

## ECONOMIC COOPERATION IN A PACIFIC COMMUNITY

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### The Concept of a Pacific Community

We may conceive of three basic concepts of a Pacific Community, each unique as a result of different areas of concern and different degrees of integration.

The first concept involves a high degree of institutional integration, such as the European Economic Community (E.E.C.), and is based upon a customs union or, to use a name once common, a "Pacific Free Trade Area," a possibility that I once advocated. A free trade zone with restrictions against non-members is not now feasible largely because it is inconsistent with the commitment of the United States and Japan to an open, multilateral, global economic system. Further, since the General Agreement on Tariffs and Trade (GATT) has been successful in reducing tariffs and other trade barriers throughout the world, a free trade area in the Pacific is no longer of any great value.

The second concept involves a much broader area of concern and reduced degree of integration. As Dr. Everett Kleinjans, President of the East-West Center, stated in recent testimony before the House Subcommittee on Asian and Pacific Affairs, "it [this concept of a Pacific Community] indicates friendly relationships among persons and institutions of different nations; it means cooperative research ventures in the various scientific, social scientific, and humanistic disciplines on problems of mutual concern; it means enlightened communication beyond racial, national, or cultural boundaries. Certain shared values, perceptions, beliefs, and behavior are necessary to improve communication and cooperation . . ."<sup>(1)</sup>

Similar views are expressed in a recent Japanese report. The late Prime Minister Masayoshi Ohira, keen to promote the "building of a Pacific Community," created a Pacific Basin Cooperation Study Group following his election in 1978, and this group recently issued a document entitled "Interim Report on the Pacific Basin Cooperation Concept." This report, ranking with the United States Senate's OPTAD proposal as an important and authoritative document, observes that: "The Pacific Basin Cooperation Concept, which we espouse here, is intended . . . to promote cooperative relations within the Pacific basin region and to take maximum advantage of the area's rich potential not only for the Pacific basin countries but also to enhance the prosperity and well-being of all peoples in the world."<sup>(2)</sup> It goes on to suggest expanded exchanges in the social and cultural fields to enhance mutual understanding, greater mutual efforts in scientific and technological research, and various new modes of economic cooperation. It does not touch upon the question of regional cooperation in political and military matters.

This concept of the Pacific Community is too broad, making the concept itself too vague and ambiguous and its objectives too diverse. The social and cultural bases for a Pacific Community are indeed important and should not be neglected, but mutual understanding and interaction can be enhanced short of creating a Pacific Basin-wide framework. The effort to build a Pacific Community should focus on a clear-cut objective, namely, the development of mechanisms for regional-multilateral cooperation in the efficient utilization of undeveloped economic potential so as to further the peace and security of all the peoples in the region. These are the most urgent and common concerns in the uncertain world of the present.

Hence, a third concept is necessary, one that is institutionally less rigid than that underlying the European Economic Community but yet more precise than that behind the current Japanese proposal. It is increasingly evident to me that the Senate's OPTAD proposal<sup>(3)</sup> is most appropriate in this respect. Although the precise nature of such an organization has yet to be defined, it would aim at fostering regional economic development by encouraging functional integration in several

important aspects involving certain less rigid institutional frameworks, the members of which would vary according to the particular function. As Professor Patrick states, an "OPTAD would be a governmental organization with a small administrative apparatus so as not to become heavily bureaucratic, with specific Task Forces to handle defined policy-oriented assignments, and an informal, consultative, communicative style of operations."<sup>(4)</sup> In short, it would provide a forum for consultation and cooperation among all the nations of the region, advanced and developing.

The Pacific basin, composed of the five advanced nations (United States, Japan, Canada, Australia and New Zealand) and the numerous developing nations of Asia, Latin America and Oceania, is a vast area with seemingly unlimited potential for economic development. In terms of population, in 1975 the total for the advanced countries was 365 million: 213 million in the United States, 112 million in Japan, 13 million in Australia, and 3 million in New Zealand. The Southeast Asian nations, led by Indonesia and followed by the Philippines, Thailand, Malaysia and Singapore, accounted for 235 million. In East Asia, China accounted for more than 900 million, while South Korea, Taiwan and Hong Kong added another 56 million to the total. The total in Latin America was approximately 275 million, while Oceania contributed another 4 million. Thus the overall population of the region was some 1835 million (or 1 billion 835 million) huge indeed when compared with Western Europe, the world's most recent great developmental center, with a total comparable population of approximately 259 million.

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

for regional integration and, hence, economic development.

While the Pacific rim countries have considerable potential for growth of trade and development, they have lacked the leadership and initiative necessary to develop this potential. A sense of solidarity and a framework for economic cooperation have yet to emerge in the Pacific region. The United States has maintained a general attitude of "going in with Europe" and has tended to neglect the Pacific region. At the same time, Japan, remembering the nightmare of the "Greater East Asian Co-Prosperity Sphere," has, at least until recently, hesitated to take any initiatives toward building a Pacific Community.

The model that comes first to mind for achieving these ends is, of course, the European Community. Active and adaptable leaders have, over the years, taken the initiative and built a prosperous Community within Europe itself and a broader Atlantic Community involving both Europe and North America. The first major event in this process was the inauguration of the European Economic Community in 1958. Among subsequent highlights were the complete elimination of inner tariffs in 1968; the enlargement of the community to include the United Kingdom, Ireland and Denmark in 1973; its further expansion by means of special arrangements with certain African, Caribbean and Pacific nations under terms of the Lomé Treaty of 1975; and the inauguration of the European Monetary System in 1979. Although the successful growth of the European Community has not been entirely a consequence of its institutional integration, such integration has been a major factor. This, as suggested earlier, may pose some problems so far as the Pacific is concerned.

In the same vein, the Organization for Economic Cooperation and Development (OECD), a group that evolved out of the Marshall Plan administration and now the principal group concerned with global economic cooperation, is sometimes cited as an organization that might be used to encourage greater cooperation in the Pacific. Appropriate as this suggestion may be in theory, in practice the group has retained its essential European-Atlantic orientation. Even after Japan, Australia and New Zealand became participants, its membership remained largely

European-Atlantic and its interests and policies have continued to be directed toward European-Atlantic problems. The interests and problems of the Pacific region, largely different in nature from those of the European-Atlantic region, have been neglected.

This bias is further evident in the five economic summit conferences convened by world leaders since 1975. Judging from the participants and topics of discussion, world concern remains fixed on Europe and the Atlantic regardless of the potential and the problems of the Pacific.

It seems to me that all of this leads to the conclusion that, valuable as the European experience may be as a general guide, we need our own unique forum in the Pacific to discuss political, cultural, and economic issues common to the region, and that the oft-mentioned OPTAD proposal comes closest to meeting this need. By now, Australia, Canada and New Zealand, turning their eyes away from the mother country and Europe, are keenly interested in peace and prosperity in the Pacific region. Notwithstanding the continued difficulties, industrialization in developing nations has been under way at a rapid tempo, especially in the Asian-Pacific nations. South Korea, Taiwan, Hong Kong and Singapore have developed into newly industrializing countries, and the other ASEAN countries will reach a similar stage in the not too distant future. Additionally, China has begun the modernization of her huge economy. Thus, both the five advanced countries and the developing nations of the Pacific are keen to take the initiative in establishing some kind of policy forum for economic cooperation among themselves.

### **Starting with an ASEAN-Pacific Forum**

It would be premature and difficult at this time to define the formal membership of an OPTAD. It would be preferable to foster functional, rather than institutional, integration in the region by employing a problem-by-problem approach towards economic development and trade growth among the countries of the area. Moreover, since the numerous Pacific rim countries cover a large area and are heterogeneous in size and nature, it would, at least at the outset, be more realistic to make an approach towards sub-regional issues rather than towards the complex

affairs of the entire Pacific region.

Of the various practical tasks that an OPTAD might undertake, it seems to me that the most urgent issue is the successful resolution of the North-South – the rich nation-poor nation – problem in the Pacific region. Efforts to resolve this dilemma on a global basis within the framework of such organizations as the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Industrial Development Organization (UNIDO) have proved unrealistic and fruitless. The differences among the various regional groups – the Asian group as opposed to the African group is a case in point – simply have been too great to permit any workable agreements. The lesson, I think, is clear. Only those nations that have an intimate knowledge of the particular regional and sub-regional economic issues are able to contribute to effective solutions, and this kind of a grouping can most suitably be arranged by an OPTAD.

While it is clear that all the various nations of the region stand to profit from the formation of an OPTAD, it is less clear just how organizational efforts should proceed. The five advanced nations might be expected to take the initiative, but that could prove intimidating to some of the likely participants. A desirable alternative would be for ASEAN, a group with considerable stake in any such venture, to take the initiative and establish an ASEAN-Pacific Forum, a sub-regional OPTAD involving the ASEAN nations and the five advanced Pacific nations. Once operational, it could invite the participation of the other nations of the region, eventually transforming itself into a fully regional organization. Should, on the other hand, the creation of a single, region-wide organization somehow prove to be too difficult a task, a series of separate, sub-regional groups, each with the five advanced nations as members, could be formed. Thus, there could be an East Asia-Pacific Forum, a Pacific Islands-Pacific Forum, and even a Latin American-Pacific Forum to complement the ASEAN-Pacific Forum. Although it would be desirable for China to participate in the East Asia-Pacific Forum, the possibility of organizing still another forum – the China-Pacific Forum – could be considered should it prove advisable. Indirect as it might be, such an

arrangement would still produce joint policy.

Using the ASEAN-Pacific Forum as an example, I would like to sketch out how economic development and trade growth in the ASEAN nations would be accelerated. The primary target of such an organization would be to raise the levels of the ASEAN economies rapidly and efficiently through aid and direct investment from the advanced Pacific countries and through the opening of wider markets for their products. In the final phase, the present ASEAN economies should have grown to an industrialized stage equivalent to that of the advanced Pacific countries and thus forge an interdependent and equal relationship with the advanced nations similar to that of present-day Europe.

Thus far all the advanced Pacific countries have insisted upon a bilateral approach with the ASEAN nations in providing official aid, making direct investments and arranging trade preferences. However, if a regional-multilateral approach such as advocated here were to be put into effect, a larger and more efficient contribution to economic development and trade growth for all parties could be anticipated. Equally important, the danger of over-presence and domination by one or another of the advanced nations, ever present under existing bilateral relationships, would be avoided. In addition, as the following suggestions illustrate, a number of more specific benefits might also be realized.

- 1) Official development aid to the area could be pooled and used in a multilateral "no-strings" fashion through the creation of a "revolving aid fund." Annual aid commitments from the five advanced Pacific countries could be deposited with the Asian Development Bank to establish the fund. The scheme could be applied to official bilateral aid, including technical assistance, sales in receipt of local currency, and official export credits. Without requiring additional annual aid commitments, the scheme could be made operational immediately. The object would be to work towards the removal of strings from bilateral aid to Southeast Asian countries.

The "revolving aid fund" scheme involves the acceptance of two important principles. The first is that aid credited to the fund would have to be completely unfettered so far as procurements are con-

cerned (i.e., procurements could be made in any donor country or any ASEAN country). The second is that any positive imbalance between a country's sales under aid procurements and its aid commitment should be held with the fund. The original deposits and accumulated deposits could not be withdrawn from the fund, but would be utilized by aid receivers in subsequent years. To illustrate, suppose that donor country A provides \$500 million worth of aid but only \$400 million is spent, while donor country B provides \$500 million but exports goods and services to the value of \$600 million to the recipient countries. Country B would accumulate a \$100 million credit with the fund, raising its total to \$600 million, while country A's total would decline commensurately. Thus country B would have automatically increased its aid commitments by \$100 million in the second year. Had the freeing of this aid taken place outside the fund, country B would have earned foreign exchange at country A's expense. The "revolving aid fund" obviates this exchange problem, essentially because it requires that country B's aid obligation increase automatically with excess earnings. The end result is that the effectiveness of the total aid program would increase even though the amounts involved remained unchanged.

The "revolving aid fund" scheme could be used for several other important purposes, since deposits would accumulate over time from the gap between annual aid commitments and disbursements (usually some 20 to 30 percent), and from deposits by "excess-exporters." Let me suggest four possibilities:

- (a) ASEAN countries could be assisted in their economic development through a stabilization of export earnings (STABEX) scheme for certain primary products. Loans for compensation of export income losses, with very low interest rates, could be provided from the fund.
- (b) Sub-regional buffer stocks in rice, timber and other products in which ASEAN countries have intense and common interests could be created in order to stabilize prices and export earnings relative to those products. The "revolving aid fund" could provide loans to



establish buffer stock schemes when appropriate.

- (c) It is important to stimulate the development of natural resources in the Pacific region. The "revolving aid fund" could be used to supply low interest loans for research and the exploration for mineral resources, and also to provide international insurance coverage for private foreign investment.
- (d) ASEAN exporters require access to funds for export credit in order to provide terms which are competitive with those of exporters in advanced countries. The ability to provide export credit to buyers, within and outside the region, will become more important as the capacity for industrial exports grows. The "revolving aid fund" could be used to provide export credit funds for the benefit of Southeast Asian countries.

Perhaps I have dwelt too much upon technicalities relative to the "revolving aid fund" scheme but the fact is that, if coordinated policy actions are taken, there is room to facilitate massive sub-regional economic development through such a device.

The other major benefits of an ASEAN-Pacific Forum can be cited more briefly:

- 2) Official development aid from the Pacific advanced countries to the ASEAN nations could be greatly enlarged. The aid should cover many projects, including ASEAN complementary industries which have already been planned. In addition, new large-scale aid directed at such ends as doubling rice production and constructing an ocean-transportation network, ought to be considered.
- 3) Joint venture investments and non-equity arrangement between advanced countries and ASEAN countries could be encouraged for the development of mineral and other natural resources, for the establishment of light consumer manufacturing, and for the creation of heavy industrial growth points (including ASEAN complementary industries). In all instances, the projects should be economically efficient and competitive.
- 4) In order to improve market access for ASEAN product -- both primary products and manufacturers -- advanced countries have pro-

vided generalized preferences on more generous terms and have reduced M.F.N. tariffs through GATT negotiations. These efforts have not been sufficient and must be much improved despite the fact that counteractions, such as the strengthening of safeguard clauses, have recently appeared. In addition, structural adjustment in developed countries must be undertaken to nurture and encourage the expansion of ASEAN trade which will come in response to the "boomerang effects" of past aid and investment. Advanced countries must cooperate with respect to preferences and structural adjustment. If only one country establishes an open market policy, reduces tariffs, and undertakes preferences and structural adjustment, the export products from the developing economies would be directed at that country, thereby causing a deterioration in its international balance of payments and in its level of employment. It is essential that all advanced countries cooperate in adopting at least vaguely similar open market policies. Common considerations of value-added tariffs and cumulative ASEAN contents should be given attention. A cooperative policy is as essential here as it is in the case of domestic demand management and business recovery policy among advanced countries. It goes without saying that an ASEAN-Pacific Forum would provide the concerned nations with an avenue for dialogue on these matters.

### **Pacific Region-wide Cooperation**

In addition to sub-regional economic development, there are a number of more general, region-wide functions that an extended ASEAN-Pacific Forum or more broadly based OPTAD might perform. Some of the more important are as follows.

1. It is essential that the exchange of social and cultural knowledge be promoted in order to enhance mutual understanding among the diverse nations in the Pacific region and to create a basis for regional solidarity. An intensification of exchange in the areas of at least research, education, and personnel is necessary.
2. Technological progress in transportation and communication has already facilitated increased regional exchanges in the areas of culture,

personnel, products and investment. Still further developments, including an increase in tourism, are awaited with the hope that expanded volume will lower costs.

3. The Pacific has a great potential for the development of marine resources, including fishing and seabed mining. Development in this area must, however, be undertaken with discipline and within a region-wide cooperative framework involving all the nations concerned.
4. It is important that efforts be made to secure adequate food supplies and to stabilize food prices throughout the Pacific basin.
5. It is also important that secure, safe energy bases be established in the Pacific region. This involves such controversial matters as creating a regional joint oil stock, constructing an oil relay base, developing oil resources in the region, funding research on the commercial production of alternative energy sources, and building a regional nuclear energy recycling system.
6. Similar efforts must be made to assure the availability of other natural resources in the Pacific basin region.
7. All nations involved in these activities must pay appropriate heed to questions of environmental protection.

The list of concerns common to all the Pacific rim countries could go on endlessly. The point, however, is already clear. All these concerns have region-wide rather than simply national implications and their solutions are more likely to be found in region-wide efforts. We must, therefore, intensify our efforts in that direction.

- (1) U.S. Congress, House, Committee on Foreign Affairs, *Hearings Before the Subcommittee on Asian and Pacific Affairs*, 96th Cong., 1st Sess., 1979, p. 107. Hereafter cited as House, *Hearings*.

- (2) Pacific Basin Cooperation Study Group, *Interim Report on the Pacific Basin Cooperation Concept* (Tokyo, Nov. 14, 1979), pp. 2-3. Final report was issued on May 19, 1980.
- (3) U.S. Congress, Senate, Committee on Foreign Relations, *An Asian-Pacific Regional Economic Organization: An Exploratory Concept Paper*, 96th Cong., 1st Sess., July 1979.
- (4) House *Hearings*, p. 44.