

THE ECONOMIC FUTURE OF THE PACIFIC BASIN

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Introduction

My observations on the economic future of the "Pacific Basin" can be no more than a "synoptic view" of selected and interrelated problems and problem areas of the region, which have a bearing on the likely course of events in the decade(s) ahead. My views are inevitably influenced by a Southeast Asian perspective, but they are presented with a deep awareness that our problems are inextricably part of a wider context. Future evolution is determined by the constellation of prevailing conditions, the underlying internal dynamics in the social process of the respective societies, and the external impulses emanating from exogenous (in our case: trans-regional) sources¹.

The Pacific Basin can not as yet be viewed as a "community" with its own arrangements. Whether or not the Pacific Basin or parts thereof emerge as a distinct economic entity, the fact remains that it is and will remain a region where the convergence of major power interests and the interplay of attendant forces influence the "world balance" with increasing intensity.

Hence, the future of the Pacific region is part and parcel of the course of events on the international scene. It is subject to the same

* The present article was originally a paper presented to the Conference on "Business Opportunities in the Pacific Basin", held in Singapore on October 2 — 4, 1973, organized by The Financial Times, Business Enterprises Division, London.

1 I have dealt with the theoretical aspects of the relations between internal social dynamics and external impulses more elaborately in previous writings. Cf. "The Future of the Pacific Community — an Indonesian View", May 1972; also "Facing the Issues of Growth — Southeast Asian perspective", June 1973.

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influence of interests and motivations that govern relations among and between the super powers and the major blocs, but where nevertheless the smaller nations need not necessarily be passive and helpless pawns in games played by others. The fate of smaller nations (and their groupings) depend as much on their ability to anticipate and respond to changing environments as on their determination to cope with the social dynamics within their own societies.

The Main Characteristics of Future International Relations

The political aspects, intertwined as they are with economic and other interests, are enumerated here, briefly and in generally simplified terms, as they bear directly on the problems and prospects of the Pacific Basin. The following propositions appear plausible:¹

The détente between the U.S. and the Soviet Union will continue, and so will (hopefully) the thaw in the relations between the U.S. and China. Tension between Moscow and Peking will perpetuate, at least in the present decade. The generally accepted view that the U.S. will be more inwardlooking should not be taken to mean that their role and interests in the Pacific Basin, as elsewhere, will be reduced, although their "presence" is likely to take on different characteristics. The view is gaining ground, especially after the Chinese Communist Party's Xth Congress that China will adhere to a "pragmatic" approach, and may become even more outward-looking; yet it will be mainly in the sense of preserving and developing the required flexibility and manoeuvrability in external relations. However precarious the balance at the top hierarchy of its leadership, as reflected by the composition of the Party's politbureau, and particularly of the latter's innercore "group of nine", it is plausible that China will have to give priority — by force of circumstance, if for no other reason — to the demands of reconstruction and development and to pay heed to the realities of international politics. As in the case of the U.S.S.R. China's policies are dictated by national interests, while ideology has become a policy tool. The Soviet Union while resentful of the

¹ I have greatly benefitted from Sir Robert Scott's "East Asian Speculation", in *Pacific Community*, October 1971.

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continued U.S. military presence in Europe, even on a reduced scale, will maintain a policy of détente with the U.S. and one of accommodation in Europe. This is in order to devote more attention to Asia, in view of its preoccupation with China. Hence its approaches to India and Japan, its assertion as a naval power in the Indian ocean and its visible endeavours to seek and gain influence in Southeast Asia by diplomatic and commercial activities, by the services offered at more than competitive terms of its banking, merchant marine and air transportation systems. It is not hard to visualize that the Soviet Union, either directly or in cooperation with other members of COMECON, is actively seeking ways and means to assist and participate in development programmes and projects.

Japan has become a political power by virtue of its economic strength. It has never been a question that Japan — a major force among the economic agglomerations of the world and the major economic "pole of concentration" in the Pacific Basin — would play a political role, sooner rather than later. The question is how, where and in which fields it chooses to play such a role and, ultimately: to what political ends will Japan apply its economic power? A main consideration is provided by Japan's overriding need for access to the sources of energy fuels, minerals and industrial raw materials and to export markets practically anywhere and everywhere, and not in the least in the advanced countries, for safeguards pertinent to long-distance maritime and air transport. Generally speaking therefore, in addition to an obvious stake in international economic and monetary stability for the longer run, Japan's political role will have to be aimed at fostering the international climate on which its interests depend. *Prima facie* Japan's political role may be expected to be one of "active neutrality". There seems to be a similarity of interest with the Southeast Asian nations, although for a different set of reasons.

For some time I have maintained — and I shall explain in more detail later — that close relations between Southeast Asia and Japan are inevitable and desirable to both. Again, the question is how and on what terms and conditions? In order to find and develop a sense of equity in such relationship, a conscious and consistent effort must be made to that effect by the political leaders and business executives of both countries. Complementarity of economies and seeming similarities of interest do not necessarily and of

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themselves lead to accommodation and smooth cooperation. What is considered convenient complementarity by one party, can easily be interpreted by the other — often with justification — as subordination of interests, and even de facto subjugation.

There is no doubt that Japan's influence, already so much in evidence in the Pacific Basin, can be of great value as an important external stimuli to the economies of Southeast Asia. But in the light of the particular tenets of societies in transition, convergence can also contain walls of friction and social tension. To prevent them from exploding with the numerous chain effects that tend to disrupt the very need for a climate of stability, a continuous assessment must be made as to whether, where and when convergence of forces and interests will bring about cooperation or may on the contrary lead to friction and outright conflict. The notion that Japan, because of its history of success in industrial development and modernization, initially built on and around small and medium size industries, provides an appropriate model for the development pattern of Southeast Asian countries, appears shallow to me. So also do related opinions that, having gone through a period of alien occupation not long ago without succumbing to cultural imperialism, Japan would therefore be likely to be sensitive to feelings of national pride and attitudes of frustration in the less developed countries¹. In the first place, Japan's present level of development has been attained through a continuous process of consistently high annual growth rates, accompanied by disparities in the distribution of income, relatively high rates of unemployment (albeit often of a disguised nature) and at the expense of neglect of social aspects for a long period continuing until only recently. Such policies were possible only because Japan's social fabric constitutes the root for its remarkable national cohesion. The traumatic experience of her defeat in World War II has merely given added impetus to the collective national effort in response to the challenge of post war reconstruction and development.

Transplanted to the contemporary setting of Southeast Asia under prevailing conditions where a more equitable distribution of income and sharing in the benefits of progress — at least a *sense* of that effect — constitute an important dynamic factor on which the success of development programmes hinge, I cannot see that

¹ Cf. Phillip Shabecoff: "Japan and Asia — Closing the Development Gap", *Pacific Community*, October 1971.

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policies along similar lines will not backfire long before a process of growth will have found its own momentum. By the same token, Japan's brand of capitalism, its systems of industrial relations, its ability to coordinate public and private sectors for the achievement of difficult goals worked out by "consensus" are too intertwined with distinctive Japanese social and cultural values, and unlikely to be successfully "transferred" without adaptation to alien environments¹.

As to the sensitivity of Japanese enterprise to other nations' pride, prejudices and frustrations, contemporary evidence points at times to the contrary. This is attributable not so much to the so-called "built-in" personality characteristics and inclinations of the Japanese as to the fact that Japanese companies (or rather their representatives) because they are relatively new on the international scene (compared to international companies based in Europe or the U.S.), display an unabashed urge to expand rapidly and to maximize results over a shorter period, and hence do not appear to be too concerned with their image.

I have discussed Japan's role and relations vis-à-vis Southeast Asia at some length mainly to emphasize the need for persistent communication, entailing confrontation and reconciliation. However, all things considered, it should be possible — because it is necessary — to work out a "modus operandi" where the interests and requirements of the Pacific area's most powerful country can be made compatible with the attainment of the policy objectives of the smaller nations in the Southeast Asian sub-region.

The long-awaited international conferences on trade and monetary matters, the Multinational Trade Negotiations in Tokyo and the IMF conference in Nairobi are behind us. The Tokyo conference has agreed to further negotiate to produce trade arrangements for 1975, and for eventual implementation over the period until 1980. The Nairobi meeting has agreed to defer arrangements on monetary reforms until mid-1974.

We can well imagine an interminable period of discussions on the technical aspects of tariff discrepancies, non-tariff barriers, agricultural policies, farm trade problems, safeguard mechanisms, rules for parity changes, dollar convertibility, (SDR or gold?),

¹ A considerable time span is involved in the process of adaptation and the connotation of "adaptive technologies".

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revaluation or devaluation, all of which lead back with predictable monotony to the questions: to what degree, when and through which procedure? When all is said and done, it is a matter of political decision, primarily on the part of the U.S., the EEC and Japan to come to terms: For Japan to open up its economy with the concomitant adjustments in its own systems and procedures, if it wants to minimize obstacles and restrictions in its external markets; for the U.S. and the EEC to make appropriate arrangements with each other; for the U.S. to realize that somehow other parts of the world want payments in dollars that can be converted into something else; for the EEC to comprehend that an important clue to the balance of payments riddles of the U.S. lies in enabling the latter to expand their exports of agricultural commodities, and the output of such industries as electronics and the aircraft industries, if the U.S. is to refrain from cutting down on aid, military expenditures and from further protectionism; for the EEC and the U.S. to keep in mind that Japan's penetration into their markets is based primarily on its development of technology, productivity and the superb efficiency of its production units as well as its distribution and purchasing organizations — the very gospels of the industrial civilizations of the West. There is further the general problem of social dislocation, affecting both the conservative trade union movement in the U.S. and the agricultural sector in Europe, and here it would appear better all around to introduce outright income subsidies to the dislocated sections of the population rather than perpetuate the protection of sectors and industries that are barely viable due to structural shifts and changes. Such a policy would also have a beneficial effect on the exports of the developing countries and give substance to the generalized system of preferences (GSP).

However, until and unless such political decisions by the major powers are made and a set of institutionalized rules for policy management of trade and currency matters are implemented, we have to make do with the present arrangements. In the monetary field current arrangements already embody much of the flexibility that reforms were intended to achieve, although this has been achieved more by muddling through rather than by design; while prevailing trading arrangements and procedures reflect the spread of economic regionalism.

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It is realistic to view world economic activities, not in the least those pertinent to the future of the Pacific Basin, as evolving from and around the agglomerations of economic power: the U.S.A., EEC, Japan, COMECON, and more recently China who is also emerging as such an entity. In addition there is one particular kind of economic concentration, the multinational corporations that operate with decision rules that transcend even the framework of supranational blocs, let alone the boundaries of nationstates.

Whether these agglomerations are trading blocs or countries such as the U.S.A. and Japan that can independently match the strength of regional grouping or are multinational corporations, they are centres of great bargaining power. They represent economic entities of such importance that their performance will largely determine the volume of world trade. They create larger cohesive units within which internal political or economic pressures work to mould the commercial policies of bigger segments of the world trading system. They are also geopolitical facts and exert a political impact by their actions as well as by their inaction. Trade policies and trading activities are influenced by geopolitical considerations or they stimulate geopolitical changes, or both. Whatever takes place has a high content of international political and geopolitical considerations. The net impact on future trade of such agglomerations, whether expansionary or on the contrary diversionary and restrictive, is difficult to predict. The omens are, as yet, far from propitious. When the spread of economic regionalism is accompanied by growing protectionism, the first countries to lose out are the poorer ones as we in Southeast Asia have experienced for the past number of years.

Southeast Asia: ASEAN

All the countries of Southeast Asia have open economies where external economic relations figure prominently as strategic variables to national income, public revenues and the availability of foreign exchange. The respective governments are struggling to increase production and income in an expanding range of sectors, to create employment opportunities in the face of population pressures and to cope with perennial balance of payments pressures.

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Where Southeast Asian countries are endowed with natural resources, the "leading growth sectors", viz. those that make a relatively greater and faster contribution to an increase in national income, are connected with the "new" (in the sense of non-traditional) sectors of productive activities: the extractive industries and manufacturing. These are not normally very labour absorptive when compared to the surplus population of the traditional agricultural sectors; at least not in the early stages before they have generated the possible secondary effects of "forward and backward linkages" in industrial activities. Even then absorption of the surplus population by these growth sectors is neither smooth nor speedy.

Meanwhile about two-thirds of the population find their livelihood in the traditional areas of primary production. The burdens of disguised unemployment, reduced productivity and income are continuously and acutely felt due to continuing population increases. Growth when accompanied by diminishing employment and stagnant incomes in the rural sectors generates the social tensions and counterforces that tend to nullify what has been attained in terms of production increases. Governments must therefore rapidly reinvest the incremental revenues from the growth resources to broaden the basis of development. In the process they must face the political decision — or rather a sequence of political decisions — as to where the proper balancing points lie between growth requirements and considerations of population policies. Difficult as such decisions are, they must be taken within the constraints of limited available resources, as these refer to both domestic resources (public and private savings) and to external sources (official development assistance, "ODA", and private capital inflow).

The Southeast Asian countries are in the main producers of primary commodities (including the extractive products: oil, minerals and timber) and in the case of Singapore, a producer of services and of merchandise related to the output of surrounding member countries and of merchandise geared to the needs of the nearby markets and recently also of those of advanced countries. Unfortunately the trade picture of these countries has been so far characterized by features that undermine their trade position. There is a regular decline in our terms of trade, aggravated by short term cyclical fluctuations. This has been painfully felt specifically during

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the recent period of recession from 1969 until the end of 1972, particularly for exports of agricultural produce and light manufactures. The "commodity boom" which had set in was of short duration, only through August of 1973. Even so, while the prices of many commodities were booming, the value of their earnings was simultaneously whittled away by inflation in the advanced countries. Since September 1973, prices have again shown a downturn. The expectation is that they will fall further towards the end of 1973 or in early 1974, though they will not again sink to the low levels of 1972¹. The fall will be greater with respect to industrial raw materials such as rubber, copper and base metals, however, food prices will remain high with the continuing shortage of wheat and soy beans. The world's granaries are reportedly desperately low, and for Southeast Asia with the possible exception of Thailand the going will be rough in this regard.

The somewhat longer-run prospects over this decade seem more favourable for Southeast Asia's exports. This is with a view to the emergence of the "new markets" of East Asia and the western Pacific: Japan, Australia, and also Korea, Hong Kong and Taiwan. The rising incomes and the growing industrial complex in these "new markets" are generating a strong demand for food (meat, fish, vegetables and animal feed), agricultural commodities (coffee, copra, palm oil, tea and rubber) as well as the products of extractive industries (crude oil, hard minerals and timber), all of which happen to be among the current output and resource potential of our sub-region.

The demand in "East Asia and the Western Pacific" taken together is expected to provide a growth potential for the exports of Southeast Asian countries of some 7.3% per year, with the main impetus coming from Japan. In comparison, the United States' market is expected to generate a potential growth in Southeast Asian exports of 4.4% per annum. In this context it is assumed that the demand in Western European countries for the products of Southeast Asia may well remain stationary and provide no growth for Southeast Asia's exports².

In absolute values Western Europe remains of course most important to our exports. With the United Kingdom having joined

¹ *The Economist*, 8 September 1973.

² Report of the Asian Development Bank: "Southeast Asia's Economy in the 1970's", November 1970.

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the EEC, this represents a market of 250 million people with a high purchasing power. Yet in relative terms of the rates in export increases, there is likely to be a shift away from this area towards East Asia, the Western Pacific, and the United States.

ASEAN is in its broader meaning a community of political entities joining hands in search of ways to increase mutual accommodation in the sub-region of Southeast Asia and to develop a joint approach and a common stand vis-à-vis external interests, problems and issues. The Association comprises the member nations of Indonesia, Malaysia, the Philippines, Singapore and Thailand¹.

ASEAN is likely to emerge in the near future as an important instrument for trade and development. Groupings in the developing world, ASEAN and likewise the various African and Latin American groupings are at a much earlier stage of evolution than the EEC and COMECON and are also looser and less effective in operational terms. Yet it can be expected that the poorer countries in their attempt to adjust to rapid changes in the world trading system will increasingly seek to conduct their relations with EEC, COMECON, the U.S. and Japan through these mechanisms. Also the geopolitical consideration comes to the fore that an immediate regional solution to some existing problems may be the only practical and constructive way to preserve national independence in an atmosphere of interdependence.

Member countries of ASEAN constitute the nucleus of regional producers' associations for various commodities, notably rubber, copra, maize and tapioca, in order to maintain and improve our position in the world market through standardization of production, quality control, joint research, and related activities.

Despite the recent stagnations in major industrialized countries, the growth rates in ASEAN during the past 4 to 5 years have been satisfactory. Singapore's record was particularly impressive with an annual rate of growth of 10%; but even in Malaysia and Indonesia the relative rates were close to a 7% yearly average, with Thailand and the Philippines at least 5% average per annum.

The population of ASEAN countries included in 1970 more than 200 million persons while the projection for 1980 is 258 million

¹ The nation-states of the Indo-China peninsula may or may not wish to join at some future date. As matters stand they are still going through a painful process of finding the modalities that may lead them to social rehabilitation and economic reconstruction.

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people¹ of whom, not less than 155 million will live in Indonesia. About 67% of those economically active are at present engaged in agriculture.

Trade, domestic and foreign, is of vital importance to ASEAN countries. In Indonesia, Malaysia and Thailand, about 20% of national income originates from trade, in Singapore the figure is approximately one third, while in the Philippines the trade sector contributes 11% to the national income².

On the other hand, ASEAN countries together supply less than 2% of world exports. This figure does not reveal, however, that these countries have leading positions on the list of world suppliers of natural rubber, tin, palm oil, tropical hardwood and other raw materials. ASEAN's relative share in world exports has actually declined from 3.2% in 1960 to 1.9% in 1971.

ASEAN and EEC

Exports to the EEC for all ASEAN partners range from 6 to 15% of their totals. However, the ASEAN total amounted to less than 1% of total 1971 EEC imports (before the U.K. joined the EEC). In 1971 the value of ASEAN export to EEC was close to 800 million dollars³. The direction of ASEAN exports has been dominated by the sale of natural rubber to the EEC countries with large automobile industries: West Germany is the leading EEC market for ASEAN countries, followed by France and Italy, while the Netherlands was a relatively important trade partner for all ASEAN countries. On the other hand, ASEAN imports from the EEC rose from 300 million dollars in 1960 to 800 million dollars in 1971. The balance of trade between ASEAN and the EEC was positive for ASEAN until 1967, however, this has since turned to a deficit. For the majority of ASEAN countries and for ASEAN as a whole, imports from the EEC have grown more rapidly than exports. In addition, the growth of ASEAN exports to the EEC has neither matched the growth of total EEC imports nor has it

1 Report of a United Nations Team: "Economic Cooperation for ASEAN", 1972.

2 Netherlands Economic Institute: "A statistical Analysis of ASEAN - EEC Trade Relations in the Sixties", February 1973.

3 The enlargement of the EEC at the beginning of 1973 means a doubling of this export market for ASEAN.

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kept pace with other competing suppliers from the developing countries. ASEAN's relative market position in EEC has declined.

On 16 June, 1972, the first official meeting took place between the EEC commission and the ASEAN nations, marking what was seen as the beginning of formal institutional links ("institutionalized dialogue" was the terminology used). The nine nation EEC summit conference in October 1972 adopted a joint declaration stating, a.o. that the increased effort of the Nine will be "in the framework of a world wide policy towards developing countries". Progress to date has been painstakingly slow, if in fact any has been achieved for ASEAN in its relationship with EEC, continued protestations of sympathy notwithstanding. Not even a permanent machinery has as yet been created within EEC to deal with ASEAN matters. This is somewhat disappointing, particularly given that a different group of other less developed countries has gained privileged access to the EEC, thereby creating distortions in terms of access to its markets.

By contrast the EEC will be holding talks later this month with 44 countries of Africa, the Caribbean and the Pacific islands (Solomon and Fiji).

The existing agreement between EEC's original six and nineteen African States (originally the Yaunde Agreement) is to be extended to commonwealth countries of Africa, the Caribbean and the Pacific. The current recommendations entail preferential treatment and a virtual waiver of reciprocity by providing the possibility of invoking the safeguard clause for the benefit of associate members which would give them leeway to apply import restrictions. More important the respective EEC memorandum, prepared as far back as April of 1973, also contains recommendations in order to ensure stability in export proceeds of associate members, entailing provisions as to quantity and price. The products concerned comprise sugar, groundnuts and groundnut oil, cotton, cocoa, coffee, bananas, copper, and possibly also citrus fruits, copra and coconut products.

The fact that the EEC commission has gone to such lengths to prepare concrete and detailed proposals for the benefit of a specific group of less developed countries (an enlarged Yaunde), is in sharp contrast to its ambivalent and discriminatory attitude

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vis-à-vis ASEAN. The argument of historical, legal and moral obligations (towards former colonies) is wearing rather thin.

ASEAN will, of course, keep knocking on EEC's door. It can hardly afford not to do so in view of EEC's importance as a market, and generally as potentially the most important of the trading entities in the world system.

ASEAN Regional Cooperation and Intra-Regional Trade

In the light of the above observations, the development of the neighbouring markets of East Asia and the Western Pacific, referred to earlier, will be all the more important to Southeast Asia's future.

A further important aspect of these developments is the increasing dependence on a few markets. With trade with Japan being a case in point. Japan's share of the exports of Southeast Asia¹ is already estimated to be approximately 25% and current projections put this figure at around 40% by 1980. This means that for some individual countries in our sub-region the Japanese share of exports will be 50% or could even exceed 60%. Dependence to such an extent is economically undesirable as the Southeast Asian countries would be subjected to the monopolistic powers of a few selected corporations. It also means that changes in Japan would have serious repercussions on such countries. Excessive dependence is also politically and socially disturbing. Japan's share in Southeast Asian trade has increased and will continue to do so while conversely the share of Southeast Asian countries in Japan's trade has decreased and will continue to do so. As a consequence, the former is expected to be very large by 1980, while the latter will be almost insignificant by that time, particularly if any single country is considered. This would amount to domination that could be a main source of social tensions and political frictions. This is what I had in mind when I mentioned earlier that complementarity between regions or sub-regions, apart from obvious benefits, has also the danger of subordination and even de facto subjugation as its twin

¹ Including Vietnam, Khmer and Laos.

Cf. International Development Centre of Japan: "Economic Development Cooperation in Southeast Asia", February 1973.

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aspects¹. These factors add to other equally important considerations that point to the necessity for ASEAN to increase intra-regional trade more rapidly. They extend beyond the motivation — most relevant by itself — to reduce its dependence on a limited number of external markets, as outlets as well as suppliers. On available statistical evidence it appears that absolute levels of trade flows among ASEAN countries did not rise convincingly during the past decade. Yet, current conditions and future trends make it necessary to direct ASEAN cooperation towards an expansion of intra-regional trade. We are constantly reminded of the present obstacles to gaining access to the developed countries' markets for our processed commodities, semi-manufactured and manufactured goods. Arrangements for intra-regional trade give a firmer foundation for a steady industrial development at an accelerated pace within our sub-region. Industry here generally has developed where relatively small-scale production is efficient and where there are the advantages of transport costs through meeting local demands from local production. But ASEAN countries have remained heavily dependent on imports in those industries in which there are considerable economies from large-scale productions.

Inherent characteristics of the process of development are the constraints imposed by the difficulties of providing the necessary savings to finance the required investment in fixed capital coupled with those imposed by the difficulties of the balance of external payments. The "gap" in domestic resources as well as the balance of payments gap have so far been covered by official development aid (ODA) and by private capital inflows, or they have entailed a depletion of foreign exchange reserves.

The imports of ASEAN countries recently have been concentrated on certain raw materials and on capital goods which for the ASEAN countries as a whole now represent close to 60% of all imports, with imports of goods and other consumption goods around 30% of the whole. This composition reflects the pattern of expenditures for capital formation. The total of fixed capital

¹ On previous occasions I have registered my misgivings on behalf of ASEAN about the kind of proposals for a "Pacific Free Trade Area", which are conceived as arrangements involving mainly the advanced powers of the Pacific: Japan, Australia, New Zealand, Canada and perhaps also the U.S. They would in their particular brand, perhaps unwittingly but effectively condemn the less developed part to the Pacific Basin to remain raw material producers in perpetuity.

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formation in ASEAN in 1960 was just over US\$ 2.0 billion, a figure which projections indicate will increase to approximately US\$ 13 billion at 1960 prices by 1980. Investment in machinery and transport equipment has increased more rapidly than that in dwellings and other construction, a trend which is expected to continue into the future. The total estimated market in ASEAN for machinery and transport equipment by 1980 is US\$ 7.5 billion, which is more than three times as large as it was in 1968.

The trend of the past decade, if continued, would result in a balance of payments deficit by 1980 for ASEAN as a whole of some US\$ 1 billion¹; a level, probably too great to be financed by ODA or private (foreign) capital inflow. Hence the consequent desirability of expanding regional production. A policy of industrial production in the ASEAN sub-region does not therefore represent an indulgence to "prestige" or "image", nor a predilection *per se* towards protectionism. It is the result of a cold appraisal of the facts and trends of present conditions as well as of the future potential of the area.

The study undertaken by the United Nations Team on the feasibility of planned cooperative development of larger industries point to some interesting possibilities. The study covers 13 industries which were carefully selected. Small scale industries that can be developed efficiently on a national basis were excluded. A few of the thirteen were very large-scale industries which lacked economic justification for introduction in the ASEAN region even on the basis of a unified regional market. The thirteen industries actually studied were expected to be substantially more economic on a regional than on a national basis². The results of a cooperative project in each industry to meet total regional demand were compared with the development of the industry largely on a national basis to meet domestic demand. The preliminary findings indicate very marked economies of scale in capital expenditure and in production cost, resulting also in considerable foreign exchange savings. The final report on these regionally planned industries will be submitted within the next few months to a special Advisory Board of ASEAN,

¹ Cf. U.N. Team: "Economic Cooperation for ASEAN", 1972.

² The studies related to a number of chemicals and intermediate goods: nitrogenous and phosphate fertilizers, carbon black, caprolactum, glass, small engines, compressors, dimethyl terephthalate (DMT), typewriters, newsprint, steel, soda ash and ethylene glycol.

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consisting of the Heads of the Planning Agencies of member countries.

At this stage, it suffices for us to observe that through a policy of regional cooperation a complementarity between ASEAN member countries can progressively emerge with each country able to develop on a large scale those activities for which it is particularly suited in terms of natural resources and available skills and to trade within the region for products in which the other countries have a comparative advantage. Thus, it would be the application of the principle of comparative advantage in a dynamic sense: regional cooperation between developing countries would form the starting point for a substantive rectification of the comparative disadvantages from which the less developed countries have hitherto suffered vis-à-vis the developed world.

Admittedly there has been little or no progress in the direction of regional cooperation for industrial development; not even in preparatory activities. The view often held by foreign investors in this connection that each country is still "too busy getting its own house in order" is probably true. Yet, I believe that again force of circumstance will impel the member governments of ASEAN to take the required steps before long.

Another reason why the respective governments have shown a seeming lack of interest is probably their hesitance to provide arrangements for regional markets in respect to such industries while not knowing who or which corporate entities would own and operate them. Governments must be seen to be providing the conditions for national participation rather than merely be letting their nationals passively receive the incremental benefits of foreign enterprise (multinational corporations) no matter how great such benefits may be.

It was in such a context that I ventured the idea that concrete projects be set up on a regional (ASEAN) level as joint-industries with participation from all member-countries: governments (e.g. through their agencies such as development corporations or development banks) as well as private interests. Foreign companies, whether or not these be multinational corporations or consortiums, would be invited, with regional interests preferably holding majority equity interests. Professional management would be employed in agreement with the foreign partners. R. & D. obtained through

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licensing arrangements, and loan finance raised from such bodies as the Asian Development Bank, World Bank or in the Eurodollar, Eurobond markets. For projects along these lines, ASEAN governments would be more inclined to provide regional markets for the ventures' output by means of tariff policies and other legal and incentive provisions. By the same token the governments of ASEAN would be less concerned about geographic locational issues, as all the member countries would hold equity stock. Locational problems appear to represent a major difficulty at the present time in organizing regional industries. In addition to the 13 industrial projects studied by the United Nations Team, it would seem to me that regional timber based industries (saw mills, plywood, veneer, pulp plants) and ASEAN joint shipping companies are desirable, necessary and overdue.

Establishment of regional industries along the lines set forth above would not lead to economic isolation of ASEAN from the rest of the world ASEAN will remain outward-looking by virtue of its geographical location as much as by the dictates of the economies of member countries. Rather what such regional cooperation would mean is that ASEAN countries could become more fully integrated in the world economy, no longer primarily as suppliers of raw materials but as broadly based and fully competitive members of the world community.

By preoccupation with Southeast Asia/ASEAN as the less developed sub-region of the Pacific Basin does not mean an across-the-board delineation of interests between ASEAN on one side and the other more advanced countries of the region on the other. That would be too simplistic an approach and too limited a viewpoint. A case in point is the common interest between Australia and Southeast Asia; with particular reference to Indonesia. There will be in the coming decades increasingly close cooperation between Australia and Southeast Asia for geopolitical strategic considerations as well as on sound economic grounds. Apart from the element of complementarity which is indeed there, though not yet fully utilized, there are also common problems with respect to natural resources. This decade and the years well throughout the 1980's will be dominated by the problems surrounding energy and minerals. Energy fuels and minerals are the basic materials upon which the modern industrial world is founded. At this time they are already causing serious concern to the major agglomerations and entities of economic

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power. We have reached the end of an era when energy and natural gas were cheap.

Within the combined land and sea boundaries of Australia and Southeast Asia, we have deposits of energy fuels (oil, natural gas and coal, and very likely uranium) and such minerals as iron ore, nickel, copper and bauxite. The known deposits, on- and off-shore, may at this time be regarded as marginal in terms of world output, however, in view of the anticipated supply and demand situation until the middle 1980's, it would be a luxury to disregard marginalities.

On the island of Java alone there is an enormous alternate supply of energy from dry steam which is practically non-depletable. There is further the rush for seabed minerals, the manganese nodules containing amounts of copper, nickel and cobalt. Howard Hughes already has his giant mining ship moving and it is anticipated that other American corporations such as Deepsea Ventures/Tenneco, Kennecott and International Nickel will follow suit. Japan is building, under direct sponsorship of MITI, an US\$ 8 billion mining ship, which reportedly will be operational by March 1974 for prospecting near the Hawaiian Islands. The French Firm CNEXO is conducting or is about to do so, exploratory mining cruises close to French Polynesia. It would seem at least reasonable to speculate that the seabed of Indonesian and Australian waters will also prove to contain such minerals of value in the foreseeable future.

All this provides ample justification for Australia and the Southeast Asian countries adopting a common stand and evolving a common approach. First there should be a thorough inventory of natural resources compiled to form the basis of a subsequent common approach to both resource policy and to resource management. The development of mineral resources must be based, more than ever, on an equitable distribution of the benefits both to the owners of the deposits and to investors-operators; and at this with continuous regard to conservation (land restoration and minimizing waste) and environmental control.
