly expanding output. Its emerging patterns of international trade follow closely the comparative advantage determined in the first instance by its resource endowments. The resource endowments argued at first for exceptionally strong export specialisation in labour-intensive exports. But high rates of investment and factor immobility in China's vast domestic economy have moved comparative advantage into more capital-intensive and technologically sophisticated goods and services in parts of coastal China when much of the interior still has relative abundance of low-skill labour. So China's impact on global markets from here on will be over a wide range of products, and not only in the labour-intensive goods that dominate export specialisation in the early stages of East Asian-style development.

The most concentrated impact of Chinese growth on markets is likely to be on the import side. China's low ratios of natural resources (including agricultural land) relative to population and increasingly to capital give it a pronounced and increasing comparative disadvantage in resource-based products. In an open global economy, Chinese growth will move terms of trade in favour of producers of these products, and against other economies with comparative disadvantage in them. Beyond the resource-based industries, Chinese growth will generate opportunities for export expansion and heightened competition in domestic and international markets of a highly diverse kind. The opportunities and competition will be felt by all economies, and most powerfully amongst China's Western Pacific neighbours.

China is already a major trading partner of all Western Pacific economies, and the largest export market for the rest of Northeast Asia (Table 8). China has been by far the main source of growth in international trade since 2000. It accounted for the whole of the growth in world exports and a quarter of exports in the first two years of the twenty first century (Table 10). Its 33 per cent export growth and 40 per cent import growth in the first ten months in 2003 suggest that its share of world totals will again be high this year (Table 9).

The speed and scale of Chinese trade and investment expansion have generated anxious reactions in other economies, especially over the past several years. This has been most important politically in Southeast Asia, where the adjustment pressures are genuinely large (Table 4 and Xu and Song, 2000). There has also been strong political reaction in the North Atlantic, especially the US, although the reasons for the reaction are not obvious in the trade and investment data.

Some diversion of FDI from Southeast Asian countries to China is evident from Table 11. There is a declining trend of FDI flowing into most Southeast Asian countries and NIEs, alongside a continuing rise to China during 1996-2002. China absorbed 66 per cent of the total FDI flowing into East Asia in 2002. The trend continues, as investors respond to expectations of a more open business environment in China resulting from China's accession to the WTO in 2001.

China will maintain its comparative advantage in labour-intensive industries for a long time to come. At the same time, the matching of increased technological capability with labour cost-advantages will support expansion of Chinese exports of a wide variety of more sophisticated products. This will force NIEs to move more quickly in upgrading their industrial structures. China's imports of a wide range of manufactured goods and services, as well as natural-resource-based products, will increase rapidly.

The utilisation of the opportunities that derive from China's internationalisation requires the transfer of resources from activities that compete directly with emerging comparative strengths of China, into others in which China's trading partners have stronger comparative advantage as a result of the growth of China and its increased

participation in international exchange. There are short-term adjustment costs, and negative domestic political reactions (Garnaut 2003).

More recently, there has been wider international concern about the shift of global manufacturing capacity to China. Some political discussion in the United States in 2003 has identified growing imports from China as a significant factor in the decline in manufacturing employment, and the under-valuation of the yuan as a contributing cause. While the arithmetic of increased imports from China and decline of manufacturing employment in large industrial countries does not suggest strong causation, there is no doubt that the issue has political traction.

China does not have a huge current account surplus. But a bilateral surplus generates tensions with the United States. This is a problem without an economic solution, as it does not have an economic cause. There can be some easing of pressure, however, if China uses the scope provided by overall external payments surpluses to liberalise trade more rapidly than is required by the commitments that it has provided to the WTO.

China's growth and integration into the international economy can go badly wrong if reactions to the costs of adjustment to rapid structural change become influential in political processes at home or abroad. The nature of international institutions through which political reactions to structural change are mediated can therefore have an important influence on the sustainability of growth. The WTO is the most important of the international institutions in mediating pressure for restrictive reactions to adjustment pressures arising from the rapid growth of Chinese foreign trade. Chinese (and Chinese Taipei) membership has reduced the risk that reactions to domestic political pressures in China or in its trading partners would block expansion of profitable trade relations between China and the rest of the world. Constraints on protectionist uses of anti-dumping arrangements are an important Chinese interest in the new, Doha Round of multilateral trade negotiations (Garnaut 2003).

## **The Sea-Change in Trade Policy Orientation**

Open Regionalism in the Western Pacific, unilateral liberalisation everywhere except in China, and the liberalising role of the WTO except in China, were all under strain by early 2000. Trade discrimination within NAFTA had seemed in practice to have been damaging to East Asian interests, and this perception generated some hankering after preferential treatment in East Asia. The failure in depressing circumstances of the WTO meeting in Seattle in 1999 to launch a new round of multilateral negotiations encouraged disillusionment with the multilateral processes, so important in East Asian views of the trading system. The financial crisis had weakened commitment to deep integration into the international economy in Indonesia and Malaysia. As the most important legacy of the financial crisis, the authoritarian Soeharto government in Indonesia had been replaced by a democratically elected government that attached low priority to regional leadership on trade issues. The latter development on top of the financial crisis left ASEAN, previously a leader in Asia Pacific institution-building and trade policy, incoherent and ineffective.

Despite the strain, it could still be said in early 2001, that Japan, Korea, China, Hong Kong and Taiwan were the only major economies to conduct their foreign trade entirely on a most favoured nation basis. Trade discrimination within ASEAN and Australia-New Zealand Closer Economic Relations remained minor exceptions to the Western Pacific economies' commitment to Article 1 of the GATT. The political foundations of Open Regionalism had been weakened, but the structure was still standing. And with the admission of China and Taiwan into the WTO with far-reaching commitments to non-discriminatory liberalisation, and the launch of multilateral negotiations with a strong agenda and broad support, at the WTO ministerial meeting in Doha in November 2001, it was possible to believe that it may be gathering strength again.

The structure has crumbled since late 2001. The Doha Round was treated lightly in the major economies, including those of the Asia Pacific. The new Bush-Zoellick administration gave explicit priority to bilateral and sub-regional FTAs which, while

involving minor trading partners of the US and in any case making slow progress in negotiations, lifted the credibility of small-group FTAs throughout the Asia Pacific.

A Japan-Singapore FTA was concluded in early 2002. This was followed by Singapore-New Zealand, Singapore-Australia, Hong Kong-China and Singapore-US. Australia-Thailand was signed by the two Prime Ministers at the time of the 2003 APEC leaders' meeting in Bangkok. China-ASEAN is under negotiation, although trade discrimination associated with it began with duty-free access to China for Thai fruit and vegetables from 1 October 2003, and extended to ASEAN exports of 200 agricultural products on January 1, 2004. Negotiations are at various stages for FTAs involving Japan-Thailand, Japan-Malaysia and Japan-Philippines, with these three expected to coalesce eventually into Japan-ASEAN: ASEAN-Korea; ASEAN-India; Korea-Japan; Korea-China; Japan-Mexico (in trouble over pork); US-Australia (in trouble over agriculture and services); US-Thailand; and Korea-Chile. Australia has persuaded China to enter two years of discussions on whether the two countries should commence negotiations on an FTA, and Japan not to exclude the possibility of negotiations one day in the future despite the agricultural problem. There is an expectation that some of these discussions will lead on to consideration of China-Korea-Japan and ASEAN-China-Korea-Japan.

Meanwhile the collapse of the WTO ministerial meeting in Cancun, which was meant to settle some key Doha Round issues, has been greeted by leaders of three APEC members (Australia, the US and Thailand) as a cause for elevation of bilateral FTAs over multilateral negotiations.

The defeat of Open Regionalism in the Asia Pacific seems comprehensive.

### **Truncated Globalisation?**

The proliferation of bilateral and small-group FTAs in the Asia Pacific is threatening the East Asian development pattern in fundamental ways. It is likely to inhibit the continued development of fragmentation trade. It will create problems for East Asian adjustment to the rise of China. And it will separate other parts of the world economy

from the gains from trade with a dynamic East Asian region. In the worst of circumstances, it could truncate the globalisation of production and expenditure that has been a central feature of sustained strong growth in East Asia.

Defenders of the sea-change in East Asian and Asia Pacific trade policy argue that the new FTAs are or can be consistent with the WTO rules, that they are stepping stones to an East Asia-wide or Asia Pacific-wide FTA (on the presumption that that would be desirable), and that they improve the prospects for multilateral liberalization (the concept of “competitive liberalization” promoted by US Special Trade Representative Bob Zoellick). It is difficult to reconcile these perspectives with the contemporary world of Asia Pacific trade policy.

In truth, the new FTAs involving Western Pacific economies have breached WTO rules in relation to commodity coverage and length of transition periods. But it would be little comfort if they had conformed fully: for the reasons set out by Director-General Ruggiero in the passage cited above, the proliferation of FTAs that are fully consistent with Article 24 of the GATT can greatly weaken the multilateral system.

There are several reasons why the drift into FTAs will diminish the prospects of maintaining and extending the system of liberal, multilateral trade in the Asia Pacific.

First, bilateral FTAs in their nature contain welfare-destroying trade diversion as well as welfare-enhancing trade creation, and the political economy of the policy-making process tends to emphasise the trade diversion. Countries avoid partners which would be associated with high levels of trade creation (for example, Japan-US because of the difficulty of agriculture), or seek to make exceptions for sectors which would involve high levels of trade creation (for example, agricultural protectionism in the US leads to an unwillingness to include reductions in agricultural subsidies as a part of FTA negotiations with countries such as Australia, and the Americas, especially Brazil). Also some market opening decisions are harder to take in a bilateral than in a multilateral context - witness the difficulties over access to American agricultural markets in US-Australian negotiations.



Second, the rules of origin that are required to protect the preferential privileges of an FTA are themselves a source of distortion and economic loss. For this reason, even a complete matrix of bilateral FTAs, joining every country with every potential trading partner, would not produce welfare effects that were in any way comparable to multilateral free trade. Transaction costs in international trade and investment would be very much higher, and trade in final goods and intermediate goods would be encouraged into sub-optimal patterns by arbitrary incentives created by these rules of origin.

Third, the creation of small-group FTAs adversely affects the political economy for subsequent multilateral liberalisation. Some countries which benefit from increased exports within the preferential area resist the erosion of their regional preferences which would happen in a multilateral WTO liberalisation. It has been suggested that Mexico may have been influenced by such considerations in Cancun, and those developing countries with preferences have always sought to resist the multilateral liberalisation of European agricultural trade. Fiji and other South Pacific countries have asked for compensation for the effects of unilateral liberalisation on their margins of preference in the Australian market. Industries supported by rules of origin add to such pressure against further liberalisation.

Fourth, it appears that some in the US today view access to the US market as a benefit which should be granted only to supporters of US foreign policy on whatever are the big issues of the times. Such an approach politicises moves towards further trade liberalisation, and introduces a risk that political and cultural divisions will be exacerbated and entrenched.

Most importantly, when some countries join small-group FTAs, others are led to seek similar arrangements for defensive reasons.<sup>1</sup>

The new pattern of bilateral and sub-regional preferences would truncate the process of increasingly fine specialisation in the supply of inputs into final products assembled in one or other of the Asia Pacific economies, because of the rules of

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<sup>1</sup> Garnaut and Vines (2003).

origin. No car or television set or computer or shirt produced in Australia, Thailand or Taiwan, or any but the largest and most diverse Asia Pacific economies, and possibly none even in China or Japan, would have sufficient domestic-plus-partner value-added to meet NAFTA-style rules of origin in any bilateral FTA. So, on these rules, the products of the new global industries in the Asia Pacific would be denied free access to FTA partners, and would be disadvantaged in competition with products of the old, nationally-integrated patterns of production. The nationally-integrated patterns would in any case be feasible only in the largest economies: there would be tendencies for production to gravitate towards economies in which it was less uneconomic to draw all inputs from domestic or single FTA partner sources. The competitive position of the US and China would be enhanced. Other economies would find that their opportunities to participate in the regional and global division of labour by specialising in parts of the supply process, were greatly diminished.

The contemporary regionalisation and globalisation of production would also be damaged by the transactions costs associated with monitoring and enforcing rules of origin, even in cases in which the domestic-plus-partner value-added were able to meet the tests. For example, Singapore producers seeking to supply United States customers under the FTA would need to monitor production processes to ensure that there was not too much Indonesian or Malaysian or other Western Pacific value-added in components. They would need to maintain records in forms suitable for inspection by US authorities seeking to enforce rules of origin. As demonstrated by Athukorala (2003), fragmentation trade is more sensitive than conventional trade to international transactions costs.

The proliferation of FTAs is a problem for adjustment to the rise of China because it concentrates adjustment excessively in countries which have FTAs with China and also in those which do not have FTAs with third countries. It denies the great advantage of multilateral trade on a global basis, that it diffuses pressures for adjustment throughout the global economy. The tendency for an FTA with China to magnify pressures for adjustment to Chinese growth and structural change in partner countries increases the chances of domestic political resistance to adjustment, and is likely to increase bilateral political tensions.

Pressures for a neighbouring country to adjust to Chinese growth and structural change are also magnified by other trading partners entering FTAs with each other, even if neither China nor its neighbour is directly involved. The point emerges from general equilibrium theory, but can be illustrated by the Canadian experience after the formation of NAFTA. Canadian and US businesses traded more with each other after the formation of NAFTA. This diminished Canada's trade with non-NAFTA partners, through three processes. One is conventional trade diversion, where the protection differentials directly raised the profitability of NAFTA relative to external transactions. The second is the general equilibrium effects of trade diversion in raising the Canadian cost level: at the margin, Canadian suppliers became less competitive in third markets. The third, and probably the most important, is that in a world in which business leaders have limited resources to search the global environment for trade opportunities, an FTA with an important economy, especially a neighbour and "natural trading partner", diminishes the effort that is put into developing opportunities with third countries. For these or other reasons, there was a radical reduction in the Canadian share of markets in East Asia, Europe and the rest of the world over the years in which the NAFTA preferential arrangements were implemented (compare Canadian and Australian growth in exports to Europe and East Asia in Table 1). Reduced engagement of Canada with the ASEAN and Chinese economies means relatively greater engagement of China and ASEAN with each other, and greater adjustment pressure to the rise of China being focused on ASEAN.

Diminished gains from trade accompany diminished adjustment pressure. The separation of third countries from East Asian dynamism by FTAs, whether in East Asia or joining third countries, reduces their exposure to opportunities for rising living standards. This is likely to be most damaging to potential suppliers of the natural resource-based products in which China's comparative disadvantage is most pronounced, and especially of the agricultural industries in which trade distortion is endemic. The danger is greatest for Australia and New Zealand, for which East Asia is a natural trading partner.

The trade-off between costs of adjustment and gains from trade through the rise of China is affected by the presence of FTAs. For the world as a whole, the trade-off between adjustment costs and gains from trade is more favourable if the movement is

towards specialisation according to global comparative advantage, as it is modified by growth and structural change in individual economies.

Are these problems of central or peripheral importance to East Asian development and its contribution to Asia Pacific and global income growth?

The effects on transactions costs and fine specialisation in parts of the supply process could turn out to be very important indeed. Less for China than for its Western Pacific partners, because of China's prospects of internal specialisation, as internationally-oriented growth spreads to the inland regions. But even in China, inhibitions against cost-minimising purchase of inputs could significantly weaken competitiveness in the more sophisticated products towards which Chinese comparative advantage is evolving. China would need to allocate more high-level political energy to managing tensions in the East Asian partners experiencing adjustment costs, and in the best of circumstances would experience slower trade growth and smaller gains from trade than would otherwise be available.

Even for the huge US economy with its many options for continued growth, greater separation from the dynamism of East Asia would make it harder to retain global leadership in many areas of business. US FTAs with the main East Asian economies, first of all China, would be debarred for the foreseeable future by the political and political economy constraints. The US would be bound by trade discrimination to intense political relations with relatively unimportant members of the international economy.

Further, the US economic and trading interest in global agricultural trade liberalisation would be damaged, as these interests can be pursued effectively only in an international context. US agriculture is already facing discrimination against it in the Chinese market from the "early harvest" of the China-ASEAN FTA. The costs of exclusion would multiply as competitors in broad-acre temperate agricultural production including Australia entered discriminatory arrangements in East Asia.

There would be some compensating benefits for the US in a retreat into preferential trade, from the tendency for more manufacturing activities to agglomerate in large and

diverse economies and first of all in the US. But the US would share with others the increase in costs of international transactions, at a time when these are being inflated in any case by terror and the response to it. It would share with others the loss of opportunity in a world in which the truncation of globalisation led to slower global economic growth.

The Asia Pacific region had found a successful formula for sustained rapid growth, based on continually reducing costs of international transactions, leading to deepening integration into the international economy and to increasingly fine specialisation in parts of the supply process. This pattern of growth had considerable momentum with the integration of the Chinese into the world economy. The new world of proliferating Asia Pacific FTAs would need a new pattern of growth. There is a risk that the successor to the established growth model will not work well.

### **Chinese Leadership and a Way Forward**

There is huge momentum behind the breakdown of multilateral trade. The Asia Pacific countries that had been most sceptical about preferential trade, Malaysia and China, joined the momentum in 2003. There is a strong sense in every country in the region that it must move quickly to secure as many preferential deals as possible, lest it be the object of damaging discrimination. This is a time when the political commitments to the sea-change are fresh, and before the costs of the change are known from experience. It is a difficult time to change policy again, and yet it is important for the sustainability of internationally-oriented growth that a way forward be found from the present difficulties.

An essential element of any way forward is widespread recognition of the risks and costs of proliferation of preferential trading areas. This for a time will be the lonely work of independent analysts, including those associated with the PAFTAD conference series.

There has been some discussion of the need to strengthen Article 24 of the GATT—the rules for formation of FTAs—and their enforcement. One suggestion is simply to enforce the existing requirements, that an FTA should cover substantially all trade,

and should be built on a plan and a schedule to achieve this result within ten years. Another is to provide for uniform and liberal rules of origin. A third suggests the provision for rights of accession to any third party that is prepared to accept the rules upon which the FTA was established.

We see little value or hope in enforcing the existing rules. Little value because, as Director-General Ruggiero explained in 1996, the problem lies in the rules rather than in their breach. Little hope, because the breaches are nowhere more egregious than in the FTAs negotiated by the WTO's most influential member.

The illiberality of rules of origin and their inconsistency across products and agreements, and the effective exclusion of newcomers, are the products of the political economy that generated the FTAs. They would be as difficult to put aside as the FTAs themselves. There would be no harm in APEC developing model rules of origin and for open accession, but we would have no high expectation that they would be influential.

The most valuable element of a model FTA would be a commitment for members to make the terms of market access for members available to all trading partners. If one or more APEC members were to act on such a rule—and it would be in the economic interests of every one of them to do so—it would provide a starting point for the restoration of the interest in unilateral liberalisation that was at the heart of internationally-oriented development in the Western Pacific for the decade from the mid-1980s.

Nothing would be as helpful as timely success in the Doha Round of multilateral negotiations.

The enthusiasm for FTAs has denied high-level political focus to the Doha Round. Japan and Korea have shown signs of relief that the shift to preferential trade, in which they can choose their partners, may allow them to avoid pressure for liberalisation of agriculture. The announcement of the Australia-US FTA, with its effective exclusion of the most heavily protected agricultural industries in the US, was especially welcome to Seoul and Tokyo. Japan, once a global champion of

multilateral trade, now does not see multilateral negotiations as the main priority (Ito 2003). There is no contemporary analogue to the intense and productive discussions amongst Western Pacific members of the GATT, and later in APEC, at a corresponding stage of the Uruguay Round. Instead, when heads of government of Thailand, Japan, Korea, Singapore, Australia, the United States and others meet and get around to trade policy, they talk FTAs.

But the gains from FTAs are so dubious, and the difficulties that arise in their negotiation so large that progress has been slow. There has been some recognition since the breakdown of the Cancun meeting of the costs of eventual failure in the Doha Round. This is the background to the APEC leaders' Bangkok Declaration, calling for a return to Doha Round negotiations on the basis of the Chairman's text at Cancun—a course of action rejected firmly by several influential APEC members only a few weeks before.

The APEC leaders' support for the Doha Round after Cancun has been noted favourably in Europe (Lamy 2003). But to be influential it needs a champion or champion amongst APEC members.

China is the most likely and effective champion of the Bangkok Declaration on the Doha Round.

It is the most likely, because it has more at stake than any other WTO member: the preservation of the open global trading environment in which it can emerge as the world's largest trading economy over the one or two decades ahead.

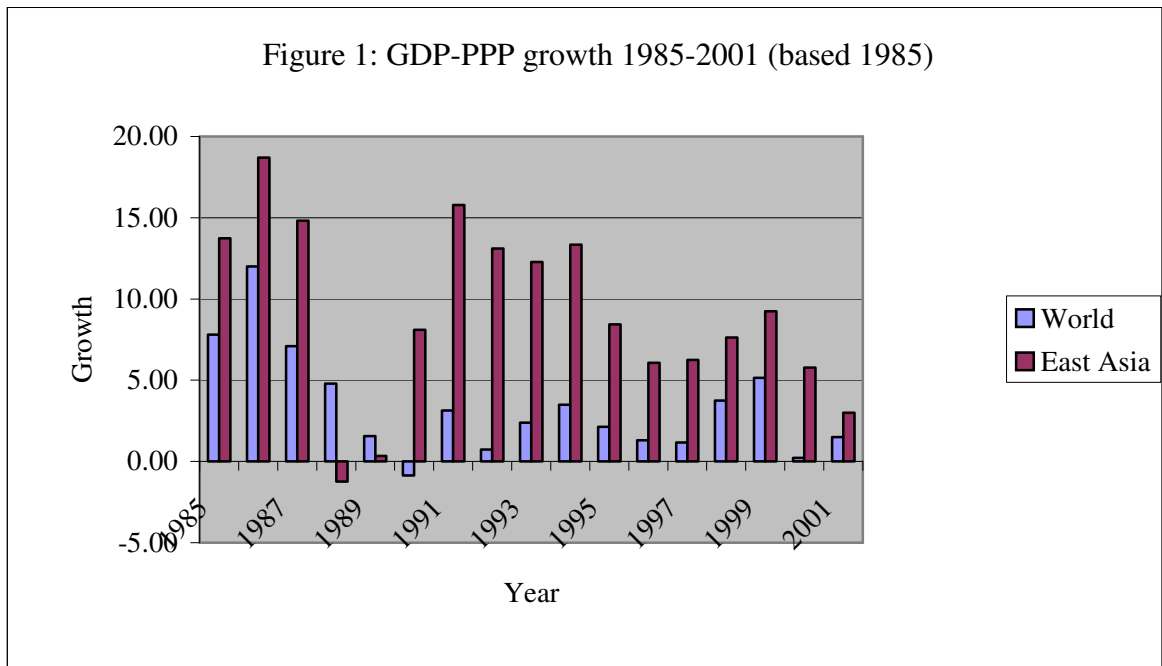
China was late and reluctant to join the enthusiasm for FTAs, in recognition of its interests in global trade. It entered the discussions on an FTA with ASEAN to assuage pressures resulting from the Southeast Asian structural change that has accompanied internationally-oriented growth in China. The solution does not suit the problem. Preferential trade will exacerbate structural pressures on the ASEAN economies. And ASEAN economies seeking special access to the growing Chinese market will find that the breakdown of the Asia Pacific into preferential trade will diminish the

opportunities for specialisation in exports of parts of the supply process, which has been so valuable to them and promises much more.

Moreover, China has big reasons outside the negotiations to accelerate its own liberalisation, in ways that would reinforce its leadership role in the multilateral negotiations. Its external payments surpluses have attracted pressure from abroad for premature liberalisation of foreign exchange markets. Accelerated trade liberalisation would achieve similar macro-economic and external political objectives, without the systemic risk.

The value of the multilateral negotiations is so large that the prospects have remained alive despite the neglect of the parties that could have been expected to be their protectors. The opportunity for moving forward on the basis of the Bangkok Declaration and a positive lead from China would be enhanced if a clear signal were given, that major East Asian states were putting the negotiation of new FTAs on hold for the duration of the Doha Round. This would realise the hopes of those supporters of FTAs in the Asia Pacific region, who have argued that they can be stepping stones towards multilateral liberalisation.





Note: World excludes East Asia.

Source: International Financial Statistics, various issues; the World Bank, World Development Indicators.

Table 1 Exports of East Asia, North America and European Union, 1985-2002,  
(Billion US\$, current prices)

| Importer/<br>Exporter | East Asia |       |         |         | EU    |         |         |         | North America |       |       |         |
|-----------------------|-----------|-------|---------|---------|-------|---------|---------|---------|---------------|-------|-------|---------|
|                       | 1985      | 1992  | 1995    | 2002    | 1985  | 1992    | 1995    | 2002    | 1985          | 1992  | 1995  | 2002    |
| Australia             | 10.2      | 20.3  | 29.4    | 33.4    | 3.2   | 5.4     | 5.9     | 7.3     | 2.7           | 4.2   | 4.3   | 7.5     |
| New Zealand           | 1.4       | 3.2   | 4.7     | 4.7     | 1.2   | 1.4     | 1.9     | 2.4     | 1.0           | 1.4   | 1.7   | 3.0     |
| East Asia             | 115.4     | 336.6 | 591.3   | 659.8   | 44.4  | 134.2   | 191.9   | 227.7   | 127.1         | 210.9 | 317.4 | 383.0   |
| Japan                 | 37.7      | 112.4 | 158.5   | 163.8   | 23.3  | 67.1    | 70.4    | 58.4    | 72.2          | 107.4 | 131.4 | 126.3   |
| Korea                 | 7.6       | 31.2  | 54.7    | 68.7    | 3.6   | 9.8     | 16.3    | 19.2    | 12.0          | 20.7  | 27.1  | 37.4    |
| China                 | 16.0      | 56.6  | 80.9    | 138.1   | 2.5   | 8.0     | 19.3    | 46.5    | 2.6           | 9.4   | 26.5  | 91.9    |
| ASEAN 6               | 34.3      | 89.5  | 156.1   | 207.3   | 8.1   | 30.2    | 45.3    | 51.2    | 14.4          | 38.7  | 62.7  | 75.8    |
| EU 15                 | 29.4      | 92.8  | 146.3   | 158.5   | 422.4 | 1,043.6 | 1,259.7 | 1,405.6 | 81.3          | 121.5 | 154.5 | 245.0   |
| North America         | 51.7      | 123.8 | 172.8   | 182.3   | 61.3  | 113.8   | 138.3   | 164.9   | 143.2         | 263.8 | 394.5 | 598.7   |
| United States         | 43.3      | 110.9 | 155.2   | 167.1   | 51.9  | 100.5   | 123.6   | 148.2   | 60.9          | 122.1 | 172.3 | 254.5   |
| Canada                | 6.5       | 11.7  | 15.8    | 11.9    | 5.4   | 9.9     | 11.3    | 11.2    | 68.6          | 103.5 | 153.7 | 215.6   |
| Mexico                | 1.9       | 1.2   | 1.8     | 3.3     | 4.1   | 3.4     | 3.4     | 5.5     | 13.7          | 38.3  | 68.5  | 128.7   |
| Rest of World         | 50.5      | 82.4  | 118.4   | 158.6   | 170.6 | 242.7   | 308.0   | 409.3   | 58.7          | 84.6  | 103.3 | 182.4   |
| World                 | 258.6     | 659.1 | 1,062.8 | 1,197.2 | 703.1 | 1,541.0 | 1,905.7 | 2,217.2 | 414.0         | 686.4 | 975.6 | 1,419.6 |

|               | Rest of World |       |         |         | World   |         |         |         |
|---------------|---------------|-------|---------|---------|---------|---------|---------|---------|
|               | 1985          | 1992  | 1995    | 2002    | 1985    | 1992    | 1995    | 2002    |
| Australia     | 7.1           | 8.2   | 11.0    | 12.5    | 23.1    | 38.1    | 50.6    | 60.6    |
| New Zealand   | 2.4           | 3.3   | 5.0     | 4.0     | 5.9     | 9.3     | 13.3    | 14.1    |
| East Asia     | 80.1          | 114.5 | 178.9   | 173.0   | 367.0   | 796.2   | 1,279.5 | 1,443.5 |
| Japan         | 44.6          | 52.5  | 54.0    | 18.1    | 177.9   | 339.5   | 414.3   | 366.7   |
| Korea         | 8.2           | 14.7  | 29.3    | 21.6    | 31.4    | 76.4    | 127.5   | 146.9   |
| China         | 6.2           | 10.9  | 19.3    | 33.6    | 27.3    | 84.9    | 145.9   | 310.1   |
| ASEAN 6       | 12.7          | 25.3  | 45.5    | 29.8    | 69.5    | 183.6   | 309.6   | 364.1   |
| EU 15         | 198.2         | 320.1 | 444.8   | 442.4   | 731.3   | 1,577.9 | 2,005.3 | 2,251.5 |
| North America | 74.3          | 97.6  | 127.2   | 111.0   | 330.6   | 599.0   | 832.7   | 1,056.9 |
| United States | 57.7          | 87.3  | 113.2   | 96.8    | 213.7   | 420.8   | 564.3   | 666.6   |
| Canada        | 13.9          | 7.0   | 8.2     | 6.2     | 94.4    | 132.1   | 189.0   | 244.9   |
| Mexico        | 2.7           | 3.3   | 5.8     | 8.0     | 22.5    | 46.2    | 79.5    | 145.5   |
| Rest of World | 162.5         | 162.1 | 276.0   | 348.9   | 442.3   | 571.7   | 805.6   | 1,099.2 |
| World         | 524.6         | 705.7 | 1,042.9 | 1,091.9 | 1,900.3 | 3,592.3 | 4,987.0 | 5,925.9 |

Source: International Monetary Fund, Direction of Trade, International Economic Databank, Australian National University.

Table 2 Exporting regions' shares of import markets, 1965-2002 (per cent)

| Exporter                  | Importer |                |      |      |      |
|---------------------------|----------|----------------|------|------|------|
|                           | 1965     | 1975           | 1985 | 1995 | 2002 |
| Australia and New Zealand | 5.7      | 7.0            | 6.0  | 8.7  | 9.0  |
| East Asia                 | 14.3     | 27.5           | 37.7 | 36.6 | 41.7 |
| European Union            | 37.8     | 29.4           | 23.7 | 21.5 | 19.7 |
| Eastern Europe & FSU      | 0.7      | 0.4            | 0.3  | 0.2  | 0.3  |
| North America             | 24.3     | 21.3           | 23.6 | 21.3 | 20.3 |
| Rest of World             | 17.2     | 14.4           | 8.8  | 11.7 | 9.1  |
| World                     | 100      | 100            | 100  | 100  | 100  |
|                           |          | East Asia      |      |      |      |
|                           | 1965     | 1975           | 1985 | 1995 | 2002 |
| Australia and New Zealand | 6.0      | 6.1            | 4.6  | 2.8  | 3.1  |
| East Asia                 | 31.8     | 33.5           | 46.9 | 53.4 | 61.0 |
| European Union            | 13.5     | 10.1           | 11.0 | 12.8 | 11.0 |
| Eastern Europe & FSU      | 2.4      | 1.9            | 1.0  | 1.6  | 1.2  |
| North America             | 24.1     | 21.8           | 22.0 | 17.2 | 14.4 |
| Rest of World             | 22.2     | 26.7           | 14.5 | 12.2 | 9.2  |
| World                     | 100      | 100            | 100  | 100  | 100  |
|                           |          | European Union |      |      |      |
|                           | 1965     | 1975           | 1985 | 1995 | 2002 |
| Australia and New Zealand | 2.5      | 0.9            | 0.6  | 0.4  | 0.5  |
| East Asia                 | 3.3      | 4.4            | 6.6  | 9.9  | 10.5 |
| European Union            | 46.9     | 53.7           | 54.6 | 56.9 | 54.4 |
| Eastern Europe & FSU      | 3.8      | 3.8            | 4.2  | 3.4  | 5.3  |
| North America             | 13.3     | 9.7            | 8.5  | 7.4  | 7.4  |
| Rest of World             | 30.3     | 27.5           | 25.4 | 22.1 | 21.9 |
| World                     | 100      | 100            | 100  | 100  | 100  |
|                           |          | North America  |      |      |      |
|                           | 1965     | 1975           | 1985 | 1995 | 2002 |
| Australia and New Zealand | 1.7      | 1.4            | 0.7  | 0.5  | 0.7  |
| East Asia                 | 13.5     | 17.6           | 31.2 | 30.8 | 24.9 |
| European Union            | 21.4     | 16.3           | 17.7 | 14.3 | 16.3 |
| Eastern Europe & FSU      | 0.6      | 0.7            | 0.6  | 0.7  | 0.9  |
| North America             | 39.4     | 38.6           | 34.7 | 40.9 | 42.8 |
| Rest of World             | 23.4     | 25.5           | 15.1 | 12.8 | 14.4 |
| World                     | 100      | 100            | 100  | 100  | 100  |
|                           |          | World          |      |      |      |
|                           | 1965     | 1975           | 1985 | 1995 | 2002 |
| Australia and New Zealand | 2.3      | 1.7            | 1.5  | 1.3  | 1.3  |
| East Asia                 | 9.1      | 11.8           | 19.4 | 24.6 | 24.7 |
| European Union            | 37.4     | 36.2           | 34.4 | 35.9 | 34.2 |
| Eastern Europe & FSU      | 4.7      | 5.6            | 4.9  | 2.6  | 3.8  |
| North America             | 20.8     | 17.0           | 17.5 | 17.0 | 17.6 |
| Rest of World             | 25.6     | 27.8           | 22.3 | 18.5 | 18.4 |
| World                     | 100      | 100            | 100  | 100  | 100  |

Notes: Exports in this and other tables refer to merchandise exports. East Asia includes Japan, Korea, China, Taiwan, Hong Kong, Thailand, Malaysia, Philippines, Indonesia, Singapore and Vietnam; North America includes the United States, Canada and Mexico; FSU represents the Former Soviet Union. Source: UN Trade Data, International Economic Databank, Australian National University.

Table 3 Export/GDP ratio for regional economies by destination, 1965-2002 (per cent)

| Exporter \ Importer     | Australia & New Zealand |                |      |      |      |
|-------------------------|-------------------------|----------------|------|------|------|
|                         | 1965                    | 1975           | 1985 | 1995 | 2002 |
| Australia & New Zealand | 0.7                     | 0.7            | 0.8  | 1.2  | 1.6  |
| East Asia               | 0.3                     | 0.4            | 0.5  | 0.3  | 0.5  |
| European Union          | 0.7                     | 0.3            | 0.3  | 0.2  | 0.2  |
| Eastern Europe & FSU    | 0.0                     | 0.0            | 0.0  | 0.0  | 0.0  |
| North America           | 0.1                     | 0.1            | 0.1  | 0.2  | 0.1  |
| Rest of World           | 0.2                     | 0.1            | 0.1  | 0.1  | 0.1  |
| World                   | 0.2                     | 0.2            | 0.2  | 0.2  | 0.2  |
|                         |                         | East Asia      |      |      |      |
|                         | 1965                    | 1975           | 1985 | 1995 | 2002 |
| Australia & New Zealand | 3.0                     | 4.8            | 5.7  | 6.7  | 7.9  |
| East Asia               | 2.6                     | 4.0            | 5.5  | 7.5  | 10.4 |
| European Union          | 0.9                     | 0.8            | 1.4  | 2.3  | 1.7  |
| Eastern Europe & FSU    | 0.1                     | 0.3            | 0.4  | 2.8  | 1.9  |
| North America           | 0.5                     | 1.1            | 1.1  | 2.2  | 1.4  |
| Rest of World           | 0.8                     | 1.6            | 1.3  | 2.0  | 2.1  |
| World                   | 0.9                     | 1.7            | 2.1  | 3.6  | 3.6  |
|                         |                         | European Union |      |      |      |
|                         | 1965                    | 1975           | 1985 | 1995 | 2002 |
| Australia & New Zealand | 5.2                     | 2.1            | 1.9  | 1.4  | 1.9  |
| East Asia               | 1.2                     | 1.6            | 1.9  | 2.1  | 3.1  |
| European Union          | 13.3                    | 13.0           | 16.7 | 15.3 | 14.4 |
| Eastern Europe & FSU    | 0.4                     | 1.8            | 4.3  | 9.0  | 13.8 |
| North America           | 1.1                     | 1.5            | 1.1  | 1.4  | 1.2  |
| Rest of World           | 4.7                     | 5.2            | 5.5  | 5.4  | 8.7  |
| World                   | 3.9                     | 5.2            | 5.1  | 5.4  | 6.1  |
|                         |                         | North America  |      |      |      |
|                         | 1965                    | 1975           | 1985 | 1995 | 2002 |
| Australia & New Zealand | 1.7                     | 1.5            | 1.5  | 1.0  | 2.2  |
| East Asia               | 2.2                     | 2.9            | 6.1  | 3.8  | 5.3  |
| European Union          | 2.8                     | 1.8            | 3.7  | 2.3  | 3.2  |
| Eastern Europe & FSU    | 0.0                     | 0.2            | 0.4  | 1.2  | 1.6  |
| North America           | 1.5                     | 2.7            | 3.0  | 4.6  | 5.2  |
| Rest of World           | 1.7                     | 2.2            | 2.2  | 1.8  | 4.2  |
| World                   | 1.8                     | 2.4            | 3.4  | 3.2  | 4.5  |
|                         |                         | World          |      |      |      |
|                         | 1965                    | 1975           | 1985 | 1995 | 2002 |
| Australia & New Zealand | 12.7                    | 11.8           | 14.0 | 13.8 | 16.7 |
| East Asia               | 8.4                     | 12.4           | 16.8 | 15.6 | 22.4 |
| European Union          | 28.1                    | 25.5           | 31.5 | 29.3 | 28.2 |
| Eastern Europe & FSU    | 1.4                     | 7.8            | 14.9 | 21.1 | 30.4 |
| North America           | 4.6                     | 7.5            | 6.7  | 9.9  | 9.1  |
| Rest of World           | 10.5                    | 15.2           | 14.4 | 13.7 | 22.9 |
| World                   | 10.4                    | 15.2           | 15.3 | 16.4 | 19.0 |

Note: See Table 2 for the definitions of country groupings.

Source: UN Trade Data, International Economic Databank, Australian National University.

Table 4 International comparison of shifting patterns of export specialisation in selected industrial sectors, 1970-2000 (index of revealed comparative advantage: RCA)

| Machinery (SITC 71) | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 |
|---------------------|------|------|------|------|------|------|------|
| China               | 0.1  | 0.1  | 0.1  | 0.1  | 0.3  | 0.4  | 0.7  |
| Japan               | 0.9  | 1.0  | 1.4  | 1.4  | 1.6  | 1.7  | 1.5  |
| NIEs                | 0.1  | 0.2  | 0.4  | 0.5  | 0.8  | 1.0  | 1.4  |
| ASEAN               | 0.1  | 0.2  | 0.2  | 0.4  | 0.8  | 1.2  | 1.4  |
| United States       | 1.6  | 1.7  | 1.9  | 1.7  | 1.3  | 1.4  | 1.4  |

| Electrical machinery (SITC 72) | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 |
|--------------------------------|------|------|------|------|------|------|------|
| China                          | 0.2  | 0.2  | 0.2  | 0.3  | 0.7  | 0.9  | 1.1  |
| Japan                          | 2.1  | 1.9  | 2.5  | 2.2  | 2.1  | 1.9  | 1.6  |
| NIEs                           | 1.8  | 2.0  | 2.3  | 1.8  | 2.0  | 2.0  | 1.8  |
| ASEAN                          | 0.2  | 0.6  | 1.2  | 1.3  | 1.8  | 2.0  | 2.1  |
| United States                  | 1.2  | 1.3  | 1.5  | 1.4  | 1.3  | 1.2  | 1.2  |

| Travel goods (SITC 83) | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 |
|------------------------|------|------|------|------|------|------|------|
| China                  | 2.8  | 3.2  | 3.4  | 8.2  | 3.1  | 8.6  | 7.9  |
| Japan                  | 2.0  | 0.5  | 0.3  | 0.2  | 0.1  | 0.0  | 0.0  |
| NIEs                   | 8.9  | 14.9 | 16.2 | 9.7  | 6.5  | 2.1  | 0.8  |
| ASEAN                  | 0.4  | 0.7  | 0.4  | 0.3  | 1.2  | 1.1  | 1.2  |
| United States          | 0.2  | 0.3  | 0.3  | 0.1  | 0.2  | 0.2  | 0.3  |

| Clothing (SITC 84) | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 |
|--------------------|------|------|------|------|------|------|------|
| China              | 2.0  | 2.4  | 4.7  | 5.2  | 4.9  | 5.1  | 4.6  |
| Japan              | 1.2  | 0.3  | 0.2  | 0.2  | 0.1  | 0.0  | 0.0  |
| NIEs               | 13.3 | 14.2 | 10.1 | 6.8  | 4.2  | 2.1  | 1.7  |
| ASEAN              | 0.3  | 0.6  | 0.9  | 1.1  | 1.8  | 1.4  | 1.2  |
| United States      | 0.3  | 0.2  | 0.3  | 0.1  | 0.2  | 0.4  | 0.4  |

| Footwear (SITC 85) | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 |
|--------------------|------|------|------|------|------|------|------|
| China              | 1.3  | 1.6  | 1.8  | 1.6  | 3.8  | 6.1  | 6.4  |
| Japan              | 1.1  | 0.1  | 0.1  | 0.0  | 0.0  | 0.0  | 0.0  |
| NIEs               | 3.6  | 6.2  | 7.8  | 6.5  | 5.1  | 1.1  | 0.3  |
| ASEAN              | 0.2  | 0.2  | 0.4  | 0.3  | 1.3  | 2.1  | 1.1  |
| United States      | 0.0  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  |

Note: ASEAN includes Singapore; NIEs excludes Singapore;

Source: Calculated using UN COMTRADE data, International Economic Databank, The Australian National University.

Table 5 Contribution of parts and components to export growth, 1992-2000 (per cent)

|               | ASEAN | East Asia | EU-12 | NAFTA | World |
|---------------|-------|-----------|-------|-------|-------|
| China         | 32.9  | 31.1      | 12.6  | 10.3  | 17.9  |
| Korea         | 58.9  | 51.2      | 35.4  | 40.6  | 41.0  |
| Japan         | 66.9  | 52.7      | 86.2  | 34.1  | 50.1  |
| Korea         | 58.9  | 51.2      | 35.4  | 40.6  | 41.0  |
| Taiwan        | 67.6  | 50.8      | 37.5  | 54.9  | 47.4  |
| Hong Kong     | 29.2  | 21.6      | 34.9  | 8.8   | 16.3  |
| ASEAN         | 67.6  | 60.0      | 53.1  | 52.1  | 54.7  |
| East Asia     | 64.2  | 52.6      | 40.9  | 35.0  | 42.8  |
| EU-12         | 48.8  | 31.1      | 20.0  | 18.1  | 22.0  |
| NAFTA         | 74.4  | 55.8      | 34.2  | 23.3  | 29.9  |
| United States | 73.9  | 55.9      | 34.8  | 30.7  | 38.1  |
| World         | 63.0  | 49.6      | 21.1  | 25.1  | 27.0  |

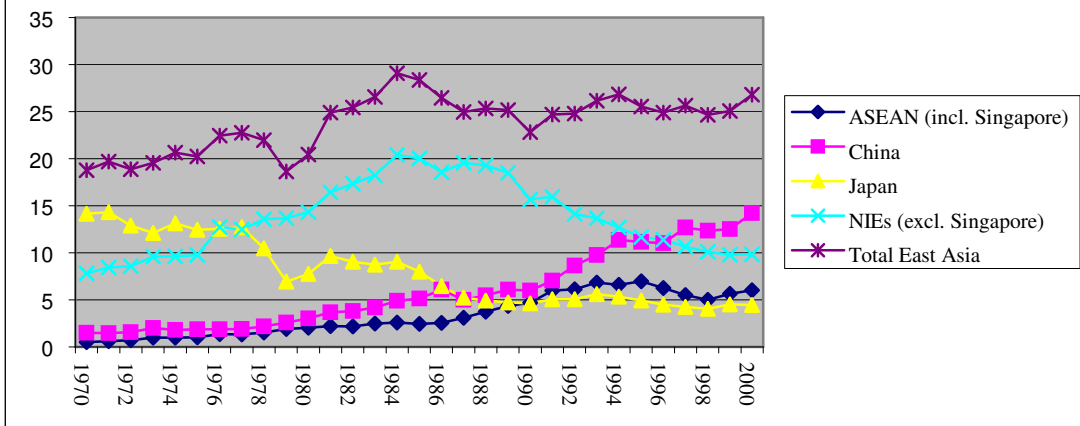
Source: Made by using the data from Table A-3 (B) from Athukorala (2003).

Table 6 Intra-industry trade indexes by destination, 1985 and 2000

|                | East Asia |      | EU-12 |      | North America |      | World |      |
|----------------|-----------|------|-------|------|---------------|------|-------|------|
|                | 1985      | 2000 | 1985  | 2000 | 1985          | 2000 | 1985  | 2000 |
| Australia      | 11.9      | 25.7 | 10.5  | 23.4 | 12.2          | 27.9 | 22.4  | 36.6 |
| New Zealand    | 8.8       | 12.0 | 6.5   | 16.7 | 12.9          | 23.3 | 20.7  | 30.3 |
| Japan          | 17.7      | 42.5 | 32.9  | 43.1 | 21.2          | 42.1 | 19.8  | 41.6 |
| Korea          | 48.5      | 68.7 | 44.2  | 40.5 | 25.1          | 48.9 | 40.7  | 55.9 |
| China          | 23.2      | 49.9 | 10.0  | 42.7 | 7.6           | 32.6 | 21.3  | 47.5 |
| Hong Kong      | 24.8      | 11.5 | 30.7  | 20.1 | 20.8          | 18.2 | 45.7  | 19.6 |
| Taiwan         | 48.9      | 76.5 | 28.9  | 43.4 | 17.9          | 37.9 | 35.0  | 60.8 |
| Singapore      | 44.9      | 82.3 | 41.9  | 45.9 | 51.1          | 56.2 | 58.5  | 78.9 |
| Indonesia      | 10.1      | 32.8 | 3.9   | 20.1 | 1.9           | 14.8 | 15.1  | 34.0 |
| Malaysia       | 25.6      | 65.8 | 20.1  | 48.7 | 50.9          | 43.2 | 37.2  | 60.4 |
| Thailand       | 21.3      | 61.7 | 13.6  | 43.3 | 24.0          | 35.1 | 23.1  | 57.3 |
| Philippines    | 32.3      | 56.4 | 25.5  | 29.2 | 45.1          | 45.1 | 36.1  | 49.8 |
| Vietnam        | 2.2       | 19.0 | 3.2   | 8.1  | 0.3           | 7.7  | 7.1   | 17.6 |
| EU-12          | 43.5      | 50.9 | 97.6  | 92.9 | 53.3          | 67.2 | 78.9  | 86.6 |
| United Kingdom | 39.4      | 41.7 | 62.7  | 74.1 | 50.8          | 65.2 | 72.2  | 79.9 |
| Germany        | 36.3      | 47.9 | 49.6  | 70.5 | 21.3          | 59.7 | 51.9  | 72.9 |
| United States  | 27.5      | 44.1 | 47.5  | 62.2 | 61.6          | 64.2 | 52.1  | 62.9 |
| Canada         | 13.3      | 17.2 | 25.7  | 39.5 | 61.3          | 63.4 | 63.1  | 66.0 |
| Mexico         | 6.1       | 12.2 | 8.7   | 30.7 | 33.8          | 59.1 | 31.9  | 60.5 |

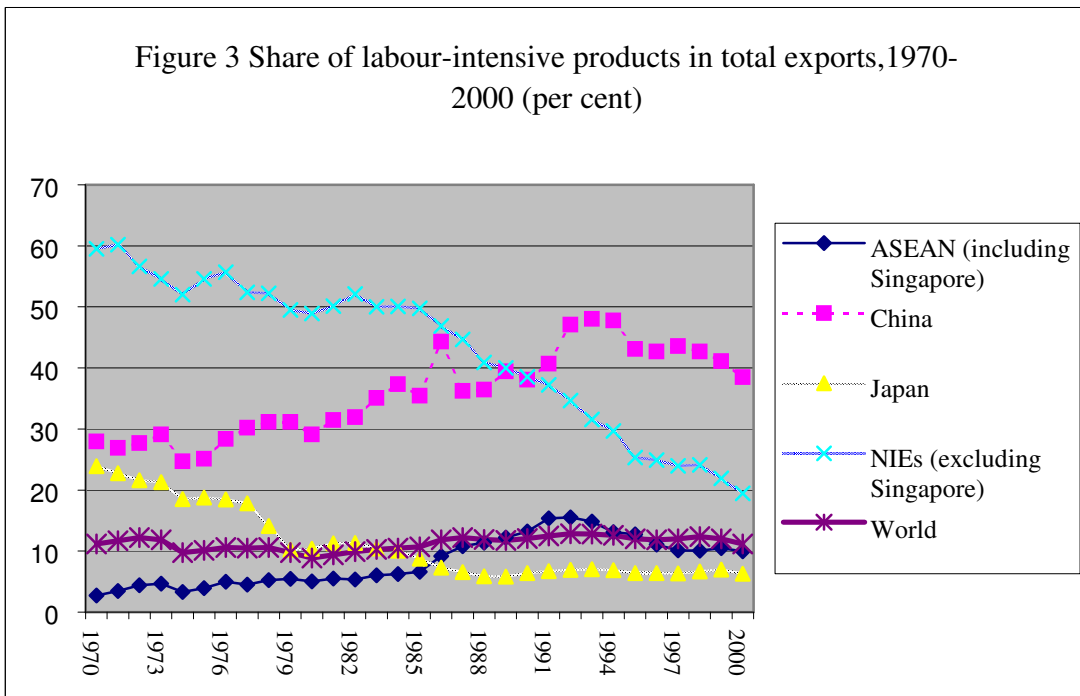
Source: UN Trade Data, International Economic Databank, Australian National University.

Figure 2 Changing share of some East Asian economies in world total labour-intensive manufactured exports, 1970-2000 (per cent)



Source: Authors' calculation using UN COMTRADE, International Economic Databank, The Australian National University.

Figure 3 Share of labour-intensive products in total exports, 1970-2000 (per cent)



Source: Calculated using UN COMTRADE data, International Economic Databank, Australian National University.

Table 7 Bias, complementarity and intensity indexes for major country groups: 1985 and 2000

| REPORTER                | PARTNER<br>TYPE | Australia &<br>New Zealand |      | East Asia |      | ASEAN (6) |      | EU -12 |      | North America |      | Rest of World |      |
|-------------------------|-----------------|----------------------------|------|-----------|------|-----------|------|--------|------|---------------|------|---------------|------|
|                         |                 | 1985                       | 2000 | 1985      | 2000 | 1985      | 2000 | 1985   | 2000 | 1985          | 2000 | 1985          | 2000 |
| Australia & New Zealand | Bias            | 8.3                        | 9.0  | 1.8       | 1.7  | 2.6       | 2.3  | 0.4    | 0.3  | 0.9           | 0.6  | 1.1           | 1.1  |
|                         | Complementarity | 0.5                        | 0.7  | 1.4       | 1.2  | 0.7       | 0.8  | 1.0    | 1.0  | 0.5           | 0.7  | 1.0           | 1.2  |
|                         | Intensity       | 3.9                        | 6.3  | 2.5       | 2.0  | 1.8       | 1.9  | 0.4    | 0.3  | 0.5           | 0.4  | 1.1           | 1.3  |
| East Asia               | Bias            | 1.4                        | 1.2  | 1.6       | 1.2  | 2.0       | 1.4  | 0.3    | 0.4  | 1.1           | 0.7  | 0.6           | 0.5  |
|                         | Complementarity | 1.1                        | 1.0  | 1.1       | 1.3  | 1.1       | 1.5  | 0.9    | 1.0  | 1.1           | 1.1  | 1.0           | 0.9  |
|                         | Intensity       | 1.6                        | 1.2  | 1.7       | 1.6  | 2.2       | 2.0  | 0.3    | 0.4  | 1.3           | 0.8  | 0.6           | 0.4  |
| ASEAN (6)               | Bias            | 2.0                        | 2.2  | 2.5       | 1.6  | 4.1       | 2.5  | 0.4    | 0.5  | 1.0           | 0.7  | 0.5           | 0.6  |
|                         | Complementarity | 0.8                        | 0.9  | 1.2       | 1.3  | 1.3       | 1.5  | 0.9    | 0.9  | 0.9           | 1.0  | 0.9           | 0.9  |
|                         | Intensity       | 1.6                        | 2.0  | 3.1       | 2.2  | 5.2       | 3.8  | 0.3    | 0.4  | 0.9           | 0.7  | 0.5           | 0.5  |
| EU-12                   | Bias            | 0.4                        | 0.4  | 0.2       | 0.2  | 0.2       | 0.2  | 1.0    | 1.1  | 0.3           | 0.3  | 0.8           | 1.0  |
|                         | Complementarity | 1.1                        | 1.1  | 0.9       | 0.9  | 1.0       | 0.9  | 1.1    | 1.1  | 1.0           | 1.0  | 1.1           | 1.1  |
|                         | Intensity       | 0.5                        | 0.4  | 0.2       | 0.2  | 0.2       | 0.2  | 1.1    | 1.2  | 0.3           | 0.3  | 0.8           | 1.1  |
| North America           | Bias            | 0.9                        | 0.7  | 0.9       | 0.6  | 0.7       | 0.6  | 0.4    | 0.3  | 1.1           | 1.4  | 0.6           | 0.4  |
|                         | Complementarity | 1.2                        | 1.1  | 1.0       | 0.9  | 0.9       | 1.0  | 1.0    | 1.0  | 1.3           | 1.1  | 1.0           | 1.0  |
|                         | Intensity       | 1.0                        | 0.7  | 0.8       | 0.6  | 0.6       | 0.5  | 0.4    | 0.3  | 1.4           | 1.6  | 0.6           | 0.4  |
| Rest of World           | Bias            | 0.3                        | 0.3  | 0.3       | 0.4  | 0.3       | 0.4  | 0.8    | 0.9  | 0.5           | 0.5  | 1.2           | 1.4  |
|                         | Complementarity | 0.8                        | 1.0  | 1.2       | 1.0  | 1.1       | 0.9  | 1.0    | 1.0  | 0.9           | 1.0  | 1.1           | 1.1  |
|                         | Intensity       | 0.3                        | 0.3  | 0.4       | 0.4  | 0.3       | 0.4  | 0.8    | 0.9  | 0.4           | 0.5  | 1.2           | 1.5  |

Source: Calculated using UN COMTRADE data, International Economic Databank, Australian National University.



Table 8 China plus Hong Kong's share of export of major countries & regions, 1996-2002 (%)

|               | 1996 | 2000 | 2002 |
|---------------|------|------|------|
| <b>Export</b> |      |      |      |
| Japan         | 12.2 | 13.0 | 16.4 |
| Korea         | 16.8 | 17.8 | 19.9 |
| Taiwan        | 23.7 | 24.4 | 32.3 |
| ASEAN (6)     | 9.4  | 9.7  | 11.6 |
| East ASIA     | 10.8 | 10.9 | 12.8 |
| Australia     | 9.3  | 9.3  | 10.3 |
| United States | 4.3  | 4.1  | 5.1  |
| Canada        | 1.5  | 1.2  | 1.3  |
| World         | 4.5  | 4.6  | 4.7  |
| <b>Import</b> |      |      |      |
| Japan         | 12.3 | 15.0 | 19.7 |
| Korea         | 6.4  | 8.8  | 11.2 |
| Taiwan        | 4.7  | 6.1  | 8.9  |
| ASEAN (6)     | 5.3  | 7.3  | 10.3 |
| East ASIA     | 6.3  | 7.7  | 11.9 |
| Australia     | 6.4  | 8.8  | 11.2 |
| US            | 7.9  | 9.6  | 12.3 |
| Canada        | 2.6  | 3.6  | 4.9  |
| World         | 4.3  | 5.6  | 7.0  |

Note: \*Figures for 2003 are for the period January to September excluding Hong Kong.  
Source: International Monetary Fund, IMF, Direction of Trade, International Economic Databank, Australian National University.

Table 9 China's major trading partners, ranking, total trade, growth rate and trade shares (Billion US\$, per cent), January to September 2003

|                | Ranking | Amount<br>(billion US\$) | Growth rate (year-<br>on-year) | Share in total<br>(per cent) |
|----------------|---------|--------------------------|--------------------------------|------------------------------|
| <b>Total</b>   |         | 606                      | 36.2                           | 100                          |
| Japan          | 1       | 96                       | 31.7                           | 15.8                         |
| United States  | 2       | 91                       | 29.9                           | 15.0                         |
| European Union | 3       | 89                       | 41.5                           | 14.7                         |
| Hong Kong      | 4       | 61                       | 22.5                           | 10.1                         |
| ASEAN          | 5       | 56                       | 44.3                           | 9.2                          |
| Korea          | 6       | 44                       | 43.1                           | 7.3                          |
| Taiwan         | 7       | 41                       | 29.1                           | 6.8                          |
| Russia         | 8       | 11                       | 26.6                           | 1.9                          |
| Australia      | 9       | 10                       | 26.7                           | 1.6                          |
| Canada         | 10      | 7                        | 23.4                           | 1.2                          |

Source: Trade statistics, China International Electronic Commerce Network, Ministry of Commerce, China (<http://www.ec.com.cn>).

Table 10 China's share of world export and import growth, 1996-2002 (%)

| Export growth                            | 96-97 | 99-00 | 01-02 | 96-02 |
|--|-------|-------|-------|-------|
| World Export Growth Rate                 | 4.1   | 12.2  | 1.9   | 2.5   |
| China's Export Growth Rate               | 21.0  | 27.8  | 44.7  | 9.9   |
| China's Share of World Export Growth (%) | 14.5  | 7.8   | 103.2 | 24.4  |
| <b>Import Growth</b>                     |       |       |       |       |
| World Import Growth Rate                 | 6.3   | 13.6  | 2.4   | 2.8   |
| China's Import Growth Rate               | 2.5   | 37.1  | 16.2  | 10.2  |
| China's Share of World Import Growth (%) | 0.9   | 7.0   | 23.7  | 11.9  |

Source: International Monetary Fund, IMF, Direction of Trade, International Economic Databank, Australian National University.

Table 11 FDI Inflows in East Asia (Billion US\$ at 1995 prices)

|                                     | 1996  | 1997  | 1998  | 1999     | 2000     | 2001  | 2002  | 96-02 |
|-------------------------------------|-------|-------|-------|----------|----------|-------|-------|-------|
| China                               | 40.9  | 43.5  | 43.2  | 37.8     | 37.4     | 42    | 46.8  | 41.7  |
| Singapore                           | 8.4   | 10.3  | 6.1   | 11.1     | 5        | 7.7   | 5.8   | 7.8   |
| Thailand                            | 2.3   | 3.7   | 7     | 5.7      | 3.1      | 3.4   | 0.9   | 3.7   |
| Indonesia                           | 6.1   | 4.5   | 0.3   | 2.6      | 4.2      | 2.9   | 2     | 3.2   |
| Malaysia                            | 5     | 4.9   | 2.1   | 3.6      | 3.5      | 0.5   | 1.6   | 3     |
| Vietnam                             | 2.3   | 2.1   | 1.6   | 1.3      | 1.2      | 1.2   | 1.3   | 1.6   |
| Philippines                         | 1.5   | 1.2   | 2.2   | 0.5      | 1.1      | 0.9   | 1     | 1.2   |
| Japan                               | 0.2   | 3.1   | 3.1   | 11.5     | 7.6      | 5.5   | 8.1   | 5.6   |
| Korea                               | 2.3   | 2.7   | 5.1   | 8.7      | 8.5      | 3.2   | 1.7   | 4.6   |
| Taiwan                              | 1.8   | 2.2   | 0.2   | 2.7      | 4.5      | 3.7   | 1.3   | 2.3   |
| Hong Kong                           | 10.3  | 10.9  | 14    | 23       | 56.8     | 21.3  | 12.2  | 21.2  |
| <b>East Asia</b>                    |       |       |       |          |          |       |       |       |
| Total                               | 81.1  | 89.3  | 84.9  | 108.7    | 132.8    | 92.4  | 82.4  | 96    |
| World Total                         | 378.8 | 460   | 660.1 | 1,019.70 | 1,369.20 | 659.1 | n.a.  | 757.8 |
| <b>China's Share of East Asia</b>   |       |       |       |          |          |       |       |       |
| Total                               | 57.7% | 55.6% | 61.0% | 44.1%    | 49.2%    | 59.2% | 66.5% | 55.8% |
| <b>China's Share of World Total</b> |       |       |       |          |          |       |       |       |
| Total                               | 10.8% | 9.5%  | 6.5%  | 3.7%     | 2.7%     | 6.4%  | n.a.  | 5.5%  |

Source: International Monetary Fund (IMF), International Financial Statistics; UNCTAD, World Investment Report (<http://stats.unctad.org/fdi/>).

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