

An Examination of United States and Japanese Export Patterns to Newly Industrialized Asian Countries

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Executive Summary

The purpose of this document is to examine the relationship between United States and Japanese commodity export patterns to Newly Industrialized Asian Countries (NIC). Specifically, the development and utilization of country differences and types of commodities to explain comparative indices of exports and associated trade patterns from the United States and Japan to a given set of Asian countries is discussed.

Classic economic theories view trade as the relationship between the differences in climate, culture and resources of a given set of countries. In effect, each country has its own set of relationships that theoretically provide a measure of comparative advantage in the production of a given product or service.

Trade represents one of the most basic forms of commercial interchange between two countries. Whether the concept of trade is attempted in South Africa or the Asian Nations of the Pacific Rim, classical economic theories view trade from the standpoint that each country has a relative comparative advantage in producing certain goods.

Trade enables the exporting country to capitalize on its (inherent) comparative advantage to produce commodities for other countries that theoretically will boost their respective economy. In addition, trade also allows the importing country to bring in the resources necessary to maximize their commodity output and to place on the open market goods for the general populace, the sales of which could be utilized to strengthen their respective monetary flow (Djojhadikusumo, 1985).

In the Pacific Rim, trade among the constituent countries and leading international economies (United States and Japan) has

proved essential for economic growth and has established the Rim as a viable center for world trade (Park, 1989; Hill & Phillips, 1993; Liu, 1989; Muscatelli & Stevenson, 1994; Negandhi & Emmons, 1986; Djojohadikusumo, 1985). Specifically, the Uruguay Round of Multilateral Trade negotiations, convened under the auspices of the General Agreement on Tariffs and Trade (GATT), has provided these countries with an important opportunity to gain access to the major industrial countries and resultant worldwide markets (DeRosa, 1993; Krueger, 1992).

Trade Patterns

A variety of theories have appeared in research literature that have used the attributes of comparative advantage to explain trade patterns between countries from the aspects of technological change, comparative labor costs, product life cycle, economies of scale and direct investment (Deardorff, 1984; Grimwade, 1989).

For example, mercantilism addresses world trade patterns from a political and economic viewpoint. The Ricardian Model attributes comparative advantage to differences in a respective country's labor cost. The Heckscher-Ohlin Model attributes a country's comparative advantage to production factors associated with land, natural resources and capital. While some theories began to approach some measure of validity; generically, these approaches have met with limited success, in attempting to explain the complex trade patterns found in today's world economy (Deardorff, 1984; Dosi & Soete, 1983; Borrus, Tyson & Zysman, 1990; Gardner, Nie & Mehta, 1993; Young, 1991).

One aspect that has prompted current research philosophy is based on intra-regional trade. For many years, area growth prospects have depended heavily on intra-region trade and export competition. With Japan facing prolonged economic stagnation in the 1990's, the Asian economies have begun to form a new self-sustaining structure based on export markets and sources of funding within Asia itself. The exports of ASEAN countries to the newly industrialized countries have already exceeded their combined exports to both the United States and Japan.

The investment by newly industrialized country companies is helping to spur the industrialization of those economies and accelerate the formation of industrial links that potentially will encourage further area investment (Pacific Economic Cooperation Council, 1995). It is this cumulative relationship that has formed the baseline for the (relatively) current studies of area trade patterns (Park, 1989; Hill & Phillips, 1993; Liu, 1989; Muscatelli & Stevenson, 1994; Negandhi & Emmons, 1986; Djojohadikusumo, 1985).

However, in 1990, Grilli (1990) suggested that a collective set of developing countries attempting to pursue outward oriented (export) growth may not be successful in achieving their stated goals. In addition, in a 1986 study by Negandhi and Emmons (1986), the authors stated that singular newly industrializing countries may not fair well economically when trading with major industrialized nations such as the United States and Japan. In 1994, research by Muscatelli, Stevenson and Montagna (1994) noted that intra-regional trade competition, between newly industrializing countries, is more important than the competition between newly industrializing countries and the rest of the world.

In addition to intra-regional trade, the economic health of the Asian Pacific Rim reflects the economic paths taken by both the United States and Japan (Hill & Phillips, 1993; Liu, 1989; Cargill, 1987; Boyd, 1989).

Both countries are strong competitors for the (potential) increase in trade opportunities in this area; and, both have a number of both positive and negative factors that have influenced both their domestic and international economic efficiencies as well as their respective trade decisions.

In 1982, Krause (1982) compared United States and Japanese trade competition in various Association of Southeast Asian Nations (ASEAN) countries by examining the movement within stated trade categories. Krause (1982) noted that technology intensive products were found to be the dominant force behind U.S. exports to ASEAN countries in his study using data from 1970 through 1979.

In 1988, Drysdale (1988) examined country bias and complementary trade flows among countries such as Japan, ASEAN and the United States. Drysdale's analysis of the 1979 through 1981 data set reveals strong complementarity in Japan's export trade with China, Southeast Asia and Northeast Asia. In addition, Drysdale also noted strong complementarity in the United States export trade with China and Northeast Asia. These two studies basically moved beyond the threshold of comparative advantage and identified new paradigms from which to attack the problem of trade pattern identification.

However, one of the most important trade patterns that emerged from the post-1950 era focused on the trade of manufactured goods in the same industry (Sato, 1995; Gardner, Nie & Mehta, 1993). In 1989, Grimwade (1989) characterized intra-industry trade (manufactured goods) as the simultaneous export and import of products in the same industry. Grimwade distinguished between country and industry differences to find out the determinants of intra-industry trade (patterns). He attributed a nation's per capita income, economic development stage, size of

the country, geographical closeness to country differences and product differentiation, economies of scale, foreign direct investment, product innovation, trade barriers and transport costs to industry differences.

The study by Gardner, Nie and Mehta (1993) basically took the work performed by Grimwade (1989) and utilized the concept of comparative indices as a means from which to determine the impact of trade pattern factors. The authors noted that both country and commodity differences were significant in developing comparative trade indices and explaining the associated trade patterns.

Conclusion

The increased industrialization of the Asian Pacific Rim countries has made this area an important marketing concern for industrial giants such as the United States and Japan. This opportunity has placed significant challenges on all participants to not only understand existing and predicted (commodity) trade patterns but to also be in a position to utilize the respective models and associated data in a manner that promotes effective and optimum decision making policies. The ability to identify these areas opens the door for (potentially) lucrative business opportunities and promotes the requirement for the development of a well thought out strategic approach that should effectively address the opportunities associated within each identified area.

While research has shown that both country and commodity differences are significant in developing comparative trade indices and explaining associated trade patterns (Gardner, Nie & Mehta: 1993), it should be noted, however, that open market economies may negatively impact the influence noted by country differences. With the globalization of world economies and the standardization of products, product quality and the respective elements associated with product pricing may supercede country differences and become one of the major determinants of trade patterns.

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