

BEYOND REGIONALISM ?
A PACIFIC ECONOMIC COMMUNITY : RECONSIDERED

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I. Introduction

The idea of a Pacific Economic Community can be traced back to 1965 and the first proposals for a Pacific Free Trade Area. Since then the idea has been given form with the establishment of the Pacific Trade and Development Conference, the Pacific Economic Cooperation Conference, and most recently, the Asia Pacific Economic Cooperation Ministerial Level Meetings. As we enter the 1990's the nations of the Pacific rim are faced with the real prospect of forming a Pacific Economic Community.

But are the times right for the formation of such a Community? What would be the relationship of this Community to the EEC? Would such a Community be a 'bottom up' organisation fostering the developing nations of the region, or would it merely provide a structure for predatory industrialised nations to exploit the region? And, in the immediate future, how does the intense trade friction between Japan and the United States bear on the creation of multilateral trade links in the Pacific?

This is a time for careful reflection on how pluralistic economic cooperation has developed till now and the direction we should commit ourselves to in the future.

II. Evolution of the Idea

Interest is increasing these days in the idea of establishing some kind

of international organisation in the Pacific basin. Many proposals have been presented for realisation of what we may call a 'Pacific Economic Community' over the twenty-five years since the concept was first articulated. Let us look at the stages through which this concept has developed.

It was in 1965 that I proposed my plan for a Pacific Free Trade Area (PAFTA), based on my calculation of how regional trade would expand if the five industrial nations in the region—Japan, the United States, Canada, Australia and New Zealand—established a free trade area and removed intra-regional tariffs. I urged that the five countries work together to assist and promote the economic development of the developing nations of the region. This proposal contributed to the convening in Tokyo in 1968 of the first Pacific Trade and Development Conference (PAFTAD), attended mainly by economists. The conference has been convened on a nearly annual basis ever since—the latest PAFTAD meeting, held in Kuala Lumpur in December 1989, was the 18th session—with associated studies and survey projects of increasing depth being carried on all the time.

In 1967, the same year that the Association of South-East Asian Nations (ASEAN) came into being, leaders of the business world set up the Pacific Basin Economic Council (PBEC) for purposes similar to those of PAFTAD. The success of the European Economic Community (EEC), which was established in 1958, inspired the Pacific-rim countries to realise the potential and necessity for similar regional cooperation and solidarity in this part of the world. With these developments, the United States whose economic policy had until that time been premised on its common interests with Europe, began to turn its attention toward the Pacific.

International integration can take many forms, and the dominant view in the Pacific region—where there is tremendous diversity as far as culture, political systems, and level of development are concerned—is

that a rigid institutional integration in the form of a free trade or a customs union would not be feasible. It is felt that the promotion of functional integration, through, for example, a loosely organised forum where policies for cooperation and solidarity could be studied and discussed, would be more realistic.

At the 4th Pacific Trade and Development Conference (1971), Sir John Crawford, Chancellor of the Australian National University, proposed the Organisation of Pacific Trade and Development (OPTAD), a Pacific version of the OECD. Later, Dr. Hugh Patrick of the United States and Dr. Peter Drysdale of Australia submitted to the United States Congress a joint report entitled 'An Asian-Pacific Regional Economic Organisation: An Exploratory Concept Paper' (July 1979). They urged that OPTAD be established by the free market economies in the Pacific region.

In Japan, the late Prime Minister Masayoshi Ohira set up the Pacific Basin Cooperation Study Group to examine the Pacific community concept. Its interim report, published in November 1979, and final report, presented in May 1980, called for a loose mechanism of solidarity, a function-oriented umbrella for not only economic, but also cultural and educational cooperation and coordination.

The second stage in the development of the Pacific economic community concept began when Chancellor Crawford, at the request of Japanese Prime Minister Ohira and Australian Prime Minister Malcolm Fraser, convened a seminar on the topic in Canberra in September 1980. This occasion resulted in the inauguration of the Pacific Economic Cooperation Conference (PECC). The second general meeting of PECC was held in Bangkok in June 1982; the third on Bali in November 1983; the fourth in Seoul in April-May 1985; the fifth in Vancouver (Canada) in November 1986; the sixth in Osaka in May 1988; and the seventh in Auckland (New Zealand) in November 1989.

As of today, PECC's membership stands at fifteen: the five advanced nations and South Korea, China, Chinese Taipei, the six members of ASEAN, and a group of Pacific island nations. The question of whether or not PECC should accept the Soviet Union, Vietnam, and such Latin American countries as Mexico, Chile and Peru is still pending. One of the outstanding features of PECC is that the three representatives from each country include one each from government, business, and academic circles, helping to make the views comprehensive.

PECC's objectives, as articulated in the Vancouver communique of November 1986, are that realisation of the full potential of the Pacific Basin depends on enhanced economic cooperation based on free and open economic exchanges, thereby contributing to the stability, prosperity and progress of the entire region. PECC also continues to encourage increased economic cooperation and interaction with other nations and regions.

PECC activities consist of research and discussion of policy proposals by several task forces. Trade policy in the Pacific region is the main focus of their efforts, but liberalisation of agricultural products has become a central issue recently. Studies have also been done of mineral products and energy, fisheries, livestock and grain farming, forestry development and conservation, as well as capital transfer, private direct investment, and technology transfer. The Pacific Economic Outlook was presented for the first time at the Osaka meeting. The governments of member countries, GATT, and the summit meetings of the seven major industrialised countries are turning to PECC as an important source through which to tap opinion and expertise regarding the Pacific region.

III. Asia Pacific Economic Cooperation (APEC)

The Australian Prime Minister Hawke took the initiative to hold a ministerial-level meeting of APEC in Canberra on November 6 and 7,

1989 with the same members as PECC but without China, Chinese Taipei or the Pacific Island nations. This intergovernmental organisation is expected to elevate the building of the Pacific Economic Community to a third stage.

It seems to me, however, that the Canberra meeting of APEC was premature. Whatever shape it may take, an international organisation in the Pacific should primarily be concerned with how to promote steady economic development of developing countries in the region. But, APEC only invited ASEAN countries and Korea as an excuse or for the sake of camouflage, while advanced Pacific countries bargained for national interests with each other. The only result was, as outlined in the Joint Statement, that 'Ministers expressed strong support for the timely and successful completion of the Uruguay Round', although each country expected different kinds of success. The Canberra Ministerial meeting was, in fact, a pre-GATT bargaining forum in the Pacific.

United States' interests in the Western Pacific region, including those in Japan, Australia and New Zealand, are to pre-empt this rapidly growing market to increase her exports of goods and services and opportunities to invest. The United States signed a free trade agreement with Canada, in January 1988. We should interpret the agreement as a special case, growing out of a relationship with a long history.

Will the United States push for a bilateral (or unilateral) approach towards Japan, as already being enforced in South Korea, Taiwan, ASEAN, Australia, and Mexico. In fretting over its huge trade deficit, the United States is apparently trying to bypass the time-consuming process of GATT intervention and quickly get Japan and other countries to open their markets wider to American products through bilateral negotiations. Japan, for one, should not accept a free trade agreement with the United States without careful consideration of how it will effect the domestic economy and the interests of its neighbours.

Liberalisation of Japanese agriculture and service industries will require time in any case, and such bilateral arrangements with the United States would be detrimental to the interests of Australia and other Asian countries. If the United States insists on bilateral reciprocity, the GATT system, based on the principle of multilateral, free and nondiscriminatory trade, will collapse, while on the other hand, the United States takes the initiative to foster the principle in such sectors as agriculture, trade in services and intellectual property rights in which the United States is thought to have strong competitiveness.

Japan is inclined to prevent the United States from pre-empting the region's growing market by condemning her unilateral approach. Japan would also prefer to shift the United States' strong pressure for liberalisation of Japanese agriculture and some other problem sectors to a multilateral GATT process.

Australia has an interest in enhancing her exports and investment to the region by restraining American and Japanese domination. The GATT process will allow her to prevent unfavourable discrimination against her exports of beef and coal (and rice in the future) to Japan which resulted from the Japan-United States bilateral agreement. (Asian countries share this view.) Australia, together with the United States and Canada, expect the Uruguay Round to open wider market access for primary commodities along the line of the Cairnes group's proclamation.

The European Community (EC), which plans to complement the internal market by 1992 and to unify its monetary system, is worried by Pacific rim nations and the threat of them establishing a big 'fortress' which discriminates unfavourably of non-European economies. APEC's joint statement gave an assurance to the EC, declaring that 'an open multilateral trading system has been, and remains, critical to rapid regional growth. None of us support the creation of trading blocs.'

'It was acknowledged that our own regional economies would be better placed to show such leadership if we can continue the recent trend of reducing impediments to trade among ourselves, without discriminating against others.'

Although APEC posted a number of work programs for cooperation in the area of human resources development (or education), infrastructure building, and investment and technology transfer, it implicitly recommended developing economies in the region to further open their economies and to deregulate government intervention. It is debatable whether this liberalisation policy, which should be promoted cautiously and gradually in accordance with the stage of development, contributes to steady development of developing economies or it mainly results in gains for developed countries' exports and investment. Every advanced country, including the EC, looks forward to capturing the growing market but none are seriously concerned about the benefits to developing economies. Such an attitude should be rectified. The Pacific process should be of a bottom-up nature and the agenda should be drawn by ASEAN and other developing countries.

IV. Restructuring of the Global Economic Regime

Given the economic, political, and cultural diversity of the Asia-Pacific region, a confining institutionalised form of regional integration such as a customs union or free trade area (FTA) would be impossible. The Pacific region needs a flexible form of functional integration that will encourage economic cooperation. Even intergovernmental organisations, like APEC, remain as forums for consultation. It must not become a kind of exclusive rich man's club.

A functional economic integration of the Pacific region could guarantee free trade in goods and services, freedom in the areas of direct investment, technology transfer, and finance, and help facilitate regional economic development and exchange through the workings of the market mechanism. Japan and the United States ought to take the

lead in providing the international public goods necessary for achieving such a functional integration, not only in the Pacific region but also world-wide.

The biggest problems, not only for the Pacific region but for the world economy as a whole, are the huge United States trade deficit (\$120 billion in 1988) and Japan's excessive trade surplus vis-à-vis the United States (\$50 billion in 1988). The two countries should take measures to correct this huge imbalance through policy coordination as soon as possible. Besides adjustment of the exchange rate, this means the United States must do something to reduce its fiscal deficit and to restore the competitiveness of its exports, while Japan must expand domestic demand, further open its markets, and import more (especially more manufactured goods). There are some encouraging signs that the trade imbalance will likely be rectified gradually.

We have to pay attention to a much bigger issue: the United States hegemony in the world economic regime, or the Pax Americana, which has been eroding and must be restructured to be a new regime of international cooperation, or a Pax Consortis. The European Community will in the near future develop to be Great Europe through internal market unification by 1992, joining together with EFTA and many East European countries as well. This Great Europe will be bigger in economic power than the United States and relatively independent from the Pax Americana. The Common Agriculture Policy (CAP) will be retained and the European Monetary System and common currency will take over the present United States dollar from standard.

One might suggest that the rest of the world (ROW) or non-European nations be integrated, making a two-world regime. This is a dangerous scenario. What one should seek is a global system of international cooperation between the United States, Japan and Europe as equal partners in the international monetary and trade regime.

The difficulty lies in the attitude of the United States. While the United States has been losing hegemonic economic power, she continues to behave as a hegemon. The United States insists that the dollar be the sole key currency, increasing the dollar overhang, and resists its own balance of payment adjustment. It is necessary to reform the international monetary regime in such a way that both deficit and surplus countries make adjustment cooperatively. (In that direction, I proposed 'The Multiple Key Currency Gold-Exchange Standard' in the *Hitotsubashi Journal of Economics*, June 1989).

In international trade, the United States once took leadership to liberalise trade, but since 1970 in accordance with the deterioration of her trade balance she turned to protectionism, enforcing a non-GATT approach which culminated in the super 301 being sent to Japan, the Asian NIEs and Europe. Such unilateral pressure is not a way to get international cooperation. A new international trade and investment regime for cooperation is keenly awaited.

Import regulation is to be liberalised for the benefits of the importing countries but not due to the exporter's unilateral pressure. I once (in *Japan and A New World Economic Order*, Croom Helm, London, 1977, p. 52) proposed 'a fair-weather rule of reduction (or elimination) of tariff and non-tariff barriers'. That is, a country should reduce tariff and NTBs while its balance of payments is favourable, but it should not be allowed to raise them again, even if its balance of payments becomes unfavourable, since at that time some other country will have a favourable balance of payments and will be expected to reduce its own tariff and NTBs.

Thus, the Pacific process should take the initiative to restructure the world economic regime on the basis of closer partnership between Japan and the United States. In other words, their efforts should not be confined to establishing a regional (Pacific) regime.

V. Prospects for the Western Pacific Economy

Western Pacific nations have undergone smooth and rapid economic development over the last thirty years. South Korea, Taiwan, Hong Kong, and Singapore have succeeded in export-led industrialisation, and these NIEs are about to catch up with Japan and graduate to the status of advanced economies. Four ASEAN countries — Thailand, Malaysia, Indonesia, and the Philippines—are arriving at the stage of NIEs, their industrialisation having shifted from the import-substitution to the export-oriented pattern. China, with the largest population in the world, has adopted open economic policies, and its economy is steadily growing, although the June 1989 incident brought about an unfortunate regression and distrust overseas. The Western Pacific nations are thus moving vigorously forward in a multilayered 'flying-geese' pattern of economic development.

What will the international division of labour be like in the Pacific region in the year 2000? The horizontal trade in industrial products and intra-industrial trade within specific sectors are expected to prosper. Up till now, Asian industrialisation has been largely initiated and promoted through ODA, with direct foreign investment and technology transfers from the advanced nations. The functional integration of the Pacific region is aimed at creating a huge market where free trade will flourish and at locating production centers—with an eye to that market—on sites where costs are the lowest and economies of scale are realised. The future pattern of international division of labour will be largely determined by the market mechanism, i.e. activities of private corporations.

The successful industrialisation of the NIEs and ASEAN countries is in part due to the supply of capital goods (including technology) from Japan and in part thanks to access to the United States and West European markets. Plagued by the trade deficit, the United States is now inclined toward protectionism and its market is becoming less and less open. While it is hoped that the United States will soon return to

free trade, Japan should open its markets much wider and become a major absorber. The ratio of manufactured goods in Japan's total imports is on the increase, but Japan can certainly afford to raise the ratio to 60 per cent.

The Western Pacific nations (the NIEs, ASEAN countries, and China) have great expectations for the expansion of trade with the major industrial nations, but they can help each other at the same time by expanding trade among themselves and establishing a complementary division of labour, thereby ensuring a more solid development of the region. Mutual direct investment among these countries is in fact on the increase. More effort should be poured into economic cooperation and trade expansion among nations of the South.

The rate of industrialisation (share of industry in the GNP) for the developing countries in the Western Pacific region has exceeded 30 per cent. Their savings ratios, or investment-income ratios, are between 21 and 47 per cent (except for that of the Philippines, which is slightly lower), which compares favourably with the average ratio for the major industrial nations. They appear like well grown-up economies. Per capita GNP for Singapore and Hong Kong is fairly high, about half that of Japan. For Taiwan, South Korea, and Malaysia it is between one-fourth and one-tenth that of Japan; for Thailand, one-twentieth; for the Philippines, Indonesia, and China, less than one-thirtieth (1986). (See, Table 1).

Recent economic growth of Asian NIEs, ASEAN and China is very dynamic and successful (See, Table 2). It is best to let them grow autonomously for the coming, say, twenty years. Pacific umbrella framework is of no need at the present. Since Europe is an important market for some Pacific countries, it should not be discriminated against. It seems to me that institutional integrations like the EC and the United States/Canada free trade agreement are a last resort to revitalise matured economies. For young and rapidly growing economies in Asia, similar formal integration will become beneficial twenty or

**Table 1 Pacific Asian Countries: Demographic
and Economic Information, 1988**

Country	Area (thousands, km ²)	Population (millions)	GDP (\$bn)	GDP/Capita (\$)
North America	19,348.7	27,228	5,333.8	19,546
USA	9,372.6	24,633	4,847.3	19,678
Canada	9,976.1	2,595	486.5	18,748
Japan	377.8	12,278	2,841.9	23,146
Asian NIEs	136.6	7,026	349.6	4,976
Korea	99.0	4,197	154.6	3,684
Taiwan	36.0	1,990	116.6	5,859
Singapore	0.6	265	23.9	9,019
Hong Kong	1.0	574	54.5	9,499
ASEAN	3,047.4	30,620	208.3	680
Malaysia	329.7	1,692	34.6	2,045
Thailand	513.1	5,496	57.9	1,054
Indonesia	1,904.6	17,560	76.6	436
Philippines	300.0	5,872	39.2	668
China	9,597.0	109,610	376.5	343
Oceania	7,955.5	1,982	285.5	14,405
Australia	7,686.8	1,653	247.0	14,942
New Zealand	268.7	329	38.5	11,697
Pacific Countries	40,463.0	188,744	9,395.6	4,978
Total				
World Total	135,840.0	502,474	15,139.8 ^a	3,010 ^a

Source: IMF, International Financial Statistics, World Bank, World Development Report.
Country Statistics.

Note: a 1987 data.

Table 2 Annual Growth Rate of Real GDP

(%)

	1960~70	1970~80	1980~88			
			1986	1987	1988	
USA	3.8	2.8	2.9	2.8	3.4	3.9
Canada	5.2	4.5	3.3	3.2	4.0	4.5
Japan	10.5	4.6	4.1	2.5	4.5	5.7
Asian NIEs	9.0	9.1	8.0	10.7	11.8	9.0
Korea	9.5	8.4	8.9	11.7	11.1	11.0
Taiwan	9.6	9.7	7.5	10.6	12.4	6.8
Singapore	9.2	9.1	6.6	1.8	8.8	11.1
Hong Kong	6.5 ^a	9.4	7.1	11.9	13.8	7.4
ASEAN	5.3	7.5	4.5	3.2	5.2	7.1
Malaysia	5.7	8.0	5.0	1.2	5.2	7.8
Thailand	7.9	6.9	6.5	4.5	8.4	11.0
Indonesia	3.6	8.0	4.4	4.0	3.6	4.7
Philippines	5.2	6.1	1.2	1.4	4.7	6.6
China	—	5.8	9.9	8.3	10.6	11.2
Australia	5.5	3.2	2.9	2.1	4.5	3.8
New Zealand	3.5	1.8	1.8	-3.5	-0.1	0.3
World Average	4.9	3.9	3.0	3.2	3.2	4.1

Source: OECD, Economic Outlook. ADB Asian Development Outlook. IMF, World Economic Outlook.

Note: a 1966-70.

thirty years later.

In these countries, per capita GNP or income levels are still low. Part of the reason is that communications facilities are inadequate, the business infrastructure (e.g., banking institutions and trading firms) is undeveloped; the overall calibre of labour and of entrepreneurial skills is low.

Protectionist controls favouring certain domestic industries make the allocation of resources irrational and inefficient, and this in turn lowers the morale and stymies the creativity of corporations, hampering the market mechanism. The structure of these national economies must be modernised. It is time that the developing countries of Asia start deregulating, liberalising, and opening up their economies, though the pace of reform may vary by country and depend on the stage of development. In relations with other countries, it is urgent that they adjust exchange rates to an appropriate level, liberalise imports, and deregulate capital transfer. These are necessary to facilitate their 'graduation' to industrial nation status.

If a successful functional integration is to be achieved in the Pacific area, the improvement and expansion of region-wide infrastructure is indispensable. Better telecommunications and sea and air transportation networks must be quickly established, as much international financial and capital markets. Educational and cultural exchange, human resource development, and tourism ought to be promoted, and energy and resources, food supplies and fisheries need to be secured and the environment protected throughout the Pacific region.

Improvement of infrastructure in the region calls for active contributions and increased official development assistance by major industrial nations, especially Japan. However, these call for ODA and direct investment, as well, have to be brought about in a bottom-up fashion from Asian countries instead of through the advanced countries' initiative for their benefit.

VI. Conclusion

The establishment of a formal Pacific-rim institution is still not only impossible but also unnecessary. Only the promotion of functional economic integration is feasible and desirable in order to sustain further economic development in the region. Some may doubt that such a functional economic integration of the Pacific area would be any different from the current global order of free trade and the market economy under GATT and the IMF, which should be reformed. Indeed, the difference may be small, but in the application of global rules, a regional body could assure that the rules work for the benefit of Pacific nations. When tariffs are reduced, non-tariff barriers removed, or preferential tariffs provided, priority may be given to the items of greatest interest to countries in the region. Favourable consideration may also be given to the Pacific region in the allocation of official development assistance, distribution of direct investment, and facilitation of technology transfer. This, indeed, is what we mean by 'open regionalism'.

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