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EDITORIAL

East Asian Trade with the United States

A negative balance of U.S. trade with Japan is being supplemented by a rapidly increasing imbalance with the People's Republic of China. Taiwan, South Korea, Hong Kong, and Singapore also contribute to the U.S. trade deficit.* If the present dynamic patterns of growth continue, the future economic giant of the world will be located in the Western Pacific.

The trade balance with Japan is numerically important (\$50 billion deficit in 1992) but not very interesting otherwise. It arises mainly from U.S. imports of motor vehicles, their parts, and other manufactured items. Japanese net imports from the United States include aircraft and chemicals. However, effective impediments hold imports to a low level. Much of their value is in the form of food, live animals, and nonedible raw materials.

Taiwan has had the greatest commercial success of the other East Asian countries. Its annual balance of trade with the United States during the past 7 years has averaged more than \$11 billion. Taiwan has built up the world's largest monetary reserve (\$90 billion).† While the country was experiencing this success, its gross national product (GNP) per capita was increasing. In 1990, that number was \$8690. In comparison, the GNP per capita of China was \$370 and that of South Korea was \$5400.‡

The Taiwan-U.S. data indicate changes in the economy of Taiwan. In 1988, the main type of exports to the United States was items of clothing. Of all the exports, footwear had the highest value. In 1992, exports of footwear had diminished to one-third of that in 1988. A group of high-technology products had become dominant in 1992, and the top-value item was "automatic data processing machines and units thereof."

In July 1993, Allan Bromley, who was President Bush's Science Adviser, visited Taiwan as a guest of the government there. He was impressed with what he saw. The government is very supportive of efforts in high technology. It has funded technology parks liberally and when new enterprises arise has assisted them to become self-sustaining.

The success of the Taiwanese is not astonishing. They have performed very well as graduate students and post-docs in U.S. research universities. Many of the leaders of science and technology of Taiwan had training in the United States. But with a population of only about 21 million and an area of 36,000 square kilometers, ultimate prospects for Taiwan are limited except in combination with a larger, more populous power. That country might be China.

At times China has been badly misgoverned. After Mao triumphed in 1948, progress in education and research was substantial, but universities were closed during the initiation of the "Cultural Revolution" (1966 to 1976). Classes were resumed only on a limited basis in 1970. At that time, a poorly qualified group of students chosen on ideological considerations was admitted. When a AAAS delegation visited China in 1978, damage caused by the cultural revolution was highly evident.

During the 1980s, there was a gradual loosening of detailed centralized control of the economy. Some private enterprise was allowed to function. The GNP of China began to increase by amounts of about 15 percent per annum. Of importance to this increase has been a changed relationship between China and Taiwan. After the escape of Chiang Kai-shek to Taiwan, a long period of sharp hostility ensued, but in the last decade attitudes have changed. China sought a warmer relationship, and Taiwanese exports to China enjoyed a privileged status. At first, Taiwan forbade interactions of its citizens with China. However, economic considerations and family ties have led to increasing relationships and to investments in South China. The cost of unskilled labor there is much less than that in Taiwan.

It may be only coincidence, but a substantial decrease in labor-intensive items exported from Taiwan was accompanied by a big increase in Chinese exports of such items to the United States. China today is the largest source of imported footwear for the United States. The Chinese balance of trade with the United States has risen from \$3.5 billion in 1988 to a projected \$21 billion for all of 1993. High-technology items, though small in value, are showing large percentage increases. A striking example is automatic data processing machines and units thereof, which in 1988 were valued at \$8.38 million and in 1992 at \$227 million.

Philip H. Abelson

*U.S. Foreign Trade Highlights 1992 (U.S. Department of Commerce, International Trade Administration, Washington, DC, 1993). †C. F. Bergsten and M. Noland, Eds., *Pacific Dynamism and the International Economic System* (Institute for International Economics, Washington, DC, 1993).