JAPAN'S INTEREST IN THE PACIFIC TRADE EXPANSION: PAFTA RE-CONSIDERED*

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I. *Introduction*

International trade policies are volatile and searching for fresh directions in the Post-Kennedy Round situation. A restructuring of Atlantic trade can be anticipated. In the Pacific region, there is need to develop measures for expanding trade among advanced countries (the United States of America, Canada, Japan, Australia and New Zealand) and trade and aid with the developing countries of Asia and Latin America, in the hope of promoting closer economic co-operation and, perhaps, the establishment of a Pacific Free Trade Area.[1]

This paper examines, first, recent trends in the Pacific trade, based upon a trade matrix by country as well as by commodity group, and the intensity of trade among the five Pacific countries and their trade with Asian and Latin American developing countries. The analysis suggests that trade among the five Pacific countries has tended to become more inter-dependent, that there has been increased economic co-operation between those countries and, at the same time, that there are some weaker links which should be strengthened for further trade expansion.

Secondly, the possible static effects of eliminating tariffs among five Pacific countries are estimated on the basis of 1965 trade figures. The anticipated trade expansion would be extensive and larger than the effect of the Kennedy Round tariff reductions. This suggests that the

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[1] The devaluation of the pound sterling on November 18, 1967, and the uncertainty about the dollar which followed sterling devaluation, were a severe shock for Pacifc countries. They warned of the precariousness of international economic and financial co-operation within the framework of the IMF and GATT and the need for tighter international economic integration. Ten days before sterling devaluation, an important report was published by Maxwell Stamp Associates, (*The Free Trade Option, Opportunity for Britain*, The Atlantic Trade Study, London, 1967), strongly advocating the formation of a North Atlantic Free Trade Area among the United States, Canada, and Britain. The lessons of sterling devaluation suggest that the establishment of NAFTA will become an urgent task. Then, what course should Japan, Australia, and New Zealand follow in the Pacific? The NAFTA plan treats them lightly: they may be permitted to participate as associate members. From our point of view, this hardly seems satisfactory. Why should the five Pacific countries, the United States, Canada, Japan, Australia, and New Zealand, not prepare for the formation of a Pacific Free Trade Area and welcome British participation? Might not PAFTA and NAFTA be linked together through common United States-Canadian participation?

TABLE 1. TRADE MATRIX (million dollars)

upper column, 1958
middle column, 1963
lower column, 1965

Exports from \ Exports to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	*h* Latin Am.	*i* U.K.	*j* EEC	*k* Other W.E.	Total Exports
a. USA	—	3,426.8	843.8	190.1	43.3	4,504.0	1,384.1	4,073.2	838.5	2,428.5	1,211.2	17,904.3
	—	4,130.7	1,716.7	445.6	71.8	6,364.8	2,541.9	3,156.2	1,172.9	4,011.8	1,794.2	23,393.0
	—	5,602.2	2,060.9	698.7	126.1	8,487.9	2,689.7	3,750.7	1,592.3	4,973.8	2,194.2	27,400.0
b. Canada	3,021.1	—	108.8	54.6	15.9	3,200.4	139.0	189.9	805.6	438.0	142.3	5,081.6
	3,643.2	—	276.3	94.3	28.8	4,042.6	126.1	236.3	941.3	451.8	194.8	6,779.0
	4,671.7	—	293.4	132.8	34.4	5,132.3	142.8	249.1	1,096.5	588.2	234.8	8,534.0
c. Japan	692.5	76.3	—	62.6	7.4	838.8	877.2	193.7	105.2	124.0	97.5	2,876.9
	1,522.4	124.8	—	158.5	43.8	1,849.5	1,617.8	315.0	155.8	331.8	230.4	5,453.0
	2,517.1	214.6	—	319.3	61.2	3,112.1	2,190.5	404.7	205.1	484.1	407.0	8,452.0
d. Australia	96.7	29.8	205.2	—	125.9	457.6	149.9	12.1	491.6	302.7	40.9	1,663.7
	320.2	52.5	483.3	—	178.7	1,034.7	272.8	15.7	501.3	404.2	75.2	2,788.0
	327.4	41.6	495.2	—	188.3	1,052.5	315.9	29.2	524.6	430.1	92.6	2,978.0
e. New Zealand	104.1	11.4	15.4	28.8	—	159.7	6.3	1.2	389.5	99.1	7.4	700.2
	156.9	12.6	44.2	47.5	—	261.2	16.4	2.4	413.6	153.5	6.1	910.0
	124.5	13.8	51.7	46.8	—	236.8	16.8	4.1	484.5	156.1	10.3	1,007.0
f. Pacific Countries	3,914.4	3,544.3	1,173.2	336.1	192.5	9,160.5	2,556.5	4,470.1	2,630.4	3,392.3	1,499.3	28,226.7
	5,642.7	4,320.6	2,520.5	745.9	323.1	13,552.8	4,575.0	3,725.6	3,184.9	5,353.1	2,300.7	39,323.0
	7,640.7	5,872.2	2,901.2	1,197.6	410.0	18,021.7	5,355.7	4,437.8	3,903.0	6,632.3	2,938.9	48,371.0

g. Other Asia	972.8	79.0	548.0	230.8	38.7	1,869.3	2,106.3	121.3	957.1	702.2	159.0	6,756.0
	1,187.4	117.9	972.0	141.4	45.8	2,464.5	1,297.4	92.6	892.7	762.7	243.8	7,850.0
	1,493.4	140.6	1,105.2	177.0	50.0	2,966.2	1,342.6	87.9	847.1	827.8	267.9	8,600.0
h. Latin America	3,593.9	115.7	161.3	4.0	1.1	3,876.0	28.0	737.1	673.3	1,255.8	406.5	8,154.9
	3,345.2	305.3	368.7	11.2	10.6	4,041.0	64.3	740.6	705.9	1,951.4	527.2	9,190.0
	3,617.5	361.8	431.5	9.9	3.6	4,424.3	58.5	1,016.3	657.8	2,164.0	717.2	10,400.0
i. United Kingdom	828.0	541.9	56.7	664.9	361.1	2,452.6	1,041.3	427.4	—	1,294.8	1,676.4	9,392.1
	1,016.7	502.5	142.8	665.9	324.3	2,652.2	1,128.3	397.7	—	2,499.9	2,449.2	11,857.0
	1,454.6	582.3	148.2	793.1	352.7	3,330.9	1,132.6	410.4	—	2,744.3	2,928.2	13,710.0
j. EEC	1,669.6	236.4	139.2	170.6	44.6	2,260.4	1,079.9	1,493.2	1,329.7	6,863.6	4,782.9	22,775.9
	2,566.4	309.2	358.2	245.9	53.0	3,532.7	1,131.5	1,476.1	1,976.9	15,935.8	7,955.8	37,561.0
	3,425.2	480.0	341.7	330.2	62.2	4,639.3	1,447.2	1,603.4	2,368.5	20,836.0	10,079,0	47,916.0
k. Other Western Europe	753.9	78.0	47.3	76.7	15.4	971.3	204.4	536.1	1,600.5	3,083.7	1,595.9	9,531.0
	1,108.0	120.8	111.7	112.7	24.2	1,477.4	317.8	504.8	2,223.4	4,802.5	2,863.3	14,321.0
	1,401.4	165.8	141.2	150.6	24.6	1,883.6	387.2	554.6	2,671.2	5,661.2	3,869.3	17,894.0
Total Imports	13,410.2	5,351.5	3,033.5	1,796.8	707.3	24,299.3	8,389.2	8,170.6	10,569.5	22,995.3	12,320.9	114,704.3
	17,213.0	6,099.0	6,737.0	2,480.0	824.0	33,353.0	10,730.0	7,810.0	13,476.0	40,417.0	19,611.0	142,600.0
	21,431.0	8,008.0	8,170.0	3,373,0	966.0	41,948.0	12,000.0	8,660.0	16,138.0	49,004.0	24,926.0	173,700.0

Source: *Direction of Trade*, Annual 1958-62, 1961-65, A Supplement to International Financial Statistics.

Other Asia includes Afghanistan, Brunei, Burma, Cambodia, Ceylon, China Taiwan, Hong Kong, India, Indonesia, Irian Barat, Korea Republic, Laos, Macao, Malaya Fed, North Borneo, Pakistan, Philippines, Ryukyus, Sarawak, Singapore, Thailand, Viet Nam, Br Asia Ns, Ind Sterl Asia, Port Asia Ns, Port Poss India, Asia Ns.; China and China Mainland are excluded.

formation of a Pacific Free Trade Area, if the five countries should so, would be effective in expanding trade, especially when the likelihood that another round of global tariff reductions may not be feasible in the coming ten to twenty years is taken into account. It is also shown how the gains from the elimination of tariffs would be distributed among the five countries and in what commodity groups the expansion of trade would be significant.

Thirdly, a proposal for a Pacific Free Trade Area seems quite premature for various reasons. More practical alternatives are proposed for intensifying closer trade partnership among the five Pacific countries and for increasing aid to and trade with developing countries in Asia and Latin America.

II. *Recent Trends in the Pacific Trade*

1. *Two centres in world trade*

The Pacific is one of the two major centres of world trade and ranks alongside Western Europe. Trade among the five advanced Pacific countries, the United States, Canada, Japan, Australia, and New Zealand, increased by 97 per cent between 1958 and 1965, from $9.16 billion to $18.02 billion, and their share in world trade rose from 7.99 per cent to 10.38 per cent (Table 1).

The intra-areal trade of the EEC was $6.86 billion in 1958, which was smaller than PAFTA trade, and has tripled to $20.84 billion in 1965. The share of intra-areal trade of the EEC in world trade has increased from 5.98 per cent in 1958 to 12.00 per cent in 1965, more rapidly than in the PAFTA trade.

Taking the total trade among EEC, UK and other Western Europe as "European Trade," which has increased by 2.3 times from $22.23 billion in 1958 to $51.16 billion in 1965, or from 19.38 per cent to 29.45 per cent in the share of world trade, it is one of the most important and rapidly growing centres in world trade (see Table 2).

With this, we can compare the "extended Pacific trade," which is the sum of the trade among countries in PAFTA, other Asia (excluding Mainland China) and Latin America. Extended Pacific area trade was $23.36 billion or 20.36 per cent of world trade in 1958, which was somewhat larger than European trade, and has increased to $37.71 billion or 21.71 per cent of world trade in 1965. Extended Pacific area trade is another centre of world trade, but it has not grown so fast as has European trade, mainly due to the stagnation in exports of primary produce from developing countries in Asia and Latin America.

The extended Pacific area could be the largest centre of world trade if there were closer co-operation in expanding trade and development within the area, since it has greater potential in the endowment of its population, natural resources, and capital awaiting development than already well-developed Europe.

Furthermore, intra-areal trade amongst the five Pacific countries has increased more rapidly than their trade with outside countries. The ratio of intra-areal trade for the five Pacific countries taken together has increased from 32.5 per cent in 1958 to 37.3 per cent in 1965. In contrast, similar ratios for EEC were 30.1 per cent in 1958 and 43.5 per cent in 1965.

The five Pacific countries taken together have increased the share of their total exports going to Asia and Latin America from 19.3 per cent in 1958 to 20.3 per cent in 1965, and that to Europe as well from 26.7 per cent to 27.9 per cent respectively (Table 2). Thus, they

have spread their expansion of trade to other areas. While the share of intra-areal trade in total European trade has increased from 53.3 per cent in 1958 to 64.3 per cent in 1965, the share of European trade both with the five Pacific countries and with Asia and Latin America has decreased from 13.6 per cent to 12.4 per cent and from 11.5 per cent to 7.0 per cent respectively. This seems to reflect the inward-looking trend of European trade, which has required Australia and New Zealand to turn their eyes back towards the Pacific area.

These trends may be shown more exactly by the intensity of trade indices. As shown in Table 2 (c), the intensity of intra-area trade among the five Pacific countries is fairly high, 132 in 1958 and 133 in 1965, while that of intra-European trade is much lower, 106 in 1958

TABLE 2. CONSOLIDATED TRADE MATRIX

(a) Trade Matrix (milion dollars)

Exports from \ to	*A* PAFTA	*B* ALA	*C* Europe	Total Exports
A. PAFTA	9,160.5 13,552.8 18,021.7	5,457.3 8,300.6 9,793.5	7,522.0 10,838.7 13,474.2	28,226.7 39,323.0 48,371.0
B. Other Asia and Latin America	5,745.3 6,505.5 7,390.5	2,992.7 2,194.9 2,505.3	4,153.9 5,083.7 5,481.8	14,910.9 17,040.0 19,000.0
C. Europe	5,684.3 7,662.3 9,853.8	4,782.3 4,956.2 5,535.4	22,227.5 40,706.8 51,157.7	41,699.0 63,739.0 79,520.0
Total Imports	24,299.3 33,353.0 41,948.0	16,559.8 18,540.0 20,660.0	45,885.7 73,504.0 90,068.0	114,704.3 142,600.0 173,700.0

(b) Distribution of Exports (%)

from \ to	*A* PAFTA	*B* ALA	*C* Europe	Total Exports
A	32.45 34.47 37.26	19.33 21.11 20.25	26.65 27.57 27.86	100.00 100.00 100.00
B	38.53 38.17 38.90	20.07 12.88 13.19	27.86 29.84 28.85	100.00 100.00 100.00
C	13.63 12.02 12.39	11.47 7.78 6.96	53.30 63.87 64.33	100.00 100.00 100.00
Total Imports	21.18 23.39 24.15	14.44 13.00 11.89	40.00 51.55 51.85	100.00 100.00 100.00

(c) Intensity of Trade

from \ to	*A* PAFTA	*B* ALA	*C* Europe
A	132 127 133	116 140 147	58 46 46
B	160 144 144	123 88 99	61 51 50
C	51 40 40	63 46 45	106 95 96

upper column, 1958
middle column, 1963
lower column, 1965
PAFTA: USA, Canada, Japan, Australia and New Zealand
ALA: Other Asia and Latin America
Europe: United Kingdom, EEC and Other Western Europe

and 96 in 1965 (although that of intra-EEC trade is very high, 184 and 224 respectively—Table 3).[2] The intensity of exports from PAFTA to ALA (Asia and Latin America) is high and increasing from 116 in 1958 to 147 in 1965, while that from Europe to ALA is low and decreasing from 63 to 45.

In short, extended Pacific trade is one of the most important and rapidly growing centres in the world trade and maintains a close trade relationship between the five Pacific countries and affiliated developing countries in Asia and Latin America.

2. *PAFTA trade for each member country*

The ratio of intra-area trade for the five Pacific countries taken together, as mentioned already, has increased from 32.5 per cent in 1958 to 37.3 per cent in 1965. The similar ratio for four countries has increased; from 25.2 per cent to 31.0 per cent for the USA, from 29.2 per cent to 36.8 per cent for Japan, from 27.5 per cent to 35.3 per cent for Australia, and from 22.8 per cent to 23.5 per cent for New Zealand; while it has decreased only for Canada from 63.0 per cent to 60.1 per cent (Table 4). The exceptional decrease in the Canadian ratio was due to her heavy increase of cereal exports to Socialist countries.

The importance of exports to Europe has increased for the USA from 25 per cent in 1958 to 33 per cent in 1965 and for Japan from 11 per cent to 13 per cent, while it has decreased for Australia from 50 per cent to 35 per cent, for Canada from 27 per cent to 22 per cent, and for New Zealand from 70 per cent to 65 per cent. Thus, we clearly see a growing importance of the Pacific trade for the five countries which has provided a new outlet for the three British Commonwealth countries.

Taking the total exports (equals imports) of PAFTA trade as 100, the composition of intra-area trade as well as the importance of the trade with outside countries are shown in Table 5 and summarized in Fig. 1. The share of Japan's exports in PAFTA trade has shown the most rapid rate of increase, rising from 9.2 per cent in 1958 to 17.3 per cent in 1965, and that of Australia has also increased from 5.0 per cent to 5.8 per cent, while the similar share has decreased for the USA from 49.2 per cent to 47.1 per cent, for Canada from 34.9 per cent to 28.5 per cent, and for New Zealand from 1.7 per cent to 1.3 per cent. The decrease in the American share was mainly due to the relative decrease of exports to Canada. The share of American exports to other three countries has increased. It is clear that Japan, Australia and the US have been the growth centres in the expansion of PAFTA trade while Canada

[2] The intensity of, say, Japan's export trade with another country is measured by the ratio of that country's share in Japanese exports to its total share in world imports. In symbols,

$$\frac{X_{ji}}{X_j} \Big/ \frac{M_i}{W-M_j} \times 100,$$

where X_{ji} stands for Japanese exports to country i; X_j for total Japanese exports ($=\sum X_{ji}$); M_i for total imports by country i; M_j for total imports by Japan; and W for total world imports. It might be argued that the denominator of $M_i/(W-M_j)$ should be W, instead of $W-M_j$. However, this does not seem valid since Japanese imports do not constitute a demand for Japanese exports meaningfully. In the case of such an aggregated trade as the PAFTA and EEC, the formula should be

$$\frac{X_{pi}}{X_p} \Big/ \frac{M_i}{W-(M_p-M_{pp})} \times 100,$$

where X_p and M_p stand for the total exports and imports of the PAFTA countries and M_{pp} for the intra-area imports (=exports) in the PAFTA: consequently M_p-M_{pp} represents the imports of the PAFTA countries from the outside areas.

and New Zealand have been weaker links.

These trends are shown further in Fig. 1.[3] The share in the total PAFTA trade of Japanese imports and exports to each of the PAFTA countries has without exception increased. A similar trend can be seen in American and Australian trade with PAFTA countries other than Canada and New Zealand.

TABLE 3. INTENSITY OF TRADE

upper column, 1958
middle column, 1963
lower column, 1965

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	*h* Latin Am.	*i* U.K.	*j* EEC	*k* Other W.E.
a. USA	—	362	158	60	34	168	125	310	45	85	64
	—	363	137	96	47	172	144	239	47	88	57
	—	389	140	115	72	197	102	273	55	98	78
b. Canada	485	—	77	65	48	455	48	55	164	58	29
	426	—	83	76	69	411	27	67	141	37	23
	423	—	70	77	68	417	26	63	132	41	22
c. Japan	200	55	—	129	41	215	542	101	39	30	35
	220	51	—	159	131	233	427	111	29	34	34
	230	52	—	185	122	255	402	104	25	34	38
d. Australia	49	38	460	—	1,202	205	162	11	316	127	26
	93	43	361	—	1,086	263	145	11	187	83	23
	87.	30	347	—	1,109	252	169	22	186	87	25
e. New Zealand	126	35	83	260	—	172	16	3	600	100	11
	142	32	102	298	—	206	27	5	478	98	6
	100	30	109	238	—	170	27	9	515	95	8
f. Pacific Countries	103	233	137	66	96	213	144	212	88	74	49
	102	221	117	94	122	214	151	164	74	68	43
	110	227	113	110	146	233	155	180	75	73	43
g. Other Asia	116	24	291	206	86	198	538	18	145	70	24
	117	33	245	97	94	211	233	22	112	53	25
	132	33	256	100	97	235	239	22	100	56	24
h. Latin America	353	28	70	3	2	337	6	130	84	102	50
	287	74	81	7	20	301	10	154	77	118	46
	269	72	84	5	5	295	9	212	65	123	54
i. United Kingdom	69	112	21	409	565	180	184	64	—	89	173
	64	90	23	293	428	146	130	61	—	111	159
	78	84	21	270	415	160	122	62	—	112	160
j. EEC	54	19	20	41	28	65	74	87	54	184	193
	47	16	17	31	20	56	38	66	46	205	149
	49	18	13	30	19	59	41	64	45	224	145
k. Other Western Europe	61	16	17	46	24	70	35	79	165	208	162
	57	17	15	40	26	66	30	63	145	172	150
	56	18	15	38	22	67	31	62	141	171	157

[3] Similar trends can be depicted by comparing over-time changes in the intensity of trade indices shown in Table 3.

TABLE 4. AREAL DISTRIBUTION OF EXPORTS (per cent)

upper column, 1958
middle column, 1963
lower column, 1965

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	*h* Latin Am.	*i* UK	*j* EEC	*k* Other W.E.	*l* Total Ex.
a. USA	—	19.14	4.71	1.06	0.24	25.16	7.73	22.75	4.68	13.56	6.76	100.00
	—	17.66	7.34	1.90	0.31	27.21	10.87	13.49	5.01	17.15	7.67	100.00
	—	20.45	7.52	2.55	0.46	30.98	7.17	13.69	5.81	18.15	10.74	100.00
b. Canada	59.45	—	2.14	1.07	0.31	62.98	2.74	3.74	15.85	8.62	2.80	100.00
	53.74	—	4.08	1.39	0.42	59.63	1.86	3.49	13.89	6.66	2.87	100.00
	54.74	—	3.44	1.56	0.40	60.14	1.67	2.92	12.85	6.89	2.75	100.00
c. Japan	24.07	2.65	—	2.18	0.26	29.16	30.49	6.73	3.66	4.31	3.39	100.00
	27.92	2.29	—	2.91	0.80	33.92	29.67	5.78	2.86	6.08	4.23	100.00
	29.78	2.54	—	3.78	0.72	36.82	25.92	4.79	2.43	5.73	4.82	100.00
d. Australia	5.81	1.79	12.33	—	7.57	27.50	9.01	0.73	29.55	18.19	2.46	100.00
	11.48	1.88	17.34	—	6.41	37.11	9.78	0.56	17.98	14.50	2.70	100.00
	10.99	1.40	16.63	—	6.32	35.34	10.61	0.98	17.62	14.44	3.11	100.00
e. New Zealand	14.87	1.63	2.20	4.11	—	22.81	0.90	0.17	55.63	14.15	1.06	100.00
	17.24	1.38	4.86	5.22	—	28.70	1.80	0.26	45.45	16.87	0.67	100.00
	12.36	1.37	5.13	4.65	—	23.52	1.67	0.41	48.11	15.50	1.02	100.00
f. Pacific Countries	13.87	12.56	4.16	1.19	0.68	32.45	9.06	15.84	9.32	12.02	5.31	100.00
	14.35	10.99	6.41	1.90	0.82	34.47	11.63	9.47	8.10	13.61	5.85	100.00
	15.80	12.14	6.00	2.48	0.85	37.26	11.07	9.17	8.07	13.71	6.08	100.00
g. Other Asia	14.40	1.17	8.11	3.42	0.57	27.67	31.18	1.80	14.17	10.39	2.35	100.00
	15.13	1.50	12.38	1.80	0.58	31.39	16.53	1.18	11.37	9.72	3.11	100.00
	17.37	1.63	12.85	2.06	0.85	34.49	15.61	1.02	9.85	9.63	3.12	100.00
h. Latin America	44.07	1.42	1.98	0.05	0.01	47.53	0.34	9.04	8.26	15.40	4.98	100.00
	36.40	3.32	4.01	0.12	0.12	43.97	0.70	8.06	7.68	21.23	5.74	100.00
	34.78	3.48	4.15	0.10	0.03	42.54	0.56	9.77	6.33	20.81	6.90	100.00
i. United Kingdom	8.82	5.77	0.60	7.08	3.84	26.11	11.09	4.55	—	13.79	17.85	100.00
	8.57	4.24	1.20	5.62	2.74	22.37	9.52	3.35	—	21.08	20.66	100.00
	10.61	4.25	1.08	5.78	2.57	24.30	8.26	2.99	—	20.02	21.36	100.00
j. EEC	7.33	1.04	0.61	0.75	0.20	9.92	4.74	6.56	5.84	30.14	21.00	100.00
	6.83	0.82	0.95	0.65	0.14	9.41	3.01	3.93	5.26	42.43	21.18	100.00
	7.15	1.00	0.71	0.69	0.13	9.68	3.02	3.35	4.94	43.48	21.03	100.00
k. Other W. Europe	7.91	0.82	0.50	0.80	0.16	10.19	2.14	5.62	16.79	32.35	16.74	100.00
	7.74	0.84	0.78	0.79	0.17	10.32	2.22	3.52	15.53	33.53	19.99	100.00
	7.83	0.93	0.79	0.84	0.14	10.53	2.16	3.10	14.93	31.64	21.62	100.00
l. Total Imports	11.69	4.67	2.64	1.57	0.62	21.18	7.31	7.12	9.21	20.05	10.74	100.00
	12.07	4.28	4.72	1.74	0.58	23.39	7.52	5.48	9.45	28.34	13.75	100.00
	12.34	4.61	4.70	1.94	0.56	24.15	6.91	4.99	9.29	28.21	14.35	100.00

3. *Leading sectors in PAFTA trade*

In order to carry out a commodity analysis of the PAFTA trade, trade matrices of eight commodity groups are calculated from UN, *Commodity Trade Statistics* for 1958 and 1965. The commodity groups are:

N_1-goods : staple foods (rice, wheat, and other grains).

TABLE 5. IMPORTANCE OF EACH COUNTRY'S EXPORTS RELATIVE TO THE TOTAL INTRA-AREAL TRADE OF FIVE PACIFIC COUNTRIES (per cent)

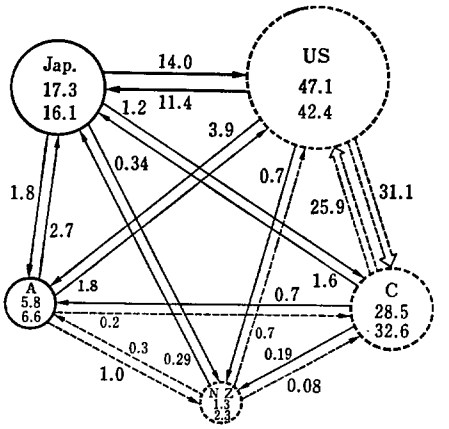
upper column, 1958
middle column, 1963
lower column, 1965

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	*h* Latin Am.	*i* U.K.	*j* EEC	*k* Other W.E.	Total Exports
a. USA	—	37.408	9.211	2.075	0.473	49.168	15.108	44.465	9.153	26.511	13.222	195.451
	—	30.479	12.667	3.288	0.530	46.963	18.756	23.288	8.654	29.601	13.239	172.606
	—	31.086	11.436	3.877	0.700	47.098	14.925	20.812	8.835	27.599	12.175	152.039
b. Canada	32.980	—	1.188	0.596	0.174	34.937	1.517	2.073	8.794	4.781	1.553	55.473
	26.882	—	2.039	0.696	0.213	29.829	0.930	1.744	6.945	3.334	1.437	50.019
	25.923	—	1.628	0.737	0.191	28.478	0.792	1.382	6.084	3.264	1.303	47.354
c. Japan	7.560	0.833	—	0.683	0.081	9.157	9.574	2.115	1.148	1.354	1.064	31.405
	11.233	0.921	—	1.170	0.323	13.647	11.937	2.324	1.150	2.448	1.700	40.235
	13.967	1.191	—	1.772	0.340	17.269	12.155	2.246	1.138	2.686	2.258	46.899
d. Australia	1.056	0.325	2.240	—	1.374	4.995	1.636	0.132	5.367	3.304	0.446	18.162
	2.363	0.387	3.566	—	1.319	7.635	2.013	0.116	3.699	2.982	0.555	20.571
	1.817	0.231	2.748	—	1.045	5.840	1.753	0.162	2.911	2.387	0.514	16.525
e. New Zealand	1.136	0.124	0.168	0.314	—	1.743	0.069	0.013	4.252	1.082	0.081	7.644
	1.158	0.093	0.326	0.350	—	1.927	0.121	0.018	3.052	1.133	0.045	6.714
	0.691	0.077	0.287	0.260	—	1.314	0.093	0.023	2.688	0.866	0.057	5.588
f. Pacific Countries	42.731	38.691	12.807	3.669	2.101	100.000	27.913	48.798	28.715	37.032	16.367	308.135
	41.635	31.880	18.598	5.504	2.384	100.000	33.757	27.490	23.500	39.498	16.976	290.147
	42.397	32.584	16.098	6.645	2.275	100.000	29.718	24.625	21.657	36.802	16.308	268.404
g. Other Asia	10.622	0.862	5.982	2.522	0.426	20.403	22.990	1.321	10.447	7.663	1.736	73.751
	8.761	0.870	7.172	1.043	0.338	18.184	9.573	0.683	6.587	5.628	1.799	57.922
	8.287	0.780	6.133	0.982	0.277	16.459	7.450	0.488	4.700	4.593	1.487	47.720
h. Latin America	39.233	1.263	1.761	0.044	0.012	42.312	0.306	8.047	7.350	13.709	4.438	89.022
	24.683	2.253	2.720	0.083	0.078	29.817	0.474	5.465	5.209	14.399	3.890	67.809
	20.073	2.008	2.394	0.055	0.020	24.550	0.325	5.639	3.650	12.008	3.980	57.708

N_2-goods : other foodstuffs, including processed goods.[4]
N_3-goods : agricultural raw materials.
N_4-goods : minerals, metals, and fuels.
L_1-goods : labour-intensive goods of light industry, both intermediate and final products.
L_2-goods: labour-intensive final goods of heavy and chemical industry origin (cameras, sewing machines, bicycles, precision type equipment, medicine, etc.)
C_1-goods : capital-intensive intermediate goods of heavy and chemical industry origin (pig-iron,

[4] According to the revised classification of SITC, the coverage of commodity groups is as follows:
N_1-goods: Division 04
N_2-goods: Sections 0 (less 04) and 1, and 941.
N_3-goods: Sections 2 (less 251, 266, 267, 27, 28) and 4.
N_4-goods: Divisions 27 and 28, and Section 3 (less 351).
L_1-goods: Sections 6 (less 66, 67, 68, 69) and 8 (less 812, 821, 86), and 267, 665, 666, 667.
L_2-goods: 541, 69, 733, 812, 821, 86, 951, 961.
C_1-goods: Section 5 (less 541) and 251, 266, 351, 66 (less 665, 666, 667), 67, 68.
C_2-goods: Section 7 (less 733).

FIG. 1. SHARE IN THE TOTAL INTRA-AREAL TRADE OF FIVE PACIFIC COUNTRIES: TOTAL TRADE OF EACH COUNTRY IN 1965



1) Figures in the circle show the share of each country's exports (upper figure) to and imports (lower figure) from the Pacific countries.
2) Figures along the line show the share of each bilateral trade.
3) Solid line and circle show the increase of importance while dotted ones the decrease of importance during the period of 1958-1965.

steel, chemical fibres, fertilizer, etc.).

C_2-goods : capital intensive heavy machines and equipment.

Further, N_1- and N_2-goods are aggregated as Food, N_3- and N_4-goods as Raw Materials, L_1- and L_2-goods as Light Manufactures, and C_1- and C_2-goods as Heavy Manufactures and Chemicals, for the convenience of analysis.

The composition of PAFTA trade for each country exhibits different characteristics. In Japanese trade with PAFTA countries in 1965, 94.8 per cent of exports were manufactures while 71.1 per cent of imports were primary products. Japan's trade is mainly vertical type, specializing in exports of manufactured goods. Australia and New Zealand maintain another type of vertical trade, specializing in exports of primary products: 80.0 per cent of exports were consisted of primary products in the case of Australia and 82.4 per cent in the case of New Zealand, while imports were 88.2 per cent and 84.6 per cent in manufactured goods respectively. The United States and Canada maintain a balance in the trade of manufactures as well as primary products between exports and imports: manufactured goods occupy 70.0 per cent both in exports and imports for the US and 60.5 per cent and 79.6 per cent in exports and imports respectivelv for Canada. It is to be expected, therefore, that the two countries should conduct horizontal type trade with the PAFTA countries.

Relative to the growth of total PAFTA trade from 100 in 1958 to 197 in 1965, trade in heavy manufactures and chemicals (C-goods) has grown fastest (264) and followed by the trade in light manufactures (200) in which, however, the more sophisticated ones (L_2-goods) have grown almost as fast as C-goods (252), while the trade in food and raw materials has grown at a slower rate than total trade (181 and 173 respectively) (see Table 6). Heavy

TABLE 6. TRADE IN 1965 RELATIVE TO 1958
(1958=100)

	Exports	Imports
World Trade	151.4	
PAFTA Trade	196.7	
USA	188.5	195.2
Canada	160.4	165.7
Japan	371.0	247.3
Australia	230.0	356.3
New Zealand	148.3	213.0
PAFTA·ALA	179.5	128.6
PAFTA·Europe	179.1	174.3
PAFTA·World	171.4	172.6
EEC·EEC	303.6	
Europe·Europe	230.2	

PAFTA Trade: By Commodity	
N_1	235.5
N_2	160.6
N_3	183.5
N_4	163.8
L_1	186.3
L_2	252.4
C_1	232.4
C_2	288.9
F	180.7
R	173.4
L	199.6
C	263.8

manufactures and chemicals as well as sophisticated labour intensive goods have been the leading sector in PAFTA trade, with food, raw materials and traditional light manufactures (L_1-goods) the lagging sector.

Fig. 2 clearly shows that the importance of bilateral trade in C-goods (the total share in PAFTA trade was as large as 46.5 per cent in 1965) has rapidly increased in almost all directions except in three unimportant cases, i.e., Australia→the U.S., New Zealand→Australia, and New Zealand→Canada. The U.S. and Japan are in export surplus while Canada, Australia and New Zealand are in import surplus. In L-goods (the total share was 20.6 per cent), except in only one case (Canada→the U.S.), the importance of bilateral trade has also increased

FIG. 2. SHARE IN THE TOTAL INTRA-AREAL TRADE OF FIVE PACIFIC COUNTRIES: HEAVY MANUFACTURES AND CHEMICALS (C-GOODS)
TOTAL SHARE 46.51 per cent

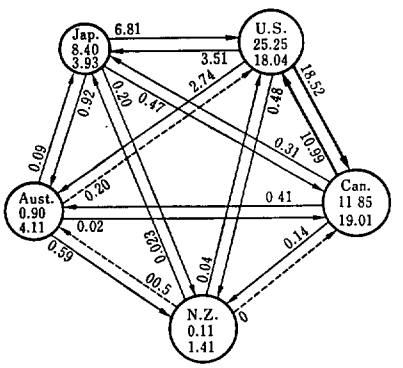
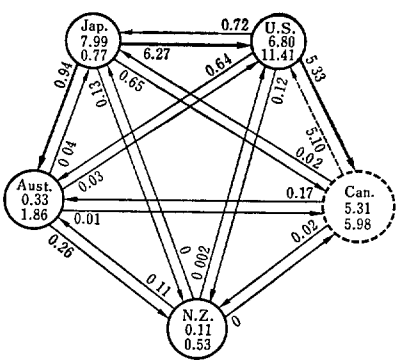


FIG. 3. SHARE IN THE TOTAL INTRA-AREAL TRADE OF FIVE PACIFIC COUNTRIES: LIGHT MANUFACTURES (L-GOODS)
TOTAL SHARE 20.55 per cent



in all directions (Fig. 3). Only Japan is in heavy export surplus while the other four countries are in import surplus.

Raw materials are as important as *L*-goods in PAFTA trade, the total share being 20.5 per cent (Fig. 4). The U.S. and Japan are net importing countries while Canada, Australia, and New Zealand net exporting countries. The most significant change during the period of 1958–1965 was the increase of importance in Australian exports to Japan, the U.S., and Canada and the decrease in bilateral trade between the U.S. and Canada.

Food is the least important commodity category (11.3 per cent) in PAFTA trade, and only Japan is a net importer (Fig. 5). The most significant change was the decrease in importance of trade between America and Canada.

FIG. 4. SHARE IN THE TOTAL INTRA-AREAL TRADE OF FIVE PACIFIC COUNTRIES: RAW MATERIALS (*R*-GOODS) TOTAL SHARE 20.45 per cent

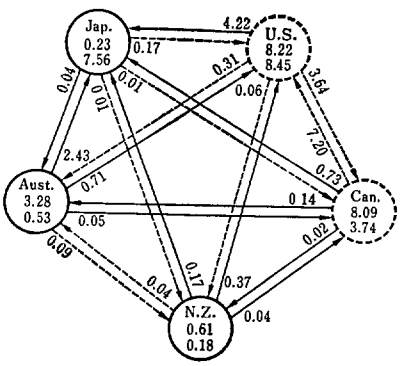
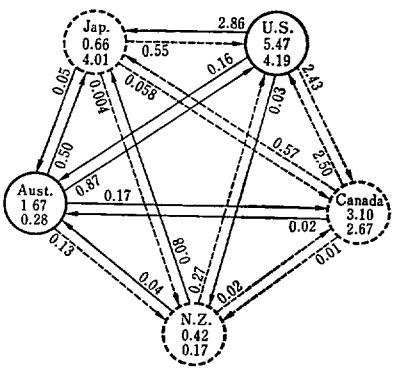


FIG. 5. SHARE IN THE TOTAL INTRA-AREAL TRADE OF FIVE PACIFIC COUNTRIES: FOOD (*F*-GOODS) TOTAL SHARE 11.32 per cent



The expansion of horizontal trade in manufactured goods can be regarded as the primary acceleror of rapid growth and prosperity of the EEC's intra-bloc trade[5] (Table 7). In order to ascertain whether or not similar progress in horizontal trade between the PAFTA countries has been taken place, the degree of horizontal trade[6] is calculated (Table 8).

[5] Kiyoshi Kojima, "The Pattern of International Trade Among Advanced Countries," *Hitotsubashi Journal of Economics*, June 1964, pp. 24-26.

[6] The degree of horizontal trade between two countries for a certain commodity category (denoted by D) is calculated as follows: where country A's imports of commodity h from country B is A_h and country B's imports of the same commodity h from country A is B_h:

$$D=\frac{B_h}{A_h}\times 100, \quad \text{if } A_h>B_h \quad \text{or} \quad D=\frac{A_h}{B_h}\times 100, \quad \text{if } A_h<B_h .$$

The degree of aggregate horizontal trade (denoted by $\bar{D}$) can also be calculated as the weighted average of D of several commodities by using as weights the percentage ratio of the total of A_h and B_h in the total trade of the two countries, or it is shown as follows:

$$\bar{D}=\Sigma\frac{B_h}{A_h}\cdot\frac{A_h+B_h}{M_A+M_B} \quad (\text{if } A_h>B_h)$$
$$+\Sigma\frac{A_h}{B_h}\cdot\frac{A_h+B_h}{M_A+M_B} \quad (\text{if } A_h<B_h),$$

where M_A represents country A's total imports from country B and M_B, country B's total imports from country A.

The degree of horizontal trade is always less than 100 and the closer it is to 100, the further the horizontal trade is carried out and balanced within the same commodity category or aggregate categories.

TABLE 7. DEGREE OF HORIZONTAL TRADE IN EEC COUNTRIES

upper column, 1956–58 averages
middle column, 1960
lower column, 1965

(a) Trade between each two countries in EEC

(b) Trade of each country with EEC as a whole

	$c_1 \cdot c_2$	$c_1 \cdot c_3$	$c_1 \cdot c_4$	$c_1 \cdot c_5$	$c_2 \cdot c_3$	$c_2 \cdot c_4$	$c_2 \cdot c_5$	$c_3 \cdot c_4$	$c_3 \cdot c_5$	$c_4 \cdot c_5$	$c_1 \cdot E$	$c_2 \cdot E$	$c_3 \cdot E$	$c_4 \cdot E$	$c_5 \cdot E$
$D:N_1$	2 2 3	8 59 4	81 59 8	55 84 3	21 22 48	3 9 16	27 46 18	100 33 25	50 43 40	67 99 72	21 33 4	13 7 17	19 48 62	39 68 73	98 96 90
N_2	32 23 19	8 10 22	56 38 23	6 7 5	42 79 63	61 62 89	24 18 20	58 72 97	22 18 13	27 33 48	12 12 14	95 82 71	32 45 79	46 59 96	15 15 16
N_3	29 15 39	49 73 62	28 32 35	29 28 27	16 16 21	35 27 47	91 90 50	11 12 8	24 41 24	94 96 96	32 42 36	35 27 49	50 27 48	95 93 95	59 42 43
N_4	58 38 70	16 19 21	28 29 39	90 95 80	20 27 34	78 59 53	18 17 64	84 41 18	65 39 14	70 66 65	48 41 64	77 71 96	21 28 70	59 50 47	72 74 82
L_1	55 30 46	73 35 26	97 72 53	63 98 97	76 72 47	58 43 79	33 25 76	24 22 33	31 33 17	59 63 58	92 53 52	62 44 76	60 40 30	85 89 74	57 67 71
L_2	30 39 38	11 23 99	15 25 45	16 28 41	51 56 65	45 47 94	78 72 80	69 88 67	81 79 47	96 91 64	18 29 51	76 74 56	31 40 82	46 52 84	46 59 54
C_1	73 77 90	18 35 67	65 44 50	45 54 64	62 34 67	51 62 54	94 97 90	12 11 44	36 50 98	19 29 37	82 80 96	95 86 86	28 32 67	41 42 47	41 51 59
C_2	20 52 54	34 59 87	9 13 50	14 29 41	64 99 52	37 26 65	81 72 73	36 39 62	56 69 71	50 55 53	17 36 55	52 94 73	68 81 83	55 52 76	31 42 50
$\bar{D}:T$	47 49 57	28 37 56	43 37 47	34 49 53	50 59 53	53 49 65	55 54 63	32 31 49	36 34 47	50 55 54	46 48 58	72 74 74	43 47 66	59 59 69	43 49 54
N	46 29 40	15 24 25	60 32 33	35 39 30	27 43 45	60 49 60	33 31 36	43 44 48	26 16 15	58 60 62	31 30 34	69 63 66	32 36 71	63 62 75	45 41 43
L	48 32 44	56 32 44	69 59 51	47 77 81	70 68 52	55 44 83	42 35 77	35 35 42	40 41 23	64 67 59	68 46 52	66 52 71	53 40 43	77 82 76	55 65 67
C	48 67 70	28 49 80	38 31 50	29 42 51	63 69 58	47 51 58	89 86 81	22 21 55	48 60 81	34 42 46	48 60 72	77 89 79	51 58 77	47 46 62	36 47 54
$L+C$	48 58 62	37 43 65	46 38 50	33 51 61	65 69 56	49 49 66	76 73 79	27 26 50	45 53 61	47 53 52	54 56 66	74 80 77	51 52 64	57 58 67	42 53 59

Note: c_1=West Germany, c_2=France, c_3=Italy, c_4=Belgium and Luxemburg, c_5=Netherland, E=EEC. Reproduced from Kiyoshi Kojima, "The Pattern of International Trade Among Advanced Countries," *Hitotsubashi Journal of Economics*, June 1964, pp. 25–26, for 1956–58 and 1960.

TABLE 8. DEGREE OF HORIZONTAL TRADE IN PACIFIC COUNTRIES

upper column, 1958
lower column, 1965

(a) Trade between each two countries

(b) Trade of each country with PAFTA

	$a\cdot b$	$d\cdot e$	$a\cdot c$	$b\cdot c$	$a\cdot d$	$b\cdot d$	$b\cdot e$	$a\cdot e$	$c\cdot e$	$c\cdot d$	$a\cdot f$	$b\cdot f$	$c\cdot f$	$d\cdot f$	$e\cdot f$
$D:N_1$	46.7 17.5	0.4 1.1	0.2 0.2	0.04 0	0 0	0 0	0 0	0 0	0 0	0 0	41.3 50.2	20.5 82.5	0.1 0.1	0.2 1.2	0.4 1.1
N_2	58.6 68.2	50.6 66.3	17.6 74.3	34.7 62.9	12.9 17.9	11.1 13.1	11.7 29.0	2.5 10.7	94.3 4.5	43.9 19.5	44.2 62.4	64.2 76.6	18.9 58.9	28.6 19.9	14.2 24.6
N_3	45.2 57.8	74.6 98.7	7.5 5.8	8.9 3.1	82.5 28.0	38.2 57.1	58.9 28.3	5.3 6.8	5.9 0.9	0.3 1.1	97.2 88.3	44.4 53.9	4.8 3.8	20.5 12.8	17.3 12.1
N_4	48.3 46.0	0.7 1.6	0.1 1.4	0 0.2	96.2 84.0	0 6.5	0 0	0 0	0 84.3	0.9 3.2	66.8 84.1	47.1 41.3	0.1 1.8	35.6 23.7	7.8 4.9
L_1	34.1 62.7	64.7 97.3	2.5 7.6	0.3 2.2	24.5 7.5	3.0 1.3	0 0	4.1 0.2	0.2 0.3	2.2 4.4	24.2 39.7	39.9 71.1	2.2 6.6	21.7 11.3	33.9 32.9
L_2	8.9 15.8	1.0 2.5	33.5 24.9	5.6 0.4	2.9 0.2	0 23.8	0 0	0 0	0 0	0 0.1	36.1 59.6	9.5 16.3	28.8 21.2	17.0 43.7	0.3 1.8
C_1	76.7 63.7	18.3 12.2	68.7 32.7	80.3 94.1	95.8 35.5	1.4 9.9	6.8 0	48.7 40.0	39.9 15.5	29.8 19.5	84.2 57.4	75.4 63.1	75.2 35.0	80.7 53.2	24.8 15.8
C_2	18.4 31.2	2.0 3.6	31.9 73.6	18.3 14.2	2.1 0.5	1.4 1.7	0 0	0.3 0.2	0 0	7.4 0.8	19.0 39.6	19.9 33.2	39.5 60.8	17.3 9.5	1.0 1.3
$\bar{D}_i^i:T$	43.6 47.2	26.3 30.5	18.2 30.2	7.8 21.9	48.2 16.1	10.2 13.1	12.6 9.0	5.9 8.4	15.4 6.5	2.6 5.2	53.3 54.8	44.3 50.3	17.1 24.1	30.1 20.4	15.4 13.8
F	57.1 58.4	21.2 40.7	7.7 28.2	3.6 9.5	12.9 17.4	11.4 13.0	11.7 29.0	2.5 10.7	94.3 4.5	10.8 11.3	43.6 58.5	55.5 78.1	6.9 22.5	17.5 16.9	12.1 21.8
R	47.1 50.7	27.8 56.0	5.4 4.1	4.8 1.3	87.2 42.4	29.0 39.5	49.3 24.3	4.7 6.2	5.0 4.7	0.4 1.8	84.4 86.2	46.1 46.4	3.7 3.1	23.9 16.2	14.2 11.1
N	50.5 53.1	24.9 47.2	6.2 14.6	3.8 5.1	69.3 29.7	22.4 26.2	22.0 25.9	3.3 8.0	18.8 4.7	1.5 3.5	70.3 76.0	49.5 56.8	4.8 10.3	22.5 16.4	13.1 15.7
L	29.0 50.4	58.9 55.1	8.3 12.0	1.4 1.8	13.1 4.9	2.8 5.1	0 0	1.9 0.1	0.2 0.3	2.1 3.9	26.7 44.9	33.8 56.9	7.3 10.0	21.0 19.5	27.7 22.1
C	22.4 42.9	13.6 8.6	21.5 54.2	43.2 69.1	36.7 9.0	1.4 4.9	2.2 0	18.6 10.9	30.8 12.3	23.0 11.2	52.0 46.3	44.9 44.3	54.1 48.0	47.7 25.2	14.8 8.6
$L+C$	39.6 44.9	27.5 25.3	26.1 43.5	12.9 38.0	33.7 8.2	1.9 4.9	2.0 0	14.4 8.8	8.5 7.8	5.9 7.8	42.9 45.9	41.2 47.7	27.3 32.2	39.1 23.5	18.9 12.6

a=USA, b=Canada, c=Japan, d=Australia, e=New Zealand, f=PAFTA

i. The aggregate degree of horizontal trade within PAFTA for all commodities, $\bar{D}_T$, in 1965, was high in the case of the U.S. and Canada, 54.8 and 50.3 respectively, while that of Japan (24.1), Australia (20.4) and New Zealand (13.8) was low. In bilateral trade, $\bar{D}_T$ was high only in the American-Canadian trade (47.2) and low in all other bilateral trading, spreading from 30.5 to 5.2. The higher figures compare well with intra-areal trade in the EEC which, however, has no lower degree even in bilateral trade.

ii. In the EEC, the degree of horizontal trade has rapidly increased in general from 1956-58 and 1965 (Table 7). In PAFTA trade, the degree has increased from 1958 to 1965 in bilateral trade among the U.S., Canada and Japan, while it has decreased in Australia-PAFTA, Australia-America, New Zealand-PAFTA, New Zealand-Canada, and New Zealand-Japan trade.

iii. In the degree of horizontal trade by the commodity (D), the higher figures and/or those which show the most significant increase are to be found in heavy manufactures and chemicals (C_1 and C_2) among the trade of the U.S., Canada and Japan; for example, in C-goods it has increased from 22 in 1958 to 43 in 1965 in American-Canadian trade, from 22 to 54 in American-Japanese trade, and from 43 to 69 in Canadian-Japanese trade. These higher degrees of horizontal trade in heavy manufactures and chemicals are equivalent to those in EEC. The trade of Australia and New Zealaned in this commodity category is low and decreasing in the degree of horizontal trade with other PAFTA countries.

iv. Higher degrees of horizontal trade in raw materials (R-goods) are shown in the trade of America-Canada, America-Australia, Canada-Australia, Canada-New Zealand, and Australia-New Zealand. The promotion of horizontal trade in raw materials between the PAFTA countries, except Japan, would be fruitful. In food (F-goods), horizontal trade has not progressed except in the trade of America-Canada and Australia-New Zealand.

In short, horizontal trade between PAFTA countries, with the exception of American-Canadian trade, is not well developed relative to that of the EEC. This would suggest us that there is a plenty of room to expand PAFTA trade through the promotion of horizontal trade, particularly in heavy manufactures and chemicals, and raw meterials as well.

4. *Summary*

The analysis of recent trends in the Pacific trade suggests to us, first, that trade between the five Pacific countries (USA, Canada, Japan, Australia, and New Zealand) has been growing rapidly, and interdependence has intensified. This provides a foundation for moving towards closer economic co-operation and, perhaps, integration.

Secondly, although extended Pacific trade had the same scale as European trade in 1958, the latter has gone ahead of the former since then. This suggests a need of closer economic co-operation in the extended Pacific region which possesses huge potential for economic development.

Thirdly, the growth centres of the PAFTA trade have been Japan, Australia and U.S.A., while Canada and New Zealand have been lagging behind. Heavy manufactures and chemicals, as well as sophisticated light manufactures, have been leading sectors in trade expansion, while trade in primary produce and traditional light manufactures has been relatively stagnant. Differences by commodity in the growth of trade has a close relation to the growth rate of each country's trade.

These trends suggest the main policy targets for further expansion of the Pacific trade.

III. *Static Effects of PAFTA*

The formation of a Pacific Free Trade Area would, in fact, bring about more comprehensive trade liberalization amongst participating countries, with the elimination of tariffs on a substantial proportion on their commodity trade, and would result in a larger trade expansion than is possible through tariff reductions of the Kennedy Round type. Complete regional trade liberalization would appear to have considerable advantages over partial trade liberalization 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 alternative for mutual trade expansion among the five advanced Pacific countries.

1. *Effects of Tariff Elimination in PAFTA*

Here an attempt is made to estimate the impact of the elimination of tariff upon the five Pacific countries which might constitute a Pacific Free Trade Area, on the basis of 1965 trade figures. The method of the estimation is the same as that used in the author's former paper[7] based on the 1963 trade figures.

The impact effect of Pacific tariff elimination would be to increase trade by $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 (Table 9).[8]

The gains from tariff elimination would not be equally distributed amongst the five Pacific countries involved. Japan's exports would increase by $1,740 million, or 56 per cent on her total exports to PAFTA countries, and her imports would increase by $430 million, or 14.7 per cent on her total imports from PAFTA countries. Japan's trade balance with the Pacific, which was roughly in equilibrium in 1965, would consequently improve by $1,310 million. United States' exports would increase by $2,300 million, or 27.9 per cent, and imports by $2,280 million, or 30.1 per cent, and the favourable balance in United States' trade with the Pacific, of about $850 million in 1965, would be preserved. On the other hand, imports would rise more rapidly than exports for the remaining three countries. Canada's exports would increase by $855 million but her imports would rise by $1,480 million; Australia's exports would increase by $65 million, whereas her imports would rise by $650 million; and New Zealand's exports would grow by $22 million, whilst her imports would rise by $140 million.

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 industrialization in Canada, Australia, and New Zealand. Indeed, the pursuit of this objective would be facilitated through the dynamic effects of establishing a larger and completely free

[7] Kiyoshi Kojima, "A Pacific Economic Community and Asian Developing Countries," *Hitotsubashi Journal of Economics*, June 1966, pp. 23–26.

[8] It was estimated that the increase would be $ 3,183 million or 23 per cent of the total intra-area trade in 1963 (Kiyoshi Kojima, *ibid.*, pp. 23–24). A greater increase in 1965 than in 1963 is due to the faster expansion in manufactured trade than in trade of primary products during that period.

TABLE 9. STATIC EFFECTS OF THE FORMATION OF PAFTA

(a) Value of Increase (million dollars) base year=1965

		a USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	Pacific Countries
a. USA	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
b. 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
c. 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
d. 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
e. N.Z.	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 (%) in trade due to the Elimination of Tariffs

		a USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	Pacific Countries
a. USA	$\Delta X/X$	—	26.06	19.85	61.48	53.13	27.92
	$\Delta M/M$	—	17.03	58.59	7.24	8.56	30.10
b. Canada	$\Delta X/X$	17.03	—	5.86	29.79	20.95	16.74
	$\Delta M/M$	26.06	—	35.43	0.44	0.94	26.17
c. 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
d. 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
e. N.Z.	$\Delta X/X$	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

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.[9]

As shown in Table 10, in terms of intra-areal trade in 1965, the increase of trade in food and raw materials would be limited (4.5 per cent and 2.0 per cent respectively) while that of light manufactures as well as heavy manufactures and chemicals would be considerable (40.8 per cent and 39.5 per cent respectively). This is also true for each country. These results are as might be expected since existing tariffs and elasticities of demand are low for primary products and high for manufactures. Thus, the elimination of tariffs would promote trade in manufactures of the area as a whole and bilateral horizontal trade, but it would not stimulate to the same degree trade in primary products. These differences result from a variety of effects in each country along the lines mentioned above.

TABLE 10. STATIC EFFECTS OF PAFTA: BY COMMODITY GROUPS

		Food		Raw Materials		Light Manufactures		Heavy M. and Chemicals	
		ΔX or ΔM	$\Delta X/X$ or $\Delta M/M$	ΔX or ΔM	$\Delta X/X$ or $\Delta M/M$	ΔX or ΔM	$\Delta X/X$ or $\Delta M/M$	ΔX or ΔM	$\Delta X/X$ or $\Delta M/M$
a. USA	Ex.	34.4$m	3.49%	27.9$m	1.88%	432.0$m	35.22%	1,807.4$m	39.73%
	Im.	43.4	5.75	38.9	2.55	933.5	45.40	1,267.4	38.98
	Bal.	−9.0		−11.0		−501.5		540.4	
b. Canada	Ex.	18.6	3.33	27.7	1.90	177.3	18.52	631.8	29.60
	Im.	6.4	1.33	12.9	1.92	332.0	30.79	1,129.4	32.97
	Bal.	12.2		14.8		−154.7		−497.6	
c. Japan	Ex.	29.9	25.07	1.6	3.96	888.2	61.68	823.3	54.40
	Im.	23.5	3.25	8.8	0.65	79.8	11.54	318.6	44.96
	Bal.	6.4		−7.2		808.4		504.7	
d. Australia	Ex.	6.7	2.24	11.8	1.99	8.8	14.56	37.2	22.89
	Im.	11.3	22.77	9.2	9.72	138.1	41.31	491.9	66.35
	Bal.	−4.6		2.6		−129.3		−454.7	
e. New Zealand	Ex.	1.2	1.59	4.9	4.45	4.3	22.17	11.7	56.95
	Im.	6.3	19.94	4.1	12.65	25.2	26.18	104.2	41.03
	Bal.	−5.1		0.8		−20.9		−92.5	
Pacific Countries	Ex.	90.8	4.45	73.9	2.01	1,510.6	40.79	3,311.4	39.51
Total Exports of Pacific Countries in 1965		2,040.3		3,684.6		3,703.5		8,381.1	

[9] Trade diversion effects are not estimated here. If these are included, the expansion of PAFTA trade would be much larger than our estimates show.

How the trade balance between each pair of countries would change is also shown in Table 9. Japan would improve her trade balance with all four countries in the area; the United States would do the same with three countries, except Japan; Canada's trade balance would deteriorate with the United States and Japan, while improving with Australia and New Zealand; Australia's would deteriorate with three countries, except New Zealand; and New Zealand's would deteriorate with all four countries. These results, as mentioned already, depend upon the degree of concentration of exports in manufactures or in primary products respectively.

In view of close trade ties and greater possibilities for increasing trade through the reduction or elimination of tariffs, a Paciffic Free Trade Area among the United States, Canada, Japan, Australia, and New Zealand offers a target worth studying, although it presents a number of problems which need to be solved before its establishment.

The estimation of the effects of trade liberalization makes some of these problems clear:

i. Although the establishment of PAFTA would result in a sizable expansion of intra-areal trade as a whole, the distribution of gains between the exporting and the importing countries of manufactured goods would be so unequal that no consensus towards the establishment of the PAFTA would be obtainable. Before its establishment, concerted actions of the PAFTA countries to promote export-oriented industrialization of Canada, Australia, and New Zealand would be needed.

ii. As shown in Table 10, heavy manufactures and chemicals would expand remarkably due to the elimination of tariffs both in exports and imports in all the five Pacific countries. The promotion of horizontal trade within the area in these commodities should be the primary goal sought by the five countries whether through the establishment of PAFTA or through alternative measures. These industries can realize the largest dynamic effects through the enlargement of markets and through the freer movement of capital, technical and managerial know-how beyond national frontiers. These dynamic effects would work more favourably for the relatively small countries which have abundant natural resources. It should be noted that the freer movement of capital in this area is much needed in order to promote horizontal trade in heavy manufactures and chemicals.

iii. It is estimated that trade in raw materials will expand by a very small percentage (2.0 per cent in the PAFTA as a whole), but greater potential for expansion of this trade can be expected, particularly in the exports of mineral products from Australia and Canada. Further expansion of heavy and chemical industries in the Pacific region would require a rapid development of trade in raw materials and intermediate goods within the area. The import surplus of Canada, Australia, and New Zealand in heavy manufactures and chemicals would be covered by the export surplus from them in raw materials. In agricultural raw materials, however, room for exporting should be provided to developing countries as far as they can produce them competitively.

iv. In the trade of light manufactures, the rate of increase due to liberalization would also be large (40.8 per cent in the PAFTA as a whole), but only Japan would enjoy a net increase in exports. Requests for protection of these light manufacturing industries in the U.S., Canada, Australia and New Zealand, mainly for the purpose of maintaining full employment, are so strong at this stage that to abolish trade barriers in this sector would encounter a number of difficulties. Moreover, all PAFTA countries ought to provide free access for developing countries' products of this type. How to foster structural adjustment in this

sector for the five Pacific countries as a whole by taking into consideration the expansion of trade with developing countries in Asia and Latin America would be an important but difficult problem.

v. The elimination of tariffs in itself would not change greatly trade in foodstuffs (expected increase being limited to 4.5 per cent), since a number of non-tariff restrictions exist either openly or covertly. Protectionism for agriculture is unreasonably strong, especially in Japan and the United States. Should these protectionist attitudes be rationalized, however, PAFTA trade in food offers much scope for expansion through mutual readjustment. Here, too, attention should be paid to the interests of developing countries.

Thus, the five Pacific countries should take measures to expand production and trade of heavy manufactures and chemicals as well as raw materials, on the one hand, and on the other, measures to readjust production and trade of light manufactures and food. Also they have to take into consideration readjustments for increasing trade with developing countries in Asia and Latin America. It might be best to concentrate on the expansion of production and trade in heavy manufactures, chemicals, and raw materials and refrain from pushing the abolition of protectionism in light manufacturing and agriculture, as a first step towards wider Pacific integration. If the expansion of growing sectors is sufficiently large and rapid, readjustments in the lagging sectors will follow smoothly without so much trouble. For this reason, the sectoral free trade approach has much to recommend it as a first step.

In order to expand harmonious production and horizontal trade in these growth sectors within the Pacific area, the elimination of tariffs should work effectively but it alone will not be enough, and a supplementary measures will be required. The free movement of capital and provision of larger markets or, in other words, the dynamic effects of economic integration should be promoted specifically.

2. *Effects of Global Tariff Reductions*

It is beyond our capacity for the time being, although admittedly very important, to estimate rigorously the effects of the Kennedy Round negotiations concluded in June 1967. Here a very rough estimation is attempted in order to show that even the largest global tariff reduction of the Kennedy Round scale would bring about a much smaller expansion of trade for the five Pacific countries than the establishment of the PAFTA.

In making this estimate, it is assumed, first, that the elasticity of imports (and exports) with regard to the reduction of tariff is the same as what adopted for each country's trade with the PAFTA. Secondly, the rate of tariff reductions was 100 per cent in the case of PAFTA, while it is assumed here to be 25 per cent for food, 30 per cent for light manufactures, and 35 per cent both for raw materials and for heavy manufactures and chemicals, for the Kennedy Round negotiations. Thirdly, it is assumed that all the countries in Europe, i.e., the United Kingdom, EEC and other Western Europe, reduce tariffs.

Because of these assumptions, the estimation would result in an over-valuation of the actual effects of the Kennedy Round tariff reductions. Our estimates indicate the maximum effect of the global tariff reductions which are likely to be realized. Results of the estimation are shown in Table 11.

Firstly, it should be noted that the rate of increase in trade due to tariff reductions is far larger in the case of the formation of PAFTA than in the case of the Kennedy Round. In the former case, the total intra-areal trade of the five Pacific countries in 1965 would increase

TABLE 11. COMPARISON OF STATIC EFFECTS OF PAFTA AND THE KENNEDY ROUND

		(a) PAFTA		(b) Kennedy Round	
		Value of Increase (million $)	Rate of Increase relative to total trade (%)	Value of Increase (million $)	Rate of Increase relative to total trade (%)
a. USA	Ex.	2,301.7	8.40	1,483.0	5.41
	Im.	2,283.2	10.65	1,711.8	7.99
	Bal.	18.5		− 228.8	
b. Canada	Ex.	855.4	10.02	369.8	4.33
	Im.	1,480.8	18.49	651.1	8.13
	Bal.	− 625.4		− 281.4	
c. Japan	Ex.	1,743.1	20.62	741.0	8.77
	Im.	430.7	5.27	278.2	3.41
	Bal.	1,312.4		462.8	
d. Australia	Ex.	64.5	2.17	39.6	1.33
	Im.	650.6	19.29	504.7	14.96
	Bal.	− 586.1		− 465.1	
e. New Zealand	Ex.	22.1	2.19	15.4	1.53
	Im.	139.7	14.46	102.6	10.62
	Bal.	− 117.6		− 87.2	
Pacific Countries	Ex.	4,986.8	10.31	2,648.8	5.48
	Im.	4,985.0	11.88	3,248.4	7.74
	Bal.	0		− 599.6	
1965: Total Exports		48,371.0			
Total Imports		41,948.0			
Balance		6,423.0			

by 10.3 per cent and 11.9 per cent respectively for total exports to and imports from the world, while in the latter case by 5.5 per cent[10] and 7.7 per cent respectively. This suggests to us that a complete regional trade liberalization would be better than partial free trade in respect of the world market for the five Pacific countries as a whole and for each of them.

Secondly, balance of payments effects too would be more advantageous in the case of

[10] The rate of increase in a country's exports is proportional to (a) the rate of tariff reductions and (b) the coverage of area which reduces tariffs for the country's exports. Let r_F and r_G stand for the rate of tariff reductions in the case of free trade area and of global negotiation respectively, and x_F and x_G for the share in a country's total exports to the free trade area and to the countries which reduce tariffs outside the free trade area in global negotiation respectively. Then, according as $x_F/(x_F+x_G)$ is greater than, or equal to, or smaller than r_G/r_F, the increase of a country's exports in the case of free trade area is greater than, or equal to, or smaller than that in the case of global tariff reductions. For the five Pacific countries taken together, in 1965, $x_F=0.37$, $x_G=0.28$ and $x_F/(x_F+x_G)=0.57$. This is greater than $r_G/r_F=0.3/1$, and therefore, the establishment of PAFTA would bring about a greater gain of exports than in the global tariff reductions of the Kennedy Round scale.

PAFTA than in the case of global tariff reductions. In the former case, the balance of increments between exports and imports would be zero for the five Pacific countries taken together, while it would be in deficit by $600 million in the latter case. For each country, it may be better to compare in both cases the ratio of imbalance to the sum of incremental exports and imports. The ratio would be 60.4 per cent in the case of PAFTA and 45.4 per cent in the case of global tariff reductions for Japan, 0.4 per cent and −7.2 per cent for the U.S., −26.8 per cent and −27.6 per cent for Canada, −82.0 per cent and −85.4 per cent for Australia, and −72.7 per cent and −73.9 per cent for New Zealand. These disadvantageous trade balance effects in the case of global tariff reductions are due to the fact that a group of countries (i.e., developing countries and socialist countries) does not reduce tariffs but is allowed a "free ride" on the Pacific countries' tariff reductions. The more favourable effects of establishing PAFTA as compared with global tariff reductions should be closely noted by the five Pacific countries, particularly in view of the prospect that another global negotiation of tariff reductions as large as the Kennedy Round scale would not take place in the coming ten to twenty years.

3. *The Choice for Japan*

The best choice for Japan is to expand and free mutual trade with every trading region. The present stage of her industrialization, her dual pattern of trade with developed and developing countries, and her geographical location dictate such a choice.[11] However, if a further global tariff reduction is not expected to be feasible in the near future and if, moreover, the compartmentalization of world trade is promoted further, it would be a serious concern for Japan to devise measures for expanding trade on an assured basis through establishing the Pacific Free Trade Area or some other alternative.

The establishment of PAFTA would bring the largest gain to Japan among the five Pacific countries. Japan's exports would increase by $1,740 million or 20.6 per cent of her total exports and her balance of trade with area would improve by $1,310 million. These gains would be far greater than in the case of global tariff reductions of the Kennedy Round scale which would increase Japan's exports by 8.8 per cent.

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. European markets are not important (13 per cent) for Japan.

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

When the time comes for Japan to consider economic integration, it should be a Pacific Free Trade Area. Japan is destined by geography to participate in political arrangements in the Pacific rather than in Europe. Moreover, economic integration without the United States, whose importance for Japan's market is as large as 30 per cent, offers lesser incentive for Japan to join.

Thus, Japan would benefit from the establishment of PAFTA, or from some other alternative, through the cheaper import of raw materials and other primary products, the expansion

[11] Kiyoshi Kojima, "Trade Arrangements among Industrial Countries: Effects on Japan," in Bela Balassa, *Studies in Trade Liberalization*, The Johns Hopkins Press, Baltimore, 1967, p. 211.

of her exports of light manufactures, and the promotion of horizontal trade in heavy manufactures and chemicals.

The formation of PAFTA or some other alternative for economic co-operation among the five Pacific countries is desired by Japan for another reason. Collective measures by the group are especially desirable for assisting economic development and trade growth in Southeast Asian countries.

Asian markets are very important for Japan relative to for other Pacific advanced countries. The share of Asia (excluding Mainland China) in Japan's total exports is as large as 26 per cent, though it has been decreasing. Japan cannot disregard the interests of developing countries, especially in South and Southeast Asia, and the same applies to the United States vis-à-vis Latin America. The question is often raised: should Japan rely on the rapidly increasing but competitive markets in developed countries, or on the complementary but more slowly expanding markets in developing countries? She has, in fact, to expand trade in both directions.

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 general preferential tariffs[12] in favour of the developing countries. Moreover, the five Pacific countries should provide assistance more efficiently and on a larger scale to foster structural adjustment in their own industries in order to open wider markets for developing countries products. Concerted policy measures among the five Pacific countries are urgently required.

In this context, Japan's attitude towards Mainlaind China present a problem. Political, military, and ideological troubles aside, however, it is obvious that main supply sources of natural resources and profitable markets for Japan are not the Asian mainland but the extended Pacific region.

Although it seems to be quite beneficial for Japan to establish the Pacific Free Trade Area, there is hesitation and/or caution in Japan about stepping out in that direction. One of the reasons for hesitation is heavy protectionism for agriculture which needs time to be rationalized. The other is fear about the penetration and domination of American capital. These difficulties and worries should be remedied from a wider viewpoint of economic co-operation within the extended Pacific region.

IV. *Closer Pacific Trade Partnership*

At this stage, the PAFTA proposal 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 are presently worldwide 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.[13]

[12] See, Kiyoshi Kojima, "General Preferences to Developing Countries: A Japanese Assessment," *The United Malayan Banking Corporation Economic Review*, forthcoming.

[13] Cf. John W. Evans, *U.S. Trade Policy, New Legislation for the Next Round*, Council on Foreign Relations, 1967. Alfred C. Neal, "Economic Necessities and Atlantic Communities," *Foreign Affairs*, July 1967. William Diebold, Jr., "Doubts about Atlantic Free Trade," *The Round Table*, October 1967. William Diebold, Jr., "Future Negotiating Issues and Policies in Foreign Trade," *Issues and Objectives of U.S. Foreign Trade Policy*, Joint Economic Committee, Congress of the United States, September, 1967.

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.[14]

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

However, the realization of PAFTA might be precipitated by a shock which came from outside the area. Greater European integration between EEC and EFTA could produce an "inward looking" Europe whereupon the United States might well find closer integration in the Pacific desirable and necessary. Should the United Kingdom fail again to join the EEC, she might probe the establishment of a North Atlantic Free Trade Area with the United States and Canada.[15] In the case, Japan, Australia and New Zealand might have to consider seriously their own integration. Moreover, PAFTA and NAFTA might be linked together through the U.S. and Canada which would belong to the two free trade areas.[16]

Economic integration in the Pacific should be a free trade area instead of 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 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.[17]

Whether or not a free trade area can ultimately be established, the five advanced Pacific countries should now set about establishing closer and more profitable trade partnerships with each other. To date, the United States has tended to look toward the possibility of ultimately 'going in with Europe', and has tended to neglect the Pacific region. The flow of financial resources and direct investment from America to Pacific basin countries, including Asian and Latin American countries, has lagged behind that going to Europe.[18] The Pacific, Asian, and

[14] A comment against PAFTA is presented by H.W. Arndt, "PAFTA: An Australian Assessment," *Intereconomics*, Hamburg, October 1967, to which there is a reply by Kiyoshi Kojima, "A Pacific Free Trade Area: Reconsidered," *ibid.*, March 1968.

[15] Maxwell Stamp Associates, *The Free Trade Area Option, Opportunity for Britain*, the Atlantic Trade Study, London, 1967. Theodore Geiger and Sperry Lea, "The Free Trade Area Concept as Applied to the United States," *Looking Ahead*, National Planning Association, Washington, October 1967.

[16] If NAFTA is instituted among the U.S., Canada and Britain while PAFTA is not, Japan should join the former since otherwise she would suffer from large-scale trade diversion. It is estimated that "the UK would capture about 10 per cent of Japanese trade (say about $225 million) in North American markets, if Japan were not in NAFTA." (Maxwell Stamp Associates, *The Free Trade Area Option, ibid.*, p. 44). Since the NAFTA proposal aims at freeing of non-agricultural trade, Australia and New Zealand would be less interested in joining (*Ibid.*, p. 38). Both for NAFTA and PAFTA, a crucial question is: "Would the Americans accept the free trade area concept of a new Grand Design?" (*Ibid.*, p. 78).

[17] See, Harry G. Johnson, "Proposals for a North Atlantic Free Trade Area," an address to the European-Atlantic Group, 6 March 1967, pp. 4-5. Canadian-American Committee, *A Canada-U.S. Free Trade Arrangement, Survey of Possible Characteristics*, October 1963. *Ditto., A Possible Plan for Canada-U.S. Free Trade Area, A Staff Report*, February 1965. *Ditto, A New Trade Strategy for Canada and the United States*, May 1966.

[18] The financial resources flows from developed to developing countries in 1964 were $8.51 per capita for Africa, while they were $3.92 for Latin America, $2.85 for South Asia, and $3.88 for Far East. The last one was, however, very small if aid to South Vietnum is excluded. (OECD, *Geographical Distribution of Financial Flows to Less Developed Countries*, 1966.)

The U.S. Direct foreign investments, amounting to $49,328 million at the end of 1965, have directed mainly to Canada (30.9 per cent), EEC (12.8 per cent) and other Europe (15.6 per cent), while Oceania (3.7 per cent) and Japan (1.4 per cent) have benefited not only very limited amount but also in slower increase relative to Europe (US Department of Commerce, *Survey of Current Business*, September 1967).

Latin American region has a huge potential for trade growth and development compared with Europe, and it should be looked at more closely.

Studies and proposals about Pacific trade expansion have been quite limited. However, recently a movement in this direction has been initiated. The Canada-United States Automotive Agreement has taken effect from January 1965. This should be given much attention as a pioneer of selective industrial integration.[19] The Australia-New Zealand Free Trade Agreement began in January 1966.[20] The Pacific Basin Economic Co-operation Committee was established among business circles of the five Pacific countries in April 1967; and a number of bilateral co-operative activities have been promoted in business circles. It should be noted also that Mr. Takeo Miki, Japan's Foreign Minister, is keenly interested in promoting economic co-operation in the Pacific and Asian region.

Before the establishment of PAFTA, several steps towards closer Pacific economic co-operation 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 of 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 realize 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,[21] and would 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

[19] See, Sperry Lea, "Free Trade by Sectors," NPA, *Looking Ahead*, September 1966.

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

[21] The assurance against the reimposition of duties in a free trade area would induce enterprises to expand trade and investment abroad. The code of good conduct would reduce uncertainty in international trade and be a partial substitute for the formation of free trade area. See, Bela Balassa, *Trade Liberalization Among Industrial Countries*, Council on Foreign Relations, 1967, pp. 160-161.

in heavy manufactures,[22] 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 markets 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.[23]

An *Organization 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.[24]

Further, a *Pacific Bank for Investment and Settlement* would be established with the aim of facilitating investment and settlement within the Pacific, Asian, and Latin American region, and equipped with a mechanism for preventing the drainage of gold from the United States.[25]

[22] N.P.G. Elkan suggests an interesting scheme for promoting horizontal trade in his article, "How to Beat Backwash: The Case for Customs-Drawback Unions," *Economic Journal*, March 1965. His plan may be applicable to trade between small economies like Australia and New Zealand but would be too cumbersome to work in wider markets. It seems to me that horizontal trade would be fostered most efficiently through the expansion of joint ventures and other private capital's activities.

[23] See, Kiyoshi Kojima, "A Proposal for International Aid," *The Developing Economies*, December 1964. *Ditto*, "Japan's Role in Asian Agricultural Development," *The Japan Quarterly*, April-June, 1967.

[24] Aid Committee could be set up first because of urgency for increasing aid and trade with developing countries.

[25] My own thought was shown in Kiyoshi Kojima, "A Proposal for Increasing International Liquidity," *The Oriental Economist*, Aug., 1964, which was reviewed in "How Aid Could be Untied," *The Economist* (London), July 25, 1964, pp. 401-402.

STATISTICAL APPENDIX: TRADE MATRIX BY COMMODITY GROUP (1,000 dollars)

upper column, 1958
middle column, 1963
lower column, 1965

(1) N_1-goods

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	Total Exports
a. USA	—	26,584	111,638	0	0	138,222	345,540	1,357,101
	—	169,236	204,498	166	168	374,068	197,018	2,380,451
	—	148,328	382,469	518	249	531,564	671,904	2,673,502
b. Canada	56,953	—	73,101	0	0	130,054	85,993	649,506
	38,831	—	91,142	0	0	129,973	25,017	855,727
	25,987	—	96,653	0	0	122,640	35,798	921,667
c. Japan	189	32	—	0	0	221	957	2,332
	0	0	—	0	0	0	0	7,028
	681	0	—	0	0	681	9,154	10,299
d. Australia	0	0	16,573	—	16,126	32,699	23,408	119,763
	0	0	25,100	—	11,013	36,113	62,816	414,944
	0	371	41,713	—	12,365	54,449	—	—
e. New Zealand	0	0	0	57	—	57	42	177
	0	0	0	0	—	0	0	256
	0	0	0	133	—	133	126	515
f. Pacific C.	57,142	26,616	201,312	57	16,126	301,253	455,940	2,128,879
	38,831	169,236	320,740	166	11,181	540,154	412,923	3,658,406
	26,668	148,699	520,835	651	12,614	709,467	—	—
g. Other Asia	226	240	42,708	0	52	43,226	—	—
	396	308	54,829	0	0	55,533	—	—
	442	0	110,374	—	0	—	—	—

(2) N_2-goods

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	Total Exports
a. USA	—	221,831	12,950	2,903	1,669	239,353	165,409	991,574
	—	276,358	84,106	24,146	4,047	388,657	202,841	1,720,225
	—	289,118	132,137	28,126	5,254	454,635	143,383	1,881,504
b. Canada	378,583	—	2,161	927	1,064	382,735	10,777	490,040
	309,832	—	4,784	3,130	988	318,734	1,891	497,129
	423,704	—	6,564	3,880	1,183	435,331	2,575	656,836
c. Japan	73,599	6,230	—	3,805	1,252	84,886	42,597	231,115
	82,355	4,722	—	4,721	557	92,355	22,679	282,497
	98,210	10,436	—	9,321	675	118,642	52,714	334,969
d. Australia	22,434	8,388	1,671	—	7,588	40,081	75,797	412,011
	222,174	41,827	63,460	—	20,472	347,933	56,885	677,903
	157,086	29,622	47,728	—	11,632	246,068	—	—
e. New Zealand	67,460	9,124	1,181	3,840	—	81,605	14,363	395,924
	82,376	6,532	8,687	5,150	—	102,746	8,476	449,063
	49,226	4,083	15,155	7,708	—	76,172	15,124	543,378
f. Pacific C.	542,076	245,573	17,963	11,475	11,573	828,660	308,943	2,520,664
	696,737	329,439	161,037	37,148	26,064	1,250,425	292,772	3,626,817
	728,226	333,259	201,584	49,035	18,744	1,330,848	—	—
g. Other Asia	351,700	175,633	359,583	14,881	1,898	903,695	—	—
	361,801	39,584	223,456	32,517	11,723	669,081	—	—
	364,050	30,085	250,290	—	12,794	—	—	—

(3) N_3-goods

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	Total Exports
a. USA	—	148,362	246,273	23,663	1,740	420,038	136,590	1,541,896
	—	37,616	501,773	29,197	3,189	571,775	241,118	1,999,188
	—	285,963	465,557	29,619	4,504	785,643	270,208	2,342,492
b. Canada	328,115	—	10,721	8,595	1,191	348,622	3,767	503,246
	427,859	—	55,011	13,291	1,249	497,410	2,852	709,297
	494,760	—	50,937	13,857	2,013	561,567	4,695	788,134
c. Japan	18,571	957	—	455	635	20,618	16,900	94,278
	29,921	1,261	—	0	101	31,283	30,482	140,857
	27,111	1,559	—	3,247	271	32,188	29,342	121,397
d. Australia	28,683	3,283	158,786	—	5,661	196,413	22,981	757,462
	51,607	6,606	312,167	—	4,245	374,625	39,315	1,102,113
	105,921	7,912	296,895	—	6,516	417,244	—	—
e. New Zealand	32,823	2,022	10,785	7,586	—	53,216	2,248	265,877
	65,363	5,871	24,981	8,237	—	104,452	3,441	363,966
	66,261	7,102	29,589	6,601	—	109,553	2,105	368,582
f. Pacific C.	408,192	154,624	426,565	40,299	9,227	1,038,907	182,486	3,162,759
	574,750	51,354	893,932	50,725	8,784	1,579,545	317,208	4,315,421
	694,053	302,536	842,978	53,324	13,304	1,906,195	—	—
g. Other Asia	468,726	20,256	206,763	31,240	5,475	732,460	—	—
	341,826	26,043	470,609	38,355	4,811	881,644	—	—
	395,142	25,828	481,355	—	6,638	—	—	—

(4) N_4-goods

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	Total Exports
a. USA	—	291,867	103,137	13,954	4,316	413,274	47,659	1,405,334
	—	303,732	415,180	23,992	4,741	747,645	70,805	1,457,962
	—	369,724	295,070	25,746	6,624	697,164	91,236	1,617,756
b. Canada	604,849	—	10,082	3,768	617	619,316	1,020	799,345
	736,661	—	78,873	6,433	765	822,732	7,366	1,138,190
	802,908	—	81,266	10,914	1,524	896,612	8,319	1,412,743
c. Japan	56	0	—	130	0	186	5,057	14,423
	0	0	—	0	0	0	0	21,743
	4,138	154	—	4,524	640	9,456	22,617	41,389
d. Australia	13,424	0	14,630	—	22,601	50,655	10,675	99,392
	13,625	128	81,824	—	28,170	123,747	13,735	159,984
	21,619	706	141,709	—	10,213	174,247	—	—
e. New Zealand	0	0	1,972	164	—	2,136	15	2,796
	0	0	152	112	—	264	0	680
	0	0	759	164	—	923	897	5,786
f. Pacific C.	618,329	291,867	129,821	18,016	27,534	1,085,567	64,426	2,321,290
	750,286	303,860	576,029	30,737	33,676	1,694,388	91,906	2,778,559
	828,665	370,584	518,804	41,348	19,001	1,778,402	—	—
g. Other Asia	118,849	1,183	160,293	81,612	17,144	379,081	—	—
	56,016	737	391,864	79,982	16,224	544,823	—	—
	74,570	1,625	465,898	—	111	—	—	—

(5) L_1-goods

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	Total Exports
a. USA	—	241,657	9,285	7,546	3,811	262,299	137,181	2,012,458
	—	523,423	11,697	62,969	12,532	610,621	175,503	2,312,407
	—	534,618	66,308	72,352	15,150	688,428	186,333	2,242,724
b. Canada	709,496	—	157	11,175	3,019	723,847	3,453	875,141
	722,596	—	1,323	18,253	3,905	746,077	10,171	956,139
	852,732	—	2,082	26,013	3,384	884,211	13,840	1,125,168
c. Japan	372,640	46,799	—	46,524	5,207	471,170	316,931	1,252,261
	565,454	64,536	—	76,789	19,204	725,983	437,640	1,927,510
	877,092	93,400	—	148,674	20,392	1,139,558	554,169	2,489,186
d. Australia	1,845	336	1,035	—	12,731	15,947	3,009	33,232
	6,740	277	4,446	—	23,101	34,564	8,384	55,515
	5,442	344	6,515	—	17,778	30,079	—	—
e. New Zealand	158	0	12	8,234	—	8,404	0	9,992
	311	0	0	12,915	—	13,226	560	15,597
	316	0	58	18,276	—	18,650	1,119	21,972
f. Pacific C.	1,084,139	288,792	10,489	73,479	24,768	1,481,667	460,574	4,183,084
	1,295,101	588,236	17,466	170,926	58,742	2,130,471	632,258	5,267,168
	1,735,582	628,362	74,963	265,315	56,704	2,760,926	—	—
g. Other Asia	152,216	21,025	2,802	38,990	10,793	225,826	—	—
	447,536	45,143	9,147	55,011	29,530	586,367	—	—
	660,157	60,017	27,142	—	26,089	—	—	—

(6) L_2-goods

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	Total Exports
a. USA	—	221,543	24,805	9,986	4,396	260,730	83,661	1,316,137
	—	293,164	52,461	25,929	4,799	376,353	120,375	1,549,827
	—	424,988	62,835	43,071	6,962	537,856	125,310	2,228,153
b. Canada	19,743	—	631	972	732	22,078	5,091	48,581
	66,231	—	1,143	6,234	1,069	74,677	4,253	146,045
	67,225	—	876	4,328	867	73,296	6,800	128,224
c. Japan	73,985	11,298	—	2,607	353	88,243	46,069	183,539
	166,333	14,721	—	7,373	1,591	190,018	64,028	429,651
	252,529	23,692	—	20,932	3,369	300,522	146,294	649,141
d. Australia	292	0	0	—	2,020	2,312	3,173	22,044
	111	224	0	—	12,323	12,658	5,905	41,242
	737	1,028	131	—	28,274	30,170	—	—
e. New Zealand	0	0	0	21	—	21	0	295
	0	0	0	127	—	127	0	366
	0	0	0	699	—	699	0	1,526
f. Pacific C.	94,020	232,841	25,436	13,586	7,501	373,384	137,994	1,570,596
	232,675	308,109	53,604	39,663	19,782	653,833	194,561	2,167,131
	320,491	449,708	63,842	69,030	39,472	942,543	—	—
g. Other Asia	6,766	838	136	554	194	8,488	—	—
	15,332	1,475	1,017	2,113	189	20,126	—	—
	23,381	2,549	2,305	—	545	—	—	—

(7) C_1-goods

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	Total Exports
a. USA	—	487,348	96,804	24,126	6,223	614,501	160,232	2,250,523
	—	502,269	214,675	69,682	13,654	800,280	393,990	2,998,195
	—	746,133	216,972	95,027	17,946	1,076,078	430,188	3,789,387
b. Canada	635,542	—	4,032	11,377	2,533	653,484	45,458	1,174,812
	930,271	—	37,866	18,263	8,273	994,673	53,841	1,505,568
	1,171,719	—	49,520	27,324	13,006	1,261,569	43,428	1,863,532
c. Japan	66,489	5,019	—	6,030	458	77,996	262,788	464,315
	264,946	17,975	—	28,143	13,511	324,575	271,486	1,163,256
	663,226	46,594	—	82,061	27,343	819,224	638,567	2,139,099
d. Australia	25,177	162	1,798	—	31,434	58,571	16,015	129,996
	16,701	941	12,209	—	67,530	97,381	22,783	191,112
	33,760	2,707	16,016	—	60,161	112,644	—	—
e. New Zealand	3,028	173	1,149	5,743	—	10,093	353	17,104
	1,543	0	227	10,405	—	12,175	263	20,625
	7,170	0	4,229	7,343	—	18,742	555	34,383
f. Pacific C.	730,236	492,702	103,783	47,276	40,648	1,414,645	484,846	4,036,750
	1,213,461	521,185	264,977	126,493	102,968	2,229,084	742,363	5,878,756
	1,875,875	795,434	286,737	211,755	118,456	3,288,257	—	—
g. Other Asia	54,285	2,420	14,836	2,633	1,079	75,253	—	—
	102,831	8,936	43,320	5,695	916	161,698	—	—
	165,640	17,960	63,007	—	1,775	—	—	—

(8) C_2-goods

Exports from \ to	*a* USA	*b* Canada	*c* Japan	*d* Australia	*e* N.Z.	*f* Pacific C.	*g* Other Asia	Total Exports
a. USA	— 1,154,081	186,262	82,678	15,387	1,438,408	391,139	6,280,843
	— 1,714,889	397,362	206,440	28,343	2,347,034	700,181	8,158,626
	— 2,590,852	415,702	398,966	68,181	3,473,701	740,448	9,982,123
b. Canada	212,494	—	2,081	12,458	5,482	232,515	24,437	451,701
	389,552	—	6,163	28,476	12,497	436,688	20,706	640,114
	809,140	—	5,410	46,233	12,368	873,151	27,070	1,184,005
c. Japan	59,362	11,365	—	3,233	458	74,418	155,970	620,428
	267,368	14,045	—	23,502	3,169	308,084	384,280	1,479,924
	564,777	38,232	—	82,801	8,294	694,104	731,709	2,621,116
d. Australia	1,699	180	238	—	14,914	17,031	11,132	48,953
	840	236	2,252	—	11,557	14,885	20,420	90,685
	1,902	802	684	—	46,714	50,102	—	—
e. New Zealand	48	0	0	302	—	350	212	708
	0	0	0	679	—	679	155	1,366
	124	0	0	1,680	—	1,804	404	3,109
f. Pacific C.	273,603	1,165,626	188,581	98,671	36,241	1,762,722	582,890	7,402,633
	657,760	1,729,170	405,777	259,097	55,566	3,107,370	1,125,742	10,370,715
	1,375,943	2,629,886	421,796	529,680	135,557	5,092,862	—	—
g. Other Asia	2,811	433	274	2,800	649	6,967	—	—
	11,729	515	2,110	685	658	15,697	—	—
	44,490	1,208	1,986	—	0	—	—	—

Note

Source: *UN, Commodity Trade Statistics.*

1. Figures are the value of exports from each country.
2. Since figures of Australia for 1965 are not available, exports of other four Pacific countries to Australia are shown as Australian imports, and imports of those countries from Australia are shown as Australian exports.
3. Figures of New Zealand for 1963 cover the period from July 1962 to June 1963.
4. "Other Asia" covers the same countries as shown in the footnote of Table 1.
5. As regards commodity classification, see the text.