

- PN-ABS-631  
ISBN 90292

October 6, 1989

**PACIFIC ECONOMIC COOPERATION IN THE GLOBAL CONTEXT:  
MACROECONOMIC STRUCTURAL ISSUES OF TRADE, FINANCE,  
AND THE ADJUSTMENT PROCESS\***

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- This draft report has been prepared for the Seventh Pacific Economic Cooperation Conference (PECC) meeting in Auckland, New Zealand, November 13-15, 1989.

## TABLE OF CONTENTS

FOREWORD .....	i
EXECUTIVE SUMMARY .....	ii
I. INTRODUCTION .....	1
II. INCREASING PACIFIC ECONOMIC INTERDEPENDENCE .....	3
A. Changing Patterns of Trade and Development in the Pacific .....	8
III. STRUCTURAL ADJUSTMENT IN THE PECC REGION .....	16
A. Recent Developments in the World Economy .....	16
B. The United States .....	20
C. Japan .....	26
D. Canada, Australia, and New Zealand .....	30
E. The Newly Industrializing Economies .....	34
F. The ASEAN-4 .....	37
G. China .....	39
IV. CHANGING PATTERNS OF EXTERNAL FINANCE .....	41
A. Direct Foreign Investment and Technology Transfer .....	42
B. Future of the United States and Japan in Regional Finance and Development Assistance .....	46
V. INTERNATIONAL AND ASIA-PACIFIC COOPERATION INITIATIVES .....	48
A. U.S. Bilateral Trade Agreements .....	49
B. Cooperation Between Australia, New Zealand, and the South Pacific Islands: Closer Economic Relations .....	50
C. Economic Cooperation in Asia: The Case of ASEAN .....	51
D. Economic Cooperation in PECC .....	52
VI. CONCLUSION .....	53

## FOREWORD

At the invitation of the United States National Committee for Pacific Economic Cooperation, the East-West Center has prepared this report on structural issues affecting economic relations of Pacific rim countries. The report is intended for presentation and discussion at the Seventh PECC meeting in Auckland in November 1989. Structural issues of industrial restructuring, development assistance flows, direct foreign investment, exchange rates and other macroeconomic developments, and patterns and trends in international trade are emphasized. It includes a discussion of regional cooperation in the context of a global economy that is attempting to preserve the multilateral GATT system.

The report was prepared by Seiji Naya, Vice President, and William E. James and Michael Plummer, Research Associates, East-West Center. Bernard Gordon, Charles Morrison, and Pearl Imada critically reviewed the paper and offered valuable comments. The assistance of the Development Policy Program staff of the East-West Center is also gratefully acknowledged.

The report interprets some discussion of key structural issues identified at the March 1989 conference organized by the East-West Center and the Pacific Economic Outlook Project of PECC. In particular, we wish to thank Professor Yasukichi Yasuba for his many contributions to the Conference sessions and discussions on the structural issues.

The views expressed are attributable to the authors alone and do not reflect those of any associated institution.

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## EXECUTIVE SUMMARY

The PECC region has experienced a surge in economic growth over the past two decades, exceeding that of any other region. To a large extent, this robust performance is attributable to the market-oriented policies and government strategies of the individual economies which focused on international trade and investment. Since 1970, regional exports to the world have grown nine-fold, and direct foreign investment flows have boomed, from not only the traditional sources of the United States and Japan but increasingly from South Korea and the Chinese economy on Taiwan. This paper presents a general treatment of structural issues involved in the rapidly changing economic environment of the PECC region, including phenomena such as industrial restructuring, development assistance, direct foreign investment, exchange rate adjustment and other macroeconomic developments, and patterns and trends in international trade.

### INCREASING ECONOMIC INTERDEPENDENCE

As in other regions, the growth rates of Asia-Pacific economies slowed in the 1980s from the 1970s. However, the developed countries of the region (Australia, Canada, Japan, New Zealand, and the United States) performed well compared to their European counterparts, and the NIEs (Hong Kong, Korea, Singapore, and the Chinese economy on Taiwan) and the four resource-rich ASEAN economies (ASEAN-4: Indonesia, Malaysia, the Philippines and Thailand) generally achieved respectable, and, in some cases, remarkable, growth. This pace of growth is likely to continue in the 1990s, as the NIEs move toward developed status and the ASEAN-4 countries become the next tier of NIEs.

The PECC region has become far more economically interdependent. The basis of this interdependence is the complementary nature of PECC countries, as the region is extremely diverse and exhibits a wide variety of factor endowments. Intra-PECC exports as a share of total exports of the PECC economies have grown from about one-half to two-thirds over the past two decades. Although

there is considerable variation, at least half of the exports of all PECC economies goes to regional markets; for some, the share is over 80 percent.

The economic restructuring in the region is part of rapidly-changing dynamic comparative advantage, as reflected in the changes in export composition. The ASEAN-4 have been increasing their exports of industrial goods and are progressively replacing the NIEs as exporters of labor-intensive products. The NIEs, though still highly competitive in these products, have been spurred by increasing wage rates and changing factor endowments to more sophisticated products, including some technology intensive goods. The United States and Japan have comparative advantage in most technology intensive goods; years ago they lost their comparative advantage in labor intensive goods. The other developed countries in the region, Canada, Australia and New Zealand, are strong producers of natural resource based products but have been trying to increase their exports of more sophisticated manufactures, as well as reorienting their economies to Asia-Pacific markets. Thus, while the regional division of labor has been changing, each country has been adjusting its productive structure to export those goods in which it has comparative advantage.

#### STRUCTURAL ADJUSTMENT IN THE PECC REGION

The impressive economic performance and great change in the composition of production in the region have necessitated significant structural transformation in all countries. These structural changes have been spurred by the acceptance of outward-oriented strategies and the central role of the private sector, which have led to substantial microeconomic reform to promote efficiency. Developments include: (1) the liberalization of trade and internationalization of their economies; (2) decreased reliance on the state as a prime actor in economic development; and (3) more liberal domestic and foreign investment laws.

The region is highly dependent on the United States as a market for its exports, as it accounts for 40 percent of intra-PECC exports. Moreover, it is a large importer of manufactured exports; in 1988,

almost 80 percent of its global imports were manufactures. Thus, any economic policy changes in the United States will significantly affect the other economies of the region.

However, the United States has accumulated a large trade deficit. In turn, the trade deficit, 70 percent of which is accounted for by Japan and the NIEs, has been a source of increasing protectionist sentiment in the United States, leading to voluntary export restraints, quotas, and other nontariff barriers to trade. Although protectionism has not prevented countries from exporting to the United States, the rhetoric has been troubling. Moreover, some provisions of the Omnibus Trade and Competitiveness Act of 1988 has led some countries, particularly in Asia, to believe that protectionism may intensify. A protectionist scenario for the world's greatest protagonist of free trade would significantly hurt PECC economies as the very substance of their outward-looking development strategies depends on open markets.

Several recent trends should serve to reduce tensions. First, U.S. exports have increased about 30 percent in 1988, and the rate of increase in exports to Japan and the NIEs has been even higher. Moreover, the export-consciousness of U.S. firms is rising, and demographic changes should lead to increasing productivity and savings rates in the future. Imports have been growing much more slowly at 8 percent.

Second, Japan is changing rapidly. It has been increasing its manufactured imports significantly and is relying on domestic-demand, rather than externally generated, growth. The share of manufactures in total imports has grown from 30 percent in 1983 to 50 percent in 1988. The 1986 and 1987 Maekawa Reports and MIT's 1989 White Paper on International Trade have outlined substantive reforms that need to be undertaken. Structural impediments to trade, such as the bias against imports inherent in the distributional system, restrictive land-use practices, and the investment/savings balance, are being discussed at the bilateral U.S.-Japan "Structural Impediments Initiative" talks.

Third, the U.S. relationship with the NIEs has been gradually strengthening. Both Korea and Taiwan are progressively opening their markets to imports, a trend that should continue well into the 1990s. U.S. exports to Korea alone grew at a 40 percent rate in 1988. As small, externally oriented

economies, the NIEs--and the ASEAN-4--will need to give structural adjustment an even higher place in their strategic planning than they do now, anticipating external developments and promoting change consistent with external factors.

## PATTERNS OF EXTERNAL FINANCE

The patterns of external finance have been changing rapidly in the region. Recent years have seen the United States become a very large borrower and Japan has become a predominant lender. Taiwan and Korea have also emerged as net creditor countries.

Although direct foreign investment (DFI) provides a relatively small share of intra-PECC capital flows and even a lower share of domestic capital formation, it plays a dynamic role in promoting industrial restructuring by flowing out of economies losing comparative advantage in a sector and into economies gaining comparative advantage. Moreover, DFI is important in key manufacturing areas and as source of technology transfer.

Asia is the only developing region where a number of economies no longer require development assistance (ODA). However, ODA is important to lower-income, debt-strapped countries of the region such as the Philippines and Indonesia. The effectiveness of ODA in the region can be increased through greater coordination among donor agencies and countries, particularly between Japan and the United States.

## ECONOMIC COOPERATION

The process of correcting imbalances is under way, and this bodes well for the future. Yet, much more could be done to improve relations in the region. The current multilateral talks under the auspices of GATT, called the Uruguay Round, are of paramount importance. The region's economies are basically committed to GATT and its principles of non-discrimination. However, the present talks are much more complicated than previous rounds, and progress has been slow due to the wide variety of sensitive issues being discussed. For the first time since the GATT was established, developing countries

are actively participating in the negotiations. Despite existing impediments to progress, there is potential for significant accomplishments by the end of the round in late 1990.

In addition to GATT negotiations, bilateral and regional groupings have been forming in the region to promote trade and investment, although none of the agreements compare to the European Community project to form a common market by 1993. Recent examples include the U.S.-Canada Free Trade Area and the Closer Economic Relations agreement between Australia and New Zealand (the two countries have also agreed to grant special and differential treatment to their South Pacific Island neighbors). Finally, the longest existing cooperation agreement in the region is ASEAN, which has negotiated several agreements to promote trade and investment in the subregion. Despite its enormous diversity, ASEAN is the most successful formal economic grouping in the developing world. The Third ASEAN Summit of December 1987 was instrumental in expanding economic cooperation by modifying the agreement to include greater trade liberalization and improved industrial cooperation projects based on private-sector participation.

The importance of ASEAN has led to a number of approaches by non-members to enhance economic relations with the group. One example is the recent ASEAN-U.S. Initiative (AUI). The AUI involved joint research by scholars and, at the same time, discussions amongst officials from both the United States and ASEAN. The intended result is to expand private business opportunities that are mutually beneficial. The format may be instructive for other efforts aimed at greater economic cooperation in the region.

Although PECC countries in general continue to accept the preeminence of multilateralism, the revival of interest in Pacific economic cooperation is evidence of a perceived need to increase intergovernmental consultation and economic cooperation to meet growing economic interdependence and conflict in the region. Hence, "open regionalism," as opposed to regional discriminatory arrangements, can help promote structural change and reduce regional economic tensions. The Canberra ministerial meeting in November is an important step in this process.

## I. INTRODUCTION

The economies comprising the Pacific Economic Cooperation Conference (PECC) are among the most dynamic in the world. The spectacular economic performance of Japan and the newly industrializing economies (NIEs) has had a major impact on global trade and has led to a reexamination of economic policies as a major factor in the long-term development success of nations. Only in the Pacific have non-Western developing economies made a successful transition to developed country status. The exemplary performances of Japan and the NIEs have encouraged other developing economies, including those in the Association of Southeast Asian Nations (ASEAN) and, more recently, China, to adopt more open government policies. The economic success in the region has been facilitated by the continuous expansion of the United States economy through the 1980s. In turn, the United States and the remaining Pacific developed nations Canada, Australia, and New Zealand have been spurred to reorient their own economies towards the region and to respond to new competitive challenges to their industries.

The very dynamism of the region has created a number of structural imbalances that now threaten to undermine international economic relations. Reducing the macroeconomic imbalances in the Pacific region requires structural adjustment and changes. These structural imbalances and the processes of adjustment to them are important issues in this report.

Trade imbalances within the region have been a source of considerable friction. The inability to reduce significantly the U.S. trade deficit with Japan despite the exchange-rate realignment and sustained efforts to remove barriers to U.S. exports to Japan have been frustrating for the United States. The U.S. trade imbalance with the NIEs has widened since the Plaza Agreement as a result of the improvement in the competitive position of these economies vis-à-vis Japan. In real terms only the New Taiwan dollar has appreciated enough to regain its 1980 level against the dollar. In contrast, the other NIEs' currencies have depreciated against the dollar in real terms in the range of 30 to 60 percent since 1980. Other countries in the region also have large deficits with Japan and some of the NIEs as well. The corollary to the trade imbalance is the need to finance the deficits by foreign borrowing or by encouraging inflows of foreign investment. The imbalance in financial flows can also be a source of

tension, as it is perceived that foreign interests are gaining control of key national industries and other assets.

Inevitably, these imbalances will have to be brought down to sustainable levels. The challenge is whether or not the adjustment process will involve serious economic dislocation. The substantial rise in economic interdependence within the region guarantees that all economies will be significantly affected, whatever the actual outcome. After all, much of the U.S. trade deficit corresponds to the trade surpluses of Asia, notably those of Japan and of the NIEs.

The process of adjustment itself has involved a combination of factors that has intensified economic interdependence. The realignment of exchange rates, for example, not only has influenced trade balances in goods and services, but also has greatly stimulated direct foreign investment (DFI) flows. Such investments have become a major factor in economic restructuring in the region. Similarly, Japan's additional efforts to shift growth from reliance on exports to domestic demand, coupled with the exchange rate changes, have increased momentum for manufactured exports in the region. The transition is being made from a regional economy dependent on the U.S. market to one where other countries are serving as new engines of growth. The current trends seem favorable, but there remain problems that call into question whether the transition will be a smooth one.

This paper intends to provide a general treatment of structural issues pertinent to the analysis of economic relations in the Pacific. The term "structural issues" is very broad and no commonly accepted definition exists. In this study, the term "structural issues" is used to refer to those economic phenomena relevant to the medium-term development of the economy(s) in question. Included, therefore, are issues such as industrial restructuring, development assistance, direct foreign investment, exchange rate and other macroeconomic developments, and patterns and trends in international trade. Moreover, because of their importance to the medium- and long-term development of the global economy, economic policy and international cooperation questions are also represented under the "structural issues" rubric.

This paper attempts to achieve its goal by first reviewing the regional hallmarks of increasing interdependence and growth in the Asia-Pacific in Section II. Next, structural adjustment patterns in the economies of the region are analyzed in Section III. Section IV considers the changing patterns of external finance, and Section V presents an overview of economic cooperation in the region. The concluding section summarizes some of the salient issues examined in this paper.

## II. INCREASING PACIFIC ECONOMIC INTERDEPENDENCE

There are three major elements of the Pacific success story: First, economic growth of the developed countries in the Asia-Pacific region has been higher than the growth rates of developed countries elsewhere (Table 1). During the 1950s and 1960s, Japan grew at unprecedented rates to become a major industrial power. Despite the slowing of its growth more recently, Japan now enjoys one of the highest per capita incomes in the industrial world (Table 2). As of 1987, Japan accounted for 16 percent of total world output compared to 5 percent in 1965 (Figure 1). Although their growth rates slowed considerably in the 1980s, resource-rich Canada, Australia, and New Zealand also have high per capita incomes. Moreover, economic growth in Canada and Australia averaged 3 to 5 percent in 1987 and 1988, and New Zealand is now recovering from its 1986-1987 recession. Having been the largest economic power throughout the postwar period, the United States has maintained strong economic performance and has contributed significantly to growth in the region. Although its share has declined, it still accounts for 30 percent of world output. It is currently experiencing its longest peacetime expansion (seven years).

Second, several East and Southeast Asian economies have the highest growth rates in the world. Real economic growth in the past few decades for the newly industrializing economies (NIEs, which include Hong Kong, South Korea, Singapore, and the Chinese economy on Taiwan, hereafter referred to as "Taiwan") has remained at close to 10 percent. The four resource-rich countries of the Association of Southeast Asian Nations (ASEAN-4, which includes Indonesia, Malaysia, the Philippines, and Thailand) have also shown strong economic performance, with growth rates ranging between 4 and 8 percent,

Table 1  
Average Annual Rates of Growth of Real GDP

Country/group	1960-69 <sup>a</sup>	1970-79 <sup>b</sup>	1980-87 <sup>c</sup>	1985	1986	1987	1988
<u>Developing countries</u>							
NIEs							
Hong Kong	10.0	9.4	8.1	-0.1	11.8	13.5	7.4
Korea	8.5	9.8	7.2	5.4	11.7	11.1	11.0
Singapore	8.9	9.6	6.4	-1.6	1.8	8.8	11.0
Taiwan	11.6	10.1	7.4	4.3	10.6	11.1	6.8
ASEAN							
Brunei	na	12.2	-3.7	-0.3	na	na	na
Indonesia	3.5	7.7	4.9	1.9	3.2	3.6	3.8 <sup>d</sup>
Malaysia	6.5	8.1	5.0	-1.0	1.0	5.4	5.2
Philippines <sup>e</sup>	4.9	6.3	1.0	-4.1	2.0	5.7	6.4
Thailand	8.3	7.0	5.1	3.2	3.5	6.3	11.0
Other Asia-Pacific							
China <sup>f</sup>	2.9	7.5	9.2	17.4	8.0	10.3	12.2 <sup>g</sup>
Fiji	7.4	5.3	0.5	-4.6	8.8	-7.8	-2.5
Papua New Guinea	4.5	5.4	2.0	4.8	5.0	4.8	5.2
<u>Developed countries</u>							
Australia	5.1	3.3	3.4	5.5	1.8	4.3	3.0
Canada	5.7	4.7	2.9	4.0	3.1	5.2	4.5
Japan <sup>e</sup>	12.1	5.2	3.9	4.7	2.5	4.4	5.7
New Zealand	4.1	2.2	1.0	1.5	-2.9	-2.3	0.4
United States <sup>e</sup>	4.1	2.8	2.3	3.4	2.9	2.9	3.9

NOTES:

na = Not available.

- a. 1960-70 for Hong Kong and Malaysia; 1961-69 for Singapore and Indonesia; 1962-69 for Canada; 1966-69 for Fiji; and 1967-69 for Papua New Guinea.
- b. 1971-79 for Malaysia; and 1975-79 for Brunei.
- c. 1980-85 for Brunei.
- d. Preliminary estimates.
- e. Real GNP.
- f. Real national income.
- g. Estimate of real GDP.

Sources: Asian Development Bank, Key Indicators of Developing Member Countries of ADB, April 1983 and 1984, and July 1987, 1988, and 1989.  
 Brunei, Ministry of Finance, Economic Planning Unit, Statistics Section, Brunei Statistical Yearbook, 1978/1979, 1981/1982, 1982/1983, 1983/1984, and 1984/1985 issues.  
Far Eastern Economic Review, 31 August 1989.  
 International Monetary Fund, International Financial Statistics, Yearbook 1987 and 1988, and June 1989.  
 Pacific Economic Cooperation Conference, Pacific Economic Outlook 1989-1990.  
 Republic of China, Council for Economic Planning and Development, Taiwan Statistical Data Book 1988.  
 World Bank, World Development Report 1982.

Table 2  
Size of Asia-Pacific Countries in 1988

Group/ countries	Population <sup>a</sup> (millions)	Population growth (%) (1965-88) <sup>b</sup>	Area (1,000 km <sup>2</sup> )	GDP <sup>c</sup>		Merchan- dise exports (US\$m) <sup>d</sup>
				(US\$m)	Per capita (US\$)	
<u>Developing countries</u>						
NIEs						
Hong Kong	5.7	2.4	1	53,195	9,332	63,161
Korea	42.0	1.7	99	150,382	3,581	60,697
Singapore	2.7	1.6	1	23,875	8,843	39,324
Taiwan	19.7	2.0	36	112,828	5,727	60,502
ASEAN						
Brunei	0.2	na	6	3,422	15,421	1,798
Indonesia	175.2	2.2	1,919	69,667	409	17,135
Malaysia	16.9	2.7	330	34,634	2,049	21,110
Philippines	58.7	2.7	300	38,959	664	7,074
Thailand	54.6	2.5	542	56,140	1,028	15,869
Other Asia-Pacific						
China <sup>e</sup>	1,087.3	1.8	9,561	300,341	278	47,540
Cook Islands <sup>f</sup>	<0.1	na	<1	33	1,916	7
Fiji	0.7	1.9	18	1,081	1,517	307
Kiribati	na	na	1	23	350	2
Papua New Guinea	3.6	2.3	462	3,565	990	1,420
Solomon Islands	0.3	3.2	28	141	487	64
Tonga	0.1	na	1	78	822	7
Vanuatu	0.1	3.1	12	120	826	17
Western Samoa	0.2	1.1	3	109	678	15
<u>Developed countries</u>						
Australia	16.5	1.6	7,687	193,785	11,925	32,910
Canada	26.1	1.2	9,976	417,700	16,285	114,632
Japan	122.7	0.9	372	2,384,458	19,530	264,856
New Zealand	3.3	1.0	269	35,092	10,699	8,832
United States	246.1	1.0	9,363	4,461,200	18,301	321,600

NOTES:

na = Not available.

a. 1985 for Brunei.

b. 1961-1988 for Hong Kong.

c. 1983 for Tonga; 1985 for Brunei; 1986 for Cook Islands, Kiribati, and Western Samoa; and 1987 for China, Indonesia, Solomon Islands, and Vanuatu.

d. 1987 for Brunei, Cook Islands, Indonesia, Kiribati, Solomon Islands, Tonga, and Vanuatu.

e. Gross national product.

f. Population for Cook Islands is 17,300 and area is 236 km<sup>2</sup>.

Sources: Asian Development Bank, Key Indicators of Developing Member Countries of ADB, July 1989.

Brunei, Ministry of Finance, Brunei Statistical Yearbook 1984/1985.

Far Eastern Economic Review, Asia Yearbook 1989.

Hong Kong, Census and Statistics Department, Hong Kong Monthly Digest of Statistics, August 1988.

International Monetary Fund, International Financial Statistics, Yearbook 1988 and June 1989.

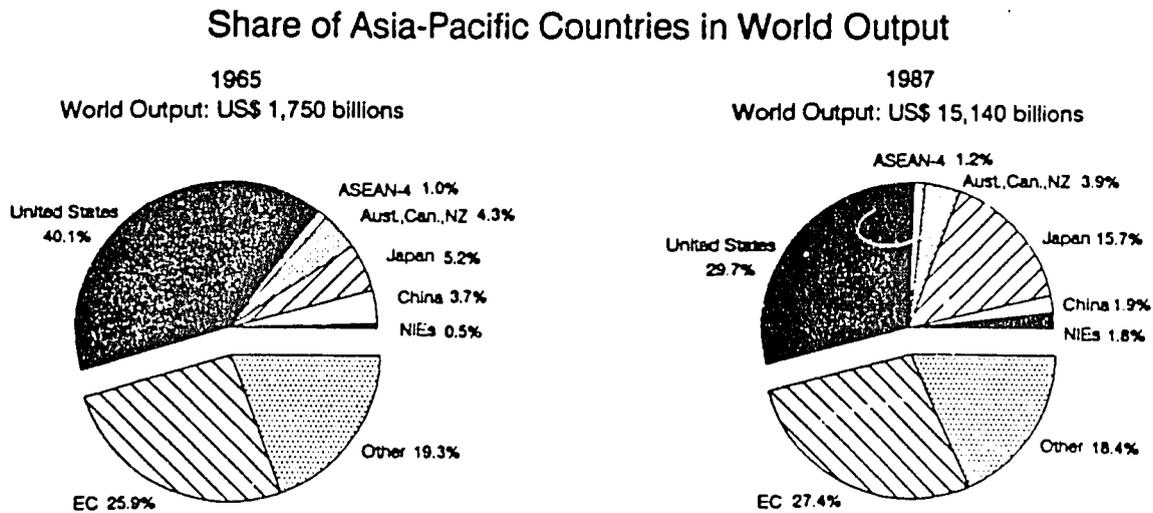
Population Reference Bureau, 1988 World Population Data Sheet.

Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Statistical Yearbook of the Republic of China 1987.

United Nations, Demographic Yearbook 1970.

World Bank, World Development Report 1989.

Figure 1



Sources: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB*, July 1989  
 Republic of China, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, *Statistical Yearbook of the Republic of China 1987*  
 World Bank, *World Development Report 1989*

except for the Philippines until recent years. But even the Philippines has rebounded impressively from the deep 1985 recession, averaging 6 percent growth during the 1987-1988 period. China's economy has expanded significantly in recent years, growing at more than 9 percent in the 1980s. It is remarkable that the high economic growth rates were maintained over such a long period and continued even in the 1980s, which has been a period of virtually no growth for most developing countries. The NIEs have graduated from needing development assistance and are in fact beginning to provide assistance to other developing countries. And some of the ASEAN countries are following close behind.

Third, the Asia-Pacific economies have had a noticeable impact on world markets through outward-looking, trade-oriented growth strategies. Trade has been an important element in the growth of the region. The NIEs increased their share of world trade from less than 2 percent in 1965 to nearly 8 percent presently (Table 3). Japan went from 5 percent to 10 percent over the same period, a share close to that of the United States. Due to the strong export performances of Japan and the NIEs, the PECC countries as a whole increased their share and now account for 38 percent of world trade, a figure comparable to that of the 12 nations of the European Community (EC).

Table 3  
Share of Asia-Pacific Countries in World Exports  
(percentage)

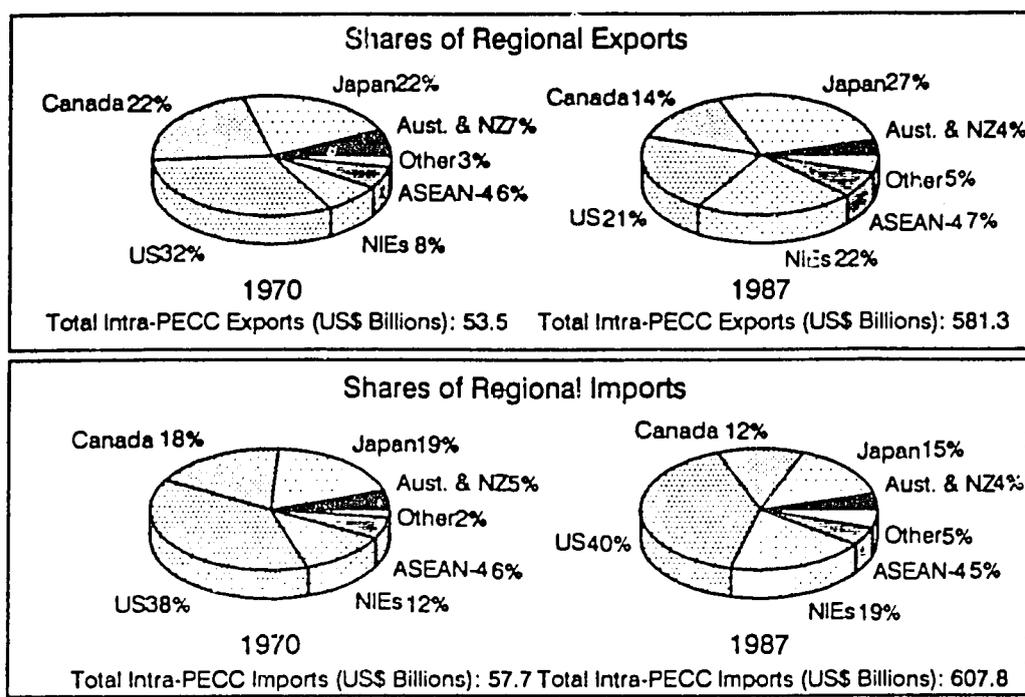
	Exports	
	1965	1987
<u>Developing countries</u>		
NIEs	1.6	7.6
Hong Kong	0.6	2.1
Korea	0.1	2.0
Singapore	0.6	1.2
Taiwan	0.3	2.3
ASEAN <sup>a</sup>	2.0	2.3
Brunei	0.0	0.1
Indonesia	0.4	0.7
Malaysia	0.8	0.8
Philippines	0.5	0.2
Thailand	0.3	0.5
Other Asia-Pacific		
China	0.7	1.7
Pacific Islands <sup>b</sup>	0.1	0.1
<u>Developed countries</u>		
Australia	1.8	1.1
Canada	5.2	4.2
Japan	5.0	9.8
New Zealand	0.6	0.3
United States	16.8	10.6
EC	39.2	40.7
World (US\$ billions)	163.5	2,354.4

NOTES:

- a. Does not include Singapore.
- b. Includes Fiji, Papua New Guinea, Solomon Islands, Tonga, Vanuatu and Western Samoa.

Sources: International Monetary Fund, Direction of Trade Statistics Yearbook, Annuals 1960-64, 1964-68, and 1970-76, and Yearbooks 1987 and 1988. Republic of China, Monthly Bulletin of Statistics, Vol. 13, No. 8 (August 1987); Statistical Yearbook of the Republic of China, 1985 and 1987; Taiwan Statistical Data Book 1988. United Nations, Yearbook of National Accounts Statistics, 1979 and 1981 issues. United Nations Conference on Trade and Development, Handbook of International Trade and Development Statistics, Supplements 1983 and 1987.

Figure 2  
Shares of Intra-PECC Trade



A. Changing Patterns of Trade and Development in the Pacific

Because of the strong economic and export performance, trade among countries in the Pacific region has grown faster than trade with other regions. The share of intra-regional trade among PECC countries has increased from 54-59 percent in 1970 to 64-66 percent in 1987 (see Appendix Tables 1 and 2). The share of intra-PECC trade is even larger for the developing countries in the region in 1987, accounting for an average of 75 percent of exports. Of the developed countries, only Canada has a higher concentration of its exports within PECC, at 83 percent. The bulk of this is directed toward the U.S. market. But the shift toward the Pacific region has been especially significant for New Zealand where exports to other PECC countries accounted for 63 percent of total exports in 1987 as compared to 43 percent in 1970. The share of exports to PECC countries for the United States was the lowest among the PECC countries at 50 percent of total trade. But more than 40 percent of total intra-PECC exports is directed toward the large U.S. market (Figure 2). The NIEs are the next largest market after

the United States, absorbing 16 percent of intra-PECC exports. Hence, the NIEs, widely known for their export success, have also become major importers. The share of U.S. exports to the NIEs rose from 4 percent in 1970 to 9 percent in 1987. Japan's share of the total intra-PECC exports was smaller, at 14 percent. Japan's share, however, may have increased in 1988 with its more than 25 percent increase in imports, largely from the PECC countries.

Increasing interdependence in trade has been accompanied by rising regional investment flows. Japan has become a major source of international capital, much of which is concentrated within the region. Japan accounts for more than 40 percent of capital inflows into the United States in 1988.<sup>1</sup> The inflows of \$84 billion far surpassed the \$56 billion coming into the United States from the EC. Japan and the United States are also the largest investors in the NIEs and ASEAN countries. The recent appreciation of the yen, the new Taiwan dollar, and the Korean won has propelled investment flows even faster. In order to reduce production costs, Japanese, Taiwanese, and Korean firms are investing heavily in manufacturing facilities in the ASEAN countries.

The different factor and resource endowments in the region have contributed to the rapid growth and increasing interdependence in the region. The United States, as the leader in terms of technology, exported its technology and equipment to Japan and the NIEs. The United States is also by far the largest market in the region, particularly for manufactured exports. The export-led growth of the region would not have been possible without the large U.S. market. The United States purchases over one-third of total exports of the NIEs and more than 20 percent of those from the ASEAN-4. As a market for manufactured goods, the United States is even more important, accounting for nearly 40 percent of the manufactured exports of the NIEs and 31 percent for the ASEAN-4 countries in 1987 (Table 4). In contrast, Japan accounted for only about 8 percent for both groups, though they may have increased recently.

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<sup>1</sup>United States, Department of Commerce, Survey of Current Business, March 1989.

Table 4  
Direction of Manufactured Exports<sup>a</sup> in 1987<sup>b</sup>  
(percentage of total manufactured exports to the world)

Country of origin	World (US\$m)	Destination country					
		NIEs	ASEAN <sup>c</sup>	China	Japan	United States	EC
<u>Developing countries</u>							
NIEs							
Hong Kong	44,098	7.5	3.0	22.3	4.4	29.9	17.1
Korea	41,224	7.9	1.9	na	12.8	42.2	15.4
Singapore	13,104	8.2	23.5	2.0	4.5	34.5	13.1
Taiwan	49,837	11.5	2.8	na	8.5	47.4	13.9
ASEAN							
Indonesia	2,784	28.2	4.7	3.0	11.4	24.9	12.9
Malaysia	5,026	25.7	3.5	0.2	7.0	37.6	18.3
Philippines	1,467	13.0	5.4	4.2	7.8	37.8	18.8
Thailand	5,924	19.9	3.7	0.8	8.0	24.7	21.4
Other Asia-Pacific							
China	11,729	41.3 <sup>d</sup>	1.6	---	9.2	11.8	10.9
Fiji	28	1.0	0.1	0.0	1.4	9.5	0.6
Tonga	1	0.0	0.0	0.0	0.1	6.6	0.0
<u>Developed countries</u>							
Australia	4,239	10.4	4.6	1.3	10.4	7.8	10.4
Canada	54,231	1.2	0.4	0.6	1.0	87.0	4.9
Japan	208,493	16.0	3.8	2.8	---	38.3	17.7
New Zealand	1,446	6.2	2.1	0.3	8.0	17.1	6.6
United States	177,449	8.5	2.7	1.5	8.5	---	25.0

NOTES:

na = Not available.

--- = Not applicable.

a. Defined as SITC (5+6+7+8) - SITC (67+68).

b. 1984 for China; 1985 for Fiji and Tonga; 1986 for Indonesia, Malaysia, the Philippines, and Singapore.

c. Not including Singapore.

d. Does not include Taiwan.

Sources: Republic of China, The Trade of China (Taiwan District), 1980, 1985, 1986, and 1987.  
United Nations, Commodity Trade Statistics, 1980, 1984, 1985, 1986, and 1987.

The Asian developing countries provided Japan with natural resources and a market for exports. At the same time, Japan played a major role in the development of the Asian developing countries. Through its exports and investment in the region, Japan provided the East and Southeast Asian countries with financing, capital goods, equipment and technology, which helped them to upgrade their productive capacity. This has helped the countries to quickly follow the Japanese model, beginning with exports of labor-intensive commodities and shifting to more skill- and technology-intensive exports as their economies developed.

This pattern is clearly portrayed in the attached figures (Figures 3 to 5), which plot the revealed comparative advantage (RCA) indices of the United States, Japan, the NIEs, and the ASEAN-4 countries using data for every year from 1970 to 1986.<sup>2 3</sup> Manufactures are divided into three categories--labor-intensive, human capital-intensive, and technology-intensive--following a revised version of Tyers and Phillips.<sup>4</sup>

Japan initially led the group with exports of labor-intensive goods such as textiles and clothing. Figure 3 shows that the United States did not have comparative advantage in unskilled labor-intensive goods and that Japan was already losing its comparative advantage in labor intensive goods by 1970,

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<sup>2</sup>The RCA section was drawn from "Economic Performance: NIEs and Beyond," a paper presented by Seiji Naya at the IDE Tokyo Symposium in July 1989. The index of revealed comparative advantage assumes export patterns reflect intercountry differences in competitiveness in terms of relative costs as well as non-price factors (Balassa 1965). It is defined in terms of a country's composition of exports relative to the commodity's share in total world exports and can be expressed as follows:

$$RCA = (x_j/X_j)/(x_w/X_w)$$

where:  $x_j$  = country j's exports of commodity i;

$X_j$  = total exports of country j;

$x_w$  = world exports of commodity i;

$X_w$  = total world exports.

If the RCA ratio is less than unity, this is generally interpreted to mean that the country has a comparative disadvantage in the trade of the product in question. Conversely, a ratio greater than unity indicates that the country has a revealed comparative advantage in the sector.

<sup>3</sup>Rather than by year, per capita income in log scale is plotted on the horizontal axis.

<sup>4</sup>R. Tyers and P. Phillips, "Australia, ASEAN and Pacific Basin Merchandise Trade: Factor Composition and Performance in the 1970s," ASEAN-Australia Economic Papers, No. 13, 1984.

Figure 3

# Unskilled Labor Intensive Goods

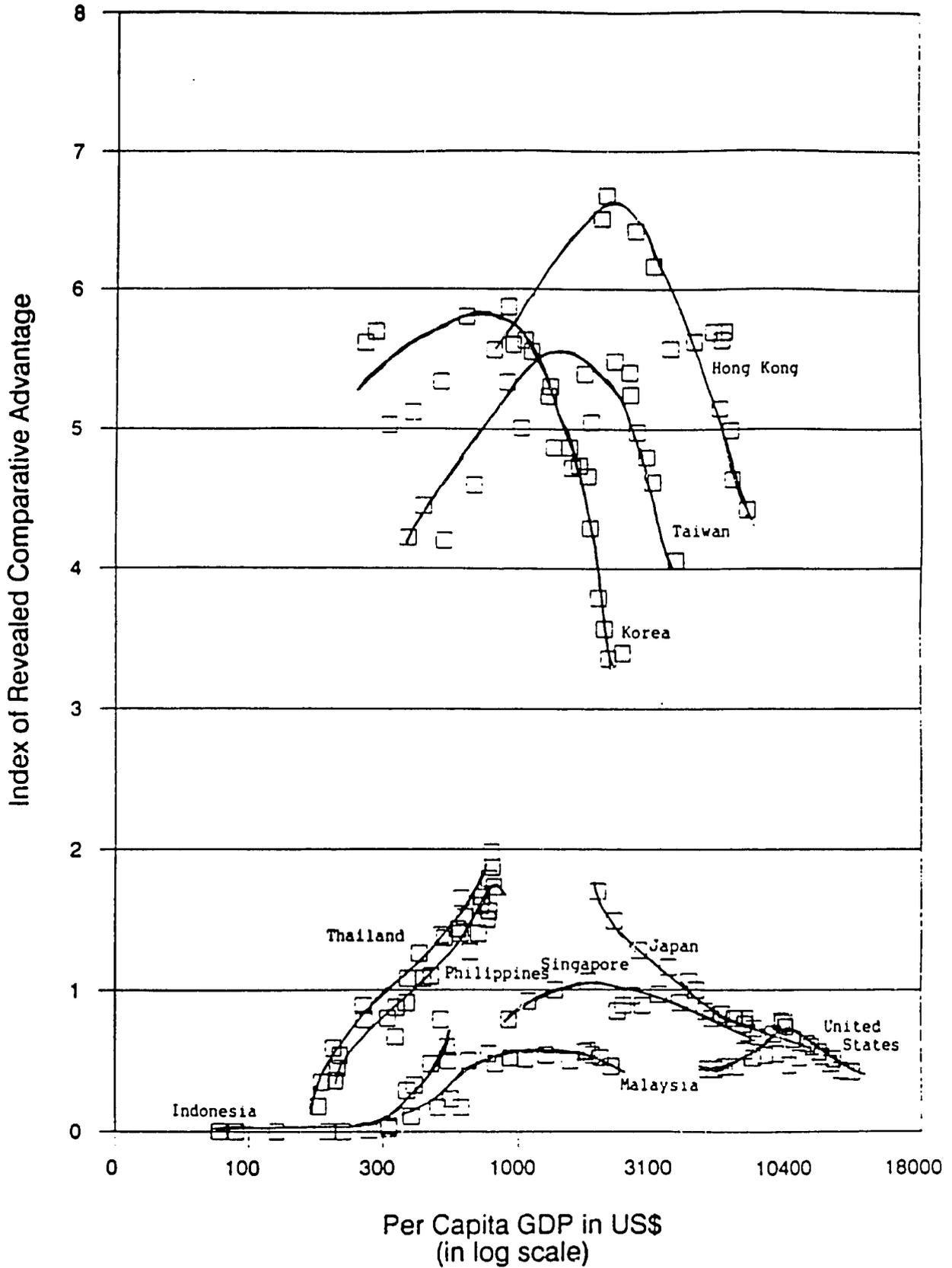


Figure 4

### Human Capital Intensive Goods

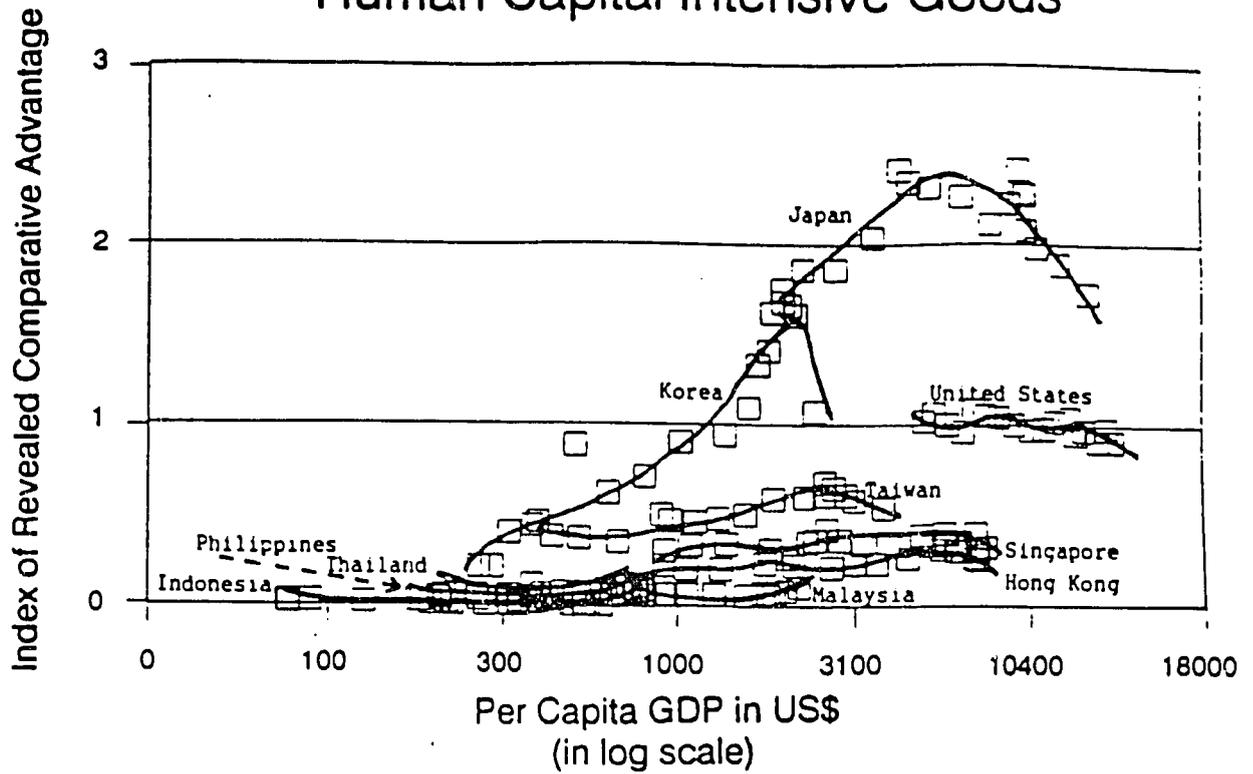
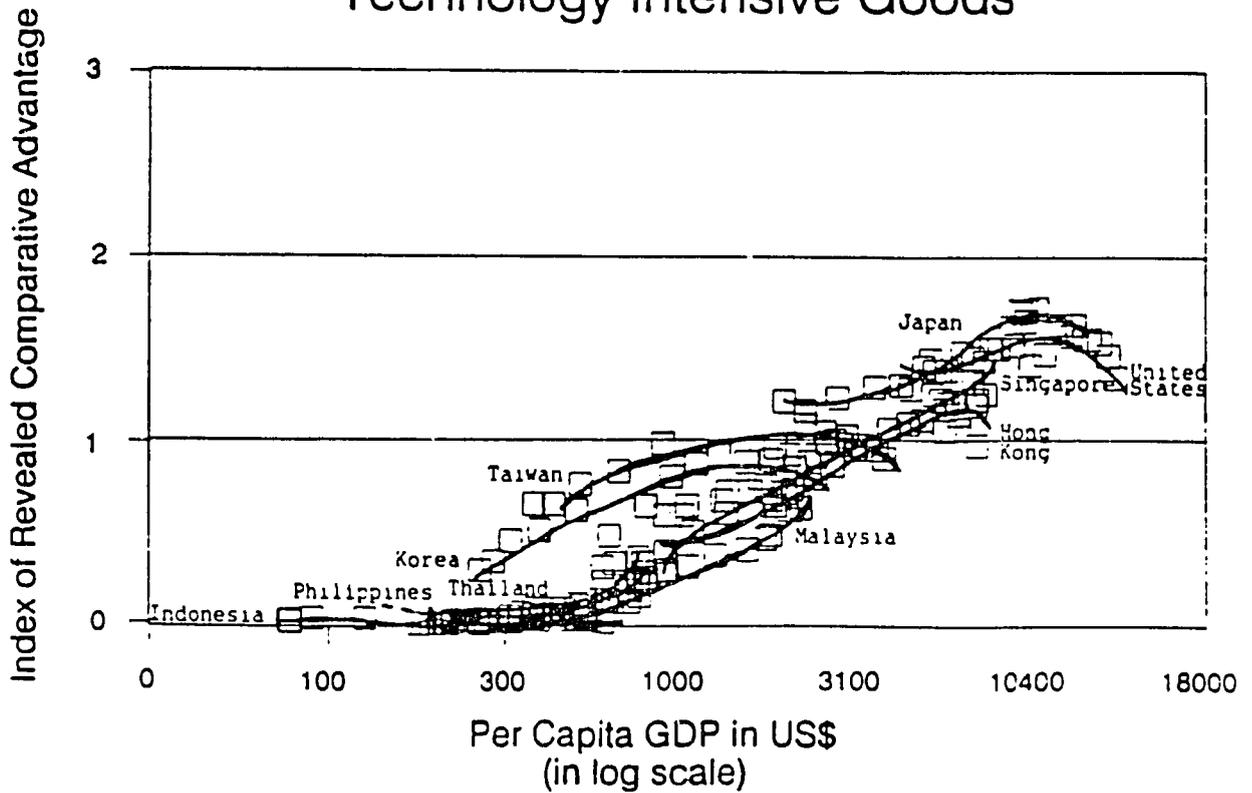


Figure 5

### Technology Intensive Goods



with RCA indices dropping to below 1 by the 1980s. On the other hand, the NIEs were still increasing their export shares of labor-intensive goods in the 1970s, and although they began to lose their comparative advantage in the mid-1970s, RCA indices for Hong Kong, Korea, and Taiwan remain high, averaging between 4 and 5. Singapore, because of its role as a resource-processing and entrepôt center for the resource-rich ASEAN countries, had much lower ratios. The ASEAN-4 countries, on the other hand, are still increasing their shares of unskilled labor-intensive goods. The Philippines and Thailand have become significant producers of textiles, garments, and other light manufactures in the world market; their RCAs are approaching 2. The two oil-exporting countries--Indonesia and Malaysia--have much lower ratios, but Indonesia's RCA indices have been increasing rapidly in the 1980s.

After Japan lost its comparative advantage in unskilled labor-intensive goods, it began specializing in exports of human capital-intensive and technology-intensive goods. In the 1980s, its export shares of human capital-intensive goods began to drop, though RCAs remained at above 1.

The United States is losing comparative advantage in human capital-intensive goods, but it still maintains comparative advantage in technology-intensive goods, though it has shown declining RCAs in recent years. The RCAs for NIE exports of human capital-intensive goods remained below 1 in all countries except Korea. But even Korea's RCA indices have fallen, and are currently marginally above 1. The NIE exports of technology-intensive goods began to increase in the 1970s, and by the late 1980s Singapore and Hong Kong each had RCA indices above 1. With the exception of Malaysia, the ASEAN-4 countries are only beginning to increase their exports of technology-intensive goods, and RCAs for human capital-intensive goods remain low.

Figures 3-5 demonstrate that comparative advantage changes continuously over time. As a result, no one country can dominate trade of all goods, and, consequently, those countries with the ability to supply exports can always find a niche for themselves.

The recent, large exchange rate realignments augmented changes in the patterns of comparative advantage that have occurred in the Asia-Pacific region. It forced Japan to restructure its economy at an even faster rate toward more high technology-intensive goods and pushed Japanese firms producing

standardized manufactured goods to invest abroad. This in turn contributed to the industrialization of the Asian developing countries and increased the interdependence of the countries in the region.

Economic relationships in trade and investment have consequently undergone major transformations. The traditional patterns may be described as follows: the United States served in the past as the main engine of growth both as a market for new manufactured exports and as a source of capital and technology for the region. This was a major factor in the NIEs' success. Japan served as a market for raw materials and primary goods and acted as a supplier of capital equipment and standard technology. The ASEAN countries benefited by exporting primary goods to Japan in exchange for investment goods to build up new industries. China played a modest economic role in the past as an exporter of primary goods and some light manufactures. Australia, New Zealand and Canada principally relied on exports of raw materials and farm goods mainly to Japan and the NIEs.

The new patterns see the U.S. role as a market for Asian exports lessening and its capacity as a source of finance decreasing. However, U.S. DFI and technology exports are significant factors in regional industrial restructuring. Japan is shifting to a more domestic demand-oriented growth pattern and is becoming a leader in new technologies. Its role as a market for Pacific economic manufactured exports is increasing as its outward DFI and other financial flows expand. The NIEs are becoming net importers of labor-intensive manufactures as they shift to more sophisticated products. They are also suppliers of capital in their own right. The ASEAN economies are moving towards more diversified exports, including labor-intensive manufactures and processing of primary products. Canada, Australia and New Zealand are seeking to diversify away from reliance on primary commodities. They are also seeking to expand their role and economic presence in the region through increased investment links both inward and outward with Asian and Pacific partners. China likewise is moving to expand its exports of manufactured goods, and its demand for imports of capital, technology, and durable goods is increasing. Moving to these new roles is not always a smooth and harmonious process. The adjustments to these structural changes are examined in the following section.

### III. STRUCTURAL ADJUSTMENT IN THE PECC REGION

As noted above, steadily increasing interdependence has become the dominant feature of the PECC economy. It is based on dynamic growth, increased industrialization in the Asian developing economies, and existing factor complementarities. However, adjustment to the new international division of labor has not always been smooth, and the individual countries of the region have each had a distinct experience, even though there are common regional and subregional threads. After a brief review of recent macroeconomic developments in the world economy, this section reviews the recent experience of structural adjustment in the individual PECC economies, grouping them into six different categories (the United States; Japan; Canada, Australia, and New Zealand; the NIEs; the ASEAN-4; and China). As demonstrated below, all the countries in the region have experienced some of the most dramatic transformations in the world.

#### A. Recent Developments in the World Economy

The international economy is experiencing dramatic changes in its size, composition, and geographic distribution, and these changes have profound social, political, cultural, environmental, and, of course, economic implications. The most important change, the move toward market-oriented reforms, has been an international phenomenon, and outward-oriented development strategies have proved to be the most effective in spurring economic growth, especially in Asia. Indeed, the tide of market-oriented reforms is rising even in centrally planned economies, a trend that was unthinkable only a decade ago.

In the 1980s, world economic growth decreased, with the total value of trade (in current prices) declining during 1980-86. Prices of primary commodities, which had been fairly buoyant in the inflationary 1970s, declined after 1980. Petroleum prices rose sharply in the early 1980s, then fluctuated in a declining trend before collapsing in 1986. Even with the economic recovery that began in 1983 in the United States (and most other industrial economies in 1984), there continued to be a downward

trend in prices of most major commodity groups. Balance of payments of a number of developing economies in the region were adversely affected, though some, especially the NIEs, benefited.

The response to the recession in the United States and the other major industrial countries sharply contrasted. The United States adopted an expansionary fiscal policy, but this also brought a rise in budget deficits and private consumption, as well as a decline in private savings. As domestic spending began to exceed production, the U.S. current account deficits sharply rose. In contrast, the other industrial countries (notably Japan and West Germany) pursued policies of fiscal restraint. High private savings, coupled with reduced budget deficits, allowed them to generate large current account surpluses.

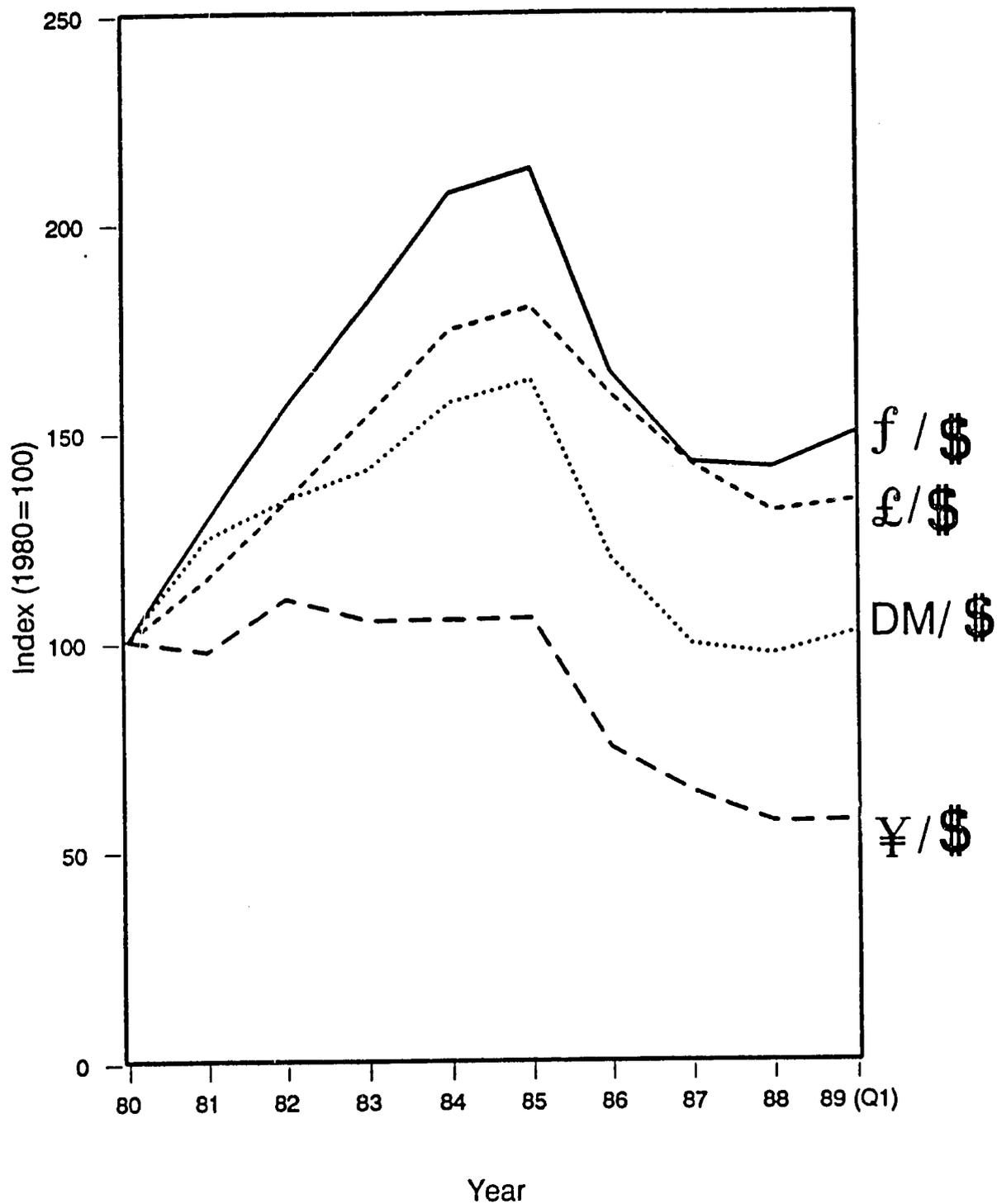
As a consequence of these differences in macroeconomic approaches, the U.S. dollar appreciated against other major currencies (Figures 6 and 7) and remained high into 1985. With the sharp rise in U.S. trade deficits in the early 1980s, a growing body of opinion accepted the view that the dollar was overvalued. The rising external surplus with Japan led to the widespread view that the yen was undervalued. Accordingly, in September 1985 the Plaza Agreement among central bankers drove down the dollar's value and resulted in a sharp appreciation of the yen.

However, the depreciation of the dollar and the resulting high yen (endaka) proved to be a disappointing cure for the U.S. trade deficit, as expenditure-switching exchange-rate changes are ineffective when domestic macroeconomic imbalance is the main cause of the deficit, a relationship explored below. Moreover, other economies whose currencies did not appreciate against the dollar as much as the yen benefited. In real terms, only the New Taiwan dollar has appreciated against the dollar sufficiently to regain its 1980 level (Figure 6). The indices of the other countries are still higher than they were in 1980 because of the sharp depreciation against the dollar that occurred in the early 1980s. In contrast, the NIEs' currencies have depreciated against the yen by between 30 and 60 percent in real terms since 1980. Taiwan and Korea were both able to sharply increase their U.S. sales. The surge in U.S. imports from the Asian NIEs led to strong American pressure to appreciate their currencies as well.



Figure 7

# Exchange Rate Indices, 1980-89



Sources: International Monetary Fund, *International Financial Statistics*, Yearbook 1988 and June 1989.

Although the high yen often adversely affected individual Japanese enterprises, it also had the perverse effect--from a U.S. standpoint--of enhancing Japan's overall industrial competitiveness. For example, the endaka allowed Japan to reduce its dollar-denominated oil bill and reduced the cost of intermediate inputs. In sum, the Plaza Agreement of 1985 reduced neither America's growing protectionist sentiment nor its trade deficit in value terms. As Table 5 shows, the U.S. trade deficit continued to rise in 1986 and 1987 before falling somewhat in 1988 to \$140 billion.

Hence, imbalances in the PECC region, particularly with respect to trade, have been an important source of friction in the PECC community. The United States has sought to pressure other economies into shouldering a part of the burden of adjustment, especially Japan but increasingly the NIEs. And even though the U.S. trade deficit improved in 1988 (see Table 5) and there is evidence it will fall to around \$100 billion in 1989, this figure is still too high to be acceptable to the United States.

#### B. The United States

Although the rate of growth has slowed in the 1980s, the U.S. economy has nevertheless been growing for the past 7 years, remarkably combining low inflation, high capacity utilization, high job creation, and low unemployment. But the present expansion has been fueled by an expansionary fiscal policy that has not been brought under control (Figure 8). The federal budget deficit peaked at a historically unprecedented \$213 billion in 1986, which constituted over 5 percent of GNP. Combined with a low level of private savings, the government deficit has led to a significant amount of foreign borrowing. In short, this is because domestic (public and private) savings has been inadequate to finance domestic investment (Figure 9), and, hence, the use of foreign savings was necessary to finance the shortfall. It is often argued that this trend should be seen in a favorable light since foreign capital is financing investment that would otherwise not be undertaken. However, over this period, investment/GNP ratios have not risen, on average. While there is some debate about the direction of the trend in real investment in plant and equipment in the United States, it is clear that no major shift to higher investment at the aggregate level has occurred.

Table 5  
Trade Deficit of the U.S. with Its Trading Partners, 1982-88  
(percentage of total U.S. deficit)

Country/Group	1982	1983	1984	1985	1986	1987	1988
World (US\$m)	42,608	69,352	123,281	148,474	169,784	173,679	139,526
<u>Developing countries</u>							
NIEs	19.9	19.4	17.9	16.1	18.3	21.8	21.8
Hong Kong	8.1	6.1	4.7	4.2	3.8	3.7	3.7
Korea	1.1	2.5	3.3	3.2	4.2	5.7	7.1
Singapore	-2.2	-1.1	0.4	0.6	0.9	1.3	1.8
Taiwan	12.9	11.9	9.5	8.0	9.4	11.0	9.3 <sup>a</sup>
ASEAN <sup>b</sup>	7.0	7.2	5.5	4.4	3.0	3.3	4.8
Brunei	0.3	-0.1	0.0	0.0	-0.1	0.0	0.0
Indonesia	5.8	6.0	3.8	2.8	1.6	1.7	1.7
Malaysia	0.5	0.8	0.8	0.6	0.5	0.7	1.2
Philippines	0.2	0.5	0.7	0.6	0.5	0.5	0.7
Thailand	0.1	0.0	0.3	0.5	0.6	0.5	1.0
Other Asia-Pacific							
China	-1.0	0.4	0.3	0.2	1.3	2.0	3.0
Papua New Guinea	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Western Samoa	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<u>Developed countries</u>							
Australia	-4.7	-2.2	-1.5	-1.6	-1.6	-1.3	-2.2
Canada	30.7	20.6	16.5	14.9	13.7	8.2	8.7
EC	-13.9	-0.8	10.5	15.2	15.5	14.0	9.2
Japan	44.5	31.2	29.8	33.5	34.5	34.4	39.7
New Zealand	-0.1	0.3	0.1	0.2	0.1	0.2	0.3

NOTES: A minus sign (-) indicates a trade surplus.

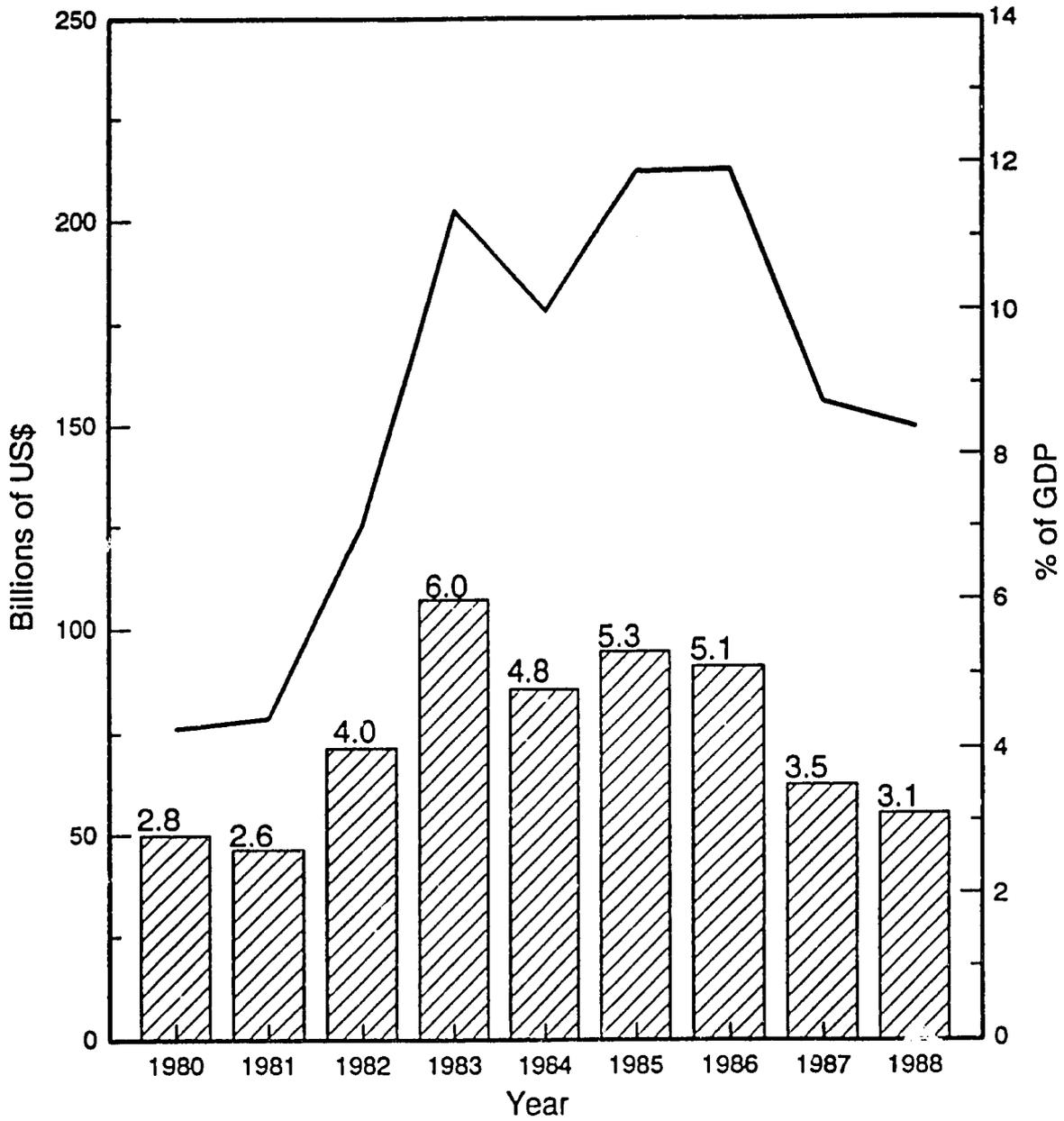
a. Preliminary estimate.

b. Does not include Singapore.

Sources: International Monetary Fund, Direction of Trade Statistics, Yearbook 1988 and May 1989.  
 Republic of China, Ministry of Finance, Department of Statistics, Monthly Statistics of Exports and Imports, The Republic of China, No. 224 (April 1988).  
 United States, Department of Commerce, Survey of Current Business, March 1989.

Figure 8

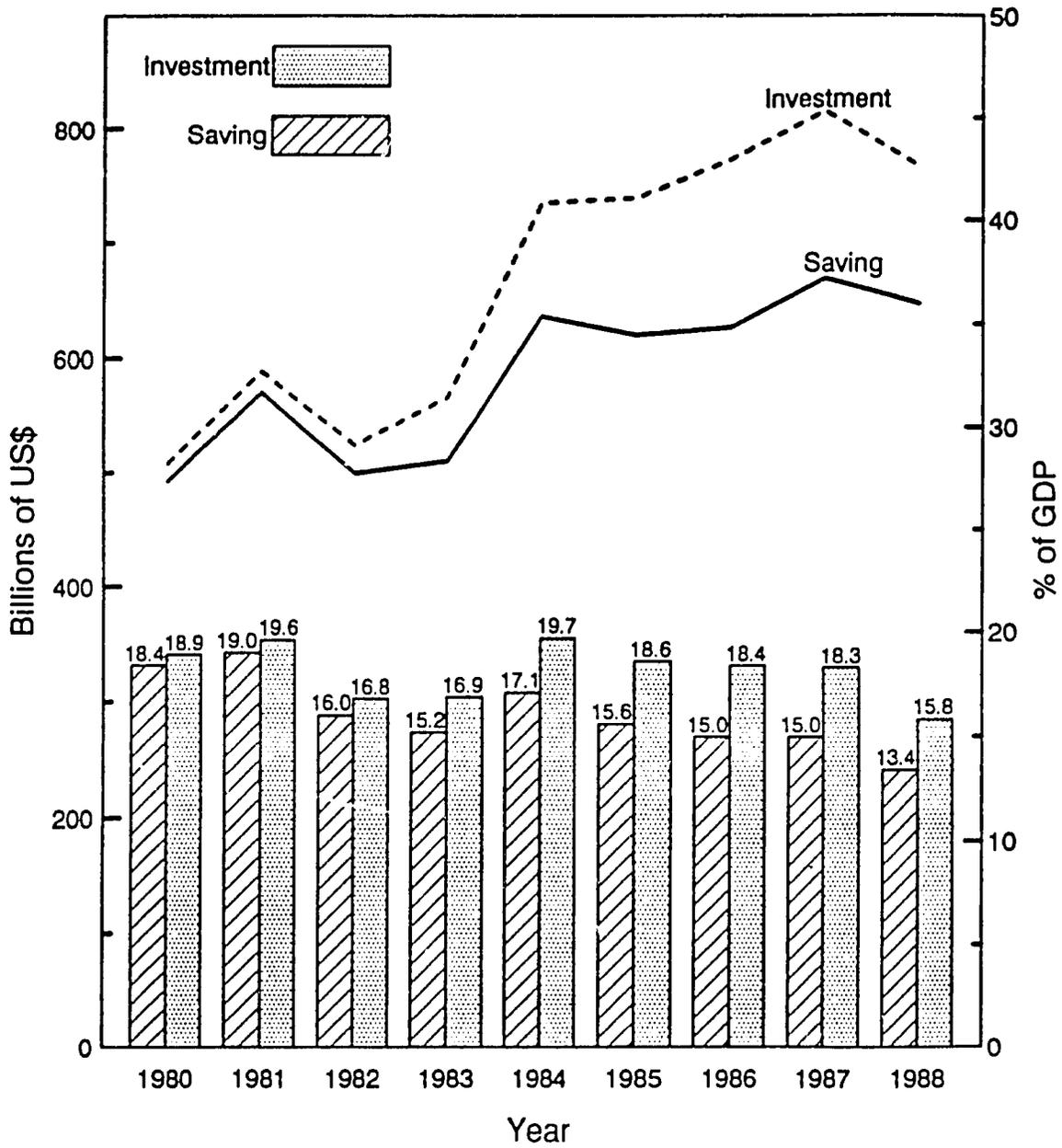
# U.S. Government Budget Deficit



Source: IMF, International Financial Statistics, Yearbook 1988 and June 1989.

Figure 9

# U.S. Saving and Investment



Source: IMF, International Financial Statistics, Yearbook 1988 and June 1989.

This analysis implies that the United States is overconsuming and underproducing, the difference is being made up by foreign production and financed by foreign borrowing. To correct the trade deficit, there is a need to increase production and/or a reduce consumption. But as the current economic expansion has brought capacity utilization to a very high level, and unemployment to a very low level, there are severe constraints to increasing production. Consequently, correction needs to come either from reducing imports or reducing spending.

A point about which there is much less disagreement concerns the trade imbalance and whether or not American competitiveness is in severe decline in ways unrelated to currency valuation changes. Until 1985, the appreciation of the dollar was associated with large and rising trade deficits. But the dollar has fallen significantly since then, although rising somewhat in 1989. While exports have grown at a healthy rate to record levels, the increase in the value of imports and the significant reduction in the surplus in services have offset the export gain.

Some economists insist that a weaker dollar will not make any major dents in the trade deficit (and that it will bring its own inflationary results). Recently the yen-dollar exchange rate has fluctuated upwards in favor of the dollar, though the dollar remains far weaker than it was prior to the Plaza Agreement. The fluctuations in the dollar's exchange rate seem to result from massive capital movements between the liberalized global financial markets, making use of the exchange rate as a prime adjustment mechanism for trade imbalances increasingly difficult. Commercial policy measures, including protection, are seen as the next alternative by some while others note that a resort to protectionism could lead to a disastrous trade war. Instead, they urge that the solution to the deficit lies in correcting macroeconomic imbalances, enhancing industrial competitiveness and productivity at the micro level, and improving productivity growth in the United States, although it appears that productivity is rising in the late 1980s.<sup>5</sup> Table 6 shows that the productivity growth decline has been a phenomenon in several

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<sup>5</sup>S. Hymans et al., "Mid-term Review and Forecast: The U.S. Economic Outlook for 1988-90," a paper to be presented for the U.S. National Committee at the seventh PECC meeting, November 1989, p. 20.

Table 6  
Selected Developed Market Economies:  
Real Wage Rate Gap, 1969-85  
(average annual percentage growth)

	Real wages <sup>a</sup>	Labor productivity <sup>b</sup>	Gap <sup>c</sup>	Real wage acceleration <sup>d</sup>
<b>Japan</b>				
1969-73	11.1	7.0	4.1	---
1973-79	4.9	3.0	1.9	-6.2
1979-85	3.6	3.1	0.5	-1.3
<b>United States</b>				
1969-73	1.4	1.6	-0.2	---
1973-79	0.3	0.2	0.1	-1.1
1979-85	0.1	0.5	-0.4	-0.2
<b>Four major Western European countries</b>				
1969-73	5.6	4.1	1.5	---
1973-79	2.7	2.1	0.6	-2.9
1979-85	1.0	1.5	-0.5	-1.7

NOTES:

--- = Not applicable.

- a. Rate of growth of real wages per person employed.
- b. Rate of growth of labor productivity per person.
- c. Difference between the first and second columns.
- d. Difference over time in the first column.

Source: United Nations, World Economic Survey 1987.

major industrial economies, but growth over the period 1979-85 has been especially poor in the United States. This trend is especially troubling to the long-run competitiveness of the U.S. economy. A more optimistic view is that declining unemployment, and an anticipated long-term labor shortage in the United States, will put a premium on improving productivity. There is some evidence that productivity growth spurred by greater investment per worker in recent years is lifting U.S. competitiveness in manufacturing.<sup>6</sup> Similarly, since the so-called baby-boomers will soon enter the savings period of their

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<sup>6</sup>S. Hickok, L. Bell, and J. Ceglowski, "The Competitiveness of U.S. Manufactured Goods: Recent Changes and Prospects," FRBNY Quarterly Review, Spring 1988, pp. 7-22.

life cycle, the savings level could rise, and as they gain more experience in the workplace, so should productivity.

In any event, the growth in the U.S. trade deficit has led some policymakers to question the international free trade policies espoused in the postwar period. This trend has received considerable attention in developing countries, as the protected sectors in industrialized nations are commonly those in which the newer economies have comparative advantage (e.g., textiles, some types of steel, and many agricultural products). The inclusion of the "Super-301" provision in the Omnibus Trade and Competitiveness Act of 1988 has drawn special attention. It calls for the President of the United States to identify nations whose trade practices may disadvantage the United States, and requires that disputes then be negotiated on a bilateral basis. If those disputes are not satisfactorily resolved, the United States may then direct specific retaliatory actions against the identified nations. In the first year of the law's existence, trade practices in Japan, Brazil, and India were targeted for priority negotiations.

The negative effects of import competition have been concentrated in basic industries and geographic areas. Because unemployment and other short-run detrimental effects of restructuring have locally differential effects, there has been strong rhetoric against alleged unfair trade practices by foreign countries, especially in Asia. This has led to pressures to employ main instruments that do not overtly contradict GATT (e.g., orderly marketing arrangements and voluntary export restraints), and, of course, the passage of the Omnibus Trade Act. Despite the rise in protectionist sentiment in the United States, the U.S. market remains one of the most open and lucrative in the world.

### **C. Japan**

It is clear that smooth Japan-U.S. relations, both in politics and economics, are vital to the region's continued well-being. Just as the United States needs to address its domestic macroeconomic imbalances and problems, Japan must also adopt and follow policies leading to stability.

For Japan, this means a structural adjustment that is different from that required of the United States, but which is no less essential. The changes that will need to be made are highlighted in the

1986 and 1987 Maekawa Reports and are being discussed on a bilateral basis with the United States at the current "Structural Impediments Initiative" talks, which include areas such as the need for land reform, the distribution system's bias against imports, and the saving/investment imbalance. They involve efforts to reduce Japan's external surplus by internationalizing its economy and reducing barriers to imports, as well as measures to stimulate domestic demand. Some of that adjustment has begun, spurred by yen appreciation and government public works expenditure. In 1987 and 1988, Japan adjusted to endaka, and the country's economy recovered its momentum. The lion's share of the increase in real economic growth, which was 4 percent in 1987 and 6 percent in 1988, was generated by increases in domestic demand rather than exports. In 1988, the contribution of domestic demand to GNP growth reached an estimated 8 percent, and external demand became a negative factor.

Japan is changing rapidly. The share of manufactured products in Japan's total imports is steadily increasing. The share of manufactured imports grew from 27 percent in 1983 to 49 percent in 1988 (Table 7), although this was partially a result of the fall in oil prices over the period. Similarly, a survey of 302 Japanese firms showed that 95 percent reported increased imports of finished goods from 1988 to 1989, with a majority of firms' import orders rising by between 10 and 29 percent.

However, this increase in manufactured imports has been concentrated in a few product categories. This is demonstrated in Table 8, which shows import penetration ratios (imports as a percentage of imports plus total production calculated at the 3-digit ISIC industry level) for various manufacturing industries in Japan. In 1987, machinery and transport equipment shows little change, probably reflecting Japan's competitive strength in that sector. On the other hand, the Japanese market for manufactured consumer goods, which has long been considered impenetrable except for such exotic specialties as Scotch whiskey and Gucci handbags, has begun to open modestly. Moreover, the strong expansion of manufactured imports since 1987 in Japan reinforces the notion that Japan is opening up. It is too soon to say whether this represents a trend, but it is evident that Japanese consumers increasingly believe that foreign goods provide greater variety at an attractive price. Nevertheless, even more needs to be done to support the growth of developing countries in the region by expanding imports of

Table 7  
Manufactures<sup>a</sup> as a Percentage of Total Imports: Japan and the United States

Origin	Japan						United States					
	1983		1987		1988		1983		1987		1988	
	(US\$m)	% manu- factures	(US\$m)	% manu- factures	(US\$m)	% manu- factures	(US\$m)	% manu- factures	(US\$m)	% manu- factures	(US\$m)	% manu- factures
World	126,520	27.2	149,515	44.1	187,354	49.0	269,878	63.2	424,442	76.6	460,209	78.6
Japan	---	---	---	---	---	---	43,559	98.0	88,074	98.2	93,168	98.1
United States	24,647	50.2	31,490	56.1	42,037	56.0	---	---	---	---	---	---
NIEs	8,125	55.9	18,812	66.2	25,002	72.9	29,561	95.8	61,283	96.4	66,501	96.7
Hong Kong	670	81.9	1,561	87.1	2,109	86.6	6,825	96.5	10,490	96.9	10,810	96.6
Korea	3,365	65.3	8,075	74.2	11,811	79.1	7,657	97.1	17,991	97.2	21,209	97.7
Singapore	1,468	20.7	2,048	42.1	2,329	50.7	2,969	87.4	6,395	91.9	8,226	93.6
Taiwan	2,622	55.7	7,128	59.6	8,743	67.3	12,110	96.5	26,406	96.7	26,256	96.9
ASEAN <sup>b</sup>	15,888	7.4	16,348	13.6	19,002	17.9	11,057	38.3	11,640	60.8	13,676	66.1
Indonesia	10,432	3.0	8,427	11.6	9,497	14.3	5,657	7.9	3,719	28.2	3,494	32.8
Malaysia	3,131	14.4	4,772	9.0	4,710	12.8	2,205	76.1	3,053	81.4	3,853	82.4
Philippines	1,306	13.7	1,353	20.6	2,044	26.8	2,159	66.9	2,481	76.2	2,906	76.8
Thailand	1,019	21.5	1,796	29.5	2,751	32.6	1,035	64.0	2,387	69.3	3,423	72.6

NOTES:

--- = Not applicable.

a. Defined as SITC (5+6+7+8).

b. Not including Singapore and Brunei. Data were not available for Brunei.

Sources: Japan, Japan External Trade Organization (JETRO), White Paper on International Trade, 1984 and 1988; and Nihon no Seihin Yunyu Doko 1988 [Trends in Japanese manufactured imports 1988].  
United States, Department of Commerce, U.S. Foreign Trade Highlights, 1987 and 1988.

Table 8  
Japan's Import Penetration Ratio in Constant Prices, 1960=100  
(percent)

JICC	ISIC	Industries	1980	1981	1982	1983	1984	1985	1986	1987	Annual rate of change (percent)
12,13	311,314	Food	7.8	8.2	8.5	8.5	9.3	9.2	9.2	10.6	4.5
14,15	321,322	Textiles	9.7	10.0	10.7	9.4	11.3	10.8	9.5	12.1	3.2
24	323,324	Leather	12.2	12.1	11.9	10.7	11.9	11.1	13.7	20.3	7.5
16	331	Wood	8.6	7.2	7.7	7.7	8.2	9.1	9.8	12.4	5.4
18	341	Paper	5.4	4.3	4.6	5.0	4.9	5.3	6.7	5.9	1.3
19	342	Printing	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.5	(2.6)
20,22	351,352	Chemicals	8.0	9.0	10.3	10.0	10.5	7.6	8.9	9.7	2.8
21	353,354	Petroleum	15.5	16.3	17.7	18.8	20.6	22.3	23.7	25.0	7.1
23	355	Rubber	3.3	3.5	3.9	3.6	3.8	3.7	4.1	4.7	5.2
25	361,369	Ceramics	1.1	1.0	1.2	1.4	1.9	1.8	2.4	2.8	14.3
26	371	Iron	1.4	1.8	2.1	2.9	3.3	2.6	3.2	4.2	17.0
27	372	Nonferrous metal	15.5	18.0	20.8	19.0	20.7	21.1	16.7	20.3	3.9
29,33	382	General machinery	4.5	3.9	3.4	3.3	3.7	3.7	4.1	4.9	1.2
30	383	Electrical machinery	2.9	2.5	2.2	2.1	2.2	2.1	2.4	2.8	(0.5)
31	384	Transport equipment	3.6	3.6	2.1	2.9	2.6	2.6	2.7	3.3	(1.2)
32	385	Precision instrument	18.2	17.6	20.2	23.9	29.4	29.5	24.0	26.4	5.5
		Total	6.3	6.4	6.5	6.4	6.9	6.7	6.8	7.0	1.5
		Total w/o petroleum and food	5.0	5.0	5.0	4.9	5.2	5.1	5.2	6.1	2.9

NOTE: Figures in parentheses denote a negative percentage change.

Source: Yumiko Okamoto, 1989, "An Empirical Analysis of Nontariff Barriers and Manufactured Imports of Japan," Ph.D. dissertation submitted in Fall 1989.

manufactures. As shown in Table 7, despite the rising share of manufactured imports in Japan, this is still lower than the comparative figure for the United States. In 1988, U.S. imports of manufactures accounted for 79 percent of total imports, compared to only 49 percent for Japan. Hence, while Japan has a long way to go, it appears to be shouldering greater responsibility for growth and development in the region.

Japan has been faulted for closing its markets to imports through subtle barriers to trade. For example, while Japan's average tariff rates for manufactures are as low as those in other OECD countries, Japan's distribution system is biased against imports. According to the MITI's 1989 White Paper on International Trade, the distribution system accounts for nearly 60 percent of the retail price of imported goods as compared to about 40 percent for domestic goods. Japan's agricultural protection, especially of rice, has received wide publicity in the press as well as in multilateral negotiations. Progress has been made, for example, in opening up beef and citrus markets. Yet, protection remains high and presents a serious problem--economic and political--in Japan's relations with both developed and developing Pacific economies. The recent loss of the Liberal Democratic Party (LDP) in the July Upper House elections underscores the problems at the domestic level; the farmers' traditional support of the LDP is said to have declined because of the perception that the Party ceased to advocate the interests of the farmer constituency. In any event, should change come, the beneficiaries will be not only foreign agricultural producers, but also Japan's consumers and the nation's credibility in trade negotiations.

#### **D. Canada, Australia, and New Zealand**

Canada, Australia, and New Zealand have had to reorient their external trade as a result of events in Western Europe--in particular, the United Kingdom's accession to the EC--and the effects of the agricultural policies of the EC. Canada, however, has had less of an adjustment challenge because of its extensive relationship with the United States. In adapting to the new situation, these three countries have recognized the growing importance of the Pacific region, including the emergence of ASEAN,

China, and the NIEs as potential markets. In responding to the need to diversify both the direction and composition of exports, these economies had to rely to some extent on infusions of foreign capital and technology. In Australia and New Zealand, external deficits were compounded by terms of trade losses in the early to mid-1980s (primary products make up about 75 percent of exports). In addition, competitiveness declined as inflation rates in these countries were above the OECD average and were not fully offset by exchange rate adjustments.

Canada figures prominently in discussions of Pacific economic cooperation because of the enormity of its trade and investment links with the United States. U.S.-Canada two-way trade exceeds that between any other two nations, including the United States and Japan.

The U.S.-Canada Free Trade Agreement (FTA) promises to expand trade and investment ties still further. These ties are already being sought by private industries in both nations that have requested an acceleration of the FTA's scheduled tariff reductions. There were 300 such requests to each government by July 1989, only six months since the agreement took effect. The FTA appears, in other words, to be having the trade-expanding effects envisaged by supporters.

Despite a surplus with the United States, Canada must finance a substantial overall deficit on its current account and must service past debt caused by government budget deficits and profit remittances of foreign (mainly U.S.) concerns. While the fiscal deficit as a percentage of GNP has been gradually reduced in recent years, Canada's external deficit on current account has risen, reflecting the partially accumulated debt that must be serviced. At the same time, Canada's exports have grown by a little over 6 percent per year in the 1980s (constant prices).<sup>7</sup> But the country's competitive performance has been hampered by weak productivity growth relative to other major industrial countries and was only slightly better than of the United States.<sup>8</sup> Nevertheless, GNP growth has been respectable, exceeding growth

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<sup>7</sup>World Bank, World Development Report 1989 (New York: Oxford University Press, table 14).

<sup>8</sup>International Monetary Fund, World Economic Outlook, 1988, p. 46.

rates of all developed countries in the region in 1986 (3.1 percent) and 1987 (5.2 percent), and second only to Japan in 1988 (4.5 percent).

In the 1980s, Canada has markedly expanded its trade with the Asia-Pacific region, particularly with Korea, Japan, Hong Kong, and Indonesia. Thus, even as Canada has established itself in the large U.S. market, it has also begun to turn its attention to the other PECC economies. The rapid development of new industries in the NIEs (especially automobiles, steel, and chemicals) have helped spur this expansion of trade. Canada's resource abundance places it in a complementary position to the NIEs and Japan, but makes it a competitor of Australia, the United States, and, to some extent, New Zealand. Canada has, however, attained greater diversity in its exports than have Australia or New Zealand.

Australia is atypical in that it has maintained a surplus in its trade with Japan and runs deficits with the United States. Australia (and New Zealand) was also faced with major structural change, primarily as a result of the EC's expansion to include the United Kingdom. New export markets for traditional agricultural exports (wool and meat) had to be found, and new export products had to be developed. While Australia has diversified its exports somewhat, its export structure remains primarily commodity based, with minerals replacing agricultural products as the leading source of foreign exchange earnings. Development of Australia's mineral resources, most notably coal and iron ore, was spurred first by the rapid industrialization of Japan and then of the NIEs. From 1986-1988, Japanese DFI in Australia approximately doubled to \$8 billion, and U.S. investment increased 75 percent to over \$12 billion.<sup>9</sup> Australia also was able to diversify its farm exports, principally by adding grains, beef, and processed foods to the traditional export products. However, Australia has slowly progressed in expanding manufacturing exports.

The manufacturing industries (and to some extent, services) have long been heavily protected. In some sectors, foreign investment has entered mainly to jump over tariff barriers and to serve the domestic market. Nevertheless, in recent years liberalization of trade and industrial deregulation has

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<sup>9</sup>See Section IV.A, Figures 10 and 11, respectively.

gained ground. The Australian policy goal is to raise its domestic productivity and efficiency so that new areas of comparative advantage can be nurtured. The liberalization of financial services is an example of this effort. There have been direct gains for Australia in areas like tourism, but also indirect gains as domestic manufacturing and services provide larger inputs into direct exports from the agriculture and minerals sectors. As part of its liberalization efforts, Australia has also taken a number of steps to reduce import barriers in its industrial sector. By 1993, there will be no quantitative restrictions and a maximum tariff (except for textiles and clothing) of 15 percent. This will facilitate the further interaction of the Australian economy with the broader regional economy.

New Zealand has had greater difficulty than any other Pacific industrial country in adjusting to external changes. Its geographic isolation and small domestic market have made it particularly vulnerable to a combination of adverse external developments and domestic structural problems. The accession of the United Kingdom to the EC and the more restrictive EC agricultural policies had severe impacts on New Zealand as did the oil shocks. Attempts to adjust by large-scale resource development projects undertaken by the public sector in the 1970s led to large debt burdens and had much lower-than-expected economic benefits. Competitiveness deteriorated as high inflation and low productivity growth characterized the early to mid-1980s. Protection of domestic industries has also made it difficult to find new exports.

In recent years, a dramatic policy reorientation towards private industry and competitive markets, including unilateral trade liberalization, has occurred. At the microeconomic level, this has stimulated firms to become more cost- and quality-conscious. This reorientation has also spurred interest in boosting New Zealand's trade and investment linkages in the Pacific. The agreement for Closer Economic Relations (CER) with Australia is a first, and logical, step in this direction. Improved relations and links between New Zealand and ASEAN and the NIEs are also desired, and studies are under way to facilitate ties between New Zealand and Canada. New Zealand's exports to the PECC economies as a percentage of total exports increased to 63 percent in 1987, up significantly from 43 percent in 1970. Because of the remarkable changes in the style and content of economic management

in New Zealand and the move toward the direction that the market economies of the entire region have taken, the potential for expanded trade and investment flows is larger.

#### E. The Newly Industrializing Economies

The NIEs, especially Taiwan and Korea, are second only to Japan in the degree to which major structural adjustments have been brought about by recent trends in the international economy. As noted above, the appreciation of the yen against the dollar in 1985 was very beneficial to Hong Kong, Korea, Singapore, and Taiwan. In fact, only in the case of Taiwan did the real exchange rate appreciate vis-à-vis the U.S. dollar between 1980 and 1989. In all four economies, real growth of production and exports went up in 1986, and only in Singapore did growth fail to reach double digits in 1986 and 1987. Taiwan, already accustomed to large current account surpluses, saw its trade surplus rise by over 50 percent in 1986, and Korea achieved a first-time current account surplus that year. In 1987, the NIEs actually imported more from the region than Japan.

Because the United States was the principal destination for the sudden surge of exports from Korea and Taiwan, the United States began to accumulate large deficits with both countries and this soon led Washington to sharply insist on the appreciation of the Korean won and the New Taiwan dollar.

Although Taiwan, which had successfully used exchange rate policy since 1971 to promote exports, came under U.S. pressure first, there were also internal pressures. The buying of New Taiwan dollars by speculators anticipating its almost certain upward revaluation and fears that Taipei's enormous reserves of gold and hard-currency (about \$75 billion in 1989) would lead to inflation placed pressure on the Taiwan government to revalue. Thus, in 1986 the Central Bank adopted a more flexible and managed exchange rate policy, and from 1986 to mid-1989 the New Taiwan dollar rose against the U.S. dollar by about 40 percent.<sup>10</sup> The bank also raised the limits on funds that could be sent abroad. These steps,

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<sup>10</sup>Republic of China, Central Bank of China, Financial Statistics, Taiwan District, Republic of China, various issues.

along with expanded public works, efforts to liberalize imports, and large purchasing programs,<sup>11</sup> have helped to ease the trade imbalance with the United States and reduced Taiwan's overall trade surplus.

Korea is a different story. When Washington began to call for import liberalization and appreciation of the won in 1986, Korea's domestic political environment, as well as its relationship with the United States, was already tense. There were anti-U.S. demonstrations among farmers and workers in textile and other small-scale enterprises, and Seoul, with a large external debt to service, resisted won-dollar revaluation until a year after Taiwan did so. When it did come, the shift was not as large. Nevertheless, by 1989 a 23 percent appreciation had occurred over the 1987 valuation. Korea also met some of the American requests to open markets, of which the best-known examples are cigarettes, beef (very modestly), and to some extent insurance and banking. In addition, it has eliminated import licensing for many products and has reduced tariffs.

Singapore and Hong Kong, both virtually without controls on imports or severe restrictions on foreign investment, came under less U.S. pressure to revalue their currencies. Their trade surpluses with the United States were not as large as those of Taiwan and Korea, and had attracted less attention. Each, however, gained U.S. market share, and Singapore, although its currency did appreciate marginally against the dollar, was subjected to a number of noncurrency-related U.S. trade complaints as its surplus rose.

Two lessons come from these considerations. One is that with very few exceptions, foreign pressures for import liberalization and exchange-rate corrections<sup>12</sup> will confront strong political resistance in the NIEs (and ASEAN members) of the kind already seen in Korea. The second lesson pertains to the need for structural economic changes. As relatively small economies that are essentially dependent on the vicissitudes of a rapidly changing global economy, the NIEs and ASEAN member countries will

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<sup>11</sup>Purchasing programs in themselves are discriminatory and a substitute for liberalization of import controls. Buying "American" in essence is like an export quota for the United States and may reduce other countries' exports.

<sup>12</sup>These pressures are coming not only from individual countries but also from multilateral institutions, e.g., the International Monetary Fund.

need to give structural adjustment an even higher place in their strategic planning than they do now. Much effort must go to anticipating external developments and to vigorous implementation of the structural changes that are deemed appropriate.

The rising scarcity of labor in the NIEs is likely to continue to encourage more sophisticated lines of production. It has been possible to raise wages because productivity growth has also been high. In the future, however, it will be difficult to limit wage increases to productivity gains if there is an insistence on adhering to the same products and manufacturing processes. Much attention will therefore need to be given to improving the education and training of workers, and to moving toward higher value-added manufactures. This, in turn, will place new demands on the NIE economies. Increased attention will have to be given to research and development, and small manufacturers in Taiwan and Hong Kong may find it difficult to adjust to the need for more automation and larger-scale operations.

Some adjustments are, of course, already occurring. The growing exports of electronics, machinery, and some transport equipment reflect a shift from labor-intensive toward more sophisticated manufactured products. Since 1986 there has also been some redirection of NIE exports from the United States to other markets, principally to Japan.

In this context, it would be useful to explore expansion of economic links between the NIEs and ASEAN, as well as Australia and New Zealand. Today, trade remains quite small and most is entrepôt trade with Singapore and Hong Kong. Yet, the potentially strong complementarities, reflecting the natural resource and labor abundance in the ASEAN-4 and resource abundance in Australia and New Zealand compared to Taiwan and Korea, suggest that greater trade and investment linkages would be mutually beneficial to all economies.

## F. The ASEAN-4

The ASEAN-4 countries<sup>13</sup> have recorded mild trade surpluses with the United States, and thus have received far less pressure to revalue; indeed, all except Thailand have devalued their currencies since 1985. Hence, these four economies were able to enhance competitiveness of their exports vis-à-vis others in the region after 1985. But even before the yen appreciated, the ASEAN-4 countries had already begun to develop exports of manufactured goods. The prolonged slump in commodity prices in the early 1980s provided the stimulus for the ASEAN-4 to modify and liberalize their own trade and investment policies, which had been strongly biased against the development of new exports.

By the late 1980s, it appeared that these policy reforms had attained a measure of success in each of the ASEAN-4 countries, though to various degrees. In Indonesia, new exports needed to be developed when the price of its mainstay products, petroleum and LNG, declined sharply in international markets. The problem was compounded by a large external debt, much of it denominated in appreciating currencies, particularly yen. Repeated devaluations of the rupiah and fiscal austerity measures were coupled with trade liberalization and financial reforms in the mid-1980s. These structural reforms have enabled Indonesia to rapidly boost nontraditional exports by enough to replace lost oil revenues and show modest growth. Moreover, Indonesia has been placing greater emphasis on increased foreign investment, and recently has been promoting joint-ventures with NIE business partners.<sup>14</sup> The ability of Indonesia to successfully implement major policy reforms has been crucial in avoiding a more serious debt problem. With a more diversified export base and modest recovery of commodity markets, Indonesia is likely to experience higher real growth in the near term.

Malaysia, also badly affected by the collapse of primary commodities, made significant adjustments in its fiscal policies and has sought to gradually shift the structure of its trade through the use of foreign investment and various incentive programs. To a certain degree, Malaysia's strategy has

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<sup>13</sup>Because of the lack of consistent data, Brunei Darussalam is excluded from much of the analysis.

<sup>14</sup>The Jakarta Post, "Wooing Asian Investors," September 12, 1989.

succeeded with the export of nontraditional products (including new and processed primary goods), which has increased over time to account for almost half of total exports. However, manufactured exports continue to be highly concentrated in certain goods such as textiles and electronics, which account for nearly three-quarters of total manufactured exports. At the same time, the recovery in commodity prices has boosted Malaysia's recent growth.

The Philippines has shown the greatest turnaround in ASEAN in terms of recovery of growth and exports from the dismal record of 1980-86. There are clearer signs that the recovery is being sustained, as domestic and foreign investments in the Philippines have risen. The direction of policy reform has, however, been ambiguous. The balance between protection of existing and new import substituting industries versus promotion of new and traditional export-oriented sectors is questionable, and the country continues to face difficulties in implementing strong agrarian reform and trade liberalization policies. Although the Philippines is the recipient of a major aid initiative (which was welcomed by both the donors and the Philippine government), the aid itself cannot assure the type of structural change required to allow sustained growth.

Although all of the ASEAN-4 countries are rapidly industrializing along lines similar to the NIEs, Thailand is the fastest growing country of the group. Thailand's economy has shown extraordinary dynamism, with increasing inflows of foreign private investment, rapidly rising exports of manufactures, successful diversification in agriculture, and strong growth in modern service industries. A number of structural problems have emerged: widening regional disparities in development, rising labor discontent with wages and other working conditions, bottlenecks in infrastructure, and concerns with environmental effects of industrial and agricultural development.

Despite these problems, Thailand is clearly moving ahead and becoming an important competitor in several new industries. The investment inflows to Thailand include a substantial amount from the NIEs looking to relocate industrial activities where their own comparative advantage is declining. The rising investments in Thailand and other ASEAN-4 economies should help stimulate greater interaction

in trade in goods and services within the region. These economies still have considerable room to liberalize rather restrictive practices in trade, investment, and industrial regulation.

The ASEAN-4 countries are in an ideal position to become the next tier of NIEs. Among the four, Thailand and Malaysia have emerged as leaders in adopting policies similar to those of the NIEs and, as a result, have attained higher growth during the 1980s than most developing countries. Moreover, although manufactured exports have led the industrialization process forward, Thailand and Malaysia have also succeeded in diversifying economic activities within the rural sector. Nevertheless both countries are still far behind the NIEs in terms of per capita income, with Thailand even farther behind than Malaysia. Thailand is likely to begin to close the gap, as it has achieved per capita income growth rates close to those experienced by the NIEs during their transition.

The ASEAN-4 countries have already developed strong commercial links to neighboring NIEs and could improve these ties by further liberalizing trade and investment regulations. Import bans, quotas, and import licensing have already been reduced and can be gradually phased out. The tariff structure that replaces quantitative restrictions will also need to be rationalized, by reducing both the range and height of tariffs, a process that is already under way.

Brunei Darussalam joined ASEAN in 1984. As oil exports constitute a vital component of its economy, Brunei Darussalam was greatly affected by the collapse of oil prices in 1986. However, it adopted a vigorous diversification program in its 1986 Five-Year Plan, investing \$1.8 billion to reduce reliance on hydrocarbon exports and increase the service and manufacturing sectors.

#### **G. China**

The acceleration of economic growth in China during the 1980s is largely attributable to economic reforms introduced since 1978. The major economic reforms have included: (1) partial opening of the economy to foreign investment and international trade; (2) introduction of greater price incentives to producers, particularly in agriculture; and (3) restructuring of the organization of production, both urban and rural.

The near double-digit annual real rate of growth from 1980 to 1989 in China has occurred despite slackening of world output and trade growth. During this period, China has substantially expanded its participation in international trade. The growth of exports from China has been impressive, particularly in light of the decline in prices of some of its major commodity exports like petroleum. The composition of exports changed rapidly in the 1980s; the share of primary products declined to only a third, and manufactures rose to two-thirds. Export performance has been assisted by the inflow of foreign investment into the export-oriented sectors, especially textiles and garments.

Similarly, imports have expanded rapidly, as investment growth has required imports of capital goods. Rising industrial production has led to higher demand for imported intermediate inputs, both to meet domestic consumer demand and to allow export supply to grow. Thus, China's economy has inexorably become more and more linked to the world economy. The strong Pacific orientation of China's trade and investment links are another feature of growing interdependence in the region.

However, China's economic reform program has run into some serious difficulties. The most obvious manifestation of the deep-seated institutional problems in transforming China's centrally planned command economy to a more decentralized one where market forces determine the allocation of resources and investments has been inflation. The excessive growth of aggregate demand by enterprises and consumers has been difficult to curb because of the lack of indirect macroeconomic levers to tighten monetary and fiscal policies, and inflation has emerged as an important problem. Real interest rates have been set artificially low, and state enterprises are therefore encouraged to expand investment without regard to costs of capital. Reimposition of direct controls can reduce inflationary pressures temporarily but at the cost of slowing or reversing price reform. In the longer term, economic dynamism can best be achieved by thorough reform of prices, including wages and interest rates.

#### IV. CHANGING PATTERNS OF EXTERNAL FINANCE

In the spirit of cooperation and interest in mutual welfare, wealthier countries have established programs of external assistance to help develop economies in the region. Although generally motivated by profit rather than benevolence *per se*, private capital flows have served the same purpose of promoting regional development along the lines of dynamic comparative advantage. In this section, the changing patterns of external finance in the region, including both official and private investment flows, are reviewed.

Patterns of external finance underwent substantial changes after the early 1980s for a number of reasons. First, beginning in 1983 the United States, which has traditionally been one of the largest lenders in world financial markets, began borrowing about \$100 billion annually abroad. These borrowings were necessitated by the U.S. external deficit and reflected the shortfall of U.S. national saving.

Second, the debt problems of many developing countries reduced the willingness of private commercial lenders to increase financial flows to other developing countries. At the same time, the high real interest rates prevailing in world financial markets made such loans less attractive to Asian developing countries.

Third, the climate was also hostile to growth in financial flows from official sources, including bilateral and multilateral agencies. Hence, the size of net inflows to the region's developing economies stagnated over the period 1983-85, as both borrowers and lenders became cautious.

More recently, in the late 1980s, the October 1987 stock market collapse notwithstanding, financial market conditions for the Asian developing countries have improved. Real interest rates have fallen and most countries have been able to restore their external balance. For the first time, Taiwan and Korea became net creditors.

## A. Direct Foreign Investment and Technology Transfer

Direct foreign investment (DFI) is an important issue in any discussion of structural change, especially because of the dynamic element it brings to industrial restructuring. Technology transfer through DFI is an excellent example. The reallocation of labor from a traditional low-productivity sector to a modern high-productivity sector is a key element in economic development. In this process, investment, output, employment, and trade structures undergo significant change. As a result, policymakers concerned with DFI will have to simultaneously consider the evolving patterns of comparative advantage, the changing relative factor endowments, and the possibilities for technology transfer.

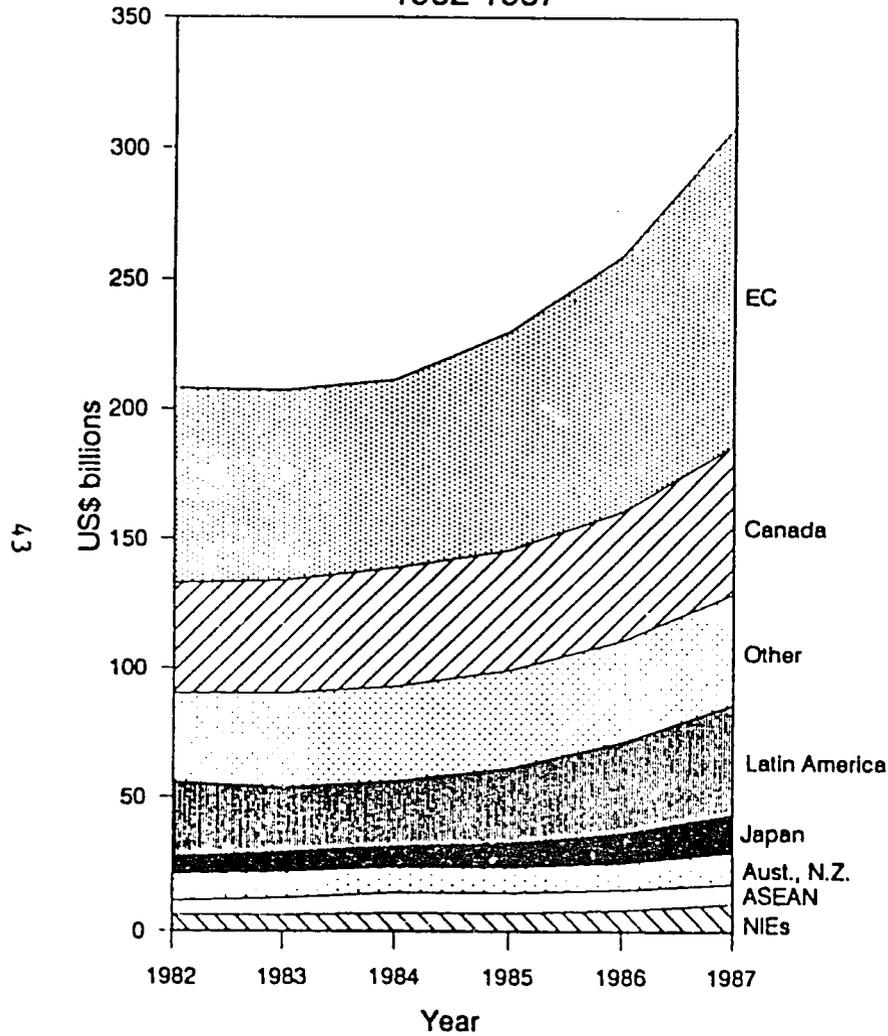
It is important, however, to put the issue into perspective. One issue is the place the Asia-Pacific region occupies in global DFI, especially from the point of view of the two largest economies in the world, the United States and Japan. A second is the role that DFI plays in the Asian developing economies. On the first point, it is important to remember that the bulk of U.S. investment is in Canada and Western Europe (Figure 10). Indeed, a greater share of U.S. DFI is in Latin America and the Caribbean than in the Asian NIEs, China, and ASEAN.

Japan's outward DFI position, though much smaller than that of the United States (Figure 11), has become the subject of much attention. It has been increasing sharply since the mid-1980s and has been more focused on Asia and more sectorally diversified than has U.S. DFI. Japanese DFI in the United States, Canada, Australia, and New Zealand has also been rising in recent years. In the manufacturing sector, it is widely thought to represent an attempt by Japanese firms to evade protectionist policies and strengthen their foothold in these markets. One result will be the revitalization of flagging industries by enhancing technology and management in the targeted sectors.

Nevertheless, there remains a perception that Japan's DFI represents more of a problem than a solution. The worry about the selling of national "assets" is intensified if the nation in question sees itself unable to similarly invest and compete in Japan. The same worries pertain to Japanese banks--now the world's largest and increasingly active in global and regional financial markets.

Figure 10

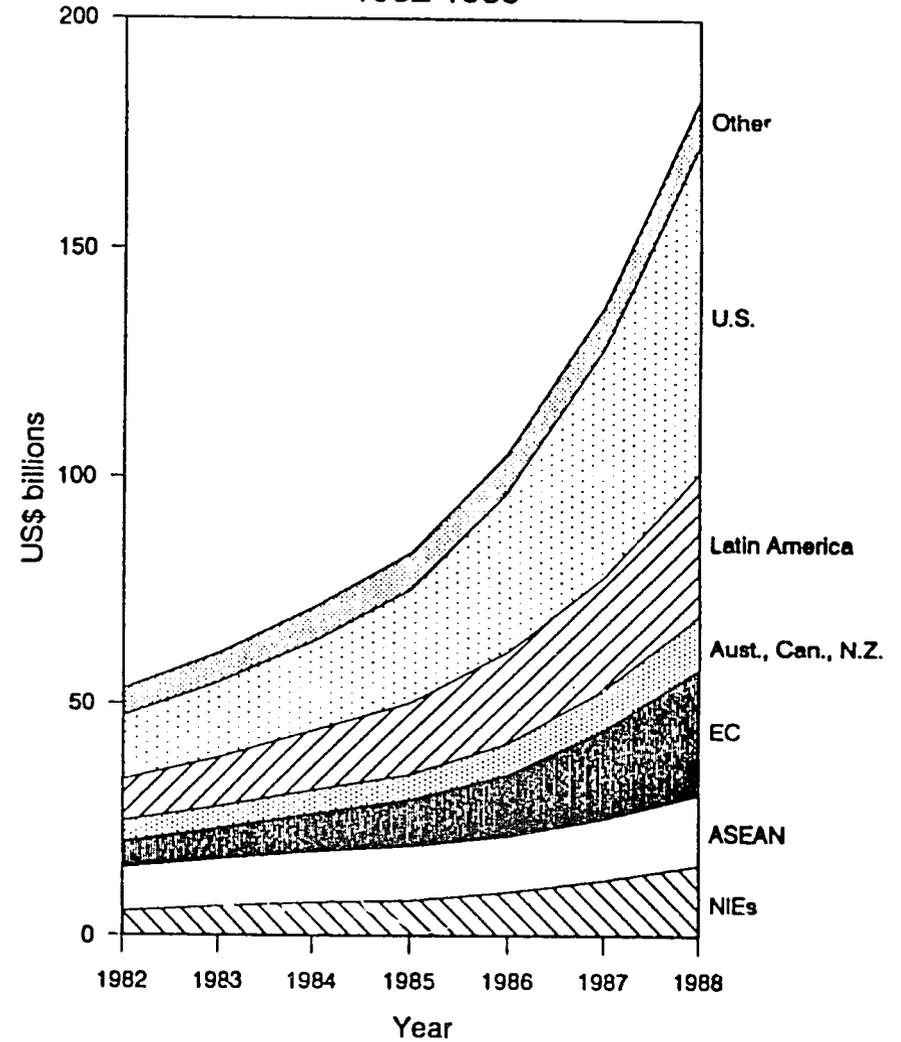
U.S. Direct Foreign Investment Position Abroad  
1982-1987



Sources: United States, Department of Commerce, *Survey of Current Business*, August 1987, August 1986, and March 1989.

Figure 11

Japan's Direct Foreign Investment Position Abroad  
1982-1988



Sources: Japan, Export-Import Bank, *Report of the Overseas Investment Research Institute*, November 1988; Ministry of Finance, *Monthly Bulletin of Fiscal and Monetary Statistics*, various issues.

The second point to be put into perspective concerns the role of DFI in the Asia-Pacific region and its economic effects. DFI can facilitate sectoral economic restructuring in a dynamic sense, as it flows out of countries losing comparative advantage in a commodity and into economies gaining comparative advantage. DFI can also be an important source of technology transfer in the recipient countries and is generally export-oriented, providing a source of foreign exchange for the host economy.

The amount of capital transferred through DFI is generally small in proportion to total capital formation (Table 9). Only Singapore, Malaysia, and Hong Kong had inward DFI-total investment ratios of 8 percent or more. On the outflow side, the ratios were all less than 7 percent. Thus, direct investment, inward or outward, accounts for a small portion of aggregate investment activity in virtually all Asia-Pacific economies.

Despite its low share of total investment in most economies, DFI has often accounted for somewhat larger shares of fixed investment in certain sectors. In the NIEs, foreign multinationals have concentrated on manufacturing activities; hence, the foreign share of manufacturing investment is larger than for the aggregate. In Korea, for example, DFI accounted for 3 percent of fixed manufacturing investment in the period 1975-81, but it was much larger a decade earlier. Likewise in Taiwan, foreign shares of fixed manufacturing investment have recently averaged 5 percent. In Singapore foreign firms provided 66 to 75 percent of capital expenditures in manufacturing from 1977 to 1981, and somewhat lower but still significant shares in 1981-85.

Like DFI shares in total investment, foreign multinational shares of employment and output are similarly small in most of the region's economies. However, foreign multinationals are involved in foreign trade to a much greater extent. Although data are scarce for many countries, sources indicate that in 1986, 19-26 percent of Korean and Taiwanese manufacturing exports were attributable to foreign affiliates; for Singapore, the figure was 74 percent (1985). In Thailand, about 17 percent of manufactured exports in 1979 were from foreign firms, but this fell to 6 percent in 1985. DFI shares of manufactured exports seem to be rising in Korea, probably reflecting its relatively recent relaxation of controls on foreign investment.

Table 9  
Portfolio and Direct Foreign Investment, 1986-87  
(annual averages in US\$ million and  
as percentage of gross domestic capital formation)

	Net portfolio investment US\$m	DFI inflows		DFI outflows	
		US\$m	% of GDCF	US\$m	% of GDCF
<u>Developing countries</u>					
NIEs					
Hong Kong	na	1,927 <sup>a</sup>	18.0 <sup>a</sup>	na	na
Korea	100	513	1.6	147	0.5
Singapore	-151	521	3.5	385	2.6
Taiwan	-151	521	3.5	385	2.6
ASEAN					
Indonesia	122	282	1.5	na	na
Malaysia	-175	565	7.6	na	na
Philippines	16	157	3.5	na	na
Thailand	159	226	2.4	1	0.0
Other Asia					
China	1,399	2,095	1.9	548	0.5
<u>Developed countries</u>					
Australia	2,242	3,057	7.2	2,725	6.4
Canada	12,859	2,825	3.5	4,201	5.2
Japan	-96,457	712	0.1	16,866	2.7
New Zealand	na	176	2.4	73	1.0
United States	72,525	37,821	4.8	36,211	4.6

NOTES:

na = Not available.

a. From Development Assistance Committee (DAC) members only.

Sources: Asian Development Bank, Key Indicators of Developing Member Countries of ADB, July 1988.  
Hong Kong, Census and Statistics Department, Estimates of Gross Domestic Product 1966 to 1983; Hong Kong Monthly Digest of Statistics, October 1984, August 1985 and 1986, and February 1987 and 1988.  
International Monetary Fund, Balance of Payments Statistics Yearbook, Vol. 27-39; International Financial Statistics, Yearbook 1988 and June 1989.  
Organisation for Economic Co-operation and Development, Geographical Distribution of Financial Flows to Developing Countries, 1976-79 to 1984-87 issues.  
Republic of China, Central Bank of China, Balance of Payments, Taiwan District, Republic of China, 1953-82 summary, March 1984, December 1986, September 1987, and September 1988; Council for Economic Planning and Development, Taiwan Statistical Data Book 1988.

## **B. Future of the United States and Japan in Regional Finance and Development Assistance**

A striking feature of Asia is that it is the only developing region where a number of economies no longer require foreign economic assistance. Japan has been the largest bilateral donor in Asia since 1978, and this year will probably be the world's largest donor. The NIEs no longer receive ODA, and Taiwan and Korea have even established their own overseas assistance programs, and the ASEAN-4 countries have been placing a greater emphasis on private flows.

But this is not to say that there are no problems. ODA flows continue to be important to economic development in the lower-income countries of the region, in particular by Indonesia, the Philippines, and China (Appendix Table 3). Indonesia's external debt has grown to over \$50 billion to become the largest in Asia.<sup>15</sup> The Philippine debt, approximately \$30 billion in 1987, has had a significant impact on the Philippine economy. To address this need, a multilateral aid initiative (MAI) was formally organized. The World Bank coordinates the MAI, but virtually all bilateral and multilateral aid agencies with interests in the Philippines are participating. The MAI will initially provide new money to the Philippines, but as yet there is no plan for debt relief. Ultimately, the hope is that the Philippine economy will recover to a degree that will make possible the systematic reduction of the debt.

The region's general movement towards economic liberalization and reform has been reflected in changes in ODA strategy. Traditional assistance in the form of project lending has already declined, and program and sector lending have expanded. Beyond that general shift, there is a major distinction between the programs of the two major bilateral donors, Japan and the United States. Japan's has been characterized largely by loans rather than grants and has traditionally been directed toward infrastructure. For several years, Japan's ODA was closely associated with the promotion of Japan's exports. Since 1985, however, Japan has adopted ODA allocation and programming strategies that appear to promote Japanese private investment in the region. One example is the increased use of co-

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<sup>15</sup>World Bank, World Development Report 1989, table 21.

financing, in which ODA is combined with private funds. In this regard, Japan's ODA is increasingly well-suited to ASEAN, where there is less demand for large public-sector projects and more demand for private-sector ones. Accordingly, Japan has helped create agencies such as the \$2-billion ASEAN-Japan Development Fund, the ASEAN-Japan Development Corporation (AJDC), and the related Japan-ASEAN Investment Corporation (JAIC), all of which promote special and differential treatment for ASEAN investment.

While the United States gets high marks from the OECD for its emphasis on grant aid, its inability to combine public and private funding, as Japan has succeeded in doing, is a drawback in Asia. Yet, some efforts to bridge the gap are said to be under way--the Agency for International Development's new PITO (Private Investment and Trade Opportunities) approach is one example of these efforts. The initial success of these efforts suggest that it is possible to design public support for the trade and investment activities of the U.S. private sector.

The reorientation of U.S. aid is also timely since the U.S. budget problem and more pressing development needs in other regions make it unlikely that the United States can step up ODA to the region. By combining public and private funds, the United States can make its limited ODA more effective and can build a constituency within the developing economies that understands and supports policy reform. The United States can be pleased to have contributed to the growth of the Asian developing countries by encouraging them to adopt more open, market-oriented policies.

The ODA programs of Canada, Australia, and New Zealand are small in absolute terms compared to those of the United States and Japan, but the share of net ODA flows in aggregate output are roughly comparable. Net ODA flows from Canada amounted to over \$1 billion in 1987, and Australia's net ODA flows were about half that figure.

The United States and Japan, as well as other donors, can improve their cooperation in the area of ODA. For Japan, cooperation is important because it needs to increase its capacity to disburse aid and move towards policy-based lending. This will represent a significant challenge for Japan's ODA

system, characterized as it is by project lending, a limited staff, and disbursements based primarily on recipient requests.

For most Asia-Pacific developing economies, the quality of foreign financial inflows will be as important as the quantity. For this reason it will be necessary for bilateral and multilateral agencies to improve the analytical base for programming ODA. This is true for all sources of ODA, including the Asian Development Bank. Better coordination is also needed among ODA donors on longer-term strategies. However, it should also be recognized that many countries now increasingly prefer trade and foreign investment to aid.

## V. INTERNATIONAL AND ASIA-PACIFIC COOPERATION INITIATIVES

The revival of interest in Pacific economic cooperation is the latest evidence of a perceived need to increase intergovernmental consultation and economic coordination to meet the growing degree of economic interdependence in the region. It should be stressed that open regionalism in the Pacific is not seen as a "trade bloc" in a discriminatory sense, but as an organization complementary to the multilateral framework of the GATT.

To some extent, the difficulties in the current round of negotiation reflects the fact that the agenda includes a wide-range of sensitive issues. The agenda reflects GATT's past success in reducing tariffs and stimulating trade dramatically in the postwar period. As tariffs have declined, nations have found other means by which to promote and protect politically powerful economic interests. Direct and indirect subsidies to promote exports and a plethora of non-tariff barriers to protect against imports illustrate the types of devices used to circumvent GATT-sponsored trade liberalization. Although trade has increased enormously since the founding of GATT, a significant portion of trade remains in the "grey area" categories, including services, agricultural commodities, and trade-related investment policies, which have in large part only been on the negotiating table at the current round.

The single most important free-trade agreement, the EC, has expanded and prospered. The Treaty of Rome in 1957, which created the European Economic Community, established a customs union

between the six member countries. Today's EC has increased to twelve members and has embarked on a program of significant intensification of trade liberalization to be completed by 1993. The proposed changes include the removal of all border controls on the movements of goods and factors, community-wide standards for manufactured goods, harmonization of value-added taxes, open bidding on public contracts, and common rules and regulations for businesses.

These changes will indeed transform the EC into a true common market. While it is likely that the immediate and direct benefits to Europe's economies will not be as great as some proponents predict, it is probable that nonparticipants will be adversely affected, including those in the Asia-Pacific region. Elsewhere, there has been much concern that a consolidated European market, consisting of many of the world's largest industrial countries and 320 million people, will have a tendency to close itself off to the rest of the world. Many envisage a "Fortress Europe" with barriers against competitive economic threats. In addition, less-developed nations fear that the addition of Greece, Spain, and Portugal in the most recent EC enlargement will lead the EC to limit its Generalized System of Preferences (GSP).

#### A. U.S. Bilateral Trade Agreements

Partly in response to this European initiative, the United States has become more attracted to bilateral and regional trade arrangements. The main reasons were the sudden and sharp increases in the U.S. merchandise trade deficit in the 1980s and dissatisfaction with GATT. Indeed in the 1985 report of the President's Council of Economic Advisors, it was clearly suggested that if the GATT Uruguay Round was not successful, the United States should consider "second best" regional arrangements.

Some of the possibilities such as free trade arrangements with Mexico and Canada had long been suggested, as both ideas have deep roots in American economic and diplomatic history. Others are in response to current concerns over U.S. domestic politics and foreign policy, as in the case of the now-enacted U.S.-Israel FTA and the looser Caribbean Basin Initiative (CBI). Still other regional arrangements have been suggested by political leaders involved in recent trade negotiations. Examples

of these include former U.S. Trade Representative William Brock's 1983 proposal for a U.S.-ASEAN FTA, and former U.S. Ambassador to Japan Mike Mansfield's long-standing advocacy of a U.S.-Japan FTA.

Although 75 percent of all bilateral trade was duty-free before the agreement, the U.S.-Canada FTA represents an important milestone in bilateral economic cooperation. It eliminates all tariffs, decreases the number of nontariff barriers, liberalizes investment practices, provides ground rules covering trade in services, and supports efforts at multilateral trade liberalization. It also provides for a dispute-resolution panel based on familiar international law practices. The U.S.-Mexico pact and the CBI are far more limited efforts than the U.S.-Canada agreement. In the Mexican case, agreements have been made to negotiate a framework to govern trade, and a GATT-based mechanism for resolving trade disputes has been endorsed. The CBI is not fully analogous to FTA proposals, although it includes provisions for duty-free entry into the United States for many products. It also excludes many products sensitive to U.S. producers--most notably textiles, apparel and footwear, and sugar.

#### **B. Cooperation Between Australia, New Zealand, and the South Pacific Islands: Closer Economic Relations**

The Closer Economic Relations (CER) pact between Australia and New Zealand was signed in 1983; however, an expanded agreement, which will be one of the most comprehensive in the world was signed in 1988. This expanded agreement sets July 1990 as a deadline for free trade in merchandise, and the countries have agreed to waive antidumping actions against each other. Also, many of the sensitive items (steel, garments, and motor vehicles) originally excluded from the CER have been included. Moreover, part of the agreement deals with mechanisms for harmonizing customs procedures, quarantine arrangements, business competition laws, and technical barriers to trade. But perhaps most significant--and what makes the CER unique compared to the U.S.-Canada FTA--is the proposal for eventual free trade in services. In short, the CER should be an effective device for facilitating economic interaction between the two countries.

In the interest of regional development, Australia and New Zealand have also agreed to give special and differential treatment to their South Pacific Island neighbors. The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) is a program designed to remove import controls for South Pacific Island exports to the Australian and New Zealand markets, subject to some qualifications (e.g., value added in the Pacific Islands must be at least 50 percent). SPARTECA is an important agreement for closer economic relations in the South Pacific.

### C. Economic Cooperation in Asia: The Case of ASEAN

ASEAN is the most successful of all cooperative attempts by developing countries. ASEAN has established several agreements to promote trade and investment in the subregion and has continuously improved and modified them. But it is generally acknowledged that these agreements have little to do with the rapid growth of trade and output in the region. The dynamic economic performances have been due to national policies and have not been directly the result of economic cooperation within ASEAN.

However, the Third ASEAN Summit of December 1987 showed a renewed enthusiasm for increased economic cooperation. While immediate expectations should not be exaggerated, ASEAN's economic discussions have the potential to significantly increase the substance of trade and industrial cooperation among the six ASEAN countries. Over a five- to seven- year period, tariff preferences under the Preferential Trading Arrangement (PTA) will be deepened and extended to cover 50 percent of intra-regional trade. Also, in industrial cooperation, ASEAN has taken a much more private sector oriented approach. In enhancing the features of the ASEAN Industrial Joint Ventures (AIJV) program to include greater margin of preference benefits and up to 60 percent foreign participation, industrial cooperation should increase substantially.

Thus, there are signs that intra-ASEAN trade and investment will increase. Expansion of intraregional trade becomes more important in an uncertain international economic environment, and thus, the organization will continue to play a catalytic role. This is particularly important because of the

high visibility ASEAN has achieved. The presidents and prime ministers involved generally recognize that the organization has given their nations greater visibility--and occasionally greater bargaining leverage with the industrialized world--than would have been possible without it.

#### D. Economic Cooperation in PECC

Open trade has strongly benefited the nations of the Asia-Pacific region. The United States has gained in terms of both the direct economic gains and the contribution of trade in the economic development of the Asia-Pacific nations. That development in turn has been the largest single factor contributing to the political stability of the Asia-Pacific countries and their association--in one form or another--with the Western world.

Yet, those patterns of stability and open trade are now threatened. As the above discussion suggests, it would not be unreasonable to expect a continuation or even a worsening of protectionist efforts. This would represent a profoundly tragic development, because it would call into question the relatively open economic system that has brought such major benefits to the region in such a relatively short time. And beyond that, a recourse to protection could even bring about a severe worsening of political relations.

In order to prevent such a scenario, the PECC economies, which have long raised significant obstacles against imports of goods and services, will need to take structural adjustment as seriously as Japan and the United States. GATT can only work if all its participants not only seek its benefits but also adhere to its obligations. While the United States is likely to maintain its support for GATT in the very near-term future, America's growing interest in regional and bilateral arrangements is an important signal.

In addition, the PECC nations can make more direct contributions to improving the trading environment. One of the obvious ways is to continue their movement toward internal economic liberalization and growth based on private sector development. This will enhance the opportunities for investment in the region. Asia has encouraged increases in DFI more than have other developing areas.

This has increased the opportunities for enhanced participation of U.S. firms in these markets, especially among small and medium-sized firms whose participation is conspicuously lacking compared, for example, to the successful Japanese firms. Movement toward private sector development and the increasing emphasis on the private sector in ASEAN economic cooperation schemes will create further opportunities for foreign investors.

This presupposes that the nations of the region see their prospects as a "positive sum" enterprise in which all can benefit. This also means that the leaders of the countries will accept as fully legitimate the interdependence of their nations within the Asia-Pacific region. Since the economic prospects of the region continue to be the most attractive anywhere in the world, this support is likely to be found. Therefore, to minimize prospects for strongly incompatible policies, the recent Australian and U.S. calls for more formal approaches to cooperation should now be given concrete study by all of the countries in the region.

## VI. CONCLUSION

This paper has highlighted the growing interdependence of the economies in the Pacific region. Expansion of trade, financial flows, exchange of services, tourism, migration, and growth of DFI links have all figured in this process. The growth of economic interdependence has made each economy more susceptible to external forces beyond its immediate control.

Put in proper perspective, economic growth and structural adjustment and change have progressed remarkably well in the Pacific region. The sustained economic growth in Japan, the industrializing economies in East and Southeast Asia, and the United States has in the 1980s greatly exceeded expectations. At the same time Canada, Australia, and New Zealand have begun successfully to reorient their economies to take advantage of the region's dynamism. Though large regional imbalances continue to exist, substantial, albeit gradual, progress has been made in lessening these.

Within the region, processes of structural adjustment are ongoing and are driven largely by market forces and policy changes that facilitate greater scope for private initiatives. The realignment of

exchange rates has had the gradual effect of lessening the U.S. imbalance in its trade in goods and services and conversely in reducing trade surpluses in Japan and the NIEs. In addition, the appreciation of the currencies of Japan and the NIEs has helped stimulate greater financial flows and has encouraged outward DFI to the other Pacific economies. The liberalization of trade and investment regulations in ASEAN, China, Australia, and New Zealand have encouraged DFI inflows into industries where their comparative advantage is rising. Thus, industrial restructuring, along patterns consistent with dynamic comparative advantage and market forces, has been reinforced throughout the region.

The reduction in the reliance on the U.S. market for growth requires a transition to new sources of growth. As the United States strives to restore its macroeconomic balance by increasing private savings and cutting the budget deficit, new engines of growth are needed to minimize economic dislocation elsewhere. The new sources of economic growth entail some combination of expanded domestic demand, enlarged intraregional trade, and expanded extraregional trade.

It is in this global context that the Pacific economies must consider their approach to economic cooperation. Inevitably, both imbalances and efforts to correct them lead to tensions--all the more so when the need to make changes arises from external sources. Political pressures to resist adjustment by adopting protectionist measures invariably arise. Managing conflicts and tensions becomes essential in preventing adoption of such measures. In this context, regional economic cooperation can play a positive role, by providing an avenue for consultation and dialogue on a multilateral basis.

In designing an organization for enhanced regional cooperation, it may be useful to consider the format followed in the ASEAN-U.S. Initiative (AUI).<sup>16</sup> The AUI involved joint research by scholars and, at the same time, discussions amongst officials from both the ASEAN and the United States. The intended result is to expand private business opportunities that are mutually beneficial. The business

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<sup>16</sup>See S. Naya, K. Sandhu, M. Plummer, and N. Akrasanee, ASEAN-U.S. Initiative: Assessment and Recommendations for Improved Economic Relations, 1989 (Singapore: ISEAS, Chapter 7) for an outline of the proposed framework agreement.

communities are now being sounded out on how to proceed. This format is consistent with PECC's own tripartite approach to economic cooperation.

Broadly, Pacific economic cooperation will entail establishing a more regular mechanism for consultative discussions of key policy issues among PECC members, including among officials. It is envisioned that this will contribute to mutual understanding and dialogue on issues relevant to international economic exchange within the region. Continuing the PECC tradition, future efforts will be designed to facilitate adjustment consistent with market forces by primarily involving the private sector. PECC could also seek to anticipate areas of potential conflict, to engage in selected studies, and to make recommendations for their resolution. The potential for establishing a mechanism to resolve disputes should also be on the agenda. Overall, efforts at greater regional economic cooperation are best seen as involving measures to achieve greater openness in the Pacific without closing the door to valued trade partners outside the region.

Appendix Table 1. Export Matrix, 1970 and 1987 (US\$ millions)

Origin	Destination country (percentage of total world exports)																						
	World (US\$m)	World	PECC	Australia	Canada	Japan	New Zealand	United States	NIES	Hong Kong	Korea	Singapore	Taiwan	ASEAN <sup>a</sup>	Brunei	Indonesia	Malaysia	Philippines	Thailand	ASEAN	China	Pacific Islands <sup>b</sup>	EC
<b>1970</b>																							
World	282,638	100.0	31.4	1.5	4.5	5.7	0.4	13.7	3.1	1.0	0.7	0.8	0.6	1.8	0.0	0.4	0.5	0.5	0.4	2.6	0.6	0.1	41.6
PECC	98,258	100.0	54.4	2.2	10.2	9.3	0.6	20.6	5.9	2.0	1.6	1.7	1.1	3.7	0.1	0.8	1.0	1.0	0.8	5.3	0.9	0.3	21.3
Australia	4,788	100.0	64.3	--	2.8	26.2	5.4	12.8	5.4	1.9	0.3	2.3	0.9	4.5	0.2	0.9	1.5	1.1	0.8	6.8	2.7	4.5	21.7
Canada	16,747	100.0	70.0	1.1	--	4.6	0.3	62.3	0.4	0.1	0.1	0.1	0.1	0.4	na	0.1	0.1	0.2	0.0	0.5	0.8	0.0	16.1
Japan	19,314	100.0	61.3	3.1	2.9	--	0.6	31.2	13.1	3.6	4.2	2.2	3.1	7.2	0.1	1.6	0.9	2.3	2.3	9.4	2.9	0.3	12.1
New Zealand	1,211	100.0	43.1	8.7	3.4	9.9	--	17.2	0.7	0.5	0.0	0.0	0.2	1.2	na	0.0	0.7	0.5	0.0	1.2	0.4	1.4	44.9
United States	43,247	100.0	40.1	2.3	21.0	10.8	0.3	--	3.7	0.9	1.5	0.6	0.8	2.0	na	0.6	0.2	0.9	0.3	2.5	na	0.0	28.6
NIES	6,428	100.0	67.3	2.3	2.5	11.6	0.4	31.6	7.4	3.5	0.9	2.3	0.7	10.8	0.5	2.1	6.0	0.6	1.6	13.1	0.5	0.3	14.8
Hong Kong	2,503	100.0	60.7	2.8	2.7	7.1	0.8	35.8	5.7	--	0.7	4.1	1.0	5.0	0.2	1.8	1.3	0.6	1.0	9.0	0.4	0.4	21.7
Korea	839	100.0	85.5	0.3	2.3	28.2	0.1	47.1	6.2	3.3	--	1.3	1.6	1.2	na	0.3	0.2	0.1	0.6	2.5	na	na	na
Singapore	1,605	100.0	59.3	3.3	1.2	7.4	0.4	10.7	5.0	3.9	0.7	--	0.3	29.4	1.6	3.2	21.2	0.3	3.2	29.4	1.4	0.6	16.8
Taiwan	1,481	100.0	76.9	1.4	3.4	14.6	0.1	38.1	13.5	9.2	1.9	2.4	--	5.9	0.1	2.2	0.8	1.1	1.7	8.3	na	0.0	9.6
ASEAN <sup>a</sup>	4,649	100.0	76.6	2.1	0.8	29.3	0.3	19.2	18.6	2.1	1.7	12.8	2.0	5.9	0.2	0.6	3.4	1.2	0.4	--	0.5	0.0	12.7
Brunei	101	100.0	101.0	11.9	na	1.0	4.0	0.0	2.0	0.0	na	1.0	1.0	82.2	--	0.0	82.2	na	0.0	83.2	na	na	0.0
Indonesia	1,108	100.0	80.5	3.6	0.0	40.8	0.0	13.0	17.5	1.0	na	15.5	1.0	5.6	0.0	--	3.3	2.3	0.0	21.1	0.0	na	14.9
Malaysia	1,687	100.0	68.1	2.2	1.9	18.3	0.5	13.0	27.0	1.2	2.6	21.6	1.6	3.8	0.6	0.6	--	1.7	0.9	25.4	1.3	0.0	20.3
Philippines	1,043	100.0	89.8	0.5	0.3	40.1	0.0	41.6	6.8	1.3	3.0	0.7	1.8	0.5	na	0.2	0.0	--	0.3	1.2	0.0	na	8.0
Thailand	710	100.0	67.7	0.5	0.1	25.5	0.1	13.4	19.9	7.5	0.3	6.9	5.2	8.0	na	2.3	5.6	0.1	--	14.9	0.0	0.0	na
ASEAN	6,254	100.0	72.1	2.4	0.9	23.7	0.3	17.0	15.1	2.6	1.4	9.5	1.6	--	0.6	1.3	8.0	1.0	1.1	21.4	0.7	0.2	13.8
China	1,680	100.0	55.3	2.1	1.1	13.7	0.3	0.0	na	25.3	na	6.8	na	5.8	na	1.8	4.0	0.0	0.0	12.6	--	0.2	18.8
Pacific Islands <sup>b</sup>	194	100.0	60.8	26.3	4.6	8.2	4.6	14.4	0.5	0.0	0.0	0.5	0.0	0.0	na	0.0	0.0	0.0	0.0	0.5	0.0	2.1	32.5
<b>1987</b>																							
World	2,354,400	100.0	37.8	1.1	3.6	5.7	0.3	17.2	6.2	2.0	1.6	1.3	1.3	1.8	0.0	0.4	0.5	0.3	0.5	3.1	1.7	0.1	39.1
PECC	886,083	100.0	65.6	1.9	7.8	9.4	0.5	26.7	10.7	4.3	3.2	2.4	2.5	3.6	0.1	0.7	1.2	0.6	1.0	6.0	3.1	0.2	16.8
Australia	26,510	100.0	68.9	--	1.6	25.6	5.7	11.3	13.6	3.7	4.1	2.4	3.4	4.4	0.0	1.4	1.6	0.8	0.7	6.8	4.0	2.5	15.8
Canada	98,104	100.0	82.6	0.5	--	5.4	0.1	72.8	2.0	0.4	0.9	0.1	0.6	0.6	na	0.2	0.1	0.1	0.1	0.7	1.1	0.0	7.3
Japan	231,332	100.0	66.7	2.2	2.4	--	0.5	36.8	16.9	3.9	5.8	2.6	4.7	4.2	0.0	1.3	0.9	0.6	1.3	6.8	3.6	0.1	16.6
New Zealand	7,158	100.0	63.4	15.8	1.6	16.3	--	15.2	6.7	1.4	2.2	1.4	1.7	3.1	0.0	0.8	1.1	0.7	0.5	4.5	2.7	2.0	21.7
United States	250,390	100.0	49.7	2.2	22.9	11.3	0.3	--	9.2	1.6	3.2	1.6	2.8	2.4	0.0	0.3	0.8	0.6	0.6	4.0	1.4	0.0	24.2
NIES	178,285	100.0	72.9	1.9	2.4	11.5	0.3	35.1	8.8	4.6	1.3	2.0	0.9	6.0	0.2	0.8	2.8	0.9	1.3	8.0	6.7	0.1	13.9
Hong Kong	48,473	100.0	70.7	1.7	2.2	5.1	0.3	27.9	6.8	--	2.6	2.7	1.4	3.4	0.0	0.8	0.6	1.0	0.9	6.2	23.3	0.1	15.8
Korea	47,301	100.0	71.3	1.3	3.1	17.8	0.3	38.9	7.6	4.7	--	2.0	1.0	2.2	0.0	0.5	0.6	0.5	0.6	4.2	na	0.1	14.0
Singapore	28,973	100.0	71.7	2.7	0.8	9.0	0.4	24.2	9.5	6.3	1.6	--	1.6	22.2	1.2	1.3	14.1	1.4	4.2	22.2	2.5	0.4	12.1
Taiwan	53,538	100.0	76.9	2.1	2.9	13.0	0.3	44.1	11.4	7.7	1.2	2.5	--	3.0	0.0	0.8	0.5	0.9	0.8	5.5	na	0.0	13.2
ASEAN <sup>a</sup>	53,276	100.0	77.3	2.0	0.9	27.2	0.2	19.6	20.6	3.2	3.9	10.5	3.0	4.6	0.2	0.5	1.1	1.0	1.8	--	2.2	0.0	14.5
Brunei	1,796	100.0	97.0	1.3	na	60.4	na	0.8	19.3	0.1	10.2	6.6	2.3	15.1	--	0.1	0.1	2.7	12.4	21.8	0.1	na	3.0
Indonesia	16,548	100.0	87.0	2.0	0.6	43.8	0.2	20.2	16.0	2.6	4.2	6.1	3.1	1.7	0.0	--	0.7	0.4	0.6	7.8	2.5	0.0	9.4
Malaysia	17,934	100.0	76.6	2.2	0.8	19.5	0.2	16.3	30.0	2.8	5.3	18.2	3.7	6.0	0.5	0.8	--	1.8	2.8	24.2	1.6	0.0	14.3
Philippines	5,696	100.0	76.8	1.6	1.5	17.2	0.2	36.2	13.1	4.9	1.7	3.4	3.1	5.4	0.0	1.1	2.1	--	2.2	8.9	1.5	0.1	19.1
Thailand	11,302	100.0	61.3	1.9	1.4	14.7	0.2	18.8	16.3	4.3	1.3	9.1	1.6	4.6	0.1	0.5	3.3	0.6	--	13.6	3.4	0.1	22.0
ASEAN	82,249	100.0	75.3	2.2	0.9	20.8	0.3	21.2	16.7	4.3	3.1	6.8	2.5	--	0.6	0.8	5.7	1.1	2.6	17.6	2.3	0.2	13.7
China	39,464	100.0	66.6	0.8	1.0	16.2	0.1	7.7	na	34.9	na	3.4	na	2.5	0.0	0.5	0.6	0.6	0.8	5.9	--	0.0	9.9
Pacific Islands <sup>b</sup>	1,564	100.0	60.2	8.1	0.3	25.5	1.6	1.7	14.8	0.8	12.3	0.4	1.2	4.2	na	0.0	1.5	1.9	0.8	4.6	2.1	1.9	35.0

NOTES: -- = Not applicable. na = Not available. a. Does not include Singapore. b. Includes Fiji, Kiribati, Papua New Guinea, Solomon Islands, Tonga, Vanuatu, and Western Samoa.

Sources: International Monetary Fund, *Direction of Trade Statistics*, Annual 1970-76, Yearbook 1988, and computer data tapes. Republic of China, Ministry of Finance, Department of Statistics, *Monthly Statistics of Exports and Imports*, The Republic of China, No. 157 (September 1982) and No. 224 (April 1988).

Appendix Table 2. Import Matrix, 1970 and 1987 (US\$ millions)

Destination	Country of origin (percentage of total imports)																						
	World (US\$m)	World	PECC	Australia	Canada	Japan	New Zealand	United States	NIEs	Hong Kong	Korea	Singapore	Taiwan	ASEAN <sup>a</sup>	Brunei	Indonesia	Malaysia	Philippines	Thailand	ASEAN	China	Pacific Islands <sup>b</sup>	EC
<b>1970</b>																							
World	297.075	100.0	34.7	1.8	6.0	6.4	0.5	15.6	1.9	0.8	0.3	0.3	0.5	1.9	0.0	0.5	0.7	0.4	0.2	2.2	0.6	0.0	40.0
PECC	97.510	100.0	59.2	3.4	13.5	12.5	0.6	19.3	4.0	1.5	0.7	0.5	1.3	4.5	0.1	1.3	1.5	1.2	0.5	5.1	1.0	0.1	18.9
Australia	4.540	100.0	50.4	--	3.9	12.7	2.4	25.5	2.4	1.4	0.1	0.4	0.5	2.2	0.3	0.9	0.9	0.1	0.1	2.5	0.8	0.6	35.7
Canada	13.802	100.0	75.6	1.0	--	4.0	0.3	68.6	1.2	0.5	0.1	0.1	0.4	0.3	na	0.0	0.2	0.0	0.0	0.4	0.1	0.0	11.4
Japan	18.875	100.0	57.5	8.0	4.9	--	0.8	29.5	3.4	0.5	1.2	0.5	1.3	9.4	0.0	3.4	2.2	2.8	1.0	9.9	1.3	0.1	8.5
New Zealand	1.246	100.0	51.8	19.8	4.1	9.8	--	13.4	2.2	1.8	0.1	0.2	0.1	1.2	0.3	0.1	0.6	0.0	0.1	1.4	0.4	0.9	36.0
United States	42.711	100.0	51.8	1.5	27.6	14.6	0.6	--	4.9	2.4	0.9	0.2	1.5	2.6	na	0.5	0.7	1.2	0.2	2.8	0.0	0.0	24.3
NIEs	9.051	100.0	73.7	2.7	0.8	29.1	0.3	17.6	5.1	1.2	0.6	0.9	2.4	11.5	0.0	2.7	6.2	0.9	1.6	2.3	6.6	0.0	13.8
Hong Kong	2.896	100.0	68.4	2.4	0.7	23.9	0.2	13.2	8.1	--	0.9	2.0	5.2	3.7	0.0	0.9	0.6	0.4	1.8	5.8	16.1	0.0	18.4
Korea	1.984	100.0	81.8	0.7	1.2	41.0	0.2	29.5	3.2	1.0	--	0.7	1.5	6.1	na	1.0	2.9	2.1	0.1	6.8	na	na	10.5
Singapore	2.647	100.0	69.1	4.2	0.5	18.0	0.5	10.1	4.3	2.3	0.5	--	1.5	26.7	0.0	7.1	17.3	0.3	1.8	26.7	4.8	0.1	14.6
Taiwan	1.524	100.0	81.2	3.1	1.1	42.8	0.2	23.9	3.1	1.8	1.0	0.3	--	6.8	0.1	0.8	1.9	1.4	2.7	7.2	na	0.0	8.4
ASEAN <sup>a</sup>	4.984	100.0	67.7	4.3	0.9	28.2	0.5	17.0	8.1	1.8	0.2	4.1	1.9	6.6	1.8	2.3	1.1	0.1	1.2	--	2.2	0.0	20.8
Brunei	79	100.0	84.8	13.9	0.0	13.9	0.0	0.0	43.0	6.3	0.0	35.4	1.3	13.9	--	0.0	13.9	0.0	0.0	49.4	na	na	10.1
Indonesia	1.002	100.0	66.7	2.8	0.0	29.4	na	17.8	11.4	2.2	0.0	5.7	3.6	1.9	0.0	--	0.6	0.2	1.1	7.6	3.3	na	21.6
Malaysia	1.399	100.0	65.1	5.7	1.1	17.5	0.9	8.6	10.9	2.2	0.3	7.5	0.9	15.1	6.5	4.8	--	0.2	3.6	22.5	5.3	0.0	23.4
Philippines	1.206	100.0	74.8	4.7	1.6	30.6	0.6	29.4	3.0	1.0	0.1	0.4	1.5	4.8	na	2.4	2.3	--	0.0	5.2	0.0	0.0	15.7
Thailand	1.299	100.0	63.8	3.2	0.7	37.4	0.4	14.9	5.0	1.4	0.5	1.0	2.1	2.3	na	1.5	0.5	0.3	--	3.2	0.0	0.0	22.8
ASEAN	7.631	100.0	68.2	4.3	0.8	24.7	0.5	14.6	6.8	2.0	0.3	2.7	1.8	--	1.2	4.0	6.7	0.2	1.4	16.3	3.1	0.0	18.6
China	1.896	100.0	51.8	7.5	7.8	33.0	0.2	0.0	na	0.6	na	1.3	na	1.3	na	0.0	1.3	0.0	0.0	2.6	--	na	26.7
Pacific Islands <sup>b</sup>	406	100.0	80.3	41.9	1.2	14.0	4.9	10.1	6.4	3.2	0.5	2.7	0.0	0.2	na	0.0	0.2	0.0	0.0	3.0	0.7	0.7	13.1
<b>1987</b>																							
World	2,435,200	100.0	38.2	1.2	4.0	10.1	0.3	11.2	6.9	1.6	1.9	1.0	2.4	2.5	0.1	0.8	0.9	0.3	0.5	3.5	2.0	0.1	39.2
PECC	946,784	100.0	64.2	2.1	8.7	17.2	0.5	14.3	11.8	2.7	3.5	1.8	4.8	5.0	0.2	1.8	1.7	0.6	0.8	6.8	3.5	0.1	16.3
Australia	27,007	100.0	64.5	--	2.0	19.7	4.1	21.4	11.1	2.2	2.6	1.9	4.5	3.8	0.1	1.4	1.2	0.3	0.8	5.7	1.8	0.5	23.8
Canada	90,439	100.0	78.7	0.5	--	6.3	0.2	65.9	4.6	0.9	1.5	0.2	1.9	0.6	na	0.1	0.2	0.1	0.2	0.8	0.6	0.0	11.3
Japan	150,926	100.0	61.2	5.3	4.0	--	0.8	21.2	12.9	3.0	5.4	1.4	5.1	11.7	0.8	5.6	3.2	0.9	1.2	13.1	5.0	0.3	11.8
New Zealand	7,263	100.0	67.0	20.3	1.9	18.7	--	15.6	7.4	1.7	1.7	1.4	2.6	1.8	0.0	0.7	0.5	0.2	0.4	3.2	1.0	0.4	23.1
United States	424,069	100.0	57.4	0.8	16.9	20.8	0.3	--	14.4	2.5	4.2	1.5	6.1	2.7	0.0	0.9	0.7	0.6	0.6	4.3	1.6	0.0	20.0
NIEs	158,049	100.0	74.2	2.2	1.3	26.2	0.3	16.0	9.5	1.3	2.3	1.8	4.2	8.0	0.2	1.8	4.3	0.5	1.2	9.8	10.4	0.2	11.5
Hong Kong	48,463	100.0	81.6	1.3	0.5	19.0	0.2	8.5	17.6	--	4.5	3.8	9.3	3.3	0.0	0.7	1.0	0.6	1.1	7.1	31.1	0.0	11.0
Korea	41,019	100.0	70.6	3.1	2.3	33.3	0.4	21.4	3.7	1.0	--	1.1	1.7	5.9	0.5	2.0	2.6	0.3	0.5	7.0	na	0.5	11.2
Singapore	31,610	100.0	71.2	1.9	0.5	19.8	0.3	14.2	9.6	2.5	2.6	--	4.4	20.6	0.4	3.3	13.4	0.5	3.0	20.6	4.2	0.1	11.6
Taiwan	34,957	100.0	71.0	2.9	1.9	33.9	0.4	21.8	5.2	2.2	1.5	1.5	--	5.0	0.1	1.6	2.1	0.6	0.6	6.5	na	0.1	12.3
ASEAN <sup>a</sup>	44,171	100.0	71.6	3.2	1.4	24.3	0.6	14.9	18.1	2.7	2.6	8.8	4.0	5.9	0.7	0.9	2.3	0.8	1.3	--	3.0	0.1	16.6
Brunei	1,297	100.0	52.7	0.8	na	3.5	0.0	7.9	30.5	0.7	0.6	28.5	0.6	9.7	--	0.4	7.9	0.1	1.3	38.2	0.3	na	42.3
Indonesia	10,234	100.0	70.4	4.0	2.3	33.4	0.6	9.4	15.5	3.9	2.7	4.1	4.8	2.8	0.0	--	1.5	0.7	0.6	6.9	2.2	0.0	21.8
Malaysia	12,701	100.0	77.4	4.1	1.0	21.7	0.7	18.7	22.0	2.2	2.6	14.8	2.4	6.0	0.0	1.4	--	1.2	3.5	20.8	2.9	0.2	13.4
Philippines	6,937	100.0	71.4	3.2	1.4	16.6	0.8	22.2	18.0	4.4	2.9	3.4	7.3	6.1	0.8	1.3	3.4	--	0.6	9.5	3.1	0.0	12.0
Thailand	13,003	100.0	68.7	1.7	1.2	26.0	0.3	12.5	15.2	1.5	2.4	7.8	3.6	7.8	1.9	0.9	4.0	1.1	--	15.6	3.9	0.1	15.5
ASEAN	77,782	100.0	71.4	2.6	1.0	22.4	0.5	14.6	14.4	2.6	2.6	5.0	4.2	--	0.6	1.9	7.1	0.7	2.0	17.3	3.5	0.1	14.4
China	43,222	100.0	65.7	3.1	3.2	23.3	0.5	11.2	na	19.5	na	1.4	na	1.1	0.0	1.4	0.7	0.3	0.9	4.8	--	0.1	16.8
Pacific Islands <sup>b</sup>	1,637	100.0	88.1	41.5	0.2	15.6	9.2	3.3	14.1	2.7	1.9	8.1	1.3	1.4	na	0.2	0.5	0.2	0.4	9.5	1.0	1.8	7.8

NOTES: -- = Not applicable; na = Not available; a. Does not include Singapore; b. Includes Fiji, Kiribati, Papua New Guinea, Solomon Islands, Tonga, Vanuatu, and Western Samoa.

Source: International Monetary Fund, *Direction of Trade Statistics*, Annual 1970-76, Yearbook 1988, and computer data tapes; Republic of China, Ministry of Finance, Department of Statistics, *Monthly Statistics of Exports and Imports*, The Republic of China, No. 157 (September 1982) and No. 224 (April 1988).

Appendix Table 3  
Net Bilateral and Multilateral ODA Flows from Selected Countries  
(US\$ millions, annual averages)

Country	Year	Australia	Canada	EC	Japan	New Zealand	United States	Total DAC <sup>a</sup>	Total multilateral
Developing countries	1980-82	533.4	743.4	8,858.6	2,212.6	50.7	4,514.7	18,249.6	7,746.9
	1983-85	559.0	961.6	7,968.7	2,469.8	44.7	6,734.0	20,080.0	7,937.7
	1986	513.0	1,054.3	11,229.8	3,846.3	60.7	7,602.0	26,214.4	9,471.6
	1987	535.0	1,259.6	13,626.1	5,247.6	66.2	7,007.0	29,972.4	10,143.2
NIEs	1980-82	1.9	0.6	29.3	133.0	0.2	-1.0	165.5	21.9
	1983-85	10.2	1.3	35.0	-5.0	0.1	-23.0	20.5	9.1
	1986	13.1	0.5	25.8	3.2	0.1	-28.0	17.4	10.2
	1987	11.2	0.8	29.3	20.4	0.2	-26.0	38.7	8.9
Hong Kong	1980-82	0.1	0.0	1.9	1.5	na	na	3.6	5.9
	1983-85	5.5	0.1	3.1	1.3	na	na	10.2	4.1
	1986	7.3	0.0	5.1	1.6	na	na	14.1	4.4
	1987	6.9	0.1	5.4	2.6	na	na	15.0	4.4
Korea	1980-82	0.2	0.2	19.6	125.2	0.1	7.0	152.9	13.0
	1983-85	0.5	0.3	22.9	-19.7	0.0	-16.0	-11.0	3.2
	1986	0.7	0.0	11.1	-13.7	0.0	-23.0	-23.5	4.4
	1987	0.7	0.0	14.0	6.6	0.1	-22.0	0.9	3.9
Singapore	1980-82	1.6	0.4	5.8	7.3	0.1	0.0	15.2	3.3
	1983-85	4.1	0.9	5.7	13.4	0.1	0.0	24.3	2.2
	1986	5.0	0.4	6.5	15.3	0.1	na	27.4	1.9
	1987	3.6	0.6	5.6	11.2	0.1	1.0	22.2	1.9
Taiwan	1980-82	na	na	2.0	-1.1	na	-8.0	-6.2	-0.3
	1983-85	0.1	0.0	3.3	na	na	-7.0	-2.9	-0.5
	1986	0.1	0.1	3.1	na	na	-5.0	-0.6	-0.5
	1987	0.0	0.1	4.3	na	na	-5.0	0.6	-0.5
ASEAN <sup>b</sup>	1980-82	78.4	30.8	409.5	721.8	7.3	170.3	1,476.0	303.2
	1983-85	109.6	44.8	329.8	772.9	4.8	222.7	1,517.0	266.5
	1986	113.1	77.9	492.1	897.0	4.3	444.0	2,057.0	260.8
	1987	119.7	89.5	414.6	1,665.5	4.4	289.0	2,615.5	267.8
Indonesia	1980-82	46.3	20.8	283.8	314.8	4.2	97.3	798.5	132.2
	1983-85	47.3	23.6	224.1	188.2	2.8	61.3	556.9	110.6
	1986	42.0	52.1	286.0	160.8	2.4	46.0	604.9	85.6
	1987	48.2	43.0	275.1	707.3	2.1	36.0	1,121.8	112.2
Malaysia	1980-82	8.1	1.0	20.3	68.5	0.4	1.0	109.1	17.1
	1983-85	27.4	1.5	24.5	154.3	0.2	0.0	215.4	13.7
	1986	40.8	2.5	92.2	37.8	0.2	-1.0	174.5	8.8
	1987	38.6	3.8	28.2	276.4	0.2	na	352.1	11.1

Appendix Table 3 (continued)

Country	Year	Australia	Canada	EC	Japan	New Zealand	United States	Total DAC <sup>a</sup>	Total multilateral
Philippines	1980-82	13.7	1.5	42.0	147.0	1.2	53.0	270.9	63.8
	1983-85	14.8	6.0	33.7	182.4	1.1	134.0	384.0	53.9
	1986	11.6	6.1	56.8	438.0	0.8	367.0	886.8	69.3
	1987	16.3	16.4	52.8	379.4	1.1	230.0	705.8	69.4
Thailand	1980-82	10.3	7.5	63.3	191.5	1.5	19.0	297.5	90.1
	1983-85	20.1	13.7	47.5	248.1	0.8	27.3	360.8	88.3
	1986	18.7	17.2	57.1	260.4	0.9	32.0	390.8	97.1
	1987	16.6	26.3	58.5	302.4	1.0	23.0	435.8	75.1
Other Asia-Pacific									
China	1980-82	1.5	1.5	39.4	133.6	na	na	177.6	178.0
	1983-85	11.5	9.1	114.1	375.8	na	na	522.8	244.1
	1986	14.4	18.0	119.7	497.0	na	na	660.7	450.5
	1987	14.3	32.2	238.8	553.1	0.2	na	860.0	588.3
Fiji	1980-82	12.8	0.1	9.1	2.8	3.5	2.3	30.7	6.7
	1983-85	9.8	0.4	4.1	4.6	3.4	1.7	24.0	8.0
	1986	13.8	0.3	4.1	11.0	2.3	1.0	32.4	10.1
	1987	11.3	0.2	5.2	10.3	3.8	1.0	32.1	3.7
Kiribati	1980-82	2.9	na	10.8	1.5	0.4	na	15.6	1.0
	1983-85	2.3	0.1	6.3	2.6	0.6	na	11.9	1.7
	1986	2.4	0.1	4.2	4.3	0.9	na	11.9	1.5
	1987	2.5	0.0	3.8	6.5	1.8	na	14.6	3.8
Papua New Guinea	1980-82	274.9	0.2	6.2	2.6	2.4	na	289.0	34.9
	1983-85	255.4	0.5	5.7	4.6	2.2	1.0	270.0	34.8
	1986	222.3	0.2	6.5	10.4	1.7	1.0	242.9	20.8
	1987	217.2	0.2	15.6	17.7	2.1	1.0	254.6	68.1
Vanuatu	1980-82	3.9	na	25.6	0.3	0.5	na	30.3	3.2
	1983-85	4.6	0.2	15.7	0.4	0.9	na	21.8	2.6
	1986	5.3	0.1	13.2	1.1	1.0	na	20.8	3.6
	1987	9.1	0.1	16.2	5.6	1.6	na	32.5	18.5
Western Samoa	1980-82	4.1	na	2.8	3.1	3.7	0.7	14.4	10.1
	1983-85	5.1	0.1	1.4	2.3	3.8	1.0	13.6	8.4
	1986	3.4	0.1	2.0	9.2	3.4	na	18.0	4.5
	1987	6.0	na	3.9	6.9	3.9	1.0	21.8	11.9

## NOTES:

na = Not available.

a. Total bilateral assistance.

b. Not including Brunei and Singapore.

Sources: Organisation for Economic Co-operation and Development (OECD), Geographical Distribution of Financial Flows to Developing Countries, 1980/83 to 1984-87.