

Economic Cooperation in the Pacific Basin*

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I. Introduction

In the Pacific today there is a new reality, though the world may not yet fully comprehend it. In economic development, in the growth of free institutions, and in growing global influence, the Pacific region has rapidly emerged as a leading force on the world stage. Its economic dynamism has become a model for the developing world and offers a unique and attractive vision of the future.

Perhaps even more important, there is a new trend toward wider cooperation among many East Asian nations. A sense of Pacific community is emerging. We see an expanding practice of regional consultations, a developing sense of common interests, and a desire to cooperate on a widening range of economic issues.

And we in America share this new cooperative spirit. The United States has had a Pacific coast since 1819, and one of the strongest stimulants to our growth and prosperity has been a vision of the West as an area of rich opportunity, where individual enterprise and a commitment to freedom can accomplish great things for all mankind. Our vision today is no less bright and beckoning than when our forefathers embarked upon their manifest destiny. Pacific consciousness is rising in the United States — not just on the west coast but in Boston, New York, and in our nation's capital.

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Last spring, a major French newspaper noted that the American President had observed that "Western history began with a Mediterranean era, passed through an Atlantic era, and is now moving into a Pacific era." You might be surprised to learn that *Le Monde* was referring not to Ronald Reagan but to Theodore Roosevelt. But I can assure you that President Reagan, himself a Californian with a western perspective, fully shares Teddy Roosevelt's enthusiasm about the opportunities that abound in the Pacific. Just this past September at the White House, the President, Vice President Bush, and I demonstrated this Administrations' commitment to the future of Pacific cooperation by joining many in this room to inaugurate this, the United States National Committee for Pacific Economic Cooperation. More and more Americans are becoming aware that the economic and social progress of this region presents an exciting opportunity for the United States and for international peace, security, and prosperity.

II. A Region of Challenge and Diversity

While the prospects for the nations and people of the Pacific Basin are bright, politically and economically, we must bear in mind that this is one of the most heavily armed regions in the world, and Asian peace is still marred by continuing and tragic conflicts. In Vietnam, Cambodia, and Laos, some 1.1 million men are now under arms, while on the Korean Peninsula there is a combined total of 1.5 million troops. In addition to 4.4 million men in uniform in China, approximately one-third to one-half of the U.S.S.R.'s ground forces — some 52 divisions — are garrisoned in the Soviet Far East. Soviet air power, both tactical and strategic, continues to grow; the Soviet Pacific Fleet is now their largest; and about one-third of the Soviet SS-20 intermediate-range ballistic missile battalions overshadow much of the population of the region. This concentration of military forces is of considerable concern given the demonstrated willingness of the Soviet Union and its proxies — in Afghanistan, Cambodia, and Korea — to use their military power for their political ends.

Other challenges confront the region: the problems of the Philippines are serious, with potential effects on security

throughout the region; the human suffering in Indochina drains the resources and energies of many Asian and Pacific nations; ethnic tensions, regional rivalries, and potential territorial disputes impede the search for lasting security. The slow growth of political liberalization could also set back Asia's hard-won successes.

Despite these challenges, the Pacific Basin enjoys a remarkable degree of stability — a stability that derives from a number of factors independent of a simple calculation of the balance of forces. Economic vitality, in particular, is an important factor in the regional equation. To maintain stability, cooperation among like-minded states — particularly those that share the common goals of peace and regional development — is indispensable.

The Pacific Basin is a region characterized by great diversity, for example:

- Populations range from the world's smallest independent state, Nauru, in the South Pacific, with 8 square miles and a population of 8,000, to the world's largest, China, with almost 4 billion square miles and over 1 billion people;
- Economic size and influence range from oil-rich Brunei with a per capita GNP (gross national product) of nearly \$18,000 to some of the island nations with per capita GNPs of less than \$350; and
- Cultural, religious, and philosophical traditions cover the spectrum of the world's heritage, ranging from Confucianism and Buddhism to Islam and Christianity.

But the Pacific nations also have much in common.

- With a few exceptions, countries in the region tend to share our interest in peace and a stable environment for growth and development.
- Most of the vibrant countries of the Pacific are market-oriented systems that recognize the vital role of individual entrepreneurship.
- Human resources are abundant in East Asia and the Pacific. Education levels are relatively high, and literacy (estimated at 75% in the developing Asian countries) is well ahead of other regions.

- Sound financial management has led to rapid economic development. East Asian countries owe less than 20% of the world's developing country debt compared with over 50% in Latin America. The East Asian developing country debt-to-service ratio is the lowest of any region—under 16% in 1982. Their debt-to-export ratio, nearly 80%, is the best in the world.

- A strong technological base has been built with an extraordinary emphasis on scientific and technical education. The transfer and practical application of technical know-how, coupled with a disciplined and skilled work force, have launched many of the countries of the region on the road to rapid and sustained development.

- In the people's Republic of China, too, there has been movement toward greater openness. Pragmatism is now the watchword in china, where the hopes for economic modernization have been invested-wisely-in a bold program of reform. We watch with interest the effect of a great nation beginning to throw off some of its outmoded economic doctrines and redirecting the energies of a billion talented people.

Prior to the Second World War, American foreign policy focused on the defense and economic well-being of our Asian possessions and our neighbors in the Western Hemisphere. Following the war, our help in the reconstruction of Japan and our efforts to defend freedom in Korea and Vietnam monopolized our attention in Asia and the Pacific; our primary interest was in supporting the security and political stability of Asian nations and the trend toward democracy. Since then, our interest in Asia has continued to broaden, with the emergence in the region of powerful and diverse economic forces that are having a major impact not only in the United States but elsewhere in the world.

III. The Role of Japan

One cannot properly contemplate the story of the Pacific without reflecting on the role of Japan as a catalyst in the remarkable developments of the last half of the 20th century. Japan has embarked upon a course of technological and economic advance that is destined to leave an indelible mark on the civilization of this era.

Japan's economy — literally shattered after the war — has, in less than 40 years, grown to become the free world's second largest. In the 1970s, the Japanese economy grew at an average annual real rate of 4.9% — almost two-thirds greater than that of the United States and about twice as fast as Germany and France. Since 1951, Japan's GNP and its exports have both grown by 100%.

Our permanent partnership with Japan is the keystone of American foreign policy in East Asia and the linchpin of our relationships in the region. But beyond that, the strong ties that have developed in the past 40 years between our two countries — in the political, economic, and security arenas — have provided the foundation upon which the Pacific cooperation and dynamism of which I speak today have been built. The stimulus and the role model that the world's two largest free market economies and technological leaders provide to the region cannot be denied. Official economic assistance and private capital flows from Japan and the United States have contributed to economic and social development in many Asian nations. And the close diplomatic relationship between the United States and Japan and our Treaty of Mutual Cooperation and Security, and the bases that it makes possible, have bolstered peace and stability in the region.

If Japan's economic performance and the close U.S.-Japan partnership have been nothing short of miraculous, however, much remains to be done. There remain serious impediments in Japan to competitive foreign exports. Japan has a responsibility to take concrete actions to fulfill its commitment to an open trade and investment system. The United States attaches great importance to the understanding reached by President Reagan and Prime Minister Nakasone in Los Angeles on January 2. With the full support of both leaders, we have begun intensive negotiations to identify and remove trade barriers in four key Japanese markets: telecommunications, electronics, forest products, and medical equipment and pharmaceuticals. Foreign Minister Abe and I have been directed to oversee these negotiations and to provide a progress report to Prime Minister Nakasone and President Reagan at the time of the Bonn economic summit meeting in early May. In the security area, the gap between Japan's publicly stated defense responsibilities and its ability to fulfill these responsibilities must be narrowed. In short, Japan, like all Pacific Basin

nations, must be responsive to the global economic and security system in which our well-being is collectively imbedded.

IV. Asia and the U.S. Economy

Nevertheless, the growth of Japan's economy has been a miracle, and it has stimulated changes elsewhere in the world. Other states in the region have emulated the Japanese experience and are aggressively applying the lessons learned. In addition to the newly industrialized countries, such as the Republic of Korea, other Pacific economies are growing rapidly, and their trade, both within the region and with the rest of the world, is thriving. In 1982 well over half of the trade of the 14 principal countries of the region (54% of exports and 59% of imports) was transacted within the Pacific Basin. And a remarkable 70% of all developing country exports are from the newly industrialized countries of Asia.

The six countries that constitute the Association of South East Asian Nations (ASEAN) — Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand — are of growing importance to the United States. Taken together, the ASEAN countries are now our fifth largest trading partner behind only the European Community, Canada, Japan, and Mexico. American trade with ASEAN grew 11.5% in 1984 over 1983; and ASEAN bought almost \$10 billion of American goods — more than 4% of our total exports. ASEAN's economic links to the Pacific are reflected in the fact that almost three-fourths of its imports and more than two-thirds of its total trade are with countries of the Pacific Basin.

The economic impact of all these developments on the United States is enormous. For the first half of this century, our total world trade (imports and exports) averaged less than 4% of our gross national product. By 1959, it had grown to somewhat less than 6%; but, in the past 25 years, it has almost tripled to 17% of our GNP. If present rates of growth continue, our foreign trade will, by the year 2000, amount to some 25% of the U.S. GNP — or approximately Japan's current percentage. By any measure, those are significant figures; and it goes without saying that as trade continues to grow as a component of our national economy, both our trade policy and our domestic economic policies will play

an increasingly important role in U.S. foreign policy.

For the past 5 years, total U.S. trade with East Asia and the Pacific has surpassed U.S. trade with any other region of the world. Moreover, East Asia's and the Pacific's share of total U.S. trade continues to rise — and rapidly. In 1982, our trade with this region was \$126.5 billion or 27.7% of total U.S. trade. In 1984, U.S. trade with the region was \$169 billion — almost 31% of total U.S. trade. During the recent recession, our overall world trade declined more than 5%, while that with East Asia and the Pacific was off by less than 1%. In 1983, total U.S. world trade rose 0.5% — but trade with the Pacific region grew by 8%.

Pacific trade is having a subtle and, I believe, positive influence on the way Americans do business both at home and abroad, and it is affecting the attitudes and broadening the perspectives of Americans generally, many of whom are just beginning to appreciate the significance of this trade. Economically as well as politically and strategically, the Pacific is crucial to America's future.

V. The Framework for Pacific Cooperation

Political maturation and economic expansion have set in motion a dynamic process that is already transforming the Pacific Basin into one of the most productive regions of the world. America stands ready to contribute to this process. In his State of the Union message, President Reagan said:

America's economic success is freedom's success; it can be repeated a hundred times in a hundred different nations. Many countries in East Asia and the Pacific have few resources other than the enterprise of their own people. But through low tax rates and free markets, they have soared ahead of centralized economies. And now China is opening up its economy to meet its needs.

When one looks ahead to the evolution of the Pacific region over the next 10 to 15 years, the stakes are high and the prospects exciting. Multilateral cooperation, built upon a sound network of bilateral relationships, is one promising means for Asian and Pacific nations to promote regional peace and an enduring pros-

perity for their peoples. It is the goal of the United States to cooperate with others to develop our common economic potential and to build mutually beneficial relations that strengthen all countries of the region.

The origins of the Pacific cooperative movement are diffuse and spring from varying perceptions. There has emerged, however, a clear desire to explore the prospects for regionwide cooperation. The American people view these prospects with an open mind and a willing spirit.

In recognition of the growing importance of the Pacific to American foreign policy, some 14 months ago I asked Ambassador (at Large) Richard Fairbanks to begin consultations with leaders of the region, to get their views on how the United States can contribute to the cooperative movement in the Pacific Basin, and to advise me on new policy initiatives for the United States. His preliminary findings are most encouraging, and we look forward to working in partnership with other countries of the region.

At the outset, I should point out that the United States has no preconceived notion as to how this process should continue or where it may ultimately lead. Indeed, it is critical that we join others in an open and frank dialogue on the multitude of economic issues before us. We do not wish to force the pace or inflate expectations in the region. But at the same time, we are eager and willing to continue the dialogue that Ambassador Fairbanks has begun and to contribute whatever we can to a peaceful and progressive partnership in the Pacific.

Let me also affirm that the United States is anxious to contribute as a collegial participant. It is neither our intention nor our desire to dominate that process or force it in particular directions. Our objective is to move forward in a cooperative partnership with others. Our goal can be simply stated: peaceful progress for all countries in the region, based on a shared belief in the value of economic cooperation and mutual respect for the rights of all participants to freely pursue their own interests. The President's January 2 meeting with Prime Minister Nakasone reaffirmed that both the United States and Japan believe that this process can proceed only with the participation and consensus of the countries in the region.

There already have been some encouraging developments.

Foremost among these has been the remarkable dynamism of the private sector, where individuals have taken the initiative to improve economic and commercial relationships among peoples of the region. For it is people who are the source of inspiration and progress. Governments respond, and then not always very well, to the aspirations of individuals.

In various areas of human endeavor — scientific, educational, and cultural — people of the Pacific are exchanging ideas and joining in cooperative enterprises. As economies begin to grow and continue to expand beyond their borders, and as entrepreneurs reach out for improved techniques and new opportunities, businessmen are forging new links with one another, based on human ingenuity and a determination to succeed.

These private trade and investment relationships are the key to the remarkable economic success of the region. Such organizations as the Asia Foundation, Pacific Science Association, the Pacific Forum, the ASEAN-U.S. Center for Technology Exchange, the Circum-Pacific Energy Resources Council, and the Pacific Basin Economic Council provide important momentum to this process; they reflect the growing sense of common identity and shared interest.

Another relatively recent and encouraging development has been the formation of the private sector Pacific Economic Cooperation Conference (PECC), in which this United States Committee for Pacific Economic Cooperation participates. From modest beginnings less than 5 years ago, the PECC movement has captured the spirit and has quickened the pace of Pacific cooperation. With each successive meeting, the PECC shows greater promise of helping to bring into focus the major economic issues of the region. I trust that the upcoming meeting in Seoul in April will build upon the progress made thus far.

With respect to the U.S. National Committee on the Pacific, let me say that your dedication and interest contribute vitally to a strong U.S. role not only in the PECC but in promoting regional cooperation more generally. In his remarks to this committee at the White House last September, President Reagan said:

I congratulate all of you on your foresight and commitment to recognizing the importance of the Pacific to our nation's future

and acting upon it. Your advice and counsel will be important to our continued effort. Your group includes four Senators, four Members of the House, seven members of the executive, in their unofficial capacity, and I think this demonstrates a bipartisan commitment of both branches. All of us are in your debt for what you're doing and wish you well.

I would like not only to reiterate the President's sentiments but also to assure you of this Administration's encouragement and support. While the committee must remain a private group, we in the executive branch look forward to working with its distinguished members. As you proceed with your work, I would urge you to explore the entire range of possibilities for Pacific cooperation. I have been encouraged by the committee's efforts on a number of critical issues, and I hope that the progress you have made so far is a harbinger of future achievements.

The spirit of Pacific cooperation is also beginning to attract the attention of other governments in the region. Last July, in Jakarta, ASEAN foreign ministers initiated a multilateral dialogue with their Pacific partners — Australia, New Zealand, Japan, Canada, and, of course, the United States. In that "6 + 5" meeting, we discussed the prospects for Pacific cooperation and agreed to make a review of Pacific-wide developments a continuing feature of these annual ministerial deliberations. The eleven of us also agreed that the governments would work together on the first cooperative project — Human Resources Development, chosen as a focus because it encompasses all nations in the region, big and small. This theme was suggested by Foreign Minister Mochtar of Indonesia, who has spurred us and his ASEAN colleagues to think creatively about the shape of Asia yet to come and the human resources of the region.

At the time, I expressed the view that Pacific cooperation should not be an exclusive process, but that all who are prepared to contribute to wider economic cooperation in the region should be encouraged to do so. The response of the foreign ministers was encouraging, and the progress made to date augurs well for future cooperation in other areas.

In the 7 months since the Jakarta meeting, we have worked to draw together the resources of the U.S. Government to participate in an international inventory of existing human develop-

ment and training programs in the Pacific. Three weeks ago, senior officials of all the governments met in Indonesia to review the results of that inventory. Participating governments have now moved closer to agreeing on the principles that will guide the Human Resources Development effort and have identified areas for both immediate and long-term cooperative projects. Over the next 4 months, our representatives will meet to work out specific steps for consideration at next July's postministerial Conference on Pacific Cooperation. For our part, we will make every effort to contribute to the success of this promising undertaking.

I am encouraged by the progress made to date in this field, and I look forward to meeting with the foreign ministers again in Kuala Lumpur this July to decide on further actions that all of the countries can take together.

VI. The Hopeful Prospects

The Pacific cooperative process is still in its infancy, and it is too early to predict its ultimate form or direction. Whatever arrangement ultimately evolves is likely to be unique to the Pacific, for the diversity, culture, heritage, and traditions of the Pacific states constitute a unique set of challenges.

As we prepare to mark the 40th anniversary of the end of the Pacific war, it is appropriate to reflect on what we have accomplished and to ponder the future. For if there have been moments of darkness in the history of Asia, there is also light in Asia's philosophical, esthetic, and cultural traditions. The tragedy that befell Angkor Wat symbolizes the ironic juxtaposition of Asia's turbulent history of conflict and its rich heritage of civilization. When we look back 40 years from now, I hope we will see this incipient process of Pacific cooperation as the beginning of a new era — an era of reconciliation, progress, and peace.

