

International Trade of the East Asian Economic Caucus

Noor Aini Khalifah

ABSTRACT

This article examines international trade of the proposed EAEC in a global context. Analysis of the EAEC in terms of output, volume of trade, volume of intra-regional and inter-regional trade and the commodity structure of trade of member countries is presented. Comparisons are also made between the EAEC and the emerging North American Free Trade Area. The article also examines some of the policy implications with respect to EAEC trade especially the role of Japan and the non-ASEAN countries in promoting the EAEC.

ABSTRAK

Artikel ini akan mengkaji perdagangan antarabangsa Rundingan Ekonomi Asia Timur (EAEC) dalam konteks global. Analisis tentang EAEC dari aspek output, volum perdagangan, volum perdagangan dalam dan antara wilayah dan struktur perdagangan komoditi bagi negara-negara ahli akan dibentangkan. Perbandingan antara EAEC dan Kawasan Perdagangan Bebas Amerika Utara (NAFTA) juga akan dibuat. Selain daripada itu, artikel ini mengkaji implikasi dasar EAEC, terutamanya peranan Jepun dan negara-negara bukan ASEAN dalam memajukan EAEC.

INTRODUCTION

In December 1990, the Prime Minister of Malaysia, Dr. Mahathir Mohamad proposed the formation of an East Asian Economic Group (EAEG) to foster closer trade relation among countries in the region. This paper attempts to evaluate the importance of inter-regional and intra-regional trade of the various EAEG member countries. It sketches a profile of EAEG trade and examines some of the key issues that arise in this context. Where possible, comparisons between the EAEG and the North American Free

Trade Area (NAFTA) are made to see the similarities and differences between these two new emerging groups.

The halting of the Uruguay Round of negotiations, President Bush's eagerness to shape the NAFTA and the European Community (EC) common market in 1992 are among the factors leading to a 'bloc' mentality among the nations of the world. If the EC is inward looking, the growth rate of intra-EC trade will be larger than the growth rate of inter-EC trade. The size of the gap between these two growth rates will determine the reactions of non-EC countries. The larger the expected gap, the greater will be the forces that attempt to shape other kinds of economic integration.

Economic integration could encompass trade integration which involves a reduction in barriers to trade or to factor market integration which entails a reduction in barriers to factor mobility or to a unification of economic policies. The initial steps toward economic integration normally involves trade integration.

Trade integration among a selected group of countries refers to the elimination of all tariffs on each other's products but tariff on goods from non-members will still be maintained. Considerations of size or the largeness of a free trade area (or a union) is important in determining whether welfare will eventually increase or not. The greater the number of countries involved in trade integration, the larger will its size be and the greater the probability that low-cost producers fall within the area and thus increase welfare.

The reduction or elimination of tariffs among member countries is a move towards free trade which is expected to be beneficial. But goods from non-members though are subject to a tax whereas similar goods from members are not. This geographical price discrimination is harmful. This type of biased trade integration has replaced one distortion, namely the tariff with another distortion, that is, geographical price discrimination.

The elimination of tariffs among member countries creates trade as each country concentrates more on producing the goods in which it has a comparative advantage. Trade expands until the marginal rates of substitution and of transformation are equalized among countries. With trade integration among a group of countries, tariffs will still be levied on non-member countries. Some goods previously purchased from non-member countries will now be purchased from member countries because it is cheaper to do so without tariffs. This trade diversion results in inefficiency since residents of member countries chose to buy the goods from

non-member countries suppliers when they competed on equal terms with member country suppliers which implies that the former could supply the product cheaper than the latter.

Trade integration leads to both trade creation which is beneficial and trade diversion which is welfare reducing. If the former predominates, then biased integration is a good thing. If trade among the pre-integration economies is large, trade creation will likely dominate since there is not much trade to be diverted. On the other hand, if trade among would be members of the union and non-members is large, integration among members is likely to be welfare reducing.

Integration allows the production process within an industry to be further subdivided allowing the realization of any external scale economies due to the further division of labor. Each individual member country would develop an efficient industry to serve other member countries thus producing for a much larger market and achieving economies of scale. If production structures and pattern of demand existing in the pre-integration economies are competitive, integration will increase economic efficiency by increasing competition with firms in member countries thereby reducing monopolistic or oligopolistic tendencies. The union by passing and enforcing antitrust legislation must ensure that oligopolistic practices such as collusion and market sharing agreements, which earlier might have restricted competition nationally, are not replaced by similar union-wide practices after integration. On the other hand, if the production structures and pattern of demand existing in individual member countries are complementary rather than competitive, there would be no incentive to reallocate resources within the union towards least cost producers. In this case, the benefits accruing to member countries arise from an enlargement of the market and such gains are once and for all.

The ultimate policy agenda of the EAEG is unclear. The negative reception of the EAEG proposal by the US, the insistence of the US to promote APEC (Asian Pacific Economic Cooperation) and the implicit "bullying" tactics of the US to prevent Japan from supporting the EAEG has led to a name change from EAEG to EAEC (East Asian Economic Caucus). Mustapha (1991) cites the EAEC as a body that will comply with the spirit of GATT, that is, to promote free international trade and be outward looking. EAEC will complement APEC and not hinder efforts to promote APEC. The membership of the EAEC is open to all countries in the East Asian

region. EAEC hopes to strengthen ASEAN and make ASEAN a platform from which EAEC's activities will flourish. With respect to the inflow of capital, EAEC will give equal treatment to both member and nonmember nations. Mustapha's characterization of the underlying tenets of EAEC are broad and are generally agreed upon by many quarters. But what remains bothersome to many is the ultimate form and shape of the EAEC. The ultimate policy agenda of the EAEC that will evolve is difficult to predict.¹ The stance taken by the US, Japan and China towards the EAEC proposal will definitely influence the survival of EAEC. If the EAEC survives, the ultimate policy agenda will depend on many inter-related factors (both political and economic) in the global scene. For the purposes of this paper, the author assumes that the countries in EAEC will ultimately remove all barriers to trade with each member country while still maintaining their individual tariff and non-tariff barriers towards non-member countries (essentially the EAEC members choose to form a free trade area). Similarly, it is also assumed that the NAFTA countries choose to form a free trade area.

ECONOMIC PROFILE OF EAEC AND NAFTA

The proposed EAEC consists of 15 countries as shown in Table 1a. The population of each individual member ranges from Brunei's 0.235 million to China's 1,084 million inhabitants while GNP ranges from Lao's US\$710 million to Japan's US\$2,576,541 million.² For the year 1988, Japan's annual per capita GNP of US\$21,040 ranks highest among the EAEC members. This is then followed by Brunei, Hong Kong and Singapore with per capita GNP of US\$14,120, US\$9,230 and US\$9,100 respectively. Lao's per capita GNP of US\$180 ranks lowest among the EAEC members. China, Indonesia and the Phillipines are among countries at the lower end of the scale with annual per capita GNP of US\$300, US\$430 and US\$630 respectively. This diversity in the economic capacity of members is no accident since the proposed EAEC is an organization based on geographical proximity.

In the impending NAFTA, diversity in the economic capacity of members is also obvious as can be gleaned from Table 1b. The US and Canada are among the leading developed countries with per capita GNP of US\$19,780 and US\$16,760 respectively as compared to Mexico, a rapidly industrializing country with per capita GNP of

TABLE 1a. GNP, Population and GNP Per Capita of Members
in the Proposed EAEC, 1988

Country	GNP US\$ (000,000)	Population (000)	GNP/capita, US\$
Japan	2 576 541	122 433	21 040
Brunei ^{a,b}	3 317	.235	14 120
Hong Kong ^a	52 380	5 674	9 230
Singapore	24 010	2 639	9 100
Korea, Rep.	150 270	42 593	3 530
Malaysia	31 620	16 921	1 870
Thailand	54 550	54 469	1 000
Phillipines	37 710	59 686	630
Indonesia	75 960	174 832	430
China	319 905	1083 889	300
Lao	710	3879	180
Vietnam ^c	n.a.	66 682	
Korea, DR ^c	n.a.	21 877	
Cambodia ^c	n.a.	n.a.	
Taiwan ^c	n.a.	n.a.	
Total	3 326 973	1 567 015	2 123 ^d

Source: The World Bank Atlas 1989, World Bank.

- Notes:
- References to GNP relate to GDP estimates
 - Data for Brunei is for the year 1987
 - These countries are omitted in calculating per capita GNP for the region.
 - Refers to a weighted average.

TABLE 1b. GNP, Population and Per Capita GNP of NAFTA, 1988

Country	GNP US\$ (000,000)	Population (000)	GNP/capita, US\$
U.S.	4 863 674	245 871	19 780
Canada	437 471	26 104	16 760
Mexico	151 870	83 593	1 820
Total	5 453 015	355 568	15 336.1

Source: The World Bank Atlas 1989, World Bank.

TABLE 2. Exports, Imports and Total Trade of Selected Groups of Countries, 1990 (millions of US\$)

	Exports (x)	Imports (m)	Total trade (x + m)
Japan	287 678 (40.84)	235 307(35.47)	522 985(38.24)
Taiwan	66 426 (9.43)	55 438(8.36)	121 864(8.91)
Hong Kong	82 144 (11.66)	82 482(12.43)	164 626(12.04)
Korea, Rep.	60 457 (8.58)	68 453(10.32)	128 910(9.42)
China	64 478 (9.15)	58 632(8.84)	123 110(9.00)
Singapore	52 753 (7.49)	60 954(9.19)	113 707(8.31)
Malaysia	29 409 (4.17)	29 251(4.41)	58 660(4.29)
Indonesia	25 675 (3.64)	21 931(3.31)	47 606(3.48)
Thailand	22 805 (3.24)	33 741(5.09)	56 546(4.13)
Phillipines	8 171 (1.16)	12 993(1.96)	21 164(1.55)
Brunei	2 206 (0.31)	1 722(0.26)	3 928(0.29)
Vietnam	1 289 (0.18)	1 018(0.15)	2 307(0.17)
Korea, Dem. Rep.	810 (0.11)	1 252(0.19)	2 062(0.15)
Lao	119 (0.02)	141(0.02)	260(0.02)
Kampuchea	38 (0.01)	45(0.01)	83(0.01)
<hr/>			
EAEC total	704 458 (100%)	663 360 (100%)	1 367 817 (100%)
<hr/>			
Unites States	393 106(70.91)	517 020(77.24)	910 126(74.37)
Canada	131 278(23.68)	119 681(17.88)	250 959(20.51)
Mexico	29 982(5.41)	32 687(4.88)	62 669(5.12)
<hr/>			
NAFTA total	554 366 (100)	669 388 (100)	1 223 754 (100)

Source: Direction of Trade Statistics Yearbook, IMF, 1991.

Notes: Numbers in parentheses shows percentage for the individual grouping. Percentages may not add up to 100% due to rounding-up.

US\$1,820. In this grouping, the might of the US both in terms of GNP and population is transparent and this automatically bestows it the leadership of the group.

The EAEC has a total population 4.4 times that of the population of NAFTA but the output of the latter is 1.6 times that of the former. The population of China accounts for greater than

two thirds of the population of the EAEC and its per capita GNP of US\$300 tends to pull down the average per capita GNP of the EAEC. This results in an average weighted per capita GNP of US\$2,123 for the EAEC compared to US\$15,336 for NAFTA. In 1988, Japan's population is equivalent to about 7.8 per cent of the population of EAEC but its output represent 77 per cent of the output of EAEC. This clearly shows Japan's economic strength among the EAEC countries.

Table 2 presents data on the merchandise exports, imports and total trade of the EAEC members and that of NAFTA.³ Japan is the largest exporter and importer among the EAEC countries controlling about 38% of the total trade⁴ of EAEC. The exports of Japan, Hong Kong, Taiwan, Republic of Korea and China contribute about 79.66% of the total exports of EAEC. The exports of the Democratic Republic of Korea, Vietnam and Lao together contribute an insignificant 0.14% of total exports of EAEC. For purposes of analysis, the countries in the EAEC can be classified into two groups: the ASEAN members of Singapore, Malaysia, Indonesia, Thailand, Phillipines, Brunei and the non-ASEAN members of Japan, Hong Kong, Taiwan, Republic of Korea and China, thus ignoring the Democratic Republic of Korea, Vietnam, Kampuchea and Lao. The imports of the non-ASEAN members account for 75.42% of total imports while the imports of the ASEAN members account for 24.22%. Generally speaking, 78% of the trade in EAEC is contributed by the non-ASEAN member countries while the remaining 22% is contributed by the ASEAN members.

Among the ASEAN members, Singapore is the most important contributor to trade in EAEC (8.31%) followed by Malaysia (4.29%), Thailand (4.13%), Indonesia (3.48%), the Phillipines (1.55%) and Brunei (.29%). Although the contribution to trade of the ASEAN members is about one-fourth that of the non ASEAN members, the ASEAN members have in principle agreed to the idea of an EAEC while the non-ASEAN members are still silent.

The data in Table 2 clearly shows that in the case of NAFTA, the US is the most dominant trading country contributing about 74% of trade in that group. This is followed by Canada accounting for 20.51% of trade and lastly by Mexico contributing 5% to total trade of the group.

The relative positions of the EAEC, NAFTA and the European Community (EC) with respect to world trade is shown in Table 3. The EAEC and NAFTA are roughly about the same size where

trading is concerned where EAEC's and NAFTA's trade amount to 20.14% and 18.02% respectively of global trade. The EC trades about twice as much as the NAFTA group. The three economic groups together account for roughly 78% of world trade.

TABLE 3. Exports, Imports and Total Trade of Various Groups of Countries, 1990 (Millions of US\$)

	Exports (X)	Imports (M)	Total Trade(X + M)
EAEC	704 458(21.09)	663 360(19.22)	1 367 817(20.14)
NAFTA	554 366(16.60)	669 388(19.40)	1 223 754(18.02)
EC	1 357 200(40.64)	1 358 800(39.38)	2 716 000(40.00)
Others	723 576(21.67)	759 052(22.00)	1 482 628(21.83)
World total	3 339 600 (100)	3 450 600 (100)	6 790 199 (100)

Source: Direction of Trade Statistics Yearbook, IMF, 1991.

Notes: Numbers in parentheses shows percentage of world exports, imports and trade for the various groups.

TRADING PARTNERS OF THE EAEC COUNTRIES

In this section, the destination of the exports, the origin of imports and total trade of EAEC with other countries will be analyzed for the year 1990. This analysis will then be compared with NAFTA. In order to reduce the volume of data to manageable proportions, the author has aggregated the countries in the world into four groups. The four groups are NAFTA, the EAEC, the EC and a residual group for all other countries. In order to discern any differences in the trading pattern of the ASEAN versus the significant non-ASEAN⁵ members, the author has disaggregated the EAEC to reflect these two sub-groups.

Looking at the destination of exports of EAEC in broad terms from Table 4 it can be observed that 40.25% of the exports of EAEC goes to EAEC itself. This compares with 41.46% of the exports of NAFTA going to the same area. From Table 5 it can be gleaned that 43.7% of the imports of EAEC originates from within EAEC itself while 33.59% of the imports of NAFTA comes from within the group. Combining the export and imports figures to obtain Table 6, it can be concluded that 41.92% of total trade of EAEC is intra-regional while 37.16% of total trade of the NAFTA is within the

region. Thus, if the US, Canada and Mexico see it fit to form a regional group based on the "enormous" amount of trade among the three countries, the countries in the East Asian region can do similarly based on the greater than "enormous" amount of intra-regional trade.

The ranking of the trading partners of the EAEC is slightly different from that of NAFTA with respect to the EC and the residual group. The EAEC trades the most within the region (41.92%), followed by the NAFTA countries (24.94%), other countries (18.13%) and lastly the EC (15.01%). The NAFTA countries trades within itself the most (37.16%), followed by the EAEC (26.86%), the EC (18.30%) and other countries (17.68%) tracking closely behind. In terms of inter-regional trade, the NAFTA is a very important trading partner to EAEC and similarly vice-versa. Although the EC may account for about 40% of world trade, to both the EAEC and NAFTA, the trade relationship with EC is less important than the trade relationship among themselves.

Both the ASEAN and non-ASEAN countries trade most within the EAEC followed by NAFTA, other countries and lastly the EC. Although the ranking of the groups is the same for both ASEAN and non-ASEAN countries, the NAFTA market is more important to non-ASEAN countries than to ASEAN countries. The trade of the non-ASEAN countries within the EAEC amounts to 39.24% of non-ASEAN countries trade followed by trade with NAFTA which amounts to 26.92% of non-ASEAN countries trade. In the case of ASEAN countries, trade within the EAEC countries represent 51.18% of ASEAN countries trade followed by trade with NAFTA which accounts for 18.18% of ASEAN trade. About 15% of trade for both the non-ASEAN and ASEAN countries is with the EC.

The dominance of the non-ASEAN members in EAEC trade must be emphasized especially the dominance of Japan. Similarly, the dominance of the US in NAFTA must always be remembered. Japan's exports account for 40.84% of total exports of EAEC. 31.67% (or US\$91,121 million) of the exports of Japan end up in the US market.⁶ This compares with 30% (or US\$85,692 million) of Japan's exports that is destined for the EAEC market. Japan's import represent 35% of EAEC's imports. 22.46% (or US\$52,842 million) of Japan's imports are from the US while 27.50% (or US\$64,718 million) of Japan's imports are from the EAEC. Thus, the US market is the most important export market for Japan while the EAEC is the most important origin of Japan's imports. In terms of

TABLE 4. Destination of EAEC exports, 1990 (millions of US\$)

Exporting country	NAFTA	EC	EAEC	Elsewhere	Total Exports
Japan	100 134 (34.81)	54 046 (18.79)	85 692 (29.79)	47 806 (16.62)	287 678 (100)
Taiwan	25 796 (38.83)	11 889 (17.90)	25 441 (38.30)	3 300 (4.97)	66 426 (100)
Hong Kong	21 619 (26.32)	13 959 (16.99)	36 529 (44.47)	10 037 (12.22)	82 144 (100)
Korea	21 510 (35.58)	7 816 (12.93)	21 572 (35.68)	9 559 (15.81)	60 457 (100)
China	8 062 (12.50)	7 123 (11.05)	41 927 (65.03)	7 366 (11.42)	64 478 (100)
Non-ASEAN	177 121 (31.56)	94 833 (16.90)	211 161 (37.63)	78 068 (13.91)	561 183 (100)
Singapore	11 744 (22.26)	7 601 (14.41)	23 527 (44.60)	9 881 (18.73)	52 753 (100)
Malaysia	5 275 (17.94)	4 395 (14.94)	16 666 (56.67)	3 073 (10.45)	29 409 (100)
Indonesia	3 540 (13.79)	3 029 (11.80)	17 173 (66.89)	1 933 (7.53)	25 675 (100)
Thailand	5 563 (24.39)	4 769 (20.91)	8 790 (38.54)	3 683 (16.15)	22 805 (100)
Phillippines	3 235 (39.59)	1 453 (17.78)	3 048 (37.30)	435 (5.332)	8 171 (100)
Brunei	86 (3.90)	263 (11.92)	1 811 (82.09)	46 (2.09)	2 206 (100)
ASEAN	29 443 (20.88)	21 510 (15.25)	71 015 (50.36)	19 051 (13.51)	141 019 (100)
Vietnam	14 (1.09)	101 (7.84)	961 (74.55)	213 (16.52)	1 289 (100)
Lao	1 (0.84)	5 (4.20)	53 (44.54)	60 (50.42)	119 (100)
EAEC total	206 579 (29.36)	116 449 (16.55)	283 190 (40.25)	97 392 (13.84)	703 610 (100)
United States	111 334 (28.32)	98 032 (24.94)	105 143 (26.75)	78 597 (19.99)	393 106 (100)
Canada	95 876 (73.03)	9 967 (7.59)	12 394 (9.44)	13 041 (9.93)	131 278 (100)
Mexico	22 647 (75.54)	3 047 (10.16)	1 994 (6.65)	2 294 (7.65)	29 982 (100)
NAFTA total	229 857 (41.46)	111 046 (20.03)	119 531 (21.56)	93 932 (16.94)	554 366 (100)

Source: Calculated from the Direction of Trade Statistics Yearbook, IMF 1991.

Notes: Data for Taiwan is calculated from data of her trading partners.

Total percentages may not add up to 100 due to rounding-up.

TABLE 5. Origin of EAEC imports, 1990 (millions of US\$)

Exporting country	NAFTA	EC	EAEC	Elsewhere	Total Exports
Japan	63 321 (26.91)	35 338 (15.02)	64 718 (27.50)	71 930 (30.57)	235 307 (100)
Taiwan	12 258 (22.11)	6 151 (11.10)	24 243 (43.73)	12 786 (23.06)	55 438 (100)
Hong Kong	7 067 (8.57)	8 050 (9.76)	61 200 (74.20)	6 165 (7.47)	82 482 (100)
Korea	18 246 (26.65)	7 687 (11.23)	27 626 (40.36)	14 894 (21.76)	68 453 (100)
China	7 786 (13.28)	7 761 (13.24)	27 616 (47.10)	15 469 (26.23)	58 632 (100)
Non ASEAN	108 678 (21.72)	64 987 (12.99)	205 403 (41.05)	121 244 (24.23)	500 312 (100)
Singapore	10 214 (16.76)	7 816 (12.82)	30 981 (50.83)	11 943 (19.59)	60 954 (100)
Malaysia	5 239 (17.91)	4 264 (14.58)	16 085 (54.99)	3 663 (12.52)	29 251 (100)
Indonesia	2 991 (13.64)	4 138 (18.87)	10 584 (48.26)	4 218 (19.23)	21 931 (100)
Thailand	4 043 (11.98)	4 985 (14.77)	18 977 (56.24)	5 736 (17.00)	33 741 (100)
Phillipines	2 735 (21.05)	1 450 (11.16)	5 868 (45.16)	2 940 (22.63)	12 993 (100)
Brunei	154 (8.94)	534 (31.01)	862 (50.06)	172 (9.99)	1 722 (100)
ASEAN	25 376 (15.80)	23 187 (14.44)	83 357 (51.91)	28 672 (17.85)	160 592 (100)
Vietnam	15 (1.47)	315 (30.94)	454 (44.60)	234 (22.99)	1 018 (100)
Lao	1 (0.71)	10 (7.09)	107 (75.89)	23 (16.31)	141 (100)
EAEC total	134 070 (20.25)	88 499 (13.37)	289 321 (43.70)	150 173 (22.68)	662 063 (100)
United States	124 577 (24.10)	95 491 (18.47)	191 098 (36.96)	105 854 (20.47)	517 020 (100)
Canada	76 735 (64.12)	13 348 (11.15)	15 501 (12.95)	14 097 (11.78)	119 681 (100)
Mexico	23 558 (72.07)	4 123 (12.61)	2 549 (7.80)	2 457 (7.52)	32 687 (100)
NAFTA total	224 870 (33.59)	112 962 (16.88)	209 148 (31.24)	122 408 (18.29)	669 388 (100)

Source: Calculated from the Direction of Trade Statistics Yearbook, IMF, 1991.

Notes: Data for Taiwan is calculated from data of her trading partners.

Total percentages may not add up to 100 due to rounding-up.

TABLE 6. Direction of total trade (Exports and Imports) of EAEC (millions of US\$)

Exporting country	NAFTA	EC	EAEC	Others	Exports & Imports
Japan	163 455 (31.25)	89 384 (17.09)	150 410 (28.76)	119 736 (22.89)	522 985 (100)
Taiwan	38 054 (31.23)	18.040 (14.80)	49 684 (40.77)	16 086 (13.20)	121 864 (100)
Hong Kong	28 686 (17.42)	22.009 (13.37)	97 729 (59.36)	16.202 (9.84)	164.626 (100)
Korea	39 756 (30.84)	15 503 (12.03)	49 198 (38.16)	24 453 (18.97)	128 910 (100)
China	15 848 (12.87)	14 884 (12.09)	69 543 (56.49)	22 835 (18.55)	123 110 (100)
Non ASEAN	285 799 (26.92)	159 820 (15.06)	416 564 (39.24)	199 312 (18.78)	1 061 495 (100)
Singapore	21 958 (19.31)	15 417 (13.56)	54 508 (47.94)	21 824 (19.19)	113 707 (100)
Malaysia	10 514 (17.92)	8 659 (14.76)	32 751 (55.83)	6 736 (11.48)	58 660 (100)
Indonesia	6 531 (13.72)	7 167 (15.05)	27 757 (58.31)	6 151 (12.92)	47.606 (100)
Thailand	9 606 (16.99)	9 754 (17.25)	27 767 (49.10)	9 419 (16.66)	56 546 (100)
Phillipines	5 970 (28.21)	2 903 (13.72)	8 916 (42.13)	3 375 (15.95)	21 164 (100)
Brunei	240 (6.11)	797 (20.29)	2 673 (68.05)	218 (5.55)	3 928 (100)
ASEAN	54 819 (18.18)	44 697 (14.82)	154 372 (51.18)	47 723 (15.82)	301 611 (100)
Vietnam	29 (1.26)	416 (18.03)	1 415 (61.34)	447 (19.39)	2 307 (100)
Lao	(.77)	(5.77)	160 (61.54)	83 (31.92)	260 (100)
EAEC total	340 649 (24.94)	204 948 (15.01)	572 511 (41.92)	247 565 (18.13)	1 365 673 (100)
United States	235 911 (25.92)	193 523 (21.26)	296 241 (32.55)	184 451 (20.27)	910 126 (100)
Canada	172 611 (68.78)	23 315 (9.29)	27 895 (11.12)	27 138 (10.81)	250 959 (100)
Mexico	46 205 (73.73)	7 170 (9.29)	4 543 (7.25)	4 751 (7.58)	62 669 (100)
NAFTA total	454 727 (37.16)	224 008 (18.30)	328 679 (26.86)	216 340 (17.68)	1 223 754 (100)

Source: Calculated from Tables 4 and 5.

total trade, Japan's trade with the US accounts for 27.53% of its trade, while Japan's trade with the EAEC is slightly larger representing 28.76% of its trade.

The present importance of the US market for Japan's exports is obvious from the above analysis. But the increasing protectionism of the US towards Japan and the "four tigers" is also obvious. The weakened commitment of the US towards multilateralism and its new interest in regionalism should not go unnoticed.⁷ GATT's article XXIV which provides for departures from the principle of non-discrimination to form free trade areas or custom unions has been put to good use in the US - Canada Free Trade Agreement. The tightening of the "unfair trade" laws of the US with respect to antidumping actions and subsidy-counterveiling duties via the Omnibus Trade and Competitiveness Act of 1988 demand that other countries liberalize or face suspension of the US's trading obligations if the demands are not met, clearly shows the underlying trends in the US's thinking. The increasing protectionism and regionalism in the US coupled with the potentialities of an EAEC market with a large population and economic capacity ushers Japan to assume a leadership role in the proposed EAEC in a bloc infested world. The European Currency Unit will become increasingly important as EC 1992 approaches. The US dollar's importance can be expected to continue. The realized EAEC will ensure that the importance of the yen continues.

COMMODITY STRUCTURE OF EAEC TRADE

The commodity structure of exports and imports of the countries in EAEC is shown in Tables 7 and 8 respectively. Five broad categories of selected groups of commodities have been identified. These categories include food items, agricultural raw materials, fuels, ores and metals, and manufactured goods. The category manufactured goods is further subdivided into chemical products (SITC 5), other manufactured goods (SITC 6+8) and machinery and equipment (SITC 7). A residual category for commodities not allocated in the five broad categories is also presented. The export and import commodity structure for Tables 7 and 8 respectively refer to different years depending on the availability of data. The 1990 merchandise export and import data has been superimposed on an earlier structure of exports and imports in order to calculate the relative contribution of each member country in the EAEC.

TABLE 7. Export Structure of Commodities of EAEC^a Countries, Millions Of US\$

Country	Year	All food item (%)	Agric. raw materials (%)	Fuels (%)	Ores & metals (%)	Manu- factured ^b goods (%)	Chemical ^c products (%)	Other manufac- tured goods ^d (%)	Machinery and equip- ment ^e (%)	Unallo- cated (%)	1990 exports
1. Japan	1987	2 043 (.71)	1 640 (.57)	978 (.34)	18 325 (6.37)	261 845 (91.02)	14 585 (5.07)	59 434 (20.66)	187 825 (65.29)	2 819 (.98)	287 678 (100)
2. Hong Kong	1987	1 380 (1.68)	296 (.36)	214 (.26)	739 (.90)	78 448 (95.50)	1 060 (1.29)	60 080 (73.14)	17 316 (21.08)	1 068 (1.30)	82 144 (100)
3. Korea	1987	2 787 (4.61)	453 (.75)	925 (1.53)	3 440 (5.69)	52 833 (87.39)	1 832 (3.03)	30 918 (51.14)	20 084 (33.22)	18 (0.03)	60 457 (100)
4. China	1985	10 755 (16.68)	3 972 (6.16)	16 687 (25.88)	1 934 (3.00)	23 154 (35.91)	3 224 (5.00)	18 125 (28.11)	1 812 (2.81)	7 969 (12.36)	64 478 (100)
Non ASEAN		16 965 (3.43)	6 361 (1.29)	18 804 (3.80)	24 438 (4.94)	416 280 (84.14)	20 701 (4.18)	168 557 (34.07)	227 037 (45.89)	11 874 (2.40)	494 757 (100)
5. Singapore	1987	3 487 (6.61)	2 300 (4.36)	8 346 (15.82)	1 256 (2.38)	34 464 (65.33)	3 534 (6.70)	8 335 (15.80)	22 594 (42.83)	2 901 (5.50)	52 753 (100)
6. Malaysia	1986	4 655 (15.83)	6 205 (21.10)	6 720 (22.85)	1 079 (3.67)	10 687 (36.34)	5000 (1.7)	2 806 (9.54)	7 382 (25.10)	59 (0.20)	29 409 (100)
7. Thailand	1987	8 449 (37.05)	1 870 (8.20)	160 (0.70)	545 (2.39)	11 576 (50.76)	374 (1.64)	8 495 (37.25)	2 707 (11.87)	205 (0.90)	22 805 (100)
8. Indonesia	1986	3 489 (13.59)	1 982 (7.72)	14 060 (54.76)	1 289 (5.02)	4 835 (18.83)	822 (3.20)	3 908 (15.22)	105 (0.41)	21 (0.08)	25 675 (100)
9. Phillipines	1986	2 191 (26.81)	392 (4.80)	106 (1.30)	876 (10.72)	2 460 (30.11)	430 (5.26)	1 357 (16.61)	673 (8.24)	2 146 (26.26)	8 171 (100)
10. Brunei	1985	.22 (.01)	-	2 204 (99.93)	.44 (0.02)	.44 (0.02)		.44 (02)		.44 (.02)	2 206 (100)
ASEAN		22 271 (15.79)	12 749 (9.04)	31 596 (22.41)	5 045 (3.58)	64 022 (45.40)	5 660 (4.01)	24 901 (17.66)	33 461 (23.73)	5 332 (3.78)	141 019 (100)

continued next page

Table 7 (Continued)

11. Lao	1974	3 (2.56)	97 (81.46)	14	(11.85)	5 (4.10)		.02 (4.10)	119	(.02)	(100)
EAEC		39 236 (6.17)	19 110 (3.01)	50 400 (7.93)	29 483 (4.64)	480 302 (75.55)	26 361 (4.15)	193 458 (30.43)	260 498 (40.97)	17 206 (2.71)	635 776 (100)
12. United States	1987	45 718 (11.63)	18 751 (4.77)	12 461 (3.17)	12 147 (3.09)	273 916 (69.68)	41 748 (10.62)	48 352 (12.30)	183 816 (46.76)	30 112 (7.66)	393 106 (100)
13. Canada	1987	12 340 (9.40)	14 414 (10.98)	13 259 (10.10)	14 060 (10.71)	76 640 (58.38)	6 840 (5.21)	19 521 (14.87)	50 293 (38.31)	564 (0.43)	131 278 (100)
14. Mexico	1985	2 426 (8.09)	255 (0.85)	18 016 (60.09)	1 430 (4.77)	7 846 (26.17)	929 (3.10)	2 162 (7.21)	4 758 (15.87)	6 (0.02)	29 982 (100)
NAFTA		60 484 (10.91)	33 420 (6.03)	43 736 (7.89)	27 637 (4.99)	358 402 (64.65)	49 517 (8.93)	70 035 (12.63)	238 867 (43.09)	30 682 (5.53)	554 366 (100)

Source: Calculated based on data presented in the *Handbook of International Trade and Development Statistics*, 1988, UNCTAD, United Nations.

- a. Export structure of Taiwan is not available.
- b. This column represents a summation of the following 3 columns.
- c. Refers to manufactures in SITC 5.
- d. Refers to manufactures in SITC 6 + 8.
- e. Refers to manufactures in SITC 7.

Notes: Numbers in parentheses refers to percentages.

TABLE 8. Import Structure of Commodities of EAEC^a Countries, millions of US\$\$

Country	Year	All food item (%)	Agric. raw materials (%)	Fuels (%)	Ores & metals (%)	Manu- factured ^b goods (%)	Chemical ^c products (%)	Other manufac- tured good ^d (%)	Machinery and equip- ment ^e (%)	Unallo- cated (%)	1990 imports
1. Japan	1987	39 132 (16.63)	20 636 (8.77)	63 062 (26.80)	24 919 (10.59)	84 428 (35.88)	19 060 (8.10)	37 555 (15.96)	27 790 (11.81)	3 153 (1.34)	235 307 (100)
2. Hong Kong	1987	7 011 (8.50)	2 978 (3.61)	2 070 (2.51)	3 242 (3.93)	66 736 (80.91)	6 706 (8.13)	39 781 (48.23)	20 241 (24.54)	454 (0.55)	82 482 (100)
3. Korea	1987	3 423 (5.00)	6 640 (9.70)	10 022 (14.64)	7 701 (11.25)	40 538 (59.22)	7 899 (11.54)	8 974 (13.11)	23 664 (34.57)	123 (0.18)	68 453 (100)
4. China	1985	2 586 (4.41)	3 612 (6.61)	240 (0.41)	12 899 (22.00)	35 941 (61.30)	6 127 (10.45)	6 983 (11.91)	22 837 (38.95)	3 360 (5.73)	58 632 (100)
Non-ASEAN		52 152 (11.72)	33 866 (7.61)	75 394 (16.95)	48 761 (10.96)	227 643 (51.17)	39 794 (8.95)	93 293 (20.97)	94 532 (21.25)	7 090 (1.59)	444 874 (100)
5. Singapore	1987	4 864 (7.98)	1 688 (2.77)	11 179 (18.34)	2 639 (4.33)	39 766 (65.24)	3 682 (6.054)	12 099 (19.85)	23 985 (39.35)	817 (1.34)	60 954 (100)
6. Malaysia	1987	3 563 (12.18)	433 (1.48)	2 413 (8.25)	2 001 (6.84)	20 736 (70.89)	2 957 (10.11)	4 502 (15.39)	13 280 (45.40)	108 (0.37)	29 251 (100)
7. Thailand	1987	1 758 (5.21)	1 758 (5.21)	4 504 (13.35)	3 698 (10.96)	20 558 (60.93)	4 903 (14.53)	4 697 (13.92)	10 959 (32.48)	1 468 (4.35)	33 741 (100)
8. Indonesia	1986	1 572 (7.17)	901 (4.11)	2 261 (10.31)	2 191 (9.99)	14 922 (68.04)	3 961 (18.06)	2 555 (11.65)	8 406 (38.33)	83 (0.38)	21 931 (100)
9. Phillipines	1986	1 334 (10.27)	386 (2.97)	2 213 (17.03)	897 (6.90)	5 201 (40.03)	1 879 (14.46)	1 284 (9.88)	2 039 (15.69)	2 964 (22.81)	12 993 (100)
10. Brunei	1985	355 (20.62)	3 (0.19)	31 (1.79)	146 (8.47)	1 138 (66.10)	123 (7.17)	428 (24.86)	587 (34.06)	49 (2.83)	1 722 (100)
ASEAN		13 446 (8.37)	5 169 (3.22)	22 601 (14.07)	11 572 (7.21)	102 321 (63.71)	17 505 (10.90)	25 565 (15.92)	59 256 (36.90)	5 489 (3.42)	160 592 (100)

continued next page

Table 8 (Continued)

EAEC		65 598 (10.83)	39 035 (6.45)	97 995 (16.19)	60 333 (9.96)	329 964 (54.50)	57 299 (9.46)	118 858 (19.63)	153 788 (25.40)	12 579 (2.08)	605 466 (100)
11. United States	1987	33 503 (6.48)	10 909 (2.11)	57 234 (11.07)	25 541 (4.94)	376 597 (72.84)	21 301 (4.12)	137 838 (26.66)	217 510 (42.07)	13 236 (2.56)	517 020 (100)
12. Canada	1987	7 241 (6.05)	2 286 (1.91)	5 852 (4.89)	5 338 (4.46)	96 499 (80.63)	7 923 (6.62)	23 003 (19.22)	65 573 (54.79)	2 453 (2.05)	119 681 (100)
13. Mexico	1985	4 066 (12.44)	1 350 (4.13)	1 428 (4.37)	2 537 (7.76)	23 293 (71.26)	4 530 (13.86)	4 553 (13.93)	14 209 (43.47)	16 (0.05)	32 687 (100)
NAFTA		44 810 (6.69)	14 545 (2.17)	64 514 (9.64)	33 416 (4.99)	496 389 (74.16)	33 754 (5.04)	165 394 (24.71)	297 292 (44.41)	15 705 (2.35)	669 388 (100)

Source: Calculated based on data presented in the *Handbook of International Trade and Development Statistics*, 1988, UNCTAD, United Nations.

Notes: a. Import structure of Taiwan is not available.

b. This column represents a summation of the following three columns.

c. Refers to manufactures in SITC 5.

d. Refers to manufactures in SITC 6 + 8.

e. Refers to manufactures in SITC 7.

Numbers in parentheses refers to percentages. Percentages may not add up to 100 due to rounding-up

Exports of manufactured goods account for 75.55% of the total exports of EAEC countries. This is then followed by exports of fuels (7.93%), food items (6.17%), ores and metals (4.64%) and lastly exports of agricultural raw materials (3.01%). Within the manufactured goods category, exports of machinery and equipment rank highest (40.97%) followed by other manufactured goods (30.43%) and chemical products (4.15%). The ranking of the different categories of exports for the non-ASEAN and ASEAN countries is not similar. The non-ASEAN countries predominantly export manufactures which account for 84% of exports of the non-ASEAN countries. This is followed by exports of ores and metals (4.94%) where Japan is the leading exporter, exporting three quarters of the exports of ores and metals for the non-ASEAN countries. Both fuels and food items respectively contribute to about 4% and 3% each of the exports of the non-ASEAN countries. Only about 1% of the exports of non-ASEAN members represent agricultural raw materials.

In the case of ASEAN countries, the manufactures category predominates exports but the percentage of exports from this category is 45.40% which is roughly half the percentage for the non-ASEAN countries. Within ASEAN, Singapore exports over half of the total manufactures of the region. The ranking of the subdivisions within the manufactures category is similar for both ASEAN and non-ASEAN countries, with machinery and equipment constituting 23.73% of the exports of ASEAN followed by other manufactured goods (17.66%) and chemical products (4.01%). Fuels, represent the second largest category of exports of ASEAN amounting to 22.41%. Food items contribute to 15.79% of the exports of ASEAN followed by agricultural raw materials (9.04%) and lastly ores and metals (3.58%).

For the EAEC as a whole, imports of manufactures represent 54.50% of total imports. This is then followed by imports of fuels (16.19%), food items (10.83%), ores and metals (9.96%) and agricultural raw materials (6.45%). The ranking of the various categories of imports is similar for both the non-ASEAN and ASEAN countries although the percentages for each category differs. ASEAN countries imports of manufactures as a percentage of total ASEAN imports (63.71%) is greater than the non-ASEAN percentage (51.17%) of manufactured goods imports. For all other categories, that is, fuels, food items, ores and metals and agricultural raw materials, non-ASEAN countries imports as a percentage of

total non-ASEAN imports is larger than for the similar measure for ASEAN countries. Within the subdivisions of the manufactures category, imports of machinery and equipment and imports of chemical products represent a higher percentage of imports of the ASEAN countries compared to the non-ASEAN countries. The non-ASEAN countries import a higher percentage of other manufactured goods relative to the ASEAN countries.

A rough insight into the EAEC's pattern of comparative advantage can be gleaned from the percentage of net exports to total trade⁸ as shown in Table 9. This measure (nx_{ij}) expresses net exports of commodity j , for country i . Net imports will then be indicated by a negative sign. The measure yields percentages ranging from -100 , where a commodity is imported but not exported, to $+100$, where a commodity is exported but not imported. The net export to total trade ratio can be used to measure comparative advantage although it has been subject to criticism since import levels are greatly influenced by the system of protection used in a country. In other words, this measure suffers from a trade policy bias. Nevertheless, this measure will be used to provide a rough picture of comparative advantage bearing in mind the deficiencies of the measure.

Japan, Hong Kong and Korea exhibit the same pattern where positive and negative signs of the ratio are concerned for the five categories of commodities. But within the manufactures subdivision, Japan records a strong positive sign for the machinery and equipment subdivision whereas both Korea and Hong Kong records a weak negative sign showing comparative disadvantage in machinery and equipment production. Japan is at a comparative advantage in the production of manufactures but increasingly at a comparative disadvantage in the production of ores and metals, agricultural raw materials, food items and fuels. With respect to the finer divisions of the manufactures group, Japan possesses comparative advantage in the production of machinery and equipment and other manufactured goods with the former predominating but Japan is at a comparative disadvantage in the production of chemical products. China exhibits a different pattern from other non-ASEAN countries having a comparative advantage in fuels production followed by food items and agricultural raw materials and increasingly at a comparative disadvantage in the production of manufactured goods and ores and metal. The non-ASEAN countries taken together are at a comparative advantage in

TABLE 9. Net Exports As A Percentage of Total Trade

Country	Year	All Food Items (%)	Agri. raw materials	Fuels	Ores & metals	Manufactured goods	Chemical products	Other manufactured good	Machinery & equipment
Japan	1987	-90.08	-85.28	-96.95	-15.25	51.24	-13.30	22.56	74.22
Hong Kong	1987	-67.11	-81.92	-47.81	-62.87	8.07	-72.70	20.33	-7.79
Korea	1987	-10.24	-87.23	-83.10	-28.73	13.17	-62.35	55.01	-8.18
China	1985	61.23	4.75	97.16	-73.92	-21.64	-31.04	44.38	-85.30
Non-ASEAN		-50.91	-68.37	-60.08	-32.23	29.29	-31.56	28.74	41.21
Singapore	1987	-16.49	15.35	-14.51	-35.51	-7.14	-2.05	-18.42	-2.99
Malaysia	1986	13.29	86.95	47.16	-29.94	-31.98	-71.07	-23.21	-28.55
Thailand	1987	65.55	3.09	-93.14	-74.31	-27.95	-85.83	28.79	-60.38
Indonesia	1986	37.88	37.50	72.29	-25.92	-51.06	-65.63	20.93	-97.53
Phillipines	1986	24.31	.77	-90.86	-1.18	-35.78	-62.75	2.76	-50.33
Brunei	1985	-99.94	-100	97.23	-99.70	-99.96	-100	99.90	-100
ASEAN		24.71	42.30	16.60	-39.28	-23.02	-51.13	-1.32	-27.82
EAEC		-25.15	-34.27	-32.07	-34.34	18.55	-36.98	23.89	25.76
US	1987	15.42	66.44	-64.24	-35.54	-15.78	32.43	-48.06	-8.40
Canada	1987	26.04	72.62	38.76	44.96	-11.47	-7.34	-8.19	-13.19
Mexico	1985	-25.26	-68.22	85.31	-27.91	-49.61	-65.96	-35.61	-49.83
NAFTA		14.89	39.35	-19.19	-9.47	-16.14	18.93	-40.50	-10.90

Source: Calculated from Tables 7 and 8.

Notes: For a definition of the measure, see endnote 8.

the production of manufactured goods and increasingly disadvantaged in the production of ores and metal, food items, fuels and agricultural raw materials.

All the ASEAN countries are at a comparative disadvantage in the production of manufactures as a whole although the margin of disadvantage varies widely. In ASEAN manufactures production, Brunei is the most comparatively disadvantaged country while Singapore is the least. Looking at the subdivisions of the manufactures category, all the ASEAN countries are at a comparative disadvantage in the manufacture of chemical products and machinery and equipment; again with Singapore and Brunei occupying extreme positions. Thailand, Indonesia and Philippines have a comparative advantage in the other manufactured goods category (SITC 6+8) with net exports to total trade ratios of 28.79, 20.93 and 2.76 respectively. Looking at the manufacture of machinery and equipment subcategory, among the ASEAN-4 (Thailand, Malaysia, Indonesia and Phillipine), Malaysia has the least comparative disadvantage. This in part reflect the heavy industries emphasis of Malaysia with the setting up of the Heavy Industries Commission of Malaysia. Singapore and Brunei are net importers of food items while Malaysia, Phillipines, Indonesia and Thailand are net exporters. All the ASEAN countries with the exception of Brunei are net exporters of agricultural raw materials. In the case of fuels production, the percentage of net exports to total trade ranges from -93.14 for Thailand to + 97.23 for Brunei with Malaysia (47.16) and Indonesia (72.29) as net exporters and Singapore (-14.51) and Phillipines (-90.86) as net importers. All the ASEAN countries are net importers of ores and metals. The ASEAN countries taken together are at a comparative advantage in the production of agricultural raw materials, food items and fuels and at a comparative disadvantage in the production of manufactures and ores and metals.

Generally, it can be observed that the non-ASEAN countries are at a comparative advantage in the production of manufactures while the ASEAN countries are at a comparative advantage in the production of agricultural raw materials, food items and fuel production. The EAEC countries as a whole, have comparative advantage in manufactures production with positive net export to total trade ratios for the subdivisions other manufactured goods and machinery and equipment and a negative ratio for manufacture of chemical products. The EAEC is at a comparative disadvantage in

the production of all the other broad categories, namely ores and metals, agricultural raw materials, fuels and food items.

Where the NAFTA countries are concerned, US trade constitute about 74% of the total trade of NAFTA countries. About 70% of the exports of the US fall within the manufactured goods category. The imports of the US also exhibit the same pattern with 72% of the imports of US being manufactured goods. The net export to total trade measure shows that the US is a net importer of manufactured goods (-5.78%), ores and metals (-35.54%) and fuels (-64.24%) and a net exporter of agricultural raw materials (66.44%) and food items (15.42%). When the subdivisions of the manufactured goods are considered, the US has a comparative advantage in the manufacture of chemical products and increasingly disadvantaged in the manufacture of machinery and equipment and other manufactured goods. Canada's trade represent about 21% of NAFTA's trade. Manufactured goods constitute 58% (US\$76 640 million) of the exports of Canada and represents 81% (UD\$96 499 million) of her imports. This then makes Canada a net importer of manufactured goods. The finer subdivisions of the manufactured goods also follow this pattern with net export to total trade ratios of -7.34, -8.19 and -13.19 for the subcategories chemical products, other manufactured goods and machinery and equipment. Canada has comparative advantage in all other non-manufactured goods categories with increasing comparative advantage in food items (26.04%), fuels (38.76%), ores and metals (44.96%) and agricultural raw materials (72.62%). The remaining 5% of NAFTA's trade in contributed by Mexico. Mexico is at a comparative disadvantage in all the categories shown in the analysis except fuels. NAFTA as a whole has comparative advantage in the production of food items, agricultural raw materials and the subcategory chemical products. Within the subcategories of manufactured goods, NAFTA has a comparative disadvantage in machinery and equipment production (-10.90) and increasingly disadvantaged in the production of other manufactured goods (-40.50). This then results in a comparative disadvantage for the manufactured goods as a whole (-16.14). NAFTA is also at a comparative disadvantage in ores and metals and fuel production.

In broad terms, the diversity in the commodity structure of exports and imports for the non-ASEAN and ASEAN countries in EAEC shows that there is ample room for intra-EAEC trade. The economies of the non-ASEAN and ASEAN countries seem to

complement each other. The former countries having comparative advantage in the production of manufactures which are more sophisticated while the latter countries specializing in the production of agricultural raw materials, food items and fuels. The ASEAN countries' manufacturing sector is expanding especially in less sophisticated manufactures which are labor intensive as shown by the positive sign in the net export ratio of Thailand, Indonesia and Phillipines for the subdivision "other manufactured goods". The complementarity in the structures of production among the non-ASEAN and ASEAN countries in EAEC augurs well to minimize trade diversion. The large volume of trade among the pre-integration economies also tends to minimize trade diversion. The economies of Vietnam, Kampuchea, Lao and North Korea which are embracing capitalism provides ample opportunity for trade creation within EAEC. This trade creation is achieved from developments in the political arena and not so much from the elimination of tariffs among the EAEC members. The different degrees of economic development of EAEC members with Japan and the newly industrialized countries (NICs) being ahead followed by the ASEAN-4 and lastly the socialist countries that are turning "right" will result in different relative factor prices leading to comparative advantage in different products. Thus, in the short and medium run, we can expect trade creation to continue and trade diversion to be small. The categories presented in this paper are broad categories. Detailed breakdown of the data can further show the comparative advantage for the different industrial classification of products.

The complementarity in the structures of production of EAEC members does not suit well with respect to overall enhancement of competition and efficiency. There is still some room though for competition especially in the production of agricultural raw materials and food items and also labor intensive manufactures among the ASEAN-4. There may also be some competition among the NICs since their production structures are quite similar. The lesser developing countries may also provide competition to the ASEAN-4 countries forcing the latter to move up the economic ladder and abandoning specialization in labor-intensive products.

POLICY IMPLICATIONS

The prevalent thinking is that trade creation will be larger than trade diversion and thus welfare would increase with increasing regionalism. The US's sagging commitment towards multilateralism is nurturing this "prevalent thinking" into a reality. In other words, the reluctance of the US and EC to conclude the Uruguay Round of negotiations, the increasing bilateralism of US trade policy and the eagerness of President Bush to form NAFTA and later on the "Land of the Americas" are among some of the reasons for increasing bilateralism and regionalism in trade policy.

International trade of the EAEC contributes to roughly 20 per cent of world trade while the international trade of the NAFTA constitutes 18% of world trade in 1990. Thus, the EAEC's volume of trade is roughly equal to that of NAFTA. Welfare enhancement considerations stipulate that the larger the number of countries involved in trade integration, the larger will its size be and the greater the probability that low cost producers fall within the area. The EAEC matches NAFTA where volume of trade considerations are taken into account. If the US deems it fit to form NAFTA then the proposed EAEC can be expected to benefit its members too.

About 80 per cent of the trade of EAEC is contributed by the non-ASEAN member countries of Japan, Hong Kong, Taiwan, the Republic of Korea and China while the remaining 20 per cent is contributed by the ASEAN members. In principle, the ASEAN members have agreed to the formation of an EAEC but the non-ASEAN members are still "thinking" about it.

Trade integration among the EAEC countries will lead to both trade creation and trade diversion. If trade among the pre-integration economies is large, trade creation will dominate and thus welfare would increase with integration. Analysis shows that 41.92% of the total trade of the EAEC is intra-regional. This compares with 37.16% of intra-regional trade for NAFTA countries. Considerations of the volume of intra-regional trade shows that the EAEC has a higher percentage of intra-regional trade compared to the NAFTA group. Thus, if the US, Canada and Mexico thinks it is suitable to form a regional group based on the "enormous" amount of trade among the three countries, the countries in the East Asian region can also follow suit.

The analysis of commodity structure of EAEC trade shows that the ASEAN countries taken together are at a comparative advantage

in the production of agricultural raw materials, food items and fuels and at a comparative disadvantage in the production of manufactures, and ores and metals. The non-ASEAN countries taken together are at a comparative advantage in the production of manufactured goods and increasingly disadvantaged in the production of ores and metals, food items, agricultural raw materials and fuels. The difficulties encountered in ASEAN cooperation and the appropriation of benefits and costs has hampered ASEAN integration efforts. These problems will definitely spill over into the EAEC. The larger EAEC with a more diverse commodity structure of exports and imports will be able to better integrate.

Both ASEAN and non-ASEAN countries as groups, trades most within the EAEC followed by the NAFTA countries. But the trade relationship of the non-ASEAN countries especially that of Japan with NAFTA is more significant than the trade relationship of ASEAN and NAFTA countries. When only Japan's trade is considered, Japan's volume of trade with the US (27.53%) is slightly smaller than with the EAEC (28.76%). The present importance of the US market for Japan's exports is obvious. What is also obvious is the US's increasing protectionism towards Japan and the "four tigers" (Ariff 1990). The reluctance of the non-ASEAN countries especially Japan, Taiwan, Korea and Hong Kong to promote EAEC is understandable bearing in mind that currently the US is an important market for their exports (Table 4). With the advocacy of the EAEC idea and later on EAEC, the US has chosen to speed up efforts to promote APEC. The US has given indications to Japan not to support the EAEC suggesting that APEC should be the appropriate forum for Asian Pacific cooperation and not the EAEC which excludes US. For now the US may still be able to hold Japan and the East Asian newly industrializing economies in line. But what the future has in store for us is an altogether different ball game. If the US pursues President Bush's "Land of the Americas", trade in less sophisticated manufactures will probably be diverted from Japan and the NICs to other areas that fall within the "Land of the Americas". If the EC continues to embrace Eastern Europe, she will have enough problems (and opportunities) to tackle leaving the countries in the East Asian region to manage themselves. The EAEC idea can be regarded as an "insurance policy" should the world turn into trading blocs. Japan's population represent 7.8 per cent of the population of EAEC and Japan's output (GNP) represent

77 per cent of the output of EAEC and Japan's trade constitute about 40 per cent of the trade among the EAEC countries. Thus, the future policy direction of Japan will definitely influence the success of the EAEC.

The political leadership that an economic power like Japan can offer is imperative to ensure the success of the proposed EAEC. It is hoped that the larger Japan led EAEC will be able to better shape trade relations within this part of the world. The EAEC will also enhance the bargaining power of the East Asian countries vis-a-vis the NAFTA and the EC. The onus lies therefore on Japan and the non-ASEAN countries like Taiwan, Korea, Hong Kong and China to accept the EAEC proposal and to make it a reality.

NOTES

¹Since the Treaty of Rome in 1957, the EEC has had to accommodate many views (and admit new members) and only after approximately 35 years has the issues been sorted out as to the exact manner to conduct the common market. Even then the monetary aspects of economic integration is still being discussed. The formation of a United Germany and the disintegration of the U.S.S.R. are among the other challenges not predicted in the Treaty of Rome but nevertheless has to be accommodated.

²The analysis on population, GNP and per capita GNP is based on available data as shown in Table 1a. Data for Taiwan which can be considered a major player in the EAEC seems to be difficult to acquire. Data for other countries like Vietnam, Cambodia and the Democratic Republic of Korea is also unavailable but these countries can be considered as minor players.

³The data presented is in terms of value of trade and not volume. Data is presented in U.S. dollars and thus exchange rates can influence the values.

⁴Trade here is taken to mean the sum of exports and imports.

⁵The significant non-ASEAN members are Japan, Hong Kong, Korea, Taiwan and China.

⁶The detailed analysis of data in this paragraph is based on the DOTS Yearbook, 1991 which is not presented in the tables.

⁷Bhagwati (1989) provides an excellent survey of current US thinking on trade policy.

⁸UNIDO (1982) provides an empirical application of the measure. The measure is formally defined as:

$$nx_{ij} = [(X_{ij} - M_{ij}) / (X_{ij} + M_{ij})] 100$$

where X_{ij} = country i 's exports of commodity j .

M_{ij} = country i 's imports of commodity j .

REFERENCES

- Ariff, M. 1990. Malaysian exports and trade barriers. *Malaysian Journal of Economic Studies*, 27: 51-63.
- Bhagwati, J.N. 1989. United States Trade Policy at the Crossroads, *World Economy*, 12, (4): 439-479.
- Ethier, W. 1983. *Modern International Economics*. New York: North Holland & Company.
- IMF 1990. *Direction of Trade Statistics Yearbook*. Washington, D.C.
- Mustaffa Mohamed Najimudin. 1991. Kumpulan Ekonomi Asia Timur (EAEG): Satu tinjauan, *Negarawan*, 23-27.
- UNCTAD. 1988. *Handbook of International Trade and Development Statistics*, United Nations.
- UNIDO. 1982. *Changing Patterns of Trade in World Industry: An Empirical Study on Revealed Comparative Advantage*. New York.
- World Bank. 1989. *The World Bank Atlas*. Washington, D.C.

Fakulti Ekonomi
Universiti Kebangsaan Malaysia
43600 UKM Bangi
Selangor Darul Ehsan,
Malaysia.