

Perspectives for the Asia-Pacific Region in the 21st Century^{*})

Saburo Okita

There are several different ways to define the Asia-Pacific region. For some people, this is Asia and the Pacific including North America and the Latin American countries facing on the Pacific. For others, it is the Pacific Rim countries including North America and sometimes Pacific Latin America. It has also been defined as Pacific Asia, meaning Pacific Rim Asia. Still others conceptualize the Asia-Pacific region as the Western Pacific, meaning Pacific Asia plus Oceania. And in yet another variation, it is sometimes defined as East Asia, Southeast Asia, and South Asia. In my talk today, I will be referring mainly to the Western Pacific region, meaning Pacific Asia plus Oceania.

The Asia-Pacific region achieved a high rate of growth in the 1980s. The gross GNP of the region, including Japan, Australia, New Zealand, the ASEAN countries, the Asian NIEs, and China but not including North America grew from 16.8% of world GNP in 1975 to being 23.5% in 1988, and this region has steadily become a more important part of the world economy. Growth rates were particularly high in the Asian NIEs (Korea, Taiwan, Hong Kong, and Singapore) where the average real growth rate in 1980-88 was 8.0% and easily outdistanced the average real growth of 3.0% for the world economy during the same period. The Asian NIEs grew 12.0% in 1987 and 9.8% in 1988. The accelerating economic growth of the ASEAN countries (herein meaning Indonesia, Malaysia, the Philippines, and Thailand) is reflected in their average real 1987 and 1988 growth rates of 5.3% and 7.4% respectively. It should be noted that the ASEAN countries are rapidly closing the growth gap with the Asian NIEs. Thailand achieved especially impressive growth of 13.2% in 1988, 12.0% in 1989, and 10.0% in 1990.

Historically, economic development in the Asia-Pacific region centering on East and Southeast Asia has occurred in successive and overlapping waves, with Japan taking off in the 1960s, the Asian NIEs in the 1970s, and the ASEAN countries and China in the 1980s. This type of regional economic development is best characterized as the flying-geese pattern of development, which essentially refers to the inverted-V pattern of development in which one country after another takes off toward industrialization. As such, it provides a snapshot of the dynamics of the relationship among the countries as they shift from vertical to horizontal integration, the less developed countries catching up with the front-runners. In this process, the geese (countries) that take off later benefit from access to the others' capital and technology, which enables them to bypass some historical steps and to grow very quickly, thus enabling them to catch up with the others and to gradually establish horizontal relationships.

There are many factors that have made this flying-geese pattern of development possible. First is the success of export-oriented industrial development strategies. Expanding exports have given this region a larger share of world trade. Accounting for 14.3% of world exports in 1980, total exports from Japan, the Asian NIEs, the ASEAN countries, and China were up to 21.5% by 1987. Among the ASEAN countries, Thailand, Malaysia, and Indonesia all had strong export

growth in 1989, Thai exports up 25.5%, Malaysian up 18.6%, and Indonesian up 13.2% over the previous year. Likewise, the Asian NIEs' share of world exports expanded from 1.6% in 1965 to 7.6% in 1987 and their share of world imports rose from 2.1% in 1965 to 6.5% in 1987. While some of this export expansion has been in competition with the Western industrial countries, it should be noted that the enhanced import capability that their export earnings have given them has generated new markets and created complementary relationships.

The region-wide spread of export-oriented industrial development strategies has worked through the resultant competition and complementarity to create greater consecutivity and acceleration in East and Southeast Asian economic development. Thus it is misleading to claim that export promotion policies only increase exports. Rather, the enhanced purchasing power and greater economic interdependence that results also increases imports. At the same time, these countries' export structures are also changing. In Thailand, for example, manufactured goods' share of exports was 23.8% in 1975 but had increased to 57.5% in 1988. As a result, Thailand has a more stable economy than it did when it had to rely upon primary commodity exports.

The second factor that has made this flying-geese pattern of development possible is the overall expansionary trend in the world economy, which has proved hospitable to export-oriented industrial development strategies. World trade volume expanded 35% in 1980-88, far ahead of the 23% growth in world production for the same period. Among the reasons for this are the progress made in trade liberalization during the 1964-67 Kennedy Round and the 1973-79 Tokyo Round of multilateral trade talks, the dollar's exchange strength and the booming U.S. economy in the first half of the 1980s, and the yen's exchange strength and strong Japanese domestic demand in the second half of the decade. All of these factors have meant sharply expanded trade and investment for the region. This economic vitality has in turn generated greater intra-regional trade as seen in the fact that intra-regional exports by the 15 member countries of the Pacific Economic Cooperation Conference (the ASEAN countries, the Asian NIEs, Australia, Canada, China, Japan, New Zealand, and the United States) increased from 54.4% of their total exports in 1970 to 65.8% in 1988. Extra-regional trade also thrived. The Asian NIEs exports to the EC grew an average of 37.8% per year in 1985-88, out-performing Japan's 34.6% and the United States' 20.8%. It is clear that expanding world trade and the existence of an international free-trade system that makes such expansion possible is crucial not only for intra-regional but also for extra-regional trade. Accordingly, the Asia-Pacific countries have a vital interest in rebuffing protectionism and ensuring that the GATT Uruguay Round is a success.

East and Southeast Asia are still heavily dependent upon the U.S. market, and a recession sparked by economic adjustments there would have a deflationary impact on this region. This export dependence, however, has been gradually diminishing over the last few years. Japan's dependence has shrunk from 38% in 1986 to 37% in 1987, 34% in 1988, 34% in 1989, and 31% in 1990; and the Asian NIEs from 37% in 1986 to 35% in 1987, 31% in 1988, 30% in 1989, and 25% in 1990. As the Asian NIEs and the ASEAN countries expand their exports of manufactured goods, it is imperative that Japan become better able to absorb

more imports from them by expanding domestic demand and making its markets more accessible, both to lower their dependence upon the U.S. market and to maintain this region's economic vitality. Japan's ratio of manufactured goods to total imports has risen from 31% in 1985 to over 50.4% in 1989. Furthermore, as of August 1991, the Japanese economy entered the 57th month of a long-term economic expansion marked by real economic growth of 6.2% in 1988, 4.7% in 1989, and 5.6% in 1990. This growth continued to be domestic-demand-led. Japan is also a major supplier of capital goods to the other countries in the region, and access to the latest capital goods can have basically the same favorable impact on local productivity that technology transfer and domestic development do.

The third factor making this flying-geese pattern possible is that the less developed countries have adopted catch-up industrial and trade policies supplementing market mechanisms to take advantage of the comparative advantage provided by their large pools of inexpensive labor. These policies rely on the government's skillfully mixing market mechanisms and government planning and guidance techniques and are particularly attractive when the private sector is still in the infant stages. Albeit with some differences of emphasis, such policy thinking is central not only in the Asian NIEs and the ASEAN countries but also in socialist China, Vietnam, and the East European countries and the Soviet Union as these countries have recently expressed considerable interest in the "Japanese model" as they make the transition from centrally planned to market-oriented economies. More than import substitution strategies, export-oriented industrial development strategies heighten cost consciousness and encourage the efficient use of management and productive resources. This in turn makes the entire economy more efficient. Accordingly, cost considerations have to be included even in central economic planning and there is a need to develop plans that reflect effective market forces. Benefiting from economic reform and openness, the Chinese economy recorded impressive average per-annum growth of 9% in 1980s.

The fourth factor facilitating this flying-geese pattern is that the countries of East and Southeast Asia have, even in the initial stages, received aid that encouraged bootstrap efforts. Japanese aid has long been criticized for its low grant element, but, Asia's impressive development is arguably an eloquent vindication of aid policies firmly anchored in the idea of economic efficiency, given that Japanese aid has expanded considerably over the last few decades and that Asia received more than 90% of Japanese bilateral official development assistance in the 1960s and early 1970s and nearly 70% since the mid-1970s. Also attracted by high rates of return on capital because of the comparatively low production costs, the relaxation of regulations governing direct investment, and the adoption of preferential treatment for investment, foreign capital infusions to the ASEAN countries have recently shifted to direct investment, and the resultant increase in intra-company transactions has contributed to the expansion of intra-regional trade. Japan's overseas direct investment flow has grown sharply since the appreciation of the yen after the 1985 Plaza Accord. In the latter half of fiscal 1987, the flow of direct investment from Japan to the ASEAN countries picked up. In fiscal 1988, this Japanese investment flow was \$13.6 billion to the ASEAN countries

compared to \$7.7 billion to the Asian NIEs. Japanese total overseas direct investment increased sharply from \$12.12 billion for fiscal 1985 to \$67.54 billion for fiscal 1989 and \$56.91 billion for fiscal 1990.

Another interesting development for the region is the increase in direct investment by the Asian NIEs in the ASEAN countries, as reflected in the way the Asian NIEs' share of direct investment in Thailand jumped from 17.7% in 1987 to 27.7% in 1989, in Malaysia from 37.9% in 1987 to 43.0% in 1989, and in Indonesia from 11.6% in 1987 to 20.7% in 1989. On the other hand, the confluence of the worldwide savings shortage, the bloating of the U.S. net foreign debt outstanding to \$663 billion as of the end of 1989, and the flow of capital to Eastern Europe and the Soviet Union to aid economic reform there has fueled fears that the developing countries of Asia may no longer have sufficient access to the capital they need. In turn, this has made it all the more imperative that the OECD countries maintain or raise their domestic savings rates. In particular, the United States must raise its domestic savings rate, rein in its massive budget deficit, and reduce its trade deficit by improving its export competitiveness, and thus once again become a capital exporter.

The final point is that the Asia-Pacific region contains a multifaceted and diverse mix of disparate elements in an intricate weave of competition and complementarity. The difference between the European economic integration scheduled for 1992 and Asia-Pacific economic cooperation is the difference between integration among relatively homogeneous political and economic systems and the gradual creation of a cooperative relationship premised upon diversity among countries at different stages of development. Another difference is that while EC integration was promoted by government policies and treaties, regional economic cooperation in the Asia-Pacific was promoted mainly by private enterprises motivated by market forces. Organizations promoting this regional cooperation, including the PECC with its distinctive tripartite structure of government officials, business people, and academics since 1980 and the ministerial-level meeting for Asia Pacific Economic Cooperation (APEC) formed in 1989, are well aware of the need to maintain the dynamism of this region while reconciling the different and at times conflicting interests of the various countries and are discussing strategies to prevent protectionist policies and to support the global free trade system while respecting the potential of the region's developing countries. Economic cooperation grounded in liberalization is prerequisite to sustaining regional activity in a region with the kind of multifaceted character that makes the flying-geese pattern of development possible. Accordingly, this regional cooperation is non-discriminatory toward extra-regional countries and is an effective means of promoting global free trade.

If China continues to pursue open economic policies and to promote industrialization and development in the littoral provinces, it is very possible that these coastal areas could develop along roughly the same lines as South Korea, Taiwan, and Hong Kong, in which case the addition of coastal China would make the East and Southeast Asian region roughly equivalent to North America or the European Community in both GNP and population by the year 2000. The Latin American countries are expressing considerable interest in Pacific economic cooperation, and Mexico, Peru, and Chile became full members at the 8th

meeting of PECC in Singapore in May 1991. Considerable momentum is building for peace in Indochina, and the attainment of political stability in Vietnam, Cambodia, Laos, and Burma could conceivably result in the emergence of a new economic region on the Indochinese Peninsula with Thailand at its center. A new growth triangle of Singapore, Malaysia, and Indonesia has already begun to emerge. In December 1990, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) Group of Eminent Persons on regional cooperation that I chaired submitted a report recommending closer cooperation between Southeast Asia and South Asia as well as between Northeast Asia and South Asia.

In other areas, Gorbachev's July 1986 speech in Vladivostok unveiled the Soviet Union's new Asia-Pacific-oriented policy and the Sino-Soviet summit meeting in May 1989 agreed to normalize relations between these two countries after a 30-year hiatus. Another sign of Asian stability is the restoration of diplomatic relations between China and Indonesia, relations that had been severed since 1967. Against the background of reduced East-West tensions, Gorbachev held a historic meeting with South Korean president Roh Tae Woo in June 1990, and the two countries later established diplomatic relations. Additionally, the fact that South and North Korea have simultaneously been admitted to the United Nations and that Japan and North Korea have entered into negotiations for establishing diplomatic relations are likely to reduce tensions in Northeast Asia. This may lead to regional cooperation in Northeast Asia involving China, Mongolia, North and South Korea, the Soviet Far East, and Japan.

According to United Nations ESCAP statistics, in 1988, Japan accounted for 66% of the total GNP of the ESCAP region, which includes Asia east of Iran and Afghanistan plus Oceania. In the same year, China accounted for 8.5%, Australia 6.6%, India 6.3%, South Korea 3.5%, Indonesia 1.8%, and Thailand 1.3%. These figures indicate Japan's importance in promoting economic progress in the ESCAP region. To put them into perspective, the United States accounted for 70% of the Western Hemisphere's total GNP in 1989.

Much of the postwar progress toward implementing the concept of Pacific cooperation was catalyzed by the drive for European economic union. This was particularly noticeable with Hitotsubashi University Professor Kiyoshi Kojima's 1965 Pacific Free Trade Area (PAFTA) proposal which eventually resulted in the establishment of the Pacific Trade and Development (PAFTAD) conference by academics in 1968. At the same time, industrialists have also become increasingly interested in Pacific cooperation, and the Pacific Basin Economic Council (PBEC) has been working since 1968 to strengthen intra-regional economic relations and to promote regional development.

It was against this backdrop of heightening interest in regional cooperation that then-Prime Minister Masayoshi Ohira broached his Pacific Basin Cooperation Concept in 1979. Building upon this, Prime Minister Ohira of Japan and Malcolm Fraser of Australia decided to convene a Pacific Community Seminar in Canberra in September 1980. This seminar gave birth to the Pacific Economic Cooperation Conference (PECC). Since its establishment, PECC has met in Bangkok, Bali, Seoul, Vancouver, Osaka, Auckland, and Singapore. Realizing the importance of adopting a practical and flexible approach to intra-regional coope-

ration, PECC has sought to identify those areas most amenable to cooperation and to formulate the optimum modes of promoting this cooperation. Happily, PECC's tripartite structure of government officials, business people, and scholars makes it very well suited to promoting Pacific cooperation.

Reflecting the heightened interest in Asia-Pacific cooperation, a number of people have proposed that the countries concerned convene a governmental forum to discuss the modalities of multilateral cooperation in the region. With the recent U.S.-Canada Free Trade Agreement and the impending European Community market integration at the end of 1992, there is increasing recognition of the need for the Asia-Pacific region to use its great economic dynamism to promote development that is based upon market economics and free-trade principles and is open to the rest of the world.

Looking at the main initiatives taken in 1989, Australia's Prime Minister Robert Hawke, speaking in Seoul in January on the subject of "Regional Cooperation: Challenges for Korea and Australia", proposed both a ministerial meeting of Pacific region countries and the establishment of an OECD-like body to serve the cause of Pacific cooperation. On November 6-7, the Ministerial-level Meeting on Asia Pacific Economic Cooperation (APEC) was held in Canberra hosted by the Australian government. Twelve governments' delegations were present with 23 ministers. APEC's second meeting was held in Singapore in May 1990, and its third meeting will be held in Seoul in November 1991. It is likely that this Seoul meeting will see the People's Republic of China, Taiwan and Hong Kong joining APEC, but no decision has yet been made on the question of setting up an APEC secretariat. At the 8th meeting of PECC held in Singapore in May 1991, it was decided to admit Hong Kong, Mexico, Peru and Chile as full members. The Soviet Union, Papua New Guinea, and Columbia have also applied for full membership, but these applications are still pending.

More recently, Malaysia's Prime Minister Mahathir proposed the formation of an East Asian Economic Group (EAEG) when he received China's Prime Minister Li Peng in December 1990. This idea was discussed at the 8th PECC meeting in Singapore and at the ASEAN ministerial meetings. Because Dr. Mahathir did not include North America, his idea has become a controversial issue and the formation of EAEG is still pending.

The future of cooperation in the Asia-Pacific region depends partly on EC and North American attitudes. If the EC and North America tend to inward-looking regional cooperation, EAEG may attract more attention. However, given the inexorable integration of the global economy, the Asia-Pacific countries should maintain open regional cooperation and not turn inward.

*) Paper presented to the 8th General Assembly of Organization of Asia-Pacific News Agencies (OANA), Tokyo, September 24, 1991.