

THE 9TH ASEAN-JAPANESE
BUSINESSMEN'S MEETING

Japan-ASEAN and Pacific Economic Cooperation

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I. Introduction

It is a great honour for me to be invited to such an exciting meeting and to speak briefly on the genesis of a Pacific Economic Community in which I have been keenly interested over the years and its contribution to the ASEAN economic development. In November 1965, I presented a paper entitled "A Pacific Economic Community and Asian Developing Countries" to the Japan Economic Research Center Conference. As a result of this presentation, Mr. Takeo Miki, then Japan's Foreign Minister, asked that I travel through the Pacific rim countries to survey the degree of interest in the idea of a "Pacific Economic Community." Then, I convened the "Pacific Trade and Development Conference" (PAFTAD) during January 1968 in Tokyo, which has developed so successfully as to be able to hold its twelfth meeting in Vancouver in September 1981, and thirteenth one in Manila in January 1983.

II. The Genesis of a Pacific Economic Community

What the world economy most needs in the coming decade is a new and large development centre. Following the devaluation of the pound in 1949, the world economy in the 1950s recovered and surged forward as a result of such factors as the Marshall Plan in Europe, economic assistance to Japan, and the outbreak of the Korean war. After recovering from the 1957 recession, the world economy enjoyed unprecedented expansion due to the formation and progress of the European Economic Community (E.E.C.) and the European Free Trade Association (E.F.T.A.) and the rapid growth of Japan's heavy and chemical industries.

This pattern did not repeat itself during the 1970s. No buoyant new forces appeared, and to further complicate matters, impasses were reached in many areas of the world economic management. The international exchange-rate system, the North-South problem, the oil crises (in 1973 and again in 1979), and political and military tensions are examples. Thus, the 1970s have been a decade of continuing confusion and uncertainty. It is widely believed that this predicament can be overcome only through the creation of a new and dynamic world developmental centre and that the Pacific, with its great overall potential, may become that centre. It is for this reason that the 21st Century is often termed the "Century of the Pacific."

The events of the year 1980 gave a new impetus to the building of a Pacific Economic Community the first steps of which can be traced back to the middle of the 1960s with the establishment of PAFTAD, the Pacific Basin Economic Council (P.B.E.C.) and the association of South-East Asian Nations

(ASEAN). Only very recently did some governments show their interest and involvement, though indirectly, in Pacific Community building. Professor Hugh Patrick of Yale University and Dr. Peter Drysdale of the Australian National University were asked by the Sub-committee on East Asian Pacific Affairs of the United States Senate's Committee on Foreign Relations to write a report on the topic which was later published under the title An Asian Pacific Regional Economic Organization: An Exploratory Concept Paper in July 1979. In Japan, the late Prime Minister Masayoshi Ohira, keen on promoting the "Building of a Pacific Community," created a Pacific Basin Cooperation Study Group, the first chairman of which was Dr. Saburo Okita, who was succeeded by Professor Tsuneo Iida of Nagoya University. This group issued a document entitled Report on the Pacific Basin Cooperation Concept (the Interim Report was published on Nov. 14, 1979 and the Final Report on May 19, 1980).

Based upon these and other important studies, and in response to the interest of late Prime Minister Ohira and Dr. Okita (then Foreign Minister), Sir John Crawford, Chancellor of the Australian National University, convened a seminar in Canberra on "The Pacific Community Concept" in September 1980 under the sponsorship of the Australian government. The seminar articulated the main areas of substantive cooperation which Pacific countries should pursue as their joint tasks. Moreover, for the purpose of exploring the possibility for cooperation, it recommended the establishment of a Pacific Cooperation Committee (PCC), an informal and non-governmental group of businessmen, academics and government officials of considerable eminence. Then the

second seminar was held in June 1982 in Bangkok under the chairmanship of Thai Deputy Prime Minister Thanat Khoman. Now is the crucial time for a private organization such as the PCC to be formed in the Asian Pacific region. The promotion of Pacific cooperation has gained momentum, but the formation of the PCC will still take some time because of some caution on the part of the five ASEAN countries. Looking at the Canberra and Bangkok Seminar in perspective, we should not insist on the establishment of a formal, intergovernmental organization of Pacific Community which may well be ultimately desirable but involves political and technical difficulties. We should continue to promote de facto economic cooperation and functional, instead of institutional, integration in the Pacific region through activities in business circles like PBEC and in academic circles like PAFTAD.

III. Development Potential of the Pacific Basin.

Let us examine the economic interdependence of nations in a Pacific Community. The Pacific basin, comprising five advanced nations (United States, Japan, Canada, Australia and New Zealand) and the numerous developing nations of Asia, Latin America and Oceania, is a vast area with seemingly unlimited potential for economic development. In terms of population, in 1978 the total for the advanced countries was 374 million: 218 million in the United States, 115 million in Japan, 23.5 million in Canada, 14 million in Australia, and 3 million in New Zealand. The ASEAN nations of Indonesia, the Philippines, Thailand, Malaysia and Singapore, accounted for 252 million. In East Asia, China

accounted for 1,000 million, while South Korea, Taiwan and Hong Kong together added another 58.5 million to the total. The total in Latin America was approximately 310 million, while South Pacific nations contributed another 4 million. Thus the overall population of the region was some 2,000 million, huge indeed when compared with Western Europe, the world's most recent great developmental centre, with a total population of approximately 390 million.

While the European Community (E.C.) is more or less homogeneous and uniformly industrialized, the Pacific includes nations of very different political and cultural backgrounds as well as diverse economies. Some countries are well endowed with natural resources while others are poorly endowed. Some are economically too small and others too large, and nearly all are different in terms of levels of industrialization and national income. Yet, regardless of the difficulties these heterogeneities pose with respect to building a Pacific Community, there is a great potential for regional integration and, hence, economic development.

While the Pacific rim countries have considerable potential for growth in trade and development, they have lacked the leadership and initiative necessary to develop this potential. A sense of solidarity and a framework for economic cooperation have yet to emerge in the Pacific region. The United States has maintained a general attitude of "going in with Europe" and has tended to neglect the Pacific region. But, the sheer weight of U.S. trade with Asia has exceeded her trade with Europe since 1972, and economic development in this area would contribute

effectively to the revitalization of the overall U.S. economy. At the same time, Japan, remembering the nightmare of the "Greater East Asian Co-Prosperity Sphere," has, at least until recently, hesitated to take any initiatives toward building a Pacific Community. The slow progress towards cooperation in the Pacific is a serious concern to us especially when compared with the rapid regional institutionalization of various activities in the European Community.

Australia, Canada and New Zealand, turning their eyes away from Europe, have a vital stake in peace and prosperity in the Pacific region. Notwithstanding the continuing difficulties, industrialization in the developing nations has been proceeding at a rapid tempo, especially in the Asian-Pacific nations. South Korea, Taiwan, Hong Kong and Singapore have developed into newly industrializing countries (NICs), and other ASEAN countries will reach a similar stage in the not too distant future. Additionally, China has begun the modernization of her huge economy. Thus, it would be preferable to foster functional, rather than institutional, integration in the region by employing a problem-by-problem approach towards economic development and trade growth among the countries of the area. Moreover, since the numerous Pacific rim countries cover a large area and are heterogeneous in size and nature, it would, at least at the outset, be more realistic to make an approach towards sub-regional issues in the Asian- (or Western-) Pacific area.

IV. Successful Development of the Japanese Economy

The Japanese involvement in trade, aid and direct investment (including technology transfer) with Asian developing countries, on the one hand, and other Pacific advanced countries, on the other, is large and has been intensified by the successful development of her economy over the last two decades.

1) The rate of growth of the Japanese GNP was nearly halved, mainly due to the oil crisis in 1973, from 10-11 per cent in the 1960s to 5-6 per cent during 1976-80 and is expected to be further lowered to 3-4 per cent for the 1980s, which is still higher than in other advanced economies. Imports of mineral fuel amounted to 70 billion dollars or exactly half total imports in 1980.

2) One of the most remarkable performances of the Japanese economy in recent years was a substantial increase in efficiency in the use of energy, especially petroleum, due to technological improvement in factories.

3) Because of enlightened industrial relations, the rise in average wage rates has been kept to a modest 5-6 per cent or in line with increments in productivity, thus avoiding high rates of inflation and unemployment which appeared in other advanced countries.

4) Due to a rapid transformation toward heavy and chemical industries in the 1960s and a further refinement of them into capital- and knowledge-intensive methods in the 1970s, the Japanese economy has successfully caught up with the U.S.: per capita income is roughly the same level but gross national income is about half that of the U.S. because of the difference in

population size.

On the other hand, such rapid economic growth in Japan has exerted various external impacts. It is impressive, for example, that the share of exports of machinery and equipment, including industrial, transport and precision machinery, in Japanese total exports was only 13.7 per cent in 1955 but increased to 61.3 per cent in 1979, while the share of textile products sharply declined from 37.3 per cent to 4.8 per cent.

a) Japanese exports of machinery and equipment to neighbouring Asian countries contributed effectively to their industrialization which is reflected in the relative decline of textiles exported from Japan.

b) An important component of Japanese machinery exports is consumer durables such as automobiles, televisions and other electronic items which created conflicts in advanced country markets.

c) The Japanese economic growth has intensified dependence on imports of food and natural resource products not only from Asian and Latin American developing countries but also from advanced countries in the Pacific. Thus the Japanese development has worked as an engine for their growth.

V. An Asian-Pacific Forum

The observations above on the external impacts of the Japanese economic development, though too short because of limited time, shows what should be the focus of economic cooperation in a Pacific Community. It seems to me that the most urgent issue is the successful resolution of the North-South -- the rich

nation - poor nation -- problem in the Asian-Pacific region. Through an appropriate augmentation of trade, official aid, direct investment, and technology transfers -- let us call them en bloc international complementation to the national economic development process of developing countries --, the day will come perhaps early in the next century when the per capita national income in the developing countries becomes closer or equal to the present level in advanced countries. Until this happens, we can never achieve lasting regional political and economic stability. This is certainly not an easy task but a great challenge which nevertheless can be realized as the Japanese success story shows. At the same time, the international complementation to the economic development process in Asian developing countries will create for advanced countries a lot of business opportunities and an outlet from their stagflation, although they need to foster structural adjustments in their own economies in a positive way.

Efforts to resolve the North-South issue on a global basis under the NIEO (new international economic order) strategy have proved unrealistic and time-consuming. Only close neighbours in the same region are able to identify real common issues with intimate knowledge, to feel solidarity, and to find ways and means of appropriate solutions. However, a regional approach in the Pacific towards North-South problems is not intended to substitute for the global NIEO strategy but it could complement the latter.

The promotion of harmonious international complementation so as to assist the steady economic development of Asian developing

countries, calls for coordinated policy actions. A regional-multilateral approach, instead of merely relying on bilateral approaches, would create many benefits and increase efficiency. The merits of and policies for the regional-multilateral approach should be explored by further study.

Here, again, the Japanese external performance in the recent past will present suggestions on what kinds of international complementation and how they should be implemented so as to promote economic development in the developing countries.

Let us suppose, for argument's sake, the existence of an Asian-Pacific Forum consisting of the five advanced Pacific countries, the five ASEAN countries, China, South Korea, Taiwan and Hong Kong.

1) Japanese total exports to this region in 1979 was US\$ 60 billion compared with American exports to the same region of US\$ 73 billion. This represents 58 per cent and 41 per cent respectively of total exports of Japan and the United States. Since the trade between the United States and Canada is so closely integrated, if Canada is excluded from the exports from Japan and the United States and the big difference in market size (that is, total imports) of the two countries is taken into consideration, the share of exports from Japan and the United States in partner's total imports in the Asian-Pacific region (excluding Canada) remains the same at 17 per cent level. Japan has closer trade relations with Asian developing countries (East-Asia, China, and ASEAN) than with other advanced countries as compared to the American trade interests. The complementarity of trade commodities varies between the two countries

vis-a-vis partners. (See appendix table.)

7. 2) Bilateral aid flows (including not only ODA but also other official flows, export credits and grants) to ASEAN economies in 1979 amounted to US \$665 million from Japan and US \$615 million from the U.S., the sum of which accounts for 58 per cent of the total aid received from ADC countries by ASEAN. Similar flows to East-Asian countries (South Korea, Taiwan and Hong Kong) amounted to US \$102 million from Japan and US \$594 million from the U.S., the sum of which accounts for 77 per cent of total aid received. (OECD, Geographical Distribution of Financial Flows to Developing Countries, Paris, 1980.)

3) Direct foreign investment (DFI) plays a most important role in accelerating the economic development of developing countries. Japan is a very late comer as a direct foreign investor and for the Japanese economy its trade is far more important than its DFI, letting the latter work as a complement to the former. But, the rate of increase of Japanese DFI was remarkably high. The cumulative total in 1970 of investment over the past twenty years was US \$3,577 million, which had increased by 1973 to US \$10,267 million, or 2.87 times. Since the oil crisis in October 1973, Japanese DFI has slowed down somewhat but reached to US \$31,804 million by 1979, or 3.10 times as large as in 1973.

Japanese direct investment, particularly in manufacturing industries in Asia (excluding China) increased much faster than the trend in her total foreign investment, amounting to US \$8,643 million in total and US \$3,846 million in manufacturing industries

by 1979. In the first stage, from 1970 to 1973, Japanese investors rushed into labour-intensive consumer goods industries which produce standardised manufactures, such as textiles, electric machines and appliances and transport equipment (mainly assembling), as well as into timber and pulp and food processing to obtain offshore supplies. Since 1974, Japanese investment in Asian manufacturing has been gradually shifting in its focus to manufactured intermediate goods industries so as to meet Asian countries demands for upgrading their industrialization.

Accumulated Japanese DFI in 1976 to ASEAN countries taken together was US \$3,946 million which was roughly the same as United States DFI to ASEAN countries of US \$3,372 million. (Sueo Sekiguchi and L.B. Krause, "Direct Foreign Investment in ASEAN by Japan and the United States," in Ross Garnaut, ed., ASEAN in a Changing Pacific and World Economy, Australian National University Press, 1980.) Japanese investment in South Korea by 1980 had accumulated to US \$924 million which was far larger than the US \$346 million figure for United State investment. (Bohn-Yong Koo, "Status and Changing Forms of Foreign Investment in Korea," OECD Development Centre, March 1982.)

Japanese DFI has contributed effectively to the orderly, step-by-step, industrialization of Asian NICs and will likewise follow the same pattern in ASEAN countries and China.

Thus, it cannot be denied that the Japanese presence in trade, aid and DFI in the Asian-Pacific region is large but it is not so large as to be dominating. Japan is rather sharing with the U.S. the role of international complementation in this

region. The role of other advanced Pacific countries, Australia, Canada and New Zealand, is quantitatively minor but very important qualitatively in certain areas in which they have particular comparative advantages.

There remains much room to achieve a larger and more efficient contribution to economic development and trade growth in the Asian-Pacific region if all the related parties adopt more coordinated and mutually complementary policies as regards international complementation and structural adjustments. This regional-multilateral approach requires further study. It is most important to implement the international complementation in a 'pro-trade' oriented direction, as Japanese DFI achieved, and to establish ultimately a network of intra-industry specialization between Asian-Pacific nations.

To conclude, the primary target of an Asian-Pacific Forum would be to raise the levels of the Asian developing economies rapidly and efficiently through trade, aid, direct investment, and technology transfer from advanced Pacific countries and through the opening of wider markets for their products. In the final phase, the present Asian developing economies should have grown to an industrialized stage equivalent to that of the advanced Pacific countries and thus forged an independent and equal relationship with the advanced nations.

VI. ASEAN Economic Development Strategy

It is impressive that much progress in the ASEAN economic integration has been achieved in the last five years: within the region tariffs were preferentially reduced; big integration

industries were planned one for each country and some of them has already undertaken; and several sectoral complementation programmes were promoted through private sector initiative.

2. There is a view that it is the time, first of all, to promote and strengthen ASEAN's own integration and that such a wider forum as a Pacific Economic Cooperation would weaken the ASEAN solidarity and result in the economic domination of Pacific advanced countries, especially Japan and U.S.A.

The first part of the view is correct for the self-reliance efforts in each nation and ASEAN-wise are the pre-requisite and ultimate factors for their economic growth and industrialization. But, these efforts can be effectively complemented through international factor movements from outside ASEAN. In view of the facts that the intra-regional trade of ASEAN is limited to be about 15 per cent and its industrial capability is not yet well developed, the international complementation in the form of various types of aid, direct investment, non-concessional commercial borrowings, transfer of technology and skills as well as the import of inputs that are too costly to produce domestically, is inevitably required. Properly undertaken, even in small amounts, such resource inflows will accelerate economic development and contribute to the restructuring of the pattern of international division of labor within ASEAN and with outside nations as well.

The ASEAN countries have got momentum to receive properly those international complementations, and to have considerable potential for trade expansion and rapid economic development mostly along the line of market mechanism.

What is most lacking for ASEAN at the present development stage seems to be business infrastructure, which should be implemented through the Pacific Economic Cooperation. This is, for example, as follows:

- (i) The provision of business infrastructure in rural areas, including reliable banks, trading houses, transportation facilities and other intermediary institutions;
- (ii) The establishment of transnational banks, overseas trading houses, ocean transport and air lines, and insurance companies which facilitate external business transactions;
- (iii) The promotion of small and medium-sized manufacturing companies which produce labor-intensive consumer goods using simple technologies; and
- (IV) The establishment of industrial processing zones oriented towards exporting.

It is expected that JAIC (Japan-Asean Investment Corporation) will contribute effectively to build these business infrastructures. I strongly recommended recently for the Asian Development Bank to extend its co-financing and partial equity investment to these areas.

It is understandable that ASEAN economies are at present seriously affected by the prolonged world recession. But, it would be a good opportunity for business in ASEAN to prepare transformation towards a creative pattern of international trade. Accordingly Pacific economic cooperation, especially between Japan and Asean, should be intensified.

Appendix Table: Japan and U.S. Exports to the Asia-Pacific Region in 1979 (US\$ million)

	(1) Japanese exports	(2) Shares of each country in Japanese total exports	(3) Total imports of host countries	(4) Shares of Japanese products in imports of each host countries (1)/(3)	(5) U.S.A. exports	(6) Shares of each country in U.S. total exports	(7) Shares of U.S. products in imports of each host country (5)/(3)
0. Total Exports	103,032	100.0%			181,815	100.0%	
South Korea	6,657	6.5%	20,339	32.7%	4,603	2.5%	22.6%
Taiwan	4,561	4.4	14,774	30.9	3,381	1.9	22.9
Hong Kong	3,679	3.6	16,346	22.5	1,974	1.1	12.1
1. East Asia Total	14,898	14.5	51,459	29.0	9,958	5.5	19.4
2. China	3,667	3.5	10,080	36.4	1,724	0.9	17.1
Thailand	1,894	1.8	7,211	26.3	1,204	0.7	16.7
Singapore	2,679	2.6	15,725	17.0	2,252	1.3	14.3
Malaysia	1,775	1.7	7,562	23.5	1,161	0.6	15.4
Philippines	1,480	1.4	6,563	22.6	1,508	0.8	23.0
Indonesia	2,101	2.1	7,205	29.2	1,053	0.6	14.6
3. ASEAN Total	9,929	9.6	44,266	22.4	7,178	4.0	16.2
4. Asia (=1+2+3)	28,494	27.6	105,805	26.9	18,860	10.4	17.8
Canada	2,157	2.1	62,724	3.4	33,096	18.2	52.8
U.S.A.	26,248	25.5	206,256	12.7	-	-	-
Japan	-	-	(110,672)	-	17,581	9.7	15.9
Australia	2,426	2.4	13,752	17.6	3,617	2.0	26.3
New Zealand	585	0.5	4,243	13.8	575	0.3	13.6
5. Pacific Advanced Countries	31,416	30.5	286,975 a (191,391)b	10.9	54,869	30.2	(28.7)
6. Asia-Pacific Region (=4+5)	59,910	58.1	392,780 a (297,196)b	15.3	73,729	40.6	(24.8)
6'. Ditto: excluded the exports to Canada	57,753	56.1	330,056 a (234,472)b	17.5	40,633	22.3	(17.3)

- Notes: 1. a is the denominator to calculate (4) of Japan, and b is the denominator to calculate (7) of U.S.
2. This table was made out in haste from "The White Paper on Japan's International Trade and Industry, 1981 ed." It is somewhat unaccurate as Japanese imports are c.i.f., the figures for Hong Kong and Singapore are converted to dollar from the respective currency values, and the import of China is only from the OECD countries.