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THE PACIFIC COMMUNITY: EVOLUTION OF AN IDEA

INTRODUCTION

Although the idea of a multinational European economic organization had its roots in the period immediately following World War II, efforts toward economic cooperation in the Pacific Basin only began in 1960. Known by such terms as Pacific Community, Pacific Basin, Pan-Pacific Organization, and the Pacific Economic Community, the concept of regional economic cooperation is based on the common perception that all "Pacific Rim" free market economies can benefit from closely coordinated trade and investment.

Not all nations bordering the Pacific Ocean have shown equal interest in a formal or even informal organization. Most interested have been the United States, Japan, and Australia. A future body, however, also would have to include Canada, Indonesia, Malaysia, New Zealand, Papua New Guinea, the Philippines, Singapore, South Korea, the Republic of China on Taiwan, Thailand, and several Pacific island states such as Kiribati, Fiji, and Vanuatu. Little interest has been shown by Latin American countries (with the notable exception of Chile) or the communist states of Cambodia, North Korea, the People's Republic of China (PRC), the Soviet Union, and Vietnam.

Historic Inevitability. Trade and economic growth are the driving forces toward Pacific economic organization. There is a sense of historic inevitability in the growing importance of the Pacific region. U.S. Secretary of State William Seward predicted a century ago that Europe would decline in importance and that the Pacific would become the chief theater of world events. Ronald Reagan has called the 21st century the "Pacific Era." Indeed, the year of his election to his first presidential term marked an historic shift in U.S. trading patterns; since 1980, U.S. trade with Asia and the Pacific has been surpassing its trade with Europe.

The time thus may be approaching for very serious consideration of the Pacific Community idea, of crafting policies that gradually would nudge the dynamic Pacific Basin nations toward much closer economic cooperation. It is a topic worthy of investigation by the Reagan Administration and Congress and by officials in Tokyo, Canberra, Ottawa, Taipei, and other key Pacific capitals.

EARLY JAPANESE INITIATIVES

In 1960, Morinosuke Kajima, a businessman and a member of Japan's ruling Liberal Democratic Party, raised the idea of Pacific economic cooperation in the Diet. He saw it as a means of increasing Japan's influence on Asian political and economic matters. That same year, Saburo Okita and Kiyoshi Kojima, two leading Japanese economists, initiated a study of the benefits of economic cooperation in the Pacific region. When Okita became director of Japan's Economic Planning Bureau in 1961, he undertook an official study of "Regional Economic Cooperation." In 1962 the Japan Economic Research Center (JERC) was established. It has since become one of the most influential academic supporters of the Pacific Community concept.

The first concrete Pacific Economic Community proposal was presented by Kiyoshi Kojima in 1965. At a JERC conference, he suggested formation of a Pacific Free Trade Area. Based on the Organization for Economic Cooperation and Development and designed in part to counterbalance the import restrictions of the European Economic Community (EEC), Kojima's Pacific Free Trade Area would have been composed of the U.S., Canada, Japan, Australia, and New Zealand. It would have removed tariffs completely between member states, but would not have raised common barriers to the outside world, as in the European Community.

Painful Memories. Pacific cooperation was boosted further in 1967, when Japanese Foreign Minister Takeo Miki traveled to several Asian-Pacific countries to ascertain regional interest in a formal Pacific economic community. Although he stressed an "understanding of common principles" and formally presented the Pacific Free Trade Area concept, his activities led to no major Japanese policy initiatives. It seems that Tokyo was reluctant to be seen as pushing the region's developing countries into an economic alliance. For their part, the developing countries were wary of a resurgence of Japanese economic domination. They still had deservedly painful memories of the Tokyo-imposed "Greater East-Asian Co-Prosperty Sphere" of World War II. It thus became clear that a formal Pacific community idea initiated by Japan would not go far.

In 1968, Kojima acknowledged that his idea for a Pacific Free Trade Area was premature. He then presented a new proposal at the first Pacific Trade and Development Conference (PAFTAD), held in Tokyo. Created as a forum for Pacific economists, the meetings were to serve as a clearinghouse for new concepts for economic cooperation. At the Tokyo conference, Kojima proposed establishment of an Organization for Pacific Trade and Development (OPTAD) to administer "three codes of international behavior": good conduct in the field of trade policy, an overseas investment policy, and an aid and trade policy for associated developing countries. Committees would be established on trade, investment, and aid.

Fearing Japanese Domination. At subsequent PAFTAD conferences, which have convened almost annually, however, Kojima's free trade area proposal and OPTAD encountered opposition. Objections arose from Japanese as well as non-Japanese for political and economic reasons. This dealt a severe blow to official Japanese efforts at economic cooperation.

While Japanese government initiatives foundered on issues of leadership and fears of economic domination, Japan's private sector began to champion regional cooperation. In 1967 the Pacific Basin Economic Council (PBEC) was formed by Australian, Japanese, and American business groups. The PBEC today promotes regional free enterprise, increased trade, and social progress. Membership includes an increasing number of individuals from such developing countries as Indonesia, Malaysia, the Philippines, and Chile.

ACTIVITIES IN THE LATE 1970s

The Association of Southeast Asian Nations, known as ASEAN, is the only successful government attempt at regional integration. Initially created in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand, ASEAN added Brunei in 1984. Though the organization was formed because of its members' fears of a powerful communist Vietnam, ASEAN's scope soon included economic cooperation and joint approaches to international issues. Following their 1978 annual meeting, the ASEAN foreign ministers met with their counterparts from the U.S., Japan, Canada, Australia, and the European Community. These meetings, dubbed the "Post-Ministerial Dialog," were designed as a forum for the exchange of ideas, not to discuss policy formation.

In 1978 also, Japan's Prime Minister, Masayoshi Ohira announced his support for a "Pan-Pacific Association." His aides organized the Pacific Basin Cooperation Study Group as a private consultative council to "study how to enhance regional cooperation and harmonious relations within the Pacific Basin group." ¹Chaired by the internationally respected economist Saburo Okita, who became Japan's foreign minister in late 1979, the council presented its interim report to Ohira that same year.

Creating a Yen Zone. The report described the Pacific region as "brimming with potential," noted the region's vast stores of human and natural resources, and spoke of its sophisticated communication and transportation systems. The study advocated free trade and capital transfers within "free and open interdependent relations." It also urged the region's countries to pursue "open policies," and stated that "exclusionist nationalism and protectionism has lost all validity in the contemporary system." The report suggested expanding human exchange programs and increasing the number of Pacific Basin research facilities. It further recommended that Japanese universities accept a larger number of foreign professors. Language study centers also were suggested, as was research into marine resources and efforts to stabilize food supply and demand. ²

To help ward off the inevitable reluctance on the part of ASEAN to join a Tokyo-initiated economic body, the report included the suggestion that the advanced nations restructure their economies to help developing countries industrialize. The nations of Southeast Asia, with bitter memories of Japanese occupation during World War II, were in no hurry to join an ill-defined Japanese project. To increase the willingness of ASEAN to take part, Japan, in conjunction with Hong Kong and Singapore, was urged to further

1. Far Eastern Economic Review, December 21, 1979, p. 47.

2. Ibid., pp. 47-48.

internationalize its financial system, perhaps creating a regional currency in the form of a "yen zone."

THE BEGINNINGS OF AMERICAN INVOLVEMENT

A study similar to that of the Pacific Basin Cooperation Study Group was being prepared in the U.S. at about the same time. Ohio Democrat John Glenn, Chairman of the Senate's Foreign Relations Subcommittee on East Asian and Pacific Affairs, in 1978 asked the Congressional Research Service of the Library of Congress to examine the feasibility of a regional Pacific trade organization and whether there were a role for the U.S. Congress in the process.

Published in 1979 as "Evaluation of a Proposed Asian-Pacific Regional Economic Organization," the congressional study recommended formation of an Organization for Pacific Trade and Development (OPTAD). Written by Hugh Patrick of Yale University and Peter Drysdale of the Australian National University, this study was the first official U.S. government involvement in the concept of a Pacific Community.

Chance for U.S. Leadership. As proposed, OPTAD had four broad goals: 1) to provide a more effective means for the discussion of economic grievances; 2) to stimulate trade and investment; 3) to provide a consultative forum for long term development and economic transformation; and 4) to provide a framework for a secure economic alliance to facilitate closer economic integration. The report noted that the Pacific region would present many challenges and opportunities for American policy makers and suggested that the formation of OPTAD would enable the U.S. to assume a leadership position in the region.

Three major economic developments had made Washington more receptive to the Pacific Community idea. The first was the enormous economic growth of Japan, which was rapidly closing the gap on the second largest economy in the world, the USSR.

The second was the emergence of those new economic powerhouses in Asia, which have come to be called Newly Industrialized Countries--NICs. With annual growth rates in the 7 percent to 9 percent range and per capita Gross National Products of over \$2,000, countries like the Republic of China on Taiwan, Hong Kong, Singapore, and South Korea no longer could be considered "developing."

Shifting Center of Gravity. The final development helping to focus Washington's attention on the Pacific Community idea was the shift in the global economic center of gravity from Europe to Asia. While the Pacific Basin was booming economically, Western Europe seemed almost stagnant, with its growth rates continually dropping. As Europe's potential as an export market shrank, the nations of the Pacific Basin began to look to each other as trading and investment partners.

In view of these economic developments, Drysdale and Patrick suggested an OPTAD structure that would:

- 1) **be an intergovernmental organization of constituent governments;**
- 2) **include the U.S., Australia, Japan, Canada, South Korea, and the market economies of Southeast Asia and the Pacific Basin;**

- 3) be run by a small administrative apparatus;
- 4) have a consultative , informal, and communicative style of operations; and
- 5) have specific task forces handle issues.

Issues to be addressed by the task forces would include the resolution of trade disputes, trade liberalization, trade and industrial restructuring, regional development financing, foreign investment practices, resource and energy security, and trade with nonmarket economies. Based on the earlier work by Kojima and the Pacific Trade and Development conferences, Drysdale and Patrick addressed the key question of active government involvement in a Pacific Community.

Reactions to their recommendations were mixed. On the one hand, the study represented the first sign of serious U.S. interest in Asia since the 1975 fall of Saigon. Some U.S. observers saw OPTAD as a "useful vehicle for the revitalization of the overall U.S. economic role in the region." On the other hand, the report caused consternation in Tokyo, which felt that it would be best not to discuss openly the political motivations behind a supposedly economic institution. The authors of the report, however, believed that the idea of a Pacific Community would not receive sufficient congressional backing unless it contained a strategic rationale.

THE FIRST PACIFIC COMMUNITY SEMINARS

In January 1980, an important conference was held on the Indonesian island of Bali, under the auspices of Jakarta's Centre for Strategic and International Studies. This gathering, which included the active participation of regional government officials, was seen as an important first test of Southeast Asian support for a Pacific Community. Although still cautious, the response of ASEAN to Pacific economic cooperation was much more positive than had been expected, fueling optimism for the upcoming international conference to be held in Australia that September.

Japan's Pacific Basin Cooperation Study Group released its final report in May 1980. Entitled "The Pacific Basin Cooperation Concept," the report suggested formation of a nongovernmental committee of 15 to 20 experts to serve as a steering committee for future conferences. It recommended such measures for nurturing Pacific regional understanding as overseas study programs, regional festivals, and expanded tourism. On more specifically economic matters, it called for formation of regional organizations to expand free trade, increase investment, and facilitate technology transfer to the developing nations of the region. Other projects included efforts to enhance rice production and forestry and fisheries cooperation to improve food supplies. The joint exploitation of the vast natural resources of the Pacific Basin was also envisioned.

High Note. The report was one of the main topics of the September 1980 Pacific Community seminar held in Canberra under the sponsorship of the Australian National University. The conference was well attended by government, business, and academic participants. The meetings started on a high note, boosted by the impression that Japan had shed much of its hesitancy toward the Pacific Community idea and that ASEAN had become more positive toward regional cooperation since the Bali conference earlier in the year.

The optimism quickly faded, however, as the complexities of regional economic cooperation became apparent. The senior Philippines representative, Luz del Mundo, presented the common ASEAN view that "it would not be wise to hold any future meeting of the group in any ASEAN countries because individual members of ASEAN had not thoroughly studied and discussed the implications of the Pacific Basin concept." ³ Mundo warned that an ASEAN nation hosting a meeting would fuel international criticism that "ASEAN is a Western-dominated organization." They were concerned that membership in an European Community-style organization could jeopardize ASEAN's status as a nonaligned body.

Dropping the European Model. ASEAN delegates stressed other reasons for their hesitation in joining a larger Pacific organization. For one thing, ASEAN itself was the primary concern of its member states, and they did not want to jeopardize their existing organization to advance one as yet unproved. For another, the Pacific Community remained unclear as to its objectives, membership, and leadership. Finally, ASEAN did not have sufficient resources to explore the idea, and many ASEAN delegates also suspected that the Pacific Community idea was being advanced by the developed countries for their own purposes.

By the end of the Canberra seminar, even the strongest supporters of a Pacific Community agreed that caution was needed in advancing the concept. The delegates agreed to drop any idea of an organization modeled after the European Economic Community. Other proposals, also were eliminated, and no final recommendations were made on membership or the structure of a potential group.

Pacific Cooperation Committee. The only substantial achievement of the seminar was the creation of the Pacific Cooperation Committee (PCC), a private, informal body of 25 members from North American and Western Pacific market economies. The PCC would deal with substantive issues through task forces and issue reports to the member governments. Suggested areas for task force investigation included trade, direct investment, energy, marine resources, communication, and educational exchanges. PCC also would organize future seminars.

At Canberra, a consensus emerged that, if a Pacific Community concept were to evolve, it would be through slow, incremental stages, rather than through the immediate establishment of a community structure. In the following years, those favoring the Pacific Community idea focused mainly on creating a "sense of community" rather than on the specific shape, functions, and composition of that community.

DEVELOPMENTS DURING THIS DECADE

In June 1982, a second major Pacific Community conference was convened, this time in Bangkok under auspices of the United Nations Economic and Social Commission for Asia and the Pacific. Called the Pacific Economic Cooperation Conference (PECC), it presented studies indicating that ASEAN would benefit by joining a Pacific Community. A standing committee was formed to guide the work of four task forces based in Australia, Korea, Japan, and Thailand. The Standing Committee and the task forces were asked to report to the Third PECC to be held the following year in Bali, Indonesia.

3. Far Eastern Economic Review, September 26, 1980, p. 90.

Administered by Indonesia's Centre for Strategic and International Studies, the 1983 conference was the first to spur a wide-ranging dialogue between government, business, and academic circles on such problems as agricultural and renewable resource trade, technology transfer, and direct investment. Results were mixed, but sufficiently positive to justify scheduling a 1985 conference for Seoul. The active involvement of government personnel from many countries in the Indonesian conference was much more evident than in the past and provided a boost to the PECC process.

New momentum was injected into the Pacific Community movement in 1984. The U.S., for instance, established a National Committee on Pacific Economic Cooperation, composed of such prominent Americans as Senators William Roth and John Glenn, former National Security Advisors Richard V. Allen and Walt W. Rostow, then National Security Council member Gaston Sigur, and Lloyd R. Vasey (R. Adm. USN Ret.), President of the Pacific Forum. Ambassador-at-large Richard Fairbanks was given the specific responsibility to evaluate and recommend policy to Secretary of State George Shultz regarding the Pacific Community concept. This represented the first official U.S. government commitment to the Pacific Community.

Six Plus Five. The first meeting of the U.S. committee was held in October 1984. Attendance by Ronald Reagan demonstrated high-level U.S. government interest in the Pacific region. The committee focused on generating greater understanding about the Pacific Basin and the nature of U.S. interests in the region. A short time later, Canada established a national committee to consider Canada's role in Pacific Rim cooperation.

The first "6+5 dialog" took place between the six ASEAN foreign ministers and their five counterparts from the U.S., Australia, Canada, Japan, and New Zealand in Jakarta, July 13-14, 1984. At Indonesia's suggestion, the ministers agreed to expand the discussions from exclusively economic questions to issues of broader Pacific cooperation.

The first specifically "Pacific" dialogue held by the ministers, its focus consisted of purely regional economic matters. The discussions had two parts: 1) general Pacific economic issues, and 2) concrete cooperative projects in the field of "human resource development." It was hoped that cooperation in this field would lead eventually to a comprehensive inventory of technical training, education, and other human resource programs in the Pacific.

From Turkey to Papua New Guinea. The Fourth Pacific Economic Cooperation Conference convened as scheduled in Seoul, South Korea, in April 1985. Some 140 participants attended, including twelve ministry-level officials. Represented were the twelve PECC member countries--the U.S., Australia, Brunei, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, and Thailand. Also present were individuals from Papua New Guinea, the Solomon Islands, Mexico, Chile, Ecuador, and the Republic of China on Taiwan. Interestingly, observers also were sent from Argentina, France, India, and Turkey. The task forces addressed issues of trade negotiations, renewable resources, minerals and energy, direct investment, technology transfer, and capital flows. It was agreed that future work would include:

- 1) A survey of training projects and study of fisheries resources.

4. "Pacific Overtures," Foreign Policy, No. 57, Winter 1984-85, p. 139.

- 2) Establishment of a minerals and energy consultative group.
- 3) Establishment of a trade policy consultative group.
- 4) A conference on promoting foreign investment.
- 5) A study program on livestock and feed grains.

While private efforts at regional cooperation were moving ahead, a process of quiet, bilateral talks began between the U.S. and many of the regional countries. The Japanese, on the other hand, reduced their profile in the Pacific Community process. By 1985, in fact, the Far Eastern Economic Review observed that, "in the space of five years, Japan has all but turned away from the creation of a Pacific Basin community."⁵

As the Japanese desire to create a regional body flagged, however, there was increased talk of "Pacific cooperation," a concept that would not require Tokyo to commit itself to a specific foreign policy or a formal institutionalized process. The Japanese now are using their economic strength to aid smaller regional countries as a means of advancing cooperation, rather than suggesting that cooperation follow the creation of a regional organization. The Japanese still seek to organize, or host, a range of Pacific-oriented regional forums, held in Tokyo, as a way of enhancing their ties to and economic interests in the area.

THE VANCOUVER PECC CONFERENCE

Last November, the Pacific Community idea passed a milestone with the Fifth Pacific Economic Cooperation Conference held in Vancouver, Canada. For first time, participants from the People's Republic of China and the Republic of China on Taiwan were present as full members; observers came from the Soviet Union. A total of 143 delegates from 20 countries attended. The conference dealt not only with increasing cooperation between Pacific countries, but also discussed Japanese and American trading practices, agricultural problems, and the "crash" of commodity prices.

The keynote address was given by former South Korean Prime Minister Nam Duck-Woo. Although stressing that Asia would, as a whole, experience better long-term economic growth rates than the rest of the world, he identified four major challenges facing the countries of the Pacific:

- 1) **macroeconomic policy imbalances** (trade, fiscal, monetary, and exchange rate policies), especially between the U.S. and Japan;
- 2) **protectionism** ;
- 3) **instability of commodity prices**; and
- 4) **foreign debt problems**.

The conference opened with a discussion of trade policy issues. The September launching, in Uruguay, of the latest round of Multilateral Trade Negotiations was noted with enthusiasm, since the discussions were seen as vital to counter rising protectionism.

5. Far Eastern Economic Review, January 31, 1985, p. 28.

There was also agreement that individual trade issues must be dealt with promptly lest the regional commitment to free trade dissipate. Early progress on agricultural trade and subsidies was emphasized as a vital step in the successful conclusion of the Uruguay Round.

Links to Latin America. The highlights of the April 3-5, 1986, PECC Bangkok Investment Seminar also were presented to the conference. The Bangkok report concluded that foreign investment is an important source of Pacific growth, that it can be mutually advantageous, that stable political and economic environments are essential for the expansion of investment, and that exchange rates are an important but not a decisive aspect of investment decision making. It was also agreed in Bangkok that investment is seldom separable from trade.

The Vancouver meetings also discussed fishery management in the South Pacific, including cooperation between the major groups of developing coastal states. The establishment of a Western Pacific Fisheries Consultative Committee was proposed, which would bring together ASEAN and the Pacific Island states. Plans to expand links between those states and Latin American nations also were discussed.

While there was general agreement in Vancouver that Pacific nations could expect better economic growth prospects than many other geographic regions of the world, the current economic recession faced by many Asian countries lent a negative tone to some of the meetings. Nonetheless, substantive discussions on energy and mineral policies, agricultural policies, and trade/investment policies occurred, and several working groups were established.

These groups and the standing committee will report to the next PECC to be held in May 1988 in Osaka, Japan.

CONCLUSION

The Pacific Community idea has evolved steadily since it first emerged more than a quarter century ago. Today, the central goal does not seem to be to create an economic alliance, but rather to foster a "sense of community" and common purpose, while increasing regional economic cooperation. Recent developments demonstrate that the Pacific Community idea is following two distinct tracks--government and private. Of the two, the latter is the more vital. This is predictable since economic and business matters lie at the heart of a future Pacific Community. If government initiatives decline, moreover, progress can be maintained by private groups.

Strong Momentum. Despite the protracted development and lack of clearly formulated development plans, the Pacific Community idea continues to enjoy a strong sense of momentum. It is possible that some sort of regional cooperative body may emerge near the turn of the century. Last August, for instance, Philippine President Corazon Aquino suggested that ASEAN establish a common market by the year 2000. The U.S., meanwhile, is pursuing Free Trade Areas with both ASEAN and the Republic of China on Taiwan, as a way of improving trade flows and heading off protectionism.

Many problems, of course, remain, which impede increased Pacific Rim economic cooperation--protectionism, trade imbalances, a slowdown in regional economic growth rates, continued low commodity prices, and currency fluctuations. At the same time, the

region's governments seem to realize that the solutions to many of these, and other, problems perhaps can be reached through cooperative efforts. The outlook for regional economic cooperation, therefore, continues to be bright.

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