

Members-Only Fears

When transatlantic bickering over farm subsidies stalled the Uruguay Round of trade liberalization talks last December, Europe and the U.S. kept their cool. Not so the nations of East Asia, whose phenomenal export-led growth has benefited from successive trade rounds under the General Agreement on Tariffs and Trade. Unsettled by the 1989 U.S.-Canada free-trade pact and alarmed at the prospect of a more protectionist European Community in 1992, East Asians were ready to press the panic button.

"We have to be united and have a trade and market pact of our own," warned Malaysian Prime Minister Dr. Mahathir Mohamad shortly after the GATT talks foundered. He called for the creation of an East Asian Economic Grouping (E.A.E.G.), which would eventually embrace 15 nations, and dispatched International Trade and Industry Minister Rafidah Aziz to drum up regional support. The aim: a free-trade zone including the ASEAN countries, Japan, the Koreans, China, Taiwan and Hong Kong, and eventually Vietnam, Cambodia and Laos.

For the most part, the response was polite but cool; Mahathir claimed U.S. diplomats were sabotaging the idea by secretly lobbying against it. "It will affect their own market," he charged. "It is obvious they don't want to encourage this." But then Singapore, which had originally opposed the idea, announced it could



Malaysia's Mahathir: "We have to have a trade and market pact of our own"

support a watered-down version, thus breathing life into Mahathir's brainchild.

The region nevertheless faces an uphill struggle to create a common market. The problem confronting any East Asian trading group is that it would be a bloc of highly competitive exporters. While the region takes about a fifth of U.S. exports, it accounts for no less than two-fifths of all U.S. imports. And although intra-Asian trade has increased 40% annually for the past several years, the leading economic powers—Japan, South Korea and Taiwan—ship more than a third of their exports to the U.S. Thus, unlike the E.C., where intra-Community commerce accounts for more than half of overall trade, an Asian trade bloc would involve less interdependent countries.

The only potential impetus for an Asian trading zone would come from Japan. Japan imports about 20% of intra-Asian trade, and has been the top foreign investor in the region throughout the decade. The main appeal of a Japanese-led bloc is that it would be based on the yen, thus reducing the risk of exchange-rate fluctuations and serving to dampen inflationary pressures.

History stands in the way of Japan's officially leading a group such as E.A.E.G. Western Pacific people still remember Japan's "Greater East Asia Co-Prosperty Sphere" during World War II, which was little more than a veiled attempt at imposing a new form of colonialism. Today the Japanese government is quick to deny any intention of trying to resurrect the concept, even in a benign form. Uncomfortable as it may be, the only real hope for the region is that the consumption superpowers of Western Europe and North America not erect the kind of regional trade barriers that in the long run will stifle economic growth for everyone. —By Richard Hornik/Hong Kong