

ECONOMIC INTEGRATION IN THE ASIAN-PACIFIC REGION

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I. *The Original Proposal of a Pacific Free Trade Area*

The establishment of the European Economic Community was a major event of the 1960s. It has not only a significant impact on international trade and investment but also wrought a profound change in world balance of economic power. The emergence of an enlarged European Community will have an even more profound influence in shaping the world of the 1970s. No country can ignore its existence and its policies.

Now, which free world countries are left outside the Eurobloc? They are mostly Pacific basin countries: the United States, Canada, Japan, Australia, New Zealand, and developing countries in Asia and Latin America. Is it not logical that these Pacific basin countries should promote their economic integration, following the successful example of the European Community, in order to develop intensively this area of young and growing countries where there are plenty of resources and unlimited potentials as compared with the already well-developed Europe? Why should not the five Pacific advanced countries, the U.S., Canada, Japan, Australia and New Zealand, prepare for the formation of a Pacific Free Trade Area? Intensive economic development of a nation or a group of nations is a prerequisite to the growth and liberalisation of international trade. Could not the Eurobloc and a PAFTA be transformed into a world-wide Multilateral Free Trade Arrangement after a decade or so through measures similar to the dominant supplier authority in the U.S. Trade Expansion Act of 1962? Thus, both the Eurobloc and PAFTA could serve as useful routes toward global free trade.

It was this kind of two-faceted response to the emergence of the European Economic Community that led to the development of my original thoughts about Asian-Pacific economic integration and their presentation¹ at the International Conference on Measures for Trade Expansion of Developing Countries held on November 10-13, 1965 in the Japan Economic Research Center, Tokyo. My proposals set out two common aims for all the Pacific basin countries as follows:

Whether or not a Pacific Free Trade Area among the United States, Canada, Japan, Australia and New Zealand is established, the transfer of markets in favour of Asian developing countries should be pursued since it could pose a quite promising improvement in the balance of trade and employment as well as national income of Asian developing countries.

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¹ Kiyoshi Kojima and Hiroshi Kurimoto, "A Pacific Economic Community and Asian Developing Countries," in *Measures for Trade Expansion of Developing Countries*, Japan Economic Research Center, October 1966, pp. 93-134. Reprinted in *Hitotsubashi Journal of Economics*, June 1966, pp. 17-37.

Moreover, it would be quite an economical and effective measure to support economic development of Asian countries and to promote trade between Pacific advanced countries and Asian developing countries.

Since structural adjustment and consolidated economic assistance are required for Pacific advanced countries, the establishment of a PAFTA is desired as a consolidated policy making body. Only with such an organization can agreed measures be efficiently pursued and burdens shared. Moreover, due to the beneficial effects of tariff elimination and other indirect and dynamic effects, PAFTA countries would become more prosperous and expand more rapidly their mutual trade in manufactured goods. This would increase their trade with Asian developing countries and facilitate the structural adjustment required in relation to the latter.

It is hoped that the liberalisation of trade among Pacific advanced countries and, at the same time, the transfer of markets in favour of Asian developing countries will bring about a more optimum allocation of resources and a more prosperous trade in the Pacific and Asian region.²

I recall that the emphasis in my proposal at that time was upon the successful transformation and economic development of vast Asian developing countries. A slightly modified proposal with revised calculation of the effects of a Pacific Free Trade Area based on trade statistics in 1965, instead of 1963 for the original proposal, was made in my book:³

The Pacific ranks alongside Western Europe as one of the two major centres of world trade. Trade among the five advanced Pacific countries, the United States, Canada, Japan, Australia, and New Zealand, increased by 96 per cent between 1958 and 1965, from \$US 9.16 billion to \$US 18.02 billion, and their share in world trade rose from 7.99 per cent to 10.38 per cent. Trade within the EEC grew from \$US 6.86 billion to \$US 20.84 billion over the same period (see Tables 1-3).

Furthermore, mutual trade amongst advanced Pacific countries intensified over the years. Intra-areal trade constituted 32.5 per cent of total Pacific country trade in 1958, but 37.3 per cent in 1965. In contrast, intra-areal trade was 30.1 per cent of total EEC trade in 1958 and 43.5 per cent in 1965.

The formation of a Pacific Free Trade Area would, in fact, bring about a comprehensive trade liberalisation amongst participating countries, with the elimination of tariffs on a substantial proportion of their commodity trade. The impact effect of Pacific tariff elimination would be to increase trade by \$US 5,000 million. This represents an expansion of 28 per cent on intra-areal trade, or 10.3 per cent on Pacific country exports to, and 11.9 per cent on imports from the whole world. In other words, there would be significant trade expansion, a far greater trade expansion than can be expected under Kennedy Round tariff reductions. Kennedy Round tariff reductions will probably only lead to a 5.5 per cent increase in exports and a 7.7 per cent increase in imports.

Complete regional trade liberalisation would appear to have considerable advantages over partial trade liberalisation in world markets. This is especially true if, as is most probable, another major round of global tariff reductions is not feasible within the next ten or twenty years. In that event, the formation of PAFTA would seem an effective

² *Hitotsubashi Journal of Economics, ibid.*, p. 33.

³ Kiyoshi Kojima, *Japan and a Pacific Free Trade Area*, Macmillan, London, 1971, Chap. 3 and 7.

alternative for mutual trade expansion among the five advanced Pacific countries.^{4,5}

Economic integration in the Pacific should take the form of a free trade area rather than a customs union or political union. A free trade area arrangement would have advantages over the alternatives from several points of view; it is consistent with the rules

TABLE 1. TRADE OF PAFTA AND EC

(in million dollars)

	Year	Intra-area exports	Total exports
PAFTA	1958	9,161	28,227
	1965	18,022	48,371
	1968	27,959	64,060
	1972	47,615	105,260
	1973	61,935	144,270
EC	1958	6,864	22,776
	1965	20,836	47,916
	1968	28,910	64,200
	1972	61,550	123,580
	1973	83,830	171,560
World	1958		114,704
	1965		173,700
	1968		238,680
	1972		408,950
	1973		456,880

Source: I.M.F., *Direction of Trade* and U.N., *Monthly Bulletin of Statistics*.

TABLE 2. EXTENDED PACIFIC TRADE AND EUROPEAN TRADE

(in million dollars)

	Year	Intra-area exports	Total exports
Extended Pacific trade	1958	23,356	43,138
	1965	37,711	67,371
	1968	60,850	96,150
	1972	90,840	142,120
	1973	129,211	199,540
European trade	1958	22,228	41,699
	1965	51,158	79,520
	1968	64,710	101,500
	1972	128,180	187,960
	1973	177,160	257,340

Source: I.M.F., *Direction of Trade* and U.N., *Monthly Bulletin of Statistics*.

⁴ *Ibid.*, pp. 165-66.

⁵ The effects of trade liberalisation in PAFTA was confirmed by Bruce W. Wilkinson, "A Re-Estimation of the Effects of the Formation of a Pacific Area Free Trade Agreement," Kiyoshi Kojima, ed., *Pacific Trade and Development II*, Japan Economic Research Center, April 1969, pp. 53-101.

TABLE 3. TRADE OF PACIFIC BASIN COUNTRIES
(in million dollars. Figures in parentheses are ratios to total exports)

	Year	PAFTA	Asia and Latin America	Total exports
U.S.	1958	4,504 (25.2)	5,457 (30.5)	17,904
	1965	8,488 (31.0)	6,440 (23.5)	27,400
	1968	11,860 (34.6)	9,250 (27.0)	34,230
	1972	17,970 (36.7)	10,970 (22.4)	48,970
	1973	24,670 (35.1)	16,410 (23.4)	70,220
	Canada	1958	3,200 (63.0)	329 (6.5)
1965		5,132 (60.1)	392 (4.6)	8,534
1968		9,295 (74.0)	644 (5.1)	12,560
1972		14,885 (75.6)	1,025 (5.2)	19,700
1973		19,180 (76.1)	1,300 (5.2)	25,210
Japan		1958	839 (29.2)	1,071 (37.2)
	1965	3,112 (36.8)	2,592 (30.7)	8,452
	1968	4,960 (38.2)	4,670 (36.0)	12,970
	1972	11,000 (38.4)	7,090 (24.7)	28,650
	1973	12,020 (32.5)	11,620 (31.4)	36,970
	Oceania (Australia & New Zealand)	1958	617 (26.1)	170 (7.2)
1965		1,289 (32.3)	366 (9.2)	3,985
1968		1,844 (42.9)	496 (11.5)	4,300
1972		3,760 (47.4)	890 (11.2)	7,940
1973		6,065 (51.1)	1,375 (11.6)	11,870
Asia*		1958	1,869 (27.7)	2,228 (33.0)
	1965	2,966 (34.5)	1,431 (16.6)	8,600
	1968	6,927 (34.8)	4,290 (21.6)	19,900
	1972	7,335 (44.7)	3,385 (20.6)	16,420
	1973	14,740 (48.5)	6,725 (22.1)	30,390
	Latin America	1958	3,876 (47.5)	765 (9.4)
1965		4,424 (42.5)	1,075 (10.3)	10,400
1968		5,072 (41.6)	1,542 (12.6)	12,190
1972		8,875 (43.4)	3,655 (17.9)	20,440
1973		10,336 (41.5)	4,770 (19.2)	24,880

* Asia includes countries in South and Southeast Asia, east of Pakistan and excludes China.

Source: I.M.F., *Direction of Trade* and U.N., *Monthly Bulletin of Statistics*.

of the General Agreement on Tariffs and Trade; it preserves the autonomy of members with respect to their tariff policies vis-à-vis non-participants; and it is a purely commercial arrangement, carrying no obligation for eventual political federation or union.⁶

On the other hand, concerning Asian developing countries:

According to our estimation, imports from Asian developing countries would increase

⁶ *Japan and a Pacific Free Trade Area, ibid.*, p. 167.

by \$US 425 million in the United States, \$US 27 million in Canada, \$US 50 million in Japan, \$US 58 million in Australia, \$US 11 million in New Zealand, and US 571 million in the five countries taken together, accounting for 16 per cent of their imports from Asian developing countries in 1965. This is not a large sum. For the five countries, the estimated increase in imports would be \$US 44 million on food, \$US 32 million in raw materials, \$US 371 million in light manufactures, and \$US 124 million in heavy manufactures and chemicals.

These estimates suggest that the liberalisation of trade and free market access for Asian developing countries' products would not help much to foster their trade growth. Besides the liberalisation of trade, stronger measures for widening markets through structural adjustment in the advanced Pacific countries themselves and for assistance in increasing the export capacity of Asian developing countries would be necessary. These stronger measures could not be pursued unless consolidated action was made possible through the establishment of PAFTA.⁷

If the five Pacific countries were to establish PAFTA, they should welcome as associated members those developing countries in Asia and Latin America who wish to join. Or, they might provide PAFTA preferential tariffs in favour of the developing countries. Moreover, the five Pacific countries should provide more effective assistance on a larger scale to foster structural adjustment within their own economies in order to open wider markets for developing country exports.⁸

A more pragmatic step toward Pacific economic integration was suggested:

Before the establishment of PAFTA, several steps towards closer Pacific economic cooperation might be practicable immediately. Five main objectives suggest themselves:

1. To increase the flow of financial resources from the United States to other Pacific countries, as well as to Asian and Latin American developing countries.
2. To stimulate horizontal trade among the five advanced Pacific countries in heavy manufactures and chemicals and to expand production and trade of raw materials and intermediate goods more efficiently for the region as a whole.
3. To readjust production and trade in agricultural commodities among the five Pacific countries, taking into consideration their relationship with Asian and Latin American developing countries.
4. To readjust production and trade in light manufactures, which are labour intensive with the aim of providing greater access for Asian and Latin American countries in advanced country markets.
5. To co-ordinate the aid policy of the five advanced Pacific countries towards Asian and Latin American developing countries.

Practical steps towards closer Pacific economic co-operation can be taken by strengthening *functional*, rather than *institutional* integration, and thus attempting to attain the favourable benefits of a free trade area whilst avoiding the unfavourable impact effects. To realise these objectives, I suggest the initiation of three codes of international behaviour and the formation of two new regional institutions.

1. A *code of good conduct* in the field of trade policy, under which countries would relinquish the right to raise tariffs or impose other forms of trade restriction, and would

⁷ *Ibid.*, p. 98.

⁸ *Ibid.*, p. 171.

gradually reduce those trade barriers particularly on the import of agricultural products and labour intensive light manufactures, should be promulgated.

2. A *code of overseas investment* to promote mutual investment among the five advanced Pacific countries, most effectively from the United States, and to foster the activity of joint ventures is much needed to promote trade expansion, especially horizontal trade expansion in heavy manufactures, and for the development of the vast mineral resources of the Pacific region. A code which minimises the fear of American capital domination and maximises protection for America's balance of payments would greatly facilitate overseas investment and the better allocation of regional resources.

3. A *code of aid and trade policies towards associated developing countries* is also required, so that Asian and Latin American countries might enjoy the benefits of larger market for their agricultural products and light manufactures. The flow of developmental aid must be increased, appropriate aid projects selected, and domestic industrial structures adjusted to meet the legitimate trade needs of affiliated less developed countries.

An *Organisation for Pacific Trade and Development (OPTAD)* should be established in order to give effect to these codes of international behaviour. Its main features would be similar to those of the OECD, and it could be structured in the same way, with three committees on trade, investment, and aid.

Further, a *Pacific Currency Area* and *Pacific Reserve and Development Bank* would be established with the aim of strengthening international monetary system and facilitating economic development within the Pacific, Asian, and Latin American region.⁹

II. Responses to the PAFTA Proposal

A decade has passed since I proposed for the first time the idea of Pacific Free Trade Area. The response has been cautious in the sense that no concrete step towards institutional integration has been undertaken, but enormous attention has been paid to the proposal and functional integration has actually been intensified along the line I suggested.

The reasons why the countries concerned in the Pacific basin have been cool towards institutional regional integration are various. First, they tended to prefer a multilateral approach and negotiation through the GATT, IMF, UNCTAD, etc., and expected too much gain from such negotiations. Moreover the changes and chaos in the world economic order after the middle 1960's have been so rapid and serious that Pacific basin countries have been pre-occupied with accomodating to the changes, and have hesitated to take positive steps towards institutional integration.

Second, the estimate that the gains from tariff elimination would not be equally distributed among the five Pacific advanced countries involved, might have created antagonism rather than consensus towards the formation of PAFTA. Japan's exports were estimated to increase by \$US 1,740 million, or 56 per cent on her total exports to PAFTA countries, and her imports to increase by \$US 430 million, or 14.7 per cent on her total imports from PAFTA countries.¹⁰ Japan's trade balance with the Pacific, which was roughly in equi-

⁹ *Ibid.*, pp. 168-69.

¹⁰ These gains would be far greater than in the case of global tariff reductions on the scale undertaking through the Kennedy Round, which are likely to increase Japan's exports by a mere 8.8 per cent.

librium in 1965, would have consequently improved by \$US 1,310 million. United States exports were estimated to increase by \$US 2,300 million, or 27.9 per cent, and imports by \$US 2,280 million, or 30.1 per cent, and the favourable balance in United States trade

TABLE 4. STATIC EFFECTS OF THE FORMATION OF PAFTA

		(a) Value of increase (million U.S. dollars) (base year=1965)					
		<i>a</i> U.S.A.	<i>b</i> Canada	<i>c</i> Japan	<i>d</i> Australia	<i>e</i> N.Z.	Pacific countries
<i>a.</i> United States	ΔX	—	1,404.6	404.4	426.3	66.4	2,301.7
	ΔM	—	791.5	1,457.5	23.6	10.5	2,283.2
	$\Delta X - \Delta M$	—	613.1	-1,053.1	402.7	55.9	18.5
<i>b.</i> Canada	ΔX	791.5	—	17.2	39.5	7.2	855.4
	ΔM	1,404.6	—	75.9	0.2	0.1	1,480.8
	$\Delta X - \Delta M$	-613.1	—	-58.7	39.3	7.1	-625.4
<i>c.</i> Japan	ΔX	1,457.5	75.9	—	176.7	33.0	1,743.1
	ΔM	404.4	17.2	—	7.6	3.5	430.7
	$\Delta X - \Delta M$	1,053.1	58.7	—	169.1	29.5	1,312.4
<i>d.</i> Australia	ΔX	23.6	0.2	7.6	—	33.2	64.5
	ΔM	426.3	39.5	216.2	—	8.1	650.6
	$\Delta X - \Delta M$	-402.7	-39.3	-208.6	—	25.1	-586.1
<i>e.</i> New Zealand	ΔX	10.5	0.1	3.4	8.1	—	22.1
	ΔM	66.4	7.2	33.0	33.2	—	139.7
	$\Delta X - \Delta M$	-55.9	-7.1	-29.6	-25.1	—	-117.6
Pacific countries	ΔX						4,986.8
	X						18,021.7

		(b) Rate of increase (per cent) in trade due to the elimination of tariffs					
		<i>a</i> U.S.A.	<i>b</i> Canada	<i>c</i> Japan	<i>d</i> Australia	<i>e</i> N.Z.	Pacific countries
<i>a.</i> United States	$\Delta X/X$	—	26.06	19.83	61.48	53.13	27.92
	$\Delta M/M$	—	17.03	58.59	7.24	8.56	30.10
<i>b.</i> Canada	$\Delta X/X$	17.03	—	5.86	29.79	20.95	16.74
	$\Delta M/M$	26.06	—	35.43	0.44	9.94	26.17
<i>c.</i> Japan	$\Delta X/X$	58.59	35.43	—	50.25	54.17	55.97
	$\Delta M/M$	19.85	5.86	—	1.37	7.02	14.69
<i>d.</i> Australia	$\Delta X/X$	7.24	0.44	1.37	—	17.13	5.79
	$\Delta M/M$	61.48	29.79	61.48	—	18.95	53.32
<i>e.</i> New Zealand	$\Delta X/X$	8.56	0.94	6.85	18.95	—	9.76
	$\Delta M/M$	53.14	20.95	54.17	17.13	—	33.77
Pacific countries	$\Delta X/X$						27.67

Source: Kiyoshi Kojima, *Japan and a Pacific Free Trade Area*, *ibid.*, p. 91.

with the Pacific, of about \$US 850 million in 1965, would have been preserved. On the other hand, imports were estimated to rise more rapidly than exports for the remaining three countries. Canada's exports were estimated to increase by \$US 855 million but her imports would have risen by \$US 1,480 million; Australia's exports were estimated to increase by \$US 65 million, whereas her imports have risen by \$US 650 million; and New Zealand's exports were estimated to grow by \$US 22 million, while her imports would have risen by \$US 140 million.¹¹ (see Table 4).

The big gains for Japan from the establishment of PAFTA derive, firstly, from the fact that Japan's exports depend as much as 37 per cent upon the PAFTA markets. Compared with other PAFTA countries, European market are not so important (13 per cent) for Japan.

Secondly, about 95 per cent of Japan's exports to other Pacific countries are manufactures which would have enjoyed a greater expansion from trade liberalisation, while about 71 per cent of Japan's imports are primary products, which would not have increased very much in consequence of tariff reductions.

If the time came for Japan to consider economic integration, a Pacific Free Trade Area would have certainly been her best choice. Japan is destined by geography to participate in political arrangements in the Pacific rather than in Europe. On the other hand, economic integration without the United States, which holds a 30 per cent share in Japan's trade, would have appeared a less attractive choice.

Thus, Japan would have benefited from the establishment of PAFTA, or from some other alternative, through the cheaper import of raw materials and other primary products, the expansion of her exports of light manufactures, and the promotion of horizontal trade in heavy manufactures and chemicals.

Thirdly, as already mentioned, the liberalisation of trade among the five advanced Pacific countries and free market access for Asian developing countries' products would not, as estimated, have helped much to foster their trade growth. They were inclined to feel that PAFTA would create another richman's club and bring about little favourable effects to developing countries.

It is worth remembering that my estimate concerned only the static effect of tariff elimination among the five advanced Pacific countries. PAFTA's aim should be larger, broader and more dynamic trading. Tariff reductions would be only the beginning. Take, for instance, natural resources and markets in the vast Pacific area into account. Agriculture, extractive industries, processing industries and various manufacturing industries could be located in places best suited to the development and efficiency of the area as a whole. Development of each country in the area could be promoted greatly by the realisation of more optimal specialisation and scale. Transfer of capital, technology and management skill, could be encouraged especially by more active direct investment, resulting in increases in regional productivity.

The divergence in benefits from the static effects of tariff elimination, and thus in reactions to the proposal, derives from the fact that the Pacific Basin, including Asian and Latin American developing countries, consists of many diverse economies. Political and cultural conditions differ; some countries are well endowed with natural resources; others are poor; still others are too small or too big, and there are large gaps in the level of industrialisation.

¹¹ *Ibid.*, p. 90-91.

This makes the hasty establishment of institutional integration in the Pacific more difficult compared with the more or less homogeneous, equally highly industrialised economies in the Western Europe.

The differential pattern of gains depends principally upon whether the country's exports are more or less heavily concentrated in manufactures, and suggests a need for fostering further industrialisation in Canada, Australia, New Zealand and developing countries especially. Indeed, the pursuit of this objective would be facilitated through the dynamic effects of establishing a larger and completely free regional market, and through the freer movement of capital, technical know-how and managerial skills among member countries. The most important fact to be noted, however, is that the expansion of intra-areal trade would be larger if the five countries could effect tariff elimination.

At this stage, the PAFTA proposal still seems premature, unless there is some further unforeseen disturbance in the free world economy. It is as yet neither economically nor politically feasible. Firstly, American interests remain world-wide and the United States could not participate readily either in a Pacific or a European regional grouping. For the moment the United States appears committed to a global non-discriminatory approach to freer trade.¹²

Secondly, the five Pacific countries still lack the solidarity and degree of integration that would be necessary for dispensing with protective measures for the main sectors of their economies involved in regional trade—the labour-intensive industries in some countries, the agricultural and pastoral industries in other countries.¹³

Thirdly, the static gains from complete trade liberalisation would differ widely from one country to another because of the disparity in stages of industrialisation within the region.

These comments suggest, first, that any institutional integration in the vast Pacific region even of the simplest form is premature under the present circumstances, and only functional integration should be fostered as a pre-requisite towards future institutional integration.

Under these circumstances, the suggestion that bilateral government-to-government consultations and negotiations should be developed within the framework of an Organisation for Pacific Trade, Aid and Development, would appear sound. OPTAD could be developed along similar lines to OECD, that is, not as a regulatory agency but as a place where government-to-government consultations could take place. Although this is already a function of OECD, Japan, Australia, the United States and Canada, are the four leading nations out of a total OECD membership of 32 and thus there would appear to be considerable advantages in having a smaller scale regional organisation to deal with problems.

¹² See, for example, Sperry Lea, "The Future Shape of U.S. Trade Policy: Multilateral or Free Trade Approaches?" Kiyoshi Kojima, ed., *Pacific Trade and Development II*, The Japan Economic Research Center, April 1969.

¹³ A comment opposing PAFTA is presented by H.W. Arndt, "PAFTA: An Australian Assessment," *Intereconomics*, Hamburg, October, 1967, (reprinted in his *A Small Rich Industrial Country, Studies in Australian Development, Aid and Trade*, Melbourne, 1968.) to which there is a reply by Kiyoshi Kojima, "A Pacific Free Trade Area: Reconsidered," *ibid.*, March 1968. There also exists a favourable Australian view of PAFTA, for example, Peter Drysdale, "Pacific Economic Integration, An Australian View," Kiyoshi Kojima, ed., *Pacific Trade and Development*, The Japan Economic Research Center, February 1968.

of a more regional nature.¹⁴ It is also desirable to establish a Pacific Policy Committee to study and promote practical means of achieving those objectives.¹⁵

Second, instead of the simultaneous institutional integration of all countries over a vast area, a limited number of countries comprising the more homogeneous economies should initiate and promote institutional integration. This is a realistic approach following the example of the establishment of BENELUX prior to the EEC.

The Canada-United States Automotive Agreement took effect from January 1965, this should be given much attention as a pioneer project in selective industrial integration.¹⁶ The Australia-New Zealand Free Trade Agreement was initiated in January 1966,¹⁷ and could be a core for Western Pacific Economic Integration in the future.

Besides the small Central American Economic Union, there is a large but loose Latin American Free Trade Area, and the more homogeneous and tightly-knit Andean Pact has emerged since 1969 alongside Mexico, Brazil, and Argentine, the three giants in Latin America.

In Asia, ASEAN (the Association of South East Asian Nations) which consists of the Philippines, Indonesia, Singapore, Malaysia and Thailand, has already a long history, (since 1961 if its predecessor is taken into consideration) but has remained a soft political and cultural forum. Recently, because of the great changes in the Indochina situation, those countries may need to take a step forward towards stronger integration.

Similarly, there would be sufficient basis for the North-east Asian countries (North and South Korea, Taiwan and Hong Kong), independent of Mainland China, to act as a culturally and economically united group. The two groups have different racial and cultural backgrounds. In economic terms, the ASEAN group is better endowed with natural resources while the Northeast Asian group has to rely overwhelmingly on the production and export of manufactures but actually has achieved a higher level of industrialisation. There are hopes for the harmonious development of vertical trade between the two groups.

With regard to the Big Three, the United States, Russia, and China, the Northeast Asian countries of Japan, South Korea, North Korea, Taiwan and Hong Kong are all in the same boat and share the same fate. And including China, they are all of the same Mongolian race.¹⁸ With these common features as a basis one may expect to see a North-east Asian economic integration forged, and indeed, this is the only path for the economic future of North and South Korea, Taiwan and Hong Kong.

Much attention to proposals for Pacific trade expansion has been paid by business and academic circles.

The Pacific Basin Economic Co-operation Committee was established among business circles in the five Pacific countries in April 1967; and a number of bilateral co-operative activities have also been promoted within business circles. The committee has expanded

¹⁴ J.G. Crawford and G.H. Board, "Japan's Trade Policy and Trade in Temperate Zone Agricultural Products," H.E. English and Keith Hay, ed., *Obstacles to Trade in the Pacific Area*, Carleton University, Ottawa, 1972, pp. 39-40.

¹⁵ Communique of the Fourth Pacific Trade and Development Conference, Ottawa, Oct. 10, 1971, in *Obstacles to Trade in the Pacific Area*, *ibid.*, pp. iv-vi.

¹⁶ See, Sperry Lea, "Free Trade by Sector," NPA, *Looking Ahead*, September 1966.

¹⁷ F.W. Holmes, "Australia and New Zealand in the World Economy," *The Economic Record*, March 1967.

¹⁸ There is an interesting observation by Edwin O. Reischauer, "The Sinic World in Perspective," a paper presented to the Williamsburg III Conference, Hakone, Japan, November, 1973, that Mongolian race may establish a cultural solidarity.

since 1975 so as to include developing country members.

It is also worth noting that Mr. Takeo Miki, Japan's former Foreign Minister and present Prime Minister, and Mr. Kiichi Miyazawa, the present Foreign Minister are keenly interested in promoting economic co-operation in the Pacific and Asian region. Academic circles have also begun hard to probe the foundations for economic integration in this region.¹⁹

III. *Prospects of Pacific Economic Integration*

During the past ten years, since my first study on Pacific economic integration in 1966, many changes have occurred in the international, political and economic environment. Each time a big shock was felt from outside the five Pacific countries, the necessity for closer Pacific integration was felt more seriously.

The first major event was the establishment of the European Economic Community in 1958, the completion of its inner tariff-elimination in 1968, its enlargement including the U.K., Sweden and Denmark in 1973, and further extension enveloping the A.C.P. (Africa, Caribbean and Pacific) nations through the Lome Treaty of 1975. The successful economic growth of the EEC which may not have been entirely a consequence of its institutional integration holds lessons for other areas.

¹⁹ A series of six conferences on Pacific Trade and Development have been held:

Kiyoshi Kojima, ed., *Pacific Trade and Development*, Japan Economic Research Center, February 1968.

Kiyoshi Kojima, ed., *Pacific Trade and Development II*, Japan Economic Research Center, April 1969.

Peter Drysdale, ed., *Direct Foreign Investment in Asia and the Pacific*, Australian National University Press, Canberra, 1972.

H.E. English and Keith Hay, ed., *Obstacles to Trade in the Pacific Area*, Carleton University, Ottawa, 1972.

Kiyoshi Kojima, ed., *Structural Adjustments in the Asian-Pacific Trade*, Japan Economic Research Center, August 1973.

Kiyoshi Kojima and Miguel S. Wionczek, ed., *Technology Transfer in Pacific Economic Development*, Japan Economic Research Center, January 1975.

The Japan Institute of International Affairs has continued study headed by Saburo Okita and Kiyoshi Kojima, on A Asian Pacific Economic Region and published three volumes (in Japanese) in 1971, 1973 and 1975. Also the Institute of Developing Economies promoted study which led to the publication of a book, Seiya Yano, ed., *Studies on A Pacific Economic Region* (in Japanese), 1971.

The Japan Economic Research Center undertook Japanese-Australian Research Project in co-operation with a group working from the Australian National University, and has published three volumes (both in Japanese and English) of *Studies on Western Pacific Economic Region*, in 1973, 1974 and 1975. The Australian side has also published several papers.

Much interest has arisen in the U.S.A. including among others, Harald B. Malmgren, *Pacific Basin Development: the American Interest*, published for the Overseas Development Council, Lexington Books, 1972.

Jerome B. Cohen, *Pacific Partnership: United States-Japan Trade*, Japan Society, Inc., 1972.

Richard Kosobud and Houton Stokes, "Trade Peace in the Pacific Through a Free Trade Area?" *Journal of International Affairs*, Vol. 28, No. 1, 1974.

William Diebold, Jr., *The United States and Industrial World: American Foreign Economic Policy in the 1970s*, published for the Council on Foreign Relations by Praeger Publishers, New York, 1972.

Allen Taylor, ed., *Perspectives on U.S.-Japan Economic Relations*, Ballinger Publishing Co., Cambridge, Mass., 1973.

Keith A.J. Hay, *Japan: Challenge and Opportunity for Canadian Industry*, The Private Planning Association of Canada, 1971.

It may be noted that my book, *Japan and a Pacific Free Trade Area*, received about 20 reviews for which I am deeply grateful.

Second, the multilateral approach through the GATT and the IMF to the liberalisation and expansion of world trade and to the stabilisation of the international monetary system and inflation has been not only disappointing to those countries which preferred this approach, but has also brought in its train disorder and uncertainty, mainly due to the relative decline in the hegemony of the American economy in the world. In the post-Kennedy Round era much of the impetus to liberalise international trade further has been lost, although a new Tokyo round of multilateral trade negotiations in GATT was initiated by the Declaration of Ministers approved in Tokyo, September 1973. After a lengthy wait for authorisation of the U.S. Trade Act of 1974, the negotiations resumed in early February, 1975. Despite Nixon's New Economic Policy of August 1971, the international monetary and trade system remains confused and no sound new world economic order is anticipated to emerge in the near future.

It should be noted that the growth of intra-areal trade in the EEC exceeded that in the five Pacific advanced countries. Trade among the five advanced countries (the U.S., Canada, Japan, Australia and New Zealand), or PAFTA trade in brief increased by 97 per cent between 1958 and 1965 whereas the EEC trade tripled. Between 1965 and 1973, the former increased 3.4 times and the latter 4.0 times. The ratio of intra-areal trade for PAFTA increased from 32.5 per cent in 1958 to 37.3 per cent in 1965 and to 42.9 per cent in 1973. In contrast, the similar ratios for the EEC were 30.1 per cent in 1958, 43.5 per cent in 1965, and 48.9 per cent in 1973.²⁰ The lag in Pacific trade growth must be of great concern in so far as it were brought about by the lack of institutional integration.

Third, the problems of the developing countries have become more serious. Although the economic growth has been fairly rapid in their own terms, the gap between developing and advanced industrial countries widened. Most advanced countries have tended to neglect this difficult problem, paying only lip service to development goals and trying to solve the problem of world economic order within advanced countries alone. Multilateral approaches through the UNCTAD have been largely in vain. The oil crisis (the export cutbacks by OPEC countries in October 1973, a fourfold rise in price, and nationalisation of the major's oil production facilities) is one example of rebellion by developing countries against the neglect of advanced capitalist economies. The oil crisis exacerbated, however, the difficulties of many other developing countries. Advanced countries too became seriously concerned about the security of natural resource supplies.

Fourth, the emergence of China in international economic society will have a profound impact.²¹ A fact that also should not be ignored is that the U.S.S.R. is greatly interested in Pacific economic integration in connection with the development of Siberia.²² Latin American countries which were treated only briefly in my original paper have increased

²⁰ See for example, Jean Royer, "Greater European Economic Integration," Kiyoshi Kojima, ed., *Structural Adjustments in Asian-Pacific Trade*, Japan Economic Research Center, July 1973.

²¹ See, for example, Shigeru Ishikawa, "The Impact of the Emergence of China on Asian Pacific Trade," Kiyoshi Kojima, ed., *Structural Adjustments in Asian Pacific Trade*, Japan Economic Research Center, July 1973.

²² See, for example, M. Maximova, *Economic Aspects of Capitalist Integration*, Progress Publishers, Moscow, 1973. V. Yakubovsky, "Emergence of the Pacific Economic Complex and Some Aspects of the Economic Relations between the Soviet Union and the Pacific Countries," and I.A. Lebedev, "Integration Tendencies in Pacific Asia and External Economic Relations of the USSR," both in Kiyoshi Kojima and Miguel S. Wionczek, ed., *Technology Transfer in Pacific Economic Development*, Japan Economic Research Center, January 1975.

their interest in Pacific economic integration.²³

Now, a new world economic order is being earnestly sought.²⁴ One of the most realistic plans is tripolar coordination, between North America, Western Europe and Japan, the three major powers in the Western capitalist world. The international monetary system could be stabilised and the world trade further liberalised and expanded through closer and conscious cooperation of these three powers.²⁵ In so far as tripolar coordination is the key for a new world economic order, the Japanese economy must become more internationalised and create a strong basis of interdependence with neighbouring countries in the Western Pacific, only then can she rank alongside North-America and Western Europe as an equal partner.

The United States is alone a huge economy accounting for more than one third the capitalist world's national income, and is integrated with the Canadian economy. The dollar is still most important international currency widely circulated throughout the world. The original EC or the enlarged EC is also a huge economic unit and even the West German economy is strong and prosperous because it is not alone but integrated with the EC. The EC may establish a common European currency by 1980 which would make a bipolar key currency system with the dollar more workable.

Compared with these two blocs, the Japanese economy is aloof from neighbouring countries and the yen is not yet an international currency. International circulation of the yen is still limited. It is quite logical for Japan to recognise that economic integration in the Western Pacific region is valuable.

Western Pacific Economic Integration was originally proposed in the following forms;²⁶

In 1965 the total population of the three countries was approximately 115 million which

²³ For example, Chile held a big international conference on the Pacific at Vina del Mar from September 27–October 3, 1970.

²⁴ C. Fred Bergsten, *The Future of the International Economic Order: An Agenda for Research*, A Report to the Ford Foundation, Lexington Books, 1973. C. Fred Bergsten, ed., *Toward a New World Trade Policy: The Maidenhead Papers*, Lexington books, 1975.

Hugh Corbet and Robert Jackson, ed., *In Search of a New World Economic Order*, Croom Helm, London, 1974.

Richard N. Cooper, ed., *A Reordered World: Emerging International Economic Problems*, A Potomac Associations Book, 1973.

The Commission on International Trade and Investment Policy, *United States International Economic Policy in an Interdependent World*, Washington D.C., July 1971.

NPA Advisory Committee, *U.S. Foreign Economic Policy for the 1970s: A New Approach to New Realities*, NPA, 1971.

OECD, *Policy Perspective for International Trade and Economic Relations*, Paris 1973.

²⁵ See, Earnest H. Preeg, *Economic Blocs and U.S. Foreign Policy*, National Planning Association, 1974.

There is also a series of tripartite reports published by the Brookings Institution. For example, *Reshaping the International Economic Order*, a tripartite report by twelve economists from North America, the European Community and Japan, The Brookings Institution, 1972.

²⁶ Kiyoshi Kojima, *Japan and a Pacific Free Trade Area*, *ibid.*, pp. 174-75. Harry Johnson pointed out that: "it would seem more realistic to concentrate attention on the probable benefits, drawbacks, and constitutional problems of a narrower Pacific free trade arrangement among Australia, New Zealand, and Japan. . . . A free trade area among these three countries could in addition like EFTA in the European context serve as a pilot model of free trade for the rest of the world, and possibly in the course of time be one of the building blocs out of which a world-wide system to free trade could be constructed."

Harry G. Johnson, "A New World Trade Policy in the Post-Kennedy Round Era: A Survey of Alternatives, with special reference to the position of the Pacific and Asian regions," Kiyoshi Kojima, ed., *Pacific Trade and Development*, The Japan Economic Research Center, February 1968, p. 250.

is 35 million less than the population of the European Economic Community immediately prior to its formation. In 1965 Australia's Gross National Product was \$US 21,587 million, Japan's G.N.P. \$US 84,324 million and New Zealand's G.N.P. \$US 3,933 million giving a G.N.P. for the entire area in 1965 of approximately \$US 110,000 million. On a per capita basis the relevant figures are Australia \$US 1,900, Japan \$US 861 and New Zealand \$US 1,490 which give an average per capita income for the area as a whole of \$US 981. In real terms this figures compares favourably with that of the EEC countries in 1955.²⁷

Since the enforcement of Australia-New Zealand Free Trade Agreement in January 1966, the two countries have endeavoured to promote economic integration but with some difficulty because of the lack of fundamental complementarity and the small size of both economies prevents realisation of economies of scale. It is expected that closer union with a large complementary economy like Japan, would make Western Pacific integration more successful and fruitful. Thus, the gains from trade liberalisation among the three countries and the feasibility of sectoral integration in such key industries as motor vehicles, iron and steel, non-ferrous metals (especially aluminium), and meat and dairy products have been explored.²⁸

The negotiability of a free trade area among these countries faces two main problems: firstly, the existing Japanese policies of agricultural protection, and secondly, Australian and New Zealand policies of protection for their manufacturing industries. Moreover, while JANFTA could be of considerable benefit to the Australian and New Zealand economies, the small increase in the size of Japan's market deriving from union, diminishes the importance of the benefits.

The formation of a free trade area or the alternative of closer economic cooperation among Australia, New Zealand and Japan is important from two points of view. First, it would accelerate economic growth, based upon the highly complementary nature of the three economies, and it would strengthen their capacity to export to third countries outside the area, especially to North American and Western European markets. It would also be useful for the three countries to develop a negotiating bloc for obtaining concessions on a broader front, especially from the United States. A free trade area between these three countries is justifiable and necessary as a means of preparing a favourable position for their joining, or for their providing a jolt towards the formation of, a Pacific Free Trade Area or a wider free trade area among almost all industrial nations.

Secondly, closer co-operation between Australia, New Zealand and Japan is especially desirable in order to increase aid to and to facilitate trade growth with neighbouring Asian developing countries in which the three countries are greatly interested and commonly involved.

This proposal should be considered anew by taking into consideration changes in the

²⁷ I.A. McDougall, "Prospects of the Economic Integration of Japan, Australia and New Zealand," Kiyoshi Kojima, ed., *Pacific Trade and Development*, The Japan Economic Research Center, February 1968, p. 115.

²⁸ Peter D. Drysdale, "Japan, Australia, New Zealand: the Prospect for Western Pacific Economic Integration," Kiyoshi Kojima, ed., *Pacific Trade and Development II*, The Japan Economic Research Center, April 1969. I.A. McDougall, "JANFTA and Asian Developing Countries: Sectoral Analysis," *loc. cit.* L.V. Castle, "Alternative Policies in Trade Cooperation of the Advanced Pacific Countries in the Next Five Years," *loc. cit.*

international political and economic environment in the past ten years. Western Pacific Economic Integration need not in the first instance take the form of institutional integration such as Free Trade Area, but could be built in functional integration which would be the core of Wider Pacific Integration and leave freedom to have develop interdependent relations with Southeast Aisa, East Asia, China, Russia as well as the U.S.A. and Western Europe.

Japan, Australia (and New Zealand), three countries that have reached much the same high economic level (measured for example by national income per head) are situated at the northern and southern extremities of an area which includes the developing countries of East and Southeast Asia. As the development of the European Community shows, no single country can have stable international relations and economic prosperity unless it is surrounded by countries of similar economic capacity with which it can develop horizontal (or intra-industry) specialisation in all fields of the economy and achieve a relationship of indissoluble interdependence. The same is true for Japan and Australia. Hence Japan and Australia should not only seek economic development by promoting their mutual interdependence but they should also cooperate closely in promoting the economic development and industrialisation, of neighbouring developing countries through official aid, private investment, the transfer of technology and exchange of persons (one could ask how far the sphere of neighbouring countries should be extended but I am thinking here mainly of Southeast Asia and East Asia including China). The final objective should be to raise the incomes of these developing countries to Japanese and Australian levels.

We need to devise practical methods of Australian-Japanese economic cooperation to achieve this objective. A detailed plan must be the subject of future research. Australia is naturally most concerned with its nearest neighbours such as Papua New Guinea, Indonesia, Singapore, Malaysia and Thailand. Administering development assistance in collaboration with Japan in this area would raise its efficiency. Japan on the other hand is interested in a wide area stretching from East Asia (North and South Korea, Taiwan, Hong Kong and China) to the countries of Southeast Asia and here too it would be both politically and economically desirable to have Australian participation in her development aid.

The way to raise economic levels in these neighbouring developing countries is to transfer industry in stages, mainly through direct investment, beginning with labour-intensive industries such as textiles and moving on to some intermediate goods production with Japan and Australia importing the products. This would present the neighbouring countries with opportunities for increasingly sophisticated industrial activity and expand their horizontal trade with Japan and Australia. This is based on the same principles as our advocacy of horizontal specialisation between Japan and Australia. What is necessary is for Japan and Australia is to spread the network of horizontal specialisation over a wider area to include the developing countries of the region.

Japan and Australia now have the possibility of directly or indirectly applying oil money to long-term production-oriented investment in these developing countries. Now that following the oil crisis the non-oil producing developing countries are facing such critical difficulties, the provision of development aid through cooperation between Japan and Australia is a task of vital importance.

The key problem in fostering the Western Pacific Economic Integration is how to harmonise interests between large and small economies. This is applicable even to Japan-Australia relationship and it is more serious in the relationship between Japan and each neighbouring developing country. Therefore, the pursuit of sub-regional integration such as ASEAN or East Asian group is to be welcomed. The principles for integration among economies which are unequal in size and stage of development may be different from those the traditional theory of integration dealing with economies which are on a more or less equal footing. A new type of integration may be fostered through the establishment of horizontal (or intra-industry) specialisation. Foreign direct investment may have an important role to play in the development of horizontal specialisation.

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