

The Promotion of Asia-Pacific Cooperation

By Shoichi Akazawa



The dramatic growth achieved by countries in the Asia-Pacific region in recent years has markedly elevated its position in the world economy. Now this region, represented by the Association of Southeast Asian Nations (ASEAN), the newly industrializing economies (NIEs), China, the United States, Canada, Australia, New Zealand and Japan, is likely to play the leading role as the locomotive of the world economy toward the 21st century, provided that these economies maintain their vitality.

The interdependence among countries in the region has deepened rapidly in parallel with their economic development. This is evident in the growing share of regional trade, the expansion of direct investment and the transfer of technology. What is happening is a multilayered development of economic activities.

The future of the Asia-Pacific economies is not necessarily rosy, however. In the past decade, various favorable factors have combined to contribute to the region's rapid growth. But now these economies face a host of economic problems that could retard their development.

It is for this reason that the need for regional cooperation has been voiced and various cooperation plans proposed in recent years. Last year, for example, then-U.S. Secretary of State George Shultz called for the creation of a Pacific-Rim Forum while Senator Bill Bradley proposed the establishment of a Pacific-8.

More recently, in January this year Australian Prime Minister Bob Hawke proposed a Cabinet-level exchange of views among countries in the region to promote multilateral cooperation. In May, during his visit to ASEAN states, then-Prime Minister Noboru Takeshita declared Japan's readiness to promote regional cooperation. And in June, U.S. Secretary of State James Baker emphasized the importance of partnership between the United States and other Pacific nations. Hawke's proposal was supported by various countries concerned, so that in

early November this year a ministerial meeting on economic cooperation in the Asia-Pacific region is being held in Australia at his initiative.

In light of these changes in the circumstances surrounding Asia-Pacific cooperation and the deepening interdependence among the region's economies, a council for the promotion of Asia-Pacific cooperation was created in September last year. The council, composed of opinion leaders in industrial, academic and other circles, has since held 12 meetings to discuss a range of matters including the need for regional cooperation and specific ways of promoting such cooperation.

The group has also invited opinion leaders from the United States, Thailand and Singapore for an exchange of views. Below is a summary of the report completed in June by the council, which I chaired.

1. Asia-Pacific economy as an engine of growth for the world economy

In the second half of the 1980s, countries in the region, particularly the NIEs and ASEAN states, achieved dramatic growth. The region's share in world GNP grew from 41% in 1980 to 52% in 1985. Reflecting this, its share in world exports increased from 29% in 1980 to 37% in 1987. In particular, imports into East Asia—the NIEs, ASEAN and Japan—increased dramatically, posting a 30% rise to about \$450 billion in 1988. That is more than the United States' total imports for the same year.

Thus the Asia-Pacific region has been serving as an "absorber" of world export demand. If the recent trend is maintained in the years ahead, the region is likely to become the locomotive of the world economy in the 1990s.

2. Economic cooperation in Asia-Pacific region

The rapid economic growth that the countries in the region have achieved in the 1980s has been accompanied by a remarkable interdependence in economic relations. In the area of trade, for instance, the degree of dependence of each country on the entire region increased by 5-10 percentage points in the seven years

from 1981 to 1987 to about 50% to 70%, or an average 63%. By comparison, the average figure for the European Community for the same period was 58%. The growing interdependence among Asia-Pacific nations is discernible not only in trade but also in various other areas such as investment, technology and finance.

On the other hand, economies in the region face various problems in their efforts to sustain growth. Long-term growth can be achieved only through policy-oriented efforts based on multilateral cooperation in the region. Problems to be addressed include:

(1) Excessive reliance on U.S. economy

Exports from the region to the U.S. account for a considerable proportion of its global exports. The United States is the largest importing nation for all the NIEs in the region. This heavy dependence on the U.S. market is likely to have a considerable impact on these economies if, as seems likely, the U.S. economy slows down in the course of efforts to cut the twin budget and trade deficits.

(2) Economic fragility of Asian developing economies

i) High dependence on exports

The share of exports in total domestic production in 1987 was an average 63% for the NIEs, compared with 14% for the industrialized nations and 27% for ASEAN states (not including Singapore).

ii) Underdeveloped industrial structure

In the Asian NIEs, supporting industries that supply intermediate and capital goods are still immature and are likely to retard the sophistication of the industrial structure.

iii) Insufficiency in technological development capability

With some exceptions, domestic industries generally consist mainly of small and medium-sized enterprises in light industry, which have only a limited capacity to bear risks. For this reason, economies in this category lack the capacity for independent technological development.

(3) Insufficient infrastructures for economic development

Rapid economic growth has created a shortage of skilled labor and pushed up wages. The limited capacity for technological development makes it difficult

Photo: WWP



Indonesian Foreign Minister Ali Alatas (left) joking with Philippine Deputy Foreign Minister Manuel Yan (center) and Australian Foreign Minister Gareth Evans after the closing session of the ASEAN post-ministerial meetings in July.

to develop products on an independent basis.

(4) Instability due to high economic growth

The high rate of growth is likely to cause instability in future energy supply and exacerbate industrial pollution and other environmental problems.

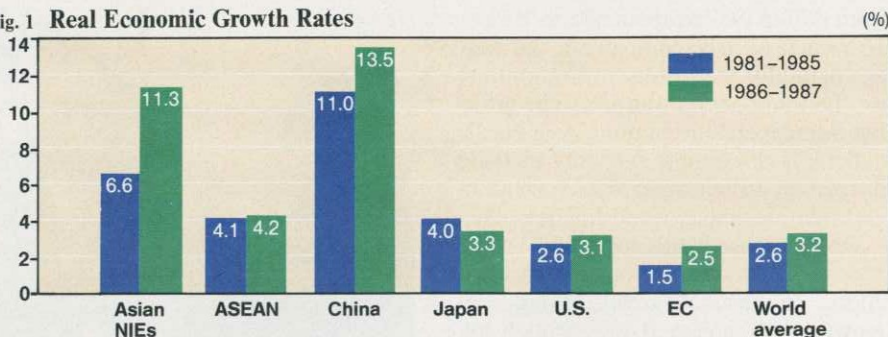
Finally, it is important to recognize the need for multilayered development of economic activities and for regional cooperation in the economic field. In light of the growing, multisided relationship of interdependence it is impossible to solve on a bilateral basis, still less unilaterally, the variety of complex problems that confront the region in its efforts to achieve sustainable economic development. It is inevitable that countries in the region should cooperate in resolving their common economic problems.

3. Outward-looking regional cooperation

Great significance is attached to the outward-looking nature of cooperation in the Asia-Pacific region. Such cooperation is essential if regional cooperation is to become a transitional process leading to the true integration of the global market. Also, promotion of outward-looking cooperation is essential to the strengthening of the competitiveness of regional economies.

Secondly, the Asia-Pacific region is in a position to serve as a model of outward-looking regional cooperation and thereby

Fig. 1 Real Economic Growth Rates



Sources: National Accounts, OECD; World Economic Outlook, IMF; trade statistics of each country

contribute positively to the world economy. The region should not aim at economic regionalism by forming an exclusionary bloc. For instance, reduction of trade barriers should be promoted on a most-favored-nation basis.

4. Principles of cooperation

Countries in the Asia-Pacific region vary widely in culture, ethnic background, stage of economic development and in many other respects. In light of such diversity, the following four principles should be observed:

(1) Gradual promotion of multifaceted cooperation

Economic problems facing the region are many and diverse, including those affecting trade, investment and technology. Therefore, cooperation should be promoted gradually in areas in which the countries concerned have common interests.

(2) Mutual respect and equal footing in participation

Though countries in the region vary widely in economic scale, it is necessary for them to participate in cooperation projects on an equal footing.

(3) Multilayered cooperation

Cooperation should be promoted step by step and in a flexible manner, in ways that complement existing forms or arrangements of cooperation, such as ASEAN, Closer Economic Relations (Australia and New Zealand's free trade agreement) and the U.S.-Canada free trade agreement.

(4) Private-sector vitality and free market mechanism

Cooperation should be promoted as a

policy-oriented complement to economic activities of private corporations and free market mechanisms.

5. Directions of cooperation

Promotion of trade

Trade should be expanded, first, by promoting the Uruguay Round of multilateral trade negotiations. It is, therefore, necessary for countries in the region to exchange views on ways of pushing the Uruguay Round and contributing to its success.

Secondly, Japan should make further efforts to expand imports. Japan is, of course, the second-largest market in the region after the United States. Thus, expansion of imports into Japan has a large role to play in sustaining trade expansion and economic growth in the region. Japanese efforts toward import expansion should be continued through the long-term growth of its economy led by domestic demand. Specifically, such efforts should include:

(1) Conducting feasibility studies on ways of expanding exports to Japan in cooperation with trade promotion agencies, government trade bureaus and/or research organizations in the region. Export sales to Japan can be increased in various ways, such as developing products geared to the needs of the Japanese market and strengthening of marketing efforts in Japan.

(2) The Asian trade promotion forum created by trade promotion agencies (including JETRO) or government trade bureaus should be strengthened or expanded. This is essential to the dissemination of information on the Japanese

market and of know-how on ways of expanding exports to Japan.

Improvement of infrastructure

The industrial infrastructure in the developing countries should be improved. To this end, three broad courses of action are proposed: training personnel; promoting technology development and transfer; and facilitating direct investment.

The development of human resources is essential in view of serious shortages of skilled labor, particularly technicians and engineers, in rapidly industrializing countries such as the ASEAN states. In order to promote industrial development it is essential that this labor bottleneck be reduced or eliminated. Specifically, labor shortages can be covered by the following measures:

(1) Expansion or creation of institutions of higher education to improve industrial education with the emphasis on science and technology, industrial policy and business administration. Such education should be provided in English at the graduate level.

(2) Establishment of technical training centers to produce large numbers of middle-level technical personnel in strategic areas of Asia.

(3) Establishment of a region-wide network to develop human resources through expansion of development programs in the industrialized countries and coordinated use of them in the region.

The promotion of technology development and transfer requires private-sector direct investment as well as human development. In addition, the following systems of research cooperation should be established:

(1) An international research organization with such functions as research and development finance (through contributions from countries concerned), research management and dissemination of research results.

(2) A network of research and development cooperation through such measures as expanded cooperation among research organizations and increased visits by researchers to the industrialized countries.

As for facilitating direct investment,

the industrial infrastructure in the developing countries should be improved not only through supply of funds but also through wide-ranging technology transfers involving both hardware and software. In addition, direct investment will contribute materially to progress in the international division of labor. Specifically, the following measures are proposed: (1) Creation of databases to provide information on the investment climate in various countries to interested companies. (2) Support for the development of small and medium-sized enterprises in the developing countries to reduce the immaturity of supporting industries that supply intermediate products.

Sustaining long-term growth

It is necessary to secure long-term, well-balanced energy supplies and address growing concerns about regional and global environmental issues in order to sustain stable growth. Cooperation in energy supply and pollution control should be enhanced by the following measures:

- (1) Promoting the "Pacific coal flow" concept, electrification in the developing countries, utilization of natural gas and development of new energy technology.
- (2) Development of simple waste gas desulfurization devices and promotion of their use, and utilization of new clean energy systems such as solar batteries. In addition, training of personnel and preparation of energy-saving manuals to promote energy conservation.

Table 1 Economic Growth Rates (%)

	1987	1988	1989
Indonesia	3.2	3.6	5.0
Malaysia	5.2	8.1	7.3
Philippines	4.7	6.6	6.5
Thailand	8.4	11.0	8.5
Singapore	8.8	11.0	7~8
ASEAN average	5.5	7.3	6.7
South Korea	12.8	12.2	8.0
Hong Kong	13.5	7.5	6.0
Taiwan	11.9	7.1	7.3
Asian NIEs average	12.3	9.7	7.4

Notes: 1. Economic growth rates = real GDP growth rates
2. 1987 and 1988 figures are actual; 1989 figure is an estimate.

With regard to environmental protection, industrial pollution is becoming more of a problem in the developing countries as a result of rapid industrialization and the concentration of population in the cities. Cooperation in this field should be promoted by establishing a center for the environment and energy technology, which would provide training, conduct factory inspections and carry out other activities aimed at preventing industrial pollution and protecting the environment.

Toward balanced economic development

Japan and the United States have a large role to play in promoting macroeconomic policy coordination in the region. The need for such cooperation is pressing in view of the general perception that a slowdown in the U.S. economy is unavoidable in order to reduce the twin deficits. For the time being, the industrialized nations should take the lead in such policy coordination within the framework of the annual Western economic summit, the OECD and other multilateral forums.

It is hoped that the Asian NIEs will take part in such efforts to adjust macroeconomic policies as far as practicable. Such participation should be promoted on a gradual basis in a spirit of mutual understanding by taking into account the state of each economy concerned.

Creation of conducive conditions

(1) Facilitating fund supply

Japan should play a positive role as a major supplier of aid funds to the developing countries. At the same time, in cooperation with other industrialized nations and international development lending agencies, Japan should extend financial cooperation along the following lines:

- Japan and other industrialized countries should expand the quantity and improve the quality of public funds, notably official development assistance;
- Government-level risk-covering measures and pump-priming investments should be expanded to ensure a smooth supply of private-sector funds. Measures to cover the risks of overseas investment are especially important in order to facilitate the recycling of private funds.

Therefore, the trade insurance system should be operated more flexibly with emphasis on the recycling of funds involving the transfer of technology and management know-how.

(2) Improvement of economic statistics and formation of research network

In view of the importance of providing accurate information on the economic situation in the region, economic statistics should be improved.

Japan's Institute of Developing Economies and other economic research bodies in the region should form a regional network of research organizations to provide more efficient cooperation in research on the current state of economic development, economic problems and policies.

(3) Promotion of international standards

A fund designed to promote standardization in the developing countries should be created in the United Nations Industrial Development Organization (UNIDO). The fund would finance a range of related activities including holding symposiums on standardization and quality control.

(4) Holding of expositions

An Asia-Pacific exposition and other events designed to help maintain the current vitality in the region should be held on a rotation basis in countries of the region.

6. Framework for promotion of regional cooperation

In view of the diversity of the region, it is increasingly necessary to promote dialogue at all levels including industry, academia and government. Since sustainable economic development in the region can be achieved only through cooperation, it is also necessary to create a forum for government-level cooperation. It is of great significance to conduct frank exchanges of views at the ministerial level in various economic areas in which many countries have common concerns, such as trade and industry. ■

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