

Notes by the Round Table Participants

The Round Table Report: A Miraculous Communiqué

By Yutaka Kosai

At the concluding meeting of the Round Table Discussion on Japan in the Global Community, Chairman Professor Yasutaka Murakami of the University of Tokyo jokingly stated that it was a near miracle that such a large number of people from such different backgrounds could have agreed on such a plethora of issues. He could not have been more correct. Just taking the language barrier as an example, it can easily be imagined how difficult it would be to sum up the opinions of members representing so many different nationalities. In addition, the round table participants were asked to look into the future to the 21st century, keeping within their perspective as they did so the global community as a whole. It would not have been at all strange if they had

clashed head-on during the discussions.

Yet despite this, something of a miracle was attained. We owe the success of the round table discussion to the way in which the meetings were conducted. First, for each meeting several members were selected to prepare reports, and their detailed papers were distributed beforehand. Two or three preselected commentators then gave their views on the papers. This method was very effective in concentrating discussions on specific topics.

Secondly, as much time as possible was taken for each meeting to give the maximum number of members an opportunity to express their views.

Thirdly, closed discussions were held separately on each topic to stimulate the free exchange of ideas. I think it was be-

cause of this approach to the talks that we were able to compile a unified report. Of course, all this made the work of the secretariat staff more strenuous, not to mention voluminous.

Needless to say, not all the opinions expressed at the meetings are contained in the report. Some points brought up could not be included because they were so unique and pregnant with implications that there was no time to adequately explore them. However, the members should continue to consider them in the future.

I sincerely hope that this report will be read by many, and will serve as a valuable reference when people ponder the future of Japan. ●

Economic Cooperation in The Asia-Pacific Region

By Anwar Nasution

Recent developments in international trade and monetary systems indicate that the non-communist Asia-Pacific countries must increase intraregional economic cooperation to keep up with the rapid economic growth they have enjoyed since the early 1960s. The increasing protectionism since the Tokyo Round of GATT negotiations in 1973 is unlikely to recede or be dismantled, at least in the foreseeable future. The present "new protectionism" differs from the old protectionism in many respects: It involves non-price or non-tariff measures, it is discriminatory, less transparent and much more complex

to contend with. The ill effects of protectionism are magnified by exchange rate variability in the present floating system. Short-run volatility of exchange rates and their long-term misalignments render planning difficult.

Increasing protectionism of the industrial countries and instability in exchange rates are directly hurting the non-communist Asia-Pacific economies. All of these economies are market economies honoring private enterprise and private property. Trying to realize the dynamic comparative advantage, peoples in these countries believe religiously in: "Do what you can do best and trade for the rest."

They allocate economic resources efficiently by way of rational prices. The role of non-communist governments in the Asia-Pacific region is to preserve market competition by correcting market distortions, and not to create new ones as has been widely practiced in many parts of the world. This makes saving and investment ratios considerably higher in the Asia-Pacific than in other regions. Because they concentrate on producing commodities in which they have comparative advantages, these economies are more specialized in what they can produce best. Through specialization these countries can increase production

and make continued economic progress.

Specialization, however, leads to dependency on international trade. Trade is particularly vital for the Northeast Asian countries. Their dependency on imported raw materials, energy and foods is very high. Up to now all of the Asia-Pacific countries benefited from a liberal America in terms of capital, technology and the defense umbrella provided by the United States and access to its market. Domestic markets of the EC and the socialist countries are relatively closed to the Asia-Pacific countries because the former prefer trade among themselves.

Whatever the shape of economic relations in the Pacific basin in the future, the Asia-Pacific countries cannot continue their overdependency on the United States. There is a limit to that. The capability of the EC to make adjustments to changes in factor prices and the structure of demand is likely to remain low. Their overcommitment to welfare systems, extensive government regulations and nationalization of their economies have destroyed the dynamism and efficiency of the market system. These policies also create structural problems in their labor markets, low saving and investment ratios and do not beget optimism, confidence, creativity, innovation and commitment. Because of this adjustment problem protectionism in the EC is likely to continue in the future. The same holds true in the communist East European countries. To a large extent international trade of the communist countries is conducted among themselves.

What kind of economic cooperation?

Economic cooperation in the Asia-Pacific region should be based on the principle it knows best and that has brought it prosperity: dynamic comparative advantage. It should not be a coordinating body of rigid domestic economic planning as in the communist countries. Also, it should not divert trade from the cheapest suppliers elsewhere to higher cost producers in the region. The rationale of international trade is to acquire goods less expensively than if one had to produce them oneself.

The benefits of regional economic cooperation can only be realized if the member countries liberalize movements of factors of production, labor, capital and entrepreneurs among themselves. Transfer of technology is also very im-

portant. The region has long been an importer of foreign technology, mainly from the West, through licencing, direct investment, training and education, attendance at conferences and industrial espionage.

As an economic superpower, Japan has made major contributions to the stock of science and technology. For its own benefit and that of others, Japan must become a center of learning in the Asia-Pacific region, opening its educational institutions and laboratory facilities to foreigners. As its industry is now moving toward high-tech and knowledge-based industries, Japan must maintain its supremacy in new technology. For this purpose, Japan must remove the existing segmentations in its higher learning institutes as well as R&D facilities and attract talented non-Japanese persons from elsewhere. No single nation in the world, including Japan, can invent everything even if it wants to!

Like charity, deregulation starts at home. To encourage intraregional trade and movements of factors of production, the non-communist Asia-Pacific countries should liberalize their industrial and trade policies. Self-sufficiency in an industry in one country impedes intra-industrial and intraregional trade. This creates problems for neighboring countries in the region as they experience rapid changes in their comparative advantages.

Limit to interdependence

Specialization leads to interdependence. Despite its great potential for increasing production of goods and of prosperity, there is a political limit to specialization. Comparative advantage bears no relationship to strategic advantage and national security. Great wars and colonization of the past, including those in this region, were battles for economic resources. Bitter disputes within the EC, present conflicts between North and South and between Japan and the rest of the world are conflicts between the economic gains from specialization and its strategic vulnerabilities. Oil crises during the 1970s did not escalate into war because the world had become more mature. Technological progress enables consumers to conserve energy and to use substitutes for oil. The Ricardian rent seems to be working quite well since the jump in the price of oil created incentives for producers to increase production by extracting oil from inferior wells.

Trade liberalization creates domestic adjustment problems as well. The out-competed sectors and industries should

be relegated to other countries to make room for other and better sectors and industries. Factors of production should be shifted from noncompetitive activities to more productive ones. As Japanese industry moves toward the high-tech and knowledge-intensive end, as demonstrated in the Tsukuba Expo last summer, for example, Japan must forego industries that are no longer competitive and shift them to other Asia-Pacific countries. Such industries include labor-intensive and some resource-based and low-tech standardized manufacturing industries. In reality, factors of production are not perfectly mobile: Machinery, labor and human capital cannot be relocated freely from one occupation or region to another. There are economic, social and political costs associated with these relocations. The more immobile the factors of production, the lower the capacity for adjustment and the higher the costs.

The benefits of dynamic comparative advantage can only be materialized in political peace and stability. To fulfill this requirement, the Asia-Pacific countries must create a regional consultative body, similar to ASEAN, which is rooted in "Asian culture." The main purpose of the regional grouping is to remove the existing unnecessary misunderstandings and suspicion among the members. The region consists of many races, ethnic groups and religions. Each ethnic group has its own distinct language and dialects, culture and subcultures, tradition, institutions, attitudes and behavioral patterns. However, whatever their dissimilarities, they are all bound to "Asian culture." Through the Asian collectivist spirit that has been successfully practiced in modern Japan, all of the differences and misunderstandings can be resolved and removed.

Since the philosophy of cooperation is economic specialization based on dynamic comparative advantage, the first members of the group should be the non-communist and non-socialist countries in the Asia-Pacific region. As the biggest economic power in the region, Japan should take bold initiatives toward the formation of the regional grouping and in regional economic cooperation. Japan must overcome its guilt from the bitter experience during World War II. As long as Japan does not repeat the same mistake of exploiting and colonizing others for its own benefit non-communist countries in the Asia-Pacific region will formally recognize Japanese leadership and follow its initiative. Other countries in the region can join later as they "defect" to the "capitalist" camp. ●