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## New Developments and Current Trade Patterns

As a first step toward assessing the new Asia-Pacific SRTAs, this chapter briefly considers the new and potential developments in relation to regional trade flows. This simple approach can provide useful insights into the relative significance of the various potential initiatives. The chapter focuses not only on new SRTAs that have actually been proposed, but also on possible configurations of a future East Asian trade bloc. To justify the attention given to the latter possibility in both this and the following chapter, the chapter also briefly discusses the feasibility of such a development.

A more complete analysis would allow for the fact that at least some of the new SRTAs are likely to be motivated more by a desire to encourage flows of foreign direct investment rather than trade.<sup>1</sup> However, systematic data on bilateral flows of the kind discussed in this chapter are not available for investment, nor can the analysis of economic effects in chapter 3 be readily adapted to identify changes in foreign direct investment and their implications. For similar reasons, services trade flows are likewise omitted from the discussion, although they are likely to be an important consideration in at least some cases.<sup>2</sup> The neglect of investment and ser-

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1. Ethier (1998) in fact suggests that the effect of RTAs in stimulating investment tends nowadays to be more important than their role in stimulating trade between the partners.

2. The lack of detailed information on bilateral services trade flows is a major gap in international trade data. In the case of the computable general equilibrium modeling reported in chapter 3, an aggregate services sector is included in the model, but the lack of adequate protection data for services means that it is not possible to model liberalization of services trade.

vices trade implications reflects an acceptance of the limitations imposed by data availability and the existing state of modeling methodology rather than any implied judgment as to their relative importance.

The number and variety of new proposals for SRTAs in the Asia-Pacific region may initially seem a little bewildering. For the purposes of this discussion, at least a provisional classification of the new initiatives is desirable. In most cases, relatively little is known about the motivations or strategies underlying the proposals, and there is relatively little information available on the details of the arrangement contemplated. Nevertheless, a useful provisional classification might be:

1. Transpacific cross-regional free trade arrangements
  - a. NAFTA-related:
    - Singapore-United States
    - Japan-Mexico
    - South Korea-Mexico
    - Singapore-Mexico
    - Japan-Canada
    - Singapore-Canada
    - Pacific 5 (Australia, Chile, New Zealand, Singapore, and the United States)
  - b. Chile-focused:
    - South Korea-Chile
    - Singapore-Chile
    - Japan-Chile
    - New Zealand-Chile
2. Western Pacific integration
  - a. Northeast Asian integration:
    - Japan-South Korea
    - Japan-South Korea-China
  - b. Amalgamation of existing SRTAs:
    - AFTA-CER
  - c. Western Pacific bilateral SRTAs:
    - Singapore-Japan
    - Singapore-New Zealand
    - Singapore-Australia
    - South Korea-Australia
    - South Korea-New Zealand
    - Hong Kong-New Zealand

In addition to this activity, the five western hemisphere APEC members are of course also participants in the negotiations, due to be completed by 2005, to establish a Free Trade Area of the Americas, as well as in a number of other subhemispheric initiatives.

Much of the impetus for the formation of new SRTAs in the APEC region seems to come from just six APEC members, each involved in

three or more of the possible agreements: Japan (involved in six initiatives or potential initiatives), South Korea (seven), Singapore (nine), Chile (five), New Zealand (six), and Mexico (three). As noted above, the active consideration of a number of potential SRTA linkages by both Japan and Korea represents a historic shift from their earlier position of avoiding such linkages and placing full reliance on processes based on nondiscriminatory liberalization.

It is equally significant that the United States—before the very recent announcement that it was opening discussions with Singapore—was almost completely disengaged from the new trend. Among the earlier initiatives, the Pacific 5 is the only one involving the United States, and the failure of that initiative to proceed to the formal proposal stage was in significant measure due to the inability or unwillingness of the United States to be responsive.

## **Transpacific Cross-Regional Free Trade Arrangement Proposals**

The nearly complete absence of the United States as a major player in the new initiatives puts into perspective the preponderance of transpacific initiatives in the new crop of SRTAs and potential SRTAs. The large number of transpacific proposals must in some sense reflect recognition of the continuing importance of transpacific trade ties. However, the trade data in table 2.1 show clearly that by far and away the most important transpacific trade ties are those involving the United States. This means that as long as the United States remains largely unengaged, the largest bilateral transpacific trade flows are almost entirely outside the scope of the proposed new transpacific arrangements.

As would be expected given the size of the US economy, this is most obviously true of the value of bilateral trade flows and the US share in the trade of East Asian economies. The bilateral trade flows of the East Asian economies with the United States clearly dwarf their trade flows with the other western hemisphere economies, and the United States has a much larger share than any other western hemisphere economy in the trade of every East Asian economy. In the case of Singapore, the first prospective US SRTA partner in East Asia, the United States accounts for 16 percent of imports and 18 percent of exports. By contrast, the shares of Canada, Chile, and Mexico in the trade of East Asian economies are invariably very low, especially in Southeast Asia.

This dominance by the United States of the western hemisphere side of transpacific trade flows is not, however, purely an artifact of the greater size of the US economy and its global international trade. East Asian economies consistently account for a much larger share in the trade of the United States than of either Canada or Mexico, a fact clearly related

Table 2.1a Shares in trade of APEC Western Hemisphere economies (percent)

Region, group, or economy	United States		Canada		Mexico		Chile		Peru	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
<b>World</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Japan	13.80	9.60	4.62	3.12	3.94	1.04	5.36	15.36	3.96	6.02
South Korea	2.70	3.42	1.11	0.82	1.42	0.10	3.16	5.16	2.77	1.66
China	7.34	1.96	2.35	0.79	1.18	0.06	3.32	2.50	1.27	6.37
Hong Kong	1.20	2.11	0.46	0.45	0.16	0.19	1.41	1.01	0.51	0.93
Taiwan	3.72	2.86	1.30	0.46	1.10	0.04	1.26	4.15	0.88	2.26
<b>Northeast Asia</b>	<b>28.77</b>	<b>19.95</b>	<b>9.84</b>	<b>5.64</b>	<b>7.80</b>	<b>1.43</b>	<b>14.51</b>	<b>28.18</b>	<b>9.39</b>	<b>17.24</b>
Brunei Darussalam	0.01	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cambodia	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Indonesia	1.07	0.54	0.29	0.24	0.27	0.01	0.56	0.95	0.13	0.45
Laos	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Malaysia	2.12	1.42	0.70	0.15	1.58	0.02	0.47	0.59	0.13	0.86
Myanmar	0.02	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Philippines	1.19	1.02	0.28	0.09	0.23	0.02	0.05	0.41	0.21	0.55
Singapore	2.24	2.52	0.44	0.16	0.40	0.33	0.28	0.63	0.21	0.18
Thailand	1.46	0.99	0.44	0.14	0.32	0.08	0.28	0.64	0.13	0.58
Vietnam	0.05	0.06	0.05	0.02	0.00	0.00	0.00	0.00	0.08	0.04
<b>Southeast Asia (ASEAN)</b>	<b>8.18</b>	<b>6.59</b>	<b>2.21</b>	<b>0.80</b>	<b>2.80</b>	<b>0.47</b>	<b>1.65</b>	<b>3.22</b>	<b>0.71</b>	<b>2.65</b>
<b>East Asia</b>	<b>36.95</b>	<b>26.55</b>	<b>12.05</b>	<b>6.43</b>	<b>10.60</b>	<b>1.90</b>	<b>16.16</b>	<b>31.40</b>	<b>10.11</b>	<b>19.89</b>
Australia	0.55	1.81	0.47	0.31	0.17	0.08	0.81	0.35	0.32	0.27
New Zealand	0.19	0.28	0.13	0.07	0.14	0.00	0.26	0.12	0.79	2.27

<b>CER</b>	<b>0.75</b>	<b>2.09</b>	<b>0.60</b>	<b>0.38</b>	<b>0.30</b>	<b>0.08</b>	<b>1.07</b>	<b>0.46</b>	<b>1.11</b>	<b>2.53</b>
Western Pacific	37.69	28.63	12.65	6.81	10.90	1.98	17.23	31.87	11.22	22.43
United States	19.14	21.94	67.66	84.05	74.91	85.98	22.93	16.29	31.36	25.39
Canada	9.67	10.40	2.53	0.42	1.85	1.81	1.95	1.02	2.44	2.27
Mexico							4.81	2.23	2.99	1.88
<b>NAFTA</b>	<b>28.81</b>	<b>32.35</b>	<b>70.18</b>	<b>84.47</b>	<b>76.76</b>	<b>87.79</b>	<b>29.69</b>	<b>19.54</b>	<b>36.79</b>	<b>29.53</b>
Chile	0.30	0.63	0.13	0.11	0.45	0.67			5.72	2.17
<b>APEC</b>	<b>67.51</b>	<b>62.42</b>	<b>83.24</b>	<b>91.55</b>	<b>88.25</b>	<b>90.60</b>	<b>47.71</b>	<b>53.74</b>	<b>54.16</b>	<b>54.33</b>
<b>Andean Community</b>	<b>2.41</b>	<b>2.20</b>	<b>0.55</b>	<b>0.46</b>	<b>0.66</b>	<b>1.26</b>	<b>4.99</b>	<b>6.88</b>	<b>12.09</b>	<b>7.85</b>
<b>Mercosur</b>	<b>1.44</b>	<b>3.22</b>	<b>0.58</b>	<b>0.56</b>	<b>1.20</b>	<b>1.19</b>	<b>16.34</b>	<b>10.93</b>	<b>8.31</b>	<b>4.51</b>

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Note: All figures are annual averages for years shown.

Key for tables 2.1a to 2.4c:

**Northeast Asia:** Total of Japan, China, Hong Kong, South Korea, and Taiwan; **Southeast Asia:** Total of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam; **East Asia:** Total of Northeast Asia and Southeast Asia; **CER:** Total of Australia and New Zealand; **Western Pacific:** Total of Northeast Asia, Southeast Asia, and CER; **NAFTA:** Total of Canada, Mexico, and the United States; **APEC:** Total of Western Pacific (excluding Cambodia, Laos, and Myanmar), CER, NAFTA, Chile, Peru, Russia, and Papua New Guinea (the last three not shown individually); **Andean Community:** Total of Bolivia, Colombia, Ecuador, Peru, and Venezuela (individual countries not shown); **Mercosur:** Total of Argentina, Brazil, Paraguay, and Uruguay (individual countries not shown).

Source: IMF, *Direction of Trade Statistics*.

Table 2.1b Value of Western Hemisphere trade flows (millions of US dollars)

Region, group, or economy	United States		Canada		Mexico		Chile		Peru	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
<b>World</b>	<b>887,041</b>	<b>663,645</b>	<b>188,243</b>	<b>208,174</b>	<b>108,156</b>	<b>107,975</b>	<b>18,649</b>	<b>15,898</b>	<b>7,926</b>	<b>6,027</b>
Japan	122,440	63,699	8,705	6,503	4,263	1,125	1,000	2,442	314	363
South Korea	23,967	22,729	2,085	1,706	1,539	113	590	821	220	100
China	65,117	13,014	4,424	1,640	1,275	63	618	397	100	384
Hong Kong	10,624	13,998	864	928	178	201	264	161	40	56
Taiwan	33,028	18,986	24,38	956	1,186	45	235	659	70	136
<b>Northeast Asia</b>	<b>255,175</b>	<b>132,426</b>	<b>18,517</b>	<b>11,732</b>	<b>8,441</b>	<b>1,547</b>	<b>2,706</b>	<b>4,481</b>	<b>744</b>	<b>1,039</b>
Brunei Darussalam	111	225	0	3	0	0	0	0	0	0
Cambodia	168	17	3	1	0	0	0	0	0	0
Indonesia	9,490	3,596	554	501	293	16	105	151	10	27
Laos	18	4	3	1	0	0	0	0	0	0
Malaysia	18,791	9,434	1,312	304	1,710	26	88	93	11	52
Myanmar	138	28	13	1	0	0	0	0	0	0
Philippines	10,543	6,759	524	184	248	21	10	65	1	33
Singapore	19,896	16,695	836	337	434	357	52	100	17	11
Thailand	12,942	6,600	822	295	342	87	53	102	11	35
Vietnam	450	389	100	34	0	0	0	0	7	2
<b>Southeast Asia (ASEAN)</b>	<b>72,547</b>	<b>43,748</b>	<b>4,167</b>	<b>1,661</b>	<b>3,027</b>	<b>507</b>	<b>308</b>	<b>512</b>	<b>57</b>	<b>160</b>
<b>East Asia</b>	<b>327,722</b>	<b>176,175</b>	<b>22,684</b>	<b>13,393</b>	<b>11,468</b>	<b>2,054</b>	<b>3,014</b>	<b>4,992</b>	<b>801</b>	<b>1,199</b>

Australia	4,919	11,988	884	647	179	81	152	55	26	16
New Zealand	1,715	1,856	253	139	146	5	48	18	63	137
<b>CER</b>	<b>6,634</b>	<b>13,844</b>	<b>1,138</b>	<b>786</b>	<b>326</b>	<b>86</b>	<b>200</b>	<b>74</b>	<b>88</b>	<b>153</b>
<b>Western Pacific</b>	<b>334,356</b>	<b>190,019</b>	<b>23,822</b>	<b>14,179</b>	<b>11,793</b>	<b>2,140</b>	<b>3,214</b>	<b>5,066</b>	<b>889</b>	<b>1,352</b>
United States			127,359	174,960	81,021	92,837	4,276	2,589	2,485	1,530
Canada	169,745	145,620			2,001	1,949	363	162	193	137
Mexico	85,785	69,050	4,757	876			897	355	237	113
<b>NAFTA</b>	<b>255,530</b>	<b>214,670</b>	<b>132,116</b>	<b>175,836</b>	<b>83,022</b>	<b>94,786</b>	<b>5,536</b>	<b>3,106</b>	<b>2,916</b>	<b>1,780</b>
Chile	2,673	4,164	243	238	486	719			454	131
<b>APEC</b>	<b>598,851</b>	<b>414,220</b>	<b>156,686</b>	<b>190,592</b>	<b>95,449</b>	<b>97,830</b>	<b>8,897</b>	<b>8,543</b>	<b>4,293</b>	<b>3,275</b>
<b>Andean Community</b>	<b>21,365</b>	<b>14,604</b>	<b>1,035</b>	<b>953</b>	<b>715</b>	<b>1,361</b>	<b>930</b>	<b>1,094</b>	<b>958</b>	<b>473</b>
<b>Mercosur</b>	<b>12,746</b>	<b>21,399</b>	<b>1,092</b>	<b>1,166</b>	<b>1,295</b>	<b>1,286</b>	<b>3,047</b>	<b>1,738</b>	<b>658</b>	<b>272</b>

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Source: IMF, *Direction of Trade Statistics*.

**Table 2.1c Simple concentration ratios for APEC Western Hemisphere economies' trade in the Asia-Pacific region**

Region, group, or economy	United States		Canada		Mexico		Chile		Peru	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
Japan	1.6	1.7	0.5	0.5	0.5	0.2	0.6	2.7	0.5	1.0
South Korea	1.2	1.6	0.5	0.4	0.6	0.1	1.4	2.5	1.2	0.8
China	1.4	0.7	0.5	0.3	0.2	0.0	0.7	0.8	0.2	2.1
Hong Kong	1.1	0.6	0.4	0.1	0.2	0.1	1.3	0.3	0.5	0.3
Taiwan	1.6	1.6	0.5	0.3	0.5	0.0	0.5	2.3	0.4	1.2
<b>Northeast Asia</b>	<b>1.3</b>	<b>1.1</b>	<b>0.4</b>	<b>0.3</b>	<b>0.4</b>	<b>0.1</b>	<b>0.7</b>	<b>1.5</b>	<b>0.4</b>	<b>0.9</b>
Brunei Darussalam	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cambodia	1.7	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Indonesia	1.1	0.9	0.3	0.4	0.3	0.0	0.6	1.5	0.1	0.7
Laos	0.3	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Malaysia	1.3	1.1	0.4	0.1	0.9	0.0	0.3	0.4	0.1	0.7
Myanmar	0.8	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Philippines	2.2	1.5	0.5	0.1	0.4	0.0	0.1	0.6	0.0	0.8
Singapore	1.3	1.2	0.3	0.1	0.2	0.2	0.2	0.3	0.1	0.1
Thailand	1.3	1.0	0.4	0.1	0.3	0.1	0.3	0.6	0.1	0.6
Vietnam	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.5	0.2
<b>Southeast Asia (ASEAN)</b>	<b>1.2</b>	<b>1.0</b>	<b>0.3</b>	<b>0.1</b>	<b>0.4</b>	<b>0.1</b>	<b>0.3</b>	<b>0.5</b>	<b>0.1</b>	<b>0.4</b>
<b>East Asia</b>	<b>1.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>0.5</b>	<b>1.1</b>	<b>0.3</b>	<b>0.7</b>



Australia	0.5	1.7	0.4	0.3	0.1	0.1	0.7	0.3	0.3	0.2
New Zealand	0.7	1.2	0.5	0.3	0.5	0.0	1.0	0.5	2.9	9.9
<b>CER</b>	<b>0.5</b>	<b>1.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>0.8</b>	<b>0.3</b>	<b>0.8</b>	<b>1.9</b>
<b>Western Pacific</b>	<b>1.2</b>	<b>0.9</b>	<b>0.4</b>	<b>0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>0.5</b>	<b>1.1</b>	<b>0.3</b>	<b>0.7</b>
United States			4.3	4.7	4.8	4.8	1.5	0.9	2.0	1.4
Canada	4.7	6.1			0.5	0.5	0.5	0.3	0.6	0.6
Mexico	5.0	6.2	1.3	0.2			2.5	1.3	1.5	1.1
Chile	1.0	2.0	0.4	0.4	1.5	2.1			18.7	7.0
<b>Andean Community</b>	<b>2.8</b>	<b>2.9</b>	<b>0.6</b>	<b>0.6</b>	<b>0.8</b>	<b>1.7</b>	<b>5.7</b>	<b>9.2</b>	<b>13.8</b>	<b>10.4</b>
<b>Mercosur</b>	<b>0.9</b>	<b>1.9</b>	<b>0.4</b>	<b>0.3</b>	<b>0.8</b>	<b>0.7</b>	<b>10.4</b>	<b>6.3</b>	<b>5.3</b>	<b>2.6</b>

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NAFTA = North American Free Trade Agreement.

Source: IMF, *Direction of Trade Statistics*.

to the overwhelming share of the United States in the trade of the latter two countries. Again taking Singapore as an example, that country accounts for about 2.5 percent of US trade but less than 0.5 percent of the trade of either Canada or Mexico. Only for Chile—and then only for its exports to Northeast Asia and its imports from South Korea—does the trade share of some East Asian economies exceed their corresponding share in US trade.

The greater relative engagement of the United States in trade with East Asia is also clear from the concentration ratios in table 2.1,<sup>3</sup> which show the share of trading partners in the imports and exports of a given country relative to their share of world imports and exports. Thus a ratio greater than 1 shows more intensive import or export trade with the country in question than would be expected from the trading partner's share of world imports or exports, whereas a ratio of less than 1 indicates a less intensive trading relationship. Of the western hemisphere economies, the United States consistently has a concentration ratio greater than 1 in its trade with the Northeast Asian and major Southeast Asian economies, with the exception of its exports to China and Hong Kong and its two-way trade with Vietnam.

By contrast, concentration ratios for Canadian and Mexican trade with East Asian economies are generally well below 1, and are especially low for the most part in trade with Southeast Asia. Once again, Chile is the only western hemisphere country other than the United States to exhibit concentration ratios greater than 1 in its trade with Northeast Asia, and in fact its trade concentration exceeds that of the United States for exports to Taiwan, Japan, and South Korea, and for imports from Hong Kong and South Korea. In trade with Southeast Asia, however, Chile's concentration ratios are generally low. On the East Asian side also, concentration ratios (tables 2.2 and 2.3) exceed 1 only in trade with Chile and the United States in the case of Northeast Asia, and (with only one exception) only in trade with the United States in the case of Southeast Asia.

Singapore is the largest US trade partner in Southeast Asia, though only Hong Kong among the Northeast Asian economies has a smaller share of US imports.<sup>4</sup> Conversely, as an export market for the United

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3. The simple concentration ratio is defined here for exports as  $X_{ij}/X_{iw}$ , where  $X_{ij}$  is the share of country  $i$  in the exports of country  $j$ , and  $X_{iw}$  is the share of country  $i$  in world exports (after deducting country  $i$ 's own exports from the latter). Similarly, for imports it is  $M_{ij}/M_{iw}$ , where  $M_{ij}$  is the share of country  $i$  in the imports of country  $j$ , and  $M_{iw}$  is the share of country  $i$  in world imports (excluding country  $i$ 's own imports from world imports). Extensive use of concentration ratio measures is found, e.g., in Frankel (1997). Concentration ratios may be positively correlated with a high level of complementarity in the production patterns of the trade partners, or with a range of factors encouraging trading partners to trade intensively with each other, e.g., geographical ties, historical ties, and cultural affinity.

4. Given the entrepôt functions of Hong Kong and Singapore, there is a well-known issue as to the proportion of their recorded trade that ultimately represents the imports and exports of neighboring countries. No attempt is made to adjust for this here, and the figures

States, Singapore is comparable in size to Taiwan and ranks ahead of both China and Hong Kong. The United States trades more intensively with the Philippines than with Singapore, and both Malaysia and the Philippines have higher concentration ratios in their trade with the United States than Singapore. The US share in Singapore's exports and imports turns out to be exactly in proportion to the US share in world exports and imports.

Of the remaining partners in the so far stalled Pacific 5 proposal, Australia and New Zealand are much less significant than Singapore as trading partners of the United States. Their combined share of US exports amounts to only 80 percent of that of Singapore, while their combined share of US imports is lower still (about a third that of Singapore). In fact, Singapore's share of US imports is double the combined share of the other three Pacific 5 partners, while its share of US exports is closely comparable to the combined total of the other three.

In combination, however, Australia, Chile, New Zealand, and Singapore account for a relatively small share of US trade—just above 3 percent of imports and 5 percent of exports. The United States is also a less important export market for Australia, New Zealand, and Chile than for Singapore, accounting respectively for 8, 11, and 16 percent of their exports; it is much more important as a source of imports, accounting for 23 percent each of the imports of Australia and Chile, and 18 percent of the imports of New Zealand.

The bilateral trade between Chile and each of the three proposed Western Pacific partners is of very minor significance to each of the countries concerned, although the concentration ratio does reach 1 on New Zealand's exports to Chile (and on Chile's imports from New Zealand). Trade data confirm the presumption that Chile's interest in a link with the United States is likely to be much greater than its interest in its potential transpacific Pacific 5 partners. It might be anticipated that Chile will lose interest in the other prospective Pacific 5 partners if its revived negotiations with the United States go well.

On the Western Pacific side, Singapore's bilateral trade flows with Australia and New Zealand are quite small, although concentration ratios of 1 or above (except on New Zealand's exports to Singapore and the corresponding Singapore imports) show that the level of trade is higher than would be expected on the basis of the three countries' shares of world exports and imports. Australia and New Zealand are important

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shown for Hong Kong and Singapore trade are those shown in official data (IMF, *Direction of Trade Statistics*). The possibility is recognized that this may lead to some overstatement, e.g., of the extent of trade that would be affected by Singapore's free trade arrangements with other countries. The nonrecording of Singapore's exports to Indonesia is handled by taking Indonesia's recorded trade flows with Singapore as the "mirror" of Singapore's trade

trading partners, although the bilateral flow is very small on a global scale (and is in any case already covered by the ANZCERTA).

The continuing interest on the Western Pacific side in the Pacific 5 concept is perhaps reflected in the recent informal discussions on the possible reduced Pacific 3 or Pacific 4 groupings, and by the negotiation or discussion of separate bilateral agreements between Singapore and New Zealand, Singapore and Australia, Singapore and Chile, and Chile and New Zealand. All of these can be interpreted at least in part as efforts to follow through on these fairly minor components of the stalled Pacific 5 proposal, perhaps motivated by the hope of reviving the larger proposal at some future date.

Of the other eight proposed bilateral transpacific arrangements, the proposed FTAs linking Chile with Japan and South Korea are the only ones in which concentration ratios greater than 1 are found applying to any of the bilateral trade flows involved (see tables 2.1, 2.2, and 2.3). In all other cases except one, the concentration ratios applying to the relevant trade flows are 0.6 or lower, often much lower. In the four proposals involving Singapore and New Zealand, all the bilateral trade flows covered by the proposed arrangements represent well below 1 percent of each partner's exports and imports.

The proposed FTAs between Mexico and Japan and Mexico and South Korea would cover about 4 and 1.5 percent respectively of Mexico's imports (i.e., a significant share of the imports not sourced from the United States), but much lower shares of both Mexico's exports and of the imports and exports of the other partner in each case. A Japan-Canada FTA would cover respectively 4.5 and 3 percent of Canadian exports and imports, with the corresponding shares for Japan being 3 percent for imports and 1.5 percent for exports.<sup>5</sup> The trade flows covered by the arrangement, however, would be considerably smaller than the total trade flows covered even by the proposed Pacific 5 arrangement. Proposals involving Canada and Mexico are of course likely to be motivated to a significant extent by factors that are not evident in the data on bilateral trade flows: on the East Asian side by the prospect of indirect access to the US market, and on the Mexican and Canadian sides by the desire to exploit their preferential access to the US market to attract foreign direct investment.

## **SRTA Proposals in the Western Pacific**

The other three groups of potential SRTAs listed at the beginning of this chapter are all confined to the Western Pacific. Each group is of interest,

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flows in the opposite direction.

5. Although the most significant transpacific trade flows are clearly those involving the United States, those involving Japan are also of major, though not comparable, significance.

**Table 2.2a Shares in trade of Northeast Asian economies (percent)**

Region, group, or economy	Japan		South Korea		China		Hong Kong		Taiwan	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
<b>World</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Japan										
South Korea	4.41	5.81	19.61	10.79	20.52	17.85	13.32	5.97	27.01	9.58
China	12.31	5.22	6.47	9.28	10.06	4.43	4.71	1.39	4.70	1.73
Hong Kong	0.68	6.15	0.67	8.07	5.10	22.30	38.41	34.57	3.44	12.55
Taiwan	3.89	6.49	1.76	3.45	11.70	1.94	7.68	2.47	4.58	11.57
<b>Northeast Asia</b>	<b>21.28</b>	<b>23.66</b>	<b>28.51</b>	<b>31.58</b>	<b>47.38</b>	<b>46.52</b>	<b>64.12</b>	<b>44.40</b>	<b>39.72</b>	<b>35.43</b>
Brunei Darussalam	0.40	0.03	0.21	0.01	0.00	0.02	0.00	0.01	0.09	0.03
Cambodia	0.00	0.01	0.00	0.03	0.02	0.05	0.01	0.05	0.02	0.07
Indonesia	4.19	1.93	2.88	2.13	1.76	0.86	0.86	0.45	1.79	1.15
Laos	0.05	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00
Malaysia	3.28	3.21	2.19	3.08	1.76	0.94	2.28	0.88	3.31	2.71
Myanmar	0.03	0.05	0.01	0.07	0.06	0.31	0.03	0.04	0.05	0.06
Philippines	1.44	2.00	0.54	1.84	0.29	0.74	0.60	1.12	1.22	1.27
Singapore	1.85	4.58	1.71	4.09	2.90	2.31	4.85	2.56	5.20	3.74
Thailand	2.89	3.46	0.85	1.60	1.50	0.76	1.57	0.95	1.61	2.05
Vietnam	0.61	0.31	0.11	1.15	0.21	0.57	0.12	0.32	0.33	1.03
<b>Southeast Asia (ASEAN)</b>	<b>14.74</b>	<b>15.59</b>	<b>8.51</b>	<b>14.01</b>	<b>8.51</b>	<b>6.58</b>	<b>10.33</b>	<b>6.38</b>	<b>13.61</b>	<b>12.11</b>
<b>East Asia</b>	<b>36.02</b>	<b>39.25</b>	<b>37.01</b>	<b>45.60</b>	<b>55.89</b>	<b>53.10</b>	<b>74.45</b>	<b>50.78</b>	<b>53.33</b>	<b>47.54</b>

(table continues next page)

Table 2.2a Shares in trade of Northeast Asian economies (percent) (continued)

Region, group, or economy	Japan		South Korea		China		Hong Kong		Taiwan	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
Australia	4.31	1.92	4.32	1.71	2.22	1.17	1.03	1.34	2.84	1.48
New Zealand	0.69	0.35	0.53	0.11	0.27	0.14	0.23	0.17	0.39	0.07
<b>CER</b>	<b>5.00</b>	<b>2.27</b>	<b>4.86</b>	<b>1.82</b>	<b>2.50</b>	<b>1.32</b>	<b>1.26</b>	<b>1.52</b>	<b>3.24</b>	<b>1.55</b>
<b>Western Pacific</b>	<b>41.02</b>	<b>41.52</b>	<b>41.87</b>	<b>47.42</b>	<b>58.39</b>	<b>54.41</b>	<b>75.71</b>	<b>52.30</b>	<b>56.56</b>	<b>49.10</b>
United States	23.04	28.79	21.60	16.70	11.74	18.82	7.71	22.14	19.44	25.21
Canada	2.85	1.44	1.88	1.07	1.61	1.09	0.63	1.48	0.98	1.86
Mexico	0.49	0.96	0.24	1.02	0.15	0.26	0.10	0.27	0.05	0.90
<b>NAFTA</b>	<b>26.37</b>	<b>31.19</b>	<b>23.72</b>	<b>18.79</b>	<b>13.50</b>	<b>20.17</b>	<b>8.44</b>	<b>23.89</b>	<b>20.46</b>	<b>27.97</b>
Chile	0.85	0.23	0.77	0.31	0.31	0.32	0.12	0.33	0.67	0.18
<b>Andean Community</b>	<b>0.41</b>	<b>0.55</b>	<b>0.28</b>	<b>0.51</b>	<b>0.42</b>	<b>0.21</b>	<b>0.04</b>	<b>0.20</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Mercosur</b>	<b>1.29</b>	<b>0.87</b>	<b>0.94</b>	<b>1.76</b>	<b>1.49</b>	<b>0.92</b>	<b>0.45</b>	<b>1.03</b>	<b>n.a.</b>	<b>n.a.</b>

n.a. = not available

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Note: All figures are annual averages for years shown.

Source: IMF, *Direction of Trade Statistics*.

**Table 2.2b Value of trade flows of Northeast Asian economies (millions of US dollars)**

Region, group, or economy	Japan		South Korea		China		Hong Kong		Taiwan																																																																																																																																																
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98																																																																																																																																															
<b>World</b>	<b>323,162</b>	<b>406,775</b>	<b>129,411</b>	<b>132,930</b>	<b>140,499</b>	<b>172,609</b>	<b>197,259</b>	<b>180,698</b>	<b>97,688</b>	<b>131,021</b>																																																																																																																																															
Japan	14,243	23,622	25,381	14,337	28,829	30,809	26,269	10,788	26,381	12,556																																																																																																																																															
South Korea	39,770	21,234	8,378	12,334	14,130	7,643	9,282	2,505	4,589	2,272																																																																																																																																															
China	2,186	25,025	861	10,726	7,168	38,495	75,773	62,468	3,356	16,438																																																																																																																																															
Hong Kong	12,556	26,381	2,272	4,589	16,438	3,356	15,154	4,471	4,471	15,154	<b>Northeast Asia</b>	<b>68,755</b>	<b>96,262</b>	<b>36,892</b>	<b>41,986</b>	<b>66,565</b>	<b>80,303</b>	<b>126,478</b>	<b>80,233</b>	<b>38,798</b>	<b>46,421</b>	Brunei Darussalam	1,277	114	276	16	0	27	2	27	83	34	Cambodia	9	53	1	38	33	84	24	82	16	91	Indonesia	13,551	7,849	3,725	2,838	2,475	1,481	1,704	815	1,744	1,507	Laos	161	29	1	4	7	22	1	8	2	4	Malaysia	10,606	13,065	2,832	4,100	2,469	1,630	4,500	1,593	3,234	3,555	Myanmar	97	217	10	95	91	541	54	70	49	77	Philippines	4,647	8,119	700	2,452	405	1,283	1,182	2,017	1,196	1,666	Singapore	5,975	18,615	2,218	5,441	4,075	3,992	9,571	4,620	5,079	4,902	Thailand	9,333	14,089	1,103	2,121	2,106	1,310	3,103	1,716	1,576	2,684	Vietnam	1,981	1,249	141	1,522	294	982	231	582	318	1,353	<b>Southeast Asia (ASEAN)</b>	<b>47,635</b>	<b>63,401</b>	<b>11,007</b>	<b>18,627</b>	<b>11,955</b>	<b>11,352</b>	<b>20,373</b>	<b>11,530</b>	<b>13,297</b>	<b>15,872</b>	<b>East Asia</b>	<b>116,390</b>	<b>159,663</b>	<b>47,899</b>	<b>60,613</b>	<b>78,520</b>	<b>91,654</b>	<b>146,850</b>	<b>91,763</b>	<b>52,095</b>	<b>62,293</b>
<b>Northeast Asia</b>	<b>68,755</b>	<b>96,262</b>	<b>36,892</b>	<b>41,986</b>	<b>66,565</b>	<b>80,303</b>	<b>126,478</b>	<b>80,233</b>	<b>38,798</b>	<b>46,421</b>																																																																																																																																															
Brunei Darussalam	1,277	114	276	16	0	27	2	27	83	34																																																																																																																																															
Cambodia	9	53	1	38	33	84	24	82	16	91																																																																																																																																															
Indonesia	13,551	7,849	3,725	2,838	2,475	1,481	1,704	815	1,744	1,507																																																																																																																																															
Laos	161	29	1	4	7	22	1	8	2	4																																																																																																																																															
Malaysia	10,606	13,065	2,832	4,100	2,469	1,630	4,500	1,593	3,234	3,555																																																																																																																																															
Myanmar	97	217	10	95	91	541	54	70	49	77																																																																																																																																															
Philippines	4,647	8,119	700	2,452	405	1,283	1,182	2,017	1,196	1,666																																																																																																																																															
Singapore	5,975	18,615	2,218	5,441	4,075	3,992	9,571	4,620	5,079	4,902																																																																																																																																															
Thailand	9,333	14,089	1,103	2,121	2,106	1,310	3,103	1,716	1,576	2,684																																																																																																																																															
Vietnam	1,981	1,249	141	1,522	294	982	231	582	318	1,353																																																																																																																																															
<b>Southeast Asia (ASEAN)</b>	<b>47,635</b>	<b>63,401</b>	<b>11,007</b>	<b>18,627</b>	<b>11,955</b>	<b>11,352</b>	<b>20,373</b>	<b>11,530</b>	<b>13,297</b>	<b>15,872</b>																																																																																																																																															
<b>East Asia</b>	<b>116,390</b>	<b>159,663</b>	<b>47,899</b>	<b>60,613</b>	<b>78,520</b>	<b>91,654</b>	<b>146,850</b>	<b>91,763</b>	<b>52,095</b>	<b>62,293</b>																																																																																																																																															

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**Table 2.2b Value of trade flows of Northeast Asian economies (millions of US dollars) (continued)**

Region, group, or economy	Japan		South Korea		China		Hong Kong		Taiwan	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
Australia	13,921	7,800	5,597	2,270	3,125	2,022	2,030	2,425	2,778	1,935
New Zealand	2,237	1,420	690	150	386	248	454	315	384	97
<b>CER</b>	<b>16,158</b>	<b>9,220</b>	<b>6,287</b>	<b>2,420</b>	<b>3,511</b>	<b>2,270</b>	<b>2,485</b>	<b>2,740</b>	<b>3,162</b>	<b>2,032</b>
<b>Western Pacific</b>	<b>132,548</b>	<b>168,883</b>	<b>54,186</b>	<b>63,033</b>	<b>82,031</b>	<b>93,925</b>	<b>149,335</b>	<b>94,503</b>	<b>55,257</b>	<b>64,325</b>
United States	74,463	117,091	27,951	22,201	16,495	32,492	15,208	40,006	18,986	33,028
Canada	9,195	5,855	2,434	1,424	2,267	1,882	1,240	2,673	956	2,438
Mexico	1,575	3,914	314	1,357	211	442	201	492	45	1,186
<b>NAFTA</b>	<b>85,233</b>	<b>126,861</b>	<b>30,699</b>	<b>24,982</b>	<b>18,972</b>	<b>34,816</b>	<b>16,649</b>	<b>43,171</b>	<b>19,987</b>	<b>36,652</b>
Chile	2,743	935	995	412	430	549	244	595	659	235
<b>APEC</b>	<b>224,764</b>	<b>297,838</b>	<b>87,496</b>	<b>90,061</b>	<b>106,137</b>	<b>130,634</b>	<b>166,829</b>	<b>138,607</b>	<b>75,837</b>	<b>101,040</b>
<b>Andean Community</b>	<b>1,322</b>	<b>2,240</b>	<b>356</b>	<b>676</b>	<b>593</b>	<b>360</b>	<b>81</b>	<b>360</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Mercosur</b>	<b>4,172</b>	<b>3,549</b>	<b>1,221</b>	<b>2,346</b>	<b>2,091</b>	<b>1,590</b>	<b>897</b>	<b>1,865</b>	<b>n.a.</b>	<b>n.a.</b>

n.a. = not available

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Source: IMF, *Direction of Trade Statistics*.



**Table 2.2c Simple concentration ratios for Northeast Asian economies' trade in the Asia-Pacific region (percent)**

Region, group, or economy	Japan		South Korea		China		Hong Kong		Taiwan	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
Japan			2.3	1.9	2.4	3.1	1.6	1.0	3.2	1.7
South Korea	2.0	2.8			4.5	2.1	2.1	0.7	2.1	0.8
China	2.4	1.7	1.3	3.1			7.5	11.5	0.7	4.2
Hong Kong	0.6	1.9	0.6	2.5	4.7	6.9			4.2	3.6
Taiwan	1.6	3.5	0.7	1.9	4.9	1.1	3.2	1.4		
Brunel Darussalam	8.7	0.5	4.7	0.2	0.0	0.3	0.0	0.3	1.9	0.4
Cambodia	0.2	0.5	0.1	1.1	2.1	1.9	1.1	1.7	1.4	2.6
Indonesia	4.3	3.0	2.9	3.3	1.8	1.3	0.9	0.7	1.8	1.8
Laos	6.4	0.7	0.1	0.3	0.6	1.2	0.0	0.4	0.3	0.3
Malaysia	2.0	2.4	1.3	2.3	1.0	0.7	1.4	0.7	2.0	2.1
Myanmar	1.5	1.2	0.4	1.7	3.3	7.3	1.4	0.9	2.5	1.4
Philippines	2.7	2.9	1.0	2.7	0.5	1.1	1.1	1.6	2.3	1.9
Singapore	1.1	2.2	1.0	1.9	1.7	1.1	2.8	1.2	3.0	1.8
Thailand	2.6	3.4	0.8	1.6	1.4	0.7	1.4	0.9	1.5	2.0
Vietnam	4.0	1.5	0.7	5.5	1.4	2.7	0.8	1.5	2.1	4.9
<b>Southeast Asia (ASEAN)</b>	<b>2.2</b>	<b>2.4</b>	<b>1.3</b>	<b>2.2</b>	<b>1.3</b>	<b>1.0</b>	<b>1.6</b>	<b>1.0</b>	<b>2.1</b>	<b>1.9</b>

(table continues next page)

**Table 2.2c Simple concentration ratios for Northeast Asian economies (percent) (continued)**

Region, group, or economy	Japan		South Korea		China		Hong Kong		Taiwan	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
Australia	3.8	1.8	3.8	1.6	2.0	1.1	0.9	1.2	2.5	1.4
New Zealand	2.6	1.5	2.0	0.5	1.0	0.6	0.9	0.8	1.5	0.3
<b>CER</b>	<b>3.6</b>	<b>1.7</b>	<b>3.5</b>	<b>1.4</b>	<b>1.8</b>	<b>1.0</b>	<b>0.9</b>	<b>1.1</b>	<b>2.3</b>	<b>1.2</b>
United States	1.5	1.6	1.4	0.9	0.7	1.1	0.5	1.2	1.2	1.4
Canada	0.7	0.4	0.5	0.3	0.4	0.3	0.2	0.4	0.2	0.5
Mexico	0.3	0.6	0.1	0.6	0.1	0.2	0.1	0.2	0.0	0.5
<b>NAFTA</b>	<b>1.1</b>	<b>1.9</b>	<b>1.0</b>	<b>1.2</b>	<b>0.6</b>	<b>1.2</b>	<b>0.3</b>	<b>1.5</b>	<b>0.8</b>	<b>1.7</b>
Chile	2.8	0.7	2.5	1.0	1.0	1.0	0.4	1.1	2.2	0.6
<b>Andean Community</b>	<b>0.5</b>	<b>0.7</b>	<b>0.3</b>	<b>0.7</b>	<b>0.5</b>	<b>0.3</b>	<b>0.0</b>	<b>0.3</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Mercosur</b>	<b>0.8</b>	<b>0.5</b>	<b>0.6</b>	<b>1.0</b>	<b>0.9</b>	<b>0.5</b>	<b>0.3</b>	<b>0.6</b>	<b>n.a.</b>	<b>n.a.</b>

n.a. = not available

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Source: IMF, *Direction of Trade Statistics*.

**Table 2.3a Shares in trade of Southeast Asian economies (percent)**

Region, group, or economy	Brunei													
	Darussalam		Indonesia		Malaysia		Philippines		Singapore		Thailand		Vietnam	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
<b>World</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Japan	8.10	51.91	18.91	22.22	22.28	12.23	20.77	16.08	16.85	7.11	26.10	15.25	9.77	21.62
South Korea	1.43	17.74	6.16	6.10	5.33	2.85	6.09	1.75	3.16	2.96	3.59	1.58	11.92	0.67
China	1.99	0.00	3.94	4.24	2.76	2.48	2.89	1.22	3.93	3.11	3.37	3.21	7.67	3.21
Hong Kong	2.94	0.05	1.09	3.31	2.44	5.37	4.24	4.47	2.88	8.49	1.36	5.62	4.55	2.53
Taiwan	1.13	2.60	3.94	3.32	4.94	4.21	4.89	4.77	3.86	4.11	4.49	2.82	9.62	3.82
<b>Northeast Asia</b>	<b>15.58</b>	<b>72.30</b>	<b>34.03</b>	<b>39.19</b>	<b>37.75</b>	<b>27.14</b>	<b>38.88</b>	<b>28.29</b>	<b>30.69</b>	<b>25.79</b>	<b>38.91</b>	<b>28.47</b>	<b>43.53</b>	<b>31.85</b>
Brunei Darussalam	0.00	0.00	0.01	0.07	0.02	0.36	0.00	0.01	0.16	1.00	0.18	0.12	0.00	0.02
Cambodia	1.85	0.19	0.00	0.10	0.02	0.08	0.00	0.00	0.04	0.33	0.08	0.58	0.58	3.21
Indonesia	0.00	0.00	0.00	0.00	2.02	1.50	1.40	0.43	4.15	2.72	1.52	1.91	2.99	1.96
Laos	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.03	0.09	0.67	0.41	0.29
Malaysia	12.25	1.58	2.53	2.57	0.00	0.00	2.73	3.28	14.55	16.50	4.92	3.74	2.66	1.63
Myanmar	0.06	0.00	0.07	0.27	0.07	0.38	0.01	0.01	0.13	0.51	0.00	0.00	0.00	0.00
Philippines	0.38	0.02	0.29	1.36	1.43	1.41	5.67	6.22	1.52	2.08	0.98	1.25	0.82	3.12
Singapore	26.30	7.70	8.78	10.01	13.35	19.22	2.24	3.02	4.98	4.61	5.32	10.64	12.77	5.09
Thailand	3.13	9.22	2.72	1.59	3.68	3.64	0.68	0.25	0.37	1.32	0.27	0.96	4.20	1.73
Vietnam	0.04	0.01	0.47	0.73	0.21	0.44	0.68	0.25	0.37	1.32	0.27	0.96	4.20	1.73
<b>Southeast Asia (ASEAN)</b>	<b>44.01</b>	<b>18.72</b>	<b>14.88</b>	<b>16.70</b>	<b>20.80</b>	<b>27.04</b>	<b>12.72</b>	<b>13.28</b>	<b>25.89</b>	<b>29.11</b>	<b>13.36</b>	<b>19.87</b>	<b>24.43</b>	<b>17.05</b>
<b>East Asia</b>	<b>59.59</b>	<b>91.01</b>	<b>48.91</b>	<b>55.89</b>	<b>58.55</b>	<b>54.18</b>	<b>51.60</b>	<b>41.56</b>	<b>56.58</b>	<b>54.90</b>	<b>52.26</b>	<b>48.34</b>	<b>67.96</b>	<b>48.91</b>

(table continues next page)

Table 2.3a Shares in trade of Southeast Asian economies (percent) (continued)

Region, group, or economy	Brunei													
	Darussalam		Indonesia		Malaysia		Philippines		Singapore		Thailand		Vietnam	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
Australia	2.33	0.34	5.62	3.06	2.53	1.85	2.60	0.71	1.33	2.43	2.00	1.64	1.50	4.87
New Zealand	0.40	0.54	0.47	0.20	0.46	0.28	0.54	0.08	0.17	0.30	0.35	0.19	0.32	0.24
<b>CER</b>	<b>2.73</b>	<b>0.88</b>	<b>6.09</b>	<b>3.25</b>	<b>2.99</b>	<b>2.13</b>	<b>3.13</b>	<b>0.79</b>	<b>1.50</b>	<b>2.73</b>	<b>2.34</b>	<b>1.83</b>	<b>1.83</b>	<b>5.11</b>
<b>Western Pacific</b>	<b>62.32</b>	<b>91.90</b>	<b>55.00</b>	<b>59.14</b>	<b>61.54</b>	<b>56.31</b>	<b>54.73</b>	<b>42.35</b>	<b>58.08</b>	<b>57.63</b>	<b>54.61</b>	<b>50.17</b>	<b>69.79</b>	<b>54.01</b>
United States	11.75	3.92	11.54	14.33	17.06	19.37	20.29	34.51	16.48	18.37	13.37	19.88	3.05	4.91
Canada	1.22	0.02	1.56	0.86	0.68	0.73	0.82	0.90	0.46	0.36	0.68	1.10	0.27	1.20
Mexico	0.00	0.00	0.15	0.36	0.09	0.33	0.07	0.14	0.35	0.37	0.27	0.29	0.00	0.00
<b>NAFTA</b>	<b>12.98</b>	<b>3.94</b>	<b>13.25</b>	<b>15.55</b>	<b>17.83</b>	<b>20.43</b>	<b>21.18</b>	<b>35.55</b>	<b>17.28</b>	<b>19.10</b>	<b>14.32</b>	<b>21.26</b>	<b>3.31</b>	<b>6.12</b>
Chile	0.00	0.00	0.49	0.16	0.25	0.10	0.10	0.08	0.18	0.06	0.23	0.08	0.00	0.00
<b>APEC</b>	<b>75.24</b>	<b>95.83</b>	<b>68.79</b>	<b>74.61</b>	<b>79.92</b>	<b>76.54</b>	<b>76.21</b>	<b>77.94</b>	<b>75.47</b>	<b>76.59</b>	<b>69.17</b>	<b>70.35</b>	<b>74.01</b>	<b>57.12</b>
<b>Andean Community</b>	<b>0.00</b>	<b>0.00</b>	<b>0.12</b>	<b>0.14</b>	<b>0.02</b>	<b>0.09</b>	<b>0.08</b>	<b>0.04</b>	<b>0.03</b>	<b>0.04</b>	<b>0.12</b>	<b>0.09</b>	<b>0.05</b>	<b>0.06</b>
<b>Mercosur</b>	<b>0.00</b>	<b>0.00</b>	<b>1.30</b>	<b>0.60</b>	<b>0.73</b>	<b>0.60</b>	<b>0.74</b>	<b>0.13</b>	<b>0.25</b>	<b>0.50</b>	<b>0.99</b>	<b>0.44</b>	<b>0.19</b>	<b>0.24</b>

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Note: All figures are annual averages for years shown.

Source: IMF, *Direction of Trade Statistics*.

**Table 2.3b Value of trade flows of Southeast Asian economies (millions of US dollars)**

Region, group, or economy	Brunei													
	Darussalam		Indonesia		Malaysia		Philippines		Singapore		Thailand		Vietnam	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
<b>World</b>	<b>3,021</b>	<b>3,209</b>	<b>38,291</b>	<b>52,550</b>	<b>71,936</b>	<b>76,864</b>	<b>34,093</b>	<b>25,079</b>	<b>126,850</b>	<b>23,471</b>	<b>59,749</b>	<b>55,931</b>	<b>14,068</b>	<b>8,329</b>
Japan	245	1,666	7,239	11,676	16,026	9,399	7,081	4,032	21,377	8,776	15,596	8,527	1,375	1,801
South Korea	43	569	2,359	3,207	3,833	2,193	2,077	439	4,012	3,660	2,144	884	1,676	56
China	60	0	1,508	2,231	1,986	1,909	984	305	4,986	3,838	2,012	1,794	1,079	268
Hong Kong	89	2	416	1,737	1,754	4,124	1,446	1,122	3,651	10,487	812	3,144	640	211
Taiwan	34	83	1,507	1,744	3,555	3,234	1,666	1,196	4,902	5,079	2,684	1,576	1,353	318
<b>Northeast Asia</b>	<b>471</b>	<b>2,320</b>	<b>13,030</b>	<b>20,595</b>	<b>27,154</b>	<b>20,859</b>	<b>13,254</b>	<b>7,094</b>	<b>38,928</b>	<b>31,840</b>	<b>23,248</b>	<b>15,925</b>	<b>6,124</b>	<b>2,653</b>
Brunei Darussalam			5	38	11	277	0	4	204	1,241	108	65	1	1
Cambodia	0	0	1	53	14	62	0	1	56	410	51	326	82	268
Indonesia	56	6			1,456	1,151	477	108	5,259	3,361	907	1,070	421	163
Laos	0	0	0	0	0	2	0	13	2	32	53	372	58	24
Malaysia	370	51	968	1,351			930	823	18,456	20,372	2,941	2,092	375	136
Myanmar	2	0	28	141	51	295	3	3	168	628	0	0	0	0
Philippines	11	1	112	713	1,030	1,081			1,922	2,569	583	699	115	260
Singapore	795	247	3,361	5,259	9,604	14,777	1,933	1,559			3,178	5,951	1,796	424
Thailand	95	296	1,042	836	2,649	2,798	763	757	6,313	5,696			591	144
Vietnam	1	0	179	383	150	340	231	63	467	1,632	159	537		
<b>Southeast Asia (ASEAN)</b>	<b>1,330</b>	<b>601</b>	<b>5,697</b>	<b>8,774</b>	<b>14,965</b>	<b>20,783</b>	<b>4,337</b>	<b>3,330</b>	<b>32,846</b>	<b>35,942</b>	<b>7,980</b>	<b>11,111</b>	<b>3,437</b>	<b>1,420</b>
<b>East Asia</b>	<b>1,800</b>	<b>2,921</b>	<b>18,727</b>	<b>29,369</b>	<b>42,118</b>	<b>41,642</b>	<b>17,590</b>	<b>10,423</b>	<b>71,774</b>	<b>67,782</b>	<b>31,227</b>	<b>27,036</b>	<b>9,561</b>	<b>4,073</b>

(table continues next page)

**Table 2.3b Value of trade flows of Southeast Asian economies (millions of US dollars) (continued)**

Region, group, or economy	Brunei		Indonesia		Malaysia		Philippines		Singapore		Thailand		Vietnam	
	Darussalam		1996-98		1996-98		1996-98		1996-98		1996-98		1996-98	
	Imports,	Exports,	Imports,	Exports,	Imports,	Exports,	Imports,	Exports,	Imports,	Exports,	Imports,	Exports,	Imports,	Exports,
Australia	70	11	2,152	1,606	1,817	1,419	885	178	1,692	2,995	1,194	917	212	405
New Zealand	12	17	182	103	334	217	183	19	209	376	206	105	46	20
<b>CER</b>	<b>82</b>	<b>28</b>	<b>2,333</b>	<b>1,709</b>	<b>2,151</b>	<b>1,636</b>	<b>1,068</b>	<b>198</b>	<b>1,901</b>	<b>3,371</b>	<b>1,401</b>	<b>1,022</b>	<b>257</b>	<b>425</b>
<b>Western Pacific</b>	<b>1,883</b>	<b>2,949</b>	<b>21,060</b>	<b>31,078</b>	<b>44,269</b>	<b>43,279</b>	<b>18,659</b>	<b>10,621</b>	<b>73,675</b>	<b>71,153</b>	<b>32,628</b>	<b>28,059</b>	<b>9,818</b>	<b>4,499</b>
United States	355	126	4,417	7,530	12,274	14,890	6,918	8,656	20,906	22,680	7,988	11,118	429	409
Canada	37	1	598	450	488	558	278	225	579	447	406	613	38	100
Mexico	0	0	58	191	66	256	25	35	438	462	160	161	0	0
<b>NAFTA</b>	<b>392</b>	<b>126</b>	<b>5,073</b>	<b>8,171</b>	<b>12,828</b>	<b>15,704</b>	<b>7,222</b>	<b>8,916</b>	<b>21,922</b>	<b>23,589</b>	<b>8,554</b>	<b>11,893</b>	<b>466</b>	<b>510</b>
Chile	0	0	186	85	180	75	33	20	231	70	139	47	0	0
<b>APEC</b>	<b>2,273</b>	<b>3,075</b>	<b>26,341</b>	<b>39,208</b>	<b>57,493</b>	<b>58,831</b>	<b>25,982</b>	<b>19,545</b>	<b>95,736</b>	<b>94,570</b>	<b>41,327</b>	<b>39,346</b>	<b>10,412</b>	<b>4,757</b>
<b>Andean Community</b>	<b>0</b>	<b>0</b>	<b>47</b>	<b>73</b>	<b>13</b>	<b>72</b>	<b>27</b>	<b>10</b>	<b>42</b>	<b>51</b>	<b>71</b>	<b>51</b>	<b>6</b>	<b>5</b>
<b>Mercosur</b>	<b>0</b>	<b>0</b>	<b>497</b>	<b>315</b>	<b>529</b>	<b>465</b>	<b>251</b>	<b>33</b>	<b>318</b>	<b>615</b>	<b>594</b>	<b>248</b>	<b>27</b>	<b>20</b>

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Source: IMF, *Direction of Trade Statistics*.

**Table 2.3c Simple concentration ratios for Southeast Asian economies' trade in the Asia-Pacific region**  
(percent)

Region, group, or economy	Brunei													
	Darussalam		Indonesia		Malaysia		Philippines		Singapore		Thailand		Vietnam	
	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98	1996-98
Japan	1.0	9.0	2.2	3.9	2.6	2.1	2.5	2.8	2.0	1.2	3.1	2.6	1.2	3.7
South Korea	0.6	8.5	2.7	2.9	2.4	1.4	2.7	0.8	1.4	1.4	1.6	0.8	5.3	0.3
China	0.4	0.0	0.8	1.4	0.5	0.8	0.6	0.4	0.8	1.0	0.7	1.1	1.5	1.1
Hong Kong	2.7	0.0	1.0	1.0	2.3	1.6	3.9	1.4	2.7	2.6	1.3	1.7	4.2	0.8
Taiwan	0.5	1.4	1.6	1.8	2.1	2.3	2.0	2.6	1.6	2.3	1.9	1.5	4.0	2.1
<b>Northeast Asia</b>	<b>0.7</b>	<b>3.9</b>	<b>1.5</b>	<b>2.1</b>	<b>1.7</b>	<b>1.5</b>	<b>1.8</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>	<b>1.8</b>	<b>1.5</b>	<b>2.0</b>	<b>1.7</b>
Brunei Darussalam			0.3	1.2	0.3	6.1	0.0	0.2	3.5	17.1	4.0	2.0	0.1	0.3
Cambodia	0.0	0.0	0.3	3.8	1.7	3.1	0.0	0.1	3.8	12.6	7.4	22.1	50.7	121.7
Indonesia	1.9	0.3			2.1	2.3	1.4	0.7	4.2	4.3	1.6	3.0	3.1	3.1
Laos	0.0	0.0	0.0	0.0	0.0	0.2	0.0	4.8	0.2	2.5	11.4	63.7	52.4	27.6
Malaysia	7.3	1.2	1.5	1.9			1.6	2.5	8.7	12.5	2.9	2.8	1.6	1.2
Myanmar	2.8	0.0	3.7	6.2	3.6	8.9	0.4	0.2	6.7	11.8	0.0	0.0	0.0	0.0
Philippines	0.7	0.0	0.6	2.0	2.7	2.1			2.9	3.1	1.8	1.8	1.5	4.6
Singapore	15.3	3.7	5.1	4.7	7.8	9.1	3.3	3.0			3.1	5.0	7.4	2.4
Thailand	2.9	9.0	2.5	1.5	3.4	3.5	2.0	2.9	4.6	4.5			3.8	1.7
Vietnam	0.3	0.0	3.0	3.5	1.3	2.1	4.4	1.2	2.4	6.3	1.7	4.6		
<b>Southeast Asia (ASEAN)</b>	<b>6.7</b>	<b>2.9</b>	<b>2.3</b>	<b>2.6</b>	<b>3.2</b>	<b>4.2</b>	<b>1.9</b>	<b>2.1</b>	<b>3.9</b>	<b>4.5</b>	<b>2.0</b>	<b>3.1</b>	<b>3.7</b>	<b>2.6</b>

(table continues next page)

**Table 2.3c Simple concentration ratios for Southeast Asian economies' trade in the Asia-Pacific region (percent) (continued)**

Region, group, or economy	Brunei													
	Darussalam		Indonesia		Malaysia		Philippines		Singapore		Thailand		Vietnam	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
Australia	2.1	0.3	5.0	2.8	2.2	1.7	2.3	0.7	1.2	2.2	1.8	1.5	1.3	4.5
New Zealand	1.5	2.4	1.8	0.9	1.7	1.2	2.0	0.3	0.6	1.3	1.3	0.8	1.2	1.0
<b>CER</b>	<b>1.9</b>	<b>0.7</b>	<b>4.3</b>	<b>2.5</b>	<b>2.1</b>	<b>1.6</b>	<b>2.2</b>	<b>0.6</b>	<b>1.1</b>	<b>2.1</b>	<b>1.7</b>	<b>1.4</b>	<b>1.3</b>	<b>3.8</b>
United States	0.7	0.2	0.7	0.8	1.1	1.1	1.3	1.9	1.0	1.0	0.8	1.1	0.2	0.3
Canada	0.3	0.0	0.4	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.3	0.1	0.3
Mexico	0.0	0.0	0.1	0.2	0.0	0.2	0.0	0.1	0.2	0.2	0.1	0.2	0.0	0.0
<b>NAFTA</b>	<b>0.5</b>	<b>0.2</b>	<b>0.5</b>	<b>1.0</b>	<b>0.7</b>	<b>1.3</b>	<b>0.9</b>	<b>2.2</b>	<b>0.7</b>	<b>1.2</b>	<b>0.6</b>	<b>1.3</b>	<b>0.1</b>	<b>0.4</b>
Chile	0.0	0.0	1.6	0.5	0.8	0.3	0.3	0.3	0.6	0.2	0.8	0.3	0.0	0.0
<b>Andean Community</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Mercosur</b>	<b>0.0</b>	<b>0.0</b>	<b>0.8</b>	<b>0.3</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.6</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Source: IMF, *Direction of Trade Statistics*.



both in its own right and for the role it could play in the formation of an East Asian or Western Pacific trade bloc. Each has potential political and security—as well as economic—implications. The potential arrangements in Northeast Asia in particular would have major implications for political and security relations among the Northeast Asian powers, between each Northeast Asian power and the United States, and in East Asia as a whole. Factors such as the potential reunification on the Korean peninsula and the problematic relationship between China and Taiwan<sup>6</sup> would add to the complexities surrounding the possible arrangements in both the economic and the political and security spheres. It is very unlikely that such trade arrangements could be negotiated in isolation from political and security considerations.

An FTA between Japan and South Korea would bring together the world's 2nd and 15th largest economies,<sup>7</sup> both of which are relatively industrially advanced and have similar import and export profiles, as noted in IDE (2000), although the gap in per capita income remains very large, as tables 2.5a&b show. An FTA would be a major step in the traditionally difficult political relationship between the two countries, and would signal an intention to reverse previous tendencies in their trade policies, which have more often seemed directed toward discouraging rather than encouraging trade between them, even with their geographic proximity.<sup>8</sup> Despite this propensity to discourage bilateral trade, the concentration ratios applying to the bilateral trade flows are well above 1 in all cases, as indicated in table 2.2c.

The similarity in Japan's and South Korea's export and import profiles suggests that much of the new trade generated by an FTA would be of the intraindustry variety, as is often the case in FTAs among industrial countries, and that consequently dynamic effects would be an important component of the overall economic benefits of the arrangement—a point much emphasized in IDE (2000). Less promisingly, the FTA would bring together two countries known for their fierce resistance to agricultural

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6. Whereas an understanding was reached within APEC to provide for the simultaneous participation of China and Taiwan (as well as Hong Kong), this understanding may not necessarily carry over to the formation of an East Asian economic bloc. The possible exclusion of Taiwan from such a bloc carries serious political and economic implications. The nexus between political and economic considerations would become even more sensitive if significant proposals developed for preferential trade arrangements involving Taiwan but not China.

7. These rankings are according to official statistics reported in the World Bank's *World Development Report 1999/2000*. In purchasing power parity, the Japanese economy already ranks behind China in size, as noted above, while South Korea ranks slightly higher, at 13th; see table 2.4.

8. IDE (2000) catalogs a number of elements in each country's trade policy that have tended to discourage bilateral trade, of which the best-known is perhaps Korea's Import Sources Diversification Program, which was finally eliminated in June 1999.

**Table 2.4a Shares in trade of CER economies (percent)**

Region, group, or economy	Australia		New Zealand	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
<b>World</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Japan	13.48	19.70	12.48	14.42
South Korea	3.60	8.11	1.90	4.17
China	5.64	4.64	4.42	2.73
Hong Kong	1.19	4.08	0.69	2.89
Taiwan	3.15	4.64	0.00	0.00
<b>Northeast Asia</b>	<b>27.06</b>	<b>41.16</b>	<b>19.49</b>	<b>24.21</b>
Brunei Darussalam	0.00	0.07	0.10	0.04
Cambodia	0.00	0.02	0.00	0.01
Indonesia	2.84	3.56	0.98	1.35
Laos	0.00	0.01	0.00	0.00
Malaysia	2.50	2.56	2.02	2.18
Myanmar	0.01	0.02	0.00	0.02
Philippines	0.40	1.37	0.24	1.34
Singapore	3.06	4.12	1.70	1.55
Thailand	1.55	1.85	0.95	1.23
Vietnam	0.66	0.32	0.16	0.31
<b>Southeast Asia (ASEAN)</b>	<b>11.03</b>	<b>13.90</b>	<b>6.14</b>	<b>8.04</b>
<b>East Asia</b>	<b>38.10</b>	<b>55.07</b>	<b>25.63</b>	<b>32.24</b>
Australia			23.72	20.30
New Zealand	4.36	6.91		
<b>CER</b>	<b>4.36</b>	<b>6.91</b>	<b>23.72</b>	<b>20.30</b>
<b>Western Pacific</b>	<b>42.46</b>	<b>61.98</b>	<b>49.35</b>	<b>52.54</b>
United States	22.64	7.70	17.70	10.81
Canada	1.65	1.51	1.88	1.42
Mexico	0.26	0.21	0.31	0.92
<b>NAFTA</b>	<b>24.56</b>	<b>9.43</b>	<b>19.89</b>	<b>13.15</b>
Chile	0.10	0.23	0.14	0.32
<b>APEC</b>	<b>68.28</b>	<b>73.19</b>	<b>69.60</b>	<b>67.98</b>
<b>Andean Community</b>	<b>0.06</b>	<b>0.14</b>	<b>0.29</b>	<b>1.04</b>
<b>Mercosur</b>	<b>0.52</b>	<b>0.77</b>	<b>0.41</b>	<b>0.78</b>

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Note: All figures are annual averages for years shown.

Source: IMF, *Direction of Trade Statistics*.

**Table 2.4b Value of trade flows of CER economies** (millions of US dollars)

Region, group, or economy	Australia		New Zealand	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
<b>World</b>	<b>61,370</b>	<b>59,845</b>	<b>14,020</b>	<b>13,274</b>
Japan	8,275	11,789	1,750	1,914
South Korea	2,207	4,852	266	553
China	3,461	2,776	619	362
Hong Kong	731	2,440	97	384
Taiwan	1,935	2,778	0	0
<b>Northeast Asia</b>	<b>16,609</b>	<b>24,634</b>	<b>2,733</b>	<b>3,213</b>
Brunei Darussalam	1	42	13	5
Cambodia	1	11	0	1
Indonesia	1,745	2,133	137	179
Laos	0	4	0	0
Malaysia	1,534	1,531	283	290
Myanmar	7	13	0	3
Philippines	248	821	34	178
Singapore	1,878	2,466	238	205
Thailand	952	1,107	133	163
Vietnam	405	192	22	42
<b>Southeast Asia (ASEAN)</b>	<b>6,771</b>	<b>8,321</b>	<b>860</b>	<b>1,067</b>
<b>East Asia</b>	<b>23,381</b>	<b>32,955</b>	<b>3,593</b>	<b>4,280</b>
Australia			3,325	2,694
New Zealand	2,677	4,134		
<b>CER</b>	<b>2,677</b>	<b>4,134</b>	<b>3,325</b>	<b>2,694</b>
<b>Western Pacific</b>	<b>26,058</b>	<b>37,089</b>	<b>6,918</b>	<b>6,974</b>
United States	13,897	4,609	2,482	1,435
Canada	1,013	904	263	188
Mexico	162	128	43	122
<b>NAFTA</b>	<b>15,072</b>	<b>5,642</b>	<b>2,788</b>	<b>1,745</b>
Chile	61	136	20	43
<b>APEC</b>	<b>41,904</b>	<b>43,798</b>	<b>9,758</b>	<b>9,024</b>
<b>Andean Community</b>	<b>34</b>	<b>87</b>	<b>40</b>	<b>138</b>
<b>Mercosur</b>	<b>320</b>	<b>460</b>	<b>58</b>	<b>103</b>

APEC = Asia Pacific Economic Cooperation.

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CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

NAFTA = North American Free Trade Agreement.

Source: IMF, *Direction of Trade Statistics*.

**Table 2.4c Simple concentration ratios for CER economies' trade in the Asia-Pacific region**

Region, group, or economy	Australia		New Zealand	
	Imports, 1996-98	Exports, 1996-98	Imports, 1996-98	Exports, 1996-98
Japan	1.6	3.4	1.5	2.5
South Korea	1.6	3.9	0.8	2.0
China	1.1	1.5	0.9	0.9
Hong Kong	1.1	1.3	0.6	0.9
Taiwan	1.3	2.5	0.0	0.0
<b>Northeast Asia</b>	<b>1.2</b>	<b>2.2</b>	<b>0.9</b>	<b>1.3</b>
Brunei Darussalam	0.0	1.2	2.1	0.7
Cambodia	0.1	0.7	0.0	0.3
Indonesia	2.9	5.6	1.0	2.1
Laos	0.0	0.6	0.0	0.0
Malaysia	1.5	1.9	1.2	1.7
Myanmar	0.6	0.5	0.1	0.5
Philippines	0.8	2.0	0.5	2.0
Singapore	1.8	2.0	1.0	0.7
Thailand	1.4	1.8	0.9	1.2
Vietnam	4.3	1.5	1.0	1.5
<b>Southeast Asia (ASEAN)</b>	<b>1.7</b>	<b>2.2</b>	<b>0.9</b>	<b>1.2</b>
<b>East Asia</b>	<b>1.2</b>	<b>1.9</b>	<b>0.8</b>	<b>1.1</b>
Australia			21.0	18.6
New Zealand	16.1	30.2		
United States	1.4	0.4	1.1	0.6
Canada	0.4	0.4	0.5	0.4
Mexico	0.1	0.1	0.2	0.5
<b>NAFTA</b>	<b>1.0</b>	<b>0.6</b>	<b>0.8</b>	<b>0.8</b>
Chile	0.3	0.7	0.5	1.0
<b>Andean Community</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>1.4</b>
<b>Mercosur</b>	<b>0.3</b>	<b>0.4</b>	<b>0.3</b>	<b>0.5</b>

ASEAN = Association of Southeast Asian Nations.

NAFTA = North American Free Trade Agreement.

Source: IMF, *Direction of Trade Statistics*.

trade liberalization within the WTO, fueling suspicions that they may see a bilateral FTA as a way to pursue the benefits of trade liberalization in a framework that would allow the exclusion of all sensitive agricultural and other natural-resource-based products.

The inclusion of China in a Northeast Asian FTA would likewise be of enormous economic and political significance. It would add the world's 7th largest economy<sup>9</sup> to the arrangement, and would significantly change the political and security equations associated with regional trade liberalization in Northeast Asia. The sense of rivalry and grievance that would have to be overcome for China and Japan to agree to participate together in the arrangement is perhaps even more deep-seated and complex than in the case of Japan and South Korea. The inclusion of China would add greatly to the size of the potential combined market to be created by the FTA, which would then account for almost 20 percent of world GDP, as table 2.4 shows.<sup>10</sup> It would also dramatically widen the diversity in export profiles among the members of the FTA, creating an expectation of greatly increased potential for the expansion of interindustry trade.

As table 2.2a shows, the share of current Japanese and South Korean trade covered by the arrangement would be much greater than in a bilateral FTA between those two countries alone, and for China the share of its current total trade covered under the FTA would be even larger. Concentration ratios applying to the bilateral trade flows between the prospective partners are generally though not universally well above 1, confirming the impression that these three economies are for the most part already trading intensively with each other. At the same time, table 2.2a also shows that the share of Japan's trade accounted for by the United States remains significantly higher than the share of its trade with the prospective members of a Northeast Asian FTA. In the case of China and Korea, trade with the United States does not overshadow trade with the prospective Northeast Asian partners in the same way, but its relative significance remains considerable. This suggests that, for all three economies, the potential effects on their economic relations with the United States is likely to be an important consideration in their evaluation of their possible participation in a Northeast Asian FTA.

The amalgamation of AFTA and CER would bring together the two established SRTAs in the Western Pacific. Both are recognized as being relatively "high-standard" SRTAs (see, e.g., WTO 1995). On the face of it, an agreement designed to a similarly high standard linking these two arrangements would thus appear to be an attractive candidate as a build-

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9. This ranking, again, is as measured by official statistics. When measured on a purchasing power parity basis, China is the world's 2nd largest economy; see table 2.5a.

10. It is assumed throughout this book that an FTA involving China would include the Hong Kong Special Administrative Region of China.

ing block for regional and global free trade. Such an agreement would cover 9 of APEC's 21 members. On a global scale, however, and in contrast to the potential members of a Northeast Asian agreement, these 9 economies are relatively small, in total accounting for only 3.5 percent of world GDP (tables 2.5a&b). Despite a significant degree of complementarity in the trade profiles of the two groups, they are not especially important to each other as trading partners (see tables 2.3 and 2.4). Only in a few cases does the combined share of the two CER economies in the exports or imports of an individual AFTA member economy exceed 3 percent.

Individual AFTA economies also generally account for 3 percent or less of both exports and imports of both CER economies, although the AFTA economies together account for 11 percent of Australian imports and 14 percent of exports, with the corresponding figures for New Zealand being 6 and 8 percent. Concentration ratios in the bilateral trade between the two CER economies and the larger core AFTA economies are for the most part above 1—in some cases well above—suggesting that the relatively low level of interregional trade is related more to the small size of the economies concerned rather than any lack of propensity to trade. Concentration ratios observed in trade among the core<sup>11</sup> AFTA members and between Australia and New Zealand are, however, generally higher than those observed in bilateral flows between members of the two groups. This, together with complementarity in trade profiles and geographical proximity, suggests the potential for a significant increase in interindustry trade.

The third group of potential Western Pacific SRTAs links economies from the three main subregions: Hong Kong, Japan, and South Korea from Northeast Asia; Singapore from Southeast Asia; and Australia and New Zealand from Australasia. These possible SRTAs involve efforts by economies in one of these subregions to establish bilateral linkages in the other two—efforts likely to reflect perspectives on how broader SRTA initiatives may develop in the Western Pacific. Their motivation could be proactive, aimed at securing a leadership role in any broader developments, or it could also be defensive, driven by concern over the perceived risk of possible exclusion from larger groupings in the future. It could also of course be purely opportunistic, but the fact that several economies are involved in more than one proposal suggests that some element of strategy is likely to be involved.

Tables 2.2 and 2.3 show that the proposed Japan-Singapore SRTA covers a bilateral trade flow that is of some importance to both potential partners. Japan accounts for 17 percent of Singapore's imports and 7 percent of its exports, and Singapore is a modest but not insignificant market for Japan's

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11. The term "core" is used here to denote the ASEAN economies accounting for the majority of ASEAN's combined economic output, i.e., Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

**Table 2.5a Gross national products of individual APEC economies**

<b>Economy</b>	<b>GNP</b> (billions of US dollars)	<b>Population</b>	<b>GNP per capita</b>	<b>Percent of APEC GNP</b>	<b>Percent of world GNP</b>	<b>PPP GNP</b> (billions of US dollars)	<b>PPP GNP per capita</b>	<b>Percent of world PPP GNP</b>
Australia	381	19	20,300	2.35	1.32	378	20,130	1.03
Brunei Darussalam	5	0.3	17,250	0.03	0.02			
Canada	612	31	20,020	3.78	2.12	736	24,050	2.01
Chile	71	15	4,810	0.44	0.25	191	12,890	0.52
China	929	1,239	750	5.73	3.22	3,984	3,220	10.90
Hong Kong	158	7	23,670	0.98	0.55	147	22,000	0.40
Indonesia	139	204	680	0.85	0.48	569	2,790	1.56
Japan	4,090	126	32,380	25.23	14.17	2,928	23,180	8.01
South Korea	370	46	7,970	2.28	1.28	569	12,270	1.56
Malaysia	80	22	3,600	0.49	0.28	155	6,990	0.42
Mexico	381	96	3,970	2.35	1.32	786	8,190	2.15
New Zealand	56	4	14,700	0.34	0.19	60	15,840	0.16
Papua New Guinea	4	5	890	0.03	0.01	12	2,700	0.03
Peru	61	25	2,460	0.38	0.21			
Philippines	79	75	1,050	0.49	0.27	266	3,540	0.73
Russia	338	147	2,300	2.08	1.17	580	3,950	1.59
Singapore	95	3	30,060	0.59	0.33	91	28,620	0.25
Taiwan	283	21.7	13,060	1.75	0.98			
Thailand	134	61	2,200	0.83	0.47	357	5,840	0.98
United States	7,921	270	29,340	48.86	27.44	7,923	29,340	21.67
Vietnam	26	78	330	0.16	0.09	131	1,690	0.36
APEC	16,213	2,495	6,498	100.00	56.17	19,862	7,960	54.33

APEC = Asia Pacific Economic Cooperation.

GNP = gross national product

PPP = purchasing power parity

Source: World Bank, *World Development Report 1999/2000*.

Table 2.5b Gross national products of selected economic groupings

Group	GNP (billions of US dollars)	Population	GNP per capita	Percent of world GNP	PPP GNP (billions of US dollars)	Percent of world PPP GNP <sup>a</sup>
APEC	16,213	2,495	6,498	56.17	19,862	54.33
AFTA	575	507	1,133	1.99	1,588	4.34
CER	436	23	18,974	1.51	438	1.20
Northeast Asia	5,830	1,440	4,050	20.20	7,628	20.87
Japan-Korea	4,460	172	25,929	15.45	3,498	9.57
Japan-Korea-China	5,547	1,418	3,912	19.22	7,628	20.87
Japan-Korea-China-AFTA	6,122	1,925	3,180	21.21	9,216	25.21
Japan-Korea-China-AFTA-CER	6,558	1,948	3,366	22.72	9,654	26.41
Japan-Korea-AFTA	5,035	679	7,411	17.44	5,086	13.91
Japan-Korea-AFTA-CER	5,471	702	7,790	18.96	5,523	15.11
NAFTA	8,914	397	22,454	30.89	9,444	25.83
Mercosur	1,112	210	5,293	3.85	1,440	3.94
Andean Community	275	109	2,523	0.95	575	1.57
South American FTA	1,458	334	4,365	5.05	2,206	6.04
CACM	45	32	1,406	0.16	106	0.29
Caricom	20	7	2,810	0.07	42	0.11
FTAA	10,463	789	13,262	36.25	11,866	32.46



EU-15	8,280	375	21,420	28.69	7,564	20.69
EU-28	8,837	543	16,273	30.62		
World	28,862	5,897	4,894	100.00	36,557	100.00

AFTA = ASEAN Free Trade Area.

APEC = Asia Pacific Economic Cooperation.

ASEAN = Association of Southeast Asian Nations.

CACM = Central American Common Market.

Caricom = Caribbean Community and Common Market.

CER = Australia-New Zealand Closer Economic Relations Trade Agreement.

EU = European Union.

FTA = free trade area.

FTAA = Free Trade Area of the Americas.

GNP = gross national product.

NAFTA = North American Free Trade Agreement.

PPP = purchasing power parity.

a. The following are excluded from group figures—APEC: Brunei Darussalam, Peru, Taiwan; Andean Community: Peru; AFTA: Myanmar; Caricom: Montserrat, Suriname.

Source: World Bank, *World Development Report 1999/2000*.

exports.<sup>12</sup> Concentration ratios confirm that this is a relatively intense relationship. South Korea and Australia are also moderately important trading partners, with Korea accounting for 8 percent of Australia's exports and 3.5 percent of its imports, while Australia accounts for 4 percent of Korea's imports and almost 2 percent of its imports. In the Korea-New Zealand proposal, Korea is a moderately significant export market for New Zealand, and concentration ratios exceeding 1 are observed in both economies in relation to this trade (table 2.4). But Korea's exports to New Zealand have not developed to the same extent, either in concentration ratios or trade shares of the two economies (table 2.2).

The Singapore-Australia and Singapore-New Zealand bilateral trade flows are much less important to Singapore than its trade with Japan (tables 2.3 and 2.4), and less important to both Australia and New Zealand than their trade flows with South Korea. Trade flows between Singapore and New Zealand are particularly small, accounting respectively for 0.17 and 0.30 percent of Singapore's imports and exports, with the corresponding figures for New Zealand being 1.70 and 1.55 percent. Despite this, however, the Singapore-New Zealand proposal has been the first to reach the stage of formal agreement. The Singapore-New Zealand agreement contains provisions on investment and services trade, as well as an advanced treatment of facilitation measures, and is an example of an SRTA that is not perhaps primarily motivated by the aim of stimulating trade in goods between the parties.

## Trade Flows in a Possible East Asian Trade Bloc

Because this book focuses some attention on the possible formation of an East Asian trade bloc, it is also of interest to briefly indicate the scale of trade flows that would be covered by such a bloc. For the purposes of this discussion, it is convenient to divide the Western Pacific into three distinct subregions: Northeast Asia (consisting of China, Taiwan, Hong Kong, Japan, and South Korea), Southeast Asia (consisting essentially of ASEAN members), and Australasia (the two CER economies). An East Asian trade bloc could consist of Northeast and Southeast Asia only, and would correspond to the East Asian Economic Grouping proposed some years ago by Malaysia's Mahathir Mohammad. Alternatively, it could be made up of Northeast and Southeast Asia together with Australasia. (In the tables for this chapter, and in the rest of the book, a grouping including only Northeast and Southeast Asia is described as "East Asia," whereas

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12. As usual, discussion of Singapore's trade must be qualified by noting the uncertainty about the proportion represented by Singapore's own exports and imports, as against the exports and imports of other Southeast Asian countries channeled through Singapore as an entrepôt.

a grouping that also includes Australasia is described as the “Western Pacific.”)

Table 2.5 shows that (in 1998 figures) an East Asian bloc would account for just over 22 percent of world GDP, rising to almost 24 percent of GDP for a bloc formed on the basis of the Western Pacific grouping. The Japanese economy would by itself account for more than half of this figure, at 14 percent of world GDP. By way of comparison, a western hemisphere bloc corresponding to the FTAA would account for just above 36 percent of world GDP, with the United States alone accounting for more than 27 percent. The 15 current members of the European Union account for almost 29 percent of GDP, rising to nearly 32 percent if the 13 additional potential members earmarked for accession are included. The three blocs between them could thus account for more than 90 percent of world GDP, despite the fact that more than half the nations of the world (embracing a substantial proportion of the earth’s land surface) would not be included in any of the three.

An East Asian trade bloc would also cover a very substantial share of the trade of all its members. A trade bloc based on the East Asian grouping would cover trade shares of its Northeast Asia members, ranging from 36 percent of Japan’s imports to almost 75 percent of Hong Kong’s imports, while an expanded Western Pacific bloc would cover more than 40 percent of the imports and exports of all its Northeast Asian members (table 2.2). The shares of the trade of the major ASEAN economies covered in the East Asian grouping range from 41 percent of Philippine exports to 68 percent of Vietnam’s imports (table 2.3). A Western Pacific grouping would cover more than 50 percent of the exports and imports of all major ASEAN economies (with the exception of Philippine exports). For Australia and New Zealand also, the share of imports and exports covered by a Western Pacific grouping is in a similar range: 42 percent of imports and 62 percent of exports for Australia, with the corresponding figures for New Zealand being 50 and 53 percent (table 2.4).

There are some intriguing parallels between the potential East Asian and western hemisphere blocs. In both cases, the core of the bloc consists of three geographically adjacent major economic powers, led (in economic development) by a global industrial power (Japan in East Asia, the United States in the western hemisphere), and including another major industrial nation (Canada and South Korea) and a leading developing economy (China and Mexico). Also in both cases, there are similar alternative potential routes to the creation of a regional trade bloc. One scenario for the FTAA sees it as essentially an extension of NAFTA, and an East Asian bloc could likewise be formed by a process of expansion based on the Northeast Asian grouping. In each case, this formula is challenged by groups of smaller nations seeking to play the leading role in establishing any regional economic bloc.

In the western hemisphere, Brazil and its associates in Mercosur would like to see the FTAA established by a negotiation process in which the interests of NAFTA and South American economies are equally represented. In East Asia, ASEAN aspires to a leadership role. In an East Asian trade bloc, this could be achieved through the extension of the ASEAN-plus-three cooperation activities to embrace trade issues, or through the amalgamation of AFTA and CER before negotiations with the Northeast Asian economies.

The parallels should not be pushed too far, however, because there are clear asymmetries between the two situations. The United States dominates the western hemisphere in a way that Japan is unlikely to be able to do in East Asia, for both economic and political reasons. Japan accounts for a significantly smaller share of East Asian GDP, and is in a state of at least temporary economic decline, in contrast to the dynamic expansion of the US economy throughout most of the past decade. Japan also faces aggressive competition from South Korea in regional and global markets, and in the longer term a likely challenge from China for regional economic leadership. Neither Canada nor Mexico offers the same current or potential challenge to the United States. The uneasy, tense, potentially unstable political equilibrium in Northeast Asia also has no parallel among the NAFTA countries. Furthermore, Japan is unable to match the ability of the United States to exert economic hegemony at the global and regional levels, both directly through its own economic initiatives and indirectly through its influence in global economic institutions. The establishment of the levels of economic cooperation and coordination necessary for an effective economic bloc remains at an embryonic stage in East Asia.

## **Can an East Asian Trade Bloc Happen?**

The next chapter explores the potential economic effects of an East Asian trade bloc, both in contrast to and in combination with other alternatives. Before proceeding to this exercise, however, one should pause to address the question of whether the hypothesized East Asian trade bloc is a realistic prospect. None of the initiatives proposed so far would themselves constitute such a bloc, which would have to evolve as a subsequent development. A number of easily identifiable obstacles—institutional, economic, and political—would have to be overcome before such a development could become a reality.

Potential institutional obstacles exist at both the multilateral and local-regional levels. At the multilateral level, an East Asian trade bloc—and any SRTAs that might be its precursors—would have to satisfy the WTO obligations relating to RTAs as set out in GATT Article XXIV (for trade in goods) and General Agreement on Trade in Services (GATS) Article V (for trade in services). The effectiveness of these WTO disciplines has,

however, been severely compromised by the inability of the members to reach agreement on a large number of systemic issues related to the interpretation of GATT Article XXIV and GATS Article V. The WTO Secretariat has prepared an extensive paper cataloguing the disputed “systemic issues” (WTO 2000b).

As a result of these disagreements, neither the WTO’s Committee on Regional Trade Agreements (CRTA) nor the GATT before it has been able to decide whether the agreements notified to it are in conformity with Article XXIV. By 1994, agreement had been reached in only one case, the Czech-Slovak customs union. No report has yet been adopted on any of the agreements notified since the WTO began in 1995. In preparatory papers for the Seattle meetings, one member described the outputs of the CRTA as nothing more than a “catalogue of the disagreements” of members on the interpretation of Article XXIV.

A central disagreement in the interpretation of Article XXIV has been over the provision that the establishment of free trade under the agreement must cover “substantially all trade” among the parties. Disagreement over the interpretation of this provision has led repeatedly to deadlock in CRTA discussions. There is no consensus as to whether this provision should be interpreted quantitatively (to mean, e.g., that some minimum percentage of trade among the parties must be covered) or qualitatively (to mean, e.g., that no important sector should be omitted from the agreement). Laird (1999) has questioned whether it is even desirable to seek maximum possible trade coverage in all RTAs, pointing out that—in the case of seriously trade-diverting SRTAs—the economic damage to members and nonmembers alike might be reduced through the exclusion of the sectors in which the most serious trade diversion is expected to occur.

On the other hand, the opportunity to exclude “sensitive sectors” from RTAs and SRTAs might encourage some important trading nations to give a higher priority to preferential alternatives rather than the multilateral approach to trade liberalization. Conversely, the experience of full liberalization within an SRTA with limited membership might be argued to encourage members to take a more positive attitude to multilateral liberalization (see, e.g., Scollay 1996).

Even if agreement could be reached as to whether a quantitative or a qualitative criterion should be used, there would still be issues to resolve on how the criterion should be defined. Various figures (e.g., including 80 and 90 percent of all trade) have been proposed as quantitative criteria, but no consensus has been reached. Even if consensus could be reached on a quantitative criterion, there would be a further issue as to how compliance with it should be measured, in particular whether the measurement should apply only to existing trade or whether, for example, the measurement should take account of trade that fails to occur because of the extent of existing trade barriers.

This issue is relevant to the feasibility of an East Asian trade bloc because it is sometimes argued that insistence by some potential members on excluding agricultural trade from such a bloc would make it impossible to design an agreement compatible with WTO obligations. Against this it must be pointed out that, in the current state of uncertainty over interpreting Article XXIV, a number of RTAs have already been notified to the WTO and are currently in force, from which the agricultural sector has been to a greater or lesser extent excluded. It seems likely that a number of these agreements would have infringed at least some of the proposed quantitative guidelines. Although the outlines of any new East Asian SRTAs have yet to emerge, there seems little basis for concluding that East Asian economies could not design an RTA that accommodated their sensitivities over agriculture and perhaps some other products while not exceeding the boundaries set by precedents that have already been accepted by default within the WTO.

Another institutional constraint sometimes argued to apply at the regional level concerns the readiness of China, as an economy in transition, to participate in SRTAs. It has been suggested by Yamazawa (2000) that it may be some time before Chinese participation in RTAs will be possible. Against this, China's forthcoming entry into the WTO will presumably reinforce the implementation of procedures that will facilitate its participation in SRTAs.

Furthermore, SRTAs are usually implemented over a transitional period of up to 10 years, with 15-year periods not unknown in developing countries. A 15-year implementation timetable commencing, say, 2 to 3 years from now would closely parallel the timetable China will have to follow if it is to meet its APEC commitments. It can also be noted that economies in transition have not been precluded from SRTA membership in other contexts. Vietnam, for example, is a full member of AFTA. As noted above, China itself has recently expressed a willingness to consider forming an FTA with ASEAN.

If institutional constraints on the formation of SRTAs or trade blocs in East Asia may not be binding, a complex nexus of economic, political, and security considerations will nevertheless present further potential impediments to the formation of an East Asian trade bloc. The trade and welfare effects of possible configurations will be explored in the next chapter. These, however, will not be the only economic factors likely to be considered by East Asian economies, which are also bound to weigh the effects on the global economic system of any general move to regionalization of trade arrangements in East Asia, along with any consequent longer-term effects on their economic interests. Related to this will be the question of how far the East Asian economies pursue coordinated action as an economic grouping or bloc in other fields of economic policy, as elaborated in Bergsten (2000).

Some trade issues are potentially divisive in a larger East Asian trade grouping. There are likely to be sharply different views on whether, and to what extent, agriculture should be included in any East Asian free trade arrangement. Malaysia recently insisted on excluding autos from its AFTA commitments, and this stance also is likely to be controversial if repeated in negotiations for an East Asia-wide FTA.

It is, however, the politics of relations between the Northeast Asian economies and the associated security issues that are likely to present the most formidable obstacles. As noted above, issues related to the reunification of North and South Korea and the status of Taiwan are likely to loom large, together with issues specific to the bilateral political relations between the three major Northeast Asian powers, China, Japan, and South Korea. These Northeast Asian powers are unlikely to launch a major new joint economic initiative without careful consideration of the implications for their economic, political, and security relationships with the United States.

The sensitivities of ASEAN toward Northeast Asia and the wider security issues affecting Southeast Asia would also be important considerations, and other political factors involving ASEAN might also come into play. For example, although an amalgamation of AFTA and CER might be postulated as a possible building block for a broader East Asian regional arrangement, Malaysia's Mahathir Mohammad has so far exercised an effective veto over the inclusion of Australia and New Zealand in a broader East Asian economic or political grouping.<sup>13</sup>

## APEC and Regional Trade Flows

It is clear, of course, that in comparison with other regional trade groupings, APEC—by virtue of its transpacific dimension—continues to offer most countries of the Asia-Pacific region the potential advantage of including a larger number of their most important trading relationships, and consequently also coverage of a larger share of their total trade. From this chapter's tables, it can readily be calculated that APEC covered 74 percent of the total trade of the Northeast Asian economies, relative to 47 and 50 percent coverage by an East Asian and Western Pacific trade bloc, respectively. APEC thus extends the trade coverage for these economies by 56 and 48 percent, respectively, compared with the latter two potential options. APEC's western hemisphere members are particularly important for Japan's trade, with NAFTA countries accounting for just under 30 percent of Japan's total trade, as against 38 percent with East Asia and 41 percent with the Western Pacific as a whole.

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13. It is, however, interesting in this connection to note that Australia and New Zealand have been included in the recently launched East Asia-Latin America Forum.

The additional coverage provided by APEC is only slightly less for its Southeast Asian members, 75 percent of whose total trade takes place with other APEC members, relative to 54 percent with potential members of an East Asian bloc and 57 percent for potential members of a Western Pacific bloc. In comparison with the latter two potential alternatives, APEC thus provides Southeast Asia with additional coverage of its total trade of 38 and 32 percent, respectively.

For the CER economies, the appropriate comparison is first with a potential Western Pacific bloc, which would cover 52 percent of their total trade. By contrast, APEC covers 70 percent of the two economies' trade, an additional coverage of 36 percent. Should an East Asian bloc form without them, it would cover 43 percent of their current total trade, on the basis of the figures in the tables.

The picture is rather more mixed among APEC's western hemisphere members. Although the United States conducts 30 percent of its total trade within the existing preferential NAFTA arrangement, the full APEC membership encompasses more than double this share, at 65 percent. The Western Pacific APEC members account for 34 percent of all US trade, which contrasts with only 5 percent of total US trade conducted with the whole of South America. At the other extreme, the trade of Canada and Mexico is centered much more on NAFTA, which accounts for 78 and 82 percent, respectively, of their total trade, as against 9.5 and 6.5 percent, respectively, with APEC's Western Pacific members. Chile and Peru balance their trade interest in the APEC region between NAFTA, which respectively accounts for 25 and 34 percent of their total trade, and the Western Pacific APEC members (24 and 16 percent). Chile and Peru also respectively conduct 20 and 21 percent of their total trade with other South American countries.

The additional coverage provided by APEC's transpacific dimension is thus very substantial for most of its members. It is also worth keeping in mind that two economic giants of the APEC region, Japan and the United States—which have proven in practice to be among the least enthusiastic practitioners of APEC's concerted unilateral approach to liberalization—conduct a larger share of their trade on a transpacific basis than other countries in the region.