

## **EXPLORING FRONTIERS BEYOND TRADE: Toward an Interdependent Pacific Community**

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It is *very* auspicious and most appropriate that we should begin the countdown to the twenty-first century in the Pacific Basin as Australia celebrates her Bicentenary.

Australia's origins, according to recent historical discoveries, go back more than 40,000 years; her population demonstrates integration in the midst of diversity; her economic and technological achievements in the last century symbolize the spirit of "adventuremanship"; and, above all, her strategic location in the Pacific Basin, and her historical linkage with the Atlantic nations, present her with the enormous challenge of leading a large-scale economic transformation within the Pacific community.

### **LOOKING AHEAD**

It is difficult, if not impossible, to imagine what the state of the global economy will be in the year 2000 - just 12 years from now. What is almost certain, however, is that knowledge and technologies will continue to develop at an accelerating pace. This will bring both threats and opportunities: on the one hand, it will increase the risk and unpredictability of obsolescence and discontinuity; on the other hand, it will provide greater opportunities for making faster opportunistic and strategic gains.

If this progress is harnessed with care, it could be used to forge stronger linkages between countries, to foster increased economic activity within and across national borders, and in turn provide greater and more equitably shared prosperity. If, on the other hand, progress is misused, if national sentiments are not carefully managed and if the spirit of cooperation and altruism is not fostered among nations, then economic wealth, technological know-how and productive and creative resources are likely to become more concentrated; and as physical and psychological capacities of consumption hit human limits in the advanced world, capital and knowledge will be increasingly put to more speculative use within limited market base. Such a development could ultimately on one-side lead to a major polarization of the world's population and on the other side make the interlinked advanced economies increasingly unstable, which I see as a major threat to the progress of mankind, - unchecked such a phenomenon could draw us into "economic black hole".

Looking just 12 years back, even the most imaginatively thought-out and precisely crafted economic forecasts in 1976 did not predict that, following the Second Oil Shock of 1979, oil prices would rise as high as US\$36 a barrel by 1982, or plummet to below US\$10 a barrel in 1986. And economic reforms in China, the rise of the Asian NICS, the

deregulation and globalization of capital markets, the rise in the Japanese yen, huge trade surpluses and deficits, and the almost universal penetration of electronics into our daily lives and economic activities - all these trends were, I suppose, beyond the wildest imagination of the man in the street a mere 12 years ago.

Yet despite this lack of certainty, it is clear that the *average* OECD inhabitant is better off today, that more than half-a-dozen nations (the NICs, the ASEAN countries) are fast on their way to joining the OECD ranks, and that China's economic reforms seem to have generated enough momentum for takeoff.

Looking ahead, it is my strong *belief* that, if we could face future uncertainties with a "renewed will" to adjust to the realities of new technologies, to the subtle but strong interlinkages between nations, particularly the ones within the OECD, to the aspirations of entrepreneurs (both individual and corporate), and to the socioeconomic priorities of each nation in the Pacific Basin, and in the world at large, then the *vitality*, evident in the past could well be carried forward to the future, and be engendered in even more nations.

### **THE IMPORTANCE OF TRADE**

This will be no easy task unless we can further promote and expand the scope of trade - the single most important factor that has characterized the economic development of nations.

Over the last century, economic growth has consistently been led by growth in trade. Different countries at different stages of their economic development have exported what they were good at - or possessed in abundance - in order to buy what they needed, and have thus fuelled the "virtuous circle" of growth.

Two hundred years ago, the Australian founding fathers financed their infrastructure development by exporting their natural resources to wealthy European nations. This activity provided the initial impetus that fostered Australia's subsequent economic development. In the process international trade has been a significant component of Australian economy.

West Germany and Japan trod a similar path in rebuilding their shattered economies after the war. Their entrepreneurs used their cheaper labour and engineering skills to produce labour-intensive goods for sale to the United States and other developed nations, so that they could buy from the world what they required to redevelop their infrastructure. Through this process we have witnessed the rapid rise in the postwar prosperity of Germany and Japan.

And in the last quarter century particularly we have seen an enormous increase in trade on the part of Pacific Basin countries - with the Asian NICs, along with Japan, building up their manufacturing muscle in order to boost exports and in turn finance internal development.



International trade is thus necessary for both the creation and the distribution of wealth, skills and labour across national borders. Trade truly symbolizes the spirit of mutual interdependence, a phenomenon that could help promote global harmony, and generate economic progress over a broader population base.

Over the last several years, however, exporting companies worldwide have targetted the United States - the world's largest and leading economy and a major consumer nation - which has consequently run up a huge deficit of US\$170 billion. This situation has unfortunately given rise to considerable bodies of anti-trade opinion and nationalistic sentiment.

If the "trade" situation is not analyzed in the light of new values and with broader vision, these opinions and sentiments could jeopardize the progress we have made in the past 40 years - if not the last century.

Accordingly, the notion I would like to leave with you is contained in the phrase "beyond trade" - the subject I would like to discuss today. More specifically, I would like to examine the significance of macro trade accounts, push forward the frontiers of the term "trade" itself, and finally propose for PBEC consideration 10 strategic tasks which include the development and execution of specific programmes, within a new "economic paradigm".

## **THE SIGNIFICANCE OF TRADE ACCOUNTS**

Imagine the world as one country, with one government and one currency. Admittedly, this is an ideal assumption. But if it were true, we would not have to worry about accounting for the movement of goods from one part of the world to another and vice versa. we would instead want to ensure that every region of the world benefited in equal measure from technological and economic progress, and had equal access to knowledge and to the process of its creation, and equal opportunity to contribute toward its further improvement.

if we really believe in peaceful economic development, if we view nations as simple divisions of a single economic system, necessary purely for the more efficient and convenient government of people, and if we believe that people in each country share the same basic aspirations to higher levels of economic activity, then in today's interlinked world trade accounts are no more than interesting statistics with strictly limited economic significance. They may be at best a useful indicator of how the products and services of one region are being appreciated and absorbed in another and of how wealth is being distributed and capital reemployed.

We live, however, in a world of 170 separate nations, each with its own ideologies, problems and prospects. So it is important that the Central Banks should keep track of how their scarce resources and currencies move against the products/services and currencies of other countries and how they perform internationally. Different national economic and political

prospects are naturally reflected in differences in the speed at which capital, technology and entrepreneurial initiative flow into different countries. So governments - particularly in less developed and more resource constrained situations - have to monitor accounts of flows across borders, in order to ensure that capital does not move out from areas that are economically less developed and **less** stable in quest of a more stable and prosperous economic landscape.

If we look for a moment at the OECD countries, particularly the world's key trading blocks - Japan/NICs, the United States and Western Europe (the so-called "Triad") - then, from a purely economic point of view, the "one world/one country" concept is not too unrealistic. The countries are all pretty much in the same economic league, characterized by more or less equally stable economic and political systems, by generally equal access to knowledge, by consumers with similar economic habits, by corporations that are equally involved in all three markets and that play a check and *balance* role with each other, and above all by capital markets that are closely interconnected.

In such a situation, as long as trade, capital, knowledge and skills are encouraged and allowed to flow freely in search of their most optimal use (which of course differs by region depending on the character of the industry), then trade accounts have limited economic significance. Entrepreneurs who are interested in commercializing artificial intelligence or genetic engineering, for example, may well invest their resources in the United States. If their interests happen to lie in precision instruments, they might look toward Japan. And if their business is textiles, they could well invest in Taiwan or Hong Kong.

To maintain such a situation, however, we need a framework for stabilizing the exchange rates of major currencies, so that speculative flows are minimized and real economic flows (those created by real economic opportunities) are maximized. We are all aware that international gross capital flows from within the OECD have grown more than 50 percent annually in the last five years, as against a 8 percent annual growth in trade. This has been caused only partly by "real" international mergers and acquisitions (US\$25 billion in 1986), such as Hoechst-Celanese, Nippon Kokan-National Steel and Olivetti-AT&T. In large part it is the result of a growing trend to use financial engineering for quick speculative gains across borders, a trend that has been facilitated by the increasing globalization of markets in corporate bonds, government bonds, equities and particularly foreign exchange trading.

Recent cross-border mergers, the formation of corporate consortias (both in the manufacturing and service sectors eg. financial institutions), the accelerating flow of knowledge and skills, and a rapid increase in trading all testify that, in terms of integration, the Triad countries are moving in the right direction - although, within the

Triad, real productive investment opportunities, as opposed to speculative investments in non-productive assets such as real estate, currencies and gold, are becoming limited.

We now need to ensure that more countries are involved in this process of economic integration. It is to be hoped that the Pacific community nations too will be able to work with each other in the spirit of mutual interdependence, rather than being overwhelmed by "trade balance" myopia, and will be better able to link into the Triad's economic system. In that way, excess capital and the accelerating speed of knowledge creation in the Triad can be put to more productive non-speculative use; in turn create and "upgrade" employment, stimulate demand spurring the virtuous circle of economic progress in the developing economies, and thereby expanding further the scope of economic activities.

### **FORCES AND TRENDS**

If we do attach any importance to economic parameters related to trade - and these were developed more than a century ago when a nation's economic development was viewed essentially as an isolated economic phenomenon, which is no longer the case today with very different technologies and "entrepreneurial values" at work - we should still view the US trade deficit in a longer time frame.

America's US\$170 billion deficit is, I believe, largely a product of the simultaneous emergence of two interrelated mega forces:

- (1) The transition of the US economy from an industrial to an information service society.
- (2) The rapid industrial development of Japan, West Germany and the NICs based on aggressive export strategies, with the US market as their prime target.

The first of these mega forces means that the United States today leads the world in the information and service industries: over 70 percent of the US workforce is employed in these 'tertiary' industries, with the best students being lured to wall Street and the highest salaries commanded by people in information-based companies (e.g., the Chairman of Lotus) and the service industry generally.

The second mega force has given rise to the economies in the Asia Pacific, particularly Japan and the Asian NICs, which, along with Australia and New Zealand, today constitute a population of almost 210 million people with a combined spending power (sum of GNPs) more than two-thirds that of the United States only 12 years ago.

Japan, Korea and Taiwan are today rapidly lowering the barriers which they needed during their development, their currencies are appreciating, and the ASEAN countries, China and other Pacific countries are experiencing accelerated economic growth. In this situation, if US companies can maintain their entrepreneurial spirit, rebuild their competitiveness in industries in which the fundamental ingredients for global success are relatively strong in the

US, they will have access to enormous markets. And these markets have become enormous largely because US consumption habits have distributed the world's spending power over a wide area. In 1987, the Fortune 500 companies in the United States recorded their best performance ever - a 41 percent increase in after-tax profits to US\$91 billion. That figure is higher than the 1987 GNPs of all the Pacific countries, except Japan and Korea, and a clear indication of the growing might of corporate America.

If a balanced two-way trade flow is considered important, and if barriers are kept low, then flows will balance. We have to patiently negotiate the inertia of the two mega forces, through the present transient period of imbalance and toward a more stable time of balance. It is important that we do not overreact to this transient phenomenon by erecting more barriers, but instead ensure that all developed markets remain equally accessible to everyone.

The current surpluses of those Pacific Basin countries in the initial stages of development are to be welcomed, because only through this process will they be able to finance their infrastructure development, raise their level of economic activity, increase employment, and improve their standard of living.

More developed nations in the Asia Pacific should try to play the role that the US market played in their own development, by providing less developed countries with greater access to their own markets. Of the total imports by Asia Pacific countries, intra-regional imports have increased from 30 percent (of a total US\$123 billion) in 1976 to 37 percent (of a total US \$310 billion) in 1986. However, exports from Asia Pacific countries depend increasingly on the United States: in 1986 the United States accounted for 35 percent of total Asia Pacific exports (US\$414 billion), while intra-regional exports were about 28 percent, some 2 percentage points down on the 1976 level.

The Japanese Government's move toward the abolition of customs duties in a number of sectors and Japanese companies' initiatives to promote products from Pacific Basin countries - particularly the NICs -- through dedicated retail chain stores and otherwise, are clearly steps in the right direction. Such steps will ensure that future growth in the Pacific community is increasingly derived from cash-rich consumers in Japan - and in the NICs themselves, as they join the ranks of the economically advanced nations.

In turn, of course, economic planners in Japan (the Basin's largest economy, with US\$30 billion to recycle) will have to take into account a broader set of variables, including the key economic priorities of the countries in the region, in designing their own macroeconomic policies. This may require the development of an economic planning framework very different from today's in its scope, structure, content and process.

A number of market/industry specific measures have to be devised to enable Japan not only to act as a major absorber of the products of the Pacific Community and the world at large, but also to lead dialogues between nations that will foster more harmonious orchestration of economic strategies and ensure that different forms of capital and knowledge inputs from Japan are put to productive use. Each of the Pacific Basin governments has an important role to play in ensuring that socioeconomic conditions are conducive to attract investment, and that economic priorities are consistent and transparent, encouraging entrepreneurs to take a long-term view and thus function as strategists and visionaries rather than just as opportunists.

### **FRONTIERS BEYOND TRADE**

Free trade facilitates the global division of labour and promotes an efficient economic system. More than 200 years ago, in his book The Wealth of Nations, the Scottish economist Adam Smith concluded that the wider the trading area is, the greater is the efficiency of labour, as it provides the opportunity to specialize over a larger market. In the same spirit in 1848, John Stuart Mill in his thesis "Principles of Political Economy" used the term "foreign commerce" to describe an economic phenomenon which facilitate efficient employment of productive forces of the world. In today's world, knowledge, human skill and entrepreneurial initiative are of paramount importance in economic development, as the process of specialization itself becomes increasingly capital intensive, and as technologies and consumer tastes diffuse and become obsolete within and across nations, at an ever faster pace.

In this context, I believe we have to further extend the scope of the term "trade" beyond the mere flow of products and services, to embrace the efficient deployment and use of capital, creation and diffusion of knowledge within a limited time frame (life cycle). We therefore need to find ways to facilitate the flow of knowledge, skills, attitudes and work habits across borders. In this way, not only will division of labour and "skill specialization" be efficiently utilized, but quality of labour and management tasks will also be enhanced, consistently cultivating more meaning into people's work and enabling traditional and newly-acquired skills to cross-fertilize and generate innovative "socio-economic development" initiatives.

With the exception of Japan, no individual Pacific Basin country today has sufficient economic capacity to sustain the resource commitments required to *create* and diffuse knowledge and stay in tune with state-of-the-art technological developments. In the United States, for example, the 1986 R&D budget (approximately US\$120 billion) was higher than the GNP of any of the Asia NICs, ASEAN or most other Pacific countries (Japan excepted), and equivalent to one-third of China's and one-half of India's total economic activity (GNP). Moreover, 90 percent of

world patents (filed and issued in the United States) are owned by companies and individuals in the United States, Europe and Japan. If technologies continue to develop even faster and in an even more concentrated way, then countries outside the Triad will begin to suffer from "knowledge starvation" - a condition that is most difficult to cure.

Accordingly, beyond facilitating trade, the leadership groups of countries must find innovative ways to deal with the more complex issues that are associated with the acquisition, assimilation and advancement of knowledge and skills in a well coordinated strategic manner, such that developing countries together with the advanced can efficiently harness the technologies they need for development at the grass roots level.

In this context, the corporation - irrespective of ownership structure (stated owned or privately owned) - has an important role to play as a vehicle of socioeconomic development. Domestic companies in countries with only limited resources available for technology development must at the least learn to segment and analyze technologies, reach out to build task-oriented ties with leading Triad multinationals and manage multi-dimensional and interdisciplinary relationships. They should themselves act as integrators of different technologies sourced from a variety of different corporations, and bet their own scarce resources on a few strategic technologies in which they want to develop their own R&D muscle.

The Korean automotive industry is a particularly striking example of how an industry can emerge as a world class competitor in less than a decade by efficiently networking with US, European and Japanese companies. From a total output of 123,000 units in 1980, Korean automakers have surged forward to produce 980,000 units in 1987 - with 1.4 million units planned for 1988. The Korean companies sourced design and parts from overseas - primarily Japan - while themselves concentrating on building and utilizing manufacturing skills to produce low-cost, high-quality products.

A number of similar success stories throughout the Asia Pacific region have followed the same pattern, involving companies in an early stage of development cleverly networking with companies in the developed world with a global perspective and a will to excel and in turn contribute to the economic development of the region.

At the same time, multinationals from Japan, the United States, Europe and within the Pacific community have an important role to play in creating global trading opportunities for the developing economies, but more importantly in contributing toward knowledge, skill and attitude building within each country.

Unilever, ICI, IBM, Hewlett-Packard and Mitsubishi Motors are just a few examples of companies that have facilitated trade both within the Asia Pacific region and with the developed world. They have created channels of

knowledge and skills sharing through exchange of people and by setting global standards in their development process, and have thus facilitated country-specific development.

Lever's success in India is a perfect example of how a multinational has served the basic needs of a country by delivering products at affordable prices, creating jobs, introducing and developing technological and management knowhow, and expanding exports to increase trade.

Similarly, Mitsubishi Motors' "Asia Pacific business system" for manufacturing products for global markets illustrates how a company from the developed world encourages trade, creates employment, and facilitates knowledge and skill sharing to create world-class products. Product concepts developed in Japan are converted to final products in Thailand and Malaysia with parts and subassemblies sourced from the United States, Japan, Korea, the Philippines, Malaysia and Thailand.

The recent partnership between Australia's CSR and Indonesia's mining companies to help Indonesia emerge as a major gold producer and exporter is another example of regional cooperation.

We need to ensure that such inter-country multidimensional flows facilitated by companies are further developed. The Pacific community is large and enormously diverse collection of countries at different stages of development. Those countries in the region that are at an advanced stage of development - the West Coast of North America (population 38 million), Japan (121 million), Australia (16 million), New Zealand (3.3 million) and the NICs (68.5 million), which together comprise a population approaching that of the entire United States - should find ways to create a "pull effect" on those at a less advanced stage by sharing knowledge and experience, and by allowing those countries' products and services free access to their domestic economies.

To further facilitate knowledge and skill development, a carefully structured technology and human resource development strategy should be considered which would allow the region to harness technology developed in the Triad, and would foster pooling of resources to reach the critical mass required for each country's development, while remaining sensitive to its national ecological, social and cultural character.

To be more general, we must recognize the economic theories on which our views are often based on, reflect the age in which they were developed. Today, in a very different Globe, with more sophisticated technologies, human skills, and entrepreneurial minds at work, we need to view the world (the process of creation and diffusion of economic tasks) within a "new economic paradigm". The new economic framework (hypothesis), in contrast to the frameworks developed by classical and the Keynesian economists, emphasizes "Human Intellect" (including

knowledge, skills and attitudes) in addition to the three components (labour, capital and natural resources eg. land, mine, etc.) as a distinct (fourth) component.

"Human Intellect" (HI) component by definition is relatively more fluid, as it, aided by rapidly developing information technologies move freely to conditions which are most rewarding. However, while on one hand its "fluidity" allows integration between nations with advanced "economic infrastructure", on the other hand, its "multiplier effect" on the productivity of the other three components (labor, capital, natural resources) could indeed widen the gap between the developed and less developed nations. Hence, the new "paradigm" must contain within itself a technology framework which will allow creation and usage of knowledge between nations at different socio-economic levels. Pacific Basin indeed provides an excellent opportunity for the development and experimentation of the "new economic paradigm".

### **"MISSION 2000": A TEN-POINT AGENDA**

Let me finally take the thoughts discussed above a stage further. In order to facilitate even more intense economic cooperation, closer corporate ties, and more open knowledge and skill sharing in the Pacific Basin, the PBEC should consider organizing a Steering Committee comprising the leadership of each country (from government and industry), together with a taskforce that should work on a programme of ten specific strategic tasks. For, despite all our mutual aspirations and our common desire to forge an economic community built on mutual trust, understanding and goodwill, these dreams will not be realized unless a number of specific, concrete measures are taken.

The Treaty of Rome (establishing the European Economic Community -- the "Common Market") was signed 10 years before the formation of this Council. After years of argument and discord, analysis and debate, and having weathered the economic recession of the last 15 years, the European Community is now steadily working toward the realization of a truly open "internal market" for goods and services by the deadline of December 31, 1992.

What better course of action for us in the Pacific Basin today than to emulate the European Community and pledge that we will set the year 2000 as a deadline by which we shall have accomplished certain tasks? I would like to propose the following 10-point agenda for the Council's consideration. Namely:

1. Agree on the economic priorities for Pacific Basin countries. Before any substantive dialogue on cooperation is possible, it is important that the task force should work formally with each of the national governments to ensure that each country's economic agenda is well defined and clearly understood.

2. Identify potential areas of conflict and cooperation. Although the diversity and differences in the stage of development of individual countries provides ample scope for cooperation, areas of major potential conflict and/or competition also need to be clearly defined. In this way, leadership groups will be able to proactively manage possible areas of conflict as they take cross-border initiatives.
3. Develop a framework to integrate macroeconomic policy instruments between countries. A process and methodology should be established that will facilitate the coordination of fiscal and monetary policies, such that the inflation rates, interest rates, corporate and individual tax rates, certain tariffs, duties and quotas for countries in the early stages of development, and investment and saving incentives of different countries all support overall regional strategy.
4. Determine industry specific issues for a select group of industries. It will be important to identify particular industries, such as mining and exploration, steel, energy/petrochemicals and tourism, in which there is a high potential for regional cooperation, and which are likely to have high potential visible economic impact in the short to medium term, and to determine and address the key issues specific to those industries.
5. Define approaches to identify and resolve issues on an ongoing basis. Issues specific to industries, as technologies change, as the competitiveness of specific countries shifts, and as the supply/demand balance fluctuates, need to be identified and resolved on a regular, ongoing basis. Mechanisms need to be designed and implemented to facilitate the process and to ensure that leadership groups are committed to an ongoing dialogue industry by industry.
6. Examine ways to expand the role of "PIN". The concept of PIN (Pacific Information Network), conceived by the PBEC, should be further developed, so that companies irrespective of size and location can access relevant information and state-of-the-art knowledge to improve the quality of decisions and reduce the downside risks of entrepreneurship.
7. Assess ways to broaden the role of multinationals as integrators. New and innovative approaches must be identified which on the one hand encourage multinationals to make bigger investments, take greater risks and play a more active role in a country's socioeconomic development, but which at the same time ensure that economies do not become overdependent on multinationals or neglect the development of local indigenous companies.
8. Identify ways of sharing knowledge at different socioeconomic levels.  
Innovative mechanisms like



exchange programs need to be designed which will allow small groups from different walks of life to share experience, work habits and cultural attributes. Particularly people working in small and medium-sized enterprises or in rural areas need to be exposed to alternative approaches, "ways of life" and styles of economic activity that might spark off innovation, new thinking, and better ways of accomplishing different tasks at different socioeconomic levels.

9. Explore how companies in the NICs become, multinationals. Outside Japan, there are fewer than a dozen companies in the Pacific community that have earned global status. However, there are many that export world-class products, largely as subcontractors. They have the potential, but they may lack the management infrastructure necessary to switch from being an opportunistic **exporter** or subcontractor to become a rising, strategically sound global company. Ways need to be developed which will enable such companies to make this switch; through this process there could be further increase in the benefits multinationals bring to bear to enable flows between countries.
10. Agree on and execute (maybe half-a-dozen) cooperative projects at a grass roots level with the help of government leadership Groups. As a symbol that the Pacific nations are really committed to the cause - and capable of becoming a closely-knit Pacific Basin Community - a few visible "pump priming" projects, such such as cooperative R&D ventures for "key" technologies or tourism development, involving several nations should be initiated that would provide the initial push. Projects like ASEAN Fertilizer in Malaysia (involving all ASEAN countries) could help to create the desired effect.

The above are just a few examples of the types of tasks that the PBEC should consider undertaking with the help of governments and industry. It is essential that we should sustain the growing vitality of the Asia Pacific, realize a greater economic transformation in the region, and increase the innovativeness of economies through cross-fertilization of knowledge, skills and ideas. And the only way to achieve that is to ensure that the current "will" of the leadership group is translated into action through the execution of programmes set out on a time-bound schedule leading toward a deadline in the year 2000.

A pledge to tackle these tasks and to provide enhanced opportunities for human development, expression and innovative employment would be a fitting way to celebrate the beginning of another glorious century not only of Australia - but of the entire Pacific Basin. And it would truly enable us to explore frontiers beyond the present global economic system.