Background Paper

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CANADA AND THE PACIFIC RIM

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CANADA AND THE PACIFIC RIM

INTRODUCTION

It is well known that Canada is a trading nation; about one-third of national income and over three million jobs depend on international trade. The primary markets for Canadian merchandise exports can be divided into three regions: the United States (almost three-quarters of Canadian exports in 1989) the European Economic Community (8.5% of Canadian exports in 1989) and the countries of the Pacific Rim (11.9% of Canadian exports in 1989). The overwhelming importance of U.S. trade motivated the Canadian Government to negotiate the Canada-U.S. Free Trade Agreement (FTA) in 1987. If the proposed negotiations between Canada the U.S. and Mexico are successful, free trade may be extended throughout North America. A great deal of attention has also been lavished on the implications for Canada and other outside countries of the plan to integrate the EEC internal market under the so-called Europe 1992 program.

Less consideration seems to have been given to the Pacific Rim region, which is, after all, Canada's second most important regional trading partner. With the threat posed to the multilateral trading system by the recent impasse over subsidies at the Uruguay Round of GATT negotiations, now would be an opportune time to highlight the increasing importance of this region in the world economy and to Canadian trade.

Perhaps no group of countries has a greater stake in the success of the Uruguay Round than those located in the region known as the Pacific Rim. Unlike the countries of North America and the European Economic Community, the Pacific Rim countries have not secured their trading relations within a trading bloc. It is true that Australia and

New Zealand have formed the Closer Economic Relations Trade Agreement and that the ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, Thailand and Brunei) have preferential trading arrangements. However, the largest trading nations in the region, Japan and the newly industrializing countries (NICs) of South Korea, Taiwan, Singapore and Hong Kong (also known as the four Little Dragons) are not part of a regional trading bloc. In any case, all of the major trading nations in the Pacific Rim still depend heavily on outside markets in the U.S. and Europe and remain particularly vulnerable to a collapse of the multilateral trading system.

THE IMPORTANCE OF THE PACIFIC RIM

The Pacific Rim is the name given to a group of Asian and Oceanic countries that border the western edge of the Pacific Ocean but it is sometimes extended to include the Pacific coast of North and South America. In grouping countries by export destination, Statistics Canada excludes from the Pacific Rim the countries on the eastern edge of the Pacific but includes the following: Hong Kong, Malaysia, Brunei Darussalam, Singapore, Burma, Kampuchea, Laos, China, Indonesia, Japan, North Korea, South Korea, Nepal, Philippines, Macau, Taiwan, Thailand, Vietnam, Papua New Guinea, Australia, New Zealand and the Pacific islands.

In order to examine the Pacific Rim in more detail, this paper will narrow the field still further and focus on the major trading countries in the region. These countries can be arranged in the following groups: first, Japan, which is the most industrialized country and the region's engine of economic growth; second, the fast-growing NICs; third, the ASEAN-four countries of Indonesia, Malaysia, Thailand and the Philippines, which are following on the heels of the NICs in terms of development;(1) fourth, the developed countries of Australia and

(1) ASEAN is the acronym for the Association of South East Asian Nations, an organization established in 1967 for economic and political cooperation. Among the ASEAN programs of economic cooperation is a preferential trading arrangement. Singapore is a member of both ASEAN and the NICs but for the purposes of this paper it is grouped with the NICs. Brunei Darrusalam is also a member of ASEAN but it is not analyzed here because of its small size. Throughout this paper, "ASEAN-four" refers to the countries of Indonesia, Malaysia, Thailand and the Philippines.

New Zealand; and fifth, the People's Republic of China, an emerging force in the region.

The countries of the Pacific Rim are generally characterized by higher than average GNP growth rates and many have adopted outward looking trade policies that have resulted in rapid increases in exports. It has been estimated that the volume of trans-Pacific trade between North America and Asia exceeds $300 billion per year but will surpass $500 billion by the year 2000. By the end of the century it is estimated that the Asia Pacific region will hold 60% of the world's population, 50% of production and 40% of consumption.(2)

As already noted, Canadian trade with the Pacific Rim region is exceeded only by Canada-U.S. trade. In 1989, Canada exported $16.4 billion worth of merchandise to the countries of the Pacific Rim and imported $19.3 billion from the region.(3) Between 1979 and 1989, Canadian exports to the region grew by 154% in nominal dollar terms while imports rose by 287% (Table 1, p. 4). This compares with nominal dollar increases of 111% in total Canadian exports and 115% in total imports over the same period, indicating that Canadian trade with the Pacific Rim is increasing faster than overall trade. Table 1 also indicates that Canada-Pacific Rim trade has been outpacing the growth in either Canada-U.S. trade or Canada-EEC trade.

Investment links with the Pacific Rim have also been growing rapidly. Between 1984 and 1989 foreign direct investment in Canada by Pacific Rim countries increased by over 282% compared with a 42% rise for total foreign investment (Table 2, p. 5).(4) In recent years, investors

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(2) The Honourable John Crosbie, "Pacific Trade and Economic Development," in *Canada, The Pacific & Global Trade,* Ed., Murray G. Smith, The Institute for Research on Public Policy, 1989, p. 64.

(3) Note that the Statistics Canada definition of the Pacific Rim is used.

(4) According to Statistics Canada, "Direct investment represents investment which allows the investor, on a continuing basis, to influence or have a voice in the management of an enterprise. For operational purposes direct investment is usually defined by ownership of at least 10% of the equity in an enterprise, and covers claims intended to remain outstanding for more than one year."

TABLE 1

CANADIAN TRADE BY COUNTRY GROUPING, 1979-1989
(MILLIONS CDN.$ AND % CHANGE)

Exports To:	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
All Countries	65,641	76,158	83,811	84,530	90,612	112,383	119,474	120,669	125,086	137,550	138,339
		(16.0%)	(10.0%)	(0.9%)	(7.2%)	(24.3%)	(6.3%)	(1.0%)	(3.7%)	(10.0%)	(0.6%)
United States	44,534	48,173	55,487	57,685	66,011	84,928	93,059	93,206	94,505	100,321	101,411
		(8.2%)	(15.2%)	(4.0%)	(14.4%)	(28.7%)	(9.6%)	(0.2%)	(1.4%)	(6.2%)	(1.1%)
Pacific Rim	6,454	7,766	7,990	8,511	8,805	9,980	10,254	10,541	12,749	16,904	16,399
		(20.3%)	(2.9%)	(6.5%)	(3.5%)	(13.3%)	(2.7%)	(2.8%)	(20.9%)	(32.6%)	(-3.0%)
EEC	7,695	10,049	9,317	7,916	7,016	7,302	7,086	8,186	9,552	11,042	11,827
		(30.6%)	(-7.3%)	(-15.0%)	(-11.4%)	(4.1%)	(-3.0%)	(15.6%)	(16.7%)	(15.6%)	(7.1%)
Imports From:											
All Countries	62,870	69,273	79,481	67,855	75,520	95,459	104,355	112,511	116,238	131,171	135,033
		(10.2%)	(14.7%)	(-14.6%)	(11.3%)	(26.4%)	(9.3%)	(7.8%)	(3.3%)	(12.8%)	(2.9%)
United States	44,629	47,445	53,579	46,907	52,859	66,466	72,020	75,227	76,716	86,020	88,017
		(6.3%)	(12.9%)	(-12.5%)	(12.7%)	(25.7%)	(8.4%)	(4.5%)	(2.0%)	(12.2%)	(2.3%)
Pacific Rim	4,977	5,868	7,637	6,927	8,635	11,306	12,426	15,224	16,261	18,354	19,253
		(17.9%)	(30.1%)	(-9.3%)	(24.7%)	(30.9%)	(9.9%)	(22.5%)	(6.8%)	(12.9%)	(4.9%)
EEC	5,902	5,877	6,854	6,046	6,318	8,930	10,726	12,864	13,762	16,058	14,915
		(-0.4%)	(16.6%)	(-11.8%)	(4.5%)	(41.3%)	(20.1%)	(19.9%)	(7.0%)	(16.7%)	(-7.1%)

Source: Statistics Canada, *Merchandise Trade Exports*, *Merchandise Trade Imports*, 1989.

TABLE 2

STOCKS OF FOREIGN DIRECT INVESTMENT IN CANADA, 1984-1989
BY LOCATION OF OWNERSHIP
(MILLIONS CDN.$)

Location of Ownership	1984	1985	1986	1987	1988	1989
United States	63,355	66,013	67,025	71,584	72,730	75,825
Europe	15,981	16,901	20,216	22,385	27,829	31,120
Japan	1,790	1,925	2,291	2,528	3,274	4,681
Hong Kong	168	170	426	642	1,193	1,043
Australia	94	107	214	471	808	1,055
South Korea	89	92	106	123	115	125
Singapore	51	52	52	69	59	104
Taiwan	12	22	22	22	23	38
Malaysia	3	6	6	15	17	21
Other Pacific Rim	271	281	295	1,902	1,818	2,406
Sub-total - Pacific Rim	2,478	2,654	3,412	5,772	7,307	9,475
World Total	83,385	87,226	92,401	101,508	110,122	118,478

Source: Statistics Canada, *Canada's International Investment Position 1988-89*, Cat. #67-202.

from Japan, Hong Kong and Australia have shown the greatest interest in ownership of Canadian companies. Of course, the total amount of foreign direct investment from the Pacific Rim still remains less than one-third of that received from European countries and about 12% of that received from U.S. sources. On the other hand, the stock of Canadian direct investment in the Pacific Rim region has been growing slightly less rapidly than total Canadian direct investment abroad (Table 3, p. 7). The U.S. is still the primary location of Canadian foreign investment but investment in Europe has been growing most rapidly. Amongst the Pacific Rim countries, Australia and Singapore are the main beneficiaries of Canadian direct investment.

In addition to direct investment, foreign capital can also arrive via foreign purchases of Canadian bonds. Since the late 1970s capital inflows to Canada have increasingly taken this form, comprising 40% of Canadian gross external liabilities at the end of 1990 compared with 35% in 1978.(5) An increasing share of total Canadian bonds outstanding are held abroad, with the U.S. and Japan the major foreign holders. At the end of 1990, Japanese investors held 25% of Canadian bonds held abroad, while U.S. investors held 30%, although the U.S. share was down from about two-thirds in 1978.(6) Statistics Canada attributes the decreased proportion held by U.S. investors to the emergence of Japan as a force in the Canadian bond market.

A FLYING-GEESE PATTERN OF DEVELOPMENT

The pattern of development taking place in East and South East Asia has often been likened to a flight of geese flying in a V-formation. In this analogy Japan is the lead goose; flying behind it in the second rank are the NICs while the ASEAN-four countries follow in the

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(5) Statistics Canada, *Canada's International Investment Position, 1988-90*, p. 24.

(6) *Ibid.*, p. 27.

TABLE 3

STOCKS OF CANADIAN DIRECT INVESTMENT ABROAD, 1984-1989
BY LOCATION OF INVESTMENT
(MILLIONS CDN.$)

Location of Investment	1984	1985	1986	1987	1988	1989
United States	32,151	37,074	39,424	42,687	46,168	50,122
Europe	6,375	7,780	8,702	10,986	12,462	15,674
Japan	231	232	225	243	356	393
Hong Kong	191	203	247	280	244	377
Australia	1,021	1,041	1,065	1,294	2,013	2,116
South Korea	15	17	18	3	22	35
Singapore	627	895	1,247	1,781	1,787	1,290
Taiwan	48	25	26	84	122	181
Malaysia	45	48	45	54	60	64
Indonesia	1,052	1,092	1,160	992	994	921
Other Pacific Rim	232	246	238	293	301	243
Sub-total - Pacific Rim	3,462	3,799	4,273	5,022	5,900	5,621
World Total	47,422	54,123	58,492	65,869	72,174	79,925

Source: Statistics Canada, *Canada's International Investment Position 1988-89,* Cat. #67-202.

third rank.[7] As the leading country in terms of development, Japan is the first to initiate production of a new good and to begin exporting it. After a period, the first rank of countries (the NICs) learn how to produce the article and begin competing with Japanese exports, first in the home market then in export markets, eventually penetrating the Japanese market. In the meantime, the third rank of countries (the ASEAN-four countries) begin to produce the good and compete with the NICs. However, by this time, the NICs have already moved on to the production of a new good invented either by themselves or by the lead country, Japan.[8]

Japan is the regional economic engine that pulls the economies of the Pacific Rim. It is Japanese demand that has led to the development of mineral deposits and other raw materials in the Pacific Rim and provided much of the technology and capital for the development of manufacturing sectors in the NICs and the ASEAN-four countries. Initially, Japan looked to the rest of Asia as a source of food and raw materials to fuel the development of its manufacturing sector. However, as Japanese wages rose and the NICs' industrial structure developed, the NICs became a source of low technology manufactures, such as footwear, clothing and textiles. These countries can now compete equally with Japan in other areas such as chemicals, ceramics and clay, and non-ferrous metals and may be able to out-compete Japan in the production of iron and steel, metal products, some transport equipment and shipbuilding.

The remarkable economic growth shown by some less developed countries in the Pacific Rim is raising them into the ranks of the developed countries. Following the example set by the Japanese, the NICs have used trade as an engine of economic growth. To illustrate the importance of trade to these economies, in 1988 the ratio of exports of goods and services to Gross Domestic Product was 135.9% in Hong Kong, 42.0% in South Korea, 210.5% in Singapore and 59.7% in Taiwan. To put this in

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(7) "A Survey of the Yen Block," *The Economist,* 15 July 1989, p. 10.

(8) Yung Chul Park, "The Little Dragons and Structural Change in Pacific Asia," *World Economy,* June 1989, p. 132-133.

perspective, the same ratio was 13.1% for Japan, 8.9% for the U.S. and 26.2% for Canada.(9)

Between 1975-1988 exports from the four NICs to all destinations increased by almost 20% per year (in nominal U.S. dollar terms) or about twice as fast as world exports. During the same period, the NICs' imports rose by slightly less than 17% while world imports increased by 10%. As a result, the NICs' share of world exports and imports increased from about 3% in 1975 to almost 8% in 1988.(10) The spectacular trade performance by these countries also translated into equally impressive economic growth rates. From 1960-1970 the four NICs averaged real GNP growth of 8.4% per year; between 1970-1980 real GNP rose by 8.8% annually; from 1980-1988 real GNP increased by an average of 8.5% per year.(11)

The NICs' success in exporting has generated large current account surpluses, particularly with respect to the U.S., which provides the primary market for NIC products. To some extent the NICs may have engineered their trade advantage by resisting appreciation of their currencies, restricting domestic spending and maintaining high import barriers. The U.S. has reacted to persistent trade deficits with the NICs by encouraging them to reduce import barriers, allow their currencies to appreciate and stimulate domestic demand to encourage more imports. In January 1988, the U.S. withdrew South Korea from the list of developing countries entitled to receive lower U.S. tariffs under the Generalized System of Preferences (GSP). One year later the U.S. withdrew GSP status from Taiwan, Hong Kong and Singapore. Canada extends GSP status to South Korea, Hong Kong and Singapore, but not to Taiwan.

The four ASEAN countries of Malaysia, Thailand, Indonesia and the Philippines represent the next wave of newly industrializing countries. These countries first began producing agricultural products and raw materials, such as oil, rubber and tin, and then moved into the manufacture of low-tech labour-intensive goods, such as textiles. While

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(9) IMF, International Financial Statistics Yearbook, 1990.

(10) Scott Roger and Mark McClellan, "The Newly Industrialized Economies of Asia in the International Trading System," *Bank of Canada Review*, March 1990, p. 7.

(11) *Ibid.*, p. 5.

low wage rates and a plentiful supply of labour in ASEAN-four countries still favour the production of labour-intensive goods, the rise of the electronics assembly and the electrical products industries indicates that the technology component of their production has increased.

Among the ASEAN-four countries, Malaysia and Thailand have experienced the fastest growth in exports with Malaysia closely resembling the NICs in the high ratio of exports to GNP (45%). The economies of the other two ASEAN-four countries have not performed as well. The Philippines' economy has suffered from political uncertainty and past mismanagement, while falling oil prices and a nationalistic investment policy have hurt the Indonesian economy. With the ASEAN preferential trading arrangement having little effect on intra-ASEAN trade, these countries will continue to rely on trade with Japan and, more recently, the four NICs.

The position of China in the flying geese analogy is unclear. It has been compared to a big bird flying alongside the flock because it is capable of competing at several levels simultaneously, with the ASEAN-four countries, the NICs or even with Japan in some areas.(12) For instance, China exports agricultural products, textiles and clothing, machinery and transport equipment, iron and steel and is now producing computers and specialized electronics.

China's vast supply of cheap labour obviously will continue to make it a potential competitor in the production of labour-intensive manufactures. However, it is uncertain how far China is willing to deregulate its economy in order for industry to be able to respond quickly to market forces.

ECONOMIC OUTLINE OF PACIFIC RIM COUNTRIES

Japan

The Japanese economic miracle has been well documented; real economic growth rose by an average annual rate of 9.2% from 1950-1970 and

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(12) Edward K.Y. Chen, *The Economies of Asia's Newly Industrializing Countries,* in Robert H. Taylor, ed., *Asia and the Pacific, Facts on File,* New York, 1991, p. 1338.

by 4.8% per year between 1970 and 1989.(13) This compares with an average annual growth rate for the U.S. of 3.9% during the 1950-1970 period and 2.7% between 1970 and 1989. As a result, Japan's share of OECD GDP rose from under 2.5% in the early 1950s to 15.2% in 1985.(14) With the exception of an energy-induced recession in 1974, the period since 1970 has been one of uninterrupted growth. Japan now has the second largest market economy in the world; GDP in 1988 was US$2.8 trillion or US$23,235 per capita.(15) This compares with GDP of US$4.8 trillion or US$19,558 per capita in the United States and GDP of US$484.6 billion in Canada or US$18,675 per capita. (Of course, when purchasing power is taken into account, Japanese GDP per capita was US$14,285 compared with U.S. GDP per capita of US$19,558 and Canadian GDP per capita of US$18,413.)

From a capital importer after the Second World War, Japan became the world's largest creditor in 1984 and by the end of 1988 held foreign assets worth US$291.8 billion.(16) The large Japanese capital outflows offset payments imbalances in other countries, most notably the U.S. The greatest portion of Japanese overseas purchases has been in the form of portfolio investment (bonds and non-controlling equity interest) but at the end of 1988, US$110.8 billion, or 38%, was in the form of direct investment (controlling equity interest).(17) Several large equity purchases such as Rockefeller Center in New York and, in California, the purchases by Sony Corporation of CBS records and Columbia Pictures Entertainment are among the more controversial acquisitions by the Japanese. This has raised concern about foreign investment in the U.S. despite the need for foreign capital to offset U.S. national dissaving.

As noted earlier, Japan has become a major foreign purchaser of Canadian bonds and equity. However, in Canada where foreign ownership

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(13) OECD, *OECD Economic Outlook,* December 1990, p. 175, and Christopher Howe, "Japan and the World Economy," in Robert H. Taylor, ed., *Asia and the Pacific,* Vol. 2, New York, 1991, p. 1294.

(14) Economist Intelligence Unit, *Japan: Country Profile 1990-91,* p. 10.

(15) OECD, *OECD Economic Surveys 1989/90 - Japan, 1990 (Basic Statistics).*

(16) Tracy Redies, "Japanese Foreign Direct Investment in the 1980s: An Exercise in Financial Power," in Peter N. Nemetz, ed., *The Pacific Rim-Investment Development,* Second Ed., UBC Press, 1990, p. 89.

(17) *Ibid.*

has always been high, Japanese ownership appears to be less of an issue than it is in the United States. Japanese automakers Toyota, Honda and Suzuki have been encouraged by both federal and provincial governments to make substantial investments in Canada.

At the end of 1989, Japanese direct investment stood at: $1.2 billion in Canadian manufacturing; $581 million in petroleum and natural gas; $381 million in mining and smelting; $928 million in merchandising; and $824 million in financial services. The most rapid increases in Japanese direct investment in Canada have been in manufacturing and financial services.(18) Canada's international investment position (balance sheet of all external assets and external liabilities) with Japan registered a net foreign liability of $58 billion at the end of 1990. This compares with Canada's net foreign liability to the U.S. of $107 billion and of $67 billion to the EEC.

Since the early 1950s, Japan has pursued an export-led development strategy and its economic success has depended on the willingness of other countries - primarily the U.S. - to purchase Japanese manufactures. Japanese manufacturing has evolved quickly from relatively low-tech production of textiles after the war to the manufacture of cameras, transistor radios, tape recorders, television sets, stereos, and other consumer electronics in the 1960s and 1970s. The 1970s also saw Japan begin substantial exports of automobiles and by the early 1980s it had become the world's largest auto producer, making about 7.9 million autos and 4.3 million trucks in 1987.(19) Nor has Japan neglected heavy industry; Japanese steel making and shipbuilding are still among the largest in the world although competition from countries like South Korea is eroding its share of world markets.

The success of Japanese manufactured exports has generated its own set of competitive challenges including protectionism abroad, (especially in the U.S.), a higher exchange rate for the Yen, and low-priced competition from the NICs and developing countries. The Japanese response to these challenges has included: substitution of higher domestic

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(18) Statistics Canada, *Canada's International Investment Position 1988-90*, p. 63.

(19) Robert H. Taylor, ed., *Asia and the Pacific*, Vol. 1, New York, 1991, p. 136.

demand for export-led demand thereby reducing the trade surplus; heavy investment in research and development to permit movement into higher value-added production; and investment in overseas production centres both as a means of lowering costs and of skirting foreign trade barriers.

These challenges and the policy responses by Japan are themselves generating forces for economic integration among the countries of the Pacific Rim. First, the appreciation of the Yen and stimulation of domestic demand is drawing in more imports from the NICs and ASEAN countries. In 1989, the NICs exported 200% more goods to Japan in nominal value terms compared with 1985 (Table 4, p. 14). The ASEAN-four countries' exports increased by just 17.6% over the same period. However, the relatively slow growth in ASEAN-four exports reflects a decline in the value of oil shipments from Indonesia and Malaysia as oil prices fell in the mid-1980s. By comparison, Japanese imports from all countries increased by 60.6% over the 1985-1989 period.

As indicated in Table 5 (p. 15), the United States absorbed over one-third of Japanese exports in 1989 providing by far the largest foreign market. Interestingly, of the top five markets for Japanese exports, three are NICs; altogether, South Korea, Taiwan and Hong Kong accounted for about 15.8% of Japanese exports. Although the U.S. is also the largest source of Japanese imports, the substantial Japan-U.S. trade surplus (US$45.7 billion) is the source of much trade friction between the two countries.

In order to head off import restrictions, Japan continues "voluntarily" to impose export quotas on shipments to the U.S. of steel and automobiles. In another dispute, involving semiconductors, the U.S. has imposed tariffs on Japanese electrical goods in retaliation for violating an agreement that Japan desist from dumping semiconductors in the U.S. market and that Japan open its market to semiconductor imports. Japanese restrictions on agricultural imports remain a long-standing irritant between the two countries.

Under the Structural Impediments Initiative (SII) talks proposed by President Bush in May 1989, Japan agreed to address U.S. concerns such as, low Japanese consumption rates, collusive cartels in the Japanese marketing and distribution system, Japanese laws that limit the

TABLE 4

JAPANESE IMPORTS BY SOURCE
(MILLIONS U.S.$ AND PERCENTAGE CHANGE FROM PREVIOUS PERIOD)

	1985	1986	1987	1988	1989
NICs	9,941	12,609 (26.8%)	19,030 (50.9%)	25,015 (31.5%)	26,988 (7.9%)
ASEAN (4)	18,433	14,008 (-24.0%)	16,503 (17.8%)	19,149 (16.0%)	21,673 (13.2%)
Industrialized Countries	51,680	60,591 (17.2%)	69,888 (15.3%)	92,742 (32.7%)	104,780 (13.0%)
U.S.A.	26,099	29,410 (12.7%)	31,957 (8.7%)	42,267 (32.2%)	48,253 (14.2%)
Canada	4,802	4,936 (2.8%)	6,109 (23.8%)	8,301 (35.9%)	8,606 (3.7%)
All Countries	130,516	127,660 (-2.2%)	150,907 (18.2%)	187,483 (24.2%)	209,635 (11.8%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 5

JAPAN'S MAJOR TRADING PARTNERS
(1989 RANKINGS WITH VALUE IN MILLIONS U.S.$)

Exports To:		Imports From:	
1. U.S.A.	93,954 (34.2%)	1. U.S.A.	48,253 (23.0%)
2. South Korea	16,491 (6.0%)	2. South Korea	12,931 (6.2%)
3. Germany	15,851 (5.8%)	3. Australia	11,503 (5.5%)
4. Taiwan	15,349 (5.6%)	4. China	11,083 (5.3%)
5. Hong Kong	11,472 (4.2%)	5. Indonesia	10,956 (5.2%)
11. Canada	6,776 (2.5%)	8. Canada	8,606 (4.1%)
Total Exports	274,597 (100%)	Total Imports	209,635 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

size of a retail store that may open without the approval of local small shop owners, along with a number of other practices that the U.S. believes limit import penetration of the Japanese market.

As indicated in Table 6 (p. 17), Canada's principal exports to Japan are raw and semi-processed materials, including mineral fuels (mainly coal), lumber and wood products, ores (especially copper ore), oil seeds (canola oil) and wood pulp. With respect to imports, Canada buys mainly Japanese finished manufactures such as vehicles (automobiles and trucks), machinery, boilers, engines and mechanical equipment (including data processing equipment) electrical machinery (including radios, televisions, stereos, video equipment) optical, photography, and other precision equipment, and rubber and rubber articles (including rubber tires).

Hong Kong

From its beginnings in the mid-nineteenth century as a free port under British control to the arrival of Shanghai textile manufacturers after the Second World War, Hong Kong has grown to a major manufacturing center and the non-communist world's 10th largest exporter. Today Hong Kong maintains its traditional position as a major exporter of textiles and clothing, watches and clocks, toys and games. However, in recent years Hong Kong has also emerged as a significant exporter of computers and office machines, televisions, radios and other electronics. Hong Kong's major trading partners are China, the U.S.A. and Japan (Table 7, p. 18).

As wages have risen in Hong Kong, businessmen in the British crown colony have moved more assembly of labour-intensive goods, such as textiles, to China. For example in the neighbouring Chinese province of Guangdong there are estimated to be at least 1.5 - 3.0 million workers employed either directly or indirectly by Hong Kong businessmen.[20] However, the amount of textile work that can be shifted to low wage countries is limited by international textile quotas. Under the Multifibre Arrangement, each producing country is permitted to export a given amount of textiles to the consuming countries. Goods that are largely manufactured

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(20) "A Survey of Hong Kong," *The Economist,* 3 June 1989, p. 8.

TABLE 6

CANADIAN TRADE WITH JAPAN IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Mineral fuels	1,487.4	1. Vehicles	3,756.5
2. Wood and articles of wood	1,245.8	2. Machinery, boilers, mechanical appliances	2,096.6
3. Ores, slag and ash	970.6	3. Electrical machinery	1,576.9
4. Oilseeds	713.5	4. Optical, photo, other precision instruments	460.2
5. Wood pulp	664.8	5. Rubber and articles	193.2
Total Exports	8,171.9	Total Imports	9,517.5

Source: Statistics Canada, *Imports by Country*, January-December 1990, Cat. #65-006.

Statistics Canada, *Exports by Country*, January-December 1990, Cat. #65-003.

TABLE 7

HONG KONG'S MAJOR TRADING PARTNERS
(1989 RANKINGS WITH VALUE IN MILLIONS U.S.$)

Exports To:		Imports From:	
1. China	18,817 (25.7%)	1. China	25,213 (34.9%)
2. U.S.A.	18,505 (25.3%)	2. Japan	11,950 (16.6%)
3. Japan	4,525 (6.2%)	3. Taiwan	6,614 (9.2%)
4. Germany	3,693 (5.0%)	4. U.S.A.	5,933 (8.2%)
5. U.K.	3,020 (4.1%)	5. S. Korea	3,265 (4.5%)
9. Canada	1,501 (2.1%)	22. Canada	357 (0.5%)
Total Exports	73,114 (100%)	Total Imports	72,149 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

in China may not qualify as Hong Kong-made under international rules of origin.

Major Canadian exports to Hong Kong consist of precious metals (mainly gold in unwrought form) electrical machinery (including telecommunications equipment) paper and paperboard, plastics and aluminum. (Table 8, p. 20). This country's largest imports from Hong Kong are clothing, electrical machinery (including radios and TVs), machinery and mechanical appliances (including computers) textiles of various materials, and clocks and watches. The increased importance of gold and telecommunications equipment exports to Hong Kong and greater imports of computers from that country stand out as changes to the bilateral trading relationship over the past ten years.

Despite its past economic success, uncertainty clouds the future of Hong Kong. In 1997 the British will pass control of the crown colony over to China, which will make it a "special administrative region." According to the Joint Declaration by Britain and China, Hong Kong "will enjoy a high degree of autonomy, except in foreign and defence affairs which are the responsibility of the Central People's Government." Further, Hong Kong's capitalist system and life-style are supposed to remain unchanged for 50 years.

Regardless of the Declaration, the Chinese government's brutal repression of protestors in Tiananmen Square in 1989 has increased the nervousness of Hong Kong residents. Other signs are also not encouraging. In reference to the post-1997 period, Chinese leader Deng Xiaoping stated in an interview, "The (Hong Kong) opposition party which organized the alliance in support of democracy (in China) has to be kicked out of the political establishment...If they create turbulence, the Hong Kong government should interfere. If there is a major rebellion, the central government has to send troops."(21)

As 1997 draws closer, many of Hong Kong's entrepreneurs are shifting their capital and residency to other countries. It is estimated that Hong Kong residents are emigrating at the rate of 62,000 per year: 1%

(21) *The Economist,* 16 February 1991, p. 31.

TABLE 8

CANADIAN TRADE WITH HONG KONG IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Precious metals	264.3	1. Articles of clothing	435.0
2. Electrical machinery	42.5	2. Electrical machinery	166.6
3. Paper and paperboard	37.8	3. Machinery, boilers, mechanical appliances	65.9
4. Plastic and articles	37.5	4. Textiles	60.2
5. Aluminum and articles	23.8	5. Clocks, watches	43.0
Total Exports	657.2	Total Imports	1,058.8

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

of the whole population and 10% of the middle class.(22) This represents a potential benefit for recipient countries and Canada is the destination of more Hong Kong emigrants than any other country. In 1989, Canada accepted almost 20,000 immigrants from Hong Kong (including 4,136 classified as entrepreneurs and 956 investors) making this the largest single source of immigration into Canada.(23) These numbers are likely to increase in the coming years as overall Canadian immigration quotas are raised from 200,000 in 1990 to 220,000 in 1991 to 250,000 in 1992. This increased immigration is likely to enhance Canada-Hong Kong trade and investment flows as well as Canadian links to other countries in the Pacific Rim.

Singapore

Established as a trading station by the East India Company in 1819, the island of Singapore became a crown colony of Britain before gaining independence in 1959. Singapore joined the Federation of Malaysia in 1963 but separated two years later to become an independent republic. As with Hong Kong, the island of Singapore prospered first as an entrepot port. More recently, it has become a centre for manufacturing, financial services and oil refining. An authoritarian government has assured Singapore of a stable political environment that encourages free enterprise through tax concessions, developed infrastructure and regulation without corruption.

In response to its small internal market (2.65 million people) and lack of natural resources, Singapore has pursued a highly successful trade-oriented economic strategy that achieved average annual real GDP growth rates of 9.2% from 1960-1970, 9.0% from 1970-1980 and 6.6%

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(22) "Hong Kong - Asia Its Oyster," *The Economist,* 8 December 1990, p. 38.

(23) Statistics supplied by Employment and Immigration Canada.

from 1980-1988.(24) As noted earlier, exports represented over 210% of the country's GDP in 1988. Major exports include machinery and transport equipment, mineral fuels, chemicals and miscellaneous manufactured articles; the significant imports are machinery and transport equipment, mineral fuels and chemicals. Singapore's principal trading partners are the United States, Japan and Malaysia (Table 9, p. 23).

Singapore shipped C$551.8 million worth of goods to Canada in 1990 and purchased C$381.3 million in Canadian-made goods. As indicated in Table 10 (p. 24), Canada's major exports to Singapore include precious stones and metals (mainly gold), aircraft and parts, machinery and mechanical appliances, electrical equipment and parts (including telecommunications equipment), paper and paper board. From Singapore, Canada imports machinery and mechanical appliances and parts (including computers) electrical machinery and parts, clothing, organic chemicals, and rubber and rubber articles.

As in Hong Kong, a tight labour market and rising wages are encouraging Singapore businesses to shift labour-intensive operations to lower cost neighbouring countries such as Malaysia, Sumatra and the Indonesian islands. For instance, the Indonesian government has invested US$570 million to open up the first stage of 150,000 acre industrial park on the island of Batam.(25) With the movement of labour-intensive manufacturing to lower cost locations offshore, Singapore's well educated labour force can concentrate on research and development, marketing, finance and other services.

Accounting for almost 29% of GDP, financial services are an important component of Singapore's economy. Along with Hong Kong, Singapore is the most important "offshore" financial centre in the Pacific Rim. Besides Singapore's banks, some of which rank among the world's top 500 banks, there are over 100 foreign commercial banks located in Singapore as well as numerous finance companies, merchant banks, representative offices, international money brokers and participants in the Asian Currency Market.

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(24) Roger and McClellan (1990), p. 5.

(25) "Hollywood East," *The Economist*, 23 February 1991, p. 33.

TABLE 9

SINGAPORE'S MAJOR TRADING PARTNERS
(1989 RANKINGS WITH VALUE IN MILLIONS U.S.$)

Exports To:		Imports From:	
1. U.S.A.	10,432 (23.3%)	1. Japan	10,612 (21.4%)
2. Malaysia	6,110 (13.6%)	2. U.S.A.	8,522 (17.1%)
3. Japan	3,828 (8.6%)	3. Malaysia	6,518 (13.1%)
4. Hong Kong	2,823 (6.3%)	4. Saudi Arabia	2,388 (4.8%)
5. Thailand	2,465 (5.5%)	5. Taiwan	2,243 (4.5%)
19. Canada	397 (0.9%)	24. Canada	265 (0.5%)
Total Exports	44,769 (100%)	Total Imports	49,694 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 10

CANADIAN TRADE WITH SINGAPORE IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Precious stones, precious metals and jewellery	82.3	1. Machinery, boilers, mechanical appliances	279.6
2. Aircraft and parts	45.7	2. Electrical machinery	146.6
3. Machinery, boilers, mechanical appliances	44.3	3. Articles of clothing	33.1
4. Electrical machinery	37.6	4. Organic chemicals	17.1
5. Paper and paperboard	28.5	5. Rubber and articles	12.8
Total Exports	381.3	Total Imports	551.8

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

Taiwan

During the 1950s Taiwan pursued an import substitution strategy involving the encouragement of local production behind high protective tariff walls. The economy ran into balance of payments difficulties in the late 1950s with the saturation of the domestic market for the limited number of manufactures, such as cement, fertilizer, textiles and papers. Taiwan brought forward a new development plan in 1960 which dropped the inward-looking import substitution program in favour of one based on export promotion of light labour-intensive manufactures. The new plan also favoured reduced administrative controls, lowered tariffs on imports of raw materials and inputs to industry, set up export processing zones and established a single exchange rate system and greater investment incentives.

During the 1970s emphasis in the government's four year plans shifted to the production of capital-intensive heavy industry industries to supply capital goods as well as intermediate products, such as steel, petrochemicals and transport goods, to the island's export industries.

Average real GNP growth during the period 1960-1970 was 9.0%, from 1971-1980 it was 9.1% while between 1980-1988 real growth averaged 7.9%.(26) Real exports rose by an average of 22.1% per year from 1971-1980 and by 16.4% from 1981-1987.(27)

Traditionally, textiles and clothing have been Taiwan's largest export and, while this was still true in 1988, the relative importance of these exports has been declining. The current emphasis on machinery manufactures, electrical machinery and electronics, including calculating machines, radios, televisions and integrated circuits, reflects their perceived export potential. These products also reflect Taiwan's comparative advantage in goods requiring low capital and energy costs and a

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(26) Roger and McClellan (1990), p. 5.

(27) Yung Chul Park, "The Little Dragons and Structural Change in Pacific Asia," *World Economy,* June 1989, p. 126.

TABLE 11

TAIWAN'S MAJOR TRADING PARTNERS
(1988 RANKINGS WITH VALUE IN MILLIONS U.S.$)

Exports To:			Imports From:		
1.	U.S.A.	23,431.0 (38.7%)	1.	Japan	14,824.2 (29.9%)
2.	Japan	8,762.1 (14.5%)	2.	U.S.A.	13,002.0 (26.2%)
3.	Hong Kong	5,579.7 (9.2%)	3.	Germany	2,132.1 (4.3%)
4.	Germany	2,338.1 (3.9%)	4.	Hong Kong	1,921.7 (3.9%)
5.	U.K.	1,904.9 (3.1%)	5.	Australia	1,336.2 (2.7%)
7.	Canada	1,582.0 (2.6%)	8.	Canada	953.3 (1.9%)
Total Exports		60,585.4 (100%)	Total Imports		49,655.8 (100%)

Source: *The Europa World Yearbook,* 1990.

TABLE 12

CANADIAN TRADE WITH TAIWAN IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Raw hides, skins, leather (not furs)	90.0	1. Machinery and mechanical appliances	379.5
2. Organic chemicals	82.5	2. Electrical machinery and parts	281.2
3. Mineral fuels, oils and products	69.0	3. Clothing	204.0
4. Paper and paperboard	53.1	4. Furniture, bedding	153.0
5. Electrical machinery and parts	52.2	5. Motor vehicle parts and bicycles and parts	128.6
Total Exports	788.9	Total Imports	2,109.1

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

high labour content. The relatively high skill intensity required for the production of these goods balances a decline in Taiwan's competitiveness due to rising real wages.

Another key aspect of Taiwan's trade is its overwhelming export dependence on the U.S. market despite an attempt to diversify trade away from that destination. (In 1989 the U.S. absorbed over 36% of Taiwan's exports compared with 48% in 1985.) The U.S. trade deficit with Taiwan (US$14.3 billion in 1989 down from US$19.0 billion in 1987) is the second largest next to the U.S.-Japan trade deficit. In response to U.S. pressure, the new Taiwan dollar (NTD) was revalued between September 1985 and the end of 1989 by 55% vis-à-vis the U.S. dollar and measures were undertaken to promote capital flows, reduce import barriers and encourage the purchase of U.S. goods.(28) Taiwan also lowered its average nominal tariff from 26% in 1986 to 9.7% in 1989.(29) In January 1989, U.S. tariff barriers were raised to Taiwanese goods when the U.S. removed Taiwan from the list of countries whose goods are entitled to more favourable tariff treatment under the Generalized System of Preferences.

Canada ranks among the ten largest markets for Taiwan's exports and was the eighth largest source of the island's imports in 1988 (Table 11, p. 26). In 1990 Canada imported merchandise worth about $2.1 billion to Taiwan and exported $789 million in goods to that country giving Canada a bilateral trade deficit of $1.3 billion in 1990. As Table 12 (p. 27) indicates, Canada's major exports to Taiwan were predominately unprocessed or intermediate goods while imports were largely finished products.

South Korea

Even in 1961, eight years after the end of the Korean War, South Korea was still extremely poor with GNP per capita around US$100. By 1989 GNP per person had increased to about US$4,854 with real economic

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(28) U.S., Country Reports on Economic Policy and Trade Practices, U.S. Senate and U.S. House of Representatives, February 1990, p. 346.

(29) *Ibid.*

growth over the period 1961-1989 averaging 8.8% per year.[30] The remarkable rise of South Korea from one of the poorest underdeveloped countries to a middle income nation with the world's seventeenth largest economy can be been attributed to several factors. Most importantly, in the five-year plans begun in 1962 the country shifted from an inward-looking import substitution development approach to one of export promotion. Initially, South Korean exports concentrated on labour intensive manufactures, such as textiles and apparel, which emphasized the country's plentiful supply of cheap labour. By 1980, although clothing and textiles still comprised 15.8% of industrial production, South Korea was changing its manufacturing emphasis to chemicals, basic metals, fabricated metal products, non-electrical machinery and electrical machinery.[31]

With steel production reaching 21.9 million tons in 1989, South Korea has built the eighth largest steel industry outside the communist countries.[32] The success of the South Korean auto industry was established with the export of the Hyundai automobile to Canada in 1985 and to the U.S. in 1986. Another Korean automaker, Daewoo, has formed a partnership with GM and in 1987 began exporting Pontiacs to the U.S. Other joint ventures between Korean, Japanese and American automakers are either in progress or are under consideration.

South Korea is now the second largest shipbuilder in the world with about one-quarter of world shipping orders in 1986 compared with approximately 44% for Japan.[33] The Korean electronics industry is also making great strides and is said to be only slightly behind Japan and the U.S. in the production of large integrated circuits. Korean production of consumer products has increased particularly rapidly during the 1980s; between 1983 and 1988 production of electronic calculators rose from

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(30) Economist Intelligence Unit, *South Korea: Country Profile 1990-91*, p. 10.

(31) *Ibid.*, p. 29.

(32) *Ibid.*, p. 30.

(33) *Ibid.*, p. 31.

2.9 million to 4.2 million, tape recorder output increased from 10.5 million to 19.9 million, colour television sets from 3.2 million to 8.7 million, passenger cars 129,000 to 868,000 and microwave oven production soared from 961,000 to 10.3 million.(34) However, in the last several years production of electronic calculators, tape recorders and telephones has declined slightly.

South Korea, like the other three Little Dragons, runs trade deficits with Japan and trade surpluses with the U.S. In 1989 South Korea exported US$20.6 billion worth of merchandise to the U.S. while importing US$15.9 billion for a bilateral merchandise trade surplus of US$4.7 billion.(35) Continuing trade deficits with South Korea have caused the U.S. to apply pressure on South Korea to open its markets to U.S. trade and investment. After the U.S. placed South Korea on the "Super 301" hit list, it agreed in May 1989 to measures that would reduce or eliminate import restrictions, such as border closure provisions, restrictive standards, and testing requirements. Although quantitative import restrictions were also removed on some agricultural commodities, these remain on a number of other farm products, including certain fruits, vegetables, fruit juices and beef.(36)

South Korean trade deficits with Japan stem from an appetite for Japanese capital goods and components for employment in South Korean manufactures. Essentially, South Korea has imported Japanese capital goods, technology and components and used these to fabricate products for sale to the U.S., the European Community and other export markets. However, in recent years Japan has started to import a number of Korean products, such as electronic calculators, radios and electric fans. In 1988 Korea exported US$12.0 billion in merchandise to Japan and imported about US$16.0 billion from that country leaving a US$4 billion bilateral trade deficit (Table 13, p. 31).

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(34) *Ibid.*, p. 32.

(35) Economist Intelligence Unit, *Country Report No. 4 1990: South Korea*, Appendix 2.

(36) United States Trade Representative, 1990 National Trade Estimate Report on Foreign Trade Barriers, Washington, p. 128.

TABLE 13

SOUTH KOREA'S MAJOR TRADING PARTNERS
(1988 RANKINGS WITH VALUE IN MILLIONS U.S.$)

Exports To:		Imports From:	
1. U.S.A.	21,404.1	1. Japan	15,975.8
2. Japan	12,004.1	2. U.S.A.	12,756.7
3. Hong Kong	3,560.9	3. Germany	2,074.0
4. Germany	2,367.8	4. Australia	1,797.4
5. U.K.	1,950.9	5. Malaysia	1,331.4
6. Canada	1,692.3	6. Canada	1,196.8
Total Exports (incl. others)	60,696.4	Total Imports (incl. others)	51,810.6

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 14

CANADA'S TRADE WITH SOUTH KOREA IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Mineral fuels (mainly coal)	333.9	1. Electrical machinery	443.8
2. Metal ores	170.6	2. Articles of apparel	309.0
3. Organic chemicals	140.6	3. Vehicles	269.8
4. Wood pulp	133.4	4. Machinery, mechanical appliances	254.0
5. Aluminum	104.2	5. Footwear	164.7
Total Exports	1,549.9	Total Imports	2,251.6

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

In 1990, Canada exported C$1,549.9 million in merchandise to South Korea; this was down slightly from the C$1,651.2 million exported to that country in 1989. Canada's largest exports to Korea in 1990 were raw and semi-processed products including mineral fuels (mainly coal), metal ores, organic chemicals, wood pulp and aluminum. Canada's imports from South Korea consist mainly of manufactured goods, such as electrical machinery, apparel, transportation vehicles (autos), machinery and mechanical appliances, and footwear (Table 14, p. 32). The major change in the composition of Canadian imports from Korea in the last ten years is the addition of automobile imports. Between 1969 and 1990 Canadian exports to South Korea climbed from C$15 million to C$1,550 million while imports from that country soared from C$12 million to C$2,252 million.(37)

Indonesia

Comprising some 13,700 islands stretching from the Malay peninsula to New Guinea, the Republic of Indonesia is the largest archipelago in the world. The major islands are Java, Sumatra, Borneo, Celebes, New West Guinea, the Moluccas and Timor. With a population of over 170 million, Indonesia is one of the world's most populous countries.

After President Sukarno was removed from office in 1967 and General Suharto took over as President, a series of five-year plans was put into effect beginning in 1969. The fifth five-year plan, Repelita V, which began on 1 April 1989, aims to generate employment opportunities through a manufacturing-driven increase in real GDP averaging 5% per annum.

Despite growth in manufacturing, the primary sector comprising agriculture, forestry and fishing remains largest; it comprised 24.1% of the country's economy in 1988, compared with 18.5% for the manufacturing sector. While much agricultural cultivation is devoted to crops to feed the country's large population, important cash crop exports include tea, sugar, tobacco, copra, rubber, palm, oil and tobacco. With

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(37) Statistics Canada, *Merchandise Trade Exports, Merchandise Trade Imports,* various issues.

tropical rain forest covering two-thirds of the country's area, timber and wood products remain significant exports despite a 1985 ban on the export of raw logs.

Mining and quarrying slipped from 20.7% of GDP in 1983 to 11.6% in 1988 as oil prices declined.(38) Although oil and natural gas remain the most important sources of export earnings, accounting for over 39% of total export revenues in 1989, this is down from 73% of export earnings in 1984.(39) In addition to being the world's second largest tin exporter, Indonesia is a substantial producer of nickel, bauxite, copper, and gold.

In a search for alternatives to oil and gas export revenues, which have decreased since the early 1980s, the government has promoted the expansion of the manufacturing sector by establishing state-owned enterprises and encouraging private investment. Important industries include: food and beverages, textiles, automobile assembly, electrical goods, petrochemicals, cement, fertilizers and machinery. Processing of rubber, palm oil, woods and bauxite are also significant. Indonesia has a small high technology industry producing airplanes, helicopters and electronics.

As indicated by Table 15 (p. 35), Japan, the U.S. and Singapore together account for a large proportion of Indonesian trade -- about two-thirds of exports and 43% of imports in 1989. Significantly, Japan and the U.S. appear to have become less important markets for Indonesian goods while the newly industrializing countries of Hong Kong, South Korea and Taiwan are becoming more important. Taiwan and South Korea are also becoming larger sources of imports.

In 1990 Canada's major exports to Indonesia were plastics, cereals (wheat), sulphur, asbestos, railway cars and equipment and fertilizers (Table 16, p. 36). Major imports from Indonesia included clothing, lumber and wood, rubber, textiles and ores. Canadian exports to Indonesia of C$307.8 million represented only about 0.2% of total Canadian

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(38) Economist Intelligence Unit, *Indonesia: Country Profile 1990-91*, p. 20.

(39) *Ibid.*, p. 64.

TABLE 15

CANADA'S TRADE WITH INDONESIA IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Plastics and articles thereof	61.7	1. Articles of apparel	46.9
2. Cereals (wheat)	43.5	2. Wood and articles of wood	36.6
3. Sulphur, asbestos	38.4	3. Rubber	26.3
4. Railway cars and equipment	25.5	4. Textiles (natural and synthetic)	16.0
5. Fertilizers	23.3	5. Ores, slag and ash	11.8
Total Exports	307.8	Total Imports	202.2

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

TABLE 16

INDONESIA'S MAJOR TRADING PARTNERS
(1989 RANKINGS WITH VALUE IN MILLIONS U.S.$)

Exports To		Imports From	
1. Japan	9,252	1. Japan	3,832
2. U.S.A.	3,475	2. U.S.A.	2,216
3. Singapore	1,809	3. Taiwan	1,040
4. South Korea	907	4. Singapore	1,038
5. Netherlands	679	5. Australia	944
20. Canada	108	13. Canada	310
Total Exports	21,936	Total Imports	16,467

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

exports, while imports from Indonesia of C$202.2 were about 0.1% of total Canadian imports.

Malaysia

Known as Malaya, until it gained independence from Britain in 1957, Malaysia is a constitutional monarchy comprising the nine states in Peninsular Malaysia and two states in Northern Borneo. With GDP per capita of about US$2,162 in 1989, Malaysia is defined by the standards of the World Bank as an upper middle income country.

Although the country produces a wide array of primary commodities including rubber, palm oil, pepper, tropical hardwoods and tin, these products have become relatively less important to the economy as the manufacturing sector has grown. Nevertheless, Malaysia remains the world's largest rubber producer while tin, lumber and oil are also substantial export earners.

Malaysia has pursued an industrial strategy of export expansion starting in the early 1970s. Since 1965 the manufacturing sector has grown from 10% of GDP to 25.2% in 1989, surpassing the 20.6% contribution made by agriculture and making the largest contribution to economic output. Between 1980 and 1988, real GDP increased at an average annual rate of 5.1% while manufacturing output rose by 8% per year.(40)

The predominant role of the manufacturing sector is reflected in Malaysia's trade. Malaysia is a major exporter of consumer electronics and is the third largest producer of electronic components due in large measure to foreign direct investment by American and Japanese firms. There is also a significant foreign presence in petroleum, textiles, vehicle assembly, steel, cement, rubber products and electrical machinery.

Singapore, the United States and Japan together accounted for over one half of Malaysian exports and almost three quarters of the country's imports (Table 17, p. 38). The primary Canadian exports to Malaysia are fertilizers, cereals (wheat), railway rolling stock and parts, paper and paperboard and electrical machinery. The primary imports from

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(40) Economist Intelligence Unit, *Malaysia: Country Profile 1990-91*, p. 11.

TABLE 17

MALAYSIA'S MAJOR TRADING PARTNERS
(1989 RANKINGS AND MILLIONS U.S.$)

Exports To:		Imports From:	
1. Singapore	4,948 (19.8%)	1. Japan	5,438 (32.9%)
2. U.S.A.	4,684 (18.7%)	2. U.S.A.	3,803 (23.0%)
3. Japan	4,016 (16.0%)	3. Singapore	3,059 (18.5%)
4. South Korea	1,254 (5.0%)	4. U.K.	1,215 (7.4%)
5. U.K.	943 (3.8%)	5. Taiwan	1,126 (6.8%)
21. Canada	188 (0.8%)	19. Canada	217 (1.3%)
Total Exports	25,049 (100%)	Total Imports	16,513 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 18

CANADA'S TRADE WITH MALAYSIA IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Fertilizers	64.4	1. Electrical machinery and parts	184.8
2. Cereals	22.1	2. Rubber and articles	57.0
3. Railway rolling stock and parts	21.8	3. Articles of apparel	54.8
4. Paper and paperboard	16.5	4. Coconut and palm oil	11.7
5. Electrical machinery and parts	15.7	5. Textiles	11.5
Total Exports	248.3	Total Imports	380.2

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

Malaysia include a variety of electrical and electronic machinery and parts, rubber and rubber articles, clothing, coconut and palm oil and textiles (Table 18, p. 39).

Philippines

When U.S. rule over the Philippines ended in 1946, the country became an independent republic with close defence and preferential trading arrangements with the United States. The development strategy employed by the Philippines since the 1950s has been that of import substitution, which aims to build up domestic industries by protecting them behind high tariff walls. Unfortunately, this strategy also leads to inefficient production techniques since industries are not exposed to international competition. Unlike countries like Taiwan and South Korea, the Philippines did not protect domestic industries in order to develop these to penetrate export markets.

In the 1970s the Philippines did start to export manufactured goods, such as electrical components, clothing, shoes and processed food. Despite this, the Philippine system was burdened with corruption and nepotism as supporters of President Ferdinand Marcos were given control of various enterprises. It is believed that significant potential investment left the Philippines for deposit in other countries. As a result of corruption and misguided economic policies, the Philippines went from a position in the 1950s as one of the richest countries in the region, after Japan, to one of the poorest, with a 1989 GDP per capita of about US$738. The election of Corazon Aquino in 1986 swept aside 21 years of rule by President Ferdinand Marcos, raising hopes that political reform would also result in economic reform.

The Aquino administration is emphasizing development of the agricultural sector by dismantling the sugar and coconut monopolies and promoting labour-intensive and small-scale projects. Encouragement of foreign capital inflows and trade liberalization are also important.

Under the terms of a 1986 World Bank loan agreement, the Aquino administration agreed to implement import liberalization measures that reduced Philippine tariffs to a maximum of 50%. Although this maximum

TABLE 19

THE PHILIPPINES' MAJOR TRADING PARTNERS
(1989 RANKINGS AND MILLIONS U.S.$)

Exports To:		Imports From:	
1. U.S.A.	2,934.6 (37.8%)	1. Japan	2,174.0 (19.5%)
2. Japan	1,581.4 (20.4%)	2. U.S.A.	2,133.1 (19.1%)
3. Germany	333.3 (4.3%)	3. Taiwan	730.3 (6.5%)
4. Netherlands	326.7 (4.2%)	4. Singapore	519.6 (4.7%)
5. U.K.	325.7 (4.2%)	5. Hong Kong	500.3 (4.5%)
12. Canada	126.8 (1.6%)	18. Canada	178.3 (1.6%)
Total Exports	7,753.9 (100%)	Total Imports	11,165.3 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 20

CANADA'S TRADE WITH THE PHILIPPINES IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Cereals	66.4	1. Articles of apparel	54.3
2. Metal ores	42.3	2. Electrical machinery and parts	49.1
3. Fertilizers	14.0	3. Fish, crustaceans and molluscs	14.8
4. Plastics and articles	11.5	4. Clocks and watches	12.8
5. Paper and paperboard	10.1	5. Leather articles	12.0
Total Exports	204.1	Total Imports	201.8

Source: Statistics Canada, *Exports by Country, Imports by Country.*

was due to be lowered further to 30% the plan was put on hold after complaints by domestic industry. In addition, a 5% surtax on imports remains pending a reduction in the government's deficit.(41)

Primary exports, such as copper, nickel, sugar and coconut products remain important but clothing and electrical and electronic products comprised almost 43% of total exports in 1989. Over 58% of Philippine exports were sent to either the U.S. or Japanese markets. On the import side, the sources are more diverse but Japanese and American goods accounted for almost 39% of Philippine imports (Table 19, p. 41).

Canadian exports to the Philippines were primarily raw and semi-processed materials, such as cereals (wheat) and metal ores. Canadian imports of clothing and electrical and electronic equipment reflect their rank as the top two Philippine exports to all countries (Table 20, p. 42).

Thailand

The kingdom of Thailand has had one of best performing economies over the last twenty years, with real GNP expanding by an average of 7.2% annually between 1971-1980 and by 4.7% from 1981-1987.(42) In the last several years economic growth has accelerated into the double digits, expanding by almost 13% per year, making it the fastest growing economy in the world. Thus, despite robust population growth from about 34 million in 1970 to an estimated 55 million in 1989, real economic output per capita has risen substantially. During the past 25 years, Thailand has diversified its economy away from agriculture and a reliance on export commodities, such as rice, rubber, tin and teak, and towards manufactures and services. Although the agricultural sector has continued to grow and remains a major source of growth, the faster expansion of manufactures and services has increased the relative importance of these sectors in the economy.

Traditionally, the Thai manufacturing sector has had a strong component of primary commodity processing. Food processing,

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(41) Economist Intelligence Unit, *Philippines: Country Profile 1990-91*, p. 41.

(42) Park (1989), p. 126.

TABLE 21

THAILAND'S MAJOR TRADING PARTNERS
(1988 RANKINGS AND MILLIONS U.S.$)

Exports			Imports		
1.	U.S.A.	3,200.4 (20.1%)	1.	Japan	5,493.3 (27.3%)
2.	Japan	2,544.5 (15.9%)	2.	U.S.A.	2,752.5 (13.7%)
3.	Singapore	1,224.1 (7.7%)	3.	Singapore	1,510.5 (7.5%)
4.	Netherlands	870.4 (5.5%)	4.	Germany	1,090.0 (5.4%)
5.	Germany	737.0 (4.6%)	5.	Taiwan	843.3 (4.2%)
15.	Canada	284.7 (1.8%)	14.	Canada	267.0 (1.3%)
Total Exports		15,955.8 (100%)	Total Imports		20,139.8 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 22

CANADA'S TRADE WITH THAILAND IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Aircraft and parts	153.5	1. Articles of apparel	58.0
2. Machinery and mechanical appliances	58.7	2. Fish, crustaceans and molluscs	44.9
3. Sulphur, cement, asbestos and other substances	47.2	3. Autos, bicycles and other vehicles and parts	39.0
4. Paper and paperboard	32.5	4. Electrical machinery	29.2
5. Wood pulp	28.6	5. Machinery and mechanical appliances	28.2
Total Exports	492.1	Total Imports	406.0

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

beverages, tobacco, wood products, paper, petroleum refining, rubber and non-metallic minerals remain important manufacturing activities today. However, other types of manufacturing, such as textiles, clothing, chemicals, machinery and electrical machinery are becoming increasingly important. The 1984 devaluation of the Thai currency and the appreciation of currencies in the NICs combined with existing low Thai labour costs has stimulated significant foreign investment from Japan and Taiwan. Such labour intensive industries as electronics, footwear, and toy making are proving to be especially important targets of this investment.

Comprising 22% of Thai government revenues, tariffs are an important component of Thai fiscal management. Overall, trade-weighted tariffs are estimated at about 23% while those on most food products are about 60%; consumer goods face trade-weighted duties of approximately 40%; those on capital goods are about 25%; tariffs on other products are estimated at 16.5%.(43) Criticized by the GATT for its high tariff levels, Thailand has offered to reduce duties on some 2,000 items.

The three largest markets for Thailand's exports are the United States, Japan and Singapore, which together accounted for almost 44% of total exports (Table 21, p. 44). Similarly, these three countries were the greatest sources of imports by Thailand.

Canadian exports to Thailand consist of manufactured goods, such as aircraft and parts, machinery and mechanical appliances in addition to processed materials. Canada's largest imports from Thailand are clothing, seafood, transportation vehicles, electrical machinery and machinery and mechanical appliances (Table 22, p. 45).

New Zealand

Although agriculture, forestry and fishing together comprised less than 7% of economic output, the view of the New Zealand economy as heavily weighted toward agricultural production still has considerable merit. Over two-thirds of exports are primary commodities making these an important source of foreign exchange. Primary commodities

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(43) United States Trade Representative, 1990 National Trade Estimate Report on Foreign Trade Barriers, Washington, p. 191.

are also a major source of inputs to New Zealand's manufacturing processing sector.

The most important agricultural exports are meat (especially lamb) which was 16% of total exports in FY1989 (year ending June 30). Major markets for New Zealand lamb are Great Britain and Iran while mutton sells to Great Britain, Japan and the USSR; Canada and Japan rank as important destinations for New Zealand's beef. Wool exports were responsible for another 12% of all exports in FY1989.(44)

With 80% of all milk production exported in some form, dairy products made up 13% of total exports in FY1989.(45) Through bilateral agreements, access for New Zealand butter to the British market was maintained after the entry of Britain into the European Community, although at reduced import levels.

Vegetables and fruits, especially kiwi fruit, apples and pears, are also important agricultural exports (6% of total exports). Another 8% of exports comprised forest products, including sawn timber, logs and wood pulp. Other exports, include aluminum ingots and some machinery and mechanical appliances.

New Zealand's tariffs, which were among the highest highest of the OECD member countries, have been used to encourage the development of a domestic manufacturing industry through import substitution. Since December 1985, New Zealand has substantially reduced its tariff levels. Nevertheless, duties on goods competing with domestically-produced items remain fairly high. Goods from Australia are excepted with the implementation of the Australia-New Zealand Closer Economic Relations Trade Agreement. The Agreement provides for free trade in goods between the two countries by 1 July 1990. Most services have been freely traded since 1 January 1989.

This preferential trading arrangement is reflected in the high proportion of trade which New Zealand carries out with Australia. Japan and the United States are New Zealand's second and third largest

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(44) Economist Intelligence Unit, *New Zealand: Country Profile 1990-91*, p. 14.

(45) *Ibid.*, p. 13.

TABLE 23

NEW ZEALAND'S MAJOR TRADING PARTNERS
(1989 RANKINGS AND MILLIONS U.S.$)

Exports To:			Imports From:		
1.	Australia	1,674.8 (18.9%)	1.	Australia	1,829.9 (20.8%)
2.	Japan	1,538.1 (17.4%)	2.	Japan	1,620.2 (18.4%)
3.	U.S.A.	1,170.0 (13.2%)	3.	U.S.A.	1,430.3 (16.2%)
4.	U.K.	653.2 (7.4%)	4.	U.K.	777.5 (8.8%)
5.	South Korea	295.4 (3.3%)	5.	Germany	369.8 (4.2%)
11.	Canada	149.5 (1.7%)	9.	Canada	173.4 (2.0%)
Total Exports		8,849.0 (100%)	Total Imports		8,810.3 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 24

CANADA'S TRADE WITH NEW ZEALAND IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Fertilizers	18.0	1. Meat	109.3
2. Sulphur and other materials	17.5	2. Fruits	22.5
3. Wood and articles of wood	15.2	3. Live animals	7.9
4. Plastics and articles thereof	13.2	4. Iron and steel	7.8
5. Paper and paperboard	13.0	5. Rawhides and skins and leather	6.8
Total Exports	153.6	Total Imports	213.7

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

trading partners, although Britain remains a prominent trading partner through its purchases of butter and lamb (Table 23, p. 48).

Canadian imports from New Zealand consist mainly of meat (beef, mutton and lamb) and fruits. Canadian exports to New Zealand include: fertilizers, sulphur and wood (Table 24, p. 49).

Australia

Traditionally, agriculture has played a large part in the Australian economy. In the early 1950s about one quarter of economic output and more than 80% of exports were made up of agricultural produce. In recent years agriculture's share has declined to less than 4% of economic output. Nevertheless, agriculture is still an important part of Australian trade accounting for just over 37% of total exports with wool, meat and wheat accounting for the greatest share.(46)

The relative decline of agriculture has been offset by an expansion of the services sector and by growth in mining. Thanks to large discoveries of minerals, Australia is the world's largest exporter of bauxite and alumina, coking and steam coal and the largest producer of lead and mineral sands, such as rutile, zircon, and monazite. It is also the second largest producer of zinc and the fourth largest gold producer. Other important discoveries include iron ore, petroleum and natural gas.(47)

The relative importance of Australia's manufacturing sector has declined from almost 60% of GDP in the late 1960s to less than 18% in FY 1986/87.(48) In any case, the sector has been regarded as extremely inefficient being built behind high protective tariffs for a domestic market too small to achieve reasonable economies of scale. In 1988 Australia announced unilateral cuts in tariffs. Tariffs greater than 15% will be reduced in five stages to 15% by 1 July 1992 while tariffs between

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(46) Economist Intelligence Unit, *Australia: Country Profile 1990-91*, p. 14.

(47) "A Survey of Australia," *The Economist*, 6 May 1989, p. 18.

(48) Economist Intelligence Unit, *Australia: Country Profile 1990-91*, p. 21.

TABLE 25

AUSTRALIA'S MAJOR TRADING PARTNERS
(1989 RANKINGS AND MILLIONS U.S.$)

Exports To:		Imports From:	
1. Japan	9,761 (26.4%)	1. U.S.A.	9,261 (22.6%)
2. U.S.A.	3,953 (10.7%)	2. Japan	8,320 (20.3%)
3. South Korea	1,893 (5.1%)	3. U.K.	2,785 (6.8%)
4. New Zealand	1,890 (5.1%)	4. Germany	2,587 (6.3%)
5. Singapore	1,355 (3.7%)	5. New Zealand	1,662 (4.1%)
17. Canada	487 (1.3%)	11. Canada	980 (2.4%)
Total Exports	37,037 (100%)	Total Imports	40,941 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 26

CANADA'S TRADE WITH AUSTRALIA IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Machinery and mechanical appliances	95.7	1. Inorganic chemicals	226.5
2. Paper and paperboard	74.7	2. Sugar and sugar confectionery	178.6
3. Wood and articles of wood	74.6	3. Meat	107.2
4. Fertilizers	58.2	4. Ores, slag and ash	53.2
5. Inorganic chemicals	58.0	5. Beverages	22.2
Total Exports	846.6	Total Imports	766.5

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

10%-15% will be lowered to 10% by 1 July 1992. Exceptions have been made for tariffs on automobiles, textiles, apparel, and footwear, which will remain above the 15% tariff rate. Although the tariff quota on automobiles has been eliminated, it has been replaced by a straight tariff rate of 42.5%, which will be reduced in annual phases to 35% on 1 January 1992.(49)

With the entry of Britain into the European Community and the emergence of the Asian economies, Australia's trade links with Europe have become less important while those with countries of the Pacific Rim have strengthened. Trade links with the United States also remain strong with that country supplying the largest share of Australian imports and providing the second largest market for Australian exports (Table 25, p. 51). This is the reverse of the newly industrialized countries which typically rely more on the U.S. market to sell their exports and look to Japan as the largest source of imports. Australia maintains strong trading ties with New Zealand through the Australia New Zealand Closer Economic Relations Trade Agreement which provides for free trade between the two countries in goods and most services.

As indicated in Table 26 (p. 52), Canadian exports to Australia contain some finished manufactures, such as machinery and mechanical appliances. Not shown in the table are smaller-valued manufactured exports like aircraft and parts (C$56.9 million), vehicles and parts (C$50.8 million), and electrical machinery (C$33.2 million). On the other hand, Canadian imports from Australia are almost exclusively food and semi-processed materials as reflected in Table 27 (p. 54), except for some imports of machinery and mechanical appliances (C$19.1 million).

People's Republic of China

Although China has made progress towards development since the communists took over in 1949, it remains a poor country with GDP per person of $340 in 1988. In 1991 China commenced its eighth five year plan, this one emphasizing investment in agriculture, transport and

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(49) United States Trade Representative, p. 9-10.

TABLE 27

CHINA'S MAJOR TRADING PARTNERS
(1989 RANKINGS AND MILLIONS U.S.$)

Exports To:		Imports From:	
1. Hong Kong	22,003 (42.5%)	1. Hong Kong	13,809 (23.7%)
2. Japan	8,180 (15.8%)	2. Japan	10,105 (17.3%)
3. U.S.A.	3,988 (7.7%)	3. U.S.A.	6,918 (11.9%)
4. U.S.S.R.	1,699 (3.3%)	4. Germany	3,265 (5.6%)
5. Singapore	1,642 (3.2%)	5. U.S.S.R.	1,945 (3.3%)
14. Canada	376 (0.7%)	11. Canada	941 (1.6%)
Total Exports	51,751 (100%)	Total Imports	58,316 (100%)

Source: IMF, *Direction of Trade Statistics, Yearbook 1990.*

TABLE 28

CANADA'S TRADE WITH CHINA IN 1990
(MILLIONS CDN.$)

Canada's Major Exports		Canada's Major Imports	
1. Cereals	831.6	1. Articles of apparel	272.5
2. Fertilizers	153.0	2. Toys, games, sporting goods	168.3
3. Machinery, boilers, mechanical appliances	146.8	3. Articles of leather	141.7
4. Wood pulp	137.9	4. Electrical machinery	138.5
5. Electrical machinery	94.1	5. Footwear	77.7
Total Exports	1,647.3	Total Imports	1,391.5

Source: Statistics Canada, *Exports by Country, Imports by Country,* January-December 1990.

communications. Since the fourth five-year plan launched in 1971, China has looked to the outside world for technology and capital to modernize its economy. The drive to modernize was accelerated with the "rehabilitation" of Deng Xiaoping and resumption in 1977 of his previous positions of first vice-premier and chief of the general staff.

China's "open-door" policy permits foreign investment and by 1986 there were 2,625 equity joint ventures with foreign firms, 4,075 contractual joint ventures and 130 wholly-owned foreign subsidiaries.(50) Four special economic zones have been created to attract foreign investment while Hainan island and 14 cities along the coast are open to technological imports. A 1988 constitutional amendment provides a legal foundation for private enterprise and foreign banks now have permission to operate in China.

Approximately one-third of China's national income is derived from agriculture and slightly less than half by industry. Between 1950 and 1979 gross industrial output grew by an average of 13.3% per year.(51) In the seven years leading up to 1988, industrial output rose by an average of 15.1% per year.(52) Early central planning placed emphasis on heavy industry, such as iron and steel, at the expense of lighter industry. Planning in the mid-1980s sought to address the shortage of consumer products engendered by earlier industrial policies. Light industry, including production of televisions, radios, refrigerators, bicycles, sewing machines, wristwatches, cotton cloth and washing machines, now accounts for about one-half of industrial production.

China is one of the largest steel producers in the world but much of the industry is backward and extremely inefficient while the quality of the steel is said to be very uneven requiring China to import quantities of steel from Japan. Nevertheless, China did manage to export US$1 billion worth of iron and steel in 1989. China has the world's biggest cotton textile industry; textiles, clothing and yarn were the country's

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(50) Robert H. Taylor, ed., *Asia and the Pacific,* Vol. 1, 1991, p. 77.

(51) *Ibid.,* p. 78.

(52) Economist Intelligence Unit, *China: Country Profile 1990-91,* p. 37.

largest exports in 1989 accounting for US$7 billion in sales.(53) Based on 1985 production of 2.5 million barrels of oil per day, China was the sixth largest oil producer in the world with estimated reserves of 18.5 billion barrels;(54) petroleum and related products accounted for exports of US$3.6 billion in 1989. Other major Chinese exports in 1989 included: machinery and transport equipment (US$2.8 billion) vegetables, fruits and oilseeds (US$2.3 billion) textiles fibres and wastes (US$ 1.7 billion).(55)

China's modernization drive has created demand for imported iron, steel, industrial machinery, electrical machinery and electronics products. When the Chinese trade deficit widened in 1988 and 1989 imports were restricted in an effort to balance trade. However, it is believed that this will hamper manufacturing growth, thereby reducing future exports. China also has a need to import grain since domestic production falls short of consumption.

As shown in Table 27 (p. 54), Hong Kong is China's largest trading partner and serves as an entrepot for China's trade with countries like Taiwan with which it has no official trading links. (Hong Kong also serves as a middle man for capital flows from Taiwan to China.) Hong Kong's position as an entrepot for Chinese trade may erode as China establishes direct trade links with other countries. Normalization of relations with the USSR has stimulated trade with that country making it the fourth largest market for Chinese exports and the fifth largest source of imports.

About one-half of Canadian exports to China in 1990 were cereals (Table 28, p. 55). Other major exports were fertilizers, machinery and mechanical appliances, wood pulp and electrical machinery. On the import side, clothing, toys and games, electrical machinery and footwear were the principal goods purchased from China.

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(53) Economist Intelligence Unit, 1990-91, p. 3.

(54) Taylor (1991), p. 79.

(55) Economist Intelligence Unit, 1990-91, p. 3.

CANADIAN TRADE POLICY IN THE PACIFIC RIM

In 1972, the Honourable Mitchell Sharp, Secretary of State for External Affairs, listed three options for Canadian policy towards the U.S. The first option was to maintain the present relationship; the second was for Canada to move toward closer integration with the U.S.; the third was for Canada to adopt a long-term policy to strengthen the Canadian economy and reduce Canadian vulnerability to the U.S.

That former Prime Minister Trudeau chose the "Third Option" is perhaps not surprising, given the preoccupation at the time with U.S. economic and cultural dominance. In practice, the third option emphasized strengthening trade ties with Europe rather than forging links with the Pacific Rim. Perhaps, this is also understandable since Canadian trade with the EC at the time exceeded trade with the countries of the Pacific Rim. Efforts to reinforce economic connections with Europe culminated in 1976 in a Framework Agreement with the EC strengthened by consultative mechanisms with the U.K. and France. That the Agreement failed to open EC markets is evident from the value of Canadian exports to the EC, which actually declined during the early 1980s. By contrast, trade with the Pacific Rim has blossomed in the 1980s surpassing Canadian trade with the EC, as was shown in Table 1.

Negotiation of the Canada-U.S. Free Trade Agreement (FTA) in 1987 may have made U.S. and Canadian trading partners in the Pacific Rim apprehensive that North America was turning inward. However, numerous speeches by Prime Minister Mulroney and Ministers of International Trade have reiterated the government's position that the FTA does not affect Canada's commitment to the GATT multilateral trade negotiations. Indeed, the FTA and the GATT negotiations may be complementary as greater competitiveness forced on Canadian firms by the FTA will tend to make industry more willing to accept trade liberalization at the GATT negotiations.

On 15 October 1989, in a Speech to the Institute of Southeast Asian Studies in Singapore, Prime Minister Mulroney announced a trade strategy, called "Going Global," focusing Canadian trade policy on three primary markets, the United States, the European Community, and Asia-Pacific.[56] The policy contains new trade, investment and technology initiatives costing $93.6 million, or 15% of External Affairs total international trade budget. The three key elements of the Going Global strategy are:

1) a USA Opportunities Strategy;

2) a Pacific 2000 Strategy; and

3) a Europe 1992 Strategy.

The Pacific 2000 strategy has four major components: the Pacific Business Strategy; Pacific 2000 Language and Awareness Fund; Pacific 2000 Projects Fund; Japan Science and Technology Fund.

According to the Department of External Affairs documentation, the Pacific Business Strategy "is designed to maintain Canada's existing market share in the region...develop new markets for processed end products in response to market opening measures; strengthen corporate ties between Canadian and Asia-Pacific companies and attract Asia-Pacific investment and tourists to Canada."[57] The various sub-programs provide: funding for trade promotion activities in the Asia-Pacific region; funding for key sector market penetration initiatives; for expansion of the number of trade representatives in the region; funding for business and industry associations promoting Canadian economic and commercial interests in the region.

The Pacific 2000 Language and Awareness Fund supports language training programs in Asian languages and studies with a strong focus on Japan. Funding will be provided to major centres at Simon Fraser University in Vancouver and the Ontario Centre for International Business in Toronto as well regional centres across Canada. Other sub-programs include: Employment Opportunities for Canadian Experts on Asia Pacific; Corporate Language Course Participation; Asian Studies Conferences in Canada; Secondary School Activities; Japanese Language Teacher Development.

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(56) Office of the Prime Minister, Press Release, "Prime Minister Announces 'Going Global' Trade Development Strategy," Ottawa, 15 October 1989.

(57) External Affairs and International Trade, "Going Global Guide," p. 8.

The Pacific 2000 Projects Fund supports: Canadian promotional activities in Asia-Pacific; an exchange program between Canada and Pacific Rim countries; international education including joint ventures between Asian and Canadian educational institutions; policy-oriented research by universities and research institutes; Pacific institutions such as Canada's member committee on the Pacific Economic Cooperation Conference; and the Asia-Pacific Foundation, which promotes commercial, social and cultural ties between Canada and the Asian-Pacific countries.

The Japan Science and Technology Fund "is designed to increase Canadian researchers' access to Japanese science and technology and research facilities."(58) The Fund will support visits and exchanges by researchers, language training and joint workshops.

In addition, the government's "Going Global Investment Program" is designed to encourage investment in Canada from the Asia-Pacific region and the European Community. Government information on the program states that new investment is the key to improving productivity, reducing costs and creating new advantages. The program is aimed at attracting "technology-bearing investment" to Canada from Europe and the Asia-Pacific regions.

Canadian trade policy in the Pacific Rim area is also influenced through this country's membership in several international institutions. The Pacific Basin Economic Council founded in 1967 includes private sector business groups from Pacific Rim countries, including Canada.

The Pacific Economic Cooperation Conference (PECC), founded in 1980, is a tripartite organization which includes representatives from business, academia and government. PECC includes national member committees from Australia, Brunei, Canada, China, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand, and the United States. In September 1990, the formal applications of Mexico,

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(58) *Ibid.*, p. 10.

Peru and Chile to join PECC were accepted by the organization's Standing Committee.(59)

The June 1989 Pacific Trade Policy Forum of PECC held in Vancouver focused on the Uruguay Round of GATT negotiations, in which the countries of the Pacific Rim have a significant stake. The five highest priority issues in the Uruguay Round were identified by participants as the following:

1) agricultural protection and subsidization;

2) tropical and other primary and related processed products, especially the escalation of protection affecting the latter;

3) textile and clothing protection through the operation of the multifibre arrangement, and related bilateral restrictions;

4) the role of intellectual property and its abuse in distorting trade in high-tech goods and services; and

5) the necessity of a framework for liberalizing and removing distortions in trade in services.(60)

A proposal in January 1989 by Australian Prime Minister Howard Hawke for regional economic cooperation led to a meeting of economic ministers from twelve Pacific Rim countries. Canada was represented by International Trade Minister John Crosbie at the meeting of the new organization called Asia Pacific Economic Cooperation (APEC), held in Canberra, Australia, in November 1989. At this meeting the Ministers emphasized the importance of the Uruguay Round to strengthen and liberalize the multilateral trading system. They agreed that it would be useful to examine the scope for cooperation among Pacific nations in the areas of investment, technology, human resources, infrastructure, energy, resources,

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(59) H. Edward English, "Tomorrow the Pacific," C.D. Howe Institute, Toronto, p. 12.

(60) Report on 1989 Pacific Trade Policy Forum of the Pacific Economic Cooperation Conference (PECC), in H.E. English ed., *Pacific Initiatives in Global Trade,* Institute for Research on Public Policy, 1990, p. 12.

fisheries, the environment, trade promotion, and tourism.[61] Another meeting of APEC was held in Vancouver in September 1990; a second meeting scheduled for December in Brussels did not take place.

At this point, it is uncertain whether APEC will evolve into a formal institution along the lines of the OECD or if it will form the basis for a Pacific regional trading bloc to counteract the EEC and the Canada-U.S. arrangements. So far, there does not appear to be significant support by APEC members for either a Pacific OECD or a regional trading bloc. However, increased protectionism in the U.S. and EC could shift sentiment towards more formal regional ties.

CONCLUSION

In the past, Canadian trade policy has been accused of overly favouring the encouragement of trade links with the United States and Europe to the neglect of the Pacific Rim. More recently, the rapid increase in trade and investment flows across the Pacific has demanded that the region be given closer scrutiny by government and trade policy analysts.

The fast growth and dynamic nature of the economies of the Pacific Rim make them worthy of closer examination. Although these countries are diverse in natural endowments, their economies reflect different levels of government involvement and they have varied cultures, the leading economies in the region have a common feature: each has pursued an export-led development strategy.

Japan is clearly the star example of using exports as a means of development, but other countries, such as South Korea, Taiwan, Hong Kong and Singapore are following a similar path. Like Japan, these countries initially began making textiles and cheap consumer goods but quickly shifted into production of progressively more technologically advanced goods. In the next rank of countries, Malaysia and Thailand have

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(61) Ministerial-Level Meeting Summary Statement by the Chairman, Canberra, 7 November 1989, in H.E. English ed., *Pacific Initiatives in Global Trade,* Institute for Research on Public Policy, 1990, Appendix III.

moved into the production of textiles and are challenging the NICs in some consumer electronics. Indonesia and the Philippines are still some way behind but appear to be following a similar pattern. Even communist China is using exports as a means of modernizing its industrial structure.

The aggressive trading of Japan and the NICs has changed Canadian markets dramatically. In the area of consumer goods, from cars to electronics, from home appliances to clothing and footwear, Pacific Rim products are ubiquitous. Indeed, these countries are such successful international traders that they are generating large current account surpluses, the counterparts of which are huge capital outflows. As noted earlier, Japan has been investing substantial capital abroad; the NICs are beginning to follow the same pattern. These capital flows are increasingly important to countries like Canada and the United States where the excess of spending over national income must be financed by foreign capital.

Recently, there have been signs that both Canadian business and government have begun to take seriously the issue of international competitiveness. The economic success of Japan and the NICs might suggest the importance of a government planning ministry, like the Japanese Ministry of International Trade and Industry (MITI), to steer the private sector into strategic export industries. Although government planning has been used by Taiwan and South Korea, the success of Hong Kong, based on virtual laissez-faire capitalism, does not support the need for such an agency. Faced with the challenge from the Pacific Rim, Canada should consider the competitive lessons to be gleaned from these successful trading countries; first, however, it must learn what the lessons are.

Canadian trade with the Pacific Rim, which is already growing faster than trade with any other region, can be further enhanced by successful completion of the Uruguay Round of GATT negotiations. Although the U.S., Canada and Mexico are preparing to engage in trade negotiations aimed at forming a North American trading bloc, there is no reason to lose sight of the trade potential with countries located on the western edge of the Pacific Ocean. North American free trade and multilateral free trade can be viewed as complements rather than alternatives. Should the GATT negotiations fail, however, a North American FTA represents a better fall-back option for Canada than no further trade liberalization at all.

APPENDIX 1.

CANADIAN EXPORTS TO, AND IMPORTS FROM, THE U.S. AND MAJOR PACIFIC RIM COUNTRIES
(in millions of current Canadian dollars)

EXPORT DESTINATION/ IMPORT SOURCE		1980	1982	1985	1986	1987	1988	1989	1990
	EXPORTS	48,174	57,685	93,059	93,206	94,505	100,851	101,591	111,380
UNITED STATES	IMPORTS	47,446	46,907	72,020	75,227	76,716	86,020	88,103	87,894
	BALANCE	728	10,778	21,039	17,979	17,789	14,831	13,488	23,486
	EXPORTS	4,374	4,589	5,737	5,967	7,073	8,813	8,844	8,230
JAPAN	IMPORTS	2,904	3,710	6,731	8,367	8,351	9,267	9,563	9,523
	BALANCE	1,470	879	(994)	(2,400)	(1,278)	(454)	(719)	(1,293)
	EXPORTS	679	697	675	653	702	895	1,105	902
AUSTRALIA	IMPORTS	521	442	365	497	562	672	653	766
	BALANCE	158	255	310	156	140	223	452	136
	EXPORTS	115	159	192	152	140	142	170	158
NEW ZEALAND	IMPORTS	150	144	161	180	220	225	216	213
	BALANCE	(35)	15	31	(28)	(80)	(83)	(46)	(55)
	EXPORTS	874	1,232	1,296	1,126	1,437	2,610	1,146	1,655
CHINA	IMPORTS	182	264	438	593	812	955	1,182	1,393
	BALANCE	692	968	858	533	625	1,655	(36)	262
	EXPORTS	512	487	786	976	1,178	1,211	1,661	1,554
SOUTH KOREA	IMPORTS	433	602	1,652	1,798	1,912	2,270	2,441	2,254
	BALANCE	79	(115)	(866)	(822)	(734)	(1,059)	(780)	(700)
	EXPORTS	254	304	433	615	765	1,142	972	798
TAIWAN	IMPORTS	579	695	1,377	1,876	2,166	2,255	2,352	2,109
	BALANCE	(325)	(391)	(944)	(1,261)	(1,401)	(1,113)	(1,380)	(1,311)
	EXPORTS	199	265	345	333	490	1,009	1,079	685
HONG KONG	IMPORTS	557	627	851	1,002	1,097	1,152	1,159	1,058
	BALANCE	(358)	(362)	(506)	(669)	(607)	(143)	(80)	(373)
	EXPORTS	216	207	258	254	309	318	312	310
INDONESIA	IMPORTS	77	56	122	142	193	179	190	202
	BALANCE	139	151	136	112	116	139	122	108
	EXPORTS	142	146	132	111	200	269	346	505
THAILAND	IMPORTS	39	45	122	161	209	343	419	406
	BALANCE	103	101	10	(50)	(9)	(74)	(73)	99

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APPENDIX 1. (Continued)

CANADIAN EXPORTS TO, AND IMPORTS FROM, THE U.S. AND MAJOR PACIFIC RIM COUNTRIES
(in millions of current Canadian dollars)

EXPORT DESTINATION/ IMPORT SOURCE		1980	1982	1985	1986	1987	1988	1989	1990
	EXPORTS	86	101	46	49	122	133	223	206
PHILIPPINES	IMPORTS	114	90	125	133	132	178	204	202
	BALANCE	(28)	11	(79)	(84)	(10)	(45)	19	4
	EXPORTS	95	123	209	108	121	183	226	256
MALAYSIA	IMPORTS	167	124	204	208	257	323	320	380
	BALANCE	(72)	(1)	5	(100)	(136)	(140)	(94)	(124)
	EXPORTS	202	154	120	154	177	312	270	406
SINGAPORE	IMPORTS	105	102	186	208	291	466	502	552
	BALANCE	97	52	(66)	(54)	(114)	(154)	(232)	(146)
	EXPORTS	7,748	8,464	10,229	10,498	12,714	17,037	16,354	15,665
TOT. ABOVE PAC. RIM	IMPORTS	5,828	6,901	12,334	15,165	16,202	18,285	19,201	19,058
	BALANCE	1,920	1,563	(2,105)	(4,667)	(3,488)	(1,248)	(2,847)	(3,393)
	EXPORTS	55,922	66,149	103,288	103,704	107,219	117,888	117,945	127,045
TOTAL ABOVE	IMPORTS	53,274	53,808	84,354	90,392	92,918	104,305	107,304	106,952
	BALANCE	2,648	12,341	18,934	13,312	14,301	13,583	10,641	20,093
	EXPORTS	76,159	84,530	119,474	120,669	125,086	138,498	138,701	148,664
WORLD TOTAL	IMPORTS	69,274	67,855	104,355	112,511	116,238	131,171	135,191	136,224
	BALANCE	6,885	16,675	15,119	8,158	8,848	7,327	3,510	12,440

Source : Statistics Canada, Catalogue #65-202 (exports) and #65-203 (imports).

Note : The information in Appendix 1 may differ slightly from that appearing in previous tables in this paper since it reflects some subsequent revisions of the data by Statistics Canada.