

THE  
PACIFIC  
CENTURY  
*Economic  
and Political  
Consequences  
of Asian-Pacific  
Dynamism*

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# THE PACIFIC CENTURY

*Economic and Political Consequences  
of Asian-Pacific Dynamism*



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# The Pacific Century

For Thesy and Peder-  
companions on Pacific tours

## Preface

Pacific vitality and vigor offer the world as a whole the opportunity to create a good future, and the task of understanding and representing the political and economic implications of this dynamism, for the Asian-Pacific countries themselves and the other countries of the world, is an important and a challenging one. It takes a lifetime to become an expert on any one of the many and highly diverse countries of the Pacific Basin, and though I do not claim to have that expertise, I do think it possible to understand enough of what is happening in this rapidly changing region to illuminate the likely consequences for the rest of the world, whether for the established industrial countries in Europe and North America, for the developing countries, or for the communist camp.

My background in economics and in elective political office has stimulated and guided my interest and work in this field. During two periods and a total of eight months in 1983-84, I had the privilege of being invited to use the excellent research facilities of the Hoover Institution, Stanford University, California, where a substantial part of my work on this essay was carried out. I profited greatly from discussions with and encouragement from many Stanford economists and political scientists, among whom I wish to mention Nathan Rosenberg and Daniel I. Okimoto. My wife Thesy and my young son Peder tell me that they had an excellent time at Stanford, and this too helped me greatly. Extensive travels in the Asian-

Pacific region—beginning with a lecture tour in Japan in 1963 and including an all-too-short period at the National University of Australia in Canberra in 1982—and the advice and help of many people throughout the region have been a necessary and pleasant part of my work.

I gratefully acknowledge the generous support I received from the Marianne and Marcus Wallenberg Foundation during the writing of this essay.

S.B.L.

But you cannot help but feel that the great Pacific Basin, with all its nations and all its potential for growth and development—that is the future.

*President Reagan in an interview in  
Far Eastern Economic Review, May 17, 1984*

The Pacific era is a historical inevitability.

*Prime Minister Nakasone in a radio  
speech, Nov. 20, 1984*

If the capitalist system is not guaranteed in Hong Kong and Taiwan, prosperity and stability there cannot be maintained.

*Vice Chairman Deng Xiaoping, Beijing,  
Oct. 15, 1984, as quoted by Xinhua News Agency*



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## ONE

# A Pacific Century?

This essay explores the implications of a force that is transforming world politics and economics, namely the dynamism manifested in the Pacific region. Since the early 1960's the Pacific Basin has been undergoing more rapid economic advances than ever before. Its spectacular growth in production and international trade and its overall economic attainments have brought about a shift in the world's political and economic center of gravity.

The world is becoming more complex, with an increasing number of actors on the global stage. The new actors—Japan, the Asian newly industrializing countries (NICs), the Association of the Southeast Asian Nations (ASEAN), and most recently China, as well as the whole Pacific region as such—have been claiming and getting a larger role for themselves. As a result, the political and economic influence of the various world powers, groups, and blocs is being redistributed.

The successful Pacific countries are all market economies with private entrepreneurship and private property. They give considerable attention to efficient allocation by way of rational prices, and they have an outward-oriented development strategy focused on international trade. The success of the Pacific countries means that other regions are experiencing a relative decline as their share in world activity falls. This decline will prove especially difficult for countries that rely on a different economic system from that of the successful Pacific

countries, since in addition their strength will be sapped as the attractiveness of the system declines both at home and abroad. Already there are signs that their own self-confidence is eroding, and they are experimenting with reform. This is exactly what is happening in China, and because of China's political prestige the reforms there will reverberate throughout the other socialist and communist countries. And many leaders in developing countries will find it easier to discern the progress of the capitalist Asian-Pacific countries and to draw new conclusions. Pacific growth has a powerful ideological effect.

The relative decline of other market economies, however, manifested in a growth rate lower than the Pacific Basin's, is compensated for by a strengthening of the position of market economies in general. The Pacific examples are persuasive. Time-honored methods are becoming fashionable and are imitated. In the struggle between systems and ideologies the established industrial countries are faring well. Furthermore, these countries can derive benefits from Pacific growth. For open economies, there will be a wider scope for mutually beneficial trade and factor movements as the world economy enlarges. There will be bigger markets and better sources of supplies. Opportunities for international investments will increase, flows and transfers of technology will expand, and new economic policies and industrial methods will be employed. The new stimulus from competitive forces will cause not only a useful reallocation of resources but also an intensified search for improvements and innovation. Pacific growth invigorates.

The market economies in North America and Western Europe, in particular, are well placed to derive benefits from these opportunities. Nevertheless—and here is the problem for the established market economies—the gains from trade will not be automatic. For the gains to be fully realized, the old economies must respond vigorously. They must thrust

themselves into new activities, including a reallocation of factors of production. In practice, however, such adjustments seem to be painful, particularly in Western Europe. Countries fettered by severe constraints on factor mobility, which thus have a low capacity to take initiatives and to make adjustments, see new threats rather than new opportunities in the phenomenon of Pacific growth and competition. These negative perceptions may carry over into destructive economic policies, damaging both the established countries and their trading partners in the Pacific.

This is also a political problem for the established industrial countries. Instead of deriving benefits from an enlarged partnership with an emerging economic power, they may convert the relationship into one of friction and antagonism. Furthermore, a great many countries beyond the Pacific region, attracted by powerful examples, are hesitantly experimenting with reforms and more outward-oriented trade strategies. By responding negatively, the established countries may risk frightening away these developing nations, making it more difficult to achieve a reorientation and to discard inward-looking policies aggressive toward the industrial West.

The task for the established industrial countries should nevertheless be much simpler than for the socialist and communist countries. To meet the Pacific challenge, the established market economies have only to accept a structural readjustment of resources, whereas the socialist and communist systems must readjust both their political beliefs and their economic structures.

The Pacific countries have demonstrated that growth is not a miracle. Underdeveloped countries in East Asia have followed Japan and have become, in a real sense, developing countries. Indeed, the Asian-Pacific NICs have shown that it is possible not only to achieve vigorous growth but to challenge the established industrial countries and even, like Japan, to reach out for leadership. This Pacific phenomenon is re-

vitalizing the world. In global terms, center and periphery do not exist in some eternal arrangement. At the beginning of the post-war period there was much optimism about possibilities for economic development, followed by much disappointment as the strategies in vogue proved unhelpful or even disastrous. But now, in the Pacific, alternative policies have been tried—the very policies, in fact, that once gave the rich countries their affluence. It is exciting to see these policies succeeding again. It gives grounds for much new hope—if only the alternative, but proven, ways are not obstructed by the established, threatened countries, pursuing policies harmful to all.

### *A Pacific Profile*

In economic terms, the most important of the northeast Asian (or northwest Pacific) countries is Japan. Indeed, it is the most important actor in the Pacific region as a whole, an economic superpower (see Tables 1 and 2 below). Three smaller northeast Asian countries—South Korea (hereafter referred to as Korea), Taiwan, and Hong Kong—form, with Japan, an Asian-Pacific hub. Along with Singapore, these three countries make up the group of successful newly industrializing countries of Asia (NICs), whose spectacular growth shows greater resilience than that of the South European and Latin American NICs.

The important southeast Asian (or southwest Pacific) countries are Thailand, Malaysia, Singapore, Indonesia, the Philippines, and newly independent and oil-rich Brunei. These countries, joined together in ASEAN, form an important part of the Pacific economy. Singapore is not alone in having put in a strong performance. The other four big ASEAN countries belong to a group of “new exporting countries” (NECs) that have achieved an even faster growth rate in manufactured exports during the 1970’s than the celebrated NICs.

Also a part of the Pacific Basin are the South Pacific countries of Australia and New Zealand—like Japan, members of the Organization for Economic Cooperation and Development (OECD)—and Papua New Guinea.

The sheer size and weight of China and its ancient civilization mean that its presence is very much felt in the region, and the Chinese diaspora gives this presence an added dimension.<sup>1</sup> A communist economic system, however, and an inward-looking strategy have reduced China's regional presence and influence. In spite of a considerable internationalization of the economy since Mao's death, China still has less foreign trade than Taiwan; China's total exports and imports in 1983 amounted to U.S. \$43 billion, U.S. \$2 billion less than Taiwan's. The direction China chooses will nevertheless be of the greatest significance for the future position of the Pacific in the world economy.

The other communist countries in the area are represented only geographically and militarily. The USSR has its civilian and its economic face turned to Europe—in fact, even more so than most of the wholly European nations. Siberia, with its long Pacific coastline, is an enormous Pacific back yard. It is administered as a territory, however, by the Russian Republic, one of the State Republics, which has its headquarters in Moscow under a purely European leadership. Vladivostok, Irkutsk, and other Soviet cities in Siberia are European cities, built by Europeans for inhabitants who are predominantly Europeans. As Malcolm Mackintosh explains in a paper on Soviet attitudes toward East Asia, "Whatever role the Soviet Union seeks to play in Asia, and whatever aims and interests it may have there, they belong to a European and global power in Asia and not to an Asian power acting on Asian political and social assumptions and using Asian negotiating techniques."<sup>2</sup>

Like the Soviet Union, North Korea and Vietnam have a strong military presence in Asia, but they are economically



introspective. Economic failure has kept them small. They are military exclamation points and economic parentheses. Their economic importance lies solely in the contrast they provide. These countries (along with Laos and Kampuchea, which are occupied by Vietnam) will therefore be excluded from our discussion of the Pacific or Asian-Pacific region.

In contrast, the western regions of the United States and Canada play a substantial role in the Pacific economy. California and the other western states are surely no Pacific back yard. The “westernization” of the United States in economic vitality and population density is a significant factor in the growing importance of the Pacific Basin. In 1950 total personal income of the five Pacific states of the United States was 28 percent of that of the eighteen Atlantic states. By 1960 it had risen to 35 percent, and by 1982 to 42 percent. Similarly, the population of the Pacific states increased from 30 to 37 percent of that of the Atlantic states between 1960 and 1982.

Because the North-American West, that is, the East Pacific, is well integrated with the West and South Pacific, it is possible to speak of a Pacific Basin economy and to make comparisons and contrasts with the Atlantic economy. The United States faces both the Atlantic and the Pacific, and it will be significant which way it looks with greater attention. If Asian-Pacific growth causes the United States to focus rather more on the Pacific, this focus will serve to reaffirm the global economic realignment, even though U.S. interests make the country not so much an integrated part of a dynamic Pacific Basin economy as a separate entity in a very special relationship with the Asian-Pacific community.

The Latin American countries bordering the Pacific are not at present intensively engaged in the Pacific economy, although here too one can discern a growing awareness of Asian-Pacific opportunities. This shift is noticeable in Mexico in spite of all the local economic activity set off by the oil discoveries in the Gulf of Mexico.