Discussion Paper

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Republic of China

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Globalization and Regionalization
-- Taiwan's Perspective

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Chi-ming Hou & Chien-nan Wang

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Chi-ming Hou* & Chien-nan Wang**

The world economy is increasingly more integrated due to the rapid expansion of trade and investment. This globalization of the world economy has progressed under the auspices of the General Agreement on Tariffs and Trade (GATT). Since Taiwan's economy is heavily dependent on trade, it is important for Taiwan to enter GATT in order to enjoy indiscriminate and open trade.

However, the recent difficulty of the Uruguay Round (UR) demonstrates the decline of the global approach. On the other hand, regionalization has become the dominant trend. In Europe (the European Economic Community, EEC) and in North America (U.S.-Canada and U.S.-Mexico Free Trade Area), major regional integration is in progress. Because these regionalization developments will inevitably divert some trade from outsiders, it may have a substantial impact on Taiwan's economy. Also,

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as a country in Asia, Taiwan's future is more closely associated with regional developments in the Asian-Pacific area.

There are different types of Pacific cooperative arrangements such as loose communication forums like PBEC and PECC, which help enhance communication and mutual understanding; there are consultative ministerial meetings such as APEC; there are proposals to form a Pacific free trade area; and there are Chinese area proposals that include mainland China, Taiwan and Hong Kong. Moreover, there are proposals for a bilateral free trade area (FTA) between the U.S. and Asian nations such as Japan or Taiwan. There is also a recent Malaysian proposal to form a common-voiced East Asian Economic Grouping.

Taiwan, with her weak political position in the international arena, needs to actively respond to the changing international economic environment: from globalization to regionalization. This paper analyzes this economic environment and aims at evaluating different institutions and proposals from Taiwan's perspective, and especially focuses on regionalization.

GATT and Taiwan

GATT is the most important post-World War II multilateral trade organization. It is based on reciprocity to lower tariff and non-tariff barriers, to reject discrimination and has the overall goal to reconstruct trade order and to promote free trade. Its members are not necessarily nations and are stipulated as ''contracting parties''. Thus, this legal terminology may make it easier for an economy (Taiwan, for example) to enter or reenter. Entering GATT will require the approval of two-thirds of all contracting parties.

While the Republic of China (Taiwan) was one of the twenty-three original members of GATT, it withdrew from GATT in 1950 due to the Communization of mainland China. Taiwan became an observer in 1965, but the observer position was lost in 1971 due to Taiwan's withdrawal from the United Nations (UN). On the other side of the China Strait, the Peoples' Republic of China became a GATT observer in 1984, and applied to be a GATT member in 1986.

Under the principle of reciprocity, a contracting party will offer trade preference if its trade partner gives an equal offer. This provides a safeguard against the fear of becoming a loser in the process of trade liberalization. The non-discrimination principle can be divided into the "Most Favored Nation" treatment (MFN) and the "National Treatment". The former extends trade favors to all contracting parties, and the latter treats the imports from contracting parties and domestic products at the same preference level. It is apparent that GATT contracting parties share substantial mutual benefits.[1]

Even though Taiwan withdrew from GATT in 1950, the U.S. maintained Taiwan's MFN status, and thus promoted Taiwan's trade growth. After the 1979 Tokyo Round, nineteen developed countries offered the Generalized System of Preference (GSP) to Less Developed Countries (LDCs). Taiwan also received GSP treatment from the U.S., Japan, Australia, New Zealand and Austria. Taiwan has

[1] For a good discussion of the function of GATT, see Yin Wen Tsai, "A Study of International Organizations," Mimeo, 1991.

maintained about 23% of the U.S. GSP share since that time.

However, Taiwan graduated from the U.S. GSP treatment in 1989. In fact, because of the strength of Taiwan's economy and the decrease in East-West antagonism, it is difficult for Taiwan to appeal for unilateral trade preference from developed countries. Moreover, the rise of regionalization will inevitably divert trade from outside countries. Taiwan, like other countries, can benefit the most from the GATT framework for multilateral free trade agreements. The MFN and the National Treatment can prevent trade diversion from any regional blocks. Also, as recently proposed, GATT can monitor trade blocks' unfair trade practices against LDCs or against Newly Industrialized Economies (NIEs) like Taiwan. Therefore, it is natural for Taiwan to reenter GATT and to promote multilateral trade liberalization.

However, because regionalization is the recent trend, Taiwan has to adapt to this reality. The most significant regionalization movements in the world are the European Common Market and the U.S.-Canada (also U.S.-Mexico) FTAs. As well, the regional development most relevant to Taiwan's economy is the East Asian Pacific area.

The European Single Market and Taiwan

The Single European Act in 1987 envisages the ending of all remaining restrictions on the intra-community flow of goods, capital, and labor in Europe by 1992. The intra-European trade volume is about 22% of total world trade volume, which is higher than the 12% of the U.S. and 8% of Japan. With the integration of the European Economic Community (EEC), the potential of European trade has no equal in the world.

As for intra-European trade, its share in the total EEC trade was 60% in 1989, and could easily be higher than 70% after 1992 (see Table 1). Furthermore, with the participation of the European Free Trade Association (EFTA) in the EEC, the trade share could easily be higher than 80%. Therefore, trade in the EEC is much more important for EC members than trade with outsiders. Consequently, outsiders' concerns about increased European protection are understandable.

The Commission of European Communities (ECC) met in 1988 and then announced the European Community position for external trade. It indicated that future European trade policy will emphasize world partnerships based on the principle of ''reciprocity''. Therefore, after 1992, there will not be a ''Fortress Europe" but a "Partner Europe''. However, a common market will produce substantial trade diversion even in the best scenario. Table 1 shows the current U.S. trade share in total European trade is 8%, Japan's share is 3%, and Taiwan's and South Korea's shares are less than 1%. The amount of this trade is not comparable to European intra-regional trade.

From Taiwan's perspective, its share of the total exports to Europe in 1989 was 0.5%, and the 1989 Taiwanese share of the total exports from Europe was 0.9%; meanwhile the European share in total imports from Taiwan was 12.4% (i.e. 12.4% of Taiwan's total imports was European), and the European share in total exports from Taiwan was 14.6%. Therefore in trade matters, Europe is important to Taiwan, while it's not the case the other way. Moreover, the EEC can act as a block with stronger bargaining power against Taiwan.

The practices and new codes in Europe are also potential barriers against goods from outside countries. The anti-dumping code and countervailing duty code were declared in 1988. The former triggers anti-dumping investigations for high growth or high market share import commodities. Usually, dumping is defined as the case where the domestic price is higher than the export price. However, price discrimination between domestic and foreign markets is compatible with the economic rationale under free competition. The most meaningful comparison is between export price and cost. Therefore, the really problematic predatory dumping exists when price is lower than the marginal cost in order to expel producers in the importing country. However, the predator exists only when it has the monopoly power of a foreign market and can maintain entry barriers against newcomers, which is rarely the case. Even if that is the case, anti-dumping duties may still not bring in positive net benefits to importers. Therefore, the judgment of anti-dumping is often distorted. Distortions also often exist in the countervailing duty case.[2]

Moreover, the rules of origin have become more rigorous. That is, the criteria used to decide the origin of a product have become more stringent. For example, to enjoy National Treatment in continental Europe, a Japanese car made in England needs to have more than 80% domestic content. Also, although the quota permit of each member country is substituted by a single community quota permit, the latter is likely to follow more rigorous standards due to its implications for overall EC unemployment. Furthermore, sensitive products such as automobiles and textiles are still subject to import barriers. If necessary, the ''Emergency Act'' can be appealed

[2] For a discussion of the abuse of antidumping and countervailing duty, see Tsin Tsung Lin, ''Response to the Pacific Economic Cooperation: Trade Aspect,'' *Taiwan Economic Research Monthly*, April 1988.

to adopt some control measures. Therefore, a protectionist Europe after 1992 is still a real possibility.

To respond to the EEC development, Taiwan could adopt several measures. First, the trade between Taiwan and the EEC has been growing rapidly since 1979 (when the diplomatic relations between Taiwan and the U.S. were broken). Because of this increasing trade, the EEC holds irregular consultation meetings with Taiwan. Currently they are maintained at a low technical level regarding trade. However, it is apparent that increasing trade with Europe can diversify trade from Japan and the U.S. and can promote the level of relations between the EEC and Taiwan.

Secondly, the EEC has announced its open door policy for free trade based on the principle of ''reciprocity''. Taiwan's best response is to also open its markets, and be prepared for the competition from Europe. Since Taiwan has maintained a trade surplus with the EEC over the past ten years, import liberalization of Taiwan is important for an enduring Taiwan-EEC relationship.

Thirdly, the trade-related rules of the EEC are very complicated and the 282 instructions for the single market only add to the difficulties. It is urgent for Taiwan to increase its number of specialists in European affairs to catch up with the rapidly changing EEC development.

Fourthly, there will be more competition for the single market pie and it is important to act appropriately to maintain market share. Measures can include increasing direct investment into the EEC with substantial domestic content in order to circumvent the protectionist barriers. Also, it is probably difficult to have an overall product strategy and it is more feasible to have a case-by-case approach to develop the competitiveness of individual products.

Fifthly, without diplomatic relations, a consultative channel for trade and investment should always be maintained so that Taiwan's voice can be heard. The termination of this communication channel, however, should not be allowed to be used as a threat to force Taiwan into trade concessions.[3]

The U.S. Bilateral Free Trade Agreement and Taiwan

After a year and a half of negotiations, the U.S.-Canada Free Trade Agreement was signed in 1987 and became effective in January 1989. The agreement removes all tariff and non-tariff barriers for a wide range of items, including agriculture, energy, finance, investment, other services, and government purchases. The implementation will be complete by January 1999. Also, the U.S.-Mexico free trade agreement is expected to be signed in 1992. As a result, a North American free-trade area will be formed, with a potentially significant impact on the rest of the world.

From Taiwan's perspective, a North American FTA will inevitably divert some Taiwan exports away from the U.S. market. Taiwan's exports to the U.S. are concentrated in clothing, wood and rubber products, electric and non-electric machinery, transportation equipment, and other manufactured items (see Table 2 for 1988 export composition). In the Canadian case, its major export categories to the U.S. include food, crude materials, fabricated materials and motor vehicles (see Table 3). Therefore, the substitution of Canadian exports for Taiwan's exports may not be

[3] For a wide-ranged discussion of Taiwan's response to the Single Europe, see Bin Chiung Dawn, *Europe 1992*, Business Weekly Co. 1990, Taipei.

substantial after the U.S.-Canada FTA is formed.

On the other hand, the major Mexican export categories (to the U.S.) include fish, fruit, coffee, petroleum, chemicals, metals, manufactures, clothing, electric and non-electric machinery, and transport equipment. There is a substantial overlap between Taiwan's exports and Mexican exports. Mexico, with its developed industry base, cheap labor and cheap land, could well be a strong competitor against Taiwan after the possible formation of the U.S.-Mexico FTA. Nonetheless, 45% Mexican manufactures exports to the U.S. (especially machinery and transportation equipment) come from the maquiladoras factories near to the U.S.-Mexican border, the formation of a FTA won't affect the competitiveness of these factories. Furthermore, the possible trade diversion may be partially offset due to the low preference margin for Mexico in the FTA agreement (current average U.S. tariff rate for Mexico is 4%) and the expanding Mexican imports due to its export-led growth. However, the impact may change from industry to industry. Texitle and clothing industry, with high tariff rates, may face larger impacts.

Moreover, foreign direct investment in the FTA is usually given National Treatment. Therefore, U.S. capital may well be diverted from other countries toward Canada and Mexico. This will have a negative impact on the direct investment and technology transfer to Taiwan.

Facing this potential diversion, one possible response of Taiwan is to form a bilateral FTA with the U.S. or with the whole North American FTA. There are some benefits of forming an FTA between Taiwan and the U.S.. From Taiwan's perspective, the economy of scale would help Taiwan to expand its industries with comparative advantage and to eliminate the marginal industries with low competitiveness. Also, since Taiwan is not a member of GATT, Taiwan-U.S. trade issues could be addressed comprehensively in the FTA forum and the diplomatic relations between Taiwan and the U.S. could be improved.

From the U.S. perspective, Taiwan has become a more important trading partner. In 1988 for example, U.S.-Taiwan trade constituted about 5% of total U.S. trade (the highest of the four dragons), and resulted in a trade surplus of Taiwan vs. the U.S. of $14.1 billion. Forming an FTA with Taiwan would improve U.S. access to Taiwan's markets and help rectify the U.S. trade deficit. This is especially the case because the tariff rates of Taiwan are much higher than those of the U.S.. This FTA could serve as a model for other bilateral FTAs in the Asian-Pacific region and induce the participation of countries in the region.[4]

However, there are disadvantages too. From Taiwan's perspective, the broad opening of its internal markets would shock domestic sectors such as agriculture, finance, other services... etc.. Sectoral unemployment is inevitable. Whether Taiwan is willing and prepared to take the substantial adjustment cost is the question. Nonetheless, the real rejection of the FTA comes from the U.S. side. Many Americans are satisfied with the current negotiation framework and do not think it is necessary to resolve trade disputes in an FTA framework. As well, there are concerns that an FTA would allow Taiwan the opportunity to seek an exception to section 301 trade measures or to pursue special treatment regarding the anti-dumping and countervailing duty provisions. Probably the most important concern is the

[4] For a persuasive discussion of the view, see S.C. Tsiang, "Feasibility and Desirability of a U.S.-Taiwan Free Trade Agreement," Institute for International Economics Conference on "More Free Trade Areas?" October 31-November 1, 1988.

political sensitivity of the U.S.-mainland China relationship.[5] Therefore, a Taiwan-U.S. FTA seems to be a remote issue now.

A Pacific Free Trade Area and Taiwan

The Pacific basin countries have become quite important in the world economy. Here we indicate Taiwan, South Korea, Japan, Hong Kong, ASEAN countries, New Zealand, Australia, Canada and the U.S..

These countries are the fastest growing economies in the world; their production is above one-half of the world total and their world trade share is above one-third. If these countries could form a free trade area, the intra-regional trade and investment would expand immediately, with much faster economic growth. Moreover, if the FTA is open to outsiders, it can promote global free trade and investment.

In terms of real per capita GNP growth rates from 1965 to 1986, Japan's rate was 4.3%; the four dragons' average rate was 6.8%; the rate of other ASEAN countries was 4.0%. Their performance is much better than the world average: the average rate of market-oriented developed countries was 2.3%; the rate for developing countries (not including oil exporting countries) was 2.9%. However, the rate for the U.S., Canada, Australia, and New Zealand was 1.7%.

The trade volume of the Pacific basin countries had significant growth from

[5] An official report representing the U.S. official view is prepared by the International Trade Commission, *The Pros and Cons of Entering Into Negotiations on Free Trade Area Agreements with Taiwan, the Republic of Korea, and ASEAN, or the Pacific Rim Region in General*, 1989.

1965 to 1988. In 1965 the export value of these countries was 27% of the world total; in 1988, the number was 37%. As for the world import share of these countries, the amount was 31% in 1965 and 38% in 1988. In 1987, the intra-regional trade of these countries ranged from 50% to 80% of total trade, and was concentrated in the U.S. and Japan (see Table 4). On average, the intra-regional export share was 66% and import share was 64% of the region's total. A characteristic of the trade pattern was substantial exports to the U.S. and substantial imports from Japan. It is apparent from table 4 that Pacific basin countries are major trading partners of each other.

In the Pacific basin, large variations in natural resource endowment, approximated by the population density, implies complementarity among Australasia, the U.S., and East Asia (see Table 5). Also the large variation of per capita incomes, as in Table 5, represents the possibility of trading capital-intensive for labor-intensive manufactures and services. Moreover, the relatively high income of Japan and the NIEs provides the opportunity for intra-industry specialization.[6]

Referring Table 5, among Pacific basin countries, the U.S., Canada and Japan are strong in heavy manufactures production; the four dragons and Japan are strong in light manufactures production; New Zealand, Australia, the U.S., Canada and the ASEAN are leaders in agricultural production; New Zealand, Australia and the ASEAN countries have ample mineral resources which can be used for export. Therefore, potential complementarity prevails and trade opportunities abound.

[6] For an application of the theory of changing comparative advantage for East Asia, see Ross Garnaut and Kym Anderson "ASEAN Export Specialization and the Evolution of Comparative Advantage in the Western Pacific Region" in Ross Garnaut (ed.), ASEAN in a Changing Pacific and World Economy, Canberra: The Australian National University Press, 1980.

The production and trade pattern in East Asia was formerly more in the direction of vertical division of labor. That is, for example, Japan imported materials and intermediate goods from the ASEANs and the NIEs and then exported final goods. However, the ASEANs and the NIEs would like to promote their development stages. This conflict in development goals makes cooperation in this region difficult. Nonetheless, after 1985 due to the appreciation of the Yen and the NIEs' currencies, plus the willingness of Japan and the NIEs to increase domestic demand and to open domestic markets, horizontal diversification resulted. Japanese exports to East Asian countries increased from 20% in 1985 to 23% in 1989. On the other hand, East Asian exports to Japan increased from 21% in 1985 to 23% in 1989. The increase is minor considering the drastic appreciation of the Yen, which may partly be due to the rigidity of the Japanese market and the dependence of East Asian nations on Japanese machinery and intermediate goods. Japanese exports to the Asian NIEs and the ASEANs was mainly machinery, steel and capital goods. The exports of the Asian NIEs (ANIEs) and the ASEANs were also manufactured goods and end-products. During 1986 to 1989, the average yearly growth rate of industrial products trade from the ANIEs and the ASEANs to Japan was about 40%. Excluding Japan, the Asian intra-regional trade share increased from 18% in 1975 to 31% in 1989. Therefore, horizontal division of labor was in progress.

However, protectionist barriers still exist in this region. As Drysdale and Garnaut (1988)[7] observed, they are mainly from large industries rapidly losing comparative advantages. Examples are foodstuffs (agriculture) in Japan, Korea and

[7] Peter Drysdale and Ross Garnaut, "A Pacific Free Trade Area?" Paper prepared for the Institute of International Economics Conference on "More Free Trade Areas? Outlook for World Trade Policy," 31 October-1 November, Washington D.C. 1988.

Taiwan; and for North America and Australia it is primarily in labor-intensive commodities (textiles, clothing, footwear and consumer electronics) and standard technology manufactured goods (metals, motor vehicles). Tariff protection is low in the U.S., Canada and Japan; high in Australia, New Zealand, Taiwan, Korea and ASEANs. However, non-tariff barriers prevail in the U.S. and Japan. Many protection measures actually address the exports of other Pacific countries, such as textiles, clothing, footwear, motor vehicles and agricultural products. Therefore, if the barriers are reduced on a MFN basis, most new supplies of imports would come from countries in the Pacific region.

As for intra-regional investment, it has also been growing rapidly, and is especially concentrated in the ASEANs. Because of increasing labor costs, currency appreciation and international trade protectionism, Japan and the NIEs have quickly increased their direct investment in the ASEANs since 1986. The four dragons plus Japan have an investment share in the ASEANs of 61.6% in 1986 and 61.7% in 1989 (see Table 6). Most impressively, the 1989 foreign investment in the ASEANs is 6.7 times that of the 1986 volume, from US$1.5 billion (1986) to US$10.3 billion (1989). On the other hand, substantial U.S. investment in the Asian-Pacific region is concentrated in Japan. Japan also has substantial investment in the U.S.. However, there are still barriers against foreign investment in many Asian-Pacific countries, such as Trade Related Investment Measures (TRIM). These measures include domestic content requirements, export ratio requirements, exchange controls, technology transfer restrictions and tax incentives, and are aimed at protecting related domestic industries. The gradual elimination of TRIM will enable foreign direct investment to follow the market mechanism and will benefit both the investor and host countries.

The Pacific region is a huge economic power with vertically and horizontally diversified economies, with close relations in trade and investment, and with the necessary conditions to form a FTA. This area is characterized with the central roles belonging to the U.S. and Japan.

However, there are some difficulties with this FTA. Besides the geographical factor (a vast region) and historical factors (antagonism and suspicion against Japan), the most difficult barrier exists in the heterogeneity of countries in the region. The development stages differ among the developing ASEANs, the newly industrialized NIEs and the highly developed U.S. and Japan. These countries also differ in language, culture, social systems and industrial policies, plus different political and security concerns. Therefore, it is difficult to reach a mutually agreed way to share the burden and benefits of integration.

Under these difficulties, loose and private consultative regional organizations have been developed. Two of them are most prominent. One is the Pacific Basin Economic Council (PBEC). The PBEC was established in 1967 and its purpose was to connect the private enterprises of free market economies in the Pacific basin area in order to promote mutual trade, investment, technology transfer and financial flows. Currently its members include 850 entrepreneurs from twenty countries. In 1979, the PBEC organized a special committee to promote the Pacific Economic Community (PEC). However, there have been no significant results so far.

The other prominent organization is the Pacific Economic Cooperation Conference (PECC), which was established in 1980. It involves government officials, industry leaders and members of the research community.[8] Its unofficial status allows wider participation, meanwhile providing consultation and cooperation in terms of exchanges on trade and economic issues. PECC reduces policy uncertainties and enhances communication. Growing knowledge of each other's institutions and practices strengthens mutual confidence and reduces barriers to trade and factor mobility. PECC is expected to have twenty-one member countries and ten task forces in 1991.

However, the loose cooperation of PBEC and PECC does not imply coordination of Pacific countries' policies and substantial promotion of growth. In response to the prevalent regional integration movements in the world (the EC, U.S.-Canada, U.S.-Mexico), Australian Prime Minister Bob Hawke thus organized the Asian Pacific Economic Cooperation (APEC) ministerial meeting that provides direct consultation among ministers from different countries. Twenty-six ministers from Australia, New Zealand, Korea, Japan, America, Canada and the ASEAN six held the first meeting in Canberra in 1989. Its nonformal, consultative character was defined in the second meeting in Singapore in 1990.

Even though the meeting is defined as nonformal and consultative, the APEC has the potential to lead to deeper official integration in the Pacific basin area. However, its pace of institutionalization needs to be accelerated and due to its overlap in many functions with the PECC, it should cooperate with the PECC or to incorporate PECC as its research arm.

[8] For a discussion of the function of PECC and its cooperation with APEC, see Bih Chou Lin, "PECC and Economic Integration in Asia and the Pacific," paper presented in ten 6th conference on Pacific Economic Community, Taipei, December 1990.

As the world's twelfth largest trade nation, Taiwan is heavily dependent on trade (for years, exports plus imports have accounted for more than 80% of GNP). Under the current trend of regionalization, Taiwan needs to participate in regional organizations and to promote cooperation. Taiwan is currently a member of the PBEC and the PECC and actively accept responsibilities. In November 1991, both Taiwan and mainland China became members of APEC, which showed the increasing importance of Taiwan in the Asian-Pacific region.

Partly due to the World War II experience, the ASEANs are very concerned with avoiding domination by stronger nations. Therefore, APEC has paid special attention to the status of ASEAN countries. Also in 1991, a new cooperation proposal emerged in Malaysia (advocated by the Malaysian prime minister) with the ASEANs as the center of the cooperation. The main idea, however, was to unify East Asian countries against American and European hegemony. This group (East Asian Economic Grouping) may include the four dragons and Japan and is open to other countries in east Asia. There are two stages in the Malaysian proposal.[9] The first stage envisions a group formation among like-minded countries that share common interests in specific areas of trade during the UR of GATT. The second stage visualizes a formalization of trade and economic links which would spur intraregional trade and investment.

As pointed out earlier, the Japanese imports from, and exports to the NIEs and the ASEANs are above 20% of total trade and have gradually increased in the past few years. Moreover, the intra-regional trade excluding Japan has been growing

[9] A semi-official announcement can be found in "East-Asian Economic Grouping," distributed by Malaysia in an OECD conference held in Paris, February 27, 1991.

rapidly and so has the intra-regional investment. Thus, there is a natural basis for cooperation. If this grouping takes a collective bargaining position with a coordinated common voice, the results may be very beneficial and may prove to be a good cooperative experience.[10] However, if this grouping tries to integrate at a deeper level, such as forming a FTA, problems may emerge.

As indicated earlier in Table 4, both Japan and the U.S. are pivotal to Pacific trade and investment. East Asian countries often incur trade surpluses with the U.S., and trade deficits with Japan. Since the U.S. is not included in the East Asian Economic Grouping by name, the U.S. may develop even more serious trade deficits due to the trade diversion of this economic group. Protectionism sentiment may rise in the U.S.. Japan could become a hegemonious player in the group due to its strong economic power and due to its likely special preference under the potential East Asian Economic Grouping FTA. In that case, the concerns of the ASEANs about Japan are well grounded and probably only the U.S. can balance the economic influence of Japan.

From the point of view of the ANIEs and the ASEANs, it is very important to include the U.S. in the economic grouping because the U.S.-Mexico FTA is expected to be signed in 1993. With similar endowments and comparative advantages, Mexico may well be a formidable trade diverter of U.S. trade (imports from the ANIEs and the ASEANs). Only if the U.S. is put into a similar FTA agreement with the east Asian economies can the ANIEs and the ASEANs compete with Mexico on the same footing.

[10] For an interesting article analyzing the Malaysian proposal, see Tain-jy Chen, "The Feasibility of East Asian Economic Integration," in *Economic Outlook*, April 1991, Chung-Hua Institution for Economic Research.

While loose types of cooperation or a common-voice group may be helpful to mutual understanding and to accumulate cooperative experience, it is a deeper level of integration that can promote substantial mutual interests, and outweigh the costs of adjustment. The EEC is a model of that type of development. In terms of a Pacific FTA, what is the feasibility and the appropriate size of it?

As indicated earlier, there are geographical and historical difficulties in forming a Pacific FTA. However, the advanced telecommunications and sea and land transportation should make the geographic distance a minor problem. The historical antagonism against Japan has been diluted due to the Japanese effort to promote cooperation and due to the pressure of the EEC and the North American FTA.

The heterogeneity of development levels in the Pacific area is also much less of a barrier against integration now. First, the ANIEs and Japan are more willing to open their domestic markets and are willing to promote horizontal international diversification. Secondly, the willingness of the ANIEs, Japan, and other advanced economies in the Pacific region to promote intensive trade, investment and aid in the region provides a basis for integration. Thirdly, the currency appreciation of the ANIEs and Japan has made the exports from the ASEANs much more competitive.

As for the size of the FTA, the larger an FTA is, the more likely it is that large net benefits will result. The comparison between the value of intra-regional trade and interregional trade is important in considering the viability of an FTA. An area including east Asia, Canada, the U.S., Australia and New Zealand is likely to bring in sufficient net benefits. Potential complementarity exists among these nations, and the protectionist barriers that exist are often set against the comparative advantage industries of other Pacific countries. Therefore, the elimination of trade barriers would bring in substantial trade creation for countries within the Pacific region.

There are good incentives for countries in the Pacific region to form a FTA. The U.S. trade deficit is both a macroeconomic imbalance problem (the budget deficit coexists with a trade deficit) and a trade arrangement problem. It is more effective for the U.S. to address the problem in an FTA framework with Japan and the ANIEs. The current case-by-case bilateral negotiation method is not consistent with the MFN principle and concentrates on the U.S. interests. With the decline of U.S. economic and political influence, the current arrangement would not be beneficial to the U.S. in the long-run. Pacific regionalization based on reciprocity would greatly solve the U.S. trade problems in the Pacific area and is an alternative policy approach now that the global approach is in decline. A united, regionalized voice (supporting the U.S.) of retaliation against European protectionist policies (such as in agriculture) would also be more effective.

Japan with its strong industrial power is willing and in the position to take more international responsibilities. The gradual opening of Japanese domestic markets and intensive economic activity in the Pacific region show its willingness to lead the tide of the region. While Japan will be more and more active in Pacific integration, the resulting prosperity in this region will provide expanding markets and positive feedback for the Japanese economy.

The ANIEs like Taiwan are in a difficult bottleneck stage. They face more stringent competition from the ASEANs and mainland China in their traditional comparative advantage commodities (often more labor-intensive) and their technology developments still lag behind those of the developed countries. ANIEs need to upgrade their industrial structure and to manage their large foreign exchange reserves that often increase foreign protectionist pressures. The competition accompanying the opening of domestic markets helps the ANIEs to adjust their industry structure, to improve living standards, and to promote regional integration. This is even more important when the U.S.-Mexico FTA is formed. The trade diversion from the FTA could cripple the ANIEs' exports to the U.S.. Consequently, putting the U.S. in a Pacific regional framework is a good way to manage the upcoming potential difficulties. Even if some specific favors are to be granted to Mexico in the North American FTA arrangement that are not granted in the Pacific FTA, Pacific regionalization is nonetheless a better mid-station on the way toward global liberalization.

The ASEANs (and mainland China, if it participates in the FTA) are not likely to accept a completely barrier-free Pacific FTA. There may be some exceptions for these less developed economies. Also, burden-sharing by more advanced economies to promote the development of the ASEANs may need to occur. However, in the long- run, a growing ASEAN group is a positive factor for the region-wide prosperity.

The Pacific FTA should avoid discrimination and should work toward reciprocal concessions on an MFN basis. It could then promote trade liberalization both for the region and for the world.

Multilateral regional integration inevitably will meet difficulties. The difficulties come from different interests and conditions for different countries. Therefore, it may take a very long time to reach a mutual agreement. However, the first move has to be initiated. When the European Community was first formed in 1957, there were tremendous difficulties and barriers. Moreover, the intra-regional trade then was only 38% of total trade. However, the current EEC movement demonstrates that beneficial deep integration can be a reality and the EEC has become a model for the rest of the world.

It would probably be easier to allow two or more Pacific countries to sign agreements at any time, without waiting for a region-wide accord. Once two countries sign an agreement, other countries would have strong incentives to participate in order to enjoy preferential treatment and to avoid substantial trade diversion. The negotiation could be started with a limited commodity category and gradually extended to other commodities. The concessions could also be extended unconditionally to other countries of this area. Since a Pacific FTA is compatible with Taiwan's interests, Taiwan should actively advocate and participate this regionalization movement.

A Chinese Area and Taiwan's Role

There are many difficulties for a centrally-planned economy, such as mainland China, to participate in a FTA. However, due to the rapid increase of cross-border commercial activities between Taiwan, mainland China and Hong Kong (see Table 7), a Chinese area comprised of these economies, has been proposed to promote the economic prosperity of this region. The basis for this integration is potential factor complementarity: Taiwan is relatively abundant in capital & technology whereas the Chinese Mainland has natural resources and labor.

However, barriers against the integration of these economies abound. The most basic barrier is political. Economic relations between the two sides of the

Taiwan Strait are still dictated by political considerations; politics still takes command. Officially, both sides insist that there is only one China and both seek unification, but an enormous gap exists as to how it may be brought about. It seems highly uncertain that before the issue of political unification may be solved normal economic relations between the two sides can take place, let alone economic integration.

At present, trade and investment between the two sides are conducted in a very complicated manner. Residents in Taiwan are not permitted to trade directly with the Mainland. They must ship their goods to a third region (Hong Kong or another country) first before they are sold and shipped on to the Mainland. The same is true with merchandise imports from the mainland and there are restrictions on what products from the Mainland may be exported to Taiwan.

Restrictions on investment activities are also imposed. For example, if a resident of Taiwan wants to open up a factory in the Mainland he is not allowed to do so; he has to set up a company in a third-party country and that company may then invest in the Mainland. Even in this indirect manner, there are restrictions on the fields of business in which investment may be made.

From Taiwan's point of view, it is argued that restrictions on the economic relations between the two sides are imposed for a number of reasons. National security, avoidance of settling legal disputes, and independence from possible economic control by the Mainland are among the most important concerns. It is also suggested that economic activities may be used as a leverage for political purposes.

Despite these barriers the volume of trade and investment between Taiwan and the Mainland has increased sharply in the past few years. In all likelihood, it will continue to increase as the barriers are further relaxed. But the dynamics of economic exchange between the two sides is hard to foresee. Some speculate that external trade and investment would make the Mainland's economy more open and rely more on the market mechanism, and less on central planning. A more open economy would lead to more trade and investment. This process would continue until the Mainland's economic system is fundamentally changed. It is suggested that when comparative advantages are truly allowed to be realized without distortions by government intervention both in Taiwan and the Mainland, then a full economic integration between these two economies may be said to have truly taken place. It is likely that the current increasing trade and investment relations between the two sides of the Taiwan straits would accelerate the above process.

Conclusion: Preference on Possible Solutions

There can be no doubt that Taiwan is in favor of, and actively promotes, a free multilateral trading system. After all, it was during the 1960s and 1970s when the philosophy of free trade was upheld (especially by the United States) that Taiwan's outward-export-oriented policy was made effective. It was believed that the comparative advantage industries developed in a liberalized trade environment would increase the productivity substantially and was the main driving force of Taiwan's economic success.

To be sure, for a long time Taiwan was also a practitioner of import-substitution policies employing many protectionist measures. But these policies began to be relaxed gradually, though modestly, in the 1970s and drastically since the middle of the 1980s. There have not only been reductions of tariff rates and non-tariff barriers, but restrictions on foreign investment into Taiwan have also been greatly relaxed. Indeed, economic internationalization has become a guiding principle of economic policies in Taiwan. It is firmly believed that such policies will not only serve the interests of Taiwan, it will also serve the interests of other nations.

However, the free, multilateral trading system has recently been greatly undermined by bilateral negotiations practiced by the United States. More fundamentally, it is feared that it may be virtually replaced by the emerging European and North American economic blocs.

In Taiwan, it is particularly feared that the possible trade diversion effects of Europe 1992 and the USA-Canada-Mexico FTA may substantially outweigh their favorable effects. This is because within these two blocs there are countries such as Mexico, Spain, and Ireland which have similar comparative advantages as Taiwan, and hence will likely replace the latter's exports to the two blocs. It is also feared that the diversion effect will also likely occur with regard to capital and technology flows. Furthermore, it is feared that those countries in the two blocs which compete with imports from Taiwan may exert enough pressure in the respective bloc to take retaliatory actions against Taiwan under the disguise of unfair trade or anti-dumping protests. In such a confrontation, Taiwan would be totally helpless against these giant trade blocs. All these fears may be exaggerated, but they are there. Most probably they are there also in other ANIEs and ASEANs.

In short, from Taiwan's perspective, the emerging European and North-American economic blocs would pose two threats: firstly, the diversion effect with regard to trade and investment; and secondly, the protectionist tendencies. It therefore follows that Taiwan would like some sort of arrangement whereby these two threats may be alleviated, if not totally eliminated. An ideal solution would seem to be that Taiwan be treated essentially the same way as the member countries in the trade blocs with regard to trade and investment. In return, Taiwan reciprocates accordingly.

Since other ANIEs and ASEANs may be confronted with the same difficulties as Taiwan, GATT could perform a very useful service if it could devise an arrangement or a mechanism by which these difficulties may be minimized. GATT could perhaps establish a new department to monitor unfair trade bloc practices against the LDCs and the NIEs. GATT could also standardize the appeal procedures for LDCs and the NIEs affected by trade bloc activities. The GATT assessment should have some disciplinary powers as well.

In addition to whatever GATT could do in this regard, the ANIEs, ASEANs and other interested nations may themselves consider forming some sort of an organization. For example, an Asian Alliance for Free Trade (such as in the context of the recent Malaysian proposal), to monitor whether there are unfair trade bloc practices, and if so, try to find ways to deal with such mistreatment in a collective manner.

Due to geographical, cultural and economic factors, Taiwan's greatest sphere of influence is in the ASEANs. Consequently, Taiwan should actively participate in the economic cooperation of the South-East Asian area in order to maintain better relations. Strategically, Taiwan should ally with the ASEANs as a basis for global involvement in the decision making process for the globalization and regionalization movements. This is likely an effective channel considering Taiwan's lack of international recognition.[11]

Finally, a Pacific Free Trade Area should be formed as soon as possible. Because of the diversities of nations in this region in terms of culture and stages of development, this should be done with a high degree of flexibility. With this in mind, it should firstly be an open-ended FTA in the sense that any two countries or economies may start forming the FTA, and other members may join at times of their own choosing. Secondly, the negotiation could be started with a limited number of commodities, which could then be extended unconditionally to other commodities. Thirdly, the elimination of trade and investment barriers may be done gradually in order to minimize adjustment problems associated with different stages of development. The urgency of all of these are further warranted due to the limitations of the recent Malaysian East Asian Economic Grouping proposal, as well as the prematurity of a Chinese FTA.

The Pacific FTA should be perceived as an organization to promote free flows of trade, capital and technology within the area rather than as a giant economic bloc ready to engage in trade wars with other trade blocs. Indeed, if all trade blocs aim at free flows of trade and investment, then the objectives of a free multilateral trading system would be realized in the end.

It should be noted that the Pacific FTA should be primarily economic rather than political in nature. Any country, whatever its social or political system may join the FTA as long as its foreign trade and investment policies are consistent with free

[11] Similar view has been expressed by Ber Chih Chen, "Macro Strategy of Taiwan," paper presented in People's Economic Conference, 1991.

trade principles. Furthermore, any country which adopts an open-door trade and investment policy is likely to embrace the basic elements of a market economy and is beneficial to a sound world trading system.

In summary, Taiwan should continue to uphold its global free trade ideals and negotiate its entry into GATT. Meanwhile, under a situation of increasingly prevalent regionalism, Taiwan can promote an open Pacific free trade area, by means of closer integration with mainland China, cooperation with ASEANs, and by striving for any regional collaborative opportunities. In this way, Taiwan can use Asian-Pacific cooperative organizations to link with the region, including the U.S.. Further, Taiwan can develop links through the U.S.(e.g.NAFTA), and establish equal and mutually beneficial relations with North and Latin America countries. Meanwhile, Taiwan should enhance cooperation with the European community. With such flexible adaptation, Taiwan can then survive and grow in the changing international environment, and even influence the tide of globalization and regionalization.

Table 1 The Geographic Distribution of the External Trade of the EEC (1989)

Unit: %

Countries or Areas Trade with the EEC	Export to the EEC (FOB)	Import from the EEC (CIF)
EEC (1)	60.3	57.5
EFTA (2)	10.5	9.7
Enlarged EC: (1)+(2)	70.8	67.2
U. S.	7.8	7.6
Japan	2.0	4.5
OECD: the rest countries	1.9	1.6
OPEC	3.3	3.8
Eastern Europe	3.4	3.4
Taiwan	0.5	0.9
South Korea	0.5	0.7
Other areas or countries	9.8	10.3
Total	100.0	100.0

Source: *Monthly Statistics of Foreign Trade,* March 1991, OECD.

Table 2 Exports of Taiwan

Unit: NT$Mn

January-December	Total		USA	
Exports, fob	1987	1988	1987	1988
Farm products	5,735	6,128	409(7.1)	332(5.4)
Fishery products	12,819	16,861	1,483(11.6)	4,797(28.5)
Processed food	78,790	66,514	12,364(15.7)	8,347(12.5)
Textile products	111,282	109,710	6,348(5.7)	4,510(4.1)
Clothing	174,305	146,803	91,183(52.3)	76,250(51.9)
Leather & manufactures	52,246	52,830	35,912(68.7)	33,128(62.7)
Wood, bamboo & rattan products	71,174	63,329	40,789(57.3)	31,888(50.4)
Pulp, paper & mnfrs & printed matter	10,014	12,775	2,264(22.6)	1,959(15.3)
Chemicals	56,009	69,864	5,820(10.4)	4,793(6.9)
Rubber & plastic products	163,818	160,422	87,911(53.7)	75,777(47.2)
Non-metallic mineral manufactures	36,610	35,633	18,851(51.5)	16,653(46.7)
Metals	23,878	37,480	4,533(19.0)	5,447(14.5)
Metal manufactures	102,980	99,572	64,712(62.8)	56,225(56.5)
Machinery, non-electric	75,314	90,975	25,619(34.0)	25,407(27.9)
Electric machinery & apparatus	428,048	474,810	207,160(48.4)	200,195(42.2)
Transport equipment	73,072	71,942	39,827(54.5)	33,107(46.0)
Precision instruments & equipment	33,553	37,037	14,052(41.9)	14,180(38.3)
Other manufactures	183,181	167,366	92,573(50.5)	74,800(44.7)
Total, including other items	1,730,168	1,729,466	753,192(43.5)	668,952(38.7)

Source: Country Report-Taiwan, EIU, 1991, No.1
Number in the bracket represents the percentage of the yearly export.

Table 3 Exports of Canada

Unit: C$Mn

Domestic exports, fob	Total 1988	Total 1989	USA 1988	USA 1989
Food, beverages & tobacco	11,726	9,864	4,343(37.0)	4,286(43.5)
Wheat	4,443	2,579	61(1.4)	58(2.2)
Crude materials, inedible	17,248	18,027	9,123(52.9)	9,633(53.4)
Metal ores & scrap	4,265	4,713	1,133(26.6)	1,188(25.2)
Crude petroleum	4,038	4,415	3,979(98.5)	4,356(98.7)
Natural gas	2,955	2,935	2,886(97.7)	2,935(100)
Coal	1,944	2,082	17(0.9)	27(1.3)
Fabricated materials, inedible	47,526	47,111	32,952(69.3)	31,960(67.8)
Lumber	5,415	5,492	3,474(64.2)	3,411(62.1)
Wood pulp	6,496	6,945	2,947(45.4)	3,107(44.7)
Newsprint	7,299	6,448	6,090(83.4)	5,356(83.1)
Chemicals	7,707	7,178	4,833(62.7)	4,766(66.4)
Petroleum & coal products	2,360	2,316	2,217(93.9)	2,161(93.3)
Iron & steel	2,429	2,703	2,099(86.4)	2,006(74.2)
Aluminum	3,488	3,281	2,523(72.3)	2,291(69.8)
Copper & nickel	1,980	2,196	1,179(59.5)	1,357(61.8)
Precious metals	2,466	2,569	1,088(44.1)	1,119(43.6)
End products, inedible	57,318	58,052	51,222(89.4)	51,884(89.4)
Industrial machinery	3,731	3,964	2,914(78.1)	2,985(75.3)
Motor vehicles & parts	35,478	34,682	34,746(97.9)	34,087(98.3)
Telecommunication equipment	2,650	3,200	1,926(72.7)	2,500(78.1)
Office machines	2,476	2,292	1,749(70.6)	1,683(73.4)
Total, including other items	134,509	133,760	98,219(73.0)	98,336(73.5)
Total re-exports	3,641	3,791	2,789(76.6)	2,861(75.5)

Source: Country Report -Canada, EIU, 1990, No.2
Number in the bracket represents the percentage of the yearly export.

Table 4 Trade Among PECC Countries (1987)

Unit: %

		Japan	Korea	U.S.	H.K.	Indonesia	Malaysia	Philippines	Singapore	Thailand	Australia	New Zealand	Canada	Taiwan	Total	World
Japan	Export		5.77	36.75	3.87	1.30	0.95	0.62	2.62	1.29	2.25	0.49	2.45	3.01	61.36	100.0
	Import		5.42	21.17	1.05	5.63	3.19	0.91	1.38	1.20	5.28	0.78	4.05	7.85	57.90	100.0
Korea	Ex.	17.84		38.86	4.66	0.51	0.63	0.47	1.96	0.58	1.31	0.27	2.99	1.35	71.43	100.0
	Im.	33.29		21.36	0.97	2.01	2.65	0.30	1.05	0.47	3.12	0.38	2.31	1.30	69.21	100.0
U.S.	Ex.	11.28	3.23		1.59	0.31	0.76	0.64	1.62	0.62	2.19	0.33	22.91	9.44	54.91	100.0
	Im.	20.77	4.24		2.47	0.88	0.72	0.59	1.51	0.56	0.78	0.28	16.86	1.80	51.45	100.0
Hong Kong	Ex.	5.10	2.62	27.87		0.84	0.64	1.03	2.74	0.92	1.75	0.28	2.16	8.48	54.42	100.0
	Im.	19.03	4.49	8.54		0.69	0.98	0.55	3.80	1.09	1.28	0.22	0.52	1.56	42.75	100.0
Indonesia	Ex.	41.27	4.60	21.55	2.00		0.51	0.73	8.52	0.58	1.17	0.55	0.33	4.01	85.81	100.0
	Im.	29.17	1.48	13.82	0.88		0.47	0.26	9.04	0.67	3.86	0.66	2.00	5.29	67.59	100.0
Malaysia	Ex.	19.54	5.31	16.57	2.82	0.82		1.80	12.62	2.85	2.23	0.17	0.78	1.52	67.02	100.0
	Im.	21.65	2.63	18.71	2.21	1.39		1.17	14.75	3.49	4.05	0.75	1.02	5.74	77.65	100.0
Philippians	Ex.	17.21	1.73	36.17	4.86	1.14	2.09		3.45	2.19	1.55	0.20	1.45	8.22	80.26	100.0
	Im.	16.56	3.03	22.19	4.45	1.33	3.37		3.42	0.64	3.17	0.78	1.40	2.80	63.14	100.0
Singapore	Ex.	9.09	1.66	24.50	6.35	0.00	14.26	1.46		4.25	2.75	0.40	0.81	4.72	70.25	100.0
	Im.	20.50	2.68	14.70	2.63	0.00	13.85	0.55		3.13	1.93	0.32	0.52	1.61	62.42	100.0
Thailand	Ex.	14.74	1.34	18.75	4.27	0.52	3.27	0.62	9.06		1.88	0.19	1.44	3.75	59.85	100.0
	Im.	25.97	2.39	12.46	1.45	0.85	4.01	1.08	7.78		1.75	0.32	1.16	1.54	60.77	100.0
Australia	Ex.	25.61	4.07	11.31	3.68	1.37	1.59	0.75	2.40	0.69		5.70	1.64	2.40	67.61	100.0
	Im.	19.70	2.58	21.45	2.17	1.36	1.21	0.31	1.88	0.82		4.11	2.04	3.70	61.33	100.0
New Zealand	Ex.	24.61	2.20	15.10	1.43	0.80	1.13	0.72	1.38	0.48	15.73		1.61	2.40	67.61	100.0
	Im.	18.74	1.68	15.57	1.68	0.69	0.52	0.22	1.37	0.35	20.30		1.87	1.84	64.85	100.0
Canada	Ex.	5.44	0.91	72.84	0.38	0.24	0.10	0.09	0.13	0.15	0.53	0.10		1.59	82.49	100.0
	Im.	6.35	1.54	65.93	0.95	0.14	0.16	0.09	0.21	0.17	0.47	0.17		0.72	76.88	100.0
Taiwan	Ex.	13.00	1.19	44.15	7.68	0.83	0.51	0.87	2.52	0.79	2.06	0.32	2.91		76.84	100.0
	Im.	33.87	1.52	21.83	2.16	1.62	2.09	0.56	1.49	0.57	2.86	0.38	1.86		70.82	100.0
PECC	Ex.														63.91	100.0
	Im.														57.77	100.0

Source: Wen Lung Chen, "The Impact of Regionalization on Economic Development," in *Marching toward a Large Economy*, Chung-Hua Institution for Economic Research, 1989.

Table 5 Resource Endowments, Sectoral Shares of Total Trade and 'Revealed' Comparative Advantage in Developed and Developing Pacific Basin Countries, 1986[a]

	Australasia[b]	North America[c]	Japan	China	Asian NICs	Other ASEAN	Industrial market economies	Developing economies[d]
Population density (persons per km^2)	2.4	13.8	326.6	110.2	507.0	95.4	24.0	53.0
GNP per capita (US$)	11,157	17,158	12,840	300	3,308	647	12,960	610
Real GNP per capita growth rate, 1965-86 (per cent per annum)	1.7	1.7	4.3	5.1	6.8	4.0	2.3	2.9
Sectoral shares of total trade (per cent)								
Agriculture								
-Exports	46	17	1	22	11	33	13	22
-Imports	8	9	25	10	14	12	14	15
Fuels, minerals and metals								
-Exports	34	10	1	16	9	34	8	37
-Imports	7	12	40	4	16	14	16	11
Light manufactures								
-Exports	3	5	10	44	43	14	11	19
-Imports	14	13	8	13	18	10	13	14
Heavy manufactures								
-Exports	15	64	87	17	65	16	66	26
-Imports	68	63	25	70	51	58	55	58
'Revealed' comparative advantage								
Agriculture	3.3	1.2	0.1	1.6	0.8	2.3	0.9	1.6
Fuels, minerals and metals	2.2	0.7	0.1	1.0	0.6	2.3	0.6	2.5
Light manufactures	0.3	0.4	0.8	3.4	3.3	1.1	0.9	1.5
Heavy manufactures	0.3	1.1	1.6	0.3	1.2	0.3	1.2	0.5

Notes: a. Exports and imports refer to export and import shares, respectively. 'Revealed' comparative advantage is defined as the ratio of the share of a commodity group in total exports for a country or group of countries to that commodity group's share of world exports.

b. Australia and New Zealand.

c. United States and Canada.

d. Excludes high-income oil exporters.

Source: Peter Drysdale, *International Economic Pluralism: Economic Policy in East Asia and the Pacific*, New York: Columbia University Press, 1988; updated from the International and World Bank, *World Development Report*, New York; Oxford University Press, 1988.

Table 6 Direct Investments in the ASEANs: by Countries (1986, 1989)

Unit: $Mn

		Malaysia	Thailand	Indonesia	Philippines
Taiwan	'86	4	69	18	0.3
	'89	797	868	158	149
Korea	'86	2	1	12	0
	'89	70	171	466	17
Hong Kong	'86	22	58	96	7
	'89	130	562	407	133
Singapore	'86	71	132	102	0.2
	'89	338	411	166	24
Asian NIEs	'86	99	260	228	8
	'89	1,335	2,011	1,197	323
Japan	'86	45	55	329	22
	'89	467	3,524	769	158
U.S.	'86	21	164	154	22
	'89	119	550	348	131
World	'86	654	953	826	78
	'89	3,194	7,996	4,719	804

Source: Ministry of Economic Affairs, Japan, 1990.

Table 7 Trade among Taiwan, Mainland China, and Hong Kong (1986 & 1989)

Unit: %

		Taiwan	M. China	Hong Kong
Taiwan	Export '86	-	-	7.3
	Export '89	-	-	10.6
	Import '86	-	-	1.6
	Import '89	-	-	4.2
M. China	Export '86	-	-	31.6
	Export '89	-	-	41.8
	Import '86	-	-	13.1
	Import '89	-	-	21.2
Hong Kong	Export '86	2.8	20.7	-
	Export '89	1.9	19.5	-
	Import '86	8.5	29.1	-
	Import '89	9.1	34.0	-

Note: Direct trade between Taiwan and mainland China is not permitted. These two areas trade indirectly with each other through Hong Kong, though.

Source: *ROC Monthly of Financial Taiwan Statistics*, Feb. 1991;
Hong Kong Trade Statistics, Sept. 1990;
China Custom Statistic, 1987I, 1990I.

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