Chapter III

Constant-Market Share Analysis and Open Regionalism

-A Study Suggestion-

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1 OPENNESS AND APEC

Openness, equality, and evolution are the fundamental principles of APEC. Not surprisingly, APEC, from the outset, became an exclusive forum. Europe has not been able to successfully establish a close relationship with APEC. The very creation of ASEM is, indeed, an effort to rectify the imbalance rightly perceived in the EU/ASIA/US triangle. While ASEM could enforce the weakest side of that triangle, there are still unasuaged concerns on the part of EU that APEC could become a block, keeping outsiders out and preserving the trading and economic interests of its leading players. APEC essentially aims to promote global as well as regional welfare, but the concept of open regionalism is rather vague.

The very concept of 'open regionalism' was invented to deal with these concerns. In a similar way, the creation of NAFTA and its possible expansion to include countries of South America can generate exactly the same type of concerns. But it all depends on NAFTA's readiness to remain open to the outside world. A similar consideration applies to the EU. Although it may be too premature to discuss a possible linkage between NAFTA and ASEAN Free Trade Area (AFTA) at this point in time, the question will remain for a while whether regionalism or openness will predominate within the concept of 'open regionalism'.

2 A FRESH IMPETUS TO REGIONALISM?

A world divided into three powerful blocks is not necessarily an element for stability. The opportunities certainly exist for one party or another to pursue short-term objectives incompatible with the guiding principles of the WTO. After Bogor, Osaka, and Suebic meetings of APEC leaders, and the Ministerial Meeting of the WTO in Singapore, the enthusiasm for APEC seems to have momentarily leveled off, and a realism has begun to creep in along with a hint of nationalistic sentiment.

Recognizing the crucial importance of an open, cooperative and rules-based world trading environment was at the heart of the rationale for the creation of the GATT. Thus, the WTO, successor to the GATT, is by definition a global arrangement devised to address such a global problem. Within it, Japan is expected to play a role of ever-growing importance. Prior to the successful conclusion of the Uruguay round of multilateral trade negotiations and the creation of the WTO, fears surfaced that the GATT was dead. Desperate efforts were made to prevent the world trading system from plunging into antagonistic trade blocks. Efforts to bring order to a world which had changed so quickly in the space of a few years led to the creation of a new institution, the WTO. The ground work is well laid. However, it remains to be seen how WTO will perform. The WTO's fundamental commitment to open markets and to a free and unencumbered trading environment is central and crucial to its success. There will inevitably be conflicts of perceived interest, and much bargaining and strenuous efforts lies ahead.

Regionalism has not disappeared. While asserting the primacy of the principle of non-discrimination in trade relations, the global community has also given a fresh impetus to regional trade arrangements. For instance, arrangements such as the European Union have deepened and widened, and arrangements such as the ASEAN Free Trade Area (AFTA) have also formed. As many as thirty-three regional trading arrangements were notified to GATT in the period between 1990 and 1994. Another example of a fresh impetus to regional trade is a cross linkage recently proposed between member countries of South America's southern common market (MERCOSUR, or the Southern Cone Common Market)

to open negotiations with the EU in creating what will be one of the world's largest free trade zones. The trade agreement calls for a progressive reduction in tariffs by the year 2001, and it calls for widening cooperation in several areas such as agriculture, industry, investment, transportation, and scientific technology. An additional example in APEC area is the proposed linkage between AFTA and the countries of the Closer Economic Relation (CER), an economic cooperation treaty between Australia and New Zealand starting in 1983. CER had already eliminated all protective tariffs between member countries in July 1990, and CER initiated service trades in 1988. Careful examination will determine whether such a development can serve rather than impede the WTO cause and process of multilateralism in general.

3 WILL FREE TRADE ARRANGEMENT IMPROVE EXPORT COMPETITIVENESS?

A Free trade area, which should be distinguished from a customs union, allows member countries to fix their own separate tariff rates on imports from non-members, while they remove tariffs on trade among themselves. Accordingly, a free trade area is a far looser economic integration than a customs union. A free trade area allows the member countries to maintain their individual tariffs and the freedom to determine and modify their commercial policies.

Those who advocate that regional trading arrangements such as the NAFTA, AFTA, and MERCOSUR may even serve to strengthen the multilateral trading system in general also argue that such fears are no more justifiable than those relating to the rise of adversarial trade blocks. (Clee Peng Lim and Robert R TER JH).

However, in the framework of either a free trade area or a customs union, member countries design mutual tariff concessions among participating parties to lead to increased exports and imports of each member country, but they are discriminatory against non-member countries. Thus, such discriminating tariff arrangements and others among member countries will likely divert trade to member countries of a custom union or a free trade area, and at the

same time, they will likely divert trade from non-member countries. Accordingly, a country's imports from its trading partners in the free trade area may grow more rapidly than the country's imports from non-member countries. Equally, a country's exports to its trading partners in the free trade area may grow more rapidly than the country's exports to non-member countries.

Possible reasons for increased importation from member countries follow:

1. A country's imports from the member country in a free trade area may grow due to the general increase in its import demand, which can be affected by macroeconomic variables.
2. Its imports from the member country may happen to be concentrated in commodities for which demand is growing relatively faster than other import commodities.
3. Its imports from the member country in question may have been able to compete effectively with other supply sources. Such increased competitiveness could result from discriminatory tariffs and other non-tariff arrangements between member countries, or it could result from other reasons such as devaluation of currency concerned. Discriminatory arrangements can include: a) information exchange b) human resource development cooperation c) cooperation on customs matters d) standards and conformance e) investment facilitation and promotion f) cooperation on competition policies g) industrial cooperation, and so on between the member countries.

While many arguments debate open regionalism, but very few analytical attempts are made to assess the actual effects of 'open regionalism' on trade between the participating member countries. In the following, we will attempt to demonstrate a method which can estimate the dynamic impacts of a free trade arrangements on a country's imports from a member country. This approach can measure the effects of preferential trade arrangements between a member country and a non-member country. In the context of APEC, if a country grants trade and investment preference on selected commodities to other trading partners

within the APEC area such as NAFTA, AFTA and CER, we can expect the trading member country to substitute these commodities from a participating country for imports of the same commodities from non-participating countries. The member country will also substitute preferential commodities for imports of other goods which became relatively more expensive after formulating the preferential trade and investment arrangements.

4 DYNAMIC CONSIDERATION

The standard economic analysis of customs unions or free trade arrangements stresses comparing the gains from trade against the losses from trade diversion.

Some weight is put on economies of scale, external economies, the promotion of efficiency through competition in a larger market, and economic growth. These arguments, however, are equally made for unilateral tariff elimination, which would have the advantage of resulting in no losses from trade diversion. In political discussions, however, the arguments advocating preferential arrangements usually stress the gains to domestic industry from economies of scale and increased competition in a larger market area. These arguments generally ignore any possible gains from trade creation, in the sense that cheaper imports replace domestic production. Instead, this is regarded as a price to pay for the benefits of expanded markets. Those benefits result from both trade creation and trade diversion in favor of domestically produced products. Thus, trade diversion, in these discussions, is valued for its effects on increasing production within the preferential arrangements area, not for its effects on improving the terms of trade with the outside world.

Accordingly, we seem to have two different sets of arguments: Standard economic analysis is concerned with maximization of real products; whereas political discussion derives from a preference for industrial production and is concerned with the maximization of real income which comes from the collective consumption of industrial production. The latter concern concentrates on the potential for preferential trade arrangements to increase the industrial output of the country and the efficiency of its industrial production, rather than on its potential for satisfying private consumption demands at lower cost by increasing imports.

In the classical approach to tariff theory, replacing domestic production with lower cost imports becomes the source of gains for free trade; whereas increased exports yield no gain to the exporting country, but it does produce gains for the foreigner through the same replacement of domestic production by lower cost imports. Thus, this approach provides no explanation for the necessity and natures of the bargaining process of tariff cutting, because these gains are attainable by unilateral action. While there is a consideration, primarily political, that world-wide economic integration can only become a reality between like-minded nations because they are already closely linked together. This argument does not immediately lead us to accept the application of the theory of second-best (The theory of the customs union is treated as one of the major applications of the theory of second-best). The possibility cannot be cast out that reaching a theoretical optimum at a particular point of time may not yield extra welfare to compensate for the cost of moving to the new optimum from the theoretical optimum of the previous time. As R. E. Caves argues in *Trade and Economic Structures-Models and Methods*, "Although comparing degrees of economic welfare at different points in times is a feat which has not yet succumbed to the ingenuity of the new welfare economics, yet in international trade theory, many critics of classical comparative advantage aim their main attack at its failure to evaluate alternative series of welfare levels over time".

In understanding the nature of the APEC process, characterized by openness, evolution and voluntary cooperation, H. G. Johnson's concept of the preference for industrial production ("An economic theory of protectionism, tariff bargaining , and the formation of customs unions", *Journal of Political Economy*, Vol. LXXIII, June, 1965) is useful in reminding us of the distinction between "real income" on social welfare function lines, including over-time judgment, and the utility derived by individuals from their personal consumption of goods and services. To be more precise, Johnson deals with the problem of maximizing the satisfaction enjoyed by the electorate in democratic countries.

Johnson's model assumes that the satisfaction flows from two sources; the private consumption of privately provided goods and services, and the collective consumption of goods and services provided through the government at the cost of sacrificing private

consumption. In his model, a collective preference exists for industrial production in the sense that the electorate is willing to spend real resources through government action in order to make the volume of industrial production and employment larger than it would be under free international consumption. Thus, industrial production is treated as a collective consumption of goods yielding a flow of satisfaction to the electorate independent of the satisfaction they derive directly from the consumption of individual products.

In the APEC region, one can find the origins of this preference for industrial production from a number of sources. For instance, it may be from nationalistic aspirations or rivalries with other nations. The Malaysian "Vision Year 2020" may be a source of the preference. The power of owners and workers in industrial facilities to achieve a redistribution of income for themselves by political means may be another example, as well as the belief that industrial activities involve beneficial 'externalities' of various kinds.

Under such circumstances with a collective preference for industrial production, reducing one's own tariffs causes a loss, which can be compensated for by reducing the other country' s tariffs. On the other hand, reducing the other country's tariffs is a source of gain, and it expands one' s own industrial production and yields an increased flow of utility from collective consumption of industrial production. Therefore, each country may stand to gain, in terms of real income, by exchanging a reduction of its industrial production through its own tariff reduction for an equal expansion of its industrial production through the other country' s tariff reduction. The gains from reciprocal tariff reduction result from substituting of low-cost for higher-cost sources of want satisfaction. In the classical analysis, this is the lowest cost satisfaction of private consumer's wants and this could be achieved without the cooperation of the other country through a unilateral tariff reduction. In APEC terminology, this is voluntary cooperation. Whereas, Johnson's model involves lower-cost satisfaction of the demand for collective consumption of industrial production, and this can only be achieved through cooperation via bargaining with the other country or countries by having sub-regional, preferential arrangements. Thus, reciprocal tariff cutting would proceed as long as each country could offer the other a tariff reduction that would increase the other's exports.

Discriminatory tariff reduction has the advantage over non-discriminatory tariff reduction

in that it permits a country to offer its partner an increase in exports and industrial production without suffering any loss of its own industrial production by diverting imports from third countries to the partner. Reciprocal preferential tariff reduction is in fact an arrangement by which each partner indirectly subsidizes its own industrial exports by subsidizing its industrial imports from the other, and the subsidy is given in the disguised form of tariffs otherwise payable. Contrary to the standard analysis, trade diversion and trade creation yield a gain to the partners. In fact, the preference-granting country prefers trade diversion to trade creation, because it entails no sacrifice of domestic industrial production.

This reversal of the usual conclusions, according to H. G. Johnson, is due to the preference for industrial production, and its frustration by the convention against export subsidization.

The gains in a country' s real income do not come from a preparedness of real product gains from trade creation over the real product losses from trade diversion, which results from the effects of the country's own preferential tariff reduction on imports, but the gain do come from the increase in the country's exports of industrial products, which results from trade diverting and trade relating effects of the partner country's preferential tariff reduction in its favor.

Implicit in the above discussion is the assumption that the parties concerned have a strong preference for industrial production and a weaker comparative advantage in industrial production, so they each export relatively small quantities of industrial products, and they gratify their preference for industrial production largely through protection of domestic industry against imports. A country with a strong comparative advantage in industrial production would be able to seek expansion of the industrial production through multilateral tariff bargaining, but the country might be unable to benefit from preferential entry to the other country' market, because such preferential entry might merely divert its exports from the other countries' markets without significantly affecting prices.

5 CONSTANT MARKET SHARE ANALYSIS OF EXPORT GROWTH

We will adopt what may be called "constant-market share analysis of export growth". The characteristic feature in this method is the assumption or norm that a country's export share in a given market should remain unchanged over time.

Accordingly, the difference between the actual export growth from a member country into a given market and the unchanging export share implied by this constant-market share norm may be attributed to the following three factors:

1. the effects of a general increase in demand for imports in the given market
2. commodity composition and
3. changes in competitiveness

The constant-market share analysis will allow us to make various interesting calculations, as we shall see later.

We define the variables as follow;

X : exports of country A to country B

X_i: commodity i exports of country A to country B

m :Percentage increase in country B's total imports from period 0 to period t

m_i :Percentage increase in country B's imports of commodity i between period 0 to period t

If country A maintains its export market share in country B' s market, A's exports to B could increase by (1):

(1) mX

This application of the constant-share norm divides the growth of country A's exports to B into two parts: it is partly associated with the general increase in B's total imports (m); and it is partly an unexplained residual. Formally, this may be expressed as (2):

(2) $X(t)-X(0) = mX(0) + X(t) - X(0) - mX(0)$

Considering the fact that exports are in fact a quite diverse set of commodities and that we know country B's import market for a particular commodity class, we may write equation (2) for an individual commodity as (3):

(3) $X_i(t)-X_i(0) = m_iX_i(0) + X_i(t) - X_i(0) - m_iX_i(0)$

Since we have the following relationship by definition,

(4) $X=SUM\ X_i$

where $SUM\ Xi = X_1+X_2+ \ldots\ldots + X_i$

The expression (3) may be aggregated to

(5) $X(t)-X(0) = SUM\ X_i(t) - SUM\ X_i(0)$

$=SUM\ m_iX_i(0) + SUM\ \{ X_i(t)- X_i(0)- m_iX_i(0)\}$

$=mSUM\ X_i(0) + SUM\ \{(m_i-m)\ X_i(0)\} + SUM\ \{ X_i(t)-Xi(0)- m_iX_i(0)\}$

that is:

(6) $X(t)-X(0) = m\ X(0) + SUM\ \{(m_i -m)\ X_i(0)\} + SUM\ \{ X_i(t)- X_i(0)- m_iX_i(0)\}$

Expression (6) represents an analysis in which the growth of country A's exports to B can be broken into three parts attributed to the following:

(a) the general rise in country B's total imports

(b) the commodity composition of country A's exports to B in period 0 and

(c) an unexplained residual indicating the difference

between country A' s actual exports increase to country B and the hypothetical increase if country A maintained its share of exports of each commodity group in country B.

The term (b), the commodity composition of country A's exports to B in period 0,

$$\text{SUM } \{(m_i - m) X_i(0)\}$$

suggests the extent country A's exports to B are concentrated in commodity classes with growth rates more favorable than the average growth rate of country B's total imports.

Thus, if country B's imports of commodity i increased by more than the average growth of country B's imports of all commodities, (mi-m) becomes positive. This positive number will receive heavy weight when added to other terms if $X_i(0)$ is relatively large. Accordingly, the sum indicated by SUM $\{(m_i - m) X_i(0)\}$ will be positive if country A concentrates on the exports of commodities whose market, growing relatively faster, and it will be negative if country A concentrates on slowly grew commodity markets.

Concerning term (c), an unexplained residual may be attributed to price changes, and thus termed "the competitiveness effects". The reason for this may be explained as follows.

Let us define M_i and dM_i as follows;

M_i = country B's imports of commodity i in period0

dM_i = the change of Mi between period 0 and t

Then, the term (c) may be written as (7) (without the sign SUM for simplicity);

$$(7)\ \{ X_i(t)- X_i(0)-miXi(0)\} = \{ X_i(t)- X_i(0)(1+ dM_i / M_i(0))\}$$
$$=\{ X_i(t)- X_i(0)\, M_i(t)/ M_i(0)\}$$

Dividing by $M_i(t)$, the term (c) is reduced to (8):

(8) $X_i(t)/ M_i(t) - X_i(0)/ M_i(0)$

=[A's share of i products in B's market at time t]

-[A's share of i products in B's market at time 0]

Demand for imports in a given market (country B) from two competing sources of supply (country A and the rest of the world) may be described by the following relationship;

(9) $X_i /WX_i = f(Pi/WPi)$

where P_i = the export price of commodity i to country B

WX_i = the rest of the world's export of commodity i to country B

WP_i = the export price of commodity i from the rest of the world to country B

Expression (9) may be altered by multiplying by P_i / WP_i to obtain:

(10) $(P_i / WP_i)(Xi/ WX_i) = P_i / WP_i \quad f\ (P_i / WP_i)$

The left hand side of the above expression implies:

(11) $P_i X_i /(P_i X_i + WP_i WX_i) = (1+WPi WX_i / P_i X_i)^{-1}$

$= \{1+(P_i X_i / WP_i WX_i)^{-1}\}^{-1}$

$= [1+\{ P_i / WP_i f(P_i / WP_i)\}^{-1}]^{-1}$

$= g\ (P_i / WP_i)$

Expression (11) indicates that country A's share in country B will remain constant except as P_i / WP_i varies.

Substituting (11) into (8), we have

(12) $X_i(t)/ M_i(t)- X_i(0)/ M_i(0)$

$=g(P_i(t)/ WP_i(t))-g(P_i(0)/ WP_i(0))$

The expression (12) suggests that the unexplained residual term (c) may be labeled the "competitiveness effect".

Thus, when a country fails to maintain its market share in a given market, the competitiveness term will be negative and will indicate that the price increase for the country in question is somewhat greater than its competitors.

6 A NUMERICAL EXAMPLE OF THE ANALYSIS AT SITC ONE DIGIT LEVEL

The following is a numerical example of the constant-market share analysis. The commodity classification is following SITC and one digit level.

[Example One]

Country A's exports to B:	$ 80.3 million at time t
Country A's exports to B:	$ 32.9 million at time 0
Changes in exports to B:	$ 47.4 million (100%)

(a) Due to a general increase in B's demand for imports

$mX(0) = \$ 3.1$ million (6.6%)

(b) Due to commodity composition

$SUM(m_i-m)X_i(0) = \$ 0.4$ million (0.9%)

(c)Due to increased competitiveness

$SUM(X_i(t)-X_i(0)-m_i\ X_i(0)) = \$ 43.9$ million (92.5%)

From the above example, the $ 47.4 million increase in country A's exports to country B is mainly due to increased competitiveness. The example shows that about $ 43.9 million out of the $ 47.4 million can be attributed to increased competitiveness. An increase due to the general increase in B's demand for imports is about $3.1 million, explaining only 6.6 % of the

total increase. Finally, an increase due to commodity composition is not significant, only 0.9 % of the total increase. It may be noted that country A is New Zealand, and country B is Australia.

7 NUMERICAL EXAMPLE TWO---TWO DIGIT LEVEL EXERCISE

Next, we will break down the commodity classification a little more. We can conduct a similar analysis at the SITC two digit level. We will use the same trade statistics between New Zealand and Australia, but we exclude small items such as SITC1 (Beverages and tobacco) SITC3 (mineral fuels, related material) and SITC4 (animal and vegetable oils and fats) of which New Zealand exported less than half a million dollars to Australia during the period studied.

[Example Two]

SITC	General rise in imports of commodity i	Commodity composition	Increased competitiveness
SITC0 (food and animals)	6.8%	13.5%	79.7%
SITC2 (crude materials and inevitable, except fuels)	12.6%	-4.3%	87.4%
SITC5 (manufactured goods classified chiefly by materials)	8.7%	0%	91.3%
SITC6 (machinery and transport equipment)	12.3%	-2.3%	90.0%

SITC7 (miscellaneous manufactured articles)	7.7%	10.5%	81.9%
SITC	10.1%	0.6%	89.3%

The analysis at the two digit level confirms that the effects of increased competitiveness are dominant in all commodities.

8 NUMERICAL EXAMPLE THREE---AUSTRALIAN EXPORTS TO NEW ZEALAND

The previous two examples were, in fact, New Zealand's exports to Australia between the periods of 1966/67- 68/69. It may be interesting to look at the reverse trade flows from Australia to New Zealand in the same period.

Australian exports to New Zealand at period t were less than those at period 0, while total New Zealand imports increased by 5.1 percent during the period. The analysis shows that the general increase in New Zealand's demand for imports is not responsible for the positive increase of about 48.8 million dollars in Australian exports to New Zealand.

The commodity composition for Australian exports to New Zealand is also responsible for a positive increase of about 3.7 million dollars in A's exports to New Zealand. However, the decreased competitiveness factor explains the absolute decline of about 27.3 million dollars in Australian exports to New Zealand, resulting in net decline of actual imports from Australia by 14.7 million dollars.

[Example Three]

Australian Exports to New Zealand 1966/67-68/69

Exports to NZ

1968/69 $ 157.3 million

1966/67 $ 172.0 million

-$ 14.7 million (-100%)

Due to a general increase in NZ demand for imports $ 8.8 million (59.6%)

Due to commodity composition $ 3.7 million (25.4%)

Due to increased competitiveness -$ 27.3 million (-185.6%)

In 1967/68 New Zealand experienced a recession following the sharp fall in the prices of wool in the previous year. However, it is interesting to note that New Zealand's total imports increased between 1966/68, while total imports of New Zealand commodities from Australia fell sharply.

If the Trade Concession, N.A.F.T.A., had put Australian commodities into a favorable position, the effects should not have been negative under any economic circumstances. Australia should have been able to, at least, maintain its market share in New Zealand.

The New Zealand and Australia Free Trade Agreement(N.A.F.T.A.) came into existence on January 1st, 1966. This agreement however, was very limited in its scope and its nature.

The next Table shows that NZ imports from Australia under section A increased from 1966/67 to 1968/69 both in absolute amount and in relation to NZ total imports. In spite of this, our constant-share market analysis shows that Australia exports to New Zealand decreased mainly due to decreased competitiveness. This result suggests that N.A.F.T.A. had little impact on trade between the two countries. During the period, the competitiveness of New Zealand exports to Australia, in most commodities, were dominant. This dominance resulted from New Zealand's currency devaluation which took place in 1968.

($million)

	A's imports from NZ			NZ imports from A		
year	(1)	(2)	(3)	(4)	(5)	(6)
	schedule A	total	(1)/(2) *100%	schedule A	total	(4)/(5) *100%
1963/64	38.6	44.9	81.0	68.4	132.7	51.5
1966/67	37.4	47.3	79.1	54.7	143.0	38.3
1967/68	39.1	46.6	83.9	54.8	135.1	40.6
1968/69	49.5	74.7	66.3	69.8	157.0	44.5
1969/70	54.0	86.2	62.7	95.8	197.1	48.0

9 CONCLUDING REMARKS: SCALE, EFFICIENCY THROUGH COMPETITION, AND GROWTH

If the excess cost of domestic industrial production is promoted by the small scale of the domestic market and the monopolistic tendencies fostered by the tariff in each country, the trade creating and especially the trade diverting effects of reciprocal preferential tariff reduction may permit the harvesting of economies apart from the preferential arrangements. Let us confine ourselves to the effects of market enlargement.

When the markets are split too small because of political conditions or due to deliberate protectionism, the advantages expected from a larger market are wiped out. For instance, the selling prices, the distribution of the purchasers, the available means of distributing the products, and the obstacles of geography, psychology, finance, tariff, and administration which hinder that distribution.

The drawbacks of a restricted market came from not utilizing the full potential of modern production and distribution cannot be used to the full. Also, a larger market appears to give full scope for research, productivity, lower production costs, and increased competition.

An economy can be too small technologically if its market is too small to provide an adequate outlet for the full-capacity output of the most efficient production plant in a given

industry.

Economically, however, an economy is too small if it fails to provide the competitive conditions necessary to drive the economy to its utmost efficiency and to lead to establishing the technically most efficient plants. An economy large enough to absorb the output of at least one optimum sized plant in all industries may still not be large enough to provide the incentives for building such efficient plants.

Thus, ultimately, the disadvantages of small economic unit seem to have something to do with competition. If the economic unit is large enough, competition encourages economic efficiencies and progress. When the economy is too small, competition is too personal and too weak to do this. For this reason, the permanent commitment to the free trade within the area would lead to a return to true competitive spirits, get rid of the idea that nothing must ever change, and eliminate a weakening domestic monopoly or oligopoly position.

The nature of the previous analysis is, indeed, a very simple one. Will the statistical evidence derived from the constant-market share analysis add a new story to the view that the destiny of the world economy lies with the Pacific Rim? An export expansion of country A to a particular member market, indeed, depends upon many other factors outside the scope of this study. Furthermore, each of the three factors identified by the constant-share analysis may well be explained in a different manner with a more sophisticated approach. It remains to be seen whether or not the constant-market share analysis can lay out a common denominator that forms the foundation for successful export growth stories in the APEC region. It may be useful to compare the export performance of one ASEAN country (say, Indonesia) with other countries like Japan (or EU, NAFTA, or CER). Such a set of statistical evidence can be compared with sets of statistical evidence for other countries (like Thailand, the Philippines, Malaysia, Singapore and so on). Openness, equality, and evolution are the fundamental principles of APEC. The concept of open regionalism should promote global as well as regional welfare. The concept of equality rests on the idea of providing mutual benefits to all participants. Evolution, the third principle, affirms sustained, gradual, and pragmatic process by which APEC has evolved on the basis of voluntary cooperation. It is simply hoped that additional information, obtained through the constant-market share analysis will shed light on

the APEC process, and particularly, on what is happening with APEC trade flows.

In my view, measuring the increased competitiveness using the constant market share analysis and attempt to relate changes in competitive conditions to various measures such as liberalization of trade and investment, various deregulations, and possible externality effect of new policies introduced are important because only competition will ensure that all the benefits accruing to the larger market producer will be passed on to the consumer. By reviving and intensifying competition, a larger market therefore becomes a factor in economic progress and the raising of living standards.

[Suggested Application of the Analysis]

(EX. A) Exporting Countries	Importing Countries	Competitive-ness	Commodity Composition	Increase in Imports
Indonesia (Thai, Philippines, Singapore...)	Other ASEAN (Japan, EU, NAFTA, CER, Korea...)	30% ...% ...%	50% ...% ...%	20% ...% ...%
(EX. B) Japan (Korea, Hong Kong, Taiwan, China)	ASEAN (NAFTA, EU, CER,... MERCOSUR)	25% ...% ...%	30% ...% ...%	45% ...% ...%
(EX.C) NAFTA (USA, Mexico, Canada)	Japan (EU, ASEAN, MERCOSUR)	10% ...%	45% ...%	45% ...%