Emergent Trilateralism in the Pacific Basin: How Should China, Japan, and the United States Respond to Regional Trade Initiatives ?

Hiro Lee

David Roland-Holst

Dominique van der Mensbrugghe

Implications of the emergence of China as a major trading partner

- China will stiffen regional export competition in a broad spectrum of products.
- The size of China's growing internal market will make it the largest East Asian importer of East Asian goods by 2015.
- Thus China interposes itself between the rest of East Asia and the U.S.-Japan market as an export competitor and magnet for imports.

The number of regional integration agreements (RIAs) has proliferated …

- Signing of Japan-Singapore free trade agreement in January 2002
- Agreement between New Zealand and Singapore on a Closer Economic Partnership (ANZSCEP). Singapore is negotiating an FTA with Australia, Canada, and Mexico.
- Japan-Korea FTA is being negotiated
- ASEAN+3 (ASEAN10, Japan, China, Korea)

Figure 1. Trends in China & Hong Kong's Exports to Japan, Other East Asia, and the United States

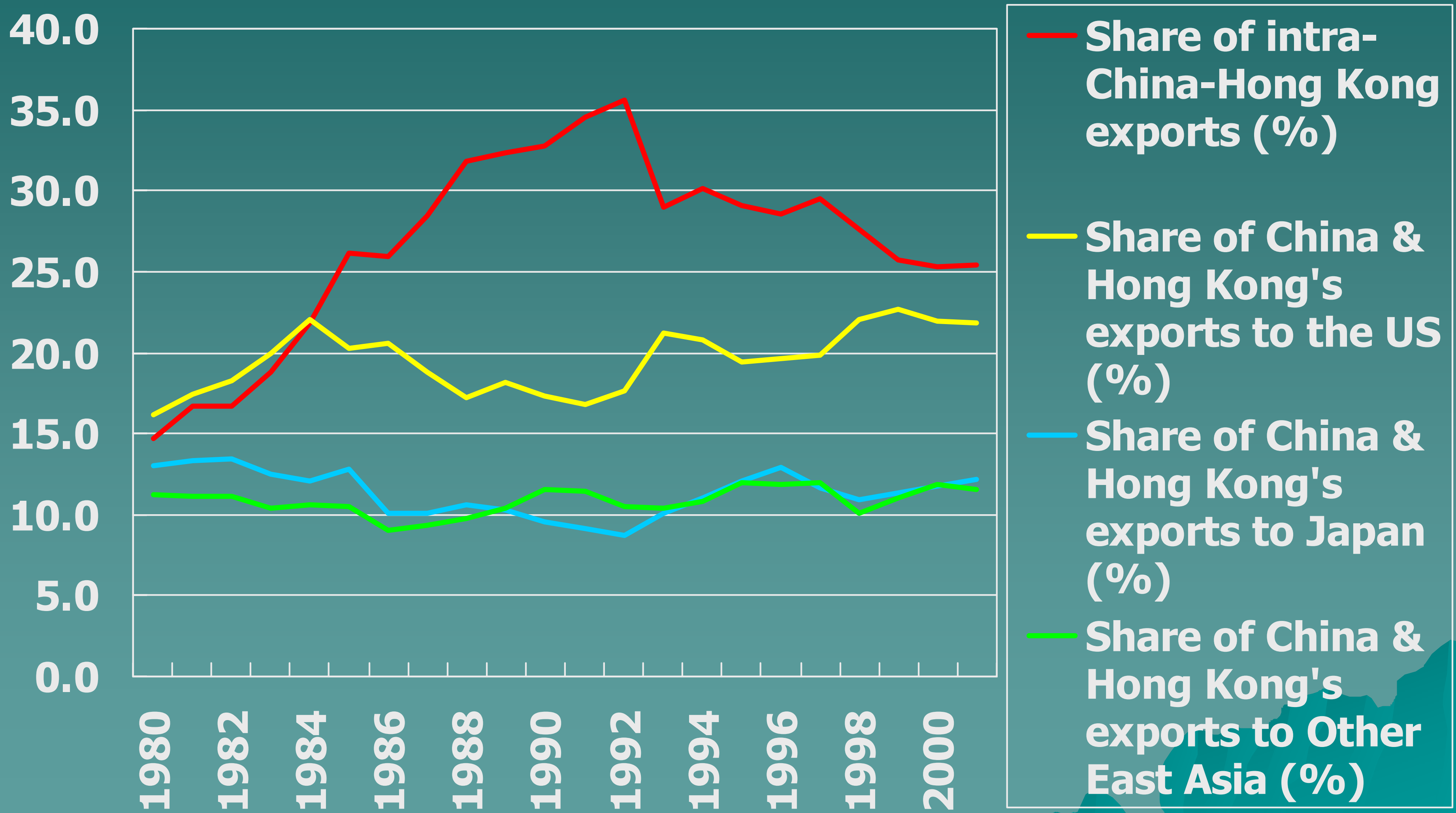


Figure 2. Trends in China & Hong Kong's Imports from Japan, Other East Asia, and the United States

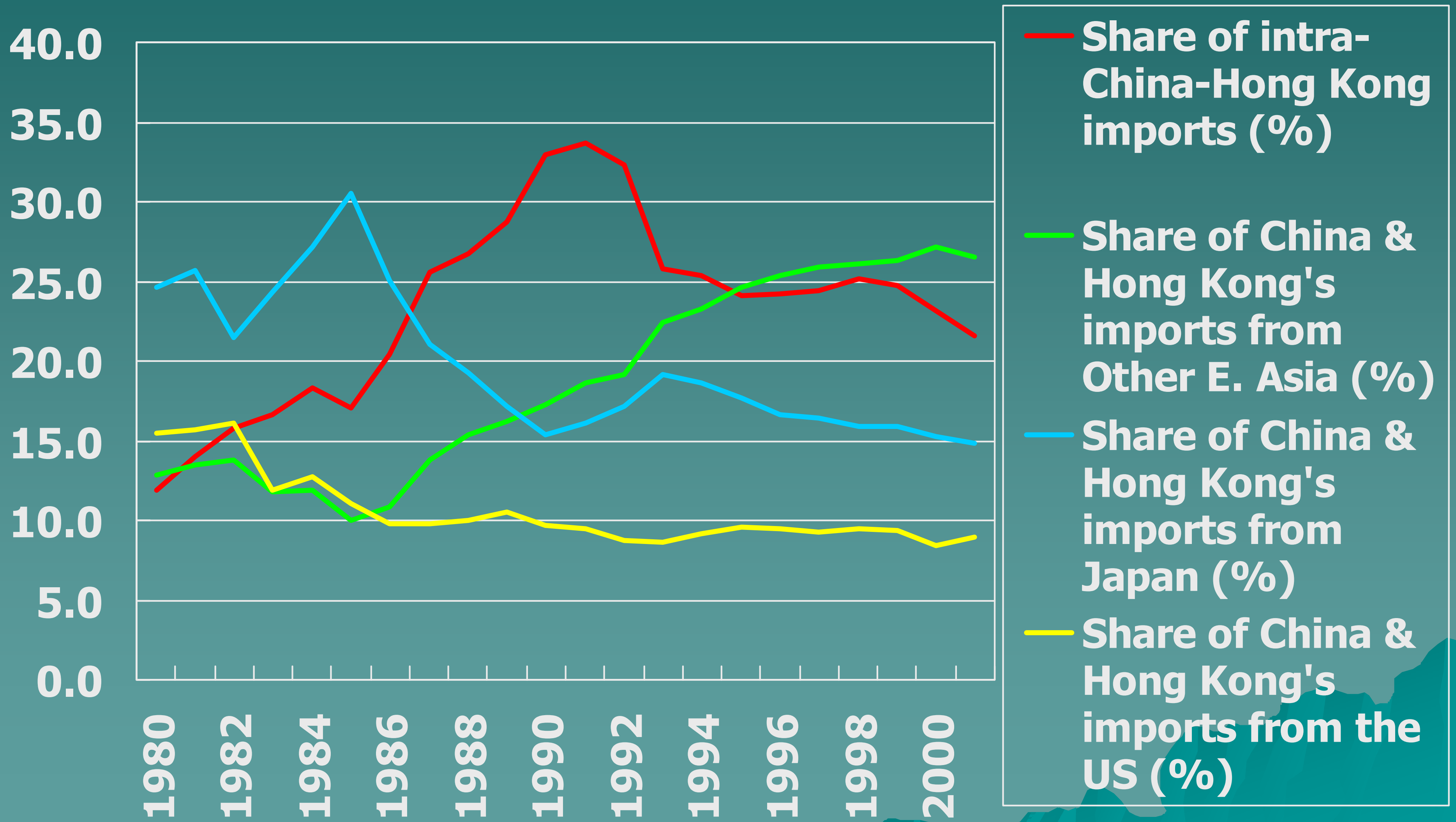


Figure 3. Trends in Japan's Exports to China & Hong Kong, Other East Asia, and the United States

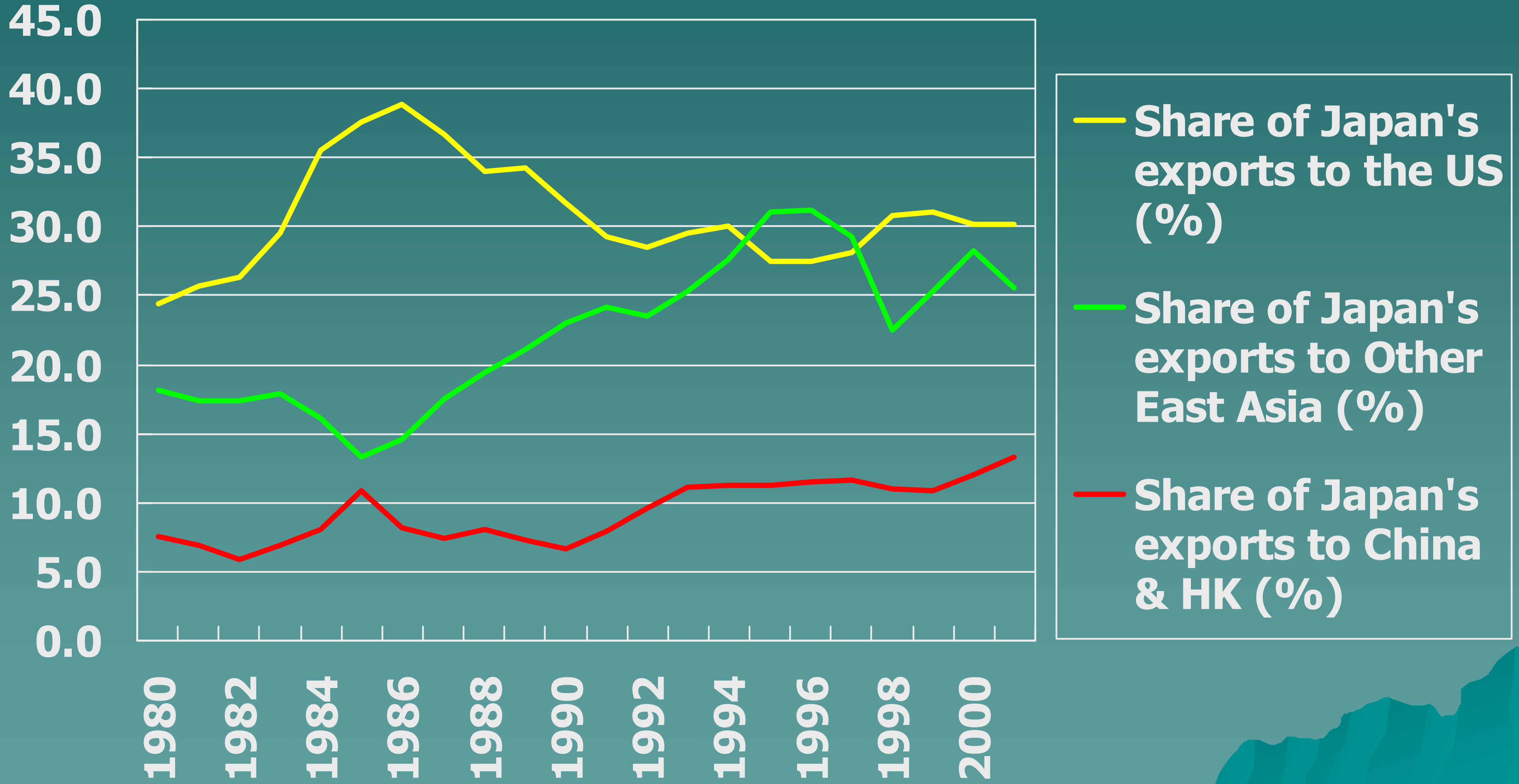
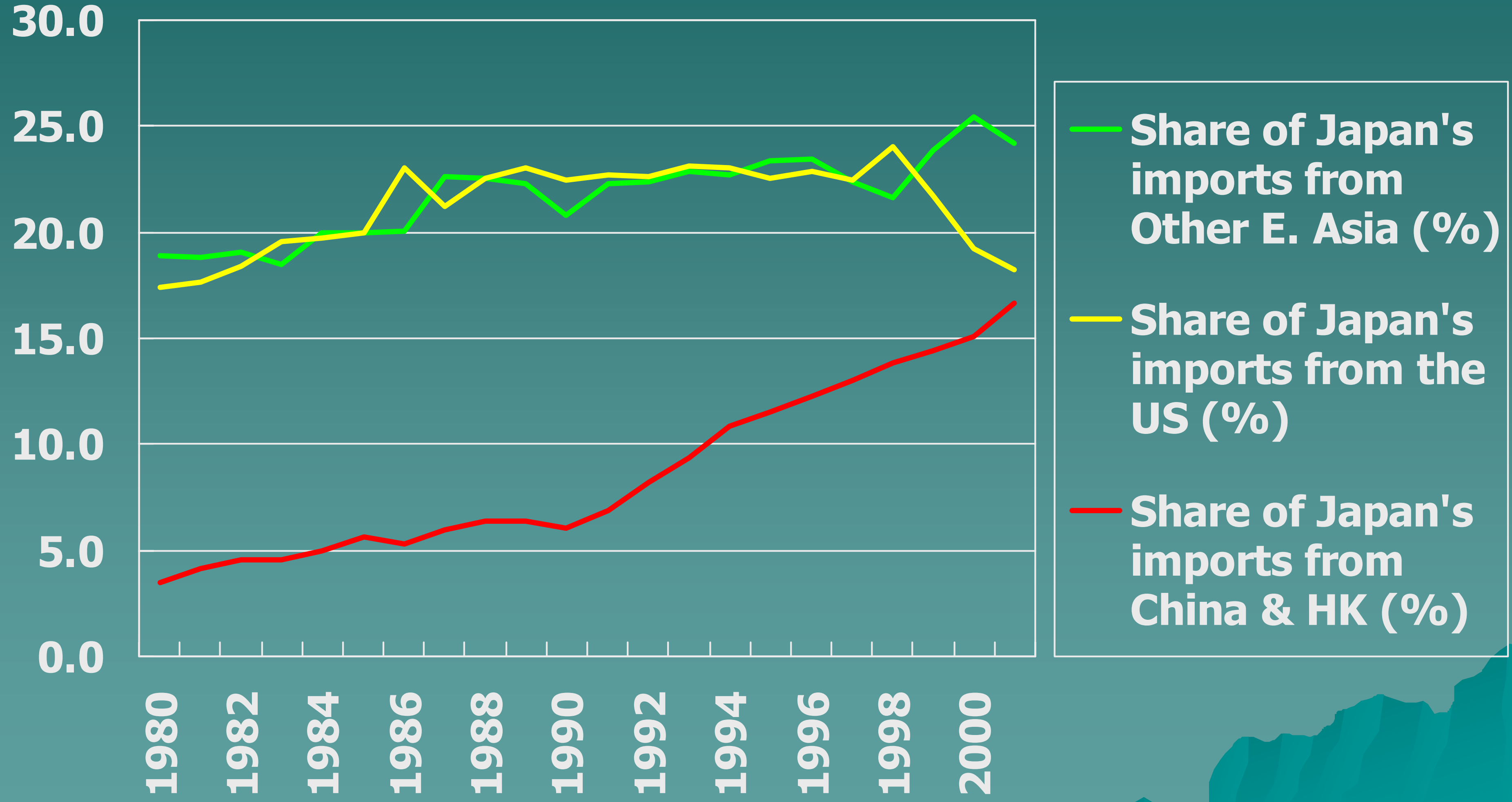


Figure 4. Trends in Japan's Imports from China & Hong Kong, Other East Asia, and the United States



Scenarios

1) Global trade liberalization (GTL)
2) Northeast Asian Free Trade Area (NEAFTA)
3) FTA among the ASEAN+3 countries
4) U.S.-Japan-China free trade – Accelerating bilateral phase-ins to finish by 2005
5) U.S.-China-Japan free trade with strong complementarity – Scenario 4 with accelerated bilateral FDI from the U.S. and Japan to China

Table 1. Effects on Equivalent Variation National Income

(Deviations from the baseline in 2015 in billions of 1997 US$)

	GTL	**NEA FTA**	**ASEAN +3**	**Trilat.**	**Trilat. +FDI**
U.S.	22.4	-3.3	-3.6	19.0	18.6
Japan	55.8	17.9	24.1	56.7	62.6
China + HK	29.2	-2.3	-1.2	78.4	89.7
Korea	19.6	14.1	16.5	-2.0	-2.0
Taiwan	8.7	9.5	-5.6	-3.2	-3.1
Singapore	7.3	-0.6	6.5	-0.2	-0.2
O. ASEAN	20.1	-4.5	19.6	-4.8	-4.7

Table 1 (continued)

(Deviations from the baseline in 2015 in billions of 1997 US$)

	GTL	NEA FTA	ASEAN +3	Trilat.	Trilat. +FDI
Canada, Aus-NZ	8.2	-0.2	-0.4	-1.6	-1.5
Western Europe	75.5	1.2	1.8	4.4	4.9
Rest of the world	70.0	-2.9	-3.5	-12.0	-11.9
Total	316.8	28.9	54.3	134.6	152.3

Table 4. Effects on Bilateral Trade Flows resulting from Trilateral Free Trade

(Deviations from the baseline in 2015 in $1997 billion)

	Importers					
Exporters	U.S.	Japan	China	E.Asia	ROW	Total
U.S.		57.5	87.5	-12.8	-49.8	82.4
Japan	11.2		124.2	-21.1	-26.2	88.1
China+HK	79.6	35.3	27.4	7.3	22.7	172.3
O. E.Asia	-5.1	-2.7	-38.7	2.9	11.1	-32.4
ROW	-10.2	-6.2	-38.2	-5.2	-15.5	-75.3
Total	75.5	83.9	162.2	-28.9	-57.7	235.1

Why does Trilateralism look so much better to China than other regional arrangements?

- Market size and economic diversity matter.
- An FTA that diverts China's trade into smaller regional markets (such as ASEAN) will occasion adverse terms-of-trade effects for China.
- By joining with the United States and Japan, China gets access to more diversified import demand and export supply than is available in other East Asia.

Preliminary Conclusions

- The largest economies in the region have a strong incentive to take the lead in regional liberalization initiatives. For China and Japan, trilateral liberalization dominates any regional arrangements.
- Exactly how this relationship would evolve in terms of structural adjustment, however, will not be clear until we conduct detailed sectoral analysis.
- The potential gains will be realized only if the implied sectoral and extra-FTA trade adjustments are politically feasible.