

Economic Trends

By Augustine H. H. Tan



This AG&P Company plant in the Philippines, which is manufacturing mining equipment, has achieved a competitive edge in the international marketplace through low costs and punctual deliveries.

Recent growth rates in the Asia-Pacific region are the highest in the world. Most commentators expect this dynamism to continue into the 21st century. The rapid growth rates have brought about structural changes in production, trade and capital flows in the region.

Since September 1985, Japan has undergone significant changes in its industrial production in response to the currency realignment. The industrial restructuring, together with its huge current account surpluses, has resulted in increased overseas investment. According to the 1989 JETRO white paper, Japanese overseas direct investment in fiscal 1987 amounted to \$33.4 billion. In Asia, Japanese direct investments more than doubled. For fiscal 1988, Japan's direct investment abroad is expected to exceed \$40 billion.

In many of the NIEs and ASEAN, Japan is the No. 1 investor. The NIEs themselves, because of their growing current account surpluses, have become significant sources of investment, particularly to ASEAN, where they vie with Japan for No. 1 position.

In terms of technology, the famous flying geese pattern is discernible in the Asia-Pacific region, with Japan in the lead, followed by the NIEs, ASEAN and others. The problem arises from the dependence on world markets, particularly in the United States and the EC. In 1987, Japan's share of world exports was 9.6 % while the NIEs' was 7.4 %.

In terms of size of GNP, Japan, the NIEs and ASEAN had a combined total of \$2,837 billion in 1987, which represented 63.4% of the U.S. GNP. The potential of the region as a market is, therefore, significant. What is not well-known is that the combined imports of Japan, the NIEs and ASEAN totaled \$450 billion last year, exceeding the \$441 billion imported by the U.S.

Developments in the global economy will of course affect the potential growth rate of the region. The era of Pax Ameri-

cana is giving way to a multipolar world in which Japan and the EC are significant actors.

The Uruguay Round of GATT is taking place amid rising protectionism. Nontariff barriers and bilateralism affect an increasing segment of world trade. The EC is moving toward greater integration in 1992. The optimists expect as much as a 7% gain from economies of scale and deregulation. On the other hand, pessimists expect a fortress Europe.

The U.S. has negotiated a number of free trade agreements, e.g. with Canada, Israel and Mexico. There are proposals for similar agreements with Japan, ASEAN etc. which are being examined.

Need for exchange

It can be seen, therefore, that the Asia-Pacific countries are being propelled toward greater economic cooperation. Within the region, the economic restructuring and dynamic growth have created new intraregional trade and capital flows. This factor alone produces the need for a greater exchange of information and for more consultations between policymakers. The other factor mentioned earlier, the increasing regionalism elsewhere, will also push the Asia-Pacific countries toward greater cooperation.

Economic cooperation, which results in greater flows of information and a reduction of barriers to trade and capital movements, will be trade-creating, benefiting not only the region but also the global economy. The correct strategy for Asia-Pacific countries would therefore seem to be a two-track approach. On the one hand, we should work toward multilateral solutions to global economic problems via agencies like GATT and the IMF. On the other hand, we will have increasingly common interests in the Asia-Pacific region which would require a regional forum.

There are a number of existing Asia-

Pacific forums e.g. the Pacific Economic Cooperation Conference (PECC), the Pacific Basin Economic Council (PBEC), Pacific Trade and Development Conference (PAFTAD), etc. The time is ripe for a more formal organization to bring policymakers together, however.

The question is: which countries should be included? Logically, the minimum would be Japan, the NIEs and ASEAN. The U.S., Canada, Australia and New Zealand may also wish to be members. A balance must be carefully struck between a wider membership and effectiveness. Nevertheless, a start should be made as soon as possible.

Economic development issues cannot be discussed without consideration of the security framework. For over 40 years, the U.S. military presence in the Asia-Pacific region has counterbalanced the Soviet Union. It has also helped to keep the peace between regional powers. The growing fiscal burden on the U.S., however, will mean a reduction of the military commitment to the region unless there is some sharing of the fiscal burden.

The U.S. will undoubtedly require more of this from Japan. Nevertheless, Japan and other countries in the region must expect to shoulder more of their own defenses. Seen in a global context, the growing disparity in the distribution of economic as compared with military power will give rise to tensions and new security arrangements.

Asia-Pacific economic cooperation, by providing a forum for policymakers in the region, will also be helpful at a later stage when security problems will need to be discussed and solved. There is, therefore, much to gain by establishing a more formal Asia-Pacific organization as quickly as possible.

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