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CANADA AND THE PACIFIC

IN THE 1980s

by

Christopher MacKenzie MacLean, B.A.

c 1983 by Christopher M. MacLean

A thesis submitted to the Faculty of
Graduate Studies and Research in partial
fulfilment of the requirements for the degree of
Master of Arts
in International Affairs

The Norman Paterson School of International Affairs
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ABSTRACT

This thesis deals essentially with Canadian foreign policy interests in the Pacific. It does this at two levels. Firstly, it determines the nature of what is referred to as the "Pacific Rim", and the part Canada has to play in it. Having established the beneficial implication of closer links between Canada and the Pacific Rim, the second level of analysis aims to determine which policy approach -- bilateral or regional -- maximises Canadian interests in the region. A theoretical framework is derived using the political economy of integration, and the economic analysis of "public goods" as it relates to questions of federalism. This framework is then applied to case-studies of the issues dominant in Canadian bilateral relations with certain representative countries in the Pacific. In concluding, the results of these studies are used to justify a regional policy approach, and thereby greater Canadian support for a Pacific Community.

Acknowledgements

Though prepratory sections acknowledging assistance from certain sources have become rather commonplace and trite in academic studies, the extent and nature of help is sometimes such that one must occasionally run the risk of a cliché.

It is in this light that I must thank Prof. H.E. English, whose supervisory aid has been considerable, both in providing source material, and in the amount of time he has made available to me. Perhaps most significant, however, was the personal friendship which he extended. For future students who are fortunate enough to meet up with him, I recommend him both as a supervisor, and as a person.

TABLE OF CONTENTS

Section I -- THE PACIFIC SETTING	1
Chapter I.1 -- Introduction	1
I.1.ii -- References to Section I	8
Section II -- CANADA AND THE PACIFIC RIM	9
Chapter II.1 -- The Pacific Perspective	10
II.1.i -- Definitional Clarifications	10
II.1.ii -- Regional Salience	13
II.1.iii -- The Pacific Countries	20
II.1.iv -- Pacific Interdependence	30
II.1.v -- The Need for a Pacific Community	33
II.1.vi -- Efforts at Institutionalisation	37
II.1.vii -- International Reaction	53
II.1.viii -- References to Chapter II.1	62
Chapter II.2 -- The Canadian Perspective	65
II.2.i -- The Economic Viewpoint	66
II.2.ii -- The Political Viewpoint	74
II.2.iii -- Domestic Regional Considerations	79
II.2.iv -- The Canadian Reaction	82
II.2.v -- The Policy Question	89
II.2.vi -- References to Chapter II.2	94
Section III -- THE THEORETICAL PERSPECTIVE	96
Chapter III.1 -- Towards and "Optimum Grouping Concept" ..	97
III.1.i -- Background Considerations	98
III.1.ii -- Integration Theory	101
III.1.iii -- References to Chapter III.1	109
Chapter III.2 -- Policy as a "Public Good"	110
III.2.i -- The Theory of Public Goods	110
III.2.i(a) -- The Theory of Clubs	113
III.2.ii -- An Economic Theory of Federalism	115
III.2.iii -- A Framework for Policy	120
III.2.iii(b) Suggestions for Further Research	121
III.2.iv -- References to Chapter III.2	123

Chapter III.3 -- The Issues for Canada in the Pacific ..	124
III.3.i -- Trade in Manufactures	125
III.3.ii -- Investment and Technology Transfer	127
III.3.iii -- Trade in Agricultural Products	129
III.3.iv -- Trade in Minerals and Energy	132
III.3.v -- Summary Considerations	134
III.3.vi -- References to Chapter III.3	138

Section IV -- OFFICIAL CANADIAN RELATIONS IN THE PACIFIC .. 139

Chapter IV.1 -- The Case-Study Countries	140
IV.1.i -- Canadian-Indonesian Relations	140
IV.1.ii -- Canadian-Korean Relations	148
IV.1.iii -- Canadian-Australian Relations	155
IV.1.iv -- Canadian-Japanese Relations	162

Chapter IV.2 -- Case-Study Conclusions	169
IV.2.ii -- References to Section IV	173

Section V -- CANADA AND THE PACIFIC IN THE 1980s .. 175

Chapter V.1 -- Summary: Towards a Pacific Community ..	176
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LIST OF TABLES

II.1.1 -- Average Annual Growth Rate (percent) of GDP, 1960-70, and 1970-80	14
II.1.2 -- Growth of Exports ((percentage) for Selected Countries, 1975-81	15
II.1.3 -- Exports as a Percentage of GNP, 1970, 1975, and 1980	16
II.1.4 -- Pacific Rim Trade Matrix	18-19
II.1.5 -- Trade as a Percentage of GNP, 1981	21
II.2.1 -- Value of Canada's Exports with Pacific Rim Countries as a Percentage of World Total, 1975-81	67
II.2.2 -- Percentage of Canadian Exports by Stage of Fabrication, 1971, 1976 and 1980	70
II.2.3 -- Value of Canada's Imports from Pacific Rim Countries as a Percentage of World Total, 1975-81	72
IV.1.1 -- Canadian Exports to Indonesia, 1980-82	142
IV.1.2 -- Canadian Imports from Indonesia, 1980-82	143
IV.1.3 -- Canadian Exports to Korea, 1980-82	149
IV.1.4 -- Canadian Imports from Korea, 1980-82	150
IV.1.5 -- Canadian Exports to Australia, 1980-82	157
IV.1.6 -- Canadian Imports from Australia, 1980-82	157
IV.1.7 -- Canadian Exports to Japan, 1980-82	163
IV.1.8 -- Canadian Imports from Japan, 1980-82	163

Section I

THE PACIFIC SETTING

Chapter I.1

Introduction

The legacy of the seventies has been a poor one for the Canadian economy. After the initial buoyancy of the 1972-73 commodity price boom, the impact of the "oil shock" was such that much of the vibrancy of Western economic growth was dispersed. Canada, as a nation highly dependant on trade could hardly help but be affected; as the performance of its partners progressively weakened in the latter half of the decade, Canada's growth was gradually reduced. Its prospects upon entering the eighties were thus decidedly poor: internationally, the trend towards recession was confirmed, with an attendant rise in protectionism; domestically, the two-headed beast of stagflation was tamed only at the cost of socially unacceptable levels of unemployment. Revitalisation of the Canadian economy awaits the resurgence of the other Atlantic economies. Yet, while the United States has begun to rise once again, Europe appears unlikely to follow course for some time. Canada would thus seem to require a new direction, if prosperity is to be furthered.

If the Western Atlantic world managed only to totter along, that of the Pacific displayed surprising vibrancy. Though the commodity boom led to consequent disturbances in the economies of the Newly Industrialised Countries (NICs) and of the members of the Association of Southeast Asian Nations (ASEAN), vigorous rates of growth were attained in the latter part of the seventies. Subsequently, even if global recession has dimmed these brilliant performances somewhat, they still glow with considerable intensity when contrasted with the gloomy prospects found elsewhere in the world. The fact that the countries of the Pacific region were able to achieve this while faced with falling terms of trade for their commodities, as well as heightened protectionism on the part of the developed world, should serve to make them all the more interesting for a Canada in need of new prospects.

This contrast in the performances of the Atlantic and Pacific worlds is reflective of a fundamental shift in the global economy. The "old world" finds it difficult to budge itself from ways which are becoming increasingly inappropriate in these times of growing scarcity, whereas the "young world" of the Pacific has proven more able to adapt, resulting in a gradual transfer of power to the more vibrant region. Indeed, commentators on the Pacific often begin their analyses with by-now rather clichéd references to the twenty-first century as that of the Pacific. One of the more interesting converts to this cause is Gough Whitlam.

3
(1981:51), former prime minister of Australia, who states that:

The world's economy is shifting its center of gravity from the mid-Atlantic to the mid-Pacific. By the year 2000, the East Asian economy will be as large as the North American or Western European or Eastern European. Western prosperity will be greatly affected by Western readiness, governmental and corporate, to recognise economic developments and requirements in the Western Pacific, the most dynamic region in the world.

Though it might be expected that an Australian should hold such an opinion, similar convictions are slowly taking hold in Canada as well. Indeed, during his January, 1983 official visit to Southeast Asia and Japan, Prime Minister Trudeau went so far as to state (Department of External Affairs [DEA], 1983:1), with typical eloquence, that:

I can see the Asian-Pacific region in the 21st century being the engine of global and cultural development that Europe was in the 19th century. The potential is there -- resources, a vast population, the dramatic chemistry of Eastern culture and Western technique.

It would thus appear to be beneficial for Canada to pay more attention to its Pacific links. Surprisingly enough, however, such a perspective is still largely unfamiliar to Canadians, most notably in the central and eastern provinces. As noted by then Secretary of State for External Affairs Mark MacGuigan (DEA, 1980:2): "... we will need a broad base of support for our initiatives and to do this we shall have to shape a greater awareness of the potential of the Pacific region within Canada." However, to date this

challenge has been largely ignored by Canadian academics. Indeed, it has taken an Australian commentator to point out the lack of Canadian input to discussions of the Pacific Community concept: in his review of the literature, Smith (1982:661) notes that: "... the concept is widely discussed in Canada, particularly on the west coast, but Canadians ... contribute very little to its development." The aim of this work is to help remedy this lacuna.

Essentially, this study has two central purposes. The first of these, more preparatory in nature, is to familiarise the reader with the prospects for Canada embodied in closer ties with the countries of the Pacific Rim. This of course requires to begin with clarification as to just what is intended by the "Pacific Rim": in particular, its composition, and the factors which give it significance as a region. In addition, the organisational efforts which are going into making this region a "Pacific Community" will be reviewed, as well as the reaction this process has elicited from the countries concerned, most notably ASEAN. Having established the nature of the Pacific Rim, it will then be time to evaluate the Canadian perspective towards the region: this will require both political and economic analysis, as well as a summary of the reaction to the institutional undertakings mentioned above. Together, these sections should allow the reader to form a concluding

opinion as to the potential significance for Canada of heightened relations with the region.

Having established the prospects for Canada in the Pacific Rim, the analysis will turn to the second, more central purpose of this study, namely a determination of the policy approach which will maximise Canadian interests in the region. Indeed, though it may be relatively easy to establish the benefits to be found for Canada in the Pacific, this does not resolve the fundamental policy question as to how Canadian diplomatic efforts should be implemented. The potential approaches are to be found at three levels: firstly, in intensifying our bilateral links, and thereby using the existing network of relations; secondly, in emphasising the advantages of the multilateral system, thereby precluding any preferential treatment of the Pacific; and thirdly, by developing a regional approach to the issues embodied in the Pacific, implying acceptance of the need for a Pacific Community, in addition to our present bilateral ties.

In order to resolve this central policy question as to the approach which would best serve our interests in the Pacific, the subsequent section will establish a theoretical model with which to determine the parameters of the question. This involves a preliminary discussion of various theories of potential relevance -- the inadequacies of these in answering the policy question, however, necessitates the

employment of a different perspective, one which situates government policy within the theoretical discussion of "public goods". In turn, application of this to the economic theory of federalism permits the derivation of a framework for policy which allows one to judge the respective merits of the three approaches mentioned above. In order to implement this model, the policy issues of significance to Pacific Community discussions are then characterised according to the theory. Finally, the analysis is applied to Canada's relations with four representative countries in the Pacific: Indonesia (a developing country, and exporter of raw materials), Korea (developing, but exporting manufactured goods), Australia (a developed country, exporter of raw materials), and Japan (developed, exporter of manufactured goods). The conclusions which result from the marriage of the model to these case studies should thus serve to answer the policy question, and thereby the approach which best suits Canadian interests in the region.

The nature of this study is thus necessarily rather broad. However, the considerable breadth which characterises the initial section of this work is narrowed down to the policy considerations relevant to an evaluation of the Pacific Community concept from a Canadian point of view. Furthermore, research is deliberately limited to the four case studies, which, in their various combinations of stages of development and type of trade, should serve to

cover the full range of problems and possibilities from the Canadian perspective. In addition, the one country which this schema might not cover, the United States, has been amply analysed in numerous studies of Canadian-American relations, and thus requires no further examination in this work. In sum, beginning with all of the Pacific Rim, this thesis narrows down the topic to those factors which allow for an evaluation of the specific policy concerns relating to Canadian participation in a potential Pacific Community.

As such, this undertaking should serve to help fill the void in Canadian studies of the Pacific Community concept. It will do so by emphasising the immense significance, actual and potential, of the Pacific to Canada. In this manner, it should be made obvious that -- as one Canadian conference has already characterised it (see Donnelly and Falkenheim, 1981) -- consideration of relations between Canada and the Pacific do indeed amount to our "Agenda for the Eighties". The implications of this study are thus future-oriented, and it is with this perspective in mind that it is now time to cast our sights upon the prospects of the Pacific.

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Section II

CANADA AND THE PACIFIC RIM

Chapter II.1:

The Pacific Perspective

II.1.i -- Definitional Clarifications

In commencing any analysis of the Pacific, it is of course necessary to delineate just what is implied by "the Pacific". Indeed, the reader can be excused considerable confusion in this matter, for a number of appellations, acronyms and tentative membership rosters abound in discussions of the region. However, whether the reference be to the "Pacific Basin", the "Pacific Economic Community", the "Pacific Rim", the "Pacific Community", or simply to the Pacific countries, they all have certain elements in common.

Firstly, the envisaged grouping is predominantly economic in nature; that is to say that, though cultural, environmental and other elements do enter into Pacific considerations, discussions center primarily upon the economic factors of trade, investment, development, transfer of technology, and such. This implies, secondly, that none of these appellations makes reference to any sort of strategic community, as, in fact, the security element is more of a divisive force within the region. Thirdly, though

one cannot make reference to a truly geographic community, various commentators (Hay and Price, 1981; English, 1983; Drysdale and Patrick, 1979) have generally settled upon the "5+5+1" formula: the five advanced countries of the region (Australia, Canada, Japan, New Zealand and the United States), the five members of ASEAN (Indonesia, Malaysia, the Philippines, Singapore and Thailand), and South Korea (hereafter referred to simply as "Korea"). Thus, the Latin American element of the Pacific is largely ignored. However, a fourth characteristic of all such definitions of the region is the fact that it should not be exclusive; in other words, it is to be characterised by open membership. Thus, a form of functional associate-membership is often envisaged for the island states of the Pacific (Brunei, Papua New Guinea [PNG], and the "microstates" of the South Pacific). Similarly, the Peoples' Republic of China (PRC), in spite of the fact that its political orientation differs from other Pacific countries, is considered too significant to leave out of future discussions. In turn, some means of incorporating Hong Kong and Taiwan, whose diplomatic status makes them problematic, is usually included. Finally, at the risk of bringing in problems of a different, more polemic nature, participation by the Latin Americans is left open, though only Mexico, Chile and Peru have expressed any interest to date.

Given the heterogeneity of this collection of countries, and the fact that there is no obvious criteria

for bringing them together -- no common culture, geographical proximity or strategic orientation -- one might well inquire, as Smith (1982:666), whether the appellation "community" is not somewhat loosely applied. Though he correctly points out that economic links have been the driving force behind the Pacific Community concept, he is mistaken in claiming that these ties themselves are not likely to create a community. The question of course revolves around just how strictly one may wish to define "community". Using Smith's own meanings, it can be seen that "common character" would be ludicrous, given the difference in lifestyle between, say, the United States and Indonesia. Similarly, "living in a common home" appears somewhat exaggerated when one considers the vast distances involved. However, Smith should not be so hasty in dismissing the integrating force of "common organisation and interests", which, as has been pointed out, are in this case economic. As H.E. English has noted (1982:8):

It is relevant to contemplate the Pacific as a region with a role to play, because it is already dynamic, because its dynamism is based on a converging or at least compatible set of economic strategies, in which international markets and international private investment play vital roles.

There are a number of factors which can be pointed to to undermine this community, most notably the inescapable security question which constantly threatens to turn such activities as membership selection into exercises in high politics, but it is this convergence of interests referred

to by English, particularly amongst the core "5+5+1" group, which truly defines Pacific regionalism.

For the sake of clarity and consistency, it should be noted by the reader that the term "Pacific Rim" will be used to refer to the geographic collection of countries in the region. The analysis will focus principally on the countries of the "5+5+1" formula, though the PRC, PNG and Hong Kong are occasionally included -- a glance at the tables in this study will reveal, however, that these latter three countries are separated from the rest, in order to avoid inflating results. It should also be noted that Taiwan has been deliberately left out, due to the inavailability of compatible statistics -- this results in the occasional understatement of regional trade figures. Finally, the "Pacific Community" will refer to those attempts at organising the Pacific Rim into some regional body.

II.1.ii -- Regional Salience

Having then traced the composition of the Pacific Rim, and underlined its diversity, to what are we to attribute its salience? As Krause (1979) outlines, this is essentially due to three factors. Firstly, the rise of Japan as an economic power, and its role as a world trader (notably within the Pacific Rim), have fueled the high rates of growth which are detailed in Table II.1.1. In the

mid-sixties, Japan's per capita income was only about half the average of OECD countries, whereas it is today equal or above that average (Krause, 1979:171).

Table II.1.1

Average Annual Growth Rate
(percent) of GDP, 1960-70, and 1970-80

	1960-70	1970-80
Australia	5.6	3.0
Canada	5.6	3.9
Japan	10.9	5.0
New Zealand	3.9	2.3
United States	4.3	3.0
Indonesia	3.9	7.6
Malaysia	6.5	7.8
Philippines	5.6	6.3
Singapore	8.8	8.5
Thailand	8.4	7.2
Korea	8.6	9.5
PRC	5.2	5.8
PNG	6.9	2.3
Hong Kong	10.0	9.3
EEC*	5.3	2.9

* 1960-70 = EEC(6); 1970-80 = EEC(10).

SOURCES: World Bank, World Development Report, 1982.
Statistical Office of the European Communities,
Basic Statistics of the Community, 1971 and 1982.

This is in contrast to the second factor, that of economic stagnation in Northern Europe, where growth rates have averaged only 2.9 percent over the decade of the seventies. The character of Atlantic labour relations, the rigidities of markets dominated by established manufacturers, and the costs to business of its social

welfare system, have pushed certain Pacific countries, such as Australia, to reduce their links with Europe and switch to Pacific markets instead. This move has been further accentuated by the growing protectionism of the members of the European Economic Community (EEC).

Table II.1.2

Growth of Exports (percentage)
for Selected Countries, 1975-81

Country	Growth of Exports (percent), 1975-81
ADCs: Hong Kong	262.5
Korea	298.0
Singapore	290.1
ASEAN: Indonesia*	208.5
Malaysia	194.2
Philippines	153.2
Thailand	207.3
EEC(10)	127.4

* 1975-80

SOURCES: International Monetary Fund (IMF), International Trade Statistics, 1981.
Statistical Office of the European Communities,
Basic Statistics of the Community, 1982.

A final factor is the remarkable growth being achieved by the advanced developing countries (ADCs), -- Singapore, South Korea, Taiwan and Hong Kong -- of the region. Their development has been based largely upon export-led strategies: as can be seen from Table II.1.2, in the 1975-81 period, Korea's exports grew by 298 percent, for

example, those of Singapore by 290 percent, and Hong Kong's by 262.5 percent. Even for the "developing" countries of ASEAN, exports grew from 153 percent (for the Philippines) to 208.5 percent (Indonesia). To put these figures in perspective, the equivalent statistic for the EEC was 127 percent. This is confirmed in Table II.1.3, where the large, and rising, share of the value of exports as a percentage of Gross National Product (GNP) can be noted for these countries. As a result, they have enlarged their share of world trade, and become significant competitors in certain areas (oil refining in Singapore, or the contracting-capacities of Korea in the Middle East, for example).

Table II.1.3

Exports as a Percentage of GNP*,
1970, 1975 and 1980

	1970	1975	1980
Australia	15.1	15.6	18.2
Canada	23.5	23.5	30.1
Japan	11.3	13.7	15.1
New Zealand	23.4	23.8	29.7
United States	5.4	8.3	9.9
Indonesia	13.0	23.6	34.8
Malaysia	47.5	46.3	60.2
Philippines	19.4	18.6	20.5
Singapore	113.1	138.6	184.9
Thailand	16.6	19.1	25.5
EEC(10)	21.7	25.4	27.9

* GDP for EEC and Singapore; 1979 values for New Zealand and Malaysia.

SOURCES: Compiled from IMF, International Financial Statistics, 1981; EEC, Eurostat Review, 1971-80; World Bank, World Tables, 1980.

The impact of these factors has been to contribute to the ever-increasing interdependence of countries of the Pacific Rim. Measures for this interdependence can be found in the share exports account for in the GNP of each country. Considering Table II.1.3 once again, it can be seen that this share is rising for all countries, with the exception of Hong Kong, which was already at an extremely high level. Furthermore, it is to be noted that, by 1980, the share of exports had risen to important levels: 60.2 percent of Malaysia's GNP, for example.

Of course, these figures reflect global exports, and thus a further measure is necessary to gauge Pacific interdependence. This is provided by the Pacific Rim trade matrix of Table II.1.4. As is demonstrated here, for most countries the Pacific proportion of their exports is a major share of the total. Even when abstracting for the impact of the USA -- which, to Canada, for example, can hardly be considered a Pacific Rim country -- and for those countries not part of the "5+5+1" formula, the Pacific share in most cases ranges from one fifth to over two-thirds of respective global exports. When all countries of the Pacific Rim are considered, this figure rises from over one third for the USA to nearly all exports in the case of Indonesia. It is clear from this, then, that Pacific trade is of the greatest

Table II.1.4

Pacific Rim Trade Matrix: Exports F.O.B., 1981
(Millions of U.S. Dollars)

Exports from:	Australia	Canada	Japan	New Zealand	Indonesia	Malaysia	Philippines	Singapore
to:								
Australia	-	678	4,768	801.1	470	203	118.4	838
Canada	428	-	3,387	107.6	31	71	93.9	183
Japan	6,136	3,647	-	729.1	12,057	2,470	1,277.4	2,124
New Zealand	1,110	116	910	-	203	35	6.9	271
Indonesia	469	77	4,115	81.9	-	58	204.4	936*
Malaysia	518	102	2,416	81.8	63	-	104.1	3,269
Philippines	189	69	1,924	70.6	208	179	-	274
Singapore	533	123	4,454	83.1	2,484	2,652	125.2	-
Thailand	156	92	2,243	41.5	30	192	22.1	883
Korea	769	370	5,640	79.1	310	429	191.1	293
Subtotal	10,298	5,274	29,857	2,075.8	15,856	6,289	2,143.5	9,071
United States	2,438	46,454	38,883	701.2	5,830	1,166	1,747.1	2,770
Subtotal	12,736	51,728	68,740	2,777.0	21,686	7,455	3,890.6	11,841
PRC	639	776	5,076	122.7	nil	88	74.9	179
Hong Kong	431	149	5,292	75.2	104	196	213.2	1,837
PNG	470	13	178	57.1	nil	3	5.2	181
TOTAL	14,276	52,666	79,286	3,032.0	21,790	7,742	4,183.9	14,038
World	21,796	72,627	151,500	5,606.9	22,101	11,198	5,756.5	20,970
Region/World (%)	47.2	7.3	19.7	37.0	71.7	56.2	37.2	43.3
Region+US/World (%)	58.4	71.2	45.4	49.5	98.1	66.6	67.6	56.5
Total/World (%)	65.4	72.5	52.3	54.1	98.6	69.1	72.2	66.9

* — Derived from partner figure.

SOURCE: IMF, Direction of Trade Statistics, 1982.

Table II.1.4 (continued)

Exports from:	Thailand	Korea	U.S.	PRC	Hong Kong	PNG	Global Imports
to:							
Australia	83.1	279	5,242	340	597	85.2	23,763
Canada	28.5	469	39,564	183	471	2.9	67,762
Japan	974.1	3,408	21,836	4,803	1,022	297.2	142,868
New Zealand	7.5	35	922	35	73	4.5	5,739
Indonesia	113.5	469	1,302	179	833	0.4	13,520
Malaysia	345.0	140	1,537	250	177	0.4	11,581
Philippines	17.4	114	1,787	220	373	6.1	8,864
Singapore	491.7	304	3,003	702	890	12.1	27,571
Thailand	-	145	1,170	353	224	nil	10,330
Korea	182.9	-	5,116	nil	288	14.3	25,092
Subtotal	2,243.7	5,363	81,479	7,065	4,948	423.1	-
United States	910.1	5,499	-	1,875	6,056	50.2	273,351
Subtotal	3,153.8	10,862	81,479	8,940	11,004	473.3	-
PRC	139.0	nil	3,603	-	1,964	17.8	19,368
Hong Kong	316.7	1,056	2,636	4,792	-	0.8	24,772
PNG	0.6	4	55	11	21	-	1,064
TOTAL	3,610.1	11,922	87,773	13,743	12,989	491.9	-
World	6,784.2	20,224	233,738	19,889	21,820	859.7	-
Region/World (%)	33.1	26.5	34.9	35.5	22.7	49.2	-
Region+US/World (%)	46.5	53.7	34.9	44.9	50.4	55.1	-
Total/World (%)	53.2	58.9	37.6	69.1	59.5	57.2	-

SOURCE: IMF, Direction of Trade Statistics, 1982.

importance to all countries in the region, forming the crux of an inescapable interdependence.

II.1.iii -- The Pacific Countries

In order to determine the fundamental factors which give rise to this web of reciprocal trade, a succinct overview of the relevant countries is necessary.

Beginning at home, Canada can be characterised as a resource-rich country with considerable manufacturing capacity. The latter, however, operates behind still considerable protection, and is thus of questionable efficiency. Having a relatively small domestic market, it is very much a trade dependent country -- Table II.1.5 reveals that global trade accounts for some 50 percent of Canadian GNP. This trade is composed on the export side largely of inedible fabricated materials (notably wood and paper, but also including non-ferrous metals and chemicals), transportation equipment (cars, trucks and parts), cereals and metal ores. Imports are largely made up of inedible end products (especially computers, transportation and telecommunications equipment), chemicals, textiles, coal and petroleum. For 1981 exports, its principal partners were the United States (64.0%), Japan (5.0%), the United Kingdom (3.8%), the USSR (2.1%), and West Germany (1.5%); for 1981 imports, these were the US (66.7%), Japan (5.0%), Venezuela (2.9%), Saudi Arabia (2.8%) and the UK (2.7%) (trade shares

for all countries are from the IMF Direction of Trade Statistics, (1982).

Table II.1.5

Trade as a Percentage of GNP, 1981.

	1981 (%)
Australia	29.6
Canada	50.7
Japan	27.6
New Zealand	55.9
United States	19.9
Indonesia	54.1
Malaysia*	91.6
Philippines	37.7
Singapore*	409.0
Thailand	47.2
Korea	71.5
Hong Kong	192.0
PRC	14.8

* 1980.

SOURCE: IMF, International Financial Statistics, 1982.

It should also be noted that, over time, a shift has operated in Canada's trade orientation. Its traditional ties across the Atlantic have not proven as productive in recent years: the EEC(10) share in Canadian exports fell to 9.1 percent in 1982, from 10.8 percent in 1981, and 14.5 percent a decade earlier (The Globe and Mail [GM], June 20, 1983, p. R1). Similarly, imports have remained at around 8.4 percent for 1981 and 1982. Thus, in spite of the "contractual link" signed between Canada and the EEC in 1976, Europe's significance to Canada is diminishing,

perhaps reflective of the stagnating European growth rates detailed in Table II.1.1. Indeed, as the media has noted: "With only modest growth forecasted for Europe, Canadian bankers and trade industry spokesmen say that other regions, such as the Pacific Rim, hold more promise." (GM, June 20, 1983, p. R1). This new orientation will require structural change in, and thus costs to, the Canadian economy, however, and may well be inconsistent with policy efforts to escape the image of "hewers of wood and drawers of water".

Turning south presently, the United States has long been, both regionally and globally, the preeminent power. This position has been eroded by a number of factors, however: the 1971 collapse of the Bretton Woods system, which reduced the central role of the US dollar; the rise in energy prices, which caused a mid-seventies downturn in the American economy from which recovery has been only moderate; and, finally, the rise of Japan as an economic power requiring considerable adjustment on the part of the US. Due to its large internal market, generous resource endowments, and large manufacturing capacity, the US has historically been relatively insensitive to external markets: exports composed only 9.9 percent of GNP in 1980 (Table II.1.3), and total trade amounted to 19.9 percent in 1981 (Table II.1.5). This, too, has been changing, though: as Krause and Sekiguchi (1980:50) note, the decline of US net exports between 1975 and 1977 reduced growth by 0.6

percent per year, and as a result, "The consequences of interdependence and the limitations it placed on domestic economic sovereignty were quite clear. The United States was no longer unique, but simply the largest of the industrial countries, more similar to than different from others." American reaction to this change could take the form of either greater protectionism, or increased openness. Either way, the impact upon its major trading partners -- imports (1981): Canada (17.1%), Japan (14.6%), Saudi Arabia (5.6%), Mexico (5.1%) and the UK (1.9%); exports (1981): Canada (16.9%), Japan (9.3%), Mexico (7.6%), the UK (5.5%) and West Germany (4.4%) -- is sure to be considerable. It is interesting to note, however, that recent American protectionist attitudes towards Japan have changed: "[The] Williamsburg [Summit] coincided with the ascendancy of a "Pacific Basin" group in the Reagan administration which argues that US and Japanese interests converge on a broader range of international economic issues than do those of the US and Europe." (Nations, 1983:55).

Closely tied to the United States is Japan. The Japanese, inhabitants of a land which long ago exhausted its resources, have prospered through the processing of imported raw materials into manufactured goods. The country has become a major economic power thanks to its large internal market, its efficient industries, and its ability to export. Its imports are composed of metal ores, fuels, chemicals,

machine equipment and foodstuffs, while exports are made up of machinery, textiles, iron and steel, motor vehicles, ships and optical instruments. In 1981, the former originated from the US (17.7%), Saudi Arabia (15.0%), Indonesia (9.3%), the United Arab Emirates (6.2%) and Australia (5.2%). In turn, the latter were destined for the US (25.7%), Germany (3.9%), Saudi Arabia (3.8%), Korea (3.7%) and Hong Kong (3.5%). Thanks to their success in exporting, the Japanese suffer the rather unique problem of large and constant trade surpluses. Their government has been somewhat slow in realising the responsibilities that accompany their achievements, and has thus been the target of considerable criticism, particularly for what is considered to be an undervalued yen. These surpluses are all the more significant because they are concentrated in the Pacific Rim, as the export trade matrix of Table II.1.4 demonstrates. Krause and Sekiguchi (1980:78) note that: "Japan can no longer ignore the impact it is having on others because it is so important to them that a reaction is inevitable." Korea and the US are particularly relevant in this respect.

The problems of Australia are also, in part, a product of its success. Having collaborated with Japan in the development of their resource sector, Australian prices were pushed up by the commodity boom of 1972-73. Though resource prices collapsed after 1974, rigidities kept Australian

labour prices high, making their manufacturing sector increasingly uncompetitive, especially given the limited domestic market. Australian reaction to this has been heightened protectionism, with considerable negative impact both internally (in terms of dislocations) and externally (due to reaction from the ASEAN countries). Recently, Australia has become more sensitive to this, as it changes its trade orientation from Atlantic to Pacific markets. Its imports are composed largely of industrial and electrical machinery, transport equipment, chemicals and crude materials. Its exports, reflecting its wealth of natural resources, are made up of metal ores, textile fibres, beef, cereal grains and coal. Imports came from the US (23.0%), Japan (19.7%), the UK (7.3%), Saudi Arabia (5.5%) and West Germany (5.5%), while exports headed for Japan (28.2%), the US (11.2%), New Zealand (5.1%), Korea (3.5%) and the UK (3.4%). Altogether, this trade amounted to some 29.6 percent of Australian GNP in 1981 (Table II.1.5).

Its neighbour, New Zealand, is tied to it through the New Zealand-Australia Free Trade Area (NAFTA). This is significant because it allows the country a market several times larger than its own small population. Exports remain largely agricultural, however, dominated by meat, wool, butter, and forest and primary products. Its limited industrial sector leads to a wide range of manufactured imports, including machinery and transport equipment, basic

manufactures, chemicals, foodstuffs and beverages. As can be seen from Table II.1.3, exports -- to Australia (14.3%), Japan (13.0%), the US (12.5%), the UK (12.4%) and Iran (4.1%) -- represented an important 29.7 percent of GNP in 1979. Together with imports -- from Australia (18.8%), the US (18.0%), Japan (17.3%), the UK (9.2%) and Singapore (4.6%) -- trade amounted to a vital 55.9 percent of GNP in 1981 (Table II.1.5). Its traditional links with the Atlantic economies have left it with lessened growth (Table II.1.1), but a number of large industrial projects have been undertaken, targeted at Pacific markets, which should serve to ensure its potential.

The countries of ASEAN offer examples in both similarity and contrast. Common to all five members has been a reliance on increased exports in order to further development, as witnessed to by the growth in export figures of Table II.1.2. Indeed, by 1981, trade was a major factor in all of these economies, on average considerably higher than in the developed countries of the Pacific (see Table II.1.5). The make-up of this trade varies from case to case, though. Beginning with Indonesia, its economic character is defined by its status as an oil exporter, with this commodity accounting for some 67 percent of its exporters in 1977 (Anwar, 1980:211). Lumber, coffee, rubber and tin together account for a further 22 percent of this figure. In spite of its large population, manufactures are

almost totally absent from exports; Anwar (1980:212) attributes this to high transport costs (both domestic and international), lack of managerial skills, high production costs (due to lack of infrastructure, costs of electricity, water and raw materials), and -- the plague of oil-exporting countries -- high domestic inflation. Consequently, Indonesia's imports include large outlays for capital and semi-manufactured goods. The country is also notably lacking in the agricultural sector, resulting in large imports of food -- rice alone accounted for 13.8 percent of total imports in 1977 (Anwar, 1980:214). While exports end up principally in Japan and the US (54.6 and 26.4%, respectively), with Singapore (11.3%), Australia (2.1%) and Korea (1.4%) following, imports come from Japan (33.0%), the US (10.6%), West Germany (9.3%), Singapore (8.6%) and Saudi Arabia (8.3%).

Malaysia presents a somewhat different picture, due to an earlier undertaking of export-led development and the promotion of manufactures. Food, rubber products, industrial and electrical machinery, and wood products largely make up these, but exports from the primary sector, such as rubber, tin, palm oil, timber, and some petroleum, still dominate (Ariff, 1980:281-286). Imports, on the other hand, are primarily of processed industrial supplies, capital and transportation equipment, processed foods, and primary fuels. Singapore has displaced Japan as the main target for exports (23.7 and 22.1%, respectively), with the

US (10.4%), the Netherlands (6.3%) and Korea (3.8%) next in line. Japan (24.4%) dominates Malaysian imports, however, followed by the US (14.6%), Singapore (13.1%), Australia (5.5%) and Saudi Arabia (4.7%).

Philippine ties with the United States, dating back to the beginning of American colonization at the turn of the century, produced a somewhat overprotected Philippine economy. High tariffs have long kept its manufacturing inefficient, with effective rates of protection (ERP) still in the neighbourhood of an average 125 percent today (Bautista, 1980:181). The move towards export promotion is reflected in an ERP of -16 percent in the export-oriented sectors, however. By 1977, commodity exports (principally sugar, coconut oil, copper concentrates, copra, logs and lumber), though still dominating total exports with 57.6 percent, had fallen in relative importance from previous periods, with non-traditional exports (including clothing, chemicals, cement and textile products) rising to 13.4 percent (Bautista, 1980:178). Imports are composed mainly of intermediate goods (especially oil), equipment, food and consumer goods. The historical legacy has determined that these come largely from the US (22.0%), though Japan (19.1%) is rapidly catching up, followed by Saudi Arabia (13.2%), Kuwait (4.7%) and West Germany (3.8%). The US is also the prime export destination (30.4%), succeeded by Japan (22.2%), the Netherlands (5.1%), West Germany (4.6%), and Hong Kong (3.7%).

Singapore, due to its small population and landmass, is the most strikingly different of the ASEAN grouping. With agriculture contributing only a small amount to the economy, the country's traditional function as an entrepot center has been gradually enriched by the growth of manufacturing. One must thus differentiate between entrepot exports (dominated by crude materials -- largely natural rubber -- and machinery and transport equipment), and domestic exports (principally mineral fuels, and machinery and transport equipment). Imports are composed of crude petroleum, crude materials, rice, and some manufactures (Chia, 1980:259). These originate in Japan (18.8%), Saudi Arabia (18.5%), the US (12.6%), Malaysia (12.4%) and Kuwait (3.4%), while exports are destined for Malaysia (15.6%), the US (13.2%), Japan (10.1%), Hong Kong (8.8%) and Thailand (4.2%).

The last of the ASEAN countries, Thailand, is similar in several respects -- population, GNP, production -- to the Philippines. Its imports are composed of oil and manufactured goods, though Thai efforts at industrialisation have shifted the nature of the latter from general importation of manufactures to a greater stress on specific items (machinery, transport equipment, chemicals, and mineral fuels). Imports arrive from Japan (23.8%), Saudi Arabia (14.7%), the US (11.5%), Singapore (8.0%) and Qatar (4.3%). In contrast, exports are still largely composed of food and crude materials -- rice accounted for 13 percent of 1975 exports, raw sugar 12.7 percent, unmilled corn 12.5

percent, and tapioca 9.9 percent (Akraanee, 1980:326) -- though the share of basic manufactures (wood products, textiles and clothing, precious and semi-precious stones) is rising rapidly. Exports were destined primarily for Japan (14.4%) and the US (13.4%), as well as for the Netherlands (9.7%), Singapore (7.2%) and Malaysia (5.1%).

The last of the "5+5+1", finally, is South Korea. Early policies of import substitution were replaced in 1970 with a strategy for export-led growth, the success of which is reflected both in the formidable growth of Korean exports (Table II.1.2), and in the nearly 72 percent of its GNP accounted for by trade (Table II.1.5). Exports are made up of clothing and textiles, metal manufactures, basic metals and industrial chemicals, while imports include primary fuels, processed and primary industrial supplies, capital equipment and primary foods. Export trade is predominantly with the the US (27.2%) and Japan (16.9%), followed by Saudi Arabia (5.6%), Hong Kong (5.2%) and West Germany (4.0%). Similarly, Japan and the US exchange place to lead in Korean imports (24.6% and 22.6%, respectively), succeeded by Saudi Arabia (14.8%), Kuwait (6.3%) and Australia (3.2%).

II.1.iv -- Pacific Interdependence

As should by now be quite readily apparent, the nature of trade between the Pacific Rim countries is cause for a large degree of interdependence. Part of this is

attributable to the export orientation of most of the governments in the region. However, the driving force behind this is to be found in the broad commodity composition of the Pacific Rim. It includes five major food exporters, for example: the United States, Canada, Australia, New Zealand and Thailand. Together, they provide for all the necessary traded foods, including 90 percent of the world's wheat, and 80 percent of grains in general (Tokuyama, 1979:47). In addition, these same countries, with the help of Indonesia, Malaysia and the Philippines, provide several industrial raw materials; the region dominates the rubber and tin markets, notably. In terms of energy, oil is limited largely to the production of Indonesia (though China could well add to this), but alternatives in the form of coal or uranium are to be found in the United States, Australia and Canada. Where manufacturing is concerned, the range is from the labour-intensive industries of Thailand and the Philippines, to the more capital-intensive production of Korea and Singapore, and even beyond into the technology-intensive realm of Japanese and American "high-tech". Together, then, the Pacific Rim amounts to a nearly self-sufficient region.

Some theoretical observations can also be brought in to strengthen this claim. Though the degree of deliberate economic integration in the Pacific Rim is of course restricted to the cases of ASEAN and NAFTA, the conclusions

arrived at by H.G. Johnson (1962) in his "Economic Theory of Customs Union" are applicable. This is not to say that a customs union, or for that matter any lower form of integration, is envisioned for the Pacific. Rather, what is of interest are the non-tariff forces he lists which give greater cohesion to a region as a unit by maximising "trade creation" (the switch from domestic production to more efficient partner-country substitutes) and thereby minimising "trade diversion" (the switch from cheaper world prices to less-efficient partner production). One of his central conclusions is that trade within a region is most beneficial when the countries involved produce similar goods but with wide differences in relative prices. Numerous examples of this can be found in the Pacific Rim. The grain crops of Japan and Indonesia, for example, are highly subsidised, while Canada and the US are the most efficient producers of a variety of grains in the world. Similarly, the production of electrical appliances is to be found in Canada, the US, Korea, Singapore, Hong Kong, and elsewhere, with widely varying degrees of efficiency, while much the same conclusion can be arrived at for textiles and clothing. Johnson also notes (1962:57) that this situation is reinforced if income-elastic goods are involved: as has been detailed, goods with this characteristic abound in the Pacific economies, notably consumer electronics, transportation equipment, clothing, refined ores and energy resources.

Greater cohesion is also attained if the region involved is as different as possible from the rest of the world, particularly with respect to the types of commodities being traded. Thus, it is advantageous if the world is dependent on the region for goods in inelastic supply: the dominant position of Pacific Rim countries in global production of grain, tin and rubber has already been noted, and coal, uranium, wood and paper can be added to this. It is also beneficial if the region imports goods of elastic demand from the rest of the world: from the above, the self-sufficiency of the Pacific Rim in most vital areas should be obvious -- the one significant exception to this is oil, though ready substitutes (coal, uranium) for it are to be found in the Pacific region.

From all this, it is evident that one must agree with Krause (1979:173) in concluding that: "... the Pacific Basin contains both complementary and competitive countries which economic theory says is necessary for maximising welfare gains from international trade." In sum, it can be seen that there are significant reasons, both theoretical and in terms of the practicalities of trade, for characterising the countries of the Pacific Rim as a regional entity.

II.1.v -- The Need For a Pacific Community

If there is indeed a coherent Pacific Rim, what then of

the efforts at institutionalising this regional entity? -- in other words, what of a "Pacific Community"?

Having established the mutual interdependence which exists between the countries of the Pacific Rim, it might well be instructive to consider how well these interrelationships have been managed. Surprisingly enough, a number of examples can be brought forth to show that this has been poorly done indeed.

A classical example of this is the American soybean export embargo of 1973: it was felt that demand from exports would cause socially unacceptable price increases, and thus exports were prohibited. This perhaps solved certain domestic short-term problems, but its impact upon American trading partners, particularly Japan -- which suddenly lost its security of supply -- was such that the US was from then on viewed as unreliable.

Of course, the United States has not been the only guilty actor: in 1974-75, Japan closed its doors to silk textile imports from Korea and China. Once again, domestic interests (particularly certain silk-producing constituents in Prime Minister Tanaka's riding) were aided, but the cost in soured relationships between Japan and its trading partners was considerable.

Similarly, in 1974 Korea abruptly implemented a massive devaluation of the won, thereby making the wares of its

close competitors (Taiwan, Hong Kong and Singapore) automatically that much less competitive. The sudden nature of this devaluation, and in particular the lack of prior consultation between Korea and those affected, did not endear the country with its neighbours.

Thailand, finally, is guilty of a similar infraction. As the "ricebowl" of the region, it serves an important role with respect to certain food-importing countries of the region -- the Philippines and Indonesia, in particular. However, faced with the commodity price boom of 1973-74, Thailand found its exports driving up the domestic price of rice. It thus imposed restrictions, and later a prohibition, on exports of rice. This of course transferred the burden of economic disturbances to its neighbours; the fact that they had to look elsewhere for rice when the buyer's market was at its worse (due to poor harvests) made the Thai action all the more galling.

The element which each of these examples reflects is the suspicion with which interdependence, and thereby the share foreigners hold in one's economy, is viewed. However, such an outlook is fundamentally mistaken; as Crawford and Okita (1978:43) note:

... the term interdependence is used to stress the fact that the mutual benefits of international trade between any pair of countries can only derive from each trade partner's holding a share in the other's market and to stress the fact that where there is any vulnerability or weakness deriving from a trade partnership, there is commonly, though

not always, a mutuality in that vulnerability or weakness.

In addition, harking back to the theoretical and analytical discussion of trade patterns in the Pacific Rim, Crawford and Okita go on to add that:

Large trade shares per se are more properly taken as an indication of the gains from a trade relationship than the weakness in it. They are a reflection of complementarity in industrial structures between trading partners, of significant differences in comparative costs, and the economic advantages of proximity.

In this light, the pejorative consequences of the examples pointed to above are all the more evident. Even the larger countries of the Pacific have often taken only a small-country approach: forcing the adjustment to economic disturbances upon their neighbours; ignoring the impact of this on outside economies; and thereby remaining insensitive to the long-run impact, even upon their own economies.

It would seem, then, that the links between the Pacific Rim countries, which appear so obvious when trade is considered, have been poorly managed. As Krause (1978:174) notes: "One can conclude that there is a serious lack of regional consciousness within the Pacific Basin and it has led to deficient economic policies by the countries of the region." The record also suggests that it is beyond the ability of any one Pacific state to rectify this, even where its own links are concerned -- as the US Subcommittee on Asian and Pacific Affairs (1979:31) puts it: "Bilateral approaches have become less and less adequate because of the

complex network of interdependencies and feedback structures amongst all members of the Pacific Community." The need for an institutionalised Pacific Community is thus clear.

II.1.vi -- Efforts at Institutionalisation

Of course, any proposed organisation must be able to justify its establishment in the face of institutions already existing. Thus, a brief examination of the groupings which include the Pacific is in order, so that their applicability to the needs of the Pacific Rim can be evaluated.

Starting with the United Nations, there is the United Nations Conference on Trade and Development (UNCTAD), which includes several Asian countries. Much like most of the UN, however, UNCTAD has been a highly polemic and rather unproductive forum: members vent their frustrations (a useful enough function for an organisation), but consensus upon decisive action is rare. Thus, even for the Third World states of the Pacific, UNCTAD is viewed as essentially impotent. In addition, "... many Southeast Asians [have] become impatient with the radicalism of certain Latin American and African countries on such central issues as the stabilisation of commodity prices." (Davies, 1980:34). Finally, the broadness of UNCTAD membership makes it inapplicable to the specific needs of the Pacific Rim.

A more Asian branch of the UN is the Economic and Social Commission for Asia and the Pacific (ESCAP). Though its narrower membership ought to have allowed for more functional unity, it has been criticised for its limited achievements in instituting significant social or economic change. Its one notable accomplishment has been the creation of the Asian Development Bank (ADB), which has proved to be effective in channelling funds from the developed world into regional development projects. In contrast to ESCAP, the ADB's effectiveness is due to the narrowness of its mandate. These very restrictions, however, make it unsuitable for handling the broad challenges of a Pacific Community.

One of the more interesting institutional developments in the region is the rise of ASEAN. Founded in 1967, it was originally given little hope for significant success: the problems facing its five members, largely economic but also involving serious security considerations, were not of a nature to be solved by the group alone, and historically their relations had been rather acrimonious. With the withdrawal of American military forces from the region, following their defeat in Viet Nam, however, a political vacuum was left in the region, and ASEAN thereby acquired new significance. This was confirmed at the Bali Summit conference of ASEAN leaders in 1976, from which a surprisingly detailed plan of economic action -- involving preferential trading arrangements, ASEAN industrial

projects, and industrial complementation schemes -- resulted. ASEAN has also taken on diplomatic importance as the central protagonist in resolving the contentious question of the fate of Kampuchea. The character of the organisation has yet to be firmly established, though, and thus ASEAN is not open to expanded membership. In face of their rejection of the application of Sri Lanka to join ASEAN, for example, and the fact that Korea remains estranged from them, the inability of the group to encompass Pacific Rim concerns becomes evident. Furthermore, as shall be seen below, this lack of firm cohesiveness has also been one of the central threats to the concept of Pacific Community.

Finally, there are in addition some non-governmental organisations involved in Pacific issues. The Pacific Basin Economic Council (PBEC), for example, is a group of concerned businessmen from the developed nations of the Pacific Rim. On the academic side, one can find the Pacific Trade and Development Conferences (PAFTAD), a series of seminars involving academic economists, dealing with issues of the Pacific. By their very lack of formal government participation, however, such organisations are unlikely to provide the institutional setting appropriate to coping with the interdependencies of the Pacific Rim.

In sum, then, there appears to be no Pacific equivalent of the EEC, the Organisation of African Unity, or the

Organisation of American States. Indeed, it is rather surprising to note that the Pacific appears to be the one area of the world not united in some regional grouping. As such, proposals for institutional innovations in the Pacific appear thoroughly justified.

The first concrete attempt to fill this lacuna is to be found in the 1967 suggestion of Kiyoshi Kojima (1971) to create a Pacific Free Trade Area (PAPFTA). Its membership was to include the advanced countries of the Pacific, ASEAN, and on an associate level, South Korea and Taiwan. It was felt by Kojima that many of the preconditions which led to the formation of the EEC were to be found in the Pacific, and thus that replication of a similar trading bloc would be possible. However, as Hay and Price (1981:67) note: "What Professor Kojima failed to take into account was that the exclusive character of a regional trading bloc of industrialised nations would do little but alienate their less developed neighbours." In addition, it can be seen that such an inward-looking institution was contrary to the American policy of multilateralism, and thus could not expect to meet with approval.

Though Kojima's proposal was rapidly dropped, he did manage to catch the interest of then-foreign minister Takeo Miki. As a result, the Japanese government sponsored the first of what turned out to be the series of PAPFTA Conferences in 1968. From these conferences have arisen

proposals for a looser regional organisation, to which the rubric of "Organisation for Pacific Trade and Development" (OPTAD) has been attached. The envisaged grouping is seen as fundamentally pragmatic, and functionally oriented. In other words, its central purpose would be economic, though varying degrees of politicisation have since been admitted. Thus the Far Eastern Economic Review (Davies, 1979:51) states that: "The philosophy of the concept must be economic growth, under whatever political auspices such growth is achieved." Of course, it can readily be seen that a too-exclusive concentration on economic issues would be to the detriment of the developing country members, as status would then be determined by economic size. As one Southeast Asian politician has noted (Mahathir, in Soesastro, 1982:48): "... interdependence is still very much an economic concept that has no reality for a lot of poor nations. True interdependence must mean not just being mutually dependent on each other, but some degree of equality of strength to support each other." The inclusion of the political considerations of North-South issues into the OPTAD framework is thus considered essential. A Japanese observer (Nakajima, 1980:5), for example, has remarked that: "It would be an evasion of the essential of problems [sic] should such advanced nations as Japan and Australia conceive cooperation that would avoid these political issues and place emphasis only on economic matters." However, stress has also been put upon the need to keep the organisation's

mandate narrowly defined, so as to avoid the impotent excesses of ESCAP. As a result, though such issues as alternative energy sources and ecological concerns are not totally ignored, the focus is mostly on such topics as trade facilitation, technology transfer, aviation and telecommunications, tourism, fisheries and seabed mineral resources.

Turning presently to the goals of an OPTAD, the PAFTAD Conferences have delineated four (Drysdale and Patrick, 1979:19). Firstly, it should serve as an institution for the discussion of trade and economic irritants, thereby providing a safety valve for the release of regional acrimony. Secondly, it ought to provide a stimulus for investment and aid flows to the developing countries of the Pacific Rim, with emphasis upon the structure and quality of these flows. Thirdly, it should be a forum for the discussion of the long-term transformation and development of the region. Finally, OPTAD should stand as a more secure framework of economic alliance for the Pacific within which members could develop closer links with the subgroupings and non-market economies of the region.

These goals underwent their first explicit attempt at structural organisation in Drysdale and Patrick's (1979:20-25) "Exploratory Concept Paper" for the US Congress. The question of membership is here cautiously treated: to the "5+5+1" formula the authors add Taiwan,

Hong Kong, Papua New Guinea, and the South Pacific "microstates"; however, they also contemplate the addition of the South Asian states, the Latin American Pacific nations and the Communist countries of Asia. This broad list is given some limits by the suggestion as a fundamental criterion that:

... members commit themselves to acceptance of an adherence to a system of fair, open, and multilateral competition within a free market framework for all international economic transactions, based upon accepted rules (to be worked out within OPTAD) for trade and commercial practices, aid terms and arrangements, and investment and capital flows including codes of conduct.

In terms of organisational structure, the authors suggest that this be an official institution with its members the constituent governments. In it, the leadership of the United States and Japan was felt to be essential in building the organisation, together with the "full involvement" of Australia, South Korea and ASEAN. The suggested set-up would be small, and not heavily bureaucratic, with issues handled through specific functional Task Forces initiated through high level political consultation; suggested topics for these include: fair trade, trade restructuring, financing of regional development, foreign direct investment, resource and energy security, and trade with the Communist states. Finally, the style of operation would ideally be consultative, informal and communicative.

Though the Drysdale/Patrick contribution is valuable for its explicitness, the implications and demands of the

paper went well beyond the level of regional consensus existing at the time. As Davies (1979:5) notes, even interested Japanese were alienated by the "... frank self-interested logic which the authors of the US report presumably felt constrained to employ in order to persuade Congress to become involved in the Pacific." -- the reaction from the ASEAN countries was of course all the more cautious. As a result, no direct developments resulted from the "Exploratory Concept Paper".

The effort was carried on, however, by the Pacific Basin Cooperation Study Group (PBCSG), a government commission of the Japanese, appointed under the Ohira regime. Given that the Japanese initiated the concept of a Pacific Community as early as 1967, and that they suddenly brought the issue to the fore again in 1978 -- even if in the rather sudden and apparently inadvertent form resulting from the heat of electioneering (see Davies, 1979:47) -- much was expected of the Study Group. Its final report of May, 1980 was thus all the more disappointing for the timidity of its recommendations (PBCSG, 1980:6-8). Likely in an effort to avoid agitating ASEAN sensitivities, the question of structure was left untouched, and only broad project proposals were enunciated. These recommendations did however serve to supplement the work of Drysdale and Patrick by enriching the scope of the proposed OPTAD. Amongst the tasks set out for Pacific Basin Cooperation were firstly, a "respect for diversity" -- in other words, more

emphasis on the cultural side of "community" -- to be enhanced by encouraging contacts among people through tourism, cultural exchanges, and, notably, the internationalisation of Japanese universities. Secondly, arrangements to extend cooperation for human resource development and technical cooperation were urged. Thirdly, a "Pacific Declaration on Trade and International Investment" was recommended, whereby the developed countries of the Pacific Rim will pledge to open their markets further in exchange for an improved climate for investment in the developing countries. Finally, the need to develop the resources of the Pacific Basin, through the smooth flow of capital and the expansion of transportation and communication in the region, was underlined.

An additional, though non-official, contribution of the Japanese arises from the return of Kojima to the debate with his new proposal for a "Pacific Forum" (Kojima, 1982:30-34). This suggestion differs from previous ones in that it urges the creation of a series of sub-regional OPTADs, each involving the five developed countries in various combinations with other groupings of the region (the first, for example, would likely be an ASEAN-Pacific Forum), all ultimately to be joined together. Kojima emphasises that the orientation of such a Forum for ASEAN should be towards the resolution of North-South problems. Its primary targets should thus be increasing official assistance flows and direct investment, as well as the widening of regional

markets. He further suggests that this be attained through the establishment of a revolving aid fund, and of a STABEX scheme involving compensatory financing, a buffer stock, the provision of credit for ASEAN exports, and loans for resource, research and exploration. Finally, he urges the creation of a special aid fund, aimed at doubling ASEAN rice production. In concluding, Kojima underlines the need for the exchange of social and cultural knowledge.

Though brought up by an influential proponent, the "Pacific Forum" scheme has to date received little attention. Potentially this is due to the fragmented and rather extensive nature of its organisational structure. However, it is more likely that Kojima has simply been overcome by other events.

These "other events", the cumulative result of the diverse contributions to the OPTAD idea, have taken the form of the "Pacific Cooperation Seminar", held in Canberra, Australia in September, 1980, and its sequel, the "Pacific Economic Cooperation Conference", held in Bangkok, Thailand, June, 1982. These collective efforts towards a Pacific Community were largely the result of a meeting between Prime Ministers Fraser and Ohira in early 1980. The Canberra Seminar was attended by delegations of three from each of the "5+5+1" countries, as well as a joint delegation from the Pacific island states (one each from Papua New Guinea, Fiji and Tonga). The tripartite nature of subsequent

Pacific Community consultations was established here, with each delegation including a senior government official, a business leader, and an academic. The Seminar was convened to discuss the need for a Pacific Community, as well as its potential format and agenda. In the course of the meeting, it was decided that a "Pacific Cooperation Committee" of some twenty-five members should be established, composed of a tripartite representation from amongst the eleven founding countries, though also open to other interested Pacific Rim states. The purpose of this committee would be to:

... establish task forces in agreed areas to explore substantive issues for regional economic cooperation, to review their reports and transmit them to governments, with such comments as they wish to make. The committee would also usefully continue the exploration, begun in this seminar, of a possible future permanent institutional structure for Pacific cooperation.

(Crawford, 1981:31). The subject matter for these task forces would include trade (and associated problems of market access and structural adjustment), direct investment (incorporating discussion of guidelines for investors and harmonisation of foreign investment policies), energy (access to markets, security of supply, alternative sources, conservation and research exchange), Pacific marine resources, and international services (transportation, communication and educational exchanges).

The 1982 follow-up meeting in Bangkok was based on two central priorities (Trigg, 1983:1): the feeling that the proposal for a Pacific Cooperation Committee "had not

resulted in an active response from the governments involved; and a "strong sensitivity" to the fears of ASEAN that its accomplishments might be overwhelmed by the broadness of the new Pacific consultative body. The Conference was significant in two particular respects, in that it was hosted by an ASEAN country, thereby emphasising the central role the Association has to play in any move towards a Pacific Community, and for the use of the term "economic" in the Conference title (in contrast to Canberra's deliberately avoiding its usage), thus underlining the largely economic nature of the discussions at Bangkok. The central conclusions arrived at by the sixty participants (from the "5+5+1", Chile, ESCAP and OECD) attending in their individual capacity were that (PECC "Communique":1):

1. The economies of ASEAN are closely linked to the economies of other Pacific Basin countries, and that economic co-operation with these countries would enhance the economic progress of ASEAN; and
2. there are several issues of economic relations in the Pacific which are neither sufficiently nor effectively dealt with at international and bilateral forums In addition, intra-Pacific regional co-operation could contribute towards a more open world economic order. Issues of immediate concern are trade in manufactured goods and primary commodities (in raw as well as processed forms), and investment and transfer of technology.

These serve to underline the concern for, and benefit to, ASEAN, as well as the exemplary part which might be played by a Pacific Community in solving global problems. It is thus not envisaged as an exclusionary, preferential grouping; rather, it is seen as "regional means to global

ends". It was also decided that the Conference should be followed by a series of tripartite consultative meetings to review matters of common Pacific Basin concern. In order to ensure the effectiveness of these, a mechanism including the following structures was agreed to (PECC, "Communique":2): a "Standing Committee", responsible for the organisation of the next conference (in Indonesia, October, 1983), composed of eight members from a variety of Pacific Rim countries, with its Secretariat at the Center for Strategic and International Studies in Indonesia; four Task Forces, one each on trade in manufactures, agricultural products and minerals, as well as on investment and technology transfer; and, in order to ensure the tripartite nature of the Task Force substantive reports, a network of "meeting, consultation, review committees, etc.", both national and international. In this last respect, it should be noted, for example, that the "Canada-Pacific Co-operation Committee" held its founding meeting in Ottawa, February 5, 1983.

The concept of Pacific Community is thus very much active and ongoing. As pointed out by English (1983:17-18), however, its success will depend primarily on two factors: the effectiveness of the group's leadership, and the kind of policy ideas which will emerge -- notably their appropriateness, and the size and distribution of expected costs and benefits (economic and political). In terms of

Leadership, the Standing Committee is made up of individuals of considerable importance, but will face the challenge of representing a range of interests beyond their own national inclinations. This is particularly problematic with respect to ASFAN, in which respect the type of policies which emerge is all the more significant.

The final chapter to date in this evolution of the Pacific Community concept has been the suggestion from Korea for "Pacific Summitry". This proposal was first brought up by President Chun Doo Hwan during Australian Prime Minister Fraser's visit to Korea in June of 1982. Fraser responded positively to the suggestion, referring to it as "a worthy one for examination" (FEER, June 25, 1982:20). Chun went on to present the details of Pacific Summitry to a press conference on July 31, 1982. Rationale for the idea is to be found in his claim (Chun, 1982:1) that:

... the most effective way to overcome various obstacles and challenges lying in the way to realizing the Pacific Age is the introduction of a consultative mechanism under which top leaders of Pacific Rim countries can meet to discuss matters of mutual concern and consult on ways and means to expand mutual cooperation.

The officially suggested purposes of Pacific Summitry would be to cultivate friendship and understanding between the leaders of the region, to emphasise Pacific interdependencies and explore the means of cooperation and coordination, to provide a forum for discussion, and to set an example of successful regional cooperation between North

and South. The envisaged principles of the undertaking are that it be a flexible and open-ended consultative body, similar to the Summit Conferences of the seven Western countries or of the British Commonwealth; be based on equality and reciprocity among nations, as well as supportive of existing ties and subregional cooperation in the Pacific Rim; be open to participation by all countries of the Pacific sharing the common goals of development, prosperity and cooperation, and that it not have political, ideological or military security implication (in other words, that no country or bloc should dominate). It is also explicitly noted that Pacific Summitry should neither substitute for nor supersede the process towards Pacific Community. Of course, it may well contribute to it, and the suggested subjects for discussion in Pacific Summitry would certainly serve to do this; they include consideration of: ways and means of expanding trade, development of natural resources and technical cooperation, transportation and communication, education and cultural exchanges, and improved North-South relations. Finally, the proposed mechanics for Pacific Summitry are that meetings should be held periodically at intervals agreed upon by participating leaders, with the host's head of government serving as chairperson, that agreement be reached by consensus and publicised through the form of a joint communique, and that there be no permanent secretariat (administrative requirements are to be met by the host).

The Chun "Conceptual Framework" thus serves to bring together several of the proposals towards Pacific Community. Potentially it can serve in furthering the concept of Pacific regionalism, particularly in focusing the attention of Western leaders upon the problems and opportunities which are specific to the Pacific. As Bedeski and MacLean (1983) have noted, this would be an important contribution in itself, since Atlantic and Pacific perspectives on the issues of North and South, East and West, or towards the problems of development, can differ considerably. However, Chun's proposal also embodies considerable disruptive potential, in that it implicates ASEAN in a rather broader venture than the Southeast Asians may be willing to undertake -- sensitivity to their concerns is thus central. In sum, however, it is clear that "The Korean President's suggestion is a carefully drafted summary of major consensus elements, and, as such, represents a potential step forward in achieving closer integration of the Pacific region." (Bedeski and MacLean, 1983).

Reflecting upon this section on the efforts towards institutionalising the Pacific Rim -- from Kojima's original free trade area, through OPTAD and the Pacific Cooperation Conferences, to Chun's Pacific Summitry -- it is clear that considerable thought has already gone into the future prospects of the Pacific region. It should be noted, however, that none of the proposals envisages substantial

degrees of integration. Even the most far-reaching, the OPTAD suggestion for a Pacific OECD, does not imply any surrender of policy sovereignty. As such, drawing parallels with the experience of the EEC would be mistaken, as the process in the Pacific is of a much lower order. However, one ought not conclude from this caution that the Pacific Community concept has little to offer: rather, it should be seen as the first step towards fulfilling the prospects of the Pacific.

II.1.vii -- International Reaction

Having established the form Pacific Community might take, considering the reaction of the various Pacific Rim countries to these proposals is now advisable. As has already been noted, the reaction of ASEAN to all this has been both central and less than enthusiastic. Indeed, though separately the ASEAN countries are of rather little significance, together they form a core power in determining the future of a potential Pacific Community, and several notes of caution on their part have been underlined in this respect. This was given explicit mention at the Canberra Seminar, when it was made clear that ASEAN delegates were concerned as to the impact of a Pacific Community on the strength and cohesion of ASEAN, and that it:

... should not have hidden political motivations which could conflict inter alia with its non-aligned approach; that it must not result in new forms of neo-colonialism; that it should not lead to increased dependence on or domination by the major

industrialised economies of the region at the expense of important extra-regional relationships.

(Crawford, 1981:28). Furthermore, though the fact that the ASEAN countries are not ardent supporters of UNCTAD has already been established, they are not necessarily convinced of the need for a new institution. ASEAN holds annual meetings with certain developed countries (its "Dialogues" with the United States, Japan, Australia, Canada and the EEC), and it has been suggested that this was sufficient. As Gerardo P. Sicat (Philippine Minister of economic planning) noted in a speech on July 30, 1980: "ASEAN has to be convinced that its dialogues are better understood within the framework of a wider regional organisation and that would take a lot of convincing since its dialogues or consultations are already in progress." (in Hooper, 1982:57).

This unease on the part of ASEAN has been compounded by the perhaps necessary tentativeness of Pacific Community proposals to date. As Sicat (1982:58) further relates: "... the signals from official levels are not specific. There are enough suggestions, but they have been made at a private level. No government -- not even Japan -- has gone beyond general ideas." This vagueness is the unfortunate product of both Japanese and American coyness: while ASEAN awaits firm propositions to respond to, the Far Eastern Economic Review (Rowley, 1981:51) notes of the big powers that "... ironically, they seem to have been shying away

from such a declaration precisely because they feared ASEAN would take fright at the idea of a community dominated by the major-power governments." As an ASEAN commentator (Soesastro, 1982:9) has stressed, the very uncertainty of the concept of a Pacific Community forces it into the realm of "high politics". This serves to reinforce the tendency towards what English (1982:19) calls bureaucratic and political "inertia" -- inertia "... which often makes it easier for both these classes to do nothing the results of which cannot be safely predicted and controlled." Soesastro confirms this elsewhere (1981:14) in stating that: "It is almost sure the ASEAN countries could not easily be invited to enter into a process of muddling through; the body politic just could not support this adventure."

It should be noted however that most of these objections on the part of ASEAN date from relatively earlier on in Pacific Community discussions. Recently, under the impact of global recession on their growth rates (political issues in themselves), the Southeast Asians appear to have become more open to the concept. As Soesastro (1982:3) points out, ASEAN suspicion would appear to be due to government "misperception". Indeed, English (1982:19) notes that: "It is difficult to see how ASEAN's future can be undermined by attempts to reduce and control the uncertainties that arise in the part of the world economy outside ASEAN that most affects the well-being of all members of the group." Addressing the question of the

impact of a Pacific Community on ASEAN as an institution, he also stresses that greater intra-ASEAN cooperation has been closely linked to heightened external linkages, and that the latter have usually led the way.

Evidence for this change in attitude is to be found in the fact that the 1982 Pacific Economic Cooperation Conference was held in Thailand, with the next to be hosted by Indonesia. Their new perspective is due to the fundamental pragmatism of the majority of ASEAN political figures. As English (1983:338) concludes: "The proof of the value of Pacific economic cooperation lies for them in solid evidence of substantial net economic benefits and limited (if any) political costs."

Turning to another core element in the evolution of a Pacific Community, the United States has also approached the concept with considerable scepticism. English (1983:347) notes succinctly that: "The United States has avoided all but the most modest indications of interest in any institutional framework for Pacific economic co-operation." Thus, though the Americans were fairly early on instrumental in analysing the concept (Drysdale and Patrick, 1979, notably), relatively little else has been produced by them since, particularly when the scale of resources which could potentially be applied is kept in mind. In addition, even in their original analyses, they were careful to append a "Sceptical View" (Drysdale and Patrick, 1979:26-27) of any

sort of OPTAD. This critique pointed out that the US remained committed to the GATT, that alternate institutions could be used, and that even if an OPTAD amounted only to some consultative forum, "... it is questionable that this is a productive use of time of senior US officials who already spend an inordinate time going to meetings which have little usefulness in terms of results." (Drysdale and Patrick, 1979:27). Of course, the United States is also faced with the problem alluded to above of having to strike a balance between appearing too eager to support a Pacific Community -- thereby scaring off the ASEAN countries -- and being too complacent; as Congressman Wolff has remarked: "The US should take an important role but not the leadership -- that would be the kiss of death." (Davies, 1979:48). Finally, the long-term considerations of the Pacific received far less attention after the advent of the Reagan Administration. Given its emphasis on security -- an anathema in Pacific Community discussions -- it is perhaps for the better that its short-term perspective has been focused largely on Latin America.

However, even Reagan's "Fortress America" must be open to change. As noted in an earlier discussion of the United States in this work, the fallout of the Williamsburg Summit has been the rise of the "Pacific Basin" group within the Administration -- one official is even quoted as saying: "When historians look back on Williamsburg they will record it as the political baptism of the Pacific Basin." (Nations,

1983:55). Essentially, this is the product of American exasperation with what is seen as EEC abandonment of multilateralism, resulting in a turn to Japan, the key to the Pacific, as the remedy to insure future growth and prosperity. Though the United States is hardly free of protectionism, with its present emphasis on "reciprocity" a definite threat to its trading partners, the new orientation of the Administration may perhaps serve to focus greater American sympathy and attention on the prospects of Pacific Community.

Japan is a somewhat different case, in that its original commitment has weakened with time. A good part of this is due to the factional nature of domestic Japanese politics: as pointed out earlier in our study of the evolution of the Pacific Community concept, the idea was given recent prominence, however inadvertently, by Prime Minister Ohira, resulting in the Pacific Basin Cooperation Study Group. The compromise of factional Liberal-Democratic Party disputes after Ohira's sudden death in May 1980 produced the somewhat non-descript Zenko Suzuki, who had little choice but to follow his predecessor's priorities -- the concept of Pacific Community thus continued to receive attention in Japan (Nakajima, 1980:2). With the election of Nakasone in 1982, however, commitment to the cause has been weakened, with more stress being placed by the new government on security and ties with the US -- as one senior

Japanese commentator is recently quoted as having said (Hay, 1983: 18): "The Pacific Community was Prime Minister Ohira's idea and he is dead." This is also reflective of a trend by the Japanese away from leadership in Pacific Community considerations, prompted by ASEAN suspicions, and echoed in the caution of the May 1980 "Final Report".

This is not to say, though, that Japan has abandoned the Pacific. Firstly, it is hardly in a position to do so: given its need for secure sources of inputs, production centres and markets, the Pacific region, though it cannot provide Japan with all its needs, will continue to be vital to the country. Secondly, it would not be in character for the Japanese to outrightly reject a proposal; rather, the concept of Pacific Community, though it may receive only limited official attention, will likely remain a topic of discussion for the Japanese (though this may well be used as a substitute for further action). Thus the Pacific will remain important to the Japanese, though not necessarily as a regional entity.

Even if Australia has been one of the leading proponents of the Pacific Community concept, its enthusiasm has been tempered both by the reaction from Southeast Asia, and by the reevaluation of policies which came with the new Labour regime. As Hay (1983:18) notes: "The Hawke government has not rejected that option, but it is much more cautious of being seen at the head of the parade ..."

Having been cut off from the United Kingdom because of the EEC, Australia is now also firmly a Pacific nation, however. Thus the question facing Australians today is whether there is more risk in their dependency relationship with Japan, or in supporting Pacific regionalism.

The one country truly dedicated to the Pacific Community concept today is Korea. As we have seen, its proposal for Pacific Summitry may well serve to move matters beyond the stage of tentative discussion. The reasons for this enthusiasm are quite straightforward: its high levels of growth and trade, which were outlined earlier in this chapter, require both secure sources of inputs and assured market access, both elements which Pacific Community could aid in attaining. In addition, Korea is a country in search of a region, in order to acquire the diplomatic support which would help insure its survival and prosperity in the face of a constant and pressing security threat from the North. A central role in Pacific Community discussions is thus open to Korea, though it has to date shied away from this in order not to excite ASEAN sensibilities. The part which it has instead opted for, according to Korean officials, is that of an "honest broker" between the advanced and developing countries of the region (Shim, 1982:20).

In sum then, it can be seen that the attempts at institutionalising the network of Pacific Rim interdependencies have been met by considerable caution at the official level, with no country or group at this time willing to take on the matter of leadership. As the analysis of this chapter has revealed, this is not for lack of fundamental reason, as considerable incentive exists for all involved to harmonise their trade. Thus, the potential for some community is not the question; rather, the crux of the matter at this time is the degree of community in the Pacific, and the level at which it might take shape. Added to this is also the matter of diplomatic sensitivity, for which patience is required in order to give rise to a productive outcome. Essentially, the time is not yet ripe for any country or group to step forward to undertake the organisation of a Pacific Community. However, in a world of heightened protectionism in the face of a weakened GATT, the perspective which the Pacific has to offer is one of rewarding prospects.

II.1.viii -- References to Section II.1

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Chapter II.2

The Canadian Perspective

Up to this point, our analysis has served to detail those elements which make the Pacific significant as a region. The reactions of the Pacific Rim countries to the various proposals for Pacific Community have also been outlined. With the conclusions from this in mind, it is now possible to turn to Canada's outlook on the prospects of the Pacific.

Given recently heightened interest in relations between Canada and the Pacific, it is somewhat startling, and perhaps disheartening, to note that this is hardly the first time such considerations have arisen. Indeed, the historian Geoffrey Barraclough (1979:84) relates that, even back in 1939, MacKenzie King noted that:

... there had been a 'change in the world balance of power', a 'change in strategic conditions', a 'change in economic needs and in relative industrial capacity', and he went on to draw the conclusion that, in view of the shift in the balance of world power, it was necessary for Canada 'to keep its Pacific as well as its Atlantic coast in mind'.

As this quotation underlines, either MacKenzie King -- and his various "advisors" -- displayed great foresight, or the

wheels of government policy formation turn a great deal slower than even its most cynical critics charge. For, as the former Secretary of State for External Affairs (MacGuigan, 1980:1) admits:

The truth is that we still lack, in Canada, a well-developed public sense of where we are going and what we should be doing in the Pacific. Until very recently we have been overwhelmingly an Atlantic nation in outlook -- turning East to our European roots and history, our traditional flows of trade, and our major security considerations; looking South to the American colossus, our closest friend and ally, and the mainstay of our economic well-being.

But, as he goes on to note, recently much of this has changed, as Canada slowly turns to face the challenge of the Pacific. This gives rise to some difficulties, but at the same time great opportunity. The next chapter of this work will thus do about detailing the economic and political elements in this challenge; having evaluated these, the Canadian response to the calls for Pacific Community will be outlined, thereby preparing the reader for the second central purpose of this thesis, consideration of the policy options relating to the Pacific.

II.2.i -- The Economic Viewpoint

Considering firstly the economic significance of the Pacific Rim to Canada, one of the most obvious measures to begin with is the share of Canadian exports accounted for by the countries of this region; this is summarised in Table II.2.1.

Table II.2.1

Value of Canada's Exports with Pacific Rim Countries,
as a Percentage of World Total, 1975-81

	1975	1976	1977	1978	1979	1980	1981
Australia	0.762	0.981	0.936	0.789	0.867	0.895	0.757
Japan	6.544	6.362	5.753	5.341	6.348	5.877	5.547
New Zealand	0.149	0.143	0.156	0.126	0.136	0.142	0.139
Indonesia	0.199	0.211	0.151	0.159	0.097	0.290	0.114
Malaysia	0.074	0.082	0.092	0.089	0.102	0.125	0.155
Philippines	0.162	0.148	0.175	0.139	0.132	0.146	0.100
Singapore	0.112	0.085	0.088	0.118	0.179	0.267	0.180
Thailand	0.069	0.102	0.124	0.127	0.136	0.191	0.141
Korea	0.244	0.311	0.329	0.414	0.568	0.679	0.551
Subtotal	8.710	8.893	8.286	8.404	9.347	9.551	7.884
United States	64.747	67.029	69.598	70.133	67.666	63.062	66.344
Subtotal	73.475	75.992	77.884	78.537	77.013	72.613	74.228
PRC	1.156	0.521	0.845	0.963	0.939	1.171	1.224
Hong Kong	0.131	0.157	0.153	0.188	0.214	0.260	0.226
PNG	n.a.	n.a.	n.a.	0.007	0.005	0.003	0.017
Total	74.744	76.600	78.882	79.695	78.171	74.047	75.695
EEC(10)	12.642	12.179	10.743	9.506	11.316	12.861	10.755

-- "n.a.": not available.

SOURCES: Department of External Affairs, The Value Added Content of Canada's Exports -- A Statistical Analysis; for New Zealand: IMF, Direction of Trade Statistics, 1982; for PNG: Statistics Canada, Summary of External Trade (65.U01), December, 1982.

What is of course inescapably evident in any examination of Canadian exports is the overwhelming part played by the United States. As Table II.2.1 reveals, it has in the last several years usually accounted for around

two-thirds of our exports. This raises two points. Firstly, as has already been noted, one should be careful in considering the United States a Pacific Rim country from the Canadian point of view: though it is rightfully part of Canada's Pacific potential, it is not a relationship which is likely to be significantly affected by any change in the links between Canada and the Pacific. This necessary caution is reflected in the tables in the separation of the US figures from the rest. Secondly, given the huge American share, one should remember that, as far as the rest of the world is concerned, one is considering the division of a residual share. Thus, the relatively small part accounted for by the "5+5+1" countries (less the US) -- fluctuating between 8 and 9.5 percent -- must be viewed in a new light, for it represents an important part of our non-American exports. It should also be pointed out that the share of our exports accounted for by Pacific Rim countries now rivals that of the EEC, a more traditional trading partner. Indeed, if other potential adherents to a Pacific Community are included -- China and Hong Kong, for example -- one finds that Pacific exports surpass those aimed at the EEC. Finally, of course, if the United States is included in the analysis, then the Pacific assumes immense significance for Canada.

However, Canadian exports ought not to be studied simply in static terms, as a dynamic perspective opens up further conclusions. Thus, though the share of the Pacific

Rim remains smaller, it should be noted that it has grown considerably with time. This is particularly true for the ASEAN countries, even for the short time period of Table II.2.1: with the exception of the Philippines, and allowing for annual fluctuations, it can be seen that the ASEAN countries' share has grown by 50 to 100 percent between 1975 and 1981 -- over the 1970-1980 period, this same growth ranged from 350 to over 1,000 percent, while the EEC, in contrast, only just managed some 200 percent (Department of External Affairs [DEA], 1982). Of course, this also reflects the smallness of the original base figure, but the cumulative significance of these dynamic developments cannot be ignored. This is confirmed in an External Affairs study (DEA, 1982:4-5), which concludes that:

... although only one ASEAN nation appears in the list of Canada's top twenty-five export markets for goods in any stage of fabrication, collectively they constitute a valuable export market. Moreover, the growth rate of their import levels signals great potential which should be examined, and, if possible, taken advantage of.

Table II.2.2

Percentage of Canadian Exports by Stage
of Fabrication: 1971, 1976 and 1980

	Crude Materials			Fabricated Materials			End Products		
	1971	1976	1980	1971	1976	1980	1971	1976	1980
Australia	9.9	12.4	14.9	46.7	41.2	46.0	43.4	46.4	39.1
Japan	72.4	75.9	60.2	24.2	21.6	37.2	3.4	2.5	2.6
United States	17.2	23.1	21.4	34.1	33.6	40.8	48.7	43.3	37.8
Indonesia	5.5	22.0	11.9	6.6	35.9	59.5	87.8	52.6	28.6
Malaysia	21.3	21.3	24.9	39.0	53.5	52.5	39.7	25.4	22.5
Philippines	42.5	43.3	15.4	25.3	23.1	53.7	32.2	33.6	30.8
Singapore	15.6	11.2	6.4	42.5	57.9	71.1	41.8	30.8	22.5
Thailand	28.5	16.2	12.7	48.5	50.5	65.5	23.0	33.2	21.8
ASEAN	29.7	24.5	12.7	31.0	40.5	62.0	39.2	35.0	25.3
Korea	44.6	44.9	26.8	49.2	39.1	58.3	6.2	15.9	14.9
Hong Kong	20.4	19.8	15.0	62.1	54.5	58.7	17.5	25.7	26.3
PRC	95.9	73.5	66.6	3.9	25.9	32.3	0.2	0.5	1.0
EEC(10)	45.4	40.9	31.9	43.2	45.9	51.7	11.4	13.2	16.4

SOURCE: Department of External Affairs, The Value Added Content of Canada's Exports -- A Statistical Analysis. Note that New Zealand and PNG were not included in this Analysis.

Finally, a brief look at the nature of our export trade is also instructive. As revealed by Table II.2.2, Canadian exports are concentrated in the range of fabricated materials, a trend which has been reinforced with time. Given the government's aim to increase the value added content of our exports, this result is a call for only partial congratulation, as the picture is rather mixed.

Examples of both extremes are to be found: Australia and the United States are characterised by a relatively large share of end products in their imports from Canada, though this has been falling with time; in contrast, Japan remains an obvious disappointment in that end products account for a still-small proportion of our export trade with them. In between, however, one uncovers some interesting trends. Korean and Hong Kong, together with ASEAN, imports from Canada have increased in degree of fabrication: though end products have fallen as a share for ASEAN, the proportion of these for all these countries is relatively important, especially as crude materials now account for less -- the resulting concentration in fabricated materials is thus usually well over 50 percent in these cases, and has grown over time. This is in contradistinction to other markets, such as those of the EEC, which though also characterised by a large and growing proportion of fabricated materials, still are weighted more strongly towards the less processed end of the spectrum. Hence, analysing the nature of our exports further confirms the encouraging dynamic prospects offered by the Pacific.

In sum, then, examination of our export trade reveals Pacific Rim countries to be of increasing significance: though still of lesser absolute importance, the trends of these exports point to the Pacific as an area of considerable future export interest from the Canadian point of view.

Table II.2.3

Value of Canada's Imports from Pacific Rim Countries,
as a Percentage of the World Total, 1975-81

	1975	1976	1977	1978	1979	1980	1981
Australia	0.961	0.881	0.810	0.679	0.718	0.714	0.631
Japan	3.371	3.938	4.110	4.412	3.334	3.942	5.135
New Zealand	0.134	0.191	0.166	0.195	0.289	0.207	0.186
Indonesia	0.040	0.048	0.056	0.060	0.065	0.041	0.047
Malaysia	0.159	0.123	0.122	0.122	0.149	0.119	0.126
Philippines	0.063	0.082	0.090	0.098	0.122	0.143	0.138
Singapore	0.131	0.199	0.215	0.195	0.232	0.211	0.222
Thailand	0.017	0.023	0.029	0.029	0.049	0.035	0.042
Korea	0.464	0.784	0.742	0.772	0.736	0.599	0.773
Subtotal	6.279	7.791	7.726	7.862	6.993	7.402	7.300
United States	65.631	66.686	68.341	68.599	70.034	68.131	68.813
Subtotal	71.910	74.477	76.067	76.461	77.027	75.533	76.113
PRC	0.156	0.228	0.188	0.184	0.259	0.217	0.280
Hong Kong	0.475	0.738	0.644	0.644	0.680	0.792	0.856
PNG	n.a.	n.a.	n.a.	0.013	0.010	0.001	0.001
Total	72.541	75.503	76.899	77.302	77.976	76.546	77.250
EEC(10)	9.199	8.216	8.800	9.070	8.680	7.797	8.008

-- "n.a.": not available.

SOURCES: IMF, Direction of Trade Statistics, 1982; Statistics Canada, Summary of External Trade (65.001), December, 1982.

Turning now to the import side of Canadian trade -- summarised in Table II.2.3 -- the overall dominance of the United States is once again apparent. In spite of official efforts to diversify our trade partners, the US today

accounts for close to 69 percent of our imports. In this light, the fact that the other Pacific Rim countries should account for somewhat over 7 percent is quite significant, especially as this is only slightly less than the share of the EEC; if other Pacific countries are included, it can be seen that altogether they contributed more to the Canadian economy than the EEC by 1980. In addition, the dynamic element is once again a valuable consideration: if the share of certain advanced countries, such as Australia, has faltered, this has been more than made up by the increased share of most of the ASEAN countries, and notably of Korea and Hong Kong. This is in sharp contrast to the generally stagnating levels accounted for by Europe -- a figure which, as we have already noted, is likely to worsen in the coming years. Though it would take many years of vigorous growth before the Pacific Rim share of our imports reached anywhere near that of the US, its significance as part of our non-American trade ought not be ignored. Furthermore, should one include the United States as part of the region, then a heady three-quarters of our imports are obtained from Pacific Rim sources.

Even without the United States, then, the countries of the Pacific Rim occupy a significant position as a source of imports, and this is a trend which is likely to increase with time, to the point where these economies dominate our non-American imports. As much the same has been found to be true for Canadian exports, it can readily be concluded that

the Pacific Rim Countries stand as important elements in the economic point of view.

II.2.ii -- The Political Viewpoint

Having covered the economic vista, it is time now to consider the relevance of a Pacific perspective to Canadian foreign policy. Taking a sizeable leap from the period of the Mackenzie King comment, a first reference to a new relationship with the Pacific is to be found in Trudeau's election campaign speech of 1968, when he referred to making Canada a Pacific nation, taking advantage of its "ringside seat on the Pacific" (in Thordarson, 1972:76). This heralds a difference in perspective of the new Prime Minister, difference which was to be reflected in the foreign policy review of 1970.

This internationally unprecedented airing of one's policy was undertaken largely because of the Prime Minister's dissatisfaction with the "Pearsonian internationalism" he inherited, and is summarised in the collection of booklets referred to as Foreign Policy for Canadians (DEA, 1970). In this new view, the rise of the new Europe and the relative decline of Canada, the thawing out of the Cold War, the rise of the Third World, and thus the change in the international agenda of the United Nations, as well as growing domestic regionalism and dissatisfaction with the pursuit of Canadian quiet

diplomacy" all gave rise to the need for a new Canadian foreign policy perspective. This new outlook was to be one applying domestic priorities to the international scene, while keeping in mind the limited powers of Canada. The preponderance of the United States upon our nation was often underlined. Though American influence was considered inevitable, an escape from this "excessive regionalism" was considered necessary. Thus the review incorporated an interesting emphasis upon the Pacific as an alternative; to escape the American presence, "... the Government sees no alternative to finding such countervailing influences, and this will be reflected in the new policy emphasis on geographical diversification of Canada's interests -- more attention to the Pacific and to Latin America, for example ...". (DEA, 1970:29). Of course, given the Review's more humble view of Canadian potential, it was realised that Canada would have little impact on the region: "In the Pacific, as elsewhere, Canada is not a great power, not a prime mover." (DEA, 1970, "Pacific":11). The security relationships of the Pacific were thus left to the US. However, this did not preclude Canadian action in other spheres:

For Canada, as for many of the smaller nations of the Pacific, the problem for the future will be to define constructive policies and interrelationships realistically tied to individual national capacities, yet effectively aimed at common Pacific objectives.

(DEA, 1970, "Pacific": 11). The stage was thus well set for a new, Pacific perspective on the part of Canada.

This change in view was again revealed in Trudeau's speech from Osaka's Expo '70:

Canadians should view the far side of the Pacific on its own terms, not through the eyes of European events or European historians Japan and the Pacific countries in Asia shall be referred to by Canadians, I hope, not as 'the Far East', but as 'our new West'.

(in Head, 1974:19).

The culmination of this foreign policy development is to be found in the famous "Options" paper of Mitchell Sharp (1972). Briefly summarised, Sharp held that Canada was faced with three "options": 1- to maintain the status quo; 2- to work towards greater North American integration; 3- to diversify Canadian relations away from the United States. The first, "pragmatic" option was rejected as being unable to "... fully come to grips with the basic Canadian situation or with the underlying continental pull." (Sharp, 1972:14). In the second option was seen the threat of an inevitable drift to political union, a perspective held to be inconsistent with popular views of Canadian independence. This, if only by default, let the "Third Option", that of reducing dependence upon American markets. As noted by Sharp (1972:14): "The object is essentially to create a sounder, less vulnerable economic base for competing in the domestic and world markets in which Canadians can and will compete."

It should be noted, as an aside, that Sharp's analysis can be faulted. For example, theoretical study of such "disparate dyads" as New Zealand and Australia, Ireland and England, or Canada and the US, has shown that there is no inevitable progression from economic to cultural integration (see Black, 1974, for example), thereby making Sharp's rejection of the second option somewhat doubtful. In addition, it should be noted that a diversification of markets consonant with the Third Option, while reducing a certain kind of vulnerability (towards a dominant partner), hardly deals with the vulnerability, in terms of negotiation and maintenance of, security of access, implied in dealing with a number of foreign markets at once. Putting these heretical doubts aside, however, it can be seen that adoption of the Third Option made Canadian foreign policy very receptive towards the prospects of the Pacific Rim.

What has become of the Third Option since 1972, though? A rapid return to the Tables of Chapter II.2 reveals that its fate has been moribund. Indeed, as indicated by Table II.2.1, Canada's dependence on the US as an export market actually increased in the period immediately following the Sharp paper, falling only recently back to the levels of the early seventies. Table II.2.3, in turn, shows that Canadian imports from the US have actually risen since 1972. Finally, Table II.2.2 shows that the United States has become increasingly significant with time as a market for more-processed goods; this is encouraging in terms of

Canadian value added, but is hardly in line with the Third Option. Thus, in spite of certain structural changes in decision-making (the greater involvement of Cabinet in Canada-US relations, for example, or the emergence of the Foreign Investment Review Agency, and more recently the National Energy Policy), one must conclude that the Third Option failed to cause any significant changes in Canada's pattern of dependence.

What has actually resulted, of course, is a rather more broadly interpreted version of the "first option": following the status quo. Upon reflection, this is hardly surprising: even in Sharp's original statement, it was noted that "An effort to diversify our export markets would not be incompatible with the first option ..."; in fact, "one of its main attractions is that, we trust, it would not foreclose other options." (Sharp, 1972:14). In addition, Sharp later revealed (privately) that the "Options" paper was intended purely as a political move, to steer public opinion, and was never meant to change the alignment of our international trade. Thus, a rather creative (though hardly intellectually honest) ambiguity has crept into the Third Option: the term has stuck, but in essence it is the "first option". This then allows for considerable manipulation in the definition of foreign policy terms. It permits then Secretary of State MacGuigan, for example, to state in the House of Commons that: "The improved technique of concentrating on bilateral relations ... is in effect an

updating and extension of the third option policy of 1972 ... " (Canada, Parliament, 1981:10609).

The Third Option has thus become "bilateralism". The emphasis upon the Pacific remains, however. This is rather nicely brought out in a speech by the former Undersecretary of State for External Affairs, Allan Gotlieb, in which he states:

Call it Third Option if you will, the fact of the matter is that Canada is more and more looking westward, within itself, and beyond to the world of the Pacific Considerations such as these have brought us to the conclusion that a renewed emphasis on the system of our bilateral relationships will be increasingly necessary during the decade on which we have embarked. And nowhere is the potential usefulness of a bilateralism emphasis in developing relationships more evident than in the Asia/Pacific world."

(Gotlieb, 1981:2).

Prospects of greater Canadian involvement in the Pacific Rim thus appear to be highly consistent (desired, even) with government foreign policy, and hence of growing significance from the political point of view.

II.2.iii -- Domestic, Regional Considerations

In considering the Canadian perspective on the Pacific, a factor in addition to the political and economic interest in the region must be included: that of internal tensions between Eastern and Western Canada. Indeed, the prosperity associated with a Pacific orientation is hardly new to

Western Canada, as these provinces have founded their development upon the exportation of raw materials to the economies of the Pacific. More recently, the development of these natural resources has also been aided by investment from Pacific Rim sources, notably the opening of new coal mines in British Columbia with the help of Japanese and Korean capital. However, though the present and future prosperity of western Canada has much to do with the Pacific, the fate of central Canada is much less clear. The reasons for this are quite straightforward: the open economy required by Western Canada poses a significant threat to the manufacturers of Ontario and Quebec, many of whom have prospered behind the protectionism of Canadian tariff policy -- a stronger orientation towards the Pacific, and thus a consequent reduction in protection, has thus been perceived as inconsistent with the interests of the East, which risks dislocation in the face of more efficiently produced imports. The question of our Pacific orientation has thus been another chapter in the historical clash between outward-looking Western resource producers and inward-looking central Canadian industrialists.

More recently, however, much of this has changed; as one observer (Coull, 1981:35) has noted: "The significant development in Canadian-Asian relations is the awakening of central Canada." This is largely the product of stagnation of trade with the EEC, as traced above, and the less-than-vigorous performance of the United States,

developments which have forced Eastern manufacturers to look for new markets. As Donnelly and Falkenheim (1981:26) put it:

The surge in interest in the Pacific in the last decade ... has most notably occurred in eastern and central Canada in response to the slow growth rates of the U.S. and European economies and growing EEC protectionism on the one hand, and on the other, to the dramatic market expansion of the Pacific.

These authors also go on to suggest that a communality of interests is arising in the desire by western Canadian producers to have more processing of raw materials take place in Canada. The Pacific Rim thus potentially offers Canada one of those few instances of national cooperation. This is partly confirmed in Bruk's study of the prospects for an "Asia Pacific Foundation", in which he states that: "I believe there is a genuine feeling by the Eastern regions that they can best do things in Asia and the Pacific by joining with the Western regions in a co-operative partnership and vice versa." (Bruk, 1982:5).

As such, it can be seen that the prospects of the Pacific should be most inviting to Canada: not only do the markets of the Pacific Rim open important possibilities for Canadian trade, they also go a long way in the government's search for "counterweights" to US preponderance in our trade. As a final touch, these political and economic arguments unite to form a unique opportunity in Canadian regional linkage politics -- a fact which surprisingly seems

to have been ignored by the major political parties of Canada.

II.2.iv -- The Canadian Reaction

Having in an earlier chapter delineated the opportunities to, and responses of, the various Pacific Rim countries in the face of the prospects of the Pacific, it is now incumbent upon us to outline the Canadian outlook to date on the possibilities offered to us.

Overall, the official response has been characterised by a senior Canadian diplomat as one of "caution" (W.T. Delworth's "Discussion" of Donnelly and Falkenheim, 1981:33). The reasons for this coolness in the face of what is apparently considerable opportunity are actually quite straightforward. In order to make these clear, differentiation between the Canadian reaction to the Pacific Rim, and to the various Pacific Community proposals, is necessary.

Where the Pacific Rim is concerned, it is obvious that along with its opportunities one must also accept a certain risk. The most evident problem is the threat posed to Canadian manufacturers by increasing Asian competition, particularly in the sectors of textiles, light industry and automobiles. The short-term response to these problem areas has been the drawing up of "voluntary" export restraints

with the producer countries. As a longer-term position this is not viable, and alternatives have yet to be settled upon; English's (1983:349) conclusion is that: "The necessity of adjustment rather than continued protection in the textile sector is however clear." This will likely take the shape of specialisation in the capital-intensive (synthetics) and high-fashion sectors, regardless of our orientation to the Pacific.

The automobile industry has suffered the fate of being unprepared for higher oil prices, and the consequent demand for high-quality, fuel-efficient smaller cars. Again, protectionism has been the initial response, though alternatives are evident. The possibility of joint production with Japanese companies, for example, is one potential way to soften the harsh demands of rationalisation.

Concurrent with the problems of adjustment are of course the jurisdictional wrangles between federal and provincial governments as to who shall bear the cost of these necessary changes. In spite of the harmony of interest across the regions of Canada which was noted above, the potential for serious dispute as to ownership of off-shore resources, taxation of energy, and the balance of wealth between East and West cannot be ignored. Furthermore, it should be realised that the lack of a

unified national policy is often confusing and discouraging to other governments, notably those of Asia.

Finally, one should also keep in mind that the orientation of Canadian traders is not readily changeable. Given the proximity and familiarity of the American market, it is hardly surprising that the United States continues to account for a good two-thirds of our overall trade, the Third Option notwithstanding. As a result, while Canadians look for rapid relief from recession, the markets of the Pacific remain in the background. Indeed, media sources note that the new potential industrial strategy being considered by the federal government embodies just this traditional outlook; as related in the Globe and Mail (August 12, 1983:1):

The comprehensive strategy also calls for the Government to pay more attention to the U.S. market for Canadian exports and less to Japan and Asia. The sources say that Mr. Lumley and Mr. Axworthy think this so-called Pacific Rim market is too hard to crack right now and that the Government should concentrate more on increasing the trade of manufactured goods with the United States.

Thus, though longer-term prospects are left open, Canadians would seem to find it easier to maintain a conservative outlook on the Pacific Rim for the time being.

The "caution" which has characterised our attitude towards the Pacific Rim should be differentiated however from the official reaction to the Pacific Community concept.

It should be noted, to start with, that the policy of "bilateralism" presently dominant in External Affairs does not preclude a regional policy emphasis. As was noted before, it has easily been reconciled with the Third Options. Delworth, for example, suggests that "bilateralism" should not really be termed a "policy", that it is not a new departure, but rather an approach to the management of Canadian foreign policy, where, in contrast to "Pearsonian diplomacy", "Responses must be selective and they must be directed in a more carefully managed way than ever before." ("Discussion" of Donnelly and Falkenheim, 1981:31-32). This thus permits academic commentators to claim that: "... this new bilateralism is clearly perceived as consonant with a cautious regionalism, and in its Pacific thrust has gone hand-in-hand with support for and interest in ASEAN, for example, and the Pacific Community." (Donnelly and Falkenheim, 1981:23).

As such, government officials have permitted themselves to express "restrained enthusiasm" for the concept of Pacific Community (Delworth, in "Discussion" of Donnelly and Falkenheim, 1981:33). If this expression of support has not been full-fledged, it is due to a number of considerations. Amongst these is the emphasis Canada has, since the Second World War, put on the multilateral trade system. Given that it is a relatively small, yet highly trade-dependent nation, Canada's reluctance to consider alternatives, even such ones as the Pacific Community and its aim of achieving "global

ends through regional means", is understandable. In addition to this, the lack of explicitness surrounding the concept of Pacific Community, particularly as this applies to the issue of membership, causes the government to withhold official sanction. Finally, much as in the case of Japan and the United States, Canada has felt that it cannot promote the concept until it is clearly acceptable to Southeast Asians; the response from government officials has thus been that: "... we have felt very clearly that until the ASEAN countries can be brought into a more creative frame of mind (and that will come), there really is not very much point in countries like Japan, Australia, the United States and Canada taking too active a lead or pressing too hard." (Delworth, in "Discussion" of Donnelly and Falkenheim, 1981:38).

Official reaction to the Korean variant on Pacific regionalism, that of Pacific Summitry, has been somewhat more enthusiastic, though still restrained. External Affairs sources have revealed that Canada is essentially "supportive" of the Korean effort (Bedeski and MacLean, 1983). This is subject to certain conditions, however: during Chun's talks with Trudeau in August, 1982, for example, it was stressed that any such Summit would have to be "well prepared", that significant topics must be offered for discussion, and, once again, that the process meet with the approval of ASEAN. In any event, Pacific Summitry is seen as a Korean effort, and Canada thus feels it to be

inappropriate for it to promote it (Bedeski and MacLean, 1983).

If Canada has not been a leader in the movement towards Pacific regionalism, this is not to say that the concept attracts little support in Canada. Indeed, at the less-than-official level, considerable evidence of Canadian interest can be found. Government officials reporting on Trudeau's trip to Southeast Asia and Japan in January, 1983 noted, for example, that the Prime Minister privately raised both the ideas of Pacific Community and Summitry with his hosts, notably while in Jakarta. Similarly, Secretary of State MacEachen, in his meeting with Foreign Minister Moktar of Indonesia as part of the annual ASEAN "Dialogues" in July, 1983, brought up the topic of Pacific Community -- the response to which was rather less negative than Indonesia is usually perceived to be.

Back in Canada, External Affairs has been instrumental in the formation of the "Canada-Pacific Co-operation Committee" -- the Canadian sequel to the recommendations of the Bangkok Pacific Economic Co-operation Conference -- in which government officials have, in their private capacity, joined academics and business leaders in formulating Canadian responses to the issues of the Pacific Community concept. Starting with its founding meeting in Ottawa, on February 5, 1983, and through a series of subsequent tripartite reunions, the Committee has prepared Canadian

22

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input and commentary for the four Task Forces established after the Bangkok Conference. Contact with participants in this process from other countries would seem to suggest that the tripartite input and degree of energy of the Canadians is rather unique.

Perhaps the most obvious manifestation of the growing interest of Canada in the Pacific, though, is the enthusiasm which has greeted the proposed formation of a Canadian "Asia Pacific Foundation". External Affairs commissioned a study of the proposal in 1982, resulting in the "Brak Report" (Brak, 1982), released in December of that year. Its "Summary of Recommendations" notes the broad, general support across Canada for the Foundation, and urges that the federal government commit twenty million dollars as its endowment funds, this money to be matched by contributions from the provincial and territorial governments. Though Ottawa has not yet set aside the sources called for by Brak, commitment to the cause was demonstrated by Trudeau's attendance at the founding of the "Committee for an Asia Pacific Foundation" on March 10, 1983. In addition, the Globe and Mail (March 11, 1983:9) reports that: "The federal Government has agreed to cover the committee's expenses and will match contributions from other levels of government and the private sector."

In sum then, if Canada recognises that the Pacific Rim is not likely to play a dominant role in the Canadian

economy for a long time, it has at the same time been at least receptive to the concept of Pacific Community. Prime Minister Trudeau expressed this clearly while in Singapore during his January, 1983 trip, stating that: "I have no doubt that the pursuit of closer, stronger relations between Canada and the Pacific is the right direction for the future." (DEA, 1983:2).

II.2.v -- The Policy Question

What the various parts of this chapter on Canada in the Pacific Rim have established, then, is the considerable potential which the prospects of the Pacific open up to Canada. Economically, it has been shown that the countries of this region are vibrant, open markets, which can be expected to account for expanding shares of our trade. Politically, it has been demonstrated that enhanced relations with the Pacific Rim states is congruent with the Third Option policy perspective, and even with its more pragmatic variant of "bilateralism". Finally, the Canadian reaction to the prospects of the Pacific, and its institutional formulations has been revealed to be at least receptive.

If the analysis up to this point has thus served, by demonstrating the significance of the Pacific Rim to Canada, to fulfill the first central purpose of this work, this does not yet permit one to deal with its second aim. For, if the

fact, that Canada should pay more attention to the Pacific has been established, this says nothing of the approach which might best allow for this. In other words, the challenge which must now be dealt with in this thesis is the "policy question": to determine the general format of our diplomatic relations with the countries of the Pacific Rim which permits us to gain the most from the potential the region has to offer.

Essentially, three policy approaches are open to Canada: a re-emphasis of the gains from the multilateral system; the joining of some regional organisation; or an intensification of our present bilateral links within the Pacific Rim.

As has already been noted, Canada has prospered in the past through its adherence to the multilateral trading system of General Agreement on Tariffs and Trade (GATT). It has thus continued to favour it, not only due to its benefits, but also because of its familiarity. Recently, however, in spite of the Tokyo Round, the GATT system has been eroded. This is largely due to the increased use by GATT adherents of the "safeguards" allowed for under the Agreement, to which have been added various extra-legal, unilateral restrictions on market access. Though the major trading powers continue to talk of free trade, little has recently been done to further it: the EEC remains intransigent as to its Common Agricultural Policy, while the

United States insists upon "reciprocity" -- and Japan pursues whatever best insures its security. Given the relatively small voice of Canada within the GATT, it thus appears that the multilateral approach has little to offer for the next several years; as Hay (1982:18-19) notes: "... the progress towards major multilateral gains in trade which has already been set in motion for the 1980s is unlikely to be further supplemented."

Thus, however desirable, the multilateral approach would not seem to be an option for Canada at the present time. An alternative is to be found through an intensification of our bilateral links. Once again, the element of familiarity is favourable to this possibility. If it is implemented, it is likely to take the form of special bilateral arrangements. Canada has already negotiated a number of these, with varying degrees of success: the "Auto Pact" and Defence Production Sharing Agreement with the United States, the "contractual link" with the EEC, and a similar link with Japan. Given Canada's resource wealth -- which is likely to become still more valuable with global emergence from recession -- it holds a useful bargaining tool in any such bilateral agreements; at the same time, Canada is also endowed with the technology and expertise with which to interest the newly industrialised and developing countries of the Pacific. Though such agreements entail high negotiating costs and associated risks, they allow Canadian trade policy to meet

the central objectives of improved and secured market access. Hay (1982:19) thus suggests that: "For Canada, therefore, the eighties should be a decade of enhanced bilateralism."

Parallel to the bilateral option is the possibility of a regional approach. This allows for enhanced market access and security, while reducing the risk of dependence -- notably the difficulty of enforcement in a bilateral situation -- associated with the previous approach. Though similar attempts, such as Commonwealth Preferences, or the suggestion of a free trade area between Canada, the US and Mexico, have not recently led very far, the Pacific Rim, as we have noted, has considerable potential, be this simply in the founding of an OPTAD, or in the establishing of some trading bloc. Associated with a regional approach, however, are the difficulties of negotiating an agreement between several countries. In addition, the novelty of the regional approach, and the additional resources required for institution-building, are likely to give Canada cause for some careful consideration.

As such, the policy question which must be dealt with here is the choice between the bilateral and the regional approaches to the Pacific Rim, each with its associated costs and benefits. In order to allow for determination between these, a theoretical framework will need to be developed. The subsequent sections of this work will thus

go about this: firstly, through an overview of the theoretical considerations, primarily economic in nature, which will allow us to formulate a framework for judging the merits of the respective approaches; secondly, by applying this framework to the types of issues which are dominant in the Pacific; and finally, through a series of case studies, by determining the extent to which such issues arise in the relations of Canada with the case study countries. From this, it should then be possible to determine the approach which best fulfills the potential of the Pacific Rim to Canada. In conclusion, the overall value of a Pacific Community approach to Canada will be considered.

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Section III

THE THEORETICAL PERSPECTIVE

Chapter III.1

Towards an "Optimum Grouping Concept"

If we are to answer the policy question, it will be necessary to develop a theoretical framework which allows one to generalise from a varied collection of government aims to an overall policy approach. That is to say, one must be able to establish a coherent link between several specific issues and the form of policy orientation -- bilateral or regional -- which best deals with them. As such, it is not so much the issues themselves which one must pay attention to, but rather their type. In other words, to look at the composition of these issues, and compare them with, say, those which went into the creation of the EEC, or alternatively with those current in the politics of federal states, would be to develop a theory of limited generalisability. On the other hand, to be able to characterise policy issues according to whether the resolution of that certain type of problem is facilitated either by bilateral or regional consideration allows for far broader generalisability, irrespective of the specifics involved.

The following chapters will attempt to put together such a theory. This will be achieved firstly by considering

certain relevant theories, notably the political economy of integration. To enrich this, the analysis of the economic theory of federalism will then be presented. The synthesis of these should then allow the formulation of the desired theory, from which a framework for choosing between Canadian policy approaches in our relations with the Pacific Rim will be derived. As such, the theory should contribute to the idea hinted at by H.E. English (1982:1) of an "optimum grouping concept" -- that is, the theory will help delineate those factors which might justify the creation of such regional groupings as the Pacific Community.

III.1.i -- Background Considerations

In considering potential theoretical frameworks, it must first be realised that the earlier perspectives applied to Canadian foreign policy lead to somewhat inconclusive results. Thus the "counterweight" emphasis -- where it is suggested that Canada must come up with alternate trading partners to the US in order to reduce our sensitivity towards the American economy, and to avoid the potential pressure of American policy priorities on Canadian decisions -- leads one to favour policies which diversify our trade, but does not allow for differentiation between types of policies (such as bilateral or regional approaches). Politically, of course, the "counterweight" perspective has been of great importance: it is an obvious part of Foreign Policy for Canadians, for example, and is central to the

arguments employed by Sharp in his "Options" paper. But, as has already been noted, its significance has been more political than real: again, Sharp's admission that it was meant as a tool for influencing public opinion should be remembered. In addition, it was pointed out that the Third Option embodiment of the "counterweight" idea has not been particularly convincing in practice: the official "links" it led to with the EEC and Japan have had no measurable impact upon the diversification of our trade -- indeed, as previously revealed in Tables II.2.1 and II.2.3, Canadian trade-sensitivity with the US, as expressed in the American share of our imports and exports, actually rose during the period subsequent to implementation of the Third Option. Thus, in spite of the political priority attached to the "counterweight" emphasis, its lack of predictability leads one to search for more productive possibilities.

At first glance, the considerations which go into the theory of an "optimal currency area" would appear to be more helpful (see, for example, Ishiyama [1975]). The theory suggests that areas which are involved in considerable trade with each other would be better off to establish a common currency. Such a move would be beneficial for reducing the costs of transacting business: it would permit easier flows of capital, would reduce the uncertainties associated with exchange rate fluctuations, and help counter speculative changes. At the same time, the theory underlines the

disadvantages to the various subregions within the common currency pool: these may have diverse paces of local development, thus priorities which may clash with the aims of the unit as a whole, and might preferably opt for a rather different mix of fiscal and monetary policies. Of course, to the extent that the overall objectives of the currency region and its subunits are basically the same, the ingredients of policy, especially on the fiscal side, can remain diverse. However, in so far as these goals clash -- in the short-term trade-off between employment and inflation, for example -- the drawbacks of a common currency become more apparent. The balance of advantages and disadvantages of a monetary policy (the value of the common currency) set at the level of the several subunits together thus leads to an "optimal currency area", where the overall advantages are maximised.

This determination of the most efficient coverage of regional monetary policy has obvious intuitive appeal as far as regional approaches to policy are concerned, in that it would seem to be extendable to other types of issues. Thus, for each of the given types of policy, it would appear that the optimal size for efficient application could be determined.

Indeed, Kindleberger (1974) plays with this idea. He notes that the widest optimal area is typically for finance (thus the appeal of currency zones), but that the extent of

area-coverage would tend to vary with the type of issue. He goes on to suggest, for example, that issues relating to cultural factors are likely to call for a fairly small optimal area. Unfortunately for the analysis of this thesis, Kindleberger does not go into more extensive application of his idea. As such, considerations involving the determination of optimal regional participation by area size must also remain inconclusive.

In addition, it should be noted that even the more developed analysis of optimal currency areas is only of tangential value as far as Canadian relations with the Pacific are concerned, as a move to regional determination of monetary policy has not usually been part of the proposals relating to the Pacific Community. In fact, given Japanese trepidation over potential internationalisation of the yen, attempts at regional monetary control are likely to be resisted. In spite of this, the theory contains certain suggestive elements which might be applied elsewhere.

III.1.ii -- Integration Theory

From the above, it is evident that any framework of use in determining the approach government policy should take will have to involve theoretical considerations of a rather different nature. It is thus time to turn to the political economy of integration, and English's idea (1974:25) of an "equilibrium level of integration".

Integration can be defined in a number of ways. As Axline (1974:71) notes, "In the broadest sense it means interdependence." Somewhat more specifically, it refers to the process where two or more actors join to form another actor. There are some strictly political theories of integration (Deutsch et al. [1957], for example), however the more recent, especially functionalist, schools of thought on integration have emphasised the reciprocal links between political and economic integration. In fact, it is the interplay of these two elements in integration -- the increasing political "costs" to sovereign decision-making versus the growing economic gains from trade -- which prompt English to suggest the possibility of an equilibrium level.

Focusing on the economic side, English (1974:19) notes that it is common to differentiate between "cooperation" and "integration", the former referring to less formal arrangements for association than the latter -- respective examples of each are the Organisation for Economic Cooperation and Development, and the European Economic Community. If differentiation is easy in these cases, this is not necessarily so in others: what of the GATT, for example? -- though it lacks the formal elements of the EEC, it shares, in its constant encouragement of interdependence, many of the elements of integration. From this, English (1974:20) concludes that: "In searching for a limit to the scope of integration that is satisfactory on economic

grounds, one is driven to a concept limited only by the regularity or relative permanence of the arrangement."

These definitional considerations are particularly important when considering the Pacific Community. As the reader will remember, none of the proposals relating to institutionalising the Pacific Rim refer to formal integration schemes -- the most extensive proposals suggest only a forum for discussion. However, this does not divorce the Pacific Community from the conclusions of integration theory, for

... integration, at least of an economic kind, can begin long before supranational institutions are introduced, and ... if one approaches international integration on an interdisciplinary basis, it is quite inappropriate analytically to require elements of formal supranationality.

(English, 1974:20). Together with Axline's reference to integration as "interdependence", then, it can be seen that an already considerable degree of integration is to be found in the Pacific, and future prospects are for still more, even if no formally integrative institutions are envisaged. As such, the conclusions of integration theory are of considerable relevance to the Pacific.

If integration holds such appeal for certain country groupings, it is largely because of the economic benefits it permits. These are the product of trade liberalisation, and are basically of two types. The first of these, the static benefits, are those most directly tied to the beneficial

impact of more open trade. These gains are the result of three factors: specialisation, whereby a country can concentrate more on those areas where it enjoys comparative advantage; economies of scale, where access to a larger, integrated market allows for a more efficient level of production -- of significance particularly to smaller economies; and gains from greater competitiveness, as domestic producers are forced to be more efficient in the face of production by partner states. The extent of these gains will depend on a number of other factors: as noted earlier in our reference to the work of Johnson (1962), this varies according to the original height of tariff barriers between members, the physical distance between them, and the relative supply-position of the grouping vis-a-vis the rest of the world.

The second type of benefit is of a dynamic nature, and of especial relevance to developing economies. These have a rather longer-term impact on GNP growth, and, according to Axline (1979: 4 and 11), take the form of internal economies, external economies, investment flows, and increased bargaining strength. Internal economies refer to the above-mentioned economies of scale, and thus to the quickening of growth which results from higher welfare. External economies result from the ability of a region to pool resources, such as specialised skills and machinery, trade knowledge, and technological know-how. The investment effect results from the greater attractiveness of the

larger, regional market to outside investors, with direct impact upon employment and the expansion of industry. Increased bargaining strength, finally, arises from the stronger position in tariff negotiations on a common front of producers: the example of ASEAN negotiations over commodity access to the Japanese market is a case in point.

In sum, then, the attractiveness of integration is its facilitation of the movement of productive factors, goods and services. Of course, certain factors, such as natural resources, will always remain immobile. Others, such as labour, will be of limited mobility, due to the cost of adjustment (in terms of finding new employment and housing), and cultural friction (as reflected in immigration laws). But it is particularly in allowing the easier flow of capital and technology, as well as of final products, that integration is valued.

If the economic benefits of integration appear so compelling, the fact that only few such schemes have been successful in practice seems puzzling. Elucidation of this apparent paradox is to be found in the point made by English (1974:25) that integration as a process is neither inevitable nor necessarily desirable. He links the false appearance of inevitability to the predictions of economic theory, which stress the ever-increasing gains of progressively freer trade. At the same time, he notes that claims of inevitability are closely tied to desirability,

and that integration has appeared especially appealing because of the predominance of the European experience, with its strong link between regional economic unity and strategic security. However, if political forces favoured considerable integration in Europe, it must be noted that this need not always, or even usually, be the case: if the economic impact encourages further integration, this is counteracted by the increasing political costs of such a move.

This is made quite evident in English's (1974:27-30) analysis of the political costs and benefits associated with the respective stages of economic integration. The initial step of a free trade area, for example, allows a grouping to capture the static and dynamic effects resulting from trade liberalisation. At the same time, the various transport and subsidy policies of members, as well as their commodity tax structures, immediately arise as questions to be resolved between them. Though this has not usually been a stumbling-block in practice, the move to a customs union, requiring the harmonisation of tariff and commercial policies, is more involved, and domestic interest are increasingly likely to be directly affected. In turn, advancing to a common market implies the free movement of factors of production -- capital and labour -- both of which raise politically contentious issues: free capital flows, for example, imply acceptance of greater degrees of foreign ownership; labour flows, on the other hand, require the

reconciliation of potentially divergent social welfare policies and ideologies. In the ultimate move to economic union, additional coordination of macro-economic policies (in the form of some fixed relationship between the various currencies), and of fiscal policies, is required, with the attendant problems for sub-regional units noted in the above discussion of "optimal currency areas".

From this analysis, it is clear that there will be political limitations to the economic impetus towards heightened integration. In fact, as English concludes (1974:32), the economic benefits of integration:

... are much more obviously positive and substantial in the earlier stages up to the free trade association level. Beyond that they are more marginal and even may be negative, unless non-economic factors are present to reinforce the case for higher forms of integration.

The balance of political and economic forces thus suggests the possibility of an equilibrium level of integration, in which overall social benefits are maximised -- an equilibrium which is likely to be relatively stable, as going beyond it implies costs which are greater than the additional benefits.

As such, the question which arises with respect to the Pacific Rim is the level of integration which is likely to approximate such an equilibrium for Canada. This involves determination of whether any degree of integration -- that is, a regional rather than a bilateral answer to the "policy

question" -- is warranted. Thus, though integration theory suggests that a Pacific Community offers considerable gain to Canada at a certain level, it still leaves unresolved the link between Canadian policy issues and some regional solution to these. Establishing this theoretical connection will hence require the enrichment of integration theory with considerations of a rather different nature. This synthesis will make up the analysis of the following chapter.

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Chapter III.2

Policy as a "Public Good"

III.2.1 -- The Theory of Public Goods

A first step towards the alternate framework with which to expand the analysis of the previous chapter is to be found in the realisation that government policy is, fundamentally, a "public good". This then opens the consideration of Canadian policy-approaches to the conclusions of economic theory as it relates to "public goods".

As defined by the economist, a commodity is a "public good" "... if its consumption by any one economic agent does not reduce the amount available for others in the community" (Hirschleifer, 1976:454) -- the implications of this are, of course, that, if the commodity is made available to anyone, it is also made available to everyone, at no additional cost. The classical example of a public good is a lighthouse, which, while serving the purposes of those who paid for its erection, also serves all others who sail in its vicinity. It should thus be obvious that most government policy is by its nature likely to be a public good: the provision of roads, of water, of sewage

facilities, or, alternatively, of education, health services and television -- these are all goods which may serve the needs of those willing to pay for them, while at the same time being open to use by those who have not directly "paid" for them.

Though this is easily grasped for domestic government policies, it should be realised that it can also be applied to the international level. Thus, the provision of armed forces is essentially a public good as far as a country's allies are concerned. Similarly, domestically applied technical standards can also be used by other countries; the D.I.N. (Deutsche Industrie-Norm) standard, for example, is now globally used for audio and video electronics. In addition, internationally determined norms for trade or finance, such as the GATT, or Brussels nomenclature, can also be considered public goods.

Associated with public goods is the classical problem in economic theory of their undersupply, in terms of Pareto-optimal conditions. "Pareto-optimality" refers to an allocation of goods where "... in comparison with another, all parties concerned are at least as well off and one or more of the parties is actually better off." (Hirschleifer, 1976:441). For supply to be efficient in Pareto terms requires the determination of each consumer's Marginal Rate of Substitution in Consumption, and price differentiation in supply so that Marginal Cost conditions are met; hence,

exclusion between consumers (each with their own price they are willing to pay) is essential to Pareto-efficiency. However, as has been pointed out, the nature of a public good is that no such exclusion is possible. As a result of the inability to discriminate between payers and non-payers, or of the transaction costs which would be necessary to permit such discrimination, a public good is likely to be undersupplied by the market (Hirshleifer, 1976:457).

This tendency is reinforced by the problem of the "free rider". As exclusion of non-payers is not possible for a public good, there will always be the temptation for the individual actor not to pay for a service. However, this makes problematic the joint production of services, as collective free rider behaviour results in its underfunding, and thereby its undersupply. The provision of public goods thus implies a paradox, where the pursuit of self-interest leads to loss by all, which can only be remedied if some form of exclusion can be implemented.

Once again, this analysis can be applied to the international level. Connolly, for example, in his study of the conditions underlying the international trade of public goods in non-cooperative situations (Connolly, 1970), notes that underproduction will result because of the costs of exclusion (unless these are somehow made negligible), but also because the supplier country may act as a monopolist, thereby precluding Pareto-efficiency (a monopolist

determines Marginal Price according to Marginal Revenue, not Marginal Cost, and it is Marginal Cost which is the key to Pareto optimality). From this he deduces that "... the conclusion of underproduction remains valid under most plausible non-cooperative assumptions, whether or not payment for the externalities takes place." (Connolly, 1970:287) However, it should also be noted that a later study of his concludes that, even if exclusion may be necessary to guarantee payment by foreigners, it will never pay not to export a public good; in addition, the higher the cost of extracting these payments, the lower will be the optimal level of public good production (Connolly, 1972:78).

From this, the "first inklings of the benefits to be found in cooperative production of public goods can be detected: cooperation prevents undersupply by reducing the costs of exclusion (by agreement), thereby facilitating payment by foreigners, and encouraging a more optimal level of public good production.

III.2.i.(b) -- The Theory of Clubs

As a brief aside, Buchanan's (1965) work on forms of cooperation in production is also suggestive. He applies the problem of the provision of public goods to a "theory of clubs", whereby undersupply is remedied through group agreement to pay for production of the good. In sum, a "club" is formed, taking the place of the market. The

incentive for an economic agent to join such a club is found in a situation where the benefits of participation are greater than the sum of the benefits of non-participation together with the actual costs of participation. The Buchanan model allows for determination of the efficient size and output of such a "club", which is also suggestive when applied to the possibilities for regional cooperation. However, he further notes that the costs incurred in achieving any sort of "club" agreement raise the now-familiar problem of the free rider. Avoiding this requires some "excluding device"; Buchanan suggests a redefinition of property rights -- where the owners are allowed prosecution rights over "poachers" -- as a potential remedy to this (Buchanan, 1965:14).

Unfortunately, Buchanan limits his analysis to domestic situations, leaving unclear the international implications of his theory. Certainly the element of cooperation in production should be stressed, however the necessary "excluding devices" are difficult to imagine at the global level, given the lack of authoritative supranational body to enforce such measures as implied by redefined property rights. As such, the necessary incentive towards formation of an international club would seem to be lacking.

III.2.ii -- An Economic Theory of Federalism

Returning to our central analysis, the link between the economic theories surrounding the public good, and the applicability of this to public policy is made by Breton and Scott (1978, and 1980) in their studies of federalism. In these, the focus is on explaining the logic of federal system in achieving economically efficient implementation of policy. This involves balancing the advantages of a unitary system in terms of providing public goods against the disadvantage to the sub-regional actor of making known its preference to higher levels of decision-making ("signalling") -- the system most able to accomplish this balancing is the federal. What is of most relevance to this discussion, however, are their considerations of the problems of federalism; these are: foregone benefits of economies of large-scale production, interjurisdictional spillover in production and consumption, and interjurisdictional trade and financial leakages (Breton and Scott, 1978:19). Each of these will require some elaboration.

Considering firstly economies of scale, the assumption is made that central production of the public good is likely to be less costly per unit than if the process must be shared between several smaller decision-makers. As such, economies of scale may induce governments to allocate

production of a public good to higher jurisdictional levels, even when this entails higher "coordination costs" (defined as the added costs of administration in coordinating between governments -- Breton and Scott, 1978:8). Applying this to the international level, it can be seen that certain incentives exist for the production of public goods between countries at the regional level. For example, the costs of defense are such that states have often joined together in order to reduce costs through coordinated procurement or simply in order to put in place the level and range of forces which no one member could provide alone. Similarly, the cost of research and development in such areas as space technology or nuclear fission require a common effort if they are to be carried out.

Turning to the question of interjurisdictional spillovers, the problem is basically one where the benefits from the policy of a certain jurisdiction spill over into other jurisdictions. As such, the conclusions derived above from the theory of public goods and the free rider become relevant: this suggests that those policies subject to spillovers are likely to be undersupplied by the government, as the non-exclusive character of public goods does not allow it to discriminate against those outside the jurisdiction. One solution to this problem is then for the system to become more unitary; this reduces spillovers by reducing the number of jurisdictions. (thereby the

probability of policy spilling over outside a jurisdiction), and in this manner insures that production is closer to Pareto-optimality. Internationally, this implies that policies characterised by spillovers will be undersupplied unless regional arrangements reduce the extent of benefits which go to those not having contributed to the settlement. In other words, unless the free rider possibility is reduced, policies of mutual advantage to the countries concerned are unlikely to be implemented.

The most obvious example of such spillovers is to be found in the GATT system, where an attempt to encourage group participation and limit free riders takes the form of extension or denial of "Most Favoured Nation" status and its associated benefits. To the extent that the spillover of tariff reductions affects less-developed countries, considerable allowance has been made for free riders (a pattern one would expect to be repeated in any sort of OPTAD), as the cost to developed countries is relatively minor, and a contribution to improved North-South relations. However, such generosity cannot be extended to other major, developed, countries without risking the overall cohesion of the regional organisation.

Considering the problem of interjurisdictional "leakages", finally, a definitional note is in order. As understood by Breton and Scott, "leakage" occurs to the extent that public or private purchases are made outside of

the given jurisdiction, "... and the larger such leakages, the less efficient will be aggregate macro-economic stabilization policy originating within a jurisdiction ..."

(Breton and Scott, 1980:21). From this it is evident that the more balkanised the system, the greater the likelihood of leakages through trade and financial links -- and thereby the lesser the impact of macro policy. Once again, the obvious solution lies in decreasing the likelihood of leakage by reducing the number of jurisdictions -- that is, by increasing the level of decision-making -- though this tendency will be limited by the increase in organisational costs, in terms of administration and coordination, as the jurisdiction grows in extent. Between countries, this implies a move to regional organisation, up to the point where the "signalling" of a country's preferences becomes too costly.

A factor which can be appended to the discussion of Breton and Scott arises from their note that the attaining of mutual agreements between jurisdictions of the same level can be very difficult, and is still more so if the free rider problem arises in the form of involvement by other jurisdictions (Breton and Scott, 1978:149-150). This is particularly true in the redistribution of resources, where the donor is likely to prefer a bilateral transfer (which lowers organisational costs), while the receiver is likely to prefer a multilateral system (which reduces

vulnerability) -- to which the solution is again redistribution through a higher jurisdiction. Given the central role of Official Development Assistance in such Pacific Community proposals as the OPTAP, such conclusions are of considerable relevance.

From the analysis of Breton and Scott, then, it becomes clear that certain types of policies, namely those involving economies of scale, spillovers and leakages, are more likely to be implemented if they are introduced at higher jurisdictional levels. Related costs are involved with this move to a more unitary system, and these constitute the counter-balancing force which establishes an equilibrium level of interjurisdictional participation.

Though of a qualitatively different nature from English's "equilibrium level of integration", it can be seen that the two theories share important elements in common. Both, for example, apply domestic priorities in determining optimum levels of regional cooperation. Similarly, both suggest a relatively stable equilibrium rate of participation. In addition, both emphasise the beneficial impact under certain circumstances of a more-than-domestic effort. As such, the essential conclusions of both theoretical perspectives point in the same direction. However, it is the synthesis of the two which is the most creative, in that it allows for generalisation from specific issues -- delineating them according to type -- to an

overall conclusion as to the policy approach which best suits them, and the optimal extent of this approach.

III.2.iii -- A Framework for Policy

Having thus established the types of government policy which call for regional solutions, and the implications of this internationally, it is time to develop the framework for government policy which will allow determination of the approach -- bilateral or regional -- which most suits out interests in the Pacific Rim.

The theoretical analysis related above suggests essentially that it is the nature of our policy priorities in the Pacific which will determine the choice between bilateral or regional approaches. That is, the resultant framework predicts that, to the extent these priorities involve policies characterised by economies of scale, spillovers or leakages, the regional option would appear to be the more efficient choice; if, to the contrary, the desired policies are by nature immune to these characteristics, then the bilateral approach will have more validity. This of course assumes that a move to regional structures is worth the additional cost -- "cost" in this case being a function of the significance of the particular policy to the government. Both the "significance" and the characteristics of a policy can then be determined by case studies of Canadian relations with the relevant countries.

In this manner, the theoretical strictures established at the beginning of this chapter have been met, in that the derived policy framework focuses not on the issues themselves, but rather on their characteristics. As such, this framework has the advantage of generalising from the specifics of our bilateral relations to conclusive policy suggestions as to the most suitable approach, based on the characteristics of government policy preferences.

III.2.iii.(b) -- Suggestions for Further Research

Though our analysis has provided us with a framework for policy evaluation, it must be recognised that the application of economic analysis to political situations, particularly to governmental policy decisions, is still largely undeveloped. However, a few studies have been carried out which give more credence to the claims made here, notably the Connolly studies of the international trade of public goods, and the Buchanan analysis of "club" formation. More study is obviously required, though.

The realm of management theory, particularly as it applies to the multinational firm, ought to be suggestive in this respect. Williamson, for example, notes that, in a multidivisional firm, the central organisation will take on questions relating to finance, accounting and law, and allocate resources between divisions which handle the functional tasks (Williamson, 1971:352). Given the range of

issues which multinational firms are faced with, the type of decision allocated, and to which level, is likely to be instructive when the parallel with government decision-making is made.

Returning to the Kindleberger analysis of "optimal areas", it was previously noted that this approach was suggestive, but as of yet inconclusive. It should be underlined that the Breton and Scott approach adds considerably to the notion of "optimal grouping concept" by creating a model of political equilibrium between forces for and against integration. However, these authors also note the weakness of the relevant literature, particularly with respect to the "regulatory" functions of government (those guiding the production, exchange and distribution of goods -- Breton and Scott, 1978:12), which are the type of most interest in terms of foreign policy. Thus, further research is needed into the ways governments will, or will not, coordinate policies between themselves.

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Chapter III.3

The Issues for Canada in the Pacific

If the preceding chapters of this section have served to develop a framework for the determination of an appropriate policy approach, the application of this to issues current in Pacific Community discussions perhaps remains unclear. Thus, in order to complete the theoretical analysis of this thesis, the present chapter will go about clarifying these issues, and the manner in which they fit into the economies of scale/spillover/leakage perspective of the framework.

The list of issues which will be considered in this chapter has been largely determined by the considerations of the Canada-Pacific Co-operation Committee (CPCC). Given that it is the direct product of the Bangkok Pacific Economic Cooperation Conference, its input is likely to be of the highest relevance -- the fact that its material provides a concise and up-to-date summary of Canadian concerns thus makes the Committee all the more attractive as a source. It should be noted, however, that most of its studies remain in draft form to date, placing some limitations on the citation of its conclusions.

III.3.i -- Trade in Manufactures

The first item on the CPCC agenda concerns trade in manufactures, the study of which is summarised in English and Biggs (1983). As outlined by these authors, the trade policy issues affecting manufactures are:

1. The de-escalation of tariffs on processed raw materials;
2. The provision of assured and liberal access to developed country markets for labour-intensive manufactures.
3. The rationalisation of traditional consumer goods industries; and
4. The scope for trade in technologically-intensive capital goods and related services.

As far as the first issue is concerned, it is mainly a question for Canada of access for such products as processed foods, forest products, petrochemicals and some mineral products into the Japanese and Korean markets. At the same time, however, a certain reciprocal opening of the Canadian market to processed tropical products is called for. Given the tariff-related nature of this problem, the "spillover" character of the issue is obvious -- this has long been recognised in the multilateral format of most tariff negotiations, but to the extent this option remains ineffective, it is also open to regional consideration.

The second issue is largely of interest to the exporters of labour intensive goods found in the NICs, but also to the low wage level, resource-based exporters of the ASEAN countries and Mexico. This group must cope with the impact on its exports of both the Multifibre Arrangement and

"voluntary export restraints". Canada in this case is an importing country faced with the need to keep the pace of adjustment to foreign suppliers at a level supportable by domestic interests. Facilitation of this adjustment is more likely if alternate employment possibilities can be generated (that is, in good part, if Canada can increase its own exports), and if liberalisation and harmonisation of the policies can be achieved by the importing countries as a group (which serves to make easier the domestic justification of tariff reductions). Thus, once again, this issue involves "spillover" considerations.

The third issue, that of the necessary rationalisation of consumer goods industries, is common to most of the Pacific countries, but particularly to Canada, given its relatively small domestic market and its still-considerable degree of protection in this sector. What is required is a reduction in the number of producers, in order to achieve longer, more efficient production runs. As such, rationalisation remains essentially a domestic problem, though this can be encouraged by opening up the economy to foreign competition. Alternatively, the sharing of production with other countries can be agreed to, though this is more likely for Canada to take a bilateral form (such as the Auto Pact) than a group form. In sum, this is an issue which is largely resolvable in the domestic context, and only indirectly open to "spillover" problems.

As far as the last, technologically intensive, sector is concerned, the key issue is one of access to large markets, such as the American or Japanese one. For Canada, this is of particular concern to its communications industry, in which case the problem of non-tariff barriers (NTBs) -- especially government procurement policies -- is central. Given the multilateral impact of changes to NTBs, the "spillover" nature of the problem is apparent.

In sum, then, issues of trade relate basically to the problems of tariffs and NTBs, which have particularly obvious "public goods" characteristics. Hence, the difficulties associated with "spillover" are common, leading English to conclude in another study (1982:4) that: "... the control of the trade-destroying effects of such barriers would thus seem to lend itself to regional or sub-regional group negotiations and treatment ..."

III.3.ii -- Investment and Technology Transfer

The second area of CPCC scrutiny is that of the issues surrounding investment and technology transfer in the Pacific, as contained in the papers of Eggleton (1983) and Safarian (1983). With respect to these topics, Canada is in the interesting position of being both a receiver and a supplier. Though this is hardly unique to Canada where direct foreign investment is concerned -- even the United States is today an important host country for investment,

while still predominant as a source -- the degree with which this has taken place in the Canadian economy has made us well-versed in the associated problems. Similarly, though Canada purchases much of its technology abroad, it has important areas of expertise which can be transferred abroad.

Investment and technology transfer are closely related factors, given that the market for technology has been largely commercialised, with proprietary rights acquired over processes. This is the result of the fact that technology, of itself, has many of the distinguishing features of a public good -- that is, though the initial costs of developing it are high, applying it elsewhere later on is relatively inexpensive. In order to counteract this, the market has been kept highly imperfect, characterised by oligopolistic pricing and limitations on marketing and input purchase rights. Indeed, technology transfer through licensing is seen by some as having replaced ownership as the form of control.

This presents the countries acting as hosts to foreign investment with a considerable challenge. Canadian policy, for example, aims to achieve a balance between "... the responsibility of host governments to ensure that foreign investment contributes to national development", and "... the assurance that risk-taking transnational corporations are accorded fair treatment and the possibility of a reasonable return." (MacGuigan, 1982:4). However, given

that countries are in competition with each other for investment, the challenge becomes that much greater. In this light, it is clear that "spillover" elements abound, as countries impact negatively on each other by offering investment incentives which result in market distortion. In addition, certain "economies of scale" elements are present, in that control of transnational enterprise cannot be undertaken by any one country on its own, and in that all are likely to gain from a pooling of the various policy experiences and results. As MacGuigan (1982:2) notes, "... it is not difficult to see that international co-operation is essential to ensure that the benefits of these operations are maximised for both the host country and the investor."

III.3.iii Trade in Agricultural Products

Another area of interest to the CPCC is that of trade in agricultural products (see Munro [1983] and Hay [1983]), which has been expanded to include the issues of forestry and fisheries. In all three areas Canada, as an important producer, is directly involved.

The major Canadian concern for all three is market access. This is notably the case for agricultural trade, which has been left relatively untouched by the recent rounds of GATT negotiations. Protection in this area takes the form of restricted market access (through tariffs, quotas, sanitary, labelling and marketing regulations,

government purchasing, etc.) and of distorted supply capabilities (through marketing boards, land banks and various types of subsidies). Achieving efficient production based on actual comparative advantage thus requires tackling a broad range of tariff and non-tariff barriers. Consequently, the "spillover" nature of the relevant policies is very pronounced.

In the case of forestry, the comparative advantage question relates to the processing of timber, specifically the export of whole logs to such countries as Japan and Korea, who in turn export woods products. The question which arises is whether this pattern is not the product of tariff barriers, and if processing should not be carried out closer to the sources of wood (the ASEAN countries, PNG and the Pacific Northwest). Once again, then, the "spillover" factor arises.

A related factor is the necessary management of forestry resources which will be required as virgin stands are razed. If the resource is to be truly renewable, a switch from the "mining" of forests to their "farming" will have to be encouraged. This implies both elements of "spillover" (ensuring that the international investment climate supports reforestation) and of "economies of scale" (in sharing the relevant knowledge and expertise -- an area in which Canada has much to offer).

Problematic in this respect, and in the area of fisheries, is the fact that these resources are of the "common property" type; that is, given the cost to any one producer of managing the resource, there is little likelihood of its rational exploitation. This has been further complicated in the case of fisheries by the Law of the Sea Convention; as Copes (1982:40) stresses:

Unfortunately, carving the oceans into geographically defined areas managed by individual states has impeded the task of rational stock management. Many stocks straddle the new boundaries or migrate back and forth across them so that they do not come under the unambiguous management authority of a single state. They are subject to common property relationships among the nationals of different countries exploiting them so that the danger of overexploitation remains.

For Canada, the management of tuna and Pacific salmon stocks relates very closely to this matter. Overall, the "spillover" character of the problem is clear.

Another problem in fisheries also relates to the Law of the Sea, as a result of the "Extended Fisheries Jurisdiction" it allows for. The Convention obligates coastal nations to give distant water fishing nations access to those catches which are beyond domestic capacity to harvest. This raises two issues: firstly, the need for coastal nations to band together to increase their bargaining power vis-a-vis distant water states -- suggesting "spillover" factors; and secondly, the setting up of "cooperative fisheries arrangements" between coastal and distant water states, which, as Munro (1982:249) notes,

constitutes a form of international trade based on comparative advantage -- and which is thus open to all the "spillover" considerations relating to such trade. Canada is obviously concerned in both areas, while also being in the position to offer considerable relevant expertise.

III.3.iv -- Trade in Minerals and Energy

The final area of interest to the CPCC is that of trade in minerals and energy; a summary of the relevant Canadian concerns is to be found in Ritter (1983).

As with the other forms of trade noted above, the question of market access is relevant to the minerals trade as well. In this case, the central concern is that of escalating tariff structures for more-processed forms of minerals, as well as non-tariff barriers. It is felt that these protective systems increase the cost of processing by biasing it towards the consuming countries; Japan is often pointed to as an example of this. For producing countries such as Canada, then, there is an obvious incentive to negotiate broader access. Given that several countries share this position, and that changes would affect several others, the issue involves "spillover" concerns.

Also related to minerals trade is competitive subsidisation by producing countries. The difference between government provision of infrastructure to new mining regions, and outright subsidies to mining interests in order

to attract them, is often a fine one. As with other examples of subsidised trade, the "spillover" character of the problem require a group solution, perhaps in the form of some "code" among the governments of producing countries.

The question of security of supply for both minerals and energy raises some other difficulties, particularly with respect to the stability of markets and prices. These fluctuations are of great significance to the foreign exchange earnings of certain developing countries. But they are also of concern to the likes of Canada, as the diversification of supply sources practiced by Japan plays off Canadian suppliers against other ones, thereby adding to the uncertainty of new mineral sectors in Western Canada. To a certain extent, this is a bilateral issue, concerning Canadian reaction to Japanese policy; however, market stability also implies "spillover" elements to the extent that harmonisation of production between producers and consumers may aid in avoiding the worst extremes of market fluctuations.

The special issue of deep sea mining, finally, is one which relates back to real comparative advantage, and the question of unfair subsidisation. For Canada, an important land-based producer, it is vital to insure that deep-sea mining is carried out only in so far as it is competitive. The "spillover" nature of this issue is apparent in Canada's

continued support of the Law of the Sea as the only regime under which deep sea mining ought to be developed.

III.3.v -- Summary Considerations

The overview of the preceding pages has thus served to relate the theoretical framework of this thesis to issues current in the Pacific. Given the nature of CPCC deliberations, the "spillover" factor has been obviously dominant, relating particularly to the various questions of trade, but also to the "common property" problems associated with research and development, the provision of international infrastructure and services, and the management of forestry and fishery resources.

However, certain "economies of scale" factors are also to be found, as in the control of transnational enterprise, in the sharing of expertise relevant to resource management, and in the provision of regional services. In addition, the whole question of security is one favouring economies of scale. As we have noted, this is an issue which is largely avoided in Pacific Community considerations. It should be remembered, though, that economic stability has much to contribute to military security. It is thus possible to emphasise in the Pacific Community concept "... its potential for peace, for mitigating those conflicts which make any other kind of development impossible." (Delworth, in "Discussion" of Donnelly and Falkenheim, 1981:38). To

the extent this is stressed, economy of scale factors are at play.

As is by now evident, "leakage" type issues are relatively rare at the international level. There is, however, one area in which they prevail, namely the problems of exchange-rate stability, where fluctuations in the value of trading-partner currencies (and their interest rates) will tend to impact upon domestic monetary stability. To date, such matters have not been given much attention in Pacific Community dealings; they are, nevertheless, likely to increase with heightened interdependence. Much of the critique of Krause and Sekiguchi (1980), for example, is based on the impact such "leakages" have had upon Pacific trade.

In addition, given the openness of the Canadian economy, "leakage" is a factor which often precludes the application of certain types of fiscal policy (personal tax reductions, for example, as they are likely to be spent largely on imports). As a result, the impact of other factors, such as the American prime rate, becomes all the more significant. A final example of this type of problem is to be found in the area of fisheries, where Canadian financing of salmon stocks has benefitted American fishermen -- it is obvious that without some coordination between governments, there will be little incentive for the

necessary funds to be spent. Thus, for Canada, these "leakage" elements encourage regional consultation.

If the analysis of the last several pages seems to suggest that all issue-priorities in the Pacific call for a regional approach, this is of course not true. Some of the areas covered in fact involve mixed approaches -- the question then is which facet of the issue is most important. Trade, notably, also involves the purely bilateral element of trade promotion. Investment, similarly, though influenced by the international investment climate, is a more bilateral problem in the context of encouraging further financial flows into a developed country such as Canada. In addition, calls for greater industrial cooperation, though aided by regional efforts, are more likely to be implemented through specific agreements. Finally, the desire in our foreign policy to promote Canadian culture is a matter which harking back to Kindleberger -- is more fruitfully accomplished through low-level, bilateral approaches.

In sum, the proceedings of this chapter have served to point to the relevance of the theoretical framework developed in the earlier chapters of this section. Altogether, then, this work has uncovered a method whereby the specifics of policy issues can be used to derive an overall policy approach. Having used this in a general way up to this point, it is now time to apply this to the actual

issues dominant in Canada's bilateral relations with certain representative countries. The conclusions of this case study work should then permit a final resolution of the "policy question".

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Section IV

OFFICIAL CANADIAN RELATIONS IN THE PACIFIC

Chapter IV.1

The Case-Study Countries

As was noted in the introduction to this thesis, the countries which have been selected for case-study analysis together allow for coverage of the full range of kinds of issues Canada is likely to encounter in the Pacific. In order to bring out the most significant aspects of each case, the country studies will begin with a brief summary of the overall situation as it relates to Canadian bilateral relations. Having established this, attention will be focused on those issues which are the most contemporary in the relationship. From this, it should then be possible to derive the probable developments in our ties which will take place in the near future, and thus the implications, as established by the theoretical framework of the previous section, for Canada's approach to the Pacific.

IV.1.i -- Canadian - Indonesian Relations

Turning firstly to Canadian-Indonesian relations, the latter's characteristics as a developing country and exporter of raw materials should be kept in mind. The reader will also remember that Indonesian exports are composed largely of oil and crude metals, with the

manufacturing sector, however dynamic, accounting for only a small part of total exports.

Given Indonesia's developing-country status, Official Development Assistance (ODA) has played a significant part in linking the two countries; as Crone (1983:20) notes, "With Indonesia, Canada ... has a long and traditional relationship, based to a large degree on aid", and Canada is a member of the Intergovernmental Group on Indonesia (IGGI), a consortium of aid-giving countries. Much of Canadian involvement in Indonesia is thus based on official aid projects, noteworthy amongst which are the Panda Aceh/Meulaboh Highway, the Bukit Asam Coal Transport project, the Lombok Island High Level Diversion irrigation scheme, and the Suralaya Power Plant. Canadian ODA in Indonesia is to reach \$26 million in 1982 (Crone, 1983:21), and \$270 million over the next five years (DEA, 1983b).

Because of the large role played by aid projects, Canadian sales to Indonesia have tended to be highly specialised, and more-processed, in form (refer to Table II.2.2) -- at the same time, they have fluctuated considerably from year to year. Fuel oil, and ships and boats dominated our exports to them in 1980, for example, sulphur in 1981, and railway stock in 1982. As Canada does not purchase Indonesian oil, trade between the two countries has remained severely imbalanced, for several years, the surplus in Canada's favour being often embarrassingly large

with respect to overall bilateral trade. Canada exported \$197.2 million to Indonesia and imported \$30.3 million in 1982, for example, while the respective figures for 1981 were \$94.1 and \$30.9 million (Statistics Canada, 1982a and 1982b). A summary of the composition and value of Canadian exports to Indonesia is provided in Table IV.1.1.

Table IV.1.1
Canadian Exports to Indonesia, 1980-82.

	1980 \$'000s	1981 \$'000s	1982 \$'000s
Live Animals	-	123	169
Food Products	1,412	3,279	11,541
Crude Materials, Inedible	24,837	28,903	28,424
Fabricated Materials, Inedible	127,515	44,726	72,661
End Products	61,216	12,177	84,327
Special Transactions	50	4,881	55
Total Exports	215,029	94,088	197,178

SOURCE: Statistics Canada, Exports by Country (65.003), Dec. 1982.

Indonesian exports to Canada (composed primarily of rubber, tea, clothing, pepper and palm oil), in turn, are summarised in Table IV.1.2.

Table IV.1.2
Canadian Imports from Indonesia

	1980 \$'000s	1981 \$'000s	1982 \$'000s
Live Animals	-	-	-
Food Products	4,517	5,463	5,125
Crude Materials, Inedible	19,362	28,255	18,933
Fabricated Materials, Inedible	4,265	2,142	1,997
End Products	652	1,078	4,126
Special Transactions	116	23	87
Total Imports	28,913	36,961	30,269

SOURCE: Statistics Canada, Imports by Country (65.006), Dec. 1982.

As there is no trade agreement between the two, bilateral trade is carried out under the GATT, each having exchanged MFN status. In addition, Indonesia is a beneficiary of Canada's General Preferential Tariff. Finally, it should be mentioned that Canadian investment, largely through our banks, is considerable, and that it is likely to expand significantly in the future.

On the political side, Indonesia has been leaning increasingly towards the West since the mid-sixties. As official sources note: "From the Canadian perspective, it is a moderate and a moderating participant in the Non-Aligned Movement, the Group of 77, the North-South Dialogue, the Islamic Conference, and in various commodity groups including OPEC." (DEA, 1983b). Because Indonesia

views Canada as a middle power like itself, and sees in it a possibility for reducing dependence on the United States and Japan, consultation between the two is quite broad, covering Law of the Sea, commodities, stability in Southeast Asia, and the North-South Dialogue. It is to be noted in this respect that the only bilateral meeting held by Canada while Minister MacEachen attended the 1983 ASEAN "Dialogue" was with Indonesia. Treaties in force between the two include a Foreign Investment Insurance Agreement, a Double Taxation Convention (January, 1979), and the Canada-Indonesia Nuclear Co-operation Agreement (July, 1982).

Not surprisingly, in focusing on current issues between Canada and Indonesia, the imbalance in bilateral trade is a point which must be dealt with. As the Indonesian Ambassador to Canada has related: "... the trade balance has been totally weighted in Canada's favour. Indonesia continues to look to your country as a key market in which to expand our exports." (PBEC, 1982: 143). Though the Canadian response has been that Indonesia must improve the range and quality of its exports in order to increase sales, our protectionism vis-a-vis labour-intensive goods should perhaps be questioned.

An issue which generated considerable controversy in Canada, though it has by now been resolved, was the imposition by Indonesia of "counter-purchase" provisions in January of 1982. Though this form of barter is not uncommon

in global trade -- counter trade is a major element in East-West trade, and Canada itself has "offset agreements" with the US in the purchase of F-18 fighter aircraft -- the Indonesian policy has been characterised by "harsh and rigid terms" (Awanochara, 1983:49): it insists on "100 percent counter purchase of non-oil or -gas products against all major government procurements over a certain size, to be made on a bilateral basis. Though this actually covers only a small part of Indonesian imports, its impact on Canada has been considerable, given Canadian emphasis on large-scale infrastructural projects, which are definitely hit under the policy. In addition, Canada lacks the necessary multi-division trading companies which could handle "counter-purchase" smoothly, thereby shifting the competitive advantage to those who do, such as the Japanese. In effect, however, the matter is now a fait-accompli, and Canadian traders seem to have accepted this fact. The one exception to this relates to the Bukit Asam Coal Transport project, in which the CIDA portion of financing was exempted (ODA is not included under the policy), but the Export Development Corporation contribution was not (even though it was concessional), resulting in Canadian protests. Trudeau became involved in the issue during his January 1983 trip through Southeast Asia, but, as media sources note, "... the Prime Minister repeatedly stressed that Canadians wanted an exemption from counter-trade only in this project and did not object to it in principle." (GM, 13.01.83:10). However,

even this was of no avail, and the final Canadian reaction has simply been one of acceptance: "Sources say Canada finally agreed to go ahead with the coal-mining contract after Canadian companies accepted the controversial counter-purchase trade policy of the Indonesian government." (GM, 05.05.83:ab).

Rather more contentious, and presently still-unresolved, is the negotiation of new textile restraint levels with Indonesia. Until recently, Indonesian exports to Canada of labour-intensive goods (textile, clothing, footwear) were not extensive enough to warrant attention -- in fact, it has never come close to filling its quota of clothing exports (Crone, 1983:21). However, given rapid development of its manufacturing sector, this is likely to change in the near future. The fact that Canadian protectionism will probably give rise to calls for import restraint is the element which requires the most critical scrutiny, though -- as was noted earlier in this study, protection of most of our textiles and clothing industry is hardly a viable policy in the long term.

Another issue still ongoing between Canada and Indonesia is the renegotiation of double-taxation problems. Though an obvious nuisance to business it can be seen that this is essentially a technical matter, and its resolution is likely to be simply a matter of time.

If the overall milieu of Canadian-Indonesian relations, and the specific issues they given rise to, are by now clear, what must yet be established are the implications of these factors for Canada and a Pacific Community.

As we have seen, aid and trade are the dominant elements in the relationship. Though the former is a major topic in Pacific Community deliberations, and, as was noted in the analysis of Breton and Scott, Indonesia itself is likely to prefer a regional format for ODA, there is no real incentive for Canada to apply a more-than-bilateral approach in this case. Indeed, Canada is already involved in multilateral aid-giving through IGGI and the Asian Development Bank. Similarly, if it has complained that Canadian business has not received a proportionate share of project-funds from these institutions, this has been more the result of insufficient efforts by Canadian firms. As such, greater domestic efforts would seem to be the key.

The trade-related issues, however, are of the type which require a more comprehensive, regional, solution if they are truly to be resolved. "Counter-purchase" may well by now be settled -- it is, nevertheless, symptomatic of problems which will continue to arise, in that Indonesia feels it has been frustrated in its efforts to export. Thus, the negotiation of new textile restraint levels is only the most recent chapter in the ongoing history of Canadian protectionism. As we have noted, such issues are

characterised by high degrees of "spillover". Hence, regional negotiations for the reduction of tariff and non-tariff barriers, as well as for the progressive restructuring of the advanced economies, are called for.

A final issue which resurfaces occasionally is the question of human rights, notably with respect to the Indonesian presence in East Timor. It is clear from Canadian actions -- or lack thereof -- that this is not an issue which can be dealt with by a single country. Trudeau's response while travelling in Southeast Asia was that he had no right to push for change: he noted that Canada makes known that relations could be further improved with a country if it would pay more attention to its democratic reputation, adding however that:

... I always do so under the guise of saying look, my suggestions are humanitarian. They are not based on any desire to tell you how to run your country. I just want to tell you that, from a humanitarian point of view, we would like it if you could do such-and-so and our friendship would be enhanced.

(GM, 12.01.83:2). More fruitful in this respect is likely to be moral suasion by a group of peers, as well as a more dynamic -- more generous -- economic environment.

IV.1.ii -- Canadian - Korean Relations

While Korea's development requirements are still considerable, the expansion of its manufacturing sector has placed it in a distinctly different category from Indonesia,

that of the Newly Industrialised Countries (NICs). As such, Korea is eligible for CIDA Industrial Co-operation Programme assistance, but not for bilateral development assistance -- and even the former has been little used between Canada and Korea (Industry, Trade and Commerce [ITC], 1982:31).

Of greatest significance between Canada and Korea has been the element of trade, which has grown by leaps and bounds from some \$200 million in 1974 to over \$1 billion in 1982. Dominant in Canadian exports to Korea have been coal, sulphur, nuclear equipment (notably a CANDU reactor), pulp, asbestos, aluminum and telecommunications equipment. In exchange, imports from Korea have largely been made up of consumer goods: clothing, consumer electronics, footwear, textiles, sports equipment -- but have recently included a growing proportion of heavier manufactures (steel, cable, machinery) (ITC, 1982:99-100). A summary of this trade for 1980-82 is provided in Tables IV.1.3 and IV.1.4.

Table IV.1.3

Canadian Exports to Korea, 1980-82.

	1980 \$'000s	1981 \$'000s	1982 \$'000s
Live Animals	1,160	8,243	16,394
Food Products	6,883	5,630	19,747
Crude Materials, Inedible	133,355	223,063	229,166
Fabricated Materials, Inedible	289,286	153,746	119,015
End Products	75,101	53,960	103,502
Special Transactions	10	187	22
Total Exports	505,795	444,828	487,845

SOURCE: Statistics Canada, Exports by Country (65.003), Dec. 1982.

Table IV.1.4

Canadian Imports from Korea, 1980-82.

	1980 \$'000s	1981 \$'000s	1982 \$'000s
Live Animals	-	-	-
Food Products	7,544	13,629	16,591
Crude Materials, Inedible	882	4,646	6,717
Fabricated Materials, Inedible	87,346	144,315	93,003
End Products	315,088	439,820	464,263
Special Transactions	3,522	5,572	5,762
Total Imports	414,382	608,133	586,335

SOURCE: Statistics Canada, Imports by Country (65.006), Dec. 1982.

As can be seen from these figures, trade is in basic equilibrium between the two countries, Canada having run a surplus in 1980, followed by deficits in 1981 and 1982.

The political aspects of our relationship is of significance as well, however. Officially, Canadian interest in Korea is founded upon "our desire to ensure continued stability on the peninsula, to develop and protect our growing economic and other bilateral interests; and to serve our policy of protecting and expanding our relations with Japan which sees its security directly related to stability in Korea." (Canada-Korea Business Council, quoted in Bedeski and MacLean, 1983). This implies supporting South Korea in the face of North Korean threats, and contributing to its development in order to help Korea become a full-fledged member in the international community.

Canada and Korea also share a common fate in their dependence on both the United States and Japan. Official sources point out, notably, that Korea wishes to lessen this dependence and diversify its trade -- consequently Canada, with its raw materials and range of expertise, is an obvious partner (ITC, 1982:11). The growing links between the two countries have been underlined by an exchange of visits by heads of state: Trudeau visited Korea in December, 1981, while Chun came to Canada in August, 1982. Bilateral agreements include a Nuclear Co-operation Agreement (January, 1976), one on textiles (January, 1979), and a Double Taxation Convention (December, 1980). In sum, Canadian-Korean relations are, as one Canadian diplomat has put it, "incredibly good".

If the link between these two countries has proven so fruitful, this of course does not preclude the existence of problems. Given the preeminence of trade in our ties with Korea, the difficulties are naturally mostly trade-related.

From the Korean side it has been noted that its imports into Canada face rather formidable tariff barriers -- media sources claim that "Forty-eight percent of all South Korean exports to Canada are impeded by tariffs or quotas, a higher proportion than in any of Korea's other trading partners." (GM, 30.08.82:6). In addition, given the makeup of Korean exports, it is a frequent target of calls for further restraint. On top of this, "dumping" has been alleged of

several Korean products, including bicycles, handbags, photo albums, rubber footwear and microwave ovens, and anti-dumping duties have thus been imposed (Hedeki and MacLean, 1983). Finally, Korea, having graduated in Canadian eyes to the category of "middle income countries", has had to cope with the exclusion of a variety of its exports from the preferential tariff rates accorded to developing countries.

Canada, too, has some complaints to make. Official sources (ITC, 1982:18) note that though Korea is a GATT member, only a limited number of its goods are covered by the Agreement. Imported consumer goods thus still include duties of 50 to 60 percent, and luxury goods (including alcoholic beverages) from 80 to 150 percent. In addition to this, a list of some 64 goods is subject to rising tariff rates once a certain import level has been passed -- the list includes such Canadian items as pulp, chemical products and steel. Finally, parallel to these tariffs, Korea imposes the administrative barrier of import permits, though the number of items receiving automatic approval is growing -- from 69.4 percent in 1980-81, to 74.7 percent in 1981-82, for example. Overall, Korea has pledged to gradually decrease its tariff levels. This last occurred in 1979, when the non-weighted average level of protection fell from 36 to 25 percent -- a still rather substantial rate, from the Canadian point of view.

An area of particular concern for Canada is agricultural trade. As noted by Matthews (1983:137), Korean domestic prices are three times world levels for barley, two and a half times for rice and beef, two times for chicken and one and a half times for pork. Furthermore, the American role in the development of Korea has resulted in the monopolisation of Korean grain imports, particularly due to the subsidies allowed for under the PL480 legislation of the United States. This leads Matthews (1983:145) to conclude that, in spite of bright prospects opened up by the expansion of the Korean economy, "... such opportunities appear much less likely to arise for Canadian farm-product exporters, because of the elaborate protection of Korean agriculture." At the same time, though, it should be noted that PL480 has recently been annulled (ITC, 1982:4), thereby opening up at least new challenges to Canadian exporters of wheat, barley, rapeseed, linseed and feedstock. The Koreans themselves have stated only that Canadian grain would be considered "if and when" Korea needed additional supplies." (Bedeski and MacLean, 1983).

In sum, then, the facilitation of freer trade is the key in Canadian-Korean relations. To a large extent, the problem is due to pockets of protection in Canada which have to date resisted thorough restructuring. In turn, this threatens Canada's own export potential, even for highly specialised items; as Bedeski and MacLean (1983) point out:

"Canada has sold and installed a 650 megawatt CANDU nuclear reactor in Wolsong, and hopes to sell more, but to some observers, the existence of trade restrictions on Korean goods has reduced this likelihood." And though the pressure will be eased somewhat as the Korean economy shifts out of labour-intensive production, its move into electronics and "high tech" implies a new generation of problems. As such, the "spillover" character of these various issues is unavoidably obvious -- all the more so because, as External Affairs sources have pointed out, attempts at across-the-board tariff reductions for the developing countries of the Pacific are complicated by the graduation of Korea and a few others to more affluent positions. If the momentum in Canadian-Korean relations is to be maintained, then, regional consultation would seem advisable.

Returning to the political side, the issue of Korean stability deserves mention, due to its overwhelming impact on trade with this country. As has been noted, security in the Pacific can indirectly be supported through improved regional economic links, and by the promotion of Korea's diplomatic status. On the Canadian side, officials have underlined that increased political linkages will be necessary to maintain the economic contacts established with Korea up to this point. What is more, it is recognised that the pattern of Korea's agricultural trade has been largely influenced by the presence of 40,000 American troops in the

country, which leads a Canadian diplomat to stress that: "It is a question of security and it will be difficult for us to move into the market without some political activity." (PBEC, 1982:137). It would of course be ludicrous to consider stationing Canadian troops in Korea -- however, Canada is in the position to support Korean stability through the potential of the Pacific Community (or, alternatively, in supporting Pacific Summitry).

To conclude, it is clear that future developments will intensify the emphasis on trade and its related problems, and that the issue of stability in the Pacific will continue to be vital to Canadian-Korean ties. Though domestic action will be required to minimise the difficulties this implies for the two countries, the nature of the relevant issues suggests that a regional approach will be necessary to facilitate the required changes.

IV.1.iii -- Canadian - Australian Relations

The case of Australia is quite different for Canada, firstly because it is a developed country, but also due to the longstanding ties between the two Commonwealth members. As an official publication notes: "Canada's bilateral relations with Australia are particularly close. They are founded on a sense of mutual trust, confidence and cordial familiarity arising from a series of unique parallels or common experiences in historical development." (ITC,

1981:2). At the same time, however, Australia's character as a major exporter of raw materials places it in a position of increasing competition with Canada.

Due to Australia's relatively small population, its manufacturing capacity does not yet cover the full range possible, presenting Canadian exporters with significant opportunities. It is to be noted, for example, that, in spite of the limited size of the market, Australia ranked as the sixth largest importer of fully processed Canadian exports, and the ninth for fabricated goods, in 1980 (DEA, 1982b:Section 1, Appendix "C"). The reader will also perhaps remember that Australia featured the highest degree of processing for Canadian exports of the countries of Table II.2.2. End products exported in 1980 were dominated by motor vehicle parts, carpets in rolls, and farm equipment (ITC, 1981:90). In addition, the rapid development of its resource sector which Australia is presently undergoing suggests numerous possibilities for Canadian exports of oil and gas equipment (including pipelines), heavy electrical and construction equipment, and in the sector of telecommunications. Tables IV.1.5 and IV.1.6 provide a brief summary of the trade between Australia and Canada for 1980-82.

Table IV.1.5

Canadian Exports to Australia, 1980-82.

	1980 \$'000s	1981 \$'000s	1982 \$'000s
Live Animals	-	2,660	72
Food Products	30,110	46,189	36,135
Crude Materials, Inedible	95,102	104,067	91,877
Fabricated Materials, Inedible	304,206	312,526	244,164
End Products	235,482	306,827	273,667
Special Transactions	53	4,754	5,198
Total Exports	664,954	777,023	651,113

SOURCE: Statistics Canada, Exports by Country (65.003),
Dec. 1982.

Table IV.1.6

Canadian Imports from Australia, 1980-82.

	1980 \$'000s	1981 \$'000s	1982 \$'000s
Live Animals	19	7	-
Food Products	331,477	274,964	228,012
Crude Materials, Inedible	154,370	162,060	174,328
Fabricated Materials, Inedible	14,199	85,743	14,001
End Products	17,189	23,279	19,649
Special Transactions	1,806	3,131	4,839
Total Imports	519,860	499,184	440,835

SOURCE: Statistics Canada, Imports by Country (65.006),
Dec. 1982.

As can be seen from our list of imports, raw and partly processed materials dominate. Raw sugar headed these in 1980, followed by alumina, metal ores, dried raisins, nickel ores, and corned beef (ITC, 1981:91). In turn, the main

items of our overall exports to them for the same year were newsprint, lumber, sulphur, motor vehicle parts and wood pulp (ITC, 1981:89).

Though both countries are GATT signatories, trade policy relations are actually ruled by the bilateral Canada - Australia Trade Agreement (CATA) of 1960, updated by an Exchange of Letters in 1973. The CATA provides for reciprocation of "... tariff preferences on a broad range of products and places Canadian trade with Australia on a more favourable basis than virtually any other trading partner." (ITC, 1981:14). These preferences covered 24 percent of Canadian exports in 1980-81, but this was reduced to some 15 to 20 percent by revisions to the Australian Custom Tariff Act in January of 1983 (DEA, 1983a:3). A Double Taxation Agreement was also signed in May of 1980.

On the political side, cultural similarities encourage a broad range of consultation, including such subjects as stability and development in the Pacific Rim and within ASEAN, the Law of the Sea, refugees, space communication, the North-South Dialogue, and the issues of South Africa, Indochina and Afghanistan (ITC, 1981:2).

Given the closeness which exists between the countries in spite of geographic distances, issues of contention between the two are difficult to find, and are limited to trade frictions. Specific problems from the Canadian point

of view which have arisen relate to Australian import controls on aluminum, and their support system for industrial chemicals. In addition, under the aegis of the New Zealand - Australia Free Trade Agreement (NAFTA), market shares have been reserved for domestic or New Zealand supplies of newsprint (89%) and pulp (75%), limiting possibilities for Canada (ITC, 1981:15). Finally, the unilateral erosion of CATA preferences mentioned above has caused Canada some concern, though the policy change is legal under CATA.

Australian exporters, in turn, have had to cope with Canada's marketing boards, which impose restrictions on their beef and dairy products. Increased Canadian tariffs on canned fruits and vegetables have also caused problems. However, market access issues relate mostly to Australian wines -- for which, according to government officials, Canada is the "largest market -- where the intricacies of bilingual labelling, appellations of origin, and the practices of the provincial liquor commissions, have caused considerable frustration (ITC, 1981:15).

Overshadowing these minor issues, though, is one which may significantly change trade relations between the two countries, namely the Australian desire to replace the CATA with a new comprehensive trade pact. Generally, our position has been that: "... it would be in Canada's interest to maintain and, where practical, to improve the

existing preferential trade relationships." (ITC, 1981:14). It would appear, however, that this is not to be: an official^o in External Affairs has suggested that the Australians are no longer keen on them, and that they find the CATA too complex. Media sources confirm this:

The existing trade agreement between the two countries is 'too sterile', almost 40 years out of date and amounting to little more than an itemized list of tariff preferences. [the Australian Minister of Trade] said during a visit to Ottawa. It has been 'eroded to the extent that it's probably meaningless'.

(GM, 10.08.83:B9). Canada has had to accept this with good grace, and, according to government sources, is not worried about preferences so much as guaranteeing reciprocal security of access. In addition to this, it is noted that:

Both countries want to see a wide-ranging pact that would include provisions for economic co-operation, commodity trade, joint ventures, both in Australia and in third countries, technology transfers and a mechanism for ensuring regular bilateral consultations.

(GM, 10.08.83:B9). As such, it can be seen that these proposals augur some important changes in the relationship between Australia and Canada.

In so far as the current issues between the two countries are trade-related, a regional approach would seem to be merited by the "spillover" problems inherent in the situation. Though certain specific difficulties remain within the realm of purely domestic concern (the policies of liquor boards, for example), and though new trade relations are being sought at the bilateral level, this should not

obscure the fact that a number of other factors intrude upon relevant decision-making processes. Australia's growing frustration with the GATT framework, for example (cf. the Australian position at the GATT Ministerial of November, 1982), has caused it to turn to other frameworks for trade. A case in point is the revitalisation of NAFTA through the "Closer Economic Relations" (CER) agreement with New Zealand. Though CER provisions remain outward-looking, the implications for Canadian goods in the Australian market are unclear, especially as New Zealand products will not have to cope with import licencing after the mid-1990s. As Australian protection remains high with an effective rate of 27 percent for manufactures (ITC, 1981:10), it will be necessary for Canada to maintain as much leverage upon Australia as possible -- the combined impact of regional Pacific Rim pressure may well thus be essential.

It should also be remembered that, with time, Australia will increasingly become a competitor in the natural resource field, especially for Pacific Rim markets. Though Canada's preeminent position as supplier of uranium to the Japanese market is not likely to be threatened, due to the decision of the present Australian government to phase out exports of uranium, the same cannot be said for coal, aluminum, wheat, barley or oil seeds. Market stability may require, however, that Australia and Canada join a regional effort in order to avoid further "spillover" problems.

IV.1.3iv -- Canadian - Japanese Relations

To conclude our case studies, it is now necessary to consider the characteristics of Canada's links with Japan. In this case, one is dealing with a country which rapidly grew through the fifties to achieve "developed" status by the early sixties. The Japanese economy is also a highly sophisticated one, with manufactures accounting for almost all its exports.

The trade relationship between the two countries has developed rapidly, with Japan becoming Canada's second-most important trading partner by 1973. Behind this dynamism lies the fundamental reciprocity of the two economies, with Canada's exports of raw materials fitting well into resource-starved Japan, thereby permitting the exportation of Japanese manufactures to Canada. Thus, Canadian exports to Japan in 1981 are headed by such items as coal, rapeseed oil, wood pulp, wheat and lumber. In turn, Canadian imports from Japan in the same year are dominated by cars, followed by other vehicles, televisions/radios/phonographs, steel, and motor vehicle parts (DEA, 1982a:218-219). A summary of this trade for the years 1980-82 is presented in Tables IV.1.7 and IV.1.8.

Table IV.1.7

Canadian Exports to Japan, 1980-82.

	1980 \$'000s	1981 \$'000s	1982 \$'000s
Live Animals	6,374	5,069	4,891
Food Products	765,557	1,058,217	1,048,780
Crude Materials, Inedible	1,943,072	1,929,737	1,947,590
Fabricated Materials, Inedible	1,535,621	1,392,355	1,402,418
End Products	105,747	112,234	167,326
Special Transactions	145	49	223
Total Exports	4,356,513	4,497,660	4,571,228

SOURCE: Statistics Canada, Exports by Country (65.003), Dec. 1982.

Table IV.1.8

Canadian Imports from Japan, 1980-82.

	1980 \$'000s	1981 \$'000s	1982 \$'000s
Live Animals	17	35	30
Food Products	48,667	47,171	47,502
Crude Materials, Inedible	42,547	46,857	53,886
Fabricated Materials, Inedible	484,600	630,242	495,521
End Products	2,196,642	3,285,983	2,904,127
Special Transactions	23,371	28,099	26,053
Total Imports	2,795,844	4,038,388	3,527,119

SOURCE: Statistics Canada, Imports by Country (65.006), Dec. 1982.

As can be seen from these, two-way trade now surpasses \$8 billion per year. It is to be noted that Canada is in the rather rare position of running a constant surplus in trade with Japan, though this has generally narrowed over

time. Finally, the small part played by end products in Canadian sales to Japan should also be stressed.

If trade is such an obvious part of Canadian-Japanese relations, it does not compose their totality. Indeed, an explicit attempt to broaden our relations beyond the commercial was agreed to during Prime Minister Tanaka's visit to Canada in 1974, covering such areas as political, academic and cultural contacts, as well as diversified economic ties. A pattern of consultation has thus been established, composed of ministerial visits, annual foreign minister meetings, multilateral contacts, and common membership in the Economic Summit reunions. At the non-political level, exchanges, journalists' visits and biennial consultations on science and technology have served to reinforce the range of our links (DEA, 1982:18). The case of Japan is also notable as an example of the "Third Option" at work, as a "Framework for Economic Co-operation" was signed by the respective prime ministers in 1976: though its actual impact on trade is unclear, it has resulted in the formation of a Joint Economic Committee, with subcommittees working on the questions of resource processing and a system of information processing in agricultural trade. The business community, finally, has joined in these growing links through the establishment in 1978 of annual Canada/Japan Businessmen's Conferences.

Turning to current issues in Canadian-Japanese relations, the fractions in our trade predominate. Both countries are signatories to the GATT, and Japan made a number of important tariff reductions in the Tokyo Round. Amongst these, those of significance to Canada included a reduction from 7 to 4.9 percent of the tariff on prefabricated buildings and parts, from 10 to 6 percent on rough white wood, from 15 to 10 percent on pork, and agreement to cut duties on fisheries by 30 to 50 percent. In addition to this, Japan agreed to bind duty-free entry of rapeseed, soybean, tallow, mustard seed, rapeseed oilcake, breeding cattle and horsemeat (DEA, 1982:31). Areas of considerable importance to Canada were left uncovered, however: access for resource-based products, notably non-ferrous metals and semi-fabricated products (dressed lumber, for example), was not significantly improved. Similarly, numerous agricultural and fisheries products remain under quantitative Japanese import restrictions. This has led Minister Lumley (1982:2) to state that, in spite of Japanese measures to improve market access, "... there is a great deal of skepticism, and even cynicism with respect to the actual opportunities these measures will create." To be fair, though, Canadian observers in Japan have remarked that the problem is not so much Japanese barriers to trade as the complexities of the market, and the lack of active, capable Canadian firms (PBEC, 1982:72).

A number of other trade-related problems were also underlined by Lumley during his March, 1982 trip to Japan. Primary amongst these was a desire by Canada of an extension to the "voluntary weather forecasting system" with respect to automobiles and commercial vehicles. This less-than-"voluntary" agreement by Japan to limit the number of vehicles being exported to Canada ran its course in 1982, and the Japanese were understandably unwilling to renew in 1983. However, given that a similar agreement had been made with the US, the Canadian fear was that there would be the "diversion" of vehicles in excess of the US figure to Canada. Trudeau sought assurance that this would not be the case during his January 1983 trip to Japan ("International Canada", 1983:17), and Canada has continued to press for firm commitments from the Japanese. Ultimately, a six-month agreement was reached subsequent to Minister Regan's February 1983 visit to Japan -- the issue is sure to surface again, though, given the broad call for restrictions of auto imports into Canada.

Related to this, Lumley pointed out that the mere 3.7 percent of Canadian exports to Japan in 1982 which were fully manufactured goods was far lower than our global average, and should be considered disappointing. Specifically targeted in this respect was the contrast between the low Canadian exports of automotive parts to Japan, and the growing imports of finished Japanese vehicles. In addition, changes to Japan's trade barriers

relating to standards and quality testing were eagerly awaited.

A final concern of Lumley's was the encouragement of more Japanese investment in Canada. Such a move by the Japanese would be especially satisfying to Canadians because it would aid in diversifying our trade links, a Third Option priority. To date, however, Japanese investment in Canada has been relatively small. There is thus considerable potential in developing this further, as well as in diversifying the targets for Japanese funds from the resource sector to manufacturing and high technology.

One might also add to Lumley's concern the area of fisheries, in which the element of "cooperative fishing agreements" with Japan as was mentioned previously, this implies certain trade-related problems, and thus "spillover" issues.

In sum, then, the large part played by trade issues in Canadian-Japanese relations would seem to call for a more-than-bilateral approach, given the "spillover" nature of the situation. This is markedly so because greater access for Canadian processed raw materials into the Japanese market would imply similar concessions to other Japanese trade partners, such as the ASEAN countries and Australia. Similarly, lowering restrictions on agricultural imports is likely to concern the United States at least as much as Canada. As such, considerable give-and-take between

several of the countries of the Pacific Rim will likely be necessary before Canada can gain significantly greater access into the Japanese market.

At the same time, though, some of the friction of current issues with Japan would seem resolvable through largely bilateral moves. Greater sensitization of Canadian firms to the complexities of the Japanese market will mainly be the task of Canadian governments. Much the same can be said of promoting Canadian opportunities for Japanese investment.

On the political side, Canada has made known its desire to see Japan play a larger role in world affairs, and assuming the responsibility which come with its economic stature. Though Canada can only encourage this to a limited extent bilaterally, promotion of the Pacific Community concept would seem to be an obvious way to accomplish this aim.

Finally, the precarious stability of Japan is also of vital concern to Canada. The reader will perhaps remember in this respect that one of the official reasons for Canadian interest in Korea was to ensure better prospects for Japan. Thus, just as in the Korean case, the "economies of scale" and "spillover" issues involved in security, and in the economic conditions which help to maintain it, suggest that a regional approach would be a worthwhile means for Canada to achieve its goals with respect to Japan.

Chapter IV.2

Case Study Conclusions

In reconsidering the conclusions which have arisen in this series of case studies, it would thus seem that a regional approach to the Pacific would be beneficial for Canada in resolving the types of issues which dominate its bilateral relations in the area.

As is by now clear, the driving force behind this is the centrality of trade questions in most of the cases. Thus, though trade must share the stage with questions of aid in Canadian-Indonesian ties, it is the dominant focus for issues in the three other cases. Even the concern for stability/security, which was stressed in our links with Korea and Japan, has been shown to have a strong connection with trade matters. Hence, returning to the conclusions of our theoretical framework, it is clear that the several "spillover" elements attached to the various issues of trade call for a regional approach -- that is, the problems of trade are simply too complex, involving too many other actors, for them to be resolvable in a purely bilateral context.

Given the factors which were stressed in our initial section on "Canada and the Pacific Rim", this conclusion can hardly be surprising. Indeed, the central point which was then made was that one could justify considering the Pacific Rim as a regional entity because of the web of interdependencies which linked the Pacific countries together through their trade links. The reader will remember, for example, the large part played by trade in the GNP of these states. Similarly, the central dependence of Canada on trade must once again be underlined. As such, the fact that trade issues should dominate our bilateral ties in the region is easy to understand. Consequently, given the nature of trade-related issues, the answer to the "policy question" is that a regional approach to the Pacific, in addition to present bilateral ties, is clearly justifiable given Canadian priorities.

Naturally, trade was not the only issue for Canada with the case study countries. However, as we have seen, a number of these other issues also support the regional answer given to the "policy question". Stability, for example, apart from its trade-related aspects, is a question of "economies of scale" -- as Canada's military potential is small, this factor should be particularly significant to us. Market stability for commodities is a factor linking Canada to Indonesia and Australia as fellow-producers, but also to Korea and Japan as significant consumers -- it is also a factor in which both "spillover" and "economies of scale"

arguments enter. Related to this, the problems of resource management in the cases of Australia and Indonesia call for a regional approach because of "common property" ("spillover") aspects. On the political side, stressing greater human rights in Indonesia and Korea is likely to be more effective, from the Canadian point of view, through a regional approach which allows one to cope with the "spillover" elements involved. Finally, in considering the future, it was clear that the present pattern of issues is likely to remain as it is, or even intensify, for Canada, suggesting the continuing validity of a regional answer to the "policy question".

Of course, certain issues are resolvable simply in the bilateral context. Thus, in so far as ODA was a factor in our relations with Indonesia, Canada is likely to prefer to maintain a bilateral emphasis, in order to guarantee Canadian project-related exports. The specific problems of increased Australian wine sales in Canada also requires a largely domestic solution. Similarly, the promotion of more diversified foreign investment in Canada is a factor calling for greater Canadian efforts, though regional determination of the international investment environment must also be considered in this respect. Finally, greater domestic efforts by Canadian firms wishing to sell abroad will do much to improve our export performance. These are all issues in which "spillover", "economies of scale", or "leakage" problems are not dominant. However, it is clear

from the case studies that these issues are of lesser significance to Canada than those requiring a more-than-bilateral solution. In the end, then, it remains evident that the resolution of the "policy question" justifies a regional approach.

IV.2.ii -- References to Section IV

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Section V

CANADA AND THE PACIFIC RIM

IN THE 1980s

Chapter V.1

Summary: Towards a Pacific Community

The conclusions arising from our case-study analysis thus bring this work to an end. Much as the Pacific Ocean itself is extensive, the process of detailing Canada's place in the Pacific has been involved. It has, however, also been fruitful.

The reader will remember that we began with two central purposes in this study. The first was to determine the nature of the Pacific Rim, and to establish Canada's place within it. Thus, defining the "Pacific Rim" was undertaken, as was a detailing of the efforts which have gone into institutionalising the Pacific, and the reaction of the Pacific Rim countries to these. In turn, the Canadian perspective was then analysed, with reference to domestic interest in, and reaction to, the Pacific. In fulfilling the first purpose of our work, then, it was made clear that Canada could expect considerable benefit from closer links with the Pacific Rim.

The analysis of this section then prepared one for the undertakings of the second purpose of this thesis, namely

answering the "policy question" as to which approach -- bilateral or regional -- would best allow for maximisation of Canadian interests in the Pacific Rim. This firstly required formulation of a theoretical framework, which, after consideration of relevant bodies of theory, took one through "public goods" analysis to the theories of Breton and Scott on federalism, and from there to a framework for policy. In order to make more evident the suitability of this framework to the Pacific, it was briefly applied to those issues central to Pacific Community considerations. Finally, a series of case studies, in which the issues current in Canadian bilateral links were related to the theoretical framework, produced an answer to the "policy question": as the reader now knows, this established that a regional approach in addition to our bilateral links seems warranted by the nature of the issues for Canada in our relations with the countries of the Pacific. As such, the product of this completed analysis supports the contention that Canada should push for a Pacific Community.

If this thesis has then been brought to an end, and all of its concerns addressed, its implications still deserve some brief consideration.

It is clear that Canada should strengthen its ties with the Pacific, and that a Pacific Community has a role to play in this. The question remains, however, as to just what this Pacific Community should be. It is at this point that

the relevance of integration theory can be established, for it allows one to determine the "equilibrium level" for Pacific integration. Though a detailed examination of this question would of itself require another thesis, it is clear from the considerable political hesitancy of a number of Pacific Rim countries that initially this level is likely to be quite low. It should be remembered as well that most of the advantages of integration are actually attained in the stages up to a free trade area, after which political costs start mounting rapidly. This suggests that a Pacific Community will be of appeal to the Pacific Rim countries if it is established as an organisation entailing few of the formal commitments of integration. Even the establishment of a free trade area would probably be too adventurous, given the preferential implication of such an organisation, and in the face of Japanese or American commitments to multilateralism, unless there is further substantial erosion of the GATT. Greater facilitation of market access, and reinforcement of Pacific interdependencies will receive considerable support if they take the form of consultation, co-operation, and, potentially, a greater openness of the developed-country economies to exports from the developing states of the region. Thus, for the time being, the equilibrium level of integration for the Pacific would seem to be between some Pacific OECD and a free trade area.

Though this suggests a format for the Pacific Community, one must also consider the problems associated

with putting together the organisation. Ironically enough, though a Pacific Community seems essential in resolving the "public goods" problems of the region, formation of the institution is itself a "public good" situation. Indeed, given the lack of incentives to any one country to do this, as listed in our theoretical analysis, a Pacific Community is likely to remain "undersupplied" unless one of the Pacific states chooses to take the lead. Japan and Australia have done so, only to eventually abandon the field to Korea, which itself seems to be hesitating. It would thus seem in the interest of Canada to give clear support to one of these countries -- Korea being the best candidate at this time -- if its own goals are to be met.

This brings up one last point, namely the part Canada should play in achieving a Pacific Community. It must be re-emphasised that Canada is not a central player in the Pacific: its market is not so large that of itself it draws the attention of the Pacific Rim countries, nor has its policy towards the Pacific been all that productive. What must be realised is that Canada could well be dispensable to a Pacific Community, unless it makes itself part of the process aiming towards the formation of the organisation. Canadian participation in the Pacific Co-operation Conferences has been encouraging in this respect, but a broader and more intensive Canadian effort will be required if we are to maximise our own interests in the region.

Of course, it would be a mistake to leave the reader at the end of this study with the impression that a Pacific Community will be the "ne plus ultra" for Canada. Rather, what must constantly be kept in mind is the value of this process as a means to greater multilateral ends. Canada, as a trading nation, cannot afford to promote ties with certain countries at the expense of others -- a preferential trading bloc in the Pacific would thus be only a last-resort move for Canada. In addition, there are issues for Canada, such as monetary matters, which will always require a multilateral approach. However, to the extent that the multilateral system remains weakened, a regional contribution to global ends will be valuable to Canada. It is in this respect, then, that achieving a Pacific Community should be an important goal as Canada looks to the prospects of the 1980s, and beyond.

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