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Emergence and Evolution

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Asia-Pacific Economic Zone: Its Emergence and Evolution

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1. Asia-Pacific Economies: Characteristics

1.1 The Asia-Pacific Region

The Asia-Pacific region has always been an ambiguous geographical concept. It sometimes refers to Asian countries bordering on the Pacific, sometimes to these plus Oceania, or it is sometimes understood as including the United States and Canada, or even the Latin American economies on the Pacific side. In what follows, the term Asia Pacific region is used in a narrow sense, referring essentially to Japan, the Asian NIEs (Singapore, Hong Kong, Taiwan, South Korea), the ASEAN 4 (Malaysia, Thailand, Indonesia, and the Philippines) and China.

This grouping is based on a common economic logic that operates within the region, as the remainder of this paper will make clear.

The focus of this paper is on division of labor within the manufacturing sector and manufacturing networks that cut across national boundaries within Asia-Pacific. This paper does not emphasize some of the issues that have commonly been the focus of analysis of the Asia-Pacific regional economy, such as resource endowment or population density. It will instead review the growth of manufacturing sector in the developing economies of the region. This growth is providing the foundation for region-wide industrial networks. The emergence of such networks and a new type of cross-border division of labor within the region is the trend that will increasingly dominate, while natural resource endowment will become less significant.

The Asia-Pacific region comprises economies of extreme diversities in terms of population, resource endowment, economic size, and level of development (Table 1).

The economic giants of the region, China and Japan, stand at two extremes, China with its rich resources and heavy population burden, Japan with its advanced industrial technology, highly educated population and limited resources. Countries which have followed the Japanese path of development, with strong emphasis on the export of manufactured goods, are the resource-poor, skills-rich Asian NIEs — Taiwan, South Korea, Singapore and Hong Kong.

In contrast, the resource-rich ASEAN 4 until recently relied on primary commodity exports and domestic-market oriented manufacturing activities as the major motors of growth. In the late 1980s, however, these economies began to expand their export-

Table 1. Population, Income Level and Growth of Output

| | GNP | | GDP | | Populatio (millions) mid-1989 |
|-------------|-------------------|---------------------------------|--------------------------|---------|-------------------------------------|
| | per capita | Level | Real growth rate p.a (%) | | |
| | (dollars) 1989 | (million dollars) 1 9 8 9 | 1965-80 | 1980-89 | |
| Japan | 23,810 | 2,818,520 | 6.6 | 4.0 | 123.1 |
| Singapore | 10,450 | 28,360 | 10.0 | 6.1 | 2.7 |
| Hong Kong | 10,350 | 52,540 | 8.6 | 7.1 | 5.7 |
| Taiwan | 7,500 | 147,110 | 9.8 | 8.0 | 20.0 |
| Korea | 4,400 | 211,880 | 9.9 | 9.7 | 42.4 |
| Malaysia | 2,160 | 37,480 | 7.4 | 4.9 | 17.4 |
| Thailand | 1,220 | 69,680 | 7.3 | 7.0 | 55.4 |
| Philippines | 710 | 44,350 | 5.9 | 0.7 | 60.0 |
| Indonesia | 500 | 93,970 | 7.0 | 5.3 | 178.2 |
| China | 350 | 417,830 | 6.9 | 9.7 | 1,113.9 |
| World | | 19,981,540 | 4.1 | 3.1 | 5,206.1 |

oriented manufacturing sectors at high speed. The key factor in this new development was a surge in direct investment from Japan and the Asian NIEs.

Among the countries of the region, a clear hierarchy exists in terms of levels of economic development. Japan, with a per capita GNP of nearly \$24,000, stands as the region's most advanced economy. Among the four Asian NIEs, Hong Kong and Singapore are high-income economies, with their incomes in the order of \$10,000. The middle-income economies start in the upper range with Taiwan, with its per capita income of \$7,500, and South Korea, with a per capita income of \$4,400. The ASEAN 4 fall at the lower end of the range of middle-income economies, with per capita incomes ranging from \$2,160 in Malaysia to Indonesia's \$500. At the base of the pyramid, in terms of income level, is China, with a per capita income of \$350.

The level of GDP reflects both per capita income and size of population. For example, China is low in per capita income, but its GDP is the second-largest in the region after Japan's, because its population is overwhelmingly the largest. With regard to the two city states, Singapore and Hong Kong, their GDPs are relatively small, because of their small populations, despite their high per capita income. Japan is the giant in terms of GDP — \$2.8 trillion, which accounts for 73 percent of the total regional GDP.

1.2 Growth performance

Over the period from 1965 to 1980, the region as a whole presented the picture of a high growth region. There are differences in growth rates: for instance, during the period the Asian NIEs had higher growth rates than the rest. The Asian NIEs experienced growth rates of 9 to 10 percent per annum, while the others, including Japan, were in the range of 6 percent to 7.5 percent. But, what is more striking is that

the growth rates for all of the economies in the region were well above the world average growth rate for the period of 4.1 percent.

Over the decade of the 1980s, the growth rates of economies in the Asia-Pacific region slowed with the sole exception of China. China's growth rate accelerated from 7 percent in the 1965-1980 period to 10 percent in the 1980s. Despite the slowdown, growth rates of the region's economies remained above the world average of 3.1 percent, with only one exception, the Philippines, where growth rates sagged from 6 percent in 1965-1980 to 0.7 percent in the 1980s.

During the late 1980s, growth accelerated first in Thailand, then Malaysia and Indonesia. In the last three to four years of the 1980s, all of them sustained growth rates analogous to or higher than rates in the previous high growth period of 1965-1980. This marks a significant shift from a relatively low growth period in the mid-1980s. Hereafter, Thailand, Malaysia and Indonesia will be referred to as the new NIEs. The growth mechanism of the new NIEs was similar to that which propelled the original Asian NIEs onto a high growth trajectory in previous decades. The process was triggered and accelerated by the large infusion of direct investment from Japan and the original Asian NIEs.

In stark contrast to the new NIEs is the situation of the Philippines, which recovered from the deep recession of the mid-1980s but failed to attain high growth rates similar to those of the new NIEs. External conditions for high growth existed, but the Philippines was unable to take full advantage of them due to inadequate economic management and political instability.

1.3 Macroeconomic characteristics of the Asia-Pacific economies

The economies of the region have common characteristics including high investment and savings ratios, a high degree of openness, and high rates of growth in exports and imports (Tables 2 and 3).

(i) High investment and savings ratios

With the exception of the Philippines, the economies of the region are characterized by high investment and savings ratios. It is noteworthy that these ratios typically underwent large increases between 1965 and 1989.

(ii) High degree of openness

All the economies of the Asia-Pacific region, with the exception of Japan and China, have export and import ratios higher than the world average. In most cases, the increase in degree of openness, measured by these ratios, has been significant over the past twenty-five years.

(iii) High growth rates of exports and imports

In the 1980s, rates of growth in export volume in all the region's economies were higher than the world average, except for Indonesia and the Philippines. Similar patterns were observed in the growth of imports. Again, Indonesia and the Philippines were exceptions to the high import growth of the other economies. Both were forced to curb imports in the face of severe and prolonged balance of payments difficulties.

**Table 2. Investment, Savings, Exports and Imports
(as ratios to GDP)**

| | Investments | | Savings | | Exports | | Imports | |
|-------------|-------------|------|---------|------|---------|------|---------|---------|
| | 1965 | 1989 | 1965 | 1989 | 1965 | 1989 | 1965 | 1989(%) |
| Japan | 28 | 33 | 30 | 34 | 11 | 15 | 10 | 13 |
| Singapore | 22 | 35 | 10 | 43 | 123 | 191 | 135 | 183 |
| Hong.Kong | 36 | 27 | 29 | 35 | 71 | 135 | 78 | 127 |
| Taiwan | ... | 22 | ... | 30 | ... | ... | ... | ... |
| Korea | 15 | 35 | 8 | 37 | 9 | 34 | 16 | 31 |
| Malaysia | 20 | 30 | 24 | 34 | 42 | 74 | 38 | 70 |
| Thailand | 20 | 31 | 19 | 29 | 16 | 36 | 17 | 38 |
| Philippines | 21 | 19 | 21 | 18 | 17 | 25 | 17 | 26 |
| Indonesia | 8 | 35 | 8 | 37 | 5 | 26 | 5 | 24 |
| China | 24 | 36 | 25 | 36 | 4 | 14 | 3 | 15 |
| World | 18 | 23 | 18 | 23 | 12 | 21 | 12 | 22 |

Table 3. Level and Growth of Merchandise Trade

| | Exports (million dollars) 1989 | Imports (million dollars) 1989 | Average annual growth rate (%) | | | |
|-------------|---|---|--------------------------------|---------|---------|---------|
| | | | Exports | | Imports | |
| | | | 1965-90 | 1980-89 | 1965-80 | 1980-89 |
| Japan | 275,040 | 207,356 | 11.4 | 4.6 | 4.6 | 5.4 |
| Singapore | 44,600 | 49,605 | 4.7 | 8.1 | 7.0 | 5.8 |
| Hong Kong | 73,142 | 72,153 | 9.1 | 6.2 | 8.3 | 11.0 |
| Taiwan | 66,475 | 50,523 | 15.6 | 13.4 | 12.2 | 9.6 |
| Korea | 62,283 | 61,347 | 27.2 | 13.8 | 15.2 | 10.4 |
| Malaysia | 25,053 | 22,496 | 4.6 | 9.8 | 2.2 | 3.7 |
| Thailand | 20,059 | 25,768 | 8.6 | 12.4 | 4.1 | 8.4 |
| Philippines | 7,747 | 10,732 | 4.6 | 1.3 | 2.9 | 0.4 |
| Indonesia | 21,773 | 16,360 | 9.6 | 2.4 | | -0.4 |
| China | 52,538 | 59,140 | | 11.5 | | 11.7 |
| World | 2,902,276 | 3,046,114 | 6.7 | 4.1 | 4.7 | 4.3 |

1.4 Level and composition of trade

Japan, the Asian NIEs and the new NIEs have shared a common pattern of economic growth based on manufactured exports. The successful expansion of the export-oriented manufacturing sector in all these economies has translated directly into the overall expansion of exports. The Philippines is the only economy that has not corresponded to the general pattern, due to the failure to expand its export-oriented manufacturing sector.

The overall level of imports in the region has expanded as well, driven by overall economic growth. The aggregate level of imports is significant in that it indicates market opportunities available to economies outside the region. The aggregate import level of Asian-Pacific economies now represents a significant share of global imports.

(i) Level of trade

The level of exports ranges from Japan's \$275 billion to \$45-75 billion dollars for the

Asian NIEs and China, to \$20-25 billion for the new NIEs, to less than \$8 billion for the Philippines. It is instructive to note that as recently as 1980, the level of exports in Thailand and the Philippines were roughly the same, at about \$6 billion (Table 3).

On the import side, the figures for import levels roughly parallel export levels, ranging from Japan at the top of the list with \$207 billion in imports to the Philippines at the bottom with \$11 billion. The more significant figure, however, is the aggregate imports for the region, which amount to \$561 billion, accounting for 18 percent of world imports.

(ii) Composition of trade

Exports of Japan and the Asian NIEs consist almost entirely of manufactured goods, with the partial exception of Singapore which has historically served as a transshipment and processing center for neighboring Southeast Asian countries. In contrast, the export composition of the ASEAN 4 reflects a much higher percentage of primary commodities, ranging from forty percent for the Philippines to seventy percent for Indonesia. China lies in between the Asian NIEs and the ASEAN 4 in terms of export composition. The share of China's manufactured exports compared to total exports is seventy percent, despite the fact that its per capita income level is lower than that of any of the ASEAN 4.

In terms of import composition, Japan stands in clear contrast to the rest of the Asian-Pacific economies. The major point of difference is in the relative share of manufactured imports. In Japan, the share of manufactured goods to total imports is forty-five percent, while the other economies of the region show a range between sixty-five and eighty-five percent. The three sub-groups — the Asian NIEs, ASEAN 4 and China — are practically indistinguishable in terms of their import composition. There is no apparent correspondence between the indicator of import composition and the division of distinct sub-groups within the region as we have defined them.

Tables 4 and 5 show the composition of merchandise exports and imports, respectively.

One of the key indicators reflecting the emergence of a regional economy is the pattern of machinery trade.

The share of machinery relative to total exports is broadly associated with the level of overall development. Japan is at the top with sixty-five percent, and the Asian NIEs make up a clear sub-group with machinery as a share of total exports ranging from forty-seven percent for Singapore to twenty-three percent for Hong Kong. Machinery exports of the ASEAN 4 and China also fall within a close range, from Malaysia at the one end of the spectrum with twenty-seven percent, to Indonesia's one percent. Hong Kong and Malaysia are the only two exceptions to the configuration, with Hong Kong falling below the norm for the Asian NIEs group and Malaysia positioned above the level of the other ASEAN 4.

With respect to imports of machinery relative to total imports, the pattern is similar to that for imports of manufactured goods. Japan's machinery imports are the lowest, at fourteen percent. The other economies show no particular grouping based on machinery imports. The range of machinery imports in Asia-Pacific, excluding Japan, is twenty percent to forty-five percent.

Looking at relative shares of machinery to total exports and imports, it is interesting to note that the export share exceeds the import share by a large margin for

Table 4. Composition of Merchandise Exports (1989)

(%)

| | Fuels minerals, and metals | Other primary commodi- ties | Machinery and transport equipment | Textiles and clothing | Other manufactures |
|-------------|----------------------------------|--------------------------------------|--|--------------------------|-----------------------|
| Jpana | 1 | 1 | 65 | 2 | 30 |
| Singapore | 18 | 9 | 47 | 5 | 21 |
| Hong Kong | 1 | 2 | 23 | 39 | 34 |
| Taiwan | 2 | 6 | 36 | 15 | 42 |
| Korea | 2 | 5 | 38 | 23 | 32 |
| Malaysia | 19 | 37 | 27 | 5 | 173 |
| Thailand | 3 | 43 | 15 | 17 | 22 |
| Philippines | 12 | 26 | 10 | 7 | 45 |
| Indonesia | 47 | 21 | 1 | 9 | 22 |
| China | 11 | 19 | 7 | 25 | 38 |
| World | 12 | 14 | 35 | 6 | 33 |

Table 5. Composition of Merchandise Imports (1989)

(%)

| | Food | Fuels | Other primary commodi- ties | Mechinery and transport equipment | Other manufactures |
|-------------|------|-------|--------------------------------------|--|-----------------------|
| Jpana | 16 | 21 | 18 | 14 | 31 (44) |
| Singapore | 7 | 14 | 5 | 42 | 33 (75) |
| Hong Kong | 8 | 2 | 5 | 26 | 59 (85) |
| Taiwan | 7 | 9 | 13 | 37 | 34 (71) |
| Korea | 6 | 13 | 17 | 34 | 30 (64) |
| Malaysia | 11 | 5 | 6 | 45 | 33 (78) |
| Thailand | 6 | 8 | 9 | 39 | 38 (77) |
| Philippines | 11 | 13 | 7 | 20 | 50 (70) |
| Indonesia | 8 | 8 | 10 | 38 | 37 (75) |
| China | 9 | 3 | 10 | 31 | 47 (78) |
| World | 10 | 9 | 8 | 34 | 39 (73) |

Japan, that the shares are roughly equal for the Asian NIEs, and that the import share is much higher than the export share for the ASEAN 4 and China. This gradation is a key to an understanding of the newly emerging division of labor and manufacturing networks in the region, as we elaborate in the following sections.

1.5 Industrialization trends

The Asia-Pacific economies have typically registered growth rates of manufacturing output higher than the world average (Table 6). A second trend is toward de-industrialization. The more developed economies have followed a pattern in which the share of manufacturing to total output has peaked and then declined. The decline of Japan's manufacturing output as a share of total output began in mid-1960s, Hong Kong in 1970, Singapore in 1980, Taiwan in 1986, and South Korea appears to have

Table 6. Manufacturing: Growth Rate and Share in GDP

| | <u>Average annual growth rate</u> | | <u>Share in GDP</u> | |
|-------------|-----------------------------------|---------|---------------------|----------|
| | 1965–80 | 1980–89 | 1965 | 1989 (%) |
| Jpana | 8.2 | 6.7 | 34 | 30 |
| Singapore | 13.2 | 5.9 | 15 | 26 |
| Hong Kong | ... | ... | 24 | 21 |
| Taiwan | ... | ... | 20 | 36 |
| Korea | 18.7 | 13.1 | 18 | 31 |
| Malaysia | ... | 8.0 | 9 | 26 |
| Thailand | 11.2 | 8.1 | 14 | 25 |
| Philippines | 7.5 | 0.5 | 20 | 25 |
| Indonesia | 12.0 | 12.7 | 8 | 18 |
| China | 9.5 | 14.5 | 28 | 35 |
| World | ... | 3.7 | ... | ... |

begun the same process in 1988. the process of de-industrialization, however, has also been one of industrial upgrading. The shift has been away from low-technology, low value-added industries in the direction of high technology, higher value-added industries. Quantitatively the relative shares of manufacturing output of Japan and the Asian NIEs have declined, but qualitatively the composition of manufacturing output has improved.

Over the past twenty-five years, the economies of the ASEAN 4 and China have remained in an earlier stage of industrialization, in which manufacturing output continues to expand, in terms of its share in total output. The Philippines is the lone exception. The share of manufacturing in the Philippines has remained at about twenty-five percent since the early 1970s.

2. Emergence of the Asia-Pacific Economic Zone

2.1 Complementary Structural Adjustments

Growth performances of economies within the Asia-Pacific region are highly visible and certainly very impressive. What is less visible, but no less important, is the fact that the region has come to operate on a common economic logic since the late 1980s. One can now speak of an economic zone defined functionally, not geographically, on the basis of the working of the common logic. Countries in the region are more or less integrated with the regional economy according as to what extent the common economic logic pervades their national economies: Laissez-faire Hong Kong represents one polar case of complete integration; The Coastal Zones in China stand for the other extreme of deliberately limited integration.

As the dynamism of industrial growth spread from Japan to the NIEs and further to Southeast Asian nations and the coastal zones of China, the Asia-Pacific Economic Zone has taken on a clearly identifiable configuration as a massive industrial center.

Increased integration among the economies of the Asia-Pacific region has been realized as individual economies in the region have attempted to carry out structural

adjustments during the second half of the 1980s.

For Japan, and subsequently for Asian NIEs, drastically increased labor and land costs in the wake of exchange rate appreciation and sheer unavailability of work force in some lines of manufacturing, forced many enterprises to relocate to production sites with more abundant supply of labor.

Spearheading this trend is accelerated and expanded drive toward globalization of business activities on the part of the Japanese private sector. A long-term trend toward increased international operations on the part of large Japanese corporations has been accelerated in the wake of the drastic appreciation of the yen following the Plaza Accord of September 1985. Many medium and small businesses followed their corporate customers as the latter's international operations expanded. Many others simply faced the choice of going out to a foreign site with lower production costs or going out of business. Aggressive or defensive, Japanese business investments in the Asia-Pacific region skyrocketed during the late 1980s and show all signs of continued vigor for the foreseeable future.

Similar developments of expanded international operations have taken place in the Asian NIEs, as reflected in drastically increased levels of direct investment in Southeast Asia.

In Southeast Asian countries, on the other hand, the central task of structural adjustment since the mid-1980s has been to expand labor-intensive and export-oriented manufacturing industries. They have been eager to receive direct investments from Japan and Asian NIEs as key driving force in generating and sustaining the new pattern of economic development. The mutually complementary structural adjustment efforts in Japan and Asian NIEs on the one hand and in Southeast Asian countries on the other have resulted in a dramatic spread of industrial activities from the former to the latter.

Structural adjustments in the ASEAN 4 greatly accelerated long-term trends of increasing shares of manufactures in total exports during the second half of the 1980s (Table 7). The change was no less drastic on the imports side. Thus, the ASEAN 4 came to be more deeply involved in international exchanges in manufactured goods of particular interest are drastically elevated shares of machinery in both exports and imports. These increases signify a new mode and stage of division of labor within the manufacturing industry spread across the whole Asia-Pacific region .

2.2 Direct Investments in the APEZ

A key element of increasingly tighter relationship within the region has been much expanded flows of foreign direct investments (FDIs). Over the second half of the 1980s,

Table 7 . Change in ASEAN 4 's Trade Composition
(%)

| | <u>Exports</u> | | <u>Imports</u> | |
|------------------|----------------|--------|----------------|--------|
| | 1985 | 1989 | 1985 | 1989 |
| Manufacture | 29.4 | 51.8 | 53.4 | 78.2 |
| (Machinery) | (8.5) | (22.5) | (22.5) | (38.8) |
| Primary Products | 71.6 | 48.2 | 46.6 | 21.8 |

large Japanese manufacturing concerns expanded a network of subsidiaries and affiliated firms within the region to establish an efficient system of procurement, production and distribution on a region-wide basis. Initially, the flow of Japanese FDIs was mainly directed to the Asian NIEs where Japanese firms had well-established production bases. From around 1988, however, the main recipients of Japanese FDIs have been Thailand and Malaysia, and subsequently Indonesia as well. This has reflected rapidly rising labor costs in Asian NIEs and a more articulate formulation of global and regional corporate strategies on the part of large businesses of Japan. Some corporations of Asian NIEs followed suit and expanded their FDIs in the ASEAN 4. Also to be noted have been FDIs by medium-size specialized producers of parts and components for electronics and automotive industries. With the infusion of all these FDIs, the network of productive structure in electronics and, to a lesser extent, automotive industry has been rapidly expanded among the ASEAN 4.

3. Regional Framework for Economic Cooperation

3.1 Schemes for Regional Cooperation

(i) ASEAN

The Association of Southeast Asian States (ASEAN) was formed by the original five member states — Indonesia, Malaysia, the Philippines, Singapore and Thailand — in 1967 to promote cooperation among them in economic, social, cultural and technological affairs. The uppermost objective of ASEAN was to broaden mutual understanding and create mutual trust among the member countries historically beset with racial conflicts, territorial disputes and open confrontations. The formation of ASEAN also marked the rise to power of a new generation of political leaders in the region.

ASEAN deliberately adopted an informal and gradual approach to regional cooperation. Sensitive political matters were kept out of sight and emphasis was placed on increasing exchanges in noncontroversial spheres for the purpose of increasing contacts. Decisions were taken only on a full consensus basis and careful attention was paid to see to it that no member would reap a disproportionate share of benefits.

As ASEAN became an established and accepted reality in the eye of all the member states, it gradually came to adopt a more activist stance. Also, changes in Indochina situations and prospective phasing out of the US military presence presented them with a shared sense of insecurity.

The year 1976 turned out to be a major turning point in ASEAN's history. The first ASEAN Summit was held and agreements were reached with regard to internal economic cooperation, external economic diplomacy, and political cooperation in pursuit of regional security.

An important innovation in economic diplomacy was instituted in the form of the Post Ministerial Conference involving ASEAN's Dialogue Partners — Australia, Canada, EC, Japan, New Zealand and the United States. (Korea was added as Dialogue Partner in 1991). This institutional setting has proved to be of great significance, both symbolically and substantively, for ASEAN states to be able to

Table 8. Investment Flows in Asia

(Unit: million dollars)

| Host Countries Investors | | Malaysia | Thailand | Indonesia | Philippines |
|-----------------------------|----|----------|----------|-----------|-------------|
| Taiwan | 86 | 34.6 | 35.7 | 17.3 | 0.4 |
| | 87 | 98.7 | 299.2 | 7.9 | 9.0 |
| | 88 | 146.7 | 849.9 | 913.0 | 109.3 |
| | 89 | 367.6 | 867.9 | 158.0 | 148.7 |
| South Korea | 86 | 2.1 | 0.9 | 21.5 | 0.0 |
| | 87 | 9.0 | 12.9 | 15.5 | 0.7 |
| | 88 | 9.0 | 12.9 | 15.5 | 0.7 |
| | 89 | 29.1 | 170.7 | 466.1 | 17.5 |
| Hong Kong | 86 | 22.5 | 44.8 | -59.8 | 7.3 |
| | 87 | 11.8 | 125.0 | 122.1 | 22.8 |
| | 88 | 49.5 | 474.7 | 259.0 | 26.7 |
| | 89 | 41.5 | 561.5 | 406.8 | 132.8 |
| Singapore | 86 | 42.0 | 9.5 | 105.3 | 0.3 |
| | 87 | 135.0 | 64.0 | 12.9 | 0.9 |
| | 88 | 65.7 | 275.6 | 151.0 | 2.0 |
| | 89 | 98.7 | 407.0 | 166.1 | 23.7 |
| NIEs | 86 | 101.3 | 90.9 | 84.3 | 8.0 |
| | 87 | 254.3 | 501.1 | 158.4 | 33.5 |
| | 88 | 270.8 | 1,709.2 | 1,530.0 | 138.5 |
| | 89 | 536.9 | 2,007.1 | 1,205.1 | 322.7 |
| Japan | 86 | 67.6 | 250.7 | 324.6 | 22.3 |
| | 87 | 185.0 | 965.2 | 512.1 | 28.8 |
| | 88 | 214.3 | 3,062.7 | 256.0 | 94.6 |
| | 89 | 391.8 | 3,524.2 | 768.7 | 157.7 |
| U.S.A. | 86 | 12.5 | 40.6 | 128.4 | 22.4 |
| | 87 | 71.1 | 172.2 | -62.0 | 36.0 |
| | 88 | 96.5 | 673.2 | 731.0 | 152.5 |
| | 89 | 46.8 | 549.6 | 348.0 | 131.2 |

Source: Investment statistics announced by the Government of host countries.

consult and negotiate with advanced countries. Effectiveness of closing ranks vis-a-vis economic super-powers certainly strengthened their faith in ASEAN resulting in enhanced internal cohesion.

Another factor of lasting importance was the emergence of Japan as the single most important supporter of ASEAN. For ASEAN, the most meaningful Japanese support was in a tangible form of financial assistance to ASEAN joint projects and, more importantly, to individual member states. For Japan, ASEAN was an ideal format for designing its regional economic and security strategy. ASEAN covered the geographical area that was vital to Japanese economic security interests: access to natural resources, Japanese exports and investments, and, last but by no mean least, the sea lane connecting Japan with the Middle East. ASEAN was definitely a positive factor for Japan in securing stability and promoting goodwill in the critical Southeast Asian region.

A distinctive feature of the relationship between Japan and ASEAN is the mutual recognition of asymmetry and complementarity between industrial Japan and resource-rich ASEAN and Japan's commitment to economic development of ASEAN

with the emphasis on the industrial sector. As ASEAN's industrialization advanced, complementarity has come to be also defined in terms of Japanese capital and technology and ASEAN's labor force. The basic structure and terms of the mutual relationship has remained the same to date.

In the recent past, Japan has become more active in representing ASEAN's economic and security interests in various international forums. This pro-ASEAN stance of Japan seemed to have been an important factor in securing ASEAN's assent to the formation of APEC.

(ii) APEC

The Asia-Pacific Economic Cooperation (APEC) at the present stage is best conceived as a process in search of meaningful roles. Its very existence is of significance, however, indicating a shared sense of belonging to the same region and of need and desirability of region-wide consultation and collaboration for the promotion of regional economic development. It has a distinctive Asian touch to it in that it puts stress on informal exchanges of views and opinions and that it seeks to reach consensus through better mutual understanding. It is fuzzy, but that's by design.

Technically, APEC is not yet established and recognized as official regional organization. This is because of fear on the part of some ASEAN states that ASEAN might lose its identity as it could be dissolved into APEC. The annual APEC meetings are ministerial-level meetings, and not ministerial meetings, technically speaking. Technicality would not stand in the way of realizing what APEC could potentially achieve, however. What matters is atmospherics, rather than any formal accord. APEC would most probably continue in a soft operational style of regional consensus-building in keeping with actual practices of GATT, rather than aiming at a free trade area based on the mutual commitment to the principle of economic liberalization and integration.

Ever since initial ideas were floated, it has been always argued that APEC must be a collaborative scheme in the spirit of open regionalism. It has been understood to imply that APEC agreements would not result in any discriminatory measures in trade and investment against non-members countries. Intra-regional accord on liberalization would create discrimination to the extent that it brought about trade and investment diversions from non-member to member economies. In theory, therefore, intra-regional liberalization is not on the agenda. APEC would collaborate toward the goal of promoting an open and free global system of trade and investment rather than seeking to establish a regional version of it.

It is not clear whether this is the correct interpretation of open regionalism espoused by APEC, however. When APEC discussed the promotion of regional trade and investment, it could certainly touch on policy-related matters. In fact, technical study was prepared to assess the impacts of a region-wide free trade agreement to be submitted to the Ministerial meeting held in November 1991.

APEC originally consisted of twelve countries in the broadly defined Asia-Pacific region. In addition to six ASEAN states of Singapore, Brunei, Indonesia, Malaysia, the Philippines and Thailand, it includes Japan, Korea, Australia, New Zealand, United States and Canada. At its third Ministerial meeting held in Seoul in November, three Chinas — China, Taiwan and Hong Kong — were accepted as new members, thus bringing the total number of member countries and territories to fifteen. The addition

of the three Chinas represents an important political event, providing a regional setting in which China, Taiwan and Hong Kong could interact with each other and with other countries in the region.

The prototype of modus operandi of APEC is found in the relationship between Japan and ASEAN. One of APEC's principles is the recognition of diversity among its members, possibly implying differentiated allocation of costs and benefits of collective actions. APEC is infused with a distinct developmentalist outlook shared by Japan and ASEAN and its work programs seem to incorporate significant elements of financial and technical assistance from advanced to developing members in the group.

In principle and in reality, APEC is an open-ended process. This openness applies to the membership question as well. Since the United States and Canada are already members, it is clear that "Asia-Pacific" is defined to be Asia or Pacific. Technically, therefore, any country in Asia or facing the Pacific Ocean could be an APEC member, just as in the case of PECC or PBEC.

An interesting question in this regard is how much centripetal force there is or there could be among the present members of APEC. To address this question one needs to look through fuzzy atmosphere for commonly shared bottom lines of APEC's *raison d'être*.

Initiatives for APEC originated in Japan and Australia, as had been the case with the formation of PECC.

For Japan, the need for coordinated government actions for the promotion of region-wide economic development was, and still remains, the main reason for APEC. Put in other words, Japanese intent was based on the recognition of the need for regional public policy in support of private sectors' activities. There was not much of a grand design at the outset. Work programs evolved as interests of member countries were expressed and consensus for the need of study was reached.

Along with this intra-regional factor, there was another that prompted the formation of APEC. It was concern over prospects of the world economy, especially over the future of the multilateral trading system. Asia-Pacific region's economic development has been heavily dependent on the expansion of exports to North America and Western Europe. The region's growth prospects would be seriously affected if the access to those markets should be materially curtailed. Suspected possibilities of Europe and North America turning more overtly discriminatory against regions outside of their own were a cause for grave concern to Asia-Pacific economies. Thus there were shared interests in working together for the sustenance of an open multilateral system of global trade, and Japan was willing to take the leadership role in coordinating and presenting the interests of the Asia-Pacific region as a whole.

(iii) EAEG

The East Asia Economic Group (EAEG) is a brainchild of Malaysian Prime Minister Mahathir. In his proposal, the group was to comprise only Asian members of APEC, with possible inclusion of three Chinas and Indochina countries.

It is generally understood to have originated from his sense of frustration over the failure of successful conclusion of the Uruguay Round of trade negotiations at GATT and over the powerlessness of his country or ASEAN in making impacts in global negotiation. It was also reported that Mahathir's initiative was partly in response to the perceived trend toward rising protectionism and closed regionalism in Europe and

North America.

In his initial pronouncement of the idea, Mahathir used the term “East Asia Economic Bloc”, causing quite an uproar both among the countries reputed to be the grouping’s members and among those excluded. Later, in the course of consultations with other ASEAN countries, it has been clarified that what he meant was something more like a joint negotiating front for the purpose of maintaining an open global trading system.

Furthermore, EAEG has come to be characterized as GATT - and APEC-compatible, thus alleviating initially held fears of closed regionalism and of undermining fledging APEC.

All indications are that ASEAN states are not particularly sympathetic with the proposal by Mahathir. ASEAN has set up a working group to study “the concept the of EAEG”, but most members seem to be noncommittal. Japan, expected to play a pivotal role in the new grouping, has also remained noncommittal, waiting for ASEAN decision on the matter.

The strongest and negative response came from the United States. It was obviously disturbed by the idea of a new grouping within APEC that would exclude it and possibly confront it. This strong response from the US certainly made all the parties concerned cautious in taking or expressing their posture. In a sense, however, the US response vindicated Mahathir: the US proved to be unfair applying double standards in criticizing EAEG while promoting a North American Free Trade Area (NAFTA).

In all likelihood, EAEG idea will end up being something like an informal East Asian caucus within APEC. It would serve a useful purpose to the extent there were common East Asian interests which exceed the ASEAN scope, vis-a-vis the rest of APEC. It could end up antagonizing excluded parties, possibly leading to polarization or even dissolution of APEC, however.

3.2 Intra-Regional Liberalization of Trade and Investment

Currently, intra-regional liberalization of trade and investment is beginning to be mooted both at the level of ASEAN and of APEC. In order to assess prospects of liberalization in the region, this section first reviews modalities of policy orientation with a focus on industrial development.

Asian perspective on economic management is essentially “developmental” in the true sense of the word. Asians tend to think of economic development in terms of fostering infant industries, building up intra-and inter-industry linkages, providing for infrastructure, promoting education and training, and extending necessary financial and technical assistance, rather than approach the question in terms of policy environment and incentive framework. The Asian perspective might be called an “ingredients approach”, while that of Anglo-American orthodoxy may be characterized as a “framework approach”.

This is not to say that market mechanism is disregarded or suppressed in Asia. On the contrary. As emphasized repeatedly, it is private sector initiatives operating through market mechanisms that have generated rapid rates of growth in the region. What the Asian view emphasizes is the need to strengthen private enterprises and market mechanisms as an integral aspect of the overall development process. It does not subscribe to the *doctrine* of market-guided development and instead assigns

important organizing functions to the government. From this perspective is derived the view that suitable economic policies are different depending on the stage and type of development. Approach to policymaking is pragmatic and flexible.

Operating in this collective frame of mind, economic cooperation in APEZ tends to emphasize “ingredients” of regional development rather than “framework” for it. This does not preclude policy-related discussion on a regional scope, however. To the extent policy measures and incentives affect the accumulation or allocation of “ingredients”, they are taken up as practically important matters.

Economic liberalization could be approached either as a matter of principle or that of practical usefulness. On the whole, Asia-Pacific policymakers have been pragmatic, rather than doctrinaire, in their approach to the question of liberalization, trying to strike a balance between domestic economic and political interests and external pressures. Shifts in policy therefore have been piecemeal and cumulative rather than abrupt and drastic.

Hong Kong is one exception to the general pattern observed in the Asia-Pacific region. Its colonial government has traditionally been committed to economic liberalism as a matter of principle as well as of necessity.

Singapore, after a brief period of internal orientation as part of Malaysia, clearly shifted to outward-oriented industrial development under strong-handed government control and guidance after its independence in 1965.

Japan was the prototype Asia-Pacific industrializing economy with elaborate infant industry promotion schemes and strong export-orientation. The Japanese economy went through a gradual process of liberalization of trade and, subsequently, of direct investment, from the early 1960s on as required by the membership at OECD and under strong US pressures. The process of liberalization was virtually completed by the early 1970s, so far as the manufacturing industry was concerned, and followed by a series of tariff reductions. At present, Japanese markets are less restricted than those of the United States or of the EC regarding tariff and nontariff barriers to the import of manufactured goods.

All of the Asia-Pacific developing economies have shared the desire to promote industrialization as central force of overall economic development. They have also sought the expansion of manufactured exports either as dynamic driving force of industrialization or as means of expanding employment or improving balance of payments. The policy package adopted was the combination of domestic market protection and export promotion. Export-oriented manufacturing activities were encouraged through various promotional measures, oftentimes to entice foreign direct investments. Typically, liberalization on imports and direct investment was applied selectively only to the extent needed to secure the expansion of manufactured exports.

Korea and Taiwan followed the Japanese pattern of industrial development, but with more important participation of foreign investments. They both adopted a dual-track industrial policy of infant industry protection and export promotion. Over the 1980s, however, both Taiwan and Korea were subjected to strong US pressures to open up their markets and undertook comprehensive liberalization of imports, especially in manufactured products.

The ASEAN 4 still remain fundamentally in the mold of the dual-track industrial policy, although structural adjustment measures adopted over the 1980s have significantly shifted the balance in favor of export orientation. Import liberalization

has been sporadic, however, often limited only to intermediate and capital good imports for export-specialized operations.

There are considerable variations among ASEAN 4 with regard to the manner and degree of protection. Thailand and Malaysia have been traditionally more open towards imports, resorting to non-tariff restrictions only in exceptional cases. On the other hand, the Philippines and Indonesia have tended to protect their domestic manufacturers more extensively and indiscriminately.

It seems certain that rapidly expanding manufactured exports have affected the perception and outlook of ASEAN 4's businessmen and policymakers concerning growth potentials of their industries and economies in an open international economic environment. In fact, gradually but steadily, the distinction between domestic market-oriented and export-oriented industries are being blurred, as erstwhile import-substituting industries start exporting and as local networks of suppliers linked to export industries are formed.

This process is most advanced in Thailand on both scores. Malaysian economy, whose manufactured exports have been mostly of the enclave factory type, seems to have entered a new phase of industrial deepening based on the logic of backward linkage integration. In Indonesia, the collapse of oil prices in the mid-1980s helped alleviate some of the so-called Dutch Disease symptoms and triggered a process of broad-based, export-oriented manufacturing activities, apparently following the footsteps of Thailand. So far, the Philippines is left behind, failing to enter the new phase of industrial development. Their domestic market-oriented industries and export-specialized activities remain almost completely unrelated. Moreover, neither seem to have strong enough driving force to push forward the overall process of industrial development.

A proposal that "ASEAN moves towards a Free Trade Area by the turn of the century" was submitted by the Prime Minister of Thailand and seconded by his Malaysian counterpart. The question was studied and discussed at the senior officials level and the top-level decision was made at the ASEAN Summit held in January 1992.

It is not clear how soon and how much progress will be made on the issue of intra-ASEAN liberalization. Past attempts at intra-ASEAN preferential trade arrangements have only led to limited, mostly cosmetic policy actions and hardly produced any tangible results. At present, liberalization is a new trend, it is true; it is yet to be seen whether and to what extent there is collective commitment towards an economically unified ASEAN.

3.3 Characteristics of Regional Cooperation

In APEZ, it is not correct to identify regional economic cooperation with established schemes. What is more important is atmospherics rather than formality. There certainly are schemes — existing, evolving and prospective. They are, in reality, nothing more than discussion forums and will remain so for the foreseeable future. The most they could become is regional version of OECD, but without binding rule-setting or surveillance functions.

Perceptions and frames of mind are important since they could generate self-fulfilling prophecies. The most eloquent recent example of a positive feedback between expectations and actions is found in the way "EC 1992" has transformed itself from an

idea into a reality. Expectations as such are subjective by nature. Nonetheless they have produced a fundamental reorganization of the reality of European industrial configuration.

Something similar has been taking place in APEZ. The interplay between perceptions and actions have transformed a conceptual possibility into an established fact within a matter of half a decade. Furthermore, positive feedbacks between expectations and decisions on the future of APEZ seems to have acquired a strong momentum. Transnational enterprises are now beginning to formulate longer-range and more comprehensive regional strategies, thereby generating added impetus to positive feedbacks on a longer term basis. The trend of region-wide industrial upgrading and expansion will continue well into the next century.

4. Asia-Pacific Economic Zone in the World Economy

4.1 The Tri-Polar World Economy

According to some super-heroic estimates, shares of various regions in the total world output in 1750 were as follows: Europe 23.2%, what is now the United States 0.1%; Japan 3.8%; rest of the world (China and India, among others) 73.0%. Then came the industrial revolution and England's share rose from 2% in 1750 to 10% in 1830 and further to 23% in 1880. Continental Europe followed the lead of England in industrial revolution and Europe's share exceeded more than half of the world total output by the middle of the 19th century, thus marking the century of Europe.

By the turn of the century, however, the United States established itself as the world's largest economy, accounting for 23.6% of the global output in 1900 against England's 18.5%. The predominance of the US economy became even more accentuated in the wake of the Second World War, making it the unquestionable leader in the world economy and making the 20th century the era of American supremacy — or so it appeared.

The US hegemony continued to be unchallenged through the 1960s. But then its relative position was eroded precipitously over the 1970s, with Western Europe surpassing US in total output and Japan reaching 10% of the world output by 1980. During the 1980s, the US regained small part the relative share it had lost in the previous decade, while Western Europe losing part of its gain. But, it was Japan that kept on elevating its share in the world economy, which reached about 17% in 1988.

By the 1980s, the world economy began to evolve around the three centers of gravity, — North America, Western Europe and East Asia — as international competition came to be played out increasingly on a global scope (Table 9). Each center enhanced internal cohesion either through formal agreements or through working of market mechanisms.

The configuration of the world economy over the 1990s and beyond will be based on the basic structure dominated by the three poles. What remains to be seen is to what extent and in what manner the three poles are going to interact with each other. Will they continue to expand their mutual transactions as they have in the recent past? Or could they turn drastically inward-oriented, thus plunging the world economy into three separate trade blocs?

Table 9. Comparison of Economic Sizes of the Three Poles (1989)

| | Population | GDP | Exports | Imports |
|-------------|------------|--------|---------|---------|
| (1) APEZ | 1,620 | 3,853 | 656 | 561 |
| (2) NAFTA | 360 | 5,864 | 509 | 636 |
| (3) EC+EFTA | 358 | 5,532 | 1,320 | 1,360 |
| (1)+(2)+(3) | 2,338 | 15,249 | 2,485 | 2,557 |
| World Total | 5,206 | 19,982 | 2,902 | 3,046 |

(Note) Population in millions. GDP, Exports and Imports in billion dollars.

The 1980s saw a definite dichotomy in the world economy between the mainstream consisting of the three poles — Western Europe, North America and APEZ — and the rest of the world failing to keeping up with technological and managerial developments in the mainstream. The 1990s will likely witness the consolidation of the tri-polar global economy with some economies from the rest of the world beginning to integrate successfully with one of the three poles of the mainstream.

The world economy will be characterized by the coexistence of globalism and regionalism well into the next century. Globalism will encompass the three regional poles and they will serve as the bases for global economic relations.

Logic and strategy of global enterprises will continue to be the most powerful determinant of the way globalism and regionalism will interact as new markets and technological opportunities evolve. It is increasingly clear that all world-class enterprises need to operate on the basis of globalism with strong presence in all the three poles of the world economy.

4.2 Changes in Global Trade Pattern

Comparing 1979 and 1989, world trade patterns underwent the following changes (Table 10).

These figures present a number of noteworthy observations.

Table 10. Shares in Total World Trade

| | (%) | |
|---|---------|---------|
| | 1979 | 1989 |
| Intra-Asia | 6.3 | 10.0 |
| Intra-North America | 4.6 | 5.3 |
| Intra-Western Europe | 28.0 | 31.1 |
| (Sub-total) | (38.9) | (46.4) |
| Asia-North America | 6.4 | 11.9 |
| Asia-Western Europe | 5.0 | 7.6 |
| North America-Western Europe | 6.6 | 7.3 |
| (Sub-total) | (18.0) | (26.8) |
| ((Total)) | ((56.9) | (73.2)) |
| cf) North America-Central and South America | 4.0 | 3.6 |

- (1) In 1989, intra-regional trade within the three regions accounted for nearly half of total world trade, up from 40% in 1979.
- (2) Inter-regional trade among the three regions increased from 18% of total world trade in 1979 to 27% in 1989.
- (3) Adding up those two categories, the percentage of world trade taking place within the three regions jumped from 57% in 1979 to 73% in 1989.

It is clear that world trade has come to be more densely concentrated in the three regions.

- (4) In regard to trade developments within each of the three regions, expansion of intra-Asia trade was very rapid while increases in intra-regional trade in two other regions were modest.
- (5) Concerning trade relations among the three regions, the increases in Asia's trade with North America and with Western Europe were much larger than the trade expansion between the two latter regions.
- (6) Comparing the importance of intra-regional trade with inter-regional trade, it is clear that intra-regional trade accounts for a dominant percentage of the total only for Western Europe. For Asia and North America, inter-regional trade outweighs intra-regional trade (even when defining it broadly by including trade with Central and South America in the case of North America) by two to one.
- (7) For North America and Western Europe, the more important inter-regional trade relationship is no longer with each other but with Asia. The change was particularly marked for North America for which trans-Pacific trade has come to significantly outweigh trans-Atlantic trade.
- (8) For all three regions, the relative importance of intra-regional trade decreased as against inter-regional trade during the 1980s. That is to say, there was no trend toward world trade breaking up into exclusive regional blocs.

Interactions among the three main economic regions — Europe, North America and Asia-Pacific — will shape the contours of the world economy in the next century. There is a high probability that each of the three economic zones will further strengthen internal cohesion. This prospect will not imply a division of the world economy into three exclusive economic blocks, however. The world economy is so closely tied together on a global scale that it can no longer be divided up into segregated blocks.

The Asia-Pacific Economic Zone is no longer a goal to be achieved but already an established reality in the world economy. In fact, it is one of the most dynamic forces giving shape to the world economy of the 21st century. The Asia-Pacific Economic Zone possesses a potential to make its impacts felt throughout the world economy. It has the capacity to project the vision and logic of "dynamic and harmonious development", not only within the region but all over the global economy as well. In fact, the Asia-Pacific region presents the world with a model for the resolution of the North-South dichotomy in the world economy. It is hoped that the Asia-Pacific Economic Zone, with a formal political mechanism established in the form of APEC Ministerial Meeting, will begin to exert positive and constructive influences over the design and management of the emerging international economic system of the 21st century.