

THE DEVELOPMENT OF PACIFIC TRADE

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The Development of Pacific Trade
(including the feasibility of a Pacific Free Trade Area)
Japan's Interests in the Pacific Trade Expansion

INTRODUCTION

International trade policies are volatile and are searching for fresh directions in the Post-Kennedy Round situation. A reshuffling of Atlantic trade should be anticipated. In the Pacific region, there is need to develop measures for expanding trade among advanced countries (the United States, Canada, Japan, Australia and New Zealand) and trade and aid with affiliated developing countries in Asia and Latin America, in the hope of promoting closer economic co-operation and, perhaps, the establishment of a Pacific Free Trade Area.

This paper examines, first, recent trends in the Pacific trade, based upon a trade matrix by country as well as by commodity group, and the intensity of trade among the five Pacific countries and their trade with Asian and Latin American developing countries. The analysis suggests that trade among the five Pacific countries has shown an inclination towards closer inter-dependence and co-operation between those economies and, at the same time, some weaker links which should be strengthened for further trade expansion.

Secondly, the possible effects of eliminating tariffs among these five Pacific countries are hypothetically estimated on the basis of 1965 trade figures. The anticipated trade expansion would be substantial and larger than the effect of the Kennedy Round tariff reductions. This suggests that the formation of a Pacific Free Trade Area, if the five countries should so do, would be quite effective in expanding their mutual trade, especially when the likelihood that another round of global tariff reductions may not be feasible in the next ten to twenty years. It is also shown how the gains from the elimination of tariffs would be distributed among the five countries and in what commodity groups the expansion of trade would be significant.

Thirdly, a proposal for a Pacific Free Trade Area seems premature for various reasons. More practical alternatives are proposed for intensifying closer trade partnership among the five Pacific countries and for increasing aid to and trade with developing countries in Asia and Latin America.

1. Recent Trends in the Pacific Trade

Two Centres in world trade.

The Pacific is one of the two centres in world trade and comparable with Europe.

Trade among the five advanced Pacific countries, the United States, Canada, Japan, Australia and New Zealand (hereafter called the PFTA trade), has increased by 97% from \$9.16 billion in 1958 to \$18.02 billion in 1965, or from 7.99% to 10.38% in the share of world trade.

The intra-area trade of EEC was \$6.86 billion in 1958, which was smaller than PFTA trade, and has tripled to \$20.84 billion in 1965. The share of intra-area trade of EEC in world trade has increased from 5.98% in 1958 to 12.00% in 1965, more rapidly than in the PFTA trade.

The total of trade among EEC, United Kingdom and other Western Europe groups, to be known as "European Trade", has more than doubled from \$22.23 billion in 1958 to \$51.16 billion in 1965, or from 19.38% to 29.45% in the share of world trade. European trade is one of the most important and rapidly growing centres in world trade.

With this, we can compare the "extended Pacific trade", which is the sum of the trade among countries in PFTA, the rest of Asia (excluding Mainland China) and Latin America. The extended Pacific trade was \$23.36 billion or 20.36% of world trade in 1958; this was somewhat larger than European trade, and has increased to \$37.71 billion or 21.71% of world trade in 1965. Extended Pacific trade is another centre of world trade, but it has not grown as fast as has

European trade, principally because of the stagnation in exports of primary produce from developing countries in Asia and Latin America.

The extended Pacific area could be the largest centre of the world trade if there were closer co-operation in expanding trade and development within the area, since it has a greater potential in terms of population, natural resources and capital awaiting development than already well developed Europe.

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 has increased from 32.5% in 1958 to 37.3% in 1965. This compares well with the similar ratio for EEC which has also increased rapidly from 30.1% in 1958 to 43.5% in 1965.

The five Pacific countries taken together have increased the share of their total exports going to Asia and Latin America from 19.3% in 1958 to 20.3% in 1965, and that to Europe from 26.7% to 27.9%, respectively. Thus, they have spread their expansion of trade to other areas. While the share of intra-area trade in total European trade has increased from 53.3% in 1958 to 64.3% in 1965, the share of European trade both with the five Pacific countries and with Asia and Latin America has decreased from 13.6% to 12.4% and from 11.5% to 7.0%, respectively. This seems to reflect the inward-looking trend of European trade which has required Australia and New Zealand to turn their eyes back towards the Pacific area.

In short, extended Pacific trade is one of the most important and rapidly growing centres in world trade and maintains a close trade relationship between the five Pacific countries and affiliated developing countries in Asia and Latin America.

2. PFTA Trade for Each Member Country

The ratio for intra-area trade for the five Pacific countries taken together, as already mentioned, has increased from 32.5% in 1958 to 37.3% in 1965. Similar figures for four of the five countries show an increase from 25.2% to 31.0% for the United States, from 29.2% to 36.8% for Japan, from 27.5% to 33.3% for Australia and from 22.8% to 23.5% for New Zealand; it has decreased only for Canada from 63.0% to 60.1%. The exceptional decrease in the Canadian ratio was due to her heavy increase of cereal exports to Communist countries.

The importance of exports to Europe has increased for the United States from 25% in 1958 to 33% in 1965 and for Japan from 11% to 13%, while it has decreased for Australia from 50% to 35%, for Canada from 27% to 22%, and for New Zealand from 70% to 65%. Thus, we clearly see a growing importance of the Pacific trade for the five countries which has provided a new outlet for the three British Commonwealth countries.

The share of Japan's exports in PFTA trade has shown the most rapid rate of increase, rising from 9.2% in 1958 to 17.3% in 1965, and that of Australia has also increased from 5.0% to 5.8%, while the similar share has decreased for the United States from 49.2% to 47.1%, for Canada from 34.9% to 28.5%, and for New Zealand from 1.7% to 1.3%. The decrease in the United States share was mainly due to the relative decrease of exports to Canada. The share of United States exports to the other three countries has increased. It is clear that Japan, Australia and the United States have been the growing centres for the expansion of PFTA trade while Canada and New Zealand have been weaker links.

The composition of PFTA trade of each country shows different characteristics. In Japanese trade with PFTA countries in 1965, 94.9% of exports were manufactures while 71.8% of imports were primary products. Japan's trade is mainly vertical type, specialising in exports of manufactured goods. Australia and New Zealand maintain another type of vertical trade, specialising in exports of primary products; 84.8% of exports were made up of primary products in the case of Australia and 78.8% in New Zealand while imports were

89.8% and 85.4% in manufactured goods, respectively. The United States and Canada maintain a balance in the trade of manufactures as well as primary products between exports and imports; manufactured goods account 68.0% of exports and 70.3% of imports for the United States and 60.3% and 76.7%, respectively, for Canada. It is to be expected, therefore, that the two countries should conduct horizontal type trade with the PFTA countries.

3. Summary and Problems

The analysis of recent trends in the Pacific trade suggests to us, first, that trade between the five Pacific countries has been growing rapidly, and mutual interdependence has intensified. This would be the foundation for moving towards closer economic co-operation and, perhaps, integration.

Secondly, although extended Pacific trade had the same scale as European trade in 1958, the latter has since gone ahead of the former. This suggests a need of closer economic co-operation in the extended Pacific region which contains huge potentialities for economic development.

Thirdly, growing centres of the PFTA trade have been Japan, Australia and United States, while Canada and New Zealand have been lagging. Heavy manufactures and chemicals, as well as sophisticated light manufactures, have been leading sectors of trade expansion, while trade in primary produce and traditional light manufactures has been relatively stagnant. Differences in by-commodity growth in trade has a close relationship with the growth rate of trade of each country.

These trends suggest the main policy targets for further expansion of the Pacific trade to be:

(a) Stimulation of horizontal trade among the five Pacific countries in heavy manufactures and chemicals seems to be the most promising route for trade expansion.

(b) Horizontal trade in raw materials and intermediate goods would also be promoted if the production of these commodities is allocated more economically in the region as a whole, according to the expansion of horizontal trade in heavy manufactures and chemicals.

(c) Readjustment of production and trade of traditional light manufactures with a high labour content would be needed with a view to providing greater access for Asian and Latin American countries.

(d) There seems to be plenty of room for expanding trade in agricultural products among the five countries and with developing countries as well, if the agricultural protectionism in some countries is abolished and appropriate assistance to developing countries is provided.

Policy measures needed for the realisation of these targets are studied in the following sections of this paper.

4. Static Effects of PFTA

The formation of a free trade area within a reasonably large international market area such as the five Pacific countries would bring about a complete trade liberalisation (at least the elimination of tariffs on most goods) and the resulting increase in trade would be greater than in the case of less comprehensive global tariff reductions of the Kennedy Round type. In other words, a complete liberalisation within a free trade area would have an advantage over partial free trade in the world market. Because another large round of global tariff reductions is not feasible in the coming ten to twenty years, the formation of a Pacific Free Trade area, if the five countries so wish, might be the most effective alternative for expanding their mutual trade.

5. Effects of Tariff Elimination in PFTA

Here an attempt is made to estimate on the basis of 1965 trade

figures the impact of the elimination of tariffs upon the five Pacific countries which might constitute a Pacific Free Trade Area. The method of the estimation is the same as in the author's earlier paper¹ based on the 1963 trade figures.

It was estimated that intra-area trade of PFTA countries would increase by \$5,000 million, i.e. 28% of the total intra-area trade in 1965² and 10.3% of total world exports. This is not a small expansion.

The gain from tariff elimination would not be equally distributed among the five countries. Japan's exports would increase by \$1,740 million or 56% of her total exports to PFTA countries, and her imports by \$430 million or 14.7% of her total imports from PFTA countries. Japan would be able to improve by \$1,310 million her balance of trade with the area which was approximately in equilibrium in 1965. The United States would increase exports by \$2,300 million or 27.9%, keeping a favourable balance of trade with area (which showed a surplus as large as \$850 million in 1965). The other three countries would suffer from import surplus with imports rising more than exports; \$855 million in exports and \$1,480 million in imports for Canada; \$65 million in exports and \$650 million in imports for Australia; and \$22 million in exports and \$140 million in imports for New Zealand.

Thus, Japan would improve most her balance of trade with the area, the United States would retain a favourable balance, while Canada, Australia and New Zealand would suffer a deterioration in their balance of trade with the area. Such a difference of gains depends on whether a country's exports depend more or less heavily upon manufactured goods, and this suggests a need of a levelling up of the degree of industrialisation in Canada, Australia and New Zealand. The most important fact to be noted, however, is that the expansion of intra-area trade would be fairly large if the five countries could eliminate tariffs.³ The smaller rate of increase in exports than in imports for the three relatively smaller countries could be remedied through the dynamic effects of establishing a larger and completely free market.

In terms of intra-area trade in 1965, an increase of trade in food and raw materials would be limited (4.5% and 2.0%, respectively) while that of light manufactures as well as heavy manufactures and chemicals would be remarkable (40.8% and 39.5%, respectively). This is also true for each country. These results are expected since existing tariffs and elasticities of demand are low for primary products and high for manufactures. Thus, the elimination of tariffs would promote trade in manufactures of the area as a whole and bilateral horizontal trade, but it would not stimulate to the same degree trade in primary products. Such a difference in stimulation is the cause of varied effects for each country as already mentioned.

How the trade balance between each two countries would change can be summarised as follows:

Japan would improve her trade balance with all the four countries in the area; the United States would do the same with three countries, except Japan; Canada's trade balance would deteriorate with the United States and Japan while improving with Australia and New Zealand; Australia's would deteriorate with three countries, except

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1. Kiyoshi Kojima, "A Pacific Economic Community and Asian Developing Countries", Hitotsubashi Journal of Economics, June 1966, 23-26.
 2. It was estimated that the increase would be \$3,183 million or 23% of the total intra-area trade in 1963 (Kiyoshi Kojima, ibid. pp.23-24). A greater increase in 1965 than in 1963 is due to the faster expansion in manufactured trade than in trade of primary products during that period.
 3. Trade diversion effects are not estimated in our attempt. If these are included, the expansion of PFTA trade would be much larger than our estimation.

New Zealand; and New Zealand's would deteriorate with all four countries. This listing, as mentioned, depends upon the degree of concentration of exports in manufactures or in primary products respectively.

In view of close trade ties and a larger possibility of increasing trade through the reduction or elimination of tariffs, a Pacific Free Trade area among the United States, Canada, Japan, Australia and New Zealand offers a target worth studying, although it envisages a number of problems which need to be solved before its establishment.

The estimate of the effects of trade liberalisation has made clear such problems as:

(a) Although the establishment of PFTA would result in a great expansion of intra-area trade as a whole, the distribution of gains between the exporting and the importing countries of manufactured goods would be so unequal that no consensus towards the establishment of the PFTA would be obtainable. Before its establishment, concerted actions of the PFTA countries to promote industrialisation of Canada, Australia and New Zealand would be needed.

(b) Heavy manufactures and chemicals would expand remarkably due to the elimination of tariffs both in exports and imports in all the five Pacific countries. The promotion of horizontal trade within the area in these commodities should be the primary goal sought by the five countries, whether through the establishment of the PFTA or through alternative measures. These industries can realise the largest dynamic effects through the enlargement of markets and through the freer movement of capital, technical and managerial know-how beyond national frontiers. These dynamic effects would work more favourably for the relatively small countries which have abundant natural resources. It should be noted that the freer movement of capital in this area is most needed in order to promote horizontal trade in heavy manufactures and chemicals.

(c) Trade in raw materials is estimated to expand by a very limited percentage (2.0% in the PFTA as a whole), but a greater potentiality for expansion of this trade is anticipated, particularly in the exports of mineral products from Australia and Canada. Further expansion of heavy and chemical industries in the Pacific region would require a rapid development of trade in raw materials and intermediate goods within the area. The import surplus of Canada, Australia and New Zealand in heavy manufactures and chemicals would be covered by the export surplus from them in raw materials. In agricultural raw materials, however, much room for exporting should be provided to developing countries as far as they can produce them competitively.

(d) In the trade of light manufactures, the rate of increase due to liberalisation would also be large (40.8% in the PFTA as a whole), but only Japan would enjoy a heavy net increase of exports. Requests for protection of these light manufacturing industries in the United States, Canada, Australia and New Zealand, mainly for the purpose of maintaining full employment, are so strong at this stage that to abolish trade barriers in this sector would encounter a number of difficulties. Moreover, all the PFTA countries are requested to provide free access for developing countries' products of this type. How to foster structural adjustment in this sector for the five Pacific countries as a whole by taking into consideration the expansion of trade with developing countries in Asia and Latin America would be important but a difficult problem.

(e) The elimination of tariffs in itself would not change greatly trade in foodstuffs (expected increase being limited to 4.5%), since a number of non-tariff restrictions exist either openly or covertly.

Protectionism for agriculture is unreasonably strong, especially in Japan and the United States. Should these protectionist attitudes be rationalised, however, PFTA trade in food offers much scope for expansion through mutual readjustment. Here, too, attention should be paid to the interests of developing countries.

Thus, the five Pacific countries should take measures to expand production and trade in heavy manufactures and chemicals as well as raw materials on the one hand, and, on the other, measures to readjust production and trade in light manufactures and food. Also they have to take into consideration readjustments for increasing trade with developing countries in Asia and Latin America. It might be better for the five Pacific countries as a first step to concentrate on expansion of production and trade of heavy manufactures, chemicals and raw materials by refraining from requesting too hastily the abolishment of protectionism in light manufacturing and agricultural sectors, since if the expansion in the growing sectors is sufficiently rapid and large, readjustments in lagging sectors would follow smoothly without much trouble.

In order to expand the harmonious production and horizontal trade in these growing sectors within the Pacific area, the elimination of tariffs works effectively but is not enough, and a supplementary measure is required. This should be the free movement of capital and the provision of large market or, in other words, what we expect the dynamic effects of economic intergration to be.

6. Effects of Global Tariff Reductions

It is beyond our capacity for the time being to estimate accurately the effects of the Kennedy Round negotiation concluded in June 1967. Here a very rough estimate is attempted in order to show that even the largest global tariff reduction of the Kennedy Round scale would bring about a much smaller expansion of trade for the five Pacific countries than the establishment of the PFTA.

In making this estimate, it is assumed, first that the elasticity of imports (and exports) consequent upon the reduction of tariffs is the same as what we obtained for each country's trade with the PFTA. Secondly, the rate of tariff reductions was 100% in the case of PFTA, while that is here assumed to be 25% for food, 30% for light manufactures, and 35% both for raw materials and for heavy manufactures and chemicals, according to the Kennedy Round negotiations. Thirdly, it is assumed that all the countries in Europe, i.e., the United Kingdom, EEC and other western Europe areas, would reduce tariffs.

These assumptions over estimate the actual effects of the Kennedy Round tariff reductions. Our estimates, therefore, indicate greater global tariff reductions than are likely to be realised.

First, it should be noted that the rate of increase in trade due to tariff reductions is far larger with the formation of PFTA than with the Kennedy Round. In the former case, the total intra-area trade of the five Pacific countries based on 1965 would increase by 10.3% and 11.9% respectively for total exports to and imports from the world, while in the latter case by 5.5% and 7.7% respectively. This suggests to us that a complete trade liberalisation would be better than partial free trade in respect of the world market for the five Pacific countries as a whole and for each of them.

Secondly, the trade balance too would be more advantageous in the case of PFTA than in the case of global tariff reductions. In the former, the increase in exports equals the increase in imports for the five Pacific countries taken together, while it would be in deficit by \$600 million in the latter case. For each country, it may be better to compare the ratio of imbalance with the sum of incremental exports and imports. The ratio would be 60.4% in the case of PFTA and 45.4% in the case of global tariff reductions for Japan, 0.4% and -7.2% for the United States, -26.8% and -27.6% for Canada, -82.0% and -85.4% for Australia, and -72.7% and -73.9% for New Zealand. These disadvantageous trade balance effects in the case of global tariff reductions are due to the fact that a group of countries (i.e. developing countries and Communist countries) does not reduce tariffs but is allowed a "free ride" on the Pacific countries' tariff reductions. These more favourable effects of

establishing PFTA as compared with global tariff reductions should be closely noted by the five Pacific countries, particularly in view of the prospect that another global negotiation of tariff reductions as large as the Kennedy Round scale is not likely to take place in the next ten to twenty years.

7. The Choice for Japan

The best choice for Japan is to expand and free mutual trade with every trading region. The present stage of her industrialisation, her dual pattern of trade with developed and developing countries and her geographical location dictate such a choice. However, if a further global tariff reduction is not feasible in the near future and since, moreover, the compartmentalisation of world trade may be promoted, Japan should attempt to devise means for expanding trade on an assured basis through establishing the Pacific Free Trade Area or some other alternative.

The establishment of PFTA would bring about the largest gain to Japan among the five Pacific countries. Japan's exports would increase by \$1,740 million or 20.6% of her total exports and her balance of trade with the area would improve by \$1,310 million. These gains would be far greater than in the case of global tariff reductions of the Kennedy Round scale which would increase Japan's exports by 8.8%.

The big gain for Japan from the establishment of PFTA is expected to be the fact, firstly, that Japan's exports depend as much as 37% upon the PFTA markets. European markets are not crucially important (13%) for Japan.

Secondly, 95% of Japan's exports to other Pacific countries consist of manufactures which would enjoy a greater expansion from trade liberalisation, while 72% of Japan's imports consists of primary produce which would not increase very much by tariff reductions.

Once the time comes for Japan to consider an economic integration, it should be a Pacific Free Trade Area. Moreover, an economic integration without the United States, whose importance for Japan's market is as large as 30%, offers no incentive for Japan to join. Japan is destined by geography to participate in political arrangements in the Pacific rather than in Europe.

Thus, Japan would benefit from the establishment of PFTA, or from some other alternative, through the cheaper import of raw materials and other primary products, the expansion of her exports of light manufactures, and the promotion of horizontal trade in heavy manufactures and chemicals.

The formation of PFTA or some other alternative for economic co-operation among the five Pacific countries is most needed for Japan for another reason. Collective measures by the group are especially desirable for assisting economic development and trade growth in Southeast Asian countries.

Asian markets are very important for Japan relative to other Pacific advanced countries. Asia (excluding Mainland China) takes 26% of Japan's total exports, though this has been decreasing. Japan 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. The question is often raised - should Japan rely on the rapidly increasing but competitive markets in developed countries, or on the complementary but more slowly expanding markets in developing countries? She has, in fact, to expand trade in both directions.

If the five Pacific countries would establish PFTA, they should welcome as associated members those developing countries in Asia and Latin America who wish to join. Or, they might provide general preferential tariffs in favour of the developing countries. Moreover, the five Pacific countries should provide assistance more efficiently and increasingly and foster structural adjustments of their own industries in order to open wider markets for developing

countries' products. Concerted policy measures among the five Pacific countries are urgently required.

In this context, Japan's attitude towards Mainland China presents a problem. Political, military and ideological troubles aside, however, it is obvious that main supply sources of natural resources and profitable markets for Japan are not the Asian mainland but the extended Pacific region.

Although it seems to be quite beneficial for Japan to establish the Pacific Free Trade Area, there is hesitation and/or caution in Japan to step out in that direction. One of the reasons for hesitation is a heavy protection for agriculture which needs time to be rationalised. The other is a fear of the penetration and domination of American capital. These difficulties and worries should be remedied from a wider viewpoint of economic co-operation within the extended Pacific region.

8. Closer Pacific Trade Partnership

A proposal for a Pacific Free Trade Area seems premature and would be neither economically nor politically feasible at this time. First of all, United States interests are at present really worldwide and cannot participate only in one side, either the Pacific or Europe. The United States prefers an approach towards trade liberalisation as global (i.e., multilateral and non-discriminative) as possible.⁴

Secondly, it would appear that the five Pacific countries presently lack the degree of solidarity necessary to permit dispensing once and for all with the use of protective measures in the main sectors of the economy, in labour intensive secondary industries in some countries and/or agricultural and pastoral industries in other countries.⁵

Thirdly, expected gains from complete trade liberalisation would differ widely from one country to another because of the big gap in the stage of industrialisation within the area.

The realisation of PFTA might be stirred up by a shock which comes from outside the area, however. Greater European integration between EEC and PFTA could well produce an "inward-looking" Europe whereupon the United States might well find closer integration in the Pacific desirable and necessary. Should the United Kingdom fail again to join the EEC, she might establish a North Atlantic Free Trade Area with the United States and Canada.⁶ In that case, Japan, Australia and New Zealand might have to consider seriously their own integration. Moreover, PFTA and NAFTA might be linked together through the United States and Canada which would belong to the two free trade areas.⁷

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4. Cf. John W. Evans, U.S. Trade Policy, New Legislation for the Next Round, Council on Foreign Relations (1967); Alfred C. Neal "Economic Necessities and Atlantic Communities", Foreign Affairs, July, 1967
 5. A comment against PFTA is presented by H.W. Arndt, "PAFTA: an Australian Assessment", Inter-economies, Hamburg, October 1967
 6. Maxwell Stamp and associates, The Free Trade Area Option, Opportunity for Britain (the Atlantic Trade Study, London, 1967) Theodore Geiger and Sperry Lea, "The Free Trade Area Concept as Applied to the United States", Looking Ahead (National Planning Association, Washington, October, 1967.)
 7. If NAFTA is instituted among the United States, Canada and Britain while PFTA is not, Japan should join the former because otherwise she would suffer a substantial trade diversion. It is estimated that "the United Kingdom would capture about 10% of Japanese trade (say about \$225 m.) in North American markets, if Japan were not in NAFTA;"

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An economic integration in the Pacific, if expected members might be so inclined, would be a free trade area instead of a customs union or political union. A free trade area arrangement would have advantages over the alternatives from several points of view; it is consistent with the rules of the General Agreement on Tariffs and Trade; it preserves the autonomy of members with respect to their tariff policies vis-a-vis non-participants; and it is a purely commercial arrangement, carrying no obligation of eventual political federation or union.⁸

Whether or not a free trade area is established, the five Pacific countries have to intensify closer trade partnerships at this stage. Up to the present the United States has tended to look toward the possibility of ultimately "going in with" Europe, neglecting the Pacific region. Trade and development in the Pacific basin countries, including Asian and Latin American developing countries, have been relatively far behind those in Europe, for example, in terms of direct investments from America and per capita investment.⁹ We have to look more closely at this Pacific, Asian and Latin American region which holds huge potentiality for future economic development as compared with already well developed Europe.

Studies and proposals on the Pacific trade expansion have been quite limited. However, recently a movement towards this direction has been initiated. The Canada-United States Automotive Agreement has taken effect from January, 1965. This deserves close attention as an early example of selective industrial integration.¹⁰ The Australia-New Zealand Free Trade Agreement has operated since January 1966.¹¹ The Pacific Basin Economic Co-operation Committee was established among business circles within the five Pacific countries in April 1967; and a number of bilateral co-operative activities have been promoted in business circles. It should be noted also that Mr Takeo Miki, the Japanese Foreign Minister, is keenly interested in promoting economic co-operation in the Pacific and Asian region.

Maxwell Stamp and associates, op. cit., 44. Since the NAFTA proposal aims at freeing of non-agricultural trade, Australia and New Zealand would be less interested in joining (Ibid., 38). Both for NAFTA and PFTA, a crucial question is: "Would the Americans accept the free trade area concept of a new Grand Design?"

8. See Harry G. Johnson, "Proposals for a North Atlantic Free Trade Area," an address to the European-Atlantic Group, 6 March 1967, 4-5. Canadian-American Committee, A Canada-U.S. Free Trade Arrangement, Survey of Possible Characteristics (October 1963); Canadian-American Committee, A Possible Plan for Canada-U.S. Free Trade Area, A Staff Report (February, 1965); Canadian-American Committee, A New Trade Strategy for Canada and the United States (May, 1966).
9. Investment from developed to developing countries in 1964 was \$8.51 per capita for Africa, while they were \$3.92 for Latin America, \$2.85 for South Asia, and \$3.88 for the Far East. The latter was, however, very small if aid to Vietnam is excluded; OECD, Geographical Distribution of Financial Flows to Less Developed Countries (1966). United States foreign investments, amounting to \$49,328 million at the end of 1965, were directed mainly to Canada (30.9%), EEC (12.8%) and other European Countries (15.6%), while Oceania (3.7%) and Japan (1.4%) have benefitted not only to limited extent but also in relative terms to Europe; U.S. Department of Commerce, Survey of Current Business, (September, 1967).
10. See, Sperry Lea, "Free Trade by Sectors", NPA, Looking Ahead, (September, 1966).
11. F.W. Holmes, "Australia and New Zealand in the World Economy", The Economic Record, (March, 1967).

At this stage, in advance of the establishment of a Pacific Free Trade Area, more practical approaches towards closer economic co-operation among the five Pacific countries should be taken step by step. The main objects of closer economic co-operation are:

(a) To increase the flow of financial resources from the United States to other Pacific countries as well as to Asian and Latin American developing countries.

(b) To stimulate horizontal trade among the five countries in heavy manufactures and chemicals and to expand production and trade of raw materials and intermediate goods more economically in the region as a whole.

(c) Readjustment of production and trade of agricultural products among the five Pacific countries, taking into consideration their relations with Asian and Latin American developing countries.

(d) Readjustment of production and trade of light manufactures of labour intensive type among the five Pacific countries in order to improve access for Asian and Latin American countries.

(e) Co-ordination of aid policy of the five Pacific countries towards Asian and Latin American developing countries.

Practical approaches towards closer economic co-operation among the five Pacific countries would be promoted through strengthening functional, instead of institutional, integration, designed to attain similar favourable benefits as a free trade area but avoiding hasty and rigid arrangements. To gain these objectives, three kinds of code and the establishment of two organisations are suggested.

(i) Code of good conduct in the field of trade policy under which countries would relinquish the right of raising tariffs or imposing other forms of trade restrictions¹² and would gradually reduce trade barriers, particularly those affecting the import of agricultural products and light manufactures of labour-intensive type.

(ii) Code of overseas investment.

This is needed to promote investment mutually among the five Pacific countries (practically mainly from the United States) and to foster joint ventures to expand trade, especially horizontal trade in heavy manufactures and chemicals,¹³ and to develop mineral products in the Pacific region. There is a fear, however, of domination of American capital on the one hand and of aggravation of American balance of payments on the other. A code is very much needed in order to facilitate mutual overseas investments without these difficulties.

(iii) Code of aid and trade policy towards affiliated developing countries. In order to provide Asian and Latin American developing countries with larger markets for their agricultural products and light manufactures of labour-intensive type, the five Pacific countries should integrate aid and trade policies towards these developing countries. It is required that the five countries increase funds of aid, select appropriate projects to be assisted, and adjust their

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12. The assurance against the reimposition of duties in a free trade area would induce entrepreneurs to expand trade and investment abroad. A code of good conduct would reduce uncertainty in international trade and provide a partial substitute for the formation of free trade area. See, Bela Balassa, Trade Liberalisation Among Industrial Countries (Council on Foreign Relations, 1967) 160-161.
13. N.P.G. Elkan suggests an interesting scheme for promoting horizontal trade in his article, "How to beat Backwash : The Case for Customs-Drawback Unions", Economic Journal (March, 1965). His plan may be applicable to trade between small economies like Australia and New Zealand but would be too cumbersome to work in wider markets. It seems to me that horizontal trade would be fostered most efficiently through the expansion of joint ventures and other private capital's activities.

domestic industrial structure.¹⁴

In order to plan and carry out these codes, the Organisation for Pacific Trade and Development (OPTAD) could be organised among the five Pacific countries. Its characteristics are similar to the OECD and three committees, Trade, Investment and Aid could be set up.¹⁵

Secondly, a Pacific Bank for Investment and Settlement could be established with the aim of facilitating investment and settlement within the Pacific, Asian and Latin American region, and equipped with a mechanism for preventing the drainage of gold from the United States.¹⁶

Kiyoshi Kojima

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14. See, Kiyoshi Kojima, "A Proposal for International Aid" The Developing Economies (December, 1964); Kiyoshi Kojima, "Japan's Role in Asian Agricultural Development", The Japan Quarterly, April-June, 1967.
 15. An Aid Committee should be set up first because of the urgency attaching to increasing aid and trade with developing countries.
 16. This suggestion is developed in Kiyoshi Kojima, "A Proposal for increasing international Liquidity", The Oriental Economist, August 1964, which was reviewed in "How Aid could be Untied", The Economist (London) July 25, 1964, 501-402.