The United States, China and the Rise of Asian Regionalism

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INTRODUCTION

The goal of this paper is to analyze the evolution of trade relations between the United States and China, against the background of rising East Asian regionalism. It will also put forward policy options for the United States and China in response to the changing economic realities in East Asia.

The first section of the paper traces the rise of China as a major trading nation and identifies China's major trading partners. The next sections deal with East Asian regionalism and China's role in the evolution of that regionalism. The paper then describes the political and institutional factors that led to closer East Asian trade and investment relations. The next section analyzes the welfare and terms of trade effects of various proposed bilateral and subregional trade agreements for the United States and China. Finally, the last section of the paper sets forth policy recommendations for the two countries in response to the new realities of East Asian regionalism.[1]

CHINA'S EMERGENCE AS A MAJOR TRADING NATION

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[1] The material in this paper was excerpted from a forthcoming study of U.S/China trade relations and the rise of East Asian regionalism. The study will be published by the American Enterprise Institute in 2005.

During the 1990s, China emerged as a major player in the world trade regime; indeed no

other country has ever expanded its role so rapidly. China has sustained an enviable

growth performance for most of last decade. Real GDP growth as measured by official

figures[i] averaged more than 10 percent during the 1990s (see Figure 1). Exports and

imports have grown even more rapidly than GDP during the 1990s. As a result, China's

economy is now substantially more open to international trade than it was at the

beginning of the 1990s. China's relative openness is can also be illustrated in terms of

foreign direct investment (Figure 1). Its foreign trade exploded, with its exports and

Figure 1 - China's GDP Growth and Openness to Trade and FDI Inflow (1990-2002)
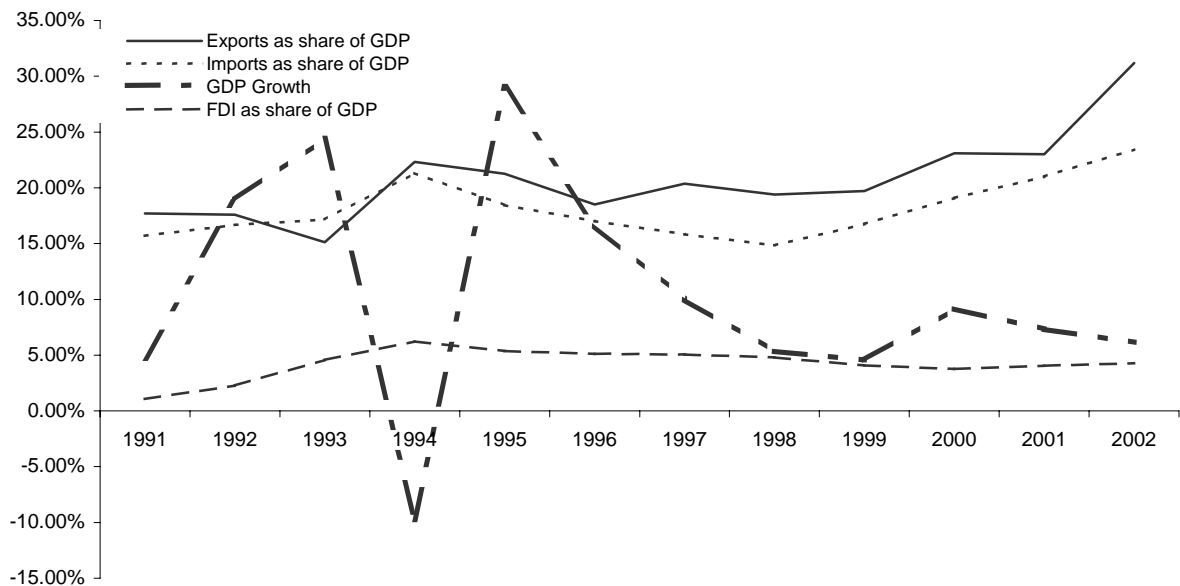
Source: China Statistical Yearbook, various issues. IMF Direction of Trade Statistics, various issues.

imports increasing from about US$ 18 billion and US$ 20 billion in 1980 respectively, to

US$62 billion and US$53 billion in 1990, and then to US$326 billion and US$296 billion

in 2002 (see Table 1). By 2002, China's share of world trade had almost tripled
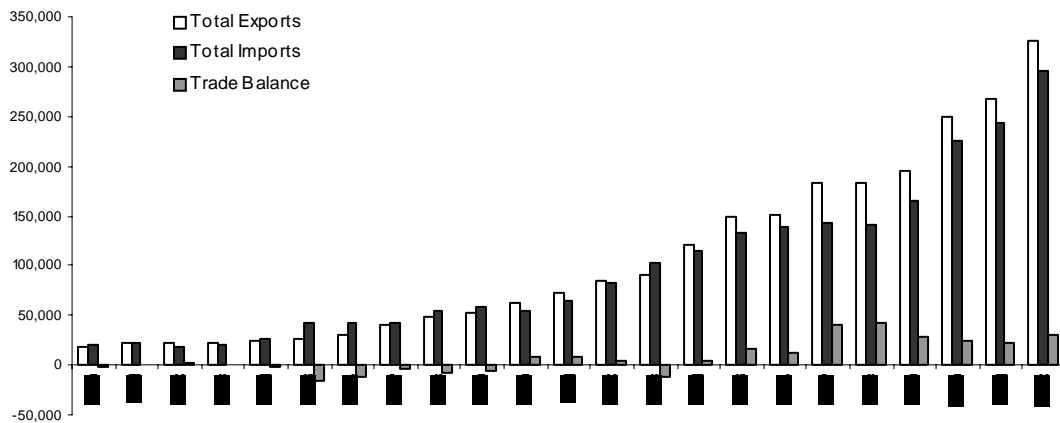
compared with 1990, with exports and imports totaling 6.0 percent and 4.3 percent of

world total imports and exports (IMF, 2003). China successfully maintained a strong

momentum for export and import expansion with an average annual growth rate of 14.4

percent and 14.2 percent throughout the period of 1980-2002, respectively (see Table 1).

In general, throughout the period, China enjoyed a trade surplus with the rest of the

world: about $30 billion (Table 1, and Figure 2).

Table 1: China's Imports, Exports and Trade Balance, 1980 – 2002 (US$ Million)

	Exports		Imports		Trade Balance	
	US$ Million	Annual Growth	US$ Million	Annual Growth	US$ Million	Annual Growth
1980	18,139	n.a.	19,505	n.a.	-1,366	n.a.
1981	21,476	18%	21,631	11%	-155	-89%
1982	21,865	2%	18,920	-13%	2,945	-2005%
1983	22,096	1%	21,313	13%	783	-73%
1984	24,824	12%	25,953	22%	-1,129	-244%
1985	27,329	10%	42,480	64%	-15,151	1242%
1986	31,367	15%	43,247	2%	-11,881	-22%
1987	39,464	26%	43,222	0%	-3,758	-68%
1988	47,663	21%	55,352	28%	-7,689	105%
1989	52,914	11%	59,140	7%	-6,226	-19%
1990	62,760	19%	53,809	-9%	8,950	-244%
1991	71,966	15%	63,875	19%	8,091	-10%
1992	85,620	19%	81,871	28%	3,749	-54%
1993	91,693	7%	103,622	27%	-11,929	-418%
1994	120,865	32%	115,705	12%	5,160	-143%
1995	148,955	23%	132,163	14%	16,792	225%
1996	151,165	1%	138,949	5%	12,216	-27%
1997	182,917	21%	142,163	2%	40,754	234%
1998	183,744	0%	140,385	-1%	43,359	6%
1999	194,931	6%	165,718	18%	29,213	-33%
2000	249,195	28%	225,096	36%	24,099	-18%
2001	266,698	7%	243,567	8%	23,131	-4%
2002	325,711	22%	295,220	21%	30,491	32%

Source: IMF, 2003, Direction of Trade Statistics.

Figure 2 – China's World Imports, Exports and Trade Balance, 1980-2002 (US$ Millions)

China's export revenues grew almost thirty-fold between 1979 and 2001 and export volumes increased seventeen-fold. Over the same period, the ratio of China's export prices to import prices—its terms of trade—declined by about 25 percent percent[ii] (Figure 3). Clearly, China benefited enormously in terms of export earnings from such a huge expansion of her exports, even after sharing some of them benefits with her trading partners in the form of improvements in their terms of trade.

On final point should be underscored regarding China's trade numbers. Unlike the autarchical, mercantilist development models followed by Japan and Korea, China has put in place open investment and open trading policies (strongly reinforced by the terms of membership in the WTO). Thus, China's trade balance has never been strongly tilted toward exports; and while it may run a sizable trade surplus with the United States, its overall trade numbers (exports and imports) have generally been balanced (viz., in 2002 a worldwide trade surplus of about $30 billion, out of a total trade of more than $600 billion).

Figure 3. China's export volume growth vs. the Terms of Trade
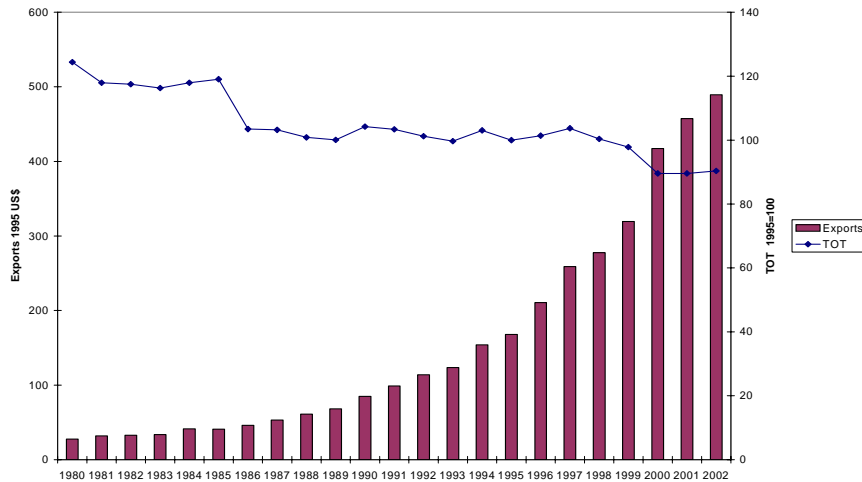
Source: International Monetary Fund, Direction of Trade Statistics.

China's Leading Trading Partners

During the last decade, the U.S., the European Union (EU) and Japan emerged as the
most important individual export markets for China; the share of total Chinese exports to
these three leading trading partners together increased from 33 percent of total exports in
1990 to 52 percent in 2002. China's imports from these three countries remained
relatively stable at an average of 45 percent of total imports over the same period. China
also substantially increased its imports from Korea, and Taiwan and the ASEAN
countries(Tables 4,5,6,7 and 8). As a result, China registered a trade deficit with East
Asia as a whole during most of the period.

Table 2: China's merchandise trade with the United States between 1990 and 2002 (US $ Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports to US	5314	6198	8599	16976	21421	24744	26731	32744	38001	42003	52162	54359	108225
Annual E growth %	20.4	16.6	38.7	97.4	26.2	15.6	8.0	22.5	16.1	10.5	24.2	4.2	99.1
% in total exports	8.6	8.6	10.1	18.7	17.8	16.6	17.7	17.9	20.7	21.5	20.9	20.4	28.23
Import from US	6591	8010	8903	10633	13977	16123	16179	16290	16997	19489	22375	26220	25505
Annual I Growth %	-19.3	21.5	11.1	19.4	31.4	15.4	0.0	0.1	4.3	14.7	14.8	17.2	-2.7
% in total import	12.3	12.6	11.0	10.3	12.0	12.5	11.6	11.5	12.1	11.8	10.9	10.8	8.8
Trade balance	-1277	-1812	-304	6343	7444	8621	10552	16454	21004	22514	29787	28139	82719

Source: IMF Direction of Trade Statistic Yearbook

Table 3: China's merchandise trade with the European Union between 1990 and 2002 (US $ Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports to EU	6275.1	7127.3	8004.1	12257	15418	19258	19868	23870	28161	30244	38230	40953	58229
Annual E growth %	22.71	13.58	12.3	53.14	25.78	24.91	3.17	20.15	17.98	7.4	26.4	7.12	42.19
% in total exports	10	9.9	9.35	13.37	12.76	12.93	13.14	13.05	15.33	15.52	15.34	15.39	15.19
Import from EU	9146.5	9296.7	10862	15738	18604	21313	19883	19205	20731	25466	30847	35725	37179
Annual I Growth %	-6.52	1.64	16.85	44.88	18.21	14.56	-6.71	-3.41	7.95	22.84	21.13	15.81	4.07
% in total import	17	14.55	13.27	15.19	16.08	16.13	14.31	13.51	14.77	15.37	13.7	14.66	12.89
Trade balance	-2871.4	-2169.4	-2858.8	-3480	-3186.2	-2055.1	-14.48	4666.2	7431.2	4778.7	7383.5	5228.5	21051

Source: IMF Direction of Trade Statistic Yearbook

Table 4: China's merchandise trade with Japan between 1990 and 2002 (US Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports to Japan	9210	10252	11699	15782	21490	28466	30888	31820	29718	32399	41654	44958	53058
Annual E growth %	9.7	11.3	14.1	34.9	36.1	32.5	8.5	3	-6.6	9	28.6	8	16.6
% in total exports	14.8	14.3	13.8	17.3	17.8	19.1	20.4	17.4	16.2	16.6	16.7	16.9	13.8
Import from Japan	7656	10032	13686	23303	26319	29007	29190	28990	28307	33768	41512	42797	46573
Annual I Growth %	-27.3	31.03	36.4	70.26	12.94	10.21	0.63	-0.6852	-2.356	19.292	22.933	3.1	8.5
% in total import	14.4	15.7	17	22.6	22.8	22.5	21	20.4	20.1	20.3	20.1	17.6	16.1
Trade balance	1554	220	-1987	-7521	-4829	-541	1698	2830	1441	-1369	142	2161	6484.9
Total trade	16866	20284	25385	39085	47809	57473	60078	60810	58025	66167	83166	87755	99631

Source: IMF Direction of Trade Statistic Yearbook

Table 5: China's merchandise trade with Taiwan between 1990 and 2002 (US Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Exports to Taiwan	320	595	697	1461	2242	3095	2804	3399	3866	3950	5040	5000
Annual E growth %		85.9	17.1	109.6	53.5	38	-9.4	21.2	13.7	2.2	27.6	-0.8
% in total exports	0.5	0.8	0.8	1.6	1.8	2.1	1.9	1.9	2.1	2	2	1.9
Import from Taiwan	2254	3639	5890	12934	14084	14785	16168	16435	16694	19528	25494	27339
Annual I Growth %		61.4	61.9	119.6	8.9	5	9.5	1.5	1.6	17	30.6	7.2
% in total import	4.2	5.7	7.3	12.5	12.2	11.5	11.6	11.6	11.9	11.8	12.4	11.2
Trade balance	-1934	-3044	-5193	-11473	-11842	-11690	-13382	-13036	-12828	-15578	-20454	-22339
Total trade	-1934	-3044	-5193	-11473	-11842	-11690	-13382	-13036	-12828	-15578	-20454	-22339

Source: IMF Direction of Trade Statistics Yearbook

Table 6: China's merchandise trade with Korea between 1990 and 2002 (US Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports to Korea	433	2179	2438	2860	4376	6688	7527	9136	6266	7808	11293	12521	14014
Annual E growth %		403.2	11.9	17.3	53	52.8	12.5	21.4	-31.4	24.6	44.6	10.9	12
% in total exports	0.7	3	2.9	3.1	3.6	4.5	5	5	3.4	4	4.5	4.7	3.7
Import from Korea	236	1066	2623	5360	7318	10288	12484	14885	15021	17228	23027	23389	25193
Annual I Growth %		351.7	146.1	104.3	36.5	40.6	21.3	19.2	0.9	14.7	33.7	1.6	7.7
% in total import	0.5	1.7	3.3	5.2	6.3	8	9	10.4	10.7	10.4	11.1	9.6	8.7
Trade balance	197	1113	-185	2500	-2942	-3600	-4957	-5749	-8755	-9420	-11734	-10868	-11179
Total trade	669	3245	5061	8220	11694	16976	20011	24021	21287	25036	34320	35910	39208

Source: IMF Direction of Trade Statistics Yearbook

Table 7: China's merchandise trade with ASEAN between 1990 and 2002 (US Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports to ASEAN	4150	4455	4666	5343	7166	10475	10318	12703	11034	12275	17339	18384	24345
Annual E growth %	29.4	7.3	4.7	14.5	34.1	46.2	-1.5	23.1	-13.1	11.2	41.3	6	32.4
% in total exports	6.7	6.2	5.5	5.9	5.9	7	6.8	6.9	6	6.3	7	6.9	6.3
Import from ASEAN	3132	3943	4414	6284	7168	9897	10869	12357	12638	14927	24180	23229	26191
Annual I Growth %	16.5	25.9	11.9	42.4	14.1	38.1	9.8	13.7	2.3	18.1	62	-4	12.8
% in total import	5.9	6.2	5.5	6.1	6.2	7.7	7.8	8.7	9	9	11.7	9.5	9.1
Trade balance	1018	512	252	-941	-2	587	-551	346	-1604	-2652	-6841	-4845	-1846

Source: IMF Direction of Trade Statistic Yearbook

China-U.S. trade relations have progressed rapidly since the two countries established diplomatic ties in 1979. In 2002 China's export to the U.S. reached US$108 billion, almost 20 times that of 1990, while China's imports from the U.S. were US $27 billion, just over 4 times that of 1990. China's exports to the U.S. represent 22 percent of its total export in 2002, while the U.S. proportion of China's total imports remained relatively constant at approximately 9 percent.

China's trade with EU experienced an unprecedented growth during the last decade, though smaller than that with either the U.S. or Japan (see Table 3). China exported $58 billion in goods to the EU in 2002 and imported $37 billion in goods. In 2002, China's exports to EU represented 15 percent of its total exports, increasing moderately compared to 10 percent in 1990, while China's import from EU represented 13 percent of total import, reflecting a moderate decrease from 17 percent in 1990 (Table 3).

Taking a longer perspective, once can trace the share of EU and U.S. imports from China and developing East Asia from 1980 through 2002. Several points stand out. For the EU, the share of both China and developing East Asia remained quite small throughout the period; however, since the mid-1990s, while developing East Asia's share of total EU imports has remained in around 2 percent, EU imports from China have doubled from about l.5 percent to 3 percent of total imports. For the United States, are similar trend

ensued. A decade ago, U.S. imports from China and developing East Asia stood at about 4 percent; by 2002, U.S. imports from China had increased dramatically to over 11 percent of total imports, while imports from developing East Asia had grown only to just under 6 percent of total U.S. imports (Lincoln, 2004)

China's Role in East Asia

In line with her open door policy and economic reform agenda since 1978, China has become a growing economic force in East Asia. One important factor here is the rapid growth of the Chinese economy in relation to the size of other emerging Asian economies. The ratio of China's GDP to the rest of emerging East Asia's GDP in 1995 was 1:2, but by 2002 this ratio had risen to 1:1. (Table 9). Moreover, China has grown to be the world's largest recipient of foreign direct investment in 2002[iii] and represented 51.92 percent of total FDI inflow in the region[iv] in 2001 (Table 10). With trade growing rapidly (Table 1), China has turned into an important destination for exports from the rest of the region, as well as a fierce competitor in third-country markets, such as Japan, the EU and the U.S.

Table 9 – Ratio of China's GDP to the Rest of Emerging East Asia's GDP in 1995 and 2000

US$ Million (or otherwise indicated)		
	1995	**2000**
Brunei Darussalam	5,217	Na
Cambodia	2,938	3,183
China	**700,219**	**1,079,948**
Hong Kong	139,242	162,642

Macao	6,944	6,208
Taiwan	264,966	309,377
Indonesia	202,132	153,255
Korea	489,258	457,219
Lao	1,764	1,709
Malaysia	88,832	89,659
Myanmar	na	Na
Philippines	74,120	74,733
Singapore	83,390	92,252
Thailand	168,280	122,166
Viet Nam	20,194	31,344
a) East Asia (+China)	**2,247,496**	**2,583,695**
b) East Asia (-China)	**1,547,277**	**1,503,747**
Ratio of China's GDP to a)	**31.16%**	**41.80%**
Ratio of China's GDP to b)	**45.25%**	**71.82%**
Note: Emerging East Asia includes: ASEAN countries, Korea, Hong Kong SAR, Taiwan, and PRC.		
Source: UNCTAD, 2003.		

Table 10 - FDI Inflows to China compared to FDI inflows to East Asia, 1980-2001

US $ millions

	1980	1985	1990	1995	2000	2001
FDI inflow to China	57	1,659	3,487	35,849	40,772	46,846
China's FDI inflow Growth	n.a.	2811.00%	110.00%	928.00%	14.00%	15.00%
FDI inflow to ASEAN	2,414	2,230	12,740	25,367	11,056	13,241
ASEAN FDI inflow growth	n.a.	-8.00%	471.00%	99.00%	-56.00%	20.00%
FDI inflow to East Asia	3,353	4,226	21,622	70,775	127,970	90,223
East Asia FDI inflow growth	n.a.	26.00%	412.00%	227.00%	81.00%	-29.00%
World Total	54,945	57,596	202,782	330,516	1,491,934	735,146
World FDI flow growth	n.a.	5.00%	252.00%	63.00%	351.00%	-51.00%
China's Share of World FDI flow	0.10%	2.88%	1.72%	10.85%	2.73%	6.37%
East Asia's Share of World FDI flow	6.10%	7.34%	10.66%	21.41%	8.58%	12.27%
China's Share of East Asia FDI flow	1.70%	39.26%	16.13%	50.65%	31.86%	51.92%
ASEAN Share of East Asia FDI	72.00%	52.77%	58.92%	35.84%	8.64%	14.68%

Indeed, over the past decade Japan has come to occupy a leading position in China's

bilateral trade relations. Bilateral trade volume totaled approximately US$100 billion in

2002, seven times of that in 1990. A similar situation occurred for the trade relations

across the Taiwan Strait, (see Table 5) while trade relations was initiated from zero and

boomed into a situation of mutual benefit. In 2002, China's exports to Taiwan reached

US$5 billion, while its import from Taiwan were US$27 billion. Along with Taiwan,

Korea's exports to China have outpaced its imports, leading to a continuously increasing

trade deficit in 2002 (exports to China, $25 billion; imports, $14 billion: Table 6). Given

the large concentration of overseas Chinese and close geographical proximity, China

predictably has also established close economic and trade ties with ASEAN countries,

albeit from a slow start in 1990. In 2002, China's exported US$24 billion to ASEAN

countries, 6 times the amount in 1990, while China's imports from ASEAN reached

US$26 billion, almost 9 times of that in 1990 (see Table 7). Export as well as import

growth from ASEAN countries is quite remarkable in the aftermath of the Asian financial

crisis between 1999 and 2002, with an export and import growth rate of 92 percent and

102 percent respectively.

Overall Balance: While China and other east Asian countries have developed a greater economic affinity over the past decade, the trade do not show a dramatic inward regional trend, certainly so far as China is concerned.   As Figure 8 shows, from 1981-2001, exports from greater China (China, Hong Kong and Taiwan, which are increasingly integrated economies) to Japan, Asia without Japan, and the EU remained more or less constant, while the share of exports to the United States rose. Thus, the share of total Chinese exports to Japan and Asia without Japan fluctuated around 15 percent; and the share of total Chinese exports to the EU remained about 20 percent.   For the United States, the share of total Chinese exports increased from 22 percent to 32 percent.   On the import side (Figure 9), once again the share of imports from the United States rose from 22-23 percent to just over 30 percent, while the share from Europe, Japan and Asian minus Japan fluctuated around 20, 15, and 15 percent respectively.

        These numbers, however, must be read against a background of the huge increase in overall trade for greater China—as noted earlier, from 1981 to 2002, China's global exports expanded from $22 billion to $326 billion, posting an annual growth rate of 14.5 percent.   With regard to developing East Asia, while the percentage share of total Chinese exports did not rise much, this masked a huge increase in absolute numbers over the period.

Figure 8 - Greater China, Exports by region as a Share of total Exports
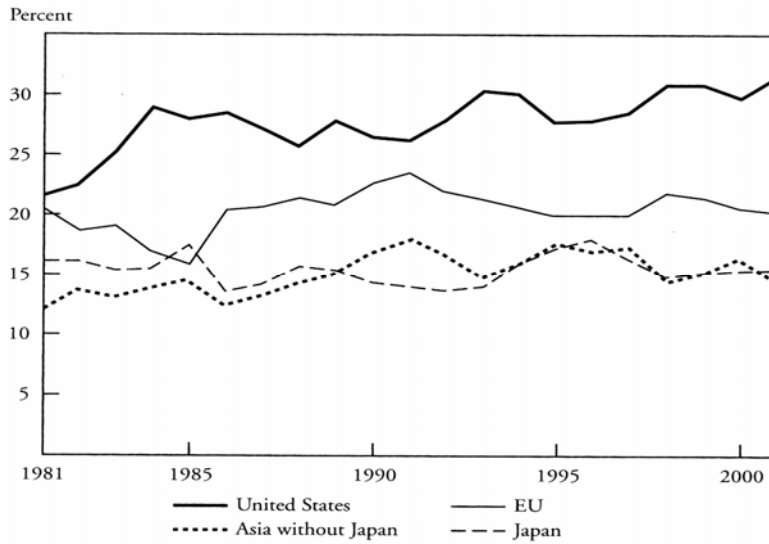
Source: IMF, Direction of Trade Statistics, 1998, pp 136-38; 1993, pp.134-35; and 2001, CD-ROM.
Edward J. Lincoln "East Asia Economic Regionalism"

Figure 9 - Greater China, Imports by Region as a Share of Total Imports
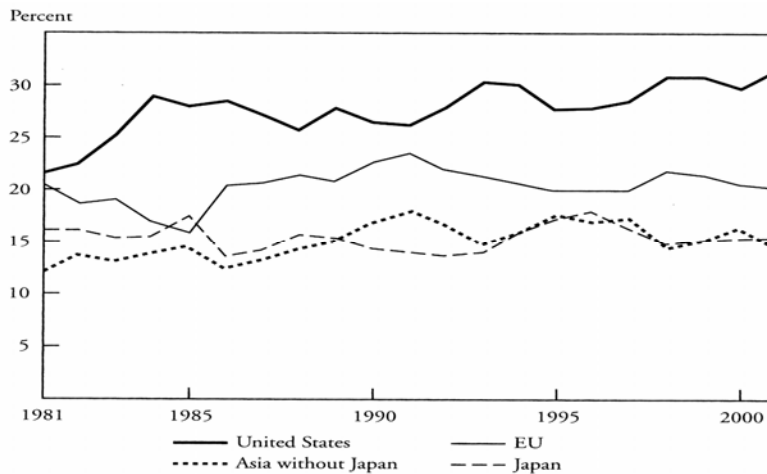
Source: IMF, Direction of Trade Statistics, 1998, pp 136-38; 1993, pp.134-35; and 2001, CD-ROM. Edward J. Lincoln "East Asia Economic Regionalism"

EAST ASIAN REGIONALISM

In a recent policy brief, Edward Gresser, trade policy analyst at the Progressive Policy Institute in Washington, wrote of an "emerging Asian Union."   His thesis was that, led by China, Asia (or at least East Asia) was coming together to form "an integrated union roughly the same size as the $11 trillion European counterpart…" (Gresser, 2004). This paper takes a less advanced perspective. Yes, there are important institutional and policy trends that may portend the emergence of Asia as a more united economic force in world affairs—but there are also formidable physical, political, economic, social—and historical—obstacles to such a phenomenon. Here, we will only touch upon the physical, economic and demographic divergence.

Figure 10 shows the disparity in economic size, topped by Japan with a GDP of almost $4 trillion, in stark contrast with Cambodia and Laos with GDPs of $4 billion and $1.7 billion respectively. Japan alone represents almost 60 percent of the total East Asian economy, followed way back by China with about 19 percent of the total and Korea with 7 percent.   Similar striking disparities emanate from population figures, where China's 1.3 billion population far outdistances the next most populous nation, Indonesia, with a population of some 210 million. Near the other end of the scale are Laos and Singapore, with about 5 million and 4 million inhabitants respectively.

From a development point of view, the divergence in per capita income is perhaps the most daunting challenge to even an "informal" East Asian economic union.   Japan

tops the list with a GDP per capita of just under $37, 000, followed by Hong Kong

($24,000) Singapore ($23,000), Taiwan ($14,000) and Korea (just under $10,000).

China, the emerging leader of East Asia, has per capita GDP of only $856 (though this

figure masks huge disparities between the relatively rich coastal provinces and those in

the interior).   At or near the bottom are Indonesia ($728), Laos ($328) and Cambodia

($267).   This huge disparity in per capita income is vastly greater than the disparity

evidenced by two other economic unions as they began to coalesce—the nations of the

European Union and the nations of NAFTA.

Figure 10 - GDP in 2002 at Market Exchange Rates
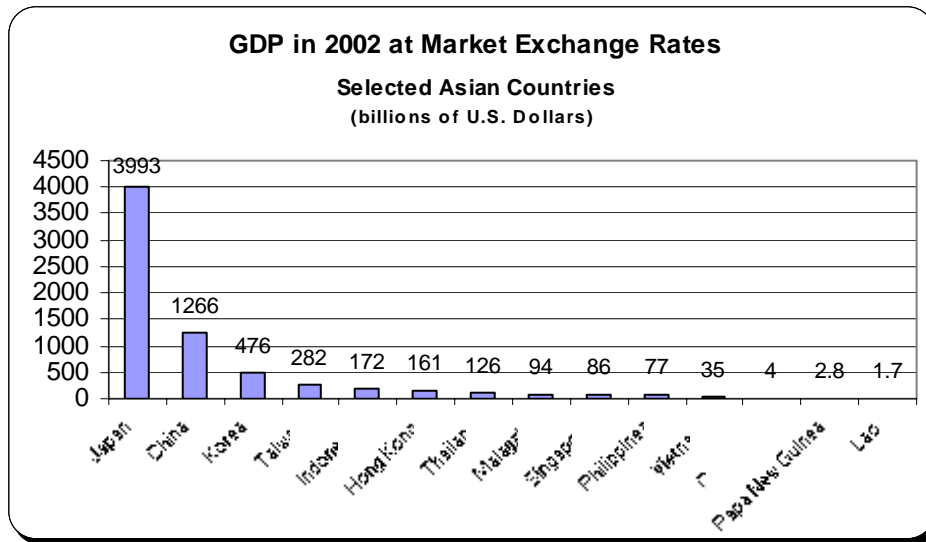
Source: World Bank, World Development indicators, WDI on-line,
(http://publications.worldbank.org/WDI). Taiwan data are from "National Statistics of Taiwan, The
Republic of China" (www.stat.gov.tw)

EAST ASIAN TRADING PATTERNS

Figure 3-1. *East Asia, Intraregional Trade as a Share of Total Trade*
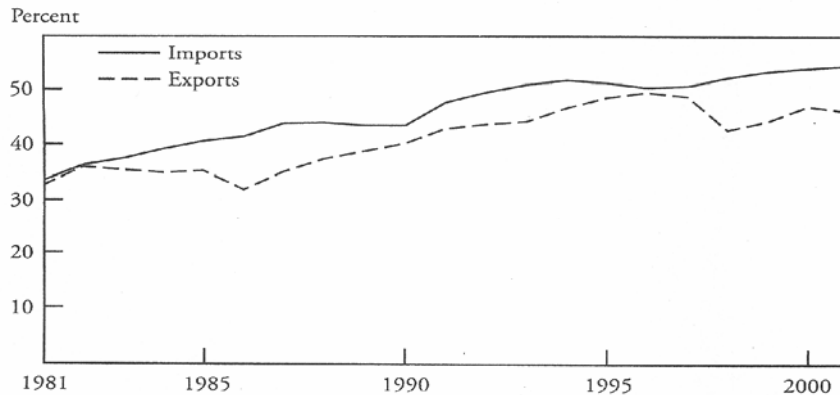
Percent

Source: Calculated from data in International Monetary Fund, *Direction of Trade Statistics*, 1988, 1993, and 2001.

Figure 3.1 traces the gradual rise of East Asian intraregional trade since 1981. In that year, just over 30 percent of East Asian imports and exports went to other East Asian economies. As of 2001, just over 50 percent of all imports to East Asian economies came from other East Asian economies; the figure for intraregional exports fluctuated around 42-43 percent. Within these regional total, however, there is an important story unfolding: that is, the decline of the importance of Japan as an export market and the increase in the importance of China. Developing East Asian exports to Japan dropped from 23 percent to 14 percent from 1981 to 2001, while exports to China increased from 4 percent to 8 percent during that period (If one measured the changes of developing Asia excluding both China and Japan the increase in exports to China is somewhat more dramatic: the increase is from 5 percent to 12 percent over the same period: Lincoln, 2004)

Table 11 - The share of Intra regional Trade in East Asians Imports and Exports; 1985,

East Asian Trader*	Global Trade Value ($Million)			Share of Intra-Regional Trade in Imports or Exports (%)		
	1985	1995	2001	1985	1995	2001
EXPORTS						
Brunei Darussalam (0.4)	2,864	2,573	3,632	32.2	37.0	32.8
Cambodia (0.1)	7	393	1,719	52.2	70.1	10.6
China (43.1)	30,928	232,487	414,884	35.1	39.1	30.8
Hong Kong, China (7.5)	24,108	56,163	59,649	27.5	35.6	35.2
Indonesia (4.2)	19,661	47,987	63,132	9.9	25.0	27.2
Korea (14.4)	25,240	118,360	163,645	10.1	34.1	34.1
Lao P. D. Rep. (0.1)	22	345	364	75.2	55.1	60.3
Malaysia (3.3)	17,982	86,557	111,422	38.1	43.5	42.0
Mongolia (0.1)	81	380	489	4.7	29.2	49.6
Philippines (2.9)	6,110	19,802	42,870	17.5	23.5	34.4
Singapore (3.8)	17,208	88,932	93,178	35.1	43.8	44.9
Taiwan, China (13.9)	33,797	123,903	151,942	14.8	39.6	41.1
Thailand (5.0)	7,771	54,975	72,624	25.5	31.9	33.5
Vietnam (1.2)	377	6,189	14,851	48.4	31.0	29.3
All Above Exporters	186,156	839,044	1,194,400	23.7	37.5	35.0
IMPORTS						
Brunei Darussalam (0.4)	663	3,090	1,202	55.2	62.3	70.8
Cambodia (0.1)	28	1,430	1,962	68.9	84.1	89.4
China (43.1)	38,189	145,981	222,108	23.0	52.1	49.8
Hong Kong, China (7.5)	29,469	169,508	173,798	46.8	54.6	60.0
Indonesia (4.2)	7,778	36,079	31,526	13.8	25.8	37.3
Korea (14.4)	21,380	119,208	131,076	13.4	18.7	25.8
Lao P. D. Rep. (0.1)	53	593	651	64.5	81.2	90.7
Malaysia (3.3)	11,742	76,021	73,251	44.4	45.2	51.6
Mongolia (0.1)	87	489	596	7.5	24.7	39.1
Philippines (2.9)	5,743	29,236	39,596	34.1	33.6	37.1
Singapore (3.8)	25,560	114,164	111,074	39.2	42.2	43.5
Taiwan, China (13.9)	18,169	94,962	100,776	12.7	22.3	31.4
Thailand (5.0)	7,972	65,690	55,671	33.4	31.6	36.2
Vietnam (1.2)	576	9,942	15,028	33.4	68.1	64.9
All Above Importers	167,409	866,393	958,314	29.4	39.8	44.5

Source: IMF Direction of Trade Statistics Data, Francis Ng and Alexander Yeats "Major Trade Trends in East Asia"

Table 11 breaks down developing East Asian intraregional trade shares by country over roughly the same period (In this table, China and Korea are counted as developing Asia) For all of developing Asia, the increase in intraregional exports rose from about 24 percent in 1985 to 35 percent in 2001.   Again, within those totals, however, are substantial disparities.   China percentage of interregional exports as a percentage of total exports actually declined (35 percent to 31 percent), while other countries registered strong increases in the percentage of intraregional export trade (Korea, 10 percent to 34 percent; Taiwan, 15 percent to 41 percent; Hong Kong, 27 percent to 35 percent; and

Indonesia, 10 percent to 27 percent). As noted earlier, the decline in the percentage of China's exports going to East Asia must be viewed against the background of the very large increase in total China-East Asian trade, and the penetration by China of developed country markets. On the import side, the picture is much more unified: every developing East Asian country registered gains, some quite dramatic, in intraregional imports as a percentage of total imports (China, 23 percent to 50 percent; Korea, 13 percent to 26 percent; Taiwan, 13 percent to 31 percent; and Indonesia, 14 percent to 38 percent).

THE PROSPECTS FOR A FORMAL "ASIAN UNION"

Interestingly, the first premonitions of the rise of East Asian regionalism stemmed initially from the ashes of a proposal put forward in 1991-1992 by Malaysian Prime Minister Mahathir Mohamad for an East Asian Economic Group (EAEG), consisting of the ASEAN countries plus, Japan, China and Korea—but conspicuously excluding the United States. This proposal foundered through the force of US objections, but at the same time a less hostile (to the United States) effort by Australia and Japan to create an Asia Pacific Economic Cooperation (APEC) forum gained impetus when the newly installed Clinton administration adopted and upgraded the concept as the major vehicle for its trade policy for East Asia.

Thus, began what might be called an APEC phase of East Asian integration, when the United States led a region wide trade liberalization movement, anchored by the first high-level meetings of chiefs of state in Seattle in 1993 and followed by the Bogor

declaration in 1994, whereby APEC countries pledged to achieve free trade in the region by 2010 for developed countries and 2020 for developing countries. Ultimately, APEC proved far too ambitious, not the least because the various leading parties had very different goals for the negotiating forum.   For the East Asian members, APEC represented a means possibly of curbing U.S. unilateral trade sanctions, while keeping Asian trade a top priority for U.S. trade policy.   Instead, the U.S. made it clear that its trade remedy actions were not on the negotiating table; and with the conclusion of NAFTA in 1994 and the Miami declaration the same year pledging free trade in the Americas by 2005, the United States seemed to veer back toward a hemisphere-first trade policy.   The drift of U.S. policy away from APEC was hastened by the failure of its strong drive for APEC-based trade liberalization in the Early Voluntary Sectoral Liberalization (EVSL) initiative in 1997. (Munakata, 2002).

Meanwhile, APEC also did not satisfy the desire of Asian countries for a regional forum of economic cooperation, short of drastic trade liberalization. The onset of the Asian financial crisis in 1997 changed all of the calculations of the major players, both inside and outside the region. It marked the end of the APEC phase of East Asian integration.   To the dismay and anger of Asian APEC members, the United States continued to press for the EVSL even as the crisis deepened in 1997. In turn, disappointment in the lack of momentum for APEC liberalization caused the United States shift its focus to China's WTO accession as the top priority within the region and to place more resources in the FTAA process in the Americas.

Against the background, the ASEAN + 3, a gathering of ASEAN countries plus China, Japan and Korea, held its first leaders' meeting in December 1997. Though it

would become an important forum for intra-East Asian policy discussions, ASEAN + 3

was too diverse to form the basis for economic integration through a formal free trade

arrangement. Thus, from the outset—even as the Asian financial crisis caused a

wholesale revamping of individual economies—a search began for more practical

alternatives, such as bilateral or smaller subregional trade agreements. The key change,

as noted above, were the decisions by Japan and Korea in 1999 to break with their long-

standing policy of exclusive multilateralism and launch multitrack trade policies that

included bilateral, subregional, and even cross-regional trade arrangements. Within Asia,

Singapore led the way, acting independently of its ASEAN partners and announcing that

it intended to become the hub of a number of FTAs (see Table12). Thus, Singapore

started negotiations with New Zealand and Australia, followed by talks with the United

States and then Japan. Similarly Korea started negotiations with Chile and also with

Singapore. Singapore's independent moves sparked a response among its ASEAN

partners, and ASEAN began exploring FTAs with Australia and New Zealand and then

with China, Korea and Japan.

China and Asian Regionalism: Until recently, there was very little analysis of China's

regional trade policies—indeed, very little analysis of any aspect of the Chinese

government's trade priorities in general. In the last several years, however, a few studies

by Chinese and other Asian trade experts have begun to throw some light on the evolving

perspective of Chinese political leaders regarding closer economic ties with other East

Asian nations (Cao, 2002; Long and Zhang, 2002; and Cheong, 2004).

Throughout most of the 1990s, official Chinese statements were driven almost

exclusively by the goal of membership in the WTO. China had joined APEC, but

according to one Chinese scholar, it viewed the APEC process almost entirely as a platform for future WTO membership. In addition, China, like many East Asian countries, was profoundly affected by the financial crisis beginning in 1997.   Though its capital controls and fixed currency insulated the country from the most adverse effects of the crisis, Chinese leaders agreed with other Asian trading partners that in the future the region should take steps to avoid such financial contagion.   As the prospect for actual Chinese membership in the WTO became a reality, Chinese officials were also aware that smaller East Asian countries feared that it burgeoning economy and export machine would cause large-scale disruption in their internal economies and displacement of their exports to developed country markets (Cao, 2002).

In 1998, at an Asian+3 summit, thirteen Asian nations agreed to establish a research group, the East Asian Vision Group (EAVG), as a vehicle for creating a long-term vision on economic, social and political regional cooperation.   The core long-term assignment was to analyze the prospects for an East Asian FTA (In 2001, the group endorsed such a plan, but by then China, Japan and Korea were moving toward less ambitious bilateral and subregional arrangements).

Meanwhile, taking first things first China seems to have decided that its initial move should be toward a China-ASEAN FTA. In November 2000, Premier Zhu Rongji suggested a study group on the economic feasibility of such an FTA, and in November 2001, after receiving a positive report from the research group on the economic gains from such an FTA, China and the ASEAN governments agreed to conclude an FTA within ten years. Outside observers had taken this step by China's leaders as an important landmark and a sure sign that China intends to compete with Japan for

leadership in East Asia—politically as well as economically (predictably Japan proposed an FTA with ASEAN the next year, in 2002).

Chinese scholars have advanced a number of speculative reasons behind the change and advance in China's policy towards regional integration.   First, as noted above, China, like other East Asian countries, came out of the1997 financial crisis convinced that some kind of new institutional arrangements were necessary to avoid repeating this contagion every few years.   Second, China felt the need to counter other discriminatory bilateral and regional agreements that had been created, or were in process of creation in Europe and the Americas (NAFTA and the FTAA are often mentioned).   Third, with the increased international stature from membership in the WTO (and as host to the 2008 Olympic Games), and with the achievement of trade and investment policies forced by the terms of WTO membership, China's leaders feel that they have a freer hand to agree to bilateral, subregional and regional trade agreements (In most cases, other East Asian nations have not as yet gone through this adjustment process).   Several scholars speculate that after 2005, when China's overall average tariff rate will be reduced to 10 percent and many regulatory reforms will be in place, Chinese leaders will step up the pace of attempting to negotiate various bilateral and subregional proposals now on the table, or bruited about by academics (Long and Zhaang, 2002).

It should also be noted that in competition with Japan (or other democracies around the world) China has an advantage born out of its still relatively authoritarian government. Though pressure from elements of the Chinese bureaucracy and from certain private groups does exist, by and large China's powerful centralized decisionmaking structure allows it to move with dispatch once a decision is made. A

clear example of this ability is seen in the "Early Harvest" agricultural trade proposal to ASEAN, whereby China committed to reduce tariffs on some 600 agricultural products without demanding immediate reciprocity from the ASEAN nations (Cao, 2002). Such a proposal would be inconceivable from either the Japanese or Korean governments.

Recent Events—Meanwhile, to bring the story up to date, in January 2002 Japanese Premier Koizumi proposed a Japanese/ASEAN "economic partnership," and his announcement was followed by an announcement from Seoul that Korea likewise was considering a future FTA with ASEAN (See Table 12 for list of completed and pending FTAs that include East Asian countries). In March 2002, during a trip by Japan PM KoIzumi ti Korea, the two nations announced that, despite continuing political problems, they would officially begin discussions leading to a Japan-Korean FTA. The bottom line is that by mid-2004 all East Asian countries are engaged in talks or negotiations leading to bilateral or subregional preferential trade arrangements. Japan had successfully completed negotiations with Singapore and Mexico; Korean had ratified an FTA with Chile and was moving toward serious negotiations with Mexico, Japan, New Zealand and Singapore; China had completed its ASEAN negotiations; and on the periphery, the United States had concluded FTAs with Singapore and Australia and was in serious talks with Thailand (Cheong, 2004)

Table 12 - Proposed and Actual Regional Trading Agreements Involving East Asian Countries

	Type of Agreement	Status	Year
Bilateral Asia Pacific			
China-Hong Kong (China)	Closer Economic Partnership	Signed	2003
Singapore-Australia	Free trade area	Signed	2003
Singapore-Canada	Free trade area	Under Negotiation	2001
Singapore-Chile	Free trade area	Under Negotiation	2000
Singapore-Japan	Free trade area	Signed	2002
Singapore-Korea, Rep of	Free trade area	Proposal	
Singapore-Mexico	Free trade area	Under Negotiation	1999
Singapore-New Zeland	Free trade area	Signed	2001
Singapore-Taiwan (China)	Closer Economic Partnership	Proposal/study	2002
Singapore-USA	Free trade area	Signed	2003
Korea, Rep.of - Australia	Free trade area	Official discussions	2000
Korea, Rep.of - Chile	Free trade area	Signed	2002
Korea, Rep.of - China	Free trade area	Proposal/study	
Korea, Rep.of - Japan	Free trade area	Official discussions/study	1998
Korea, Rep.of - Mexico	Free trade area	Official discussions/study	2000
Korea, Rep.of - New Zeland	Free trade area	Official discussions/study	2000
Korea, Rep.of - Thailand	Free trade area	Proposal/study	2001
Korea, Rep.of - USA	Free trade area	Under negotiation	2001
Japan - Canada	Free trade area	Proposal/study	2002
Japan-Chile	Free trade area	Official discussions/study	2000
Japan-China-Rep.of Korea	Free trade area	Proposal	2002
Japan-Mexico	Free trade area	Official discussions/study	1998
Japan-Philippines	Free trade area	Proposal	2002
Japan-Taiwan (China)	Free trade area	Proposal	
Japan-Thailand	Closer Economic Partnership	Proposal/study	2002
Taiwan(China)-New Zeland	Free trade area	Proposal	
Taiwan(China)-Panama	Free trade area	Proposal	
Hong Kong (China)-New Zeland	Closer Economic Partnership	Official discussions	2001
Thailand-Australia	Free trade area	Under negotiation	2002
Thailand-Croatia	Free trade area	Proposal	2001
Thailand-Czech Republic	Free trade area	Proposal	2001
Thailnad-India	Free trade area	Proposal	2002
USA-Philipines	Free trade area	Proposal	2002
USA-Taiwan (China)	Free trade area	Proposal	2002
Regional plus			
AFTA	Free trade area	Being implemented	1992
AFTA+CER	Closer Economic Partnership	Official discussions/study	2000
ASEAN+China	Free trade area	Official study/negotiations	2001
ASEAN+India	Regional trade and Investment Agreement	Proposal	2002
ASEAN+Japan	Closer Economic Partnership	Official discussions	2002
ASEAN+Korea,Rep of	Free trade area	Official discussions	2002
Singapore+EFTA	Free trade area	Signed	2002
ASEAN+3	Free trade area	Official discussions/study	2000
EU+ASEAN	Trans regional EU-ASIAN Trade initiative	Proposal	2003
New regional			
Japan-Korea, Rep of-China	Free trade area	Official discussions/study	2000
Pacific 5	Free trade area	Proposal	1997

Source: Kruman and Kharas "East Asia Integrates"

The Rise of Asian Regional Agreements: U.S. and Chinese Perspectives

The sudden increase in the number of negotiated and proposed regional and subregional trade agreements over the past few years has taken both trade officials and scholars by surprise. Although trade economists have long studied the potential effects of various FTAs around the world, recent events and proposals have spawned a veritable cottage industry of studies by academics and national departments of trade. Economic effects constitute one important basis for judging the pros and cons of individual new trade agreements, but also to be factored in are a number of geopolitical factors—security, diplomatic, and political goals and realities. Costs and benefits of new trade agreements by Asian countries—whether with one another or with other trading partners—will likely depend as much on geopolitical factors as economic consequences. Selected larger subregional trade arrangements would have other economic effects and impacts on the U.S. and Chinese economies as well as noneconomic consequences.

To simplify this analysis, the results of one set of simulations (Scollay and Gilbert 2001) will form the basis for judgment (The two economists construct their simulations using a computable general equilibrium model (CGE: see Table 13). This model takes cross-sectional date from a single base period, not only for trade but also for production and consumption, and imposes a detailed theoretical structure on the interactions among different data elements. Using certain constraining assumptions, the models are put to use by changing the underlying data and observing how the remaining variables adjust). Scollay and Gilbert (2001) used a static CGE model that captures only short-term effects, but not dynamic, longer-term effects such as the exploitation of economies of scale and

the impact over time of positive changes in investment and productivity. Their model is therefore likely to be at the lower bound of positive effects. These results are not, of course, exact and should be taken as giving the range and direction of change. In many circumstances, CGE models such as these have produced conflicting results, but simulations of liberalization by various APEC countries have shown a broad consistency among earlier and current studies.

For China, from a purely welfare gain–loss perspective, by and large the bigger the regional agreement, the greater the benefits for the Chinese economy—the exceptions being those agreements that allow China to become a major hub (APEC excluding US or US and Japan). Thus, as examples:

An APEC preferential liberalization under which APEC members remove tariffs against each other and then extend that to other WTO members would boost China's economy by an additional 3.35 percent of GDP;

An APEC preferential liberalization that would exclude outside WTO members would boost China's economy by 2.56 percent;

An APEC preferential liberalization that excludes both Japan and United States would yield gains for China of 3.05 percent

A Japan-Korea-China FTA would add 2.09 percent;

A Western Pacific FTA (AFTA-China-Japan-Korea-Australia-New Zealand) would yield 1.20 percent.

 As one would expect, China's economy is harmed by FTAs that exclude it: Japan-Korea, -0.05 percent, and AFTA-Japan-Korea, -0.21 percent.

Table 13 – Effects of Various Asian Trade Agreement Formations on Korea's and U.S. Welfare and Trade

Formation		China			U.S.		
		Changes in …			Changes in …		
		Welfare (% of initial GDP)	Exports (Export values FOB, % change from base)	**Imports** (Import values CIF, % change from base)	**Welfare** (% of initial GDP)	Exports (Export values FOB, % change from base)	**Imports** (Import values CIF, % change from base)
APEC Formation	APEC MFN basis	3.35	58.85	64.37	0.01	7.16	6.56
	APEC preferential basis	2.56	57.78	63.27	-0.01	7.26	6.69
	APEC MFN (excluding U.S.)	3.19	57.18	62.53	0.06	1.58	1.43
	APEC MFN (excluding U.S. and Japan)	3.05	56.38	61.66	0.05	1.34	1.20
	AFTA-CER-Japan-Korea-China (Western Pacific)	-1.18	47.78	52.29	-0.06	-1.33	-1.26
East Asian and Western Pacific Formations	Japan-Korea	-0.05	-0.20	-0.22	-0.01	-0.25	-0.23
	Japan-Korea (excluding agriculture)	-0.04	-0.16	-0.18	-0.01	-0.23	-0.22
	Japan-Korea-China	2.09	44.36	48.55	-0.02	-0.35	-0.34
	AFTA-Japan-Korea	-0.21	-0.92	-1.01	-0.02	-0.67	-0.64
	AFTA-Japan-Korea-China (East Asia)	0.71	47.28	51.75	-0.03	-0.80	-0.78
	AFTA-CER-JAPAN-Korea-China (Western Pacific)	1.20	23.66	23.54	-0.06	-1.33	-1.26
	AFTA-CER-Japan-Korea	0.19	12.94	12.83	-0.05	-1.16	-1.08
	AFTA-CER	-0.05	-0.30	-0.30	-0.01	-0.21	-0.20
FTAA,	FTAA	-0.10	-0.62	-0.62	0.06	3.69	3.43

APEC, East Asian Bloc Formation	APEC MFN and FTAA	1.01	22.90	22.65	0.07	9.59	8.82
	APEC preferential and FTAA	1.56	25.71	25.50	0.06	10.02	9.26
	Western Pacific bloc and FTAA	1.12	23.13	23.01	0.01	2.29	2.10
GLOBAL	**Global liberalization**	**1.83**	**39.96**	**39.38**	**-0.05**	**19.98**	**18.48**

Source: Scollay and Gilbert, 2001.

Explanations: *APEC MFN basis*: Basic scenario in which it is assumed that APEC members continue to practice "open regionalism", understood in the sense of collective implementation of unconditional MFN liberalization, or "concerted unilateralism". *APEC preferential basis*: It is assumed that members remove tariffs against each other, but not against nonmembers. *CER*: Australia-New Zealand Closer Economic Relations Trade Agreement. Global liberalization. *FTAA*: Free Trade Area of the Americas. *AFTA*: ASEAN Free Trade Area.

Table 14 - Wealth effect selected Non-Asian Countries, Potential Region Free Trade Agreements, US $ Millions (1997 Prices)

Economy	Singapore-Japan RTA	Japan-Korea RTA	Japan-Korea-China RTA	ASEAN plus Japan, Korea, and China RTA	ASEAN plus Japan, Korea, China, Australia and New Zeland RTA	APEC (Mfn reform)
France	-1.5	5.4	8.2	-86.1	-157.1	1018.8
Germany	-3.8	-60.1	-398.6	-803.6	-984.3	1849.4
Italy	-1.6	-13.4	-96.4	-200.9	-347.9	1023
UK	-1.2	-26.2	-40.9	-233.5	-581.9	2363.8
Canada	-0.7	-13.4	-96.4	-200.9	-347.9	1023
United States	-3.3	-381.1	-2487.6	-4131.7	-4758.9	271.6
Memos:						
Number of economies worldwide loosing more than $250m ($100m)	0(0)	1 (2)	5(9)	3(11)	5(14)	4(6)
Total welfare effect for all non-members of the RTA	-33.5	-94.3	-527.7	-1324.1	-2071.2	6255
World	-7.3	-1370.9	-7644.8	-11491.1	13494.1	14721.3

Source: Scollay and Gilbert, 2001; Evenett, Venables and Winters, 2004

For the United States, the picture is more complicated; several explanatory points need to be made before tracking the impact of individual FTAs on U.S. GDP. First, in most cases the impact is miniscule, and, given the imprecision of CGE model results, the best

interpretation would be that these FTAs would have practically no positive or negative impact on U.S. GDP. Second, given the size of the U.S. economy, it may well be (though this is not inevitable) that the future dynamic effects (economies of scale, productivity enhancement) of trade liberalization that are not captured would produce much more positive results. Third, given the relative openness of the U.S. market in manufacturing and agriculture, the real welfare gains from future liberalization may come in the services sectors, where current models are inadequate and may well understate future positive benefits.

In general, however, progressively more comprehensive East Asian–western Pacific trade blocs that exclude the United States result in progressively greater welfare losses for the United States. Thus, the United States would be negatively impacted most by a western Pacific FTA (–.06 percent of GDP); followed by a Japan-Korea-CER-AFTA (South Asia, plus Japan and Korea) FTA at –0.015 percent and an East Asia FTA (Japan-Korea-China-AFTA) at –0.013 percent. On the other hand, various APEC-based liberalizations generally yield small but positive welfare gains for the United States.

As table 14 clearly demonstrates, approximately the same negative results obtain from exclusion of other non-Asian developed economies from various proposed bilateral and subregional FTAs (This wealth effects are designated in millions of dollars of lost welfare, as opposed to percentage of GDP). But in general, as with the United States, the larger the size of the FTA, the larger the welfare losses. While the political reaction in these developed countries might not be so negative as is likely in the United States (at least from the U.S. Congress), for major trading nations in East Asian such as China,

Japan and Korea, particularly, the impact of trade diversion from countries outside the region must of necessity be balanced against the positive benefits of regional intregration.

While the United States is much the larger economic and political power—indeed, the only superpower—it, too, faces real challenges in responding to the rapidly evolving patterns of Asian regionalism. Both economics and geopolitics dictate that the United States cannot afford to be left out of these Asian trends; yet little thought seems to have gone into the specifics of a U.S.-Asia regional policy. USTR has trumpeted "competitive liberalization" and has negotiated FTAs with many and sundry nations—Chile, Jordan, Morocco, Central America—and in East Asia, with Singapore and Australia. But neither U.S. Trade Representative Zoellick nor any other U.S. official has provided any sense of priority or order to this process.

Optimal Choices for the United States and China

Clearly, the first best option for both the United States and China is to take a leadership role and summon the political courage to make the necessary compromises to achieve a successful outcome to the WTO Doha Round (Gordon 2003). Conversely, a proliferation of numerous bilateral FTAs would be the most negative outcome among the choices of various Asian regional pacts. With small-scale FTAs, in almost all cases the economic welfare of the participants is little enhanced; more important, each such arrangement would increase the level and complexity of trade diversion and create a bewildering set of new trade rules and rules of origin—Bhagwati and Panagariya's spaghetti-bowl effect. A plethora of small FTAs would also most likely lead to greater trade tension and conflicts. Finally, the attention and resources that would need to be

devoted to these small FTAs would divert human resources and political capital from the attainment of larger trade and investment goals.

As the economic studies cited above amply demonstrate, the first best regional options revolve around APEC. For both the region as a whole and for individual nations, APEC-wide liberalization yields the most significant economic welfare gains. Politically, also, negotiations within the APEC framework get around the problem of integrating Taiwan, Hong Kong, and China into a trade framework. And both Australia and New Zealand, which are often left out of subregional FTA proposals, are included.

The largest challenge to APEC today is the modality that hitherto has governed the negotiating process. So-called concerted unilateralism, by which each APEC nation liberalizes unilaterally and no reciprocal rules are applied, has not to date produced meaningful results; and APEC liberalization seems to have stalled. The United States and China—and Japan and Korea as the other major forces behind APEC liberalization— face crucial choices in the immediate future. One path, which seems increasingly unlikely, is to reinvigorate concerted unilateralism. The other is to explore the possibility of adopting a more traditional modality: that is, converting APEC into a reciprocity-based and binding FTA.

Economic simulations show that, whatever the means to get there, an APEC preferential agreement does result in the greatest welfare gains for APEC members, both large and small; however, the problems inherent in this approach are enormous. Would Japan and Korea, for instance, agree to binding rules for agriculture? Would the United States make unacceptable demands regarding labor and the environment? In addition, an APEC-wide FTA would have the strongest negative impacts on other regions such as

Europe and Latin America in the multilateral trading system. This could increase trade friction and conflict; or, conversely, it could spur these regions to take the lead in greater MFN liberalization through the WTO.

Two other obvious potential configurations in Asia are a western Pacific FTA or an East Asian FTA. A western Pacific trade bloc, joining Northeast Asia, Southeast Asia, and Australia–New Zealand would also generate substantial welfare gains for participants; but, as with an APEC FTA, it would have a negative impact on the economic welfare and terms of trade of nations outside the agreement —most notably the United States. For China, Japan and Korea, the political consequences of joining such a bloc could be damaging if their membership produced a backlash from U.S. industry that would translate into protectionist intervention by the U.S. Congress. It is, therefore, in the interest of both the United States and leading East Asian nations to work to avoid either a western Pacific or East Asian FTA that does not include the United States.

Bottom Line, U.S.—The United States badly needs to rethink policies toward East Asian regionalism. While this paper has argued that APEC should remain the preferred vehicle for regional integration, if such a path becomes increasingly unlikely, the United States should be prepared to advance other alternatives. At the moment, with the prospects for agreements among the largest East Asian economies very much in flux, the best course for the United States could well be to make clear—and indeed, announce with some emphasis—that it wanted to be at the table when any of the possible subregional trade agreements were being negotiated. This would included such possibilities as a trilateral China-Japan-Koran agreement, ASEAN +3, or an East Asian FTA (with Australia and New Zealand). Given the U.S. commitment to an APEC-wide FTA by

2010 (for developed countries) and 2020 (for developing Asia), this announcement does not really represent a major break with the past. But importantly, it would represent a more substantial response to the new regional realities and a great advance over the current inadequate bilateral policy.

Bottom Line, China—China will have to weigh carefully the tradeoffs regarding regional trade policy over the next few years. Clearly, with Japan only fitfully attempting to compete for East Asian leadership, China has a relatively clear field of choices; and it will be tempting to step forward and lead the way toward an "Asian union," as postulated by Edward Gresser and others. But ultimately, this is a dicey course for both China and the other leading East Asian trading nations, Japan and Korea. Despite evidence of a growing internal East Asian regional economy, all three countries remain heavily dependent on economies outside the region, particularly the United States. Thus, a strong movement toward subregional FTAs that exclude the United States risks a powerful backlash, particularly from the U.S. Congress. In the end, the best course for China—and for Korea and Japan—is to pave the way through exhortation and even negotiations for the United States to expand its horizons in East Asia and recommit to the large vision originally established in the Bogor Declaration of 1994 for some kind of Asian free trade area with the next decade.

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[i]Various studies suggest that official figures may overstate China's average real growth during the reform period by about 2 to 3 percentage points. Improvements in statistical methods during the

1990s and other factors probably have reduced the overstatement on average, but the bias probably varies with other circumstances. Alternative estimates developed by Rawski (2002), suggest that real growth in 1998 may have been less than half the official figure of 8 percent. But even so, China's performance appears broadly comparable with that of other countries that have grown exceptionally rapidly during the post-war period, notably Japan and the Republic of Korea, and more recently several other "Asian Tigers".

[ii] Some of this deterioration may have been associated with increases in China's demand for imports, as well as from China's increased supply of exports.

[iii] The Share of China's FDI inflow relative to world FDI flow represented 0.1 percent in 1980, increased to 1.72 percent in 1990 and 10.85 percent in 1995 and decreased to 6.37 percent in 2001 (see Table 6).

[iv] However, China's FDI is still moderate in per capita terms, but the absolute level of inflows has become the largest in the world in 2002, first to the United States.