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Chances for a Pacific Free Trade Area

by Professor Kiyoshi Kojima, Tokyo *

The establishment of the EEC was a major event of the 1960s. It has had a significant impact on international trade and investment and has wrought a profound change in the world balance of economic power. The emergence of the enlarged EEC and the implementation of a Pacific Free Trade Area (PAFTA) could have a more profound influence in shaping the world of the 1970s.

It is likely that, as in the past, the enlarged Eurobloc will continue to strengthen its inward-looking policies, intensifying intra-regional development and raising the degree of self-sufficiency, since these are the purposes of integration itself. This will no doubt effect many of the free world countries which are left outside the Eurobloc. They are mostly Pacific basin countries: the USA, Canada, Japan, Australia, New Zealand and developing countries in Asia and Latin America. It is therefore logical that these Pacific basin countries should promote their economic integration, following the successful example of the EEC, in order to develop intensively these areas with plenty of resources and unlimited potentials as compared with already well-developed Europe.

Past US Policy

The past US policy towards the European Community has been to seek reciprocal concessions on the principle of multilateralism and non-discrimination in order to have the Community's discriminatory treatment towards non-member countries lowered. The good example was the Kennedy Round which was aimed at lowering the degree of discrimination by the reduction of the Community's common tariffs on imports from non-member countries. The future policy is directed, with the same aim, at blaming the EEC for its common agricultural policy, "Buy European" policy, regional preference and the like and requesting their correction.

Can the United States, however, succeed in attaining this aim by negotiating alone with the gigantic Community? Even during the Kennedy Round negotiations little was accomplished in the agricultural sector. Is it not that the USA does not have enough reciprocal concessions to bargain with the EEC? Rather it is feared that while the USA is persisting in the multilateral and non-dis-

crimatory approach, its hegemony in the world trade and currency will move to the Eurobloc. Is it not indispensable for the USA now to cope with the Eurobloc with the support by the Pacific basin countries?

Needless to say, it is necessary to denounce the inward-looking policy of the gigantic enlarged European Community. It seems to be indispensable now for the United States to build up in the Pacific area a cooperative structure strong enough to bargain with the Community. This coincides with the common benefits of the Pacific basin countries to promote and accomplish the development of their economies which have hitherto been apt to be ignored by Americans in spite of their unlimited potentials.

A Pacific Free Trade Area seems to possess the conditions necessary for effective regional integration.¹ Trade among the five advanced Pacific countries USA, Canada, Japan, Australia and New Zealand increased to 2.61 times between 1958 and 1968, from \$ 9.16 bn to \$ 27.96 bn, and their share in world trade rose from 7.99 p.c. to 11.71 p.c. As against this, the intra-area trade of the EEC was \$ 6.86 bn in 1958, which was smaller than PAFTA trade, and increased 4.21 times to \$ 28.91 bn in 1968. The share of intra-area trade of the EEC in world trade has increased from 5.98 p.c. in 1958 to 12.11 p.c. in 1968, i.e. more rapidly than in the case of PAFTA trade.

World Trade Centre Pacific

European trade, including the EEC nations, United Kingdom and other Western European countries, increased 2.91 times from \$ 22.23 bn in 1958 to \$ 64.71 bn in 1968. With this, we can compare "extended Pacific trade", which is the sum of the trade among countries in PAFTA, the remaining Asian countries (excluding mainland China) and Latin America. Extended Pacific trade was \$ 23.36

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¹ More detailed analyses are given in Kiyoshi Kojima, *Japan and a Pacific Free Trade Area*, Macmillan, London, 1971, Chap. 3.

bn or 20.36 p.c. of world trade in 1958, which was somewhat larger than European trade, and increased to \$ 60.85 bn or 25.49 p.c. of world trade in 1968. From these figures it can be seen that the extended Pacific area trade is another centre of world trade, but that it has not grown so fast as has European trade, mainly due to the stagnation in exports of primary produce from developing countries in Asia and Latin America.

Great Development Potential

However, the extended Pacific area could be the largest centre of world trade if there were closer cooperation in expanding trade and development within the area, since it has a greater potential in the development of its population, natural resources and capital awaiting development than has already well-developed Europe. Furthermore, intra-area trade among the five Pacific countries has increased more rapidly than their trade with outside countries.

The ratio of intra-area trade for the five Pacific countries taken together increased from 32.5 p.c. in 1958 to 43.6 p.c. in 1968. In contrast, similar ratios for the EEC were 30.1 p.c. in 1958 and 45.0 p.c. in 1968. For each country, the importance of PAFTA trade has increased: the ratio of intra-area trade for the USA increased from 25.2 p.c. in 1958 to 34.6 p.c. in 1968, for Canada from 63.0 p.c. to 74.0 p.c., for Japan from 29.2 p.c. to 38.2 p.c., and for Australia and New Zealand taken together from 26.1 p.c. to 42.9 p.c. In short, extended Pacific trade is one of the most important and rapidly growing centres in world trade and there is a close trade relationship between the five Pacific countries and nearby developing countries in Asia and Latin America. One of the main reasons for this development was the rapid growth of Japan's trade (4.51 times growth in total exports and 5.91 times growth in exports to PAFTA between 1958 and 1968).

Total versus Partial Liberalisation

The formation of a Pacific Free Trade Area would, furthermore, bring about a more comprehensive trade liberalisation among participating countries, with the elimination of tariffs on a substantial proportion of their commodity trade. The impact effect of Pacific tariff elimination would be to increase intra-area trade by 28 p.c. or \$ 5,000 and \$ 8,000 mn, respectively, in terms of 1965 and 1968 trade figures. In other words, there would be a significant trade expansion, a far greater expansion than seems to be possible through tariff reductions of the Kennedy Round type. Complete trade liberalisation within the Pacific Free Trade Area would appear to have considerable advantages over partial trade liberalisation in world

markets. This is especially true if, as is most probable, another major round of global tariff reductions is not feasible within the next decade. In that event, the formation of PAFTA would seem an effective alternative for mutual trade expansion among the five advanced Pacific countries.

According to estimations, Japan's exports would increase by \$ 1,740 mn or 20.6 p.c. of its total exports, and its balance of trade with the area would improve by \$ 1,310 mn, based upon 1965 trade figures. It must be considered, however, that such estimation of effects is wrong, because it is a protectionist or mercantilist way of thinking to believe that export increase is a gain while import increase a loss. The benefit of liberalisation of intra-area trade must be weighed under the viewpoint that the imports of goods in large quantity and in cheap prices will help to lower domestic prices and improve national welfare — a viewpoint meaning that imports are a gain. Disequilibriums in trade balances of various countries which may result from the complete liberalisation of intra-area trade may be adjusted by the realignment of exchange rates.

Development Promotion by PAFTA

But the effect of the formation of a PAFTA would not be confined to the static effect of expanded trade resulting from the total abolition of tariffs as stated above. Rather it would be aimed at a larger and broader dynamic effect. Tariff reductions will be only the start to attain such effect. Taking natural resources and markets in the gigantic Pacific area into account, agriculture, extractive industries, processing industries and various manufacturing industries could be located in suitable places and be reshuffled in optimal sizes in order to enhance development and efficiency in this area as a whole. Development of each economy in the area might be promoted greatly by realisation of more optimal specialisation and scale economy resultant from enlargement in size of each production unit. Transfer of capital, technology and management skill could be promoted especially by more active direct investments, and increases in productivity in various places would result.

The formation of PAFTA or some other alternative for economic cooperation among the five Pacific countries is desirable for still another reason. Collective measures by Pacific countries are especially desirable for assisting economic development and trade growth in nearby developing countries. Industrialised countries cannot disregard the interests of developing countries, especially in South and Southeast Asia, and the same applies to the United States vis-à-vis Latin America.

If the five Pacific countries were to establish PAFTA, they should welcome as associated members those developing countries in Asia and Latin America who wish to join. Another possibility would be that they might provide PAFTA preferential tariffs in favour of the developing countries. Moreover, the five Pacific countries could provide more effective assistance on a larger scale to foster structural adjustment within their own economies in order to open wider markets for developing countries' exports.

The emergence of China in international economic society will have a profound impact. If China desires participation in the PAFTA as associate member, it would be welcomed. Otherwise, the five advanced Pacific nations should approach China with a common attitude. Furthermore it should not be ignored that also the USSR is greatly interested in Pacific economic integration in connection with the development of Siberia.

The Position of the USA

It is needless to say that a PAFTA is preferable which will have the five advanced countries including the United States as full members. However, there is more possibility that the USA may stand aloof from both PAFTA and Eurobloc for the time being. The multilateral realignment of exchange rates was intended to improve the international payments position and revitalise the economy of the United States. There is much doubt about that — rather there is a possibility that the pressure of unemployment and inflation will strengthen rather than weaken the trend towards trade protectionism. This could drive the United States to a position difficult to take leadership in the establishment of a new order of world economy. Under these considerations it would not be very probable that the USA would join a Pacific Free Trade Area.

The central question for the remaining Pacific basin countries would thus be how to deal with the growing protectionism in the USA and Europe². It is Canada, Japan, Australia, New Zealand, and Asian and Latin American developing countries in the Pacific basin area that would face the difficulty of being attacked from both sides and of having their trade markets reduced.

Formation of a Nucleus PAFTA

Since they have a strong common interest, it would be also valuable to think of the formation of a nucleus PAFTA by only four countries consisting of Japan, Australia, New Zealand and Canada. In order to cope with the protectionism of the Eurobloc and the United States and to

have them shift in the direction toward free trade, a bargaining body such as the group of four would be indispensable. At the same time the nucleus PAFTA could build up a structure that could support the USA and simultaneously make its participation in PAFTA indispensable and attractive.

There have been several supports for the proposal of a Japanese-Australian-New Zealand free trade area or Western Pacific economic integration.³ Since the enforcement of the Australia-New Zealand Free Trade Agreement in January 1966, the two countries have endeavoured to promote economic integration. However, there were some difficulties, because the lack of fundamental complementarity and the small size of both economies prevented realisation of economies of scale. It is expected that closer union with a large complementary economy, like Japan, would make Western Pacific integration more successful and fruitful. Thus, the gains from trade liberalisation among the three countries and the feasibility of sectoral integration in such key industries as motor vehicles, iron and steel, non-ferrous metals (especially aluminium) and meat and dairy products could be explored. Recently, a Canadian economist recommended free trade arrangement between Japan and Canada for a similar reason.⁴

The formation of a free trade area or the alternative of closer economic cooperation among Australia, New Zealand, Japan and Canada is important. It would accelerate economic growth, based upon the highly complementary nature of the four economies, and it would strengthen their capacity to export to third countries outside the area, especially to American and European markets. It would also be useful for the four countries to develop a negotiating bloc for obtaining concessions on a broader front from the United States and the enlarged EEC.

Preliminary Consultations

In concluding, it should be noted that the Pacific basin countries have their own reasons for promoting integration through the establishment of

² Harald B. Malmgren, "Trade Liberalization and the Economic Development of the Pacific Basin: The Need for Cooperation", a paper presented to the Fourth Pacific Trade and Development Conference, Ottawa, Oct. 7-10, 1971.

³ I. A. McDougall, "Prospects of the Economic Integration of Japan, Australia and New Zealand", in Kiyoshi Kojima, ed., *Pacific Trade and Development*, Japan Economic Research Center, Tokyo, 1968. Harry G. Johnson, "A New World Trade Policy in the Post-Kennedy Round Era", in Kojima, *ibid.* (reprinted in: *Economic Record*, June 1968). Peter Drysdale, "Japan, Australia, New Zealand: The Prospect for Western Pacific Economic Integration", in Kojima, ed., *Pacific Trade and Development II*, Japan Economic Research Center, Tokyo, 1969. I. A. McDougall, "JANFTA and Asian Developing Countries: Sectoral Analyses", in Kojima, *ibid.*

⁴ B. W. Wilkinson, "Economic Co-operation in the Pacific: A Canadian Approach", a paper presented to the Pacific Conference, Santiago, Chile, Sept. 27-Oct. 3, 1970.

PAFTA or the alternative of closer economic cooperation. Their major interests differ widely from those of Europeans. The Pacific basin region has a huge potential for trade growth and development which should be cultivated through co-ordinated efforts. Countries belonging to this region have already given recognition to the two common aims of promoting freer trade growth among the Pacific advanced countries and neighbouring less developed countries. Regional solidarity by measures for supporting the dollar, so that American economic potential can exercise a more positive role, is urgently required. Solidarity in the political and military objectives of these countries could also be developed further.

The establishment of a Pacific Free Trade Area is, however, still only an idea that needs implementation. Therefore the suggestion of bilateral government-to-government consultations and

negotiations within the framework of an Organisation for Pacific Trade Aid and Development (OPTAD)⁵ would appear sound. The OPTAD could be developed along similar lines to OECD, that is, not as a regulatory agency but as a place where government-to-government consultations could take place. Although this is already a function of OECD, Japan, Australia, New Zealand, the United States and Canada thus could obtain considerable advantages in having a smaller scale regional organisation to deal with problems of a more regional nature.⁶ It is also desirable to establish a Pacific Policy Committee to study and promote practical means of achieving these objectives.⁷

⁵ Kiyoshi Kojima, *Japan and A Pacific Free Trade Area*, Macmillan, London, 1971, p. 169.

⁶ J. G. Crawford and G. H. Board, "Japan's Trade Policy and Trade in Temperate Zone Agricultural Products", a paper presented to the Fourth Pacific Trade and Development Conference, Ottawa, Oct. 7 to 10, 1971, p. 55.

⁷ Communiqué of the Fourth Pacific Trade and Development Conference, Ottawa, Oct. 10, 1971.

Focal Points of Chinese Economic Aid

by Volker Bethke, Hamburg *

Reviewing the evolution of Chinese economic aid, it can be found that the People's Republic, though labouring under relatively adverse conditions, has proved its mettle in this field by actively supporting less developed countries (LDCs) over many years.

Even though there is a deplorable lack of sufficient statistical returns about the overall extent of Chinese aid, we can find certain points of reference that permit us to draw conclusions about the volume of Chinese economic assistance. Quantification of credits promised to countries outside the Eastern Bloc does not present insurmountable obstacles. Reviewing figures and data from different sources over longer periods, we find that, though promised credits were unevenly distributed over individual years, comparable estimates can be worked out. These data refer exclusively to economic aid, but exclude military aid, though a precise separation of the two is not always possible.

Chinese economic aid went through its initial phase from 1956 to 1960, and during this period, annual averages of promised credits remained below \$ 40 mn. In 1961-65, the corresponding amount rose to about \$ 130 mn, and in 1966-70 to either \$ 150 or up to 190 mn, depending on which kind of source is used by the researcher¹. However,

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¹ cf. W. Bartke, *Die Wirtschaftshilfe der Volksrepublik China (Economic Aid by the Chinese People's Republic)*, in: *Mitteilungen des Institutes für Asienkunde*, Hamburg, No. 44, 1972, p. 11; UNCTAD, *Financial Resources for Development*, Report by UNCTAD secretariat, FD 118, supplement 2, Santiago, 1972, p. 17; *L'aide socialiste au Tiers-Monde (Socialist Aid to the Third World)*, in: *Industrie et Travaux d'Outre-Mer*, Paris, February, 1971, pp. 106 et seq.