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Japan and the Pacific Basin*

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I. Introduction

Following the Treaty of Rome, which in 1957 established the European Economic Community (EEC), there have been many attempts in other parts of the world at regional economic cooperation. None has so far achieved the EEC's measure of success, but some – like Comecon or the Andean Community – merit attention. It may be of interest to discuss briefly another, though distant, relation of the EEC, namely the Pacific Basin project, and particularly Japan's prospective role in that projected organization.

As it exists now, the Pacific Basin project is an association of private businessmen in Australia, Canada, Japan, New Zealand and the United States, who in 1967 formed the Pacific Basin Economic Cooperation Committee. This Committee was set up for "the promotion of economic collaboration between the member countries" and "cooperation with the developing countries in their self-sustaining effort to achieve economic growth". This is a less ambitious and specific goal than the initial aims of the EEC: "establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living, and closer relations between its Member States."[1]

Despite the differences in goals and form of organization, it may be useful, for a beginning and in order to obtain an impression of the dimensions involved, (1) to describe and compare basic data for the EEC and the envisaged Pacific Basin, (2) to discuss Japan's role in that setting, and (3) to draw some conclusions about the likely prospects of a Pacific Basin organization.

Table 1 shows impressive accumulations of economic wealth and power. The thought arises that the two blocs, European and Pacific, may find it ultimately more advantageous to pool resources and to cooperate than to compete with each other. It should be noted, at the outset, that the Pacific Basin is not necessarily limited to the countries of the present Committee members, but may well include such areas as South Korea (or even unified Korea), Taiwan, Hong Kong, and the Philippines – as long as the communist countries do not share the western objectives of free trade and trade expansion.

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[1] Treaty establishing the European Economic Community (Rome 1957) Article 2.

Table 1: **The European Economic Community and the Pacific Basin, 1970** [2]

	EEC	PB
Area (square miles)	587,000	10,688,000
Population (millions)	253	345
Gross National Product (billions of dollars)	627	1,300
Per capita income (dollars)	2,482	3,789
Exports (billions of dollars)	113	86
Imports (billions of dollars)	116	80
International reserves (billions of dollars, end of 1971)	34.0	25.8

Source: United Nations, Statistical Yearbook, 1972.

II. Basic Data

After the second World War, the Pacific area became a center of economic activity. The Pacific Ocean is no longer a barrier to international traffic, as it was before. The development of fast transportation and communication, particularly the advance of sea bulk-carriers since the 1957 Suez crisis, was a decisive factor in bringing the countries bordering the Pacific closer together. In addition, the political climate around the Pacific changed. Many of the region's countries which up to the second World War were dependent, though at varying degrees, on European powers, have severed or loosened these ties, and have become independent with all the responsibilities which such a status implies. As a result of these and other factors, trade within the Pacific region has grown as shown in Table 2.

Table 2: **The Foreign Trade of the Pacific Basin, 1961–1971**
(millions of dollars, undeflated, selected countries)

	Exports		Imports	
	1961	1971	1961	1971
Australia	2,324	5,214	2,394	5,266
Canada	6,107	18,310	6,196	16,819
Hong Kong	688	2,871	1,045	3,387
Japan	4,214	24,623	5,782	20,260
Korea (South)	41	1,068	316	2,394
New Zealand	794	1,360	904	1,346
Taiwan	196	1,998	322	1,844
United States	21,000	44,137	16,071	48,520
Total	39,364	99,581	33,030	99,836

Source: see Table 1.

During 1961–1971 imports and exports throughout the Pacific Area (except Latin American countries bordering the Pacific Ocean) approximately tripled, although individual countries differ in their trade expansion rates. It is notable that the exports of such high per-capita income countries as Australia and New Zealand

[2] See detailed tables appended.

grew more slowly than world exports (about 10 per cent) while the exports of countries undergoing a rapid development process such as Korea and Taiwan, grew faster. Similarly, exports as a percentage of the national product rose sharply in developing countries, but were relatively stable in high per-capita countries, as shown in Table 3. Moreover, these figures do not represent intra-basin trade, but show overall trade expansion. Nevertheless, the data indicate that many Pacific countries have fully participated in the post-world war trade expansion.

Table 3: **Exports as Per Cent of Gross National Product**

	1961	1964	1967	1971
Australia	.16	.17	.16	.16
Japan	.08	.08	.09	.10
New Zealand	.24	.28	.21	.24
Korea (South)	.05	.06	.11	.15
Taiwan	.12	.18	.21	.31

Source: see Table 1, rounded figures.

Despite the differences between the individual countries of the basin, many show a common feature in their recent export pattern: the commodity composition of their trade is changing, and this change is being associated with shifts in the geographical trade pattern. In the case of the developing countries, simple manufactured products, shipped mainly to the United States, are superseding agricultural and other primary commodities going mainly to Japan. In the higher per-capita income countries, manufactured and new primary items shipped mainly to the United States and Japan are replacing the traditional primary products which previously were mainly shipped to the United Kingdom. On the whole it seems safe to say that the higher per-capita income countries are now deeply involved in trading with Japan and the United States, while becoming less involved with Europe, particularly the United Kingdom. Korea and Taiwan have reoriented their trade within the Pacific Basin; Japan has been replaced by the United States as their main trading partner. Their previous role as suppliers of raw materials to Japan has been assumed to some extent by Australia, New Zealand, and the United States. The reorientation of Australia's trade was sped up by weakened British demand for Australia's traditional primary exports, such as wool, rising Japanese demand for minerals, and Australia's own industrial development policy. New Zealand is experiencing a shift mainly because of falling or only slowly growing demand for its traditional exports. Korea and Taiwan have followed an export-oriented development policy in recent years. Making full use of their large manpower supply, they have moved into the production of labor intensive components and relatively unsophisticated manufactures. The strong complementary relationship between these economies and that of Japan has been slowly disappearing; in fact, Korean and Taiwanese industrial products are appearing on the Japanese market.

Apparently these trends are supported by the growing shortage of labor in Japan on the one side, and by growing Japanese investment on the other side, and the process may conceivably assume proportions which could well speed up the industrialization of non-Japanese East Asia.

III. Japan and the Pacific Basin

Given the relative insignificance of foreign trade to the national economy of the United States it seems appropriate to look more closely at Japan's present position in the Pacific Basin. The growth rate of Japan's trade with the developing countries in South East Asia has been slowing down in recent years – that is to say, seen from Japan, and compared with other markets. Japan's trade with South East Asia is still large enough to keep memories of the Greater East Asian Co-Prosperity Sphere alive in the countries of the region[3]. However, the general impression is that Japan's trade with this part of the Third World has lately been growing less intensely. By contrast, the growth rate of Japan's trade with Australia, Canada, and the United States is high and seems to be rising. We shall revert to the implication of these findings.

Under present conditions which make Japan the most competitive of the world's major industrial exporters it would seem that global trade liberalization would serve Japan's interest best since Japan obviously stands to gain more from such a development than from the growth of regional trading blocs whose members trade among themselves at preferential terms. Although Japan's overall economic interest therefore ought to militate against the concept of an integrated Pacific Basin trading community a la EEC, currently prevalent economic and political trends are pressing toward such a development. The overriding consideration in this connection, of course, is the formation of other regional blocs. Japan has begun to consider the EEC as a threat likely to increase Japan's isolation among the major industrialized nations. The occasional support Japan was able to draw in the past from the independent role of the United Kingdom is coming to an end. Britain's entry into the EEC will lead to a harmonization and standardization of British and Continental attitudes in questions of international trade, and Japan may experience further trends toward isolation. By the same token, Japan's significance for Australia and New Zealand, as mentioned before, may rise, since both countries are facing shrinking outlets for their traditional exports in the United Kingdom, while Japan's rising affluence, need for raw materials, and changing dietary habits offer substitute markets and thereby strengthen Japan's position in the Pacific Area.

An interesting aspect of the Pacific Basin concept is the existing North-South relationship on the eastern and the western rim of the Pacific between the industrial leaders and the developing areas. We are referring to the problem of integrating the active connections along the Pacific coast of the Americas and that of Asia. Japan, despite a slowing growth rate, still sends about 25 per cent of its exports to East and South East Asia, and that region is also the major recipient of Japanese foreign aid, mostly in the form of suppliers' credit. Similarly, Latin America including its Pacific coast heavily depends on the United States market and also receives a substantial part of United States foreign aid in various forms. These complementary relationship have their perils as we have seen in the cases of Chile and Peru on the eastern end. At the other rim of the Pacific, tensions are building up in those countries where Japanese economic predominance has led to trade imbalances and balance-of-payments problems (see Table 4).

[3] Japan's recent decision to spend substantial amounts on rearmament are not likely to reduce these apprehensions.

Table 4: **Japan's Market Share in Southeast Asia, 1970**
(Per cent of total imports)

Taiwan	45.8
Korea (South)	41.7
Philippines	41.6
China	26.0
Thailand	34.6
Indonesia	25.8
Burma	23.4
Hong Kong	22.0
Singapore	18.0
Malaysia	13.0

Source: see Table 1.

In 1971 Japan received more than $2 billion in foreign exchange from the East and Southeast Asian countries, and estimates are that this amount will rise to $7 billion in 1980[4]. If one compares the economic position of the United States with that of the developing countries in East and Southeast Asia, United States worries about its $4 billion trade deficit with Japan seem somewhat disproportionate. On the other hand, Latin America, unlike East and Southeast Asia, has a trade surplus with Japan, and in 1971 took only about 5 per cent of Japan's exports. Latin America therefore needs not to be as apprehensive as Southeast Asia about the prospect of shifting some imports to Japan. In addition, Latin American countries may be in a better position to use Japanese hard-term credits (which form a substantial part of Japan's foreign aid program) than East and Southeast Asia. In connection with a greater diversification of Japan's trade there seems to be room for more raw material imports from Latin America which could offset some of the envisaged higher exports to that area. These are some of the thoughts which cross one's mind when thinking of the possibility of a Pacific Basin trade zone and of replacing the traditional trade pattern in that area by new ones in line with the needs of the potential Pacific community.

Similarly to the case of the EEC the formation of a Pacific Basin community decisively depends on tariff cutting. We had mentioned before the trade expansion in the Pacific Basin, and we would like to add here that the intrabasin exports-cum-imports between the five countries envisaged as the charter members of the Basin area – Australia, Canada, Japan, New Zealand, and the United States – rose from $18 billion in 1958 to $36 billion in 1965 and to $75 billion in 1971. Indications are,

Table 5: **EEC Trade, 1958–1970**
(billions of dollars, undeflated)

	Intra-Community		With Third Countries	
	Exports	Imports	Exports	Imports
1958	6.9	6.8	15.9	16.2
1970	43.3	42.8	45.4	45.8

Source: see Table 1.

[4] Cf. Tadashi Kawata, The Asian Situation and Japan's Economic Relations with the Developing Countries, in: The Developing Economies, Vol. IX, 2, Tokyo 1971, p. 148.

however, that the intrabasin trade of these countries rose less than the intraregional trade of the EEC as shown in table 5.

From the above table the case for tariff reduction seems conclusive: total EEC trade during 1958–1970 approximately increased three times, while intracommunity trade stimulated by tariff cuts, increased approximately six times.

Kiyoshi Kojima of Hitotsubashi University in Tokyo[5] has supplied estimates for trade stimulation in the Pacific Basin which suggest that an elimination of tariffs in the area may have a far greater effect than the implementation of the tariff cuts provided by the Kennedy Round negotiations. But here we are up against a basic problem: the principal beneficiary from a general tariff reduction or elimination would be Japan. This is due to several facts which we mentioned before.

Japan has a greater interbasin trade than all other four countries, and also is a major exporter of manufactured goods which benefit more from tariff cuts than raw materials. As a result of this situation Japan's exports to other basin-members would probably increase following any reduction in tariffs without a compensatory advantage accruing to the other partners. This pattern of trading primary materials against manufactured items with Japan is well known in the cases of Australia and New Zealand. Less well known is the fact that the United States, in order to maintain its balance of trade with Japan, heavily depends on shipments of raw materials to Japan, while most of Japanese shipments to the United States represent manufactured products. This trade pattern would therefore unilaterally benefit Japan in case tariffs would be eliminated or reduced. The implication is that within the Pacific Basin under present conditions it would not be practical to initiate such reductions or eliminations.

IV. Conclusions

Under these circumstances it is no surprise that Japan has in the past been, and continues to be, a strong supporter of various groupings which promote regional cooperation and understanding within the Pacific Basin. The Asian Development Bank, the Private Investment Company for Asia (PICA), an offspring of the group that initiated the Pacific Basin Economic Cooperation Committee, the Asian Pacific Council (ASPAC), and the annual ministerial conference for the economic development of Southeast Asia — all have been enjoying strong support from Japan. Their achievements, so far, have not been quite up to expectations, although important contributions were made in the field of information and mutual understanding of divergent viewpoints.

Future patterns of trade in the Pacific Basin cannot be easily predicted. The European market for agricultural products from Australia and New Zealand will hardly improve, particularly after Britain's and Denmark's entry into the EEC. The harder line on imports by the United States may also hurt countries of the Pacific Basin. For the creation of a Pacific Basin trading community it would seem that the most

[5] "Japan and a Pacific Trade Area", London 1971, "A Pacific Free Trade Area Proposal", in: Pacific Community, Vol. III, No. 3 (April 1972), and "Japan and the Pacific Area", in: Heide and Udo Ernst Simonis (Eds.), Japan: Economic and Social Studies in Development, Stuttgart 1973.

important requirement would be a more evenly spread industrial development and income growth, so as to eliminate the risk of unfair or disproportionate advantages resulting from freeing intrabasin trade.

Since Japan stands to benefit most from such a freeing, Japan would also have to adjust most in order to arrive at a more even distribution of growth potential. But in view of the present uneven distribution which sees Japan far ahead of its potential partners in the basin it is questionable whether Japan sees any incentive to substantially contribute to more equitable distribution. A major motive, and possibly the decisive one, could be the need for guaranteed markets in an economically and politically stable environment.

Appendix:

Table 6: **Pacific Basin**
(end of 1970)

	POPULATION (millions)	AREA (thousands of sq. miles)	GNP (billions of $)	PER CAPITA INCOME ($)	EXPORTS (billions of $)	IMPORTS (billions of $)	RESERVES (billions of $)
United States	204.8	3,615.2	991.1	4,830	42.7	40.0	14.49
Japan	103.5	142.7	198.3	1,910	19.4	19.0	4.84
Canada	21.3	3,851.8	76.1	3,550	17.7	14.8	4.68
Australia	12.6	2,974.6	35.5	2,830	4.7	4.5	1.69
New Zealand	2.8	103.9	6.1	3,350	1.2	1.2	0.13
Total	345.0	10,688.2	1,307.1	3,789	85.7	79.5	25.83

Table 7: **European Economic Community**
(end of 1970)

	POPULATION (millions)	AREA (thousands of sq. miles)	GNP (billions of $)	PER CAPITA INCOME ($)	EXPORTS (billions of $)	IMPORTS (billions of $)	RESERVES (billions of $)
Germany	60.7	95.9	187.1	3,030	34.3	29.9	13.61
Italy	54.5	116.3	92.9	1,700	13.2	15.0	5.35
France	50.8	212.7	148.2	2,910	18.2	19.2	4.97
Netherlands	13.0	12.9	31.3	2,400	11.8	13.5	3.23
Belgium/Luxembourg	10.0	11.9	26.9	2,690	11.7	11.4	2.85
Subtotal:	189.0	449.7	486.4	2,574	89.2	89.0	30.01
United Kingdom	55.8	94.2	121.2	2,170	19.4	21.7	2.83
Denmark	4.9	16.6	15.6	3,160	3.4	4.4	0.48
Ireland	3.0	26.6	3.9	1,320	1.1	1.6	0.70
Total	252.7	587.1	627.1	2,482	113.1	116.7	34.02