CHAPTER 1

Building Momentum: **The Movement Toward Pacific Economic Cooperation Prior to 1980**

MARK BORTHWICK

BUILDING MOMENTUM: THE MOVEMENT TOWARD PACIFIC ECONOMIC COOPERATION PRIOR TO 1980

In September 1980 a group of government, business, and academic leaders convened in Canberra to explore the possibilities for Asia Pacific economic cooperation. Years of advocacy by different institutions and human networks were at that point converging like tributaries out of the historical landscape of the 20th century in the hope that a new regional institution might be created. Still, it was impossible to predict what would result from the Canberra discussions. Various proposals and concepts for regional cooperation were vying for attention while key government figures in the Association of Southeast Asian Nations (ASEAN) continued to voice their open skepticism. Other observers recalled that another effort to create a cooperative regional institution earlier in the century, the Institute of Pacific Relations, had ended in disaster. In short, the preparations for discussions in Canberra that would eventually lead to the creation of the Pacific Economic Cooperation Council (PECC) were marked by uncertainty. This chapter will describe the ingredients of that uncertainty that needed to be dealt with and provide an overview of the economic and political environments, institutional precedents, ideas and initiatives that led to the founding of PECC.

An Early Experiment: The Institute of Pacific Relations

Nearly half a century before Asia Pacific regional leaders met in Canberra, a similarly visionary group comprising civic leaders and academics met in Honolulu, to establish an organization for regional cooperation. Called the Institute of Pacific Relations (IPR), its creation relied less on powerful economic arguments than on the sense of urgency and expectation shared by its founders. They foresaw a trans-Pacific future full of economic promise but also one threatened by the growing competition and ambitions of the great Pacific powers.

The IPR is remembered today largely as an ambitious failure that could not survive the chaos of World War II and the politics of the Cold War. Therefore, the debt that the current Pacific cooperation movement owes to it has been but poorly recognized. As will be seen, it pioneered the concept of a "Track II" as a useful complement to official diplomacy, stimulated worldwide recognition of the growing importance of the Asia Pacific as a region, and ushered in a new era of empirical research under the direction of an international network of distinguished scholars.

The origin of the IPR is sometimes traced to 1919 by people who associate it with the hopeful period of Wilsonian idealism that swept much of Asia that year. However, the real formation of the IPR came gradually in the 1920s at the initiative of the international wing of the YMCA. That such a broad initiative could be spawned in this manner reflected not only the optimism of the founders of the trans-Pacific movement in the 1920s, but also the relatively weak international diplomacy that prevailed between the United States and Asia in that period. Activist internationalism had become the preserve of private organizations, particularly those that served religious and educational purposes.

The official launch of the IPR in 1925 brought over 100 international delegates to Honolulu from Australia, Canada, China, Hawaii, Japan, Korea (informally), New Zealand, the Philippines, and the United States. Through their initiative, the IPR became a major force for research, analysis and debate across a wide range of regional economic and political concerns. Space does not permit a detailed description of the pre-war expansion and post-war demise of the IPR (see Hooper 1994) but, in many respects, its structure and the nature of interaction with governments prefigured the issues that PECC and other Track II networks would encounter a generation later. A central tension within the IPR, one that was never completely resolved, was between advocates of low-key scholarly research and those who wanted the IPR to assume a major role in regional and global political and policy debates.

Prior to the creation of the IPR, there had been no tradition of international conferencing in the Asia Pacific. Between 1927 and 1954, the IPR succeeded in convening a series of major international conferences, involving over 1,500 delegates, along with innumerable smaller meetings of task forces. The organizational structure was similar to what would be used by non-governmental bodies like PECC a half century later, consisting of a network of national committees whose regional cooperation was coordinated by an international secretariat based in the United States. Some national committees, such as the Japan committee, were closely allied with their governments, while others stood well apart from any such connection. As a result, tensions within the IPR grew in the international political environment of the 1930s, to a degree where Japan eventually withdrew from membership.

Further problems arose when the IPR expanded to include European members, leading to heated confrontations between them and Americans over colonialism. If these debates were divisive, it was because they were seen as significant, particularly in private international forums that gave equal voice and standing to representatives of colonialized peoples. This served to attract the attention of significant political and intellectual figures such as Jawaharlal Nehru, who gave the welcoming IPR conference address in 1950, and others such as Ralph Bunch, Hu Shih, Henry Luce, Yosuke Matsuoka and Arnold Toynbee, to name but a few.

Perhaps the most enduring IPR legacy was the unprecedented outpouring of scholarly research. Prominent scholars participated in major studies of economic change and agricultural production in East Asia, resulting in some landmark works such as R.H. Tawney's *Land and Labor in China*, while prominent scholars such as the German sinologist Karl Wittfogel came to the attention of the English-speaking academic community, thanks to interactions in the IPR.

In the early 1950s, the wave of anti-communist hysteria in the United States broke like a storm on the IPR as Senator Joseph McCarthy led the attack on the organization's key American figures. The 1954 international meeting of the IPR in Kyoto was thus an occasion of gloom and despair, for it was widely recognized that the United States remained essential to the future of the organization, as it had been from the outset. By the time the McCarthy era had passed, the international collapse of the IPR was complete, with little left to be carried forward except its journal, *Pacific Affairs*.

The lasting impression of the IPR has thus been one of institutional failure. In fact, the organization succeeded in developing a wider understanding of the economic importance of the Asia Pacific region and in creating a tradition of private regional forums. But it also demonstrated the difficulties any Track II process faces in a volatile geopolitical environment and it lacked a broadly agreed intellectual framework within which to address the problems of the region. The lack of such a framework was partly a reflection of the fact that the IPR was not able to substantively participate in the reconstruction of the world system after World War II.

It would thus fall to a new post-war generation of scholars rather than the IPR founders to lay the intellectual foundations for PECC and the regional intergovernmental forum on Asia-Pacific Economic Cooperation (APEC). This new era of post-war research took place amid the successes of the Bretton Woods system, the General Agreement on Tariffs and Trade (GATT) and the Marshall Plan as well as a rising European Economic Community. Responding to, and inspired by, this new global economic environment, researchers began to examine how the Asia Pacific region might reap the benefits of the new world order while also examining its impact on their individual countries.

The Pacific Trade and Development Conference

One of the early leaders of the post-war Pacific cooperation movement, Professor Kiyoshi Kojima of Hitotsubashi University, openly acknowledged that his initial work in the 1960s was inspired by the competitive challenge – particularly to Japan – arising from the economic unification taking place in Europe. In 1967, he organized a conference that today is counted as the launching place of this new movement, initially for the purpose of debating the merits of his proposal for a Pacific Free Trade Area (PAFTA). Although the discussion that ensued included the PAFTA proposal, that idea was rapidly conceded to be impractical. Instead, the excitement of the participating scholars arose from their realization that other issues of a regionalist nature were important subjects of research and that they could learn from and contribute extensively to one another's work. The result was a succession of conferences that became known as the Pacific Trade and Development (PAFTAD) conferences.

By emphasizing comparative analysis and, in areas such as food and energy, treating the Asia Pacific as an evolving, interacting system, PAFTAD succeeded in developing a more comprehensive understanding of Asia Pacific economic growth. The effect of its research carried well beyond what even its participants may have anticipated, because it conveyed to a larger audience the message that the Asia Pacific was rapidly achieving its own degree of dynamism and coherence and was therefore a legitimate subject of analysis and planning. For government leaders, the policy implications of this clearly transcended the standard disclaimers about Asian diversity.

PAFTAD had a further significant impact in preparing a young, technocratic elite for leadership roles in Asian economic development. A number of key participants in PAFTAD debates have taken significant advisory or ministerial positions in governments, particularly in Southeast Asia, and have demonstrated a particular sensitivity to the rules and dynamics of the regional and global trade and financial systems. PAFTAD also helped policy-makers better understand economic change in the Asia Pacific during the 1970s, when a realization of such changes was only beginning to penetrate the consciousness of businesses and governments in the industrial world.

In all these respects, then, the relatively small network of experts who participated in PAFTAD exerted an influence well beyond what their absolute numbers would indicate. Several individuals in particular were to bring specific proposals for regional cooperation to the attention of governments in a way that significantly supported the formation of PECC and APEC.

The Pacific Basin Economic Council

International business organizations flourished amid the economic growth and relatively congenial political environment of the post-war period. Bilateral in orientation, their purpose was straightforward business promotion, rather than interaction with governments. Most were formed at the initiative of Japanese businesses. Among the first initiatives were a regular series of bilateral meetings organized by Australian and Japanese business groups in 1962. At their second meeting in 1964, the director of the Australian committee, R.W.C. Anderson, proposed the expansion of the bilateral meetings to encompass a multilateral group of business leaders from the region. From this kernel of an idea and subsequent discussions a network of business executives formed the Pacific Basin Economic Council (PBEC) in 1967.

The founding members of PBEC were business people from Australia, Canada, Japan, New Zealand and the United States. This naturally led to the overall impression of a group whose perspectives were essentially those of the multinational companies of the developed world. An early, substantive, PBEC initiative was the 1972 Charter on International Investment, which inveighed principally against the expropriation of property, excessive taxation, and arbitrary modification of contracts and concessional terms. In other words, it focused on issues aimed at developing country markets rather than at the countries of the PBEC members. At the same time, however, an effort was made to solicit views from developing country representatives.

PBEC initially explained its reasons for limiting membership to the developed Pacific Basin economies as resulting from the need to encourage "a more active interflow of goods and capital among the five advanced nations in the Pacific Basin" and to "make it possible for the advanced nations to cooperate with one another in expanding economic and technical assistance to lesser developed countries in the same area" (Marris and Overland 1997). But, as the organization began to attract wider regional interest, it recognized the need to accommodate participation by businesses from developing countries. In 1975 it formalized the special category "Regional Member Committee" through which companies from developing countries could belong irrespective of country affiliation. This "sixth member" was the only addition to PBEC membership prior to the founding of PECC in 1980, but it enabled a substantial number of people from developing countries to participate in the annual PBEC international general meetings.

At PBEC's 12th general meeting in 1979, members were formally introduced to the concept of a "Pacific Economic Community" by their International President, Noburo Gotoh. From that point forward into the following year, PBEC took a strong interest in developments that were shaping the proposals from which PECC would eventually emerge. In May 1980, the PBEC Steering Committee met in Sydney to consider a proposal formulated by the Japan PBEC Committee for a Pacific Economic Community. The proposal embraced the same broad definition of appropriate "member" countries (including Latin America) as was being put forward in other proposals, but it did not formulate a specific organizational structure. In the end, the PBEC Steering Committee could not even agree on whether the coordinating mechanism of the new institution should be governmental or non-governmental.

In the period leading up to the Canberra Seminar of September 1980, PBEC made an important contribution through its prominent advocacy for constructive economic regionalism. Its international annual meetings uniquely demonstrated the fact that businesses were a driving force of an emerging Pacific economic community. While some took note that PBEC's advocacy at the international level for freer Pacific trade and investment contrasted with the protections enjoyed by some of its members at the domestic level, such concerns remained secondary. PBEC helped to ensure that business voices would be heard in the deliberations about Pacific cooperation and many of its members stood ready to help in any initiative that might emerge from the Canberra Seminar.

The OPTAD Proposal

In Japan, one of the most prominent economic planners of the post-war period, Saburo Okita, took particular interest in the concept of Pacific-wide economic cooperation. As head of the newly formed Japan Economic Research Center (JERC) in 1965, he encouraged Professor Kojima and his colleague Hiroshi Kurimoto to make the first PAFTA proposal. In the early 1970s, he was also instrumental in developing JERC's collaboration with the Australian National University (ANU) in a multi-year project to examine the economic relationship of Japan and Australia in a regional context. This resulted in an extensive body of work, including assessments of regional economic dynamics, and significantly widened research and policy interest in such work.

The research agenda of PAFTAD was similarly taking shape at this time even as it became apparent that Kojima's ambitious concept of a free trade area would not soon gain widespread acceptance. An alternative proposal, put forward by his Australian colleague Peter Drysdale, called for a looser construction under the rubric of an Organization for Pacific Trade and Development (OPTAD). That proposal departed significantly from Kojima's concept by omitting regulatory powers for OPTAD while expanding membership beyond just the industrialized economies. The new proposal was conceived as an international forum for identifying issues, exchanging information, and facilitating intergovernmental interactions. By lowering the expectations of institutional authority, emphasizing the forum-like qualities of the organization and widening the scope of membership, the proposal succeeded in attracting the attention of governments.

In 1976, Saburo Okita and Sir John Crawford, Chancellor of the Australian National University, formally recommended the OPTAD proposal to their respective governments. In 1979, in the United States, Professor Hugh Patrick, then at Yale University, now at Columbia University, collaborated with Peter Drysdale to write an influential report to the US Senate Committee on Foreign Relations (Patrick and Drysdale 1979). OPTAD served as the centrepiece of the report. In the House of Representatives, Congressman Lester Wolff chaired a series of hearings on the Pacific community concept in which Patrick also presented the OPTAD proposal. The East–West Center in Honolulu added its national institutional voice to calls for regional economic cooperation, while Lawrence Krause (then with the Brookings Institution), provided further substantive arguments for action. A former US Ambassador to Korea, Richard Sneider, began organizing an informal network of distinguished American experts to support the idea. At the official level, Assistant Secretary of State for Asian and Pacific Affairs Richard Holbrooke took a positive view of closer regional cooperation and encouraged research on the concept.

Advocacy by Other Interest Groups

By the late 1970s Asia Pacific cooperation had become the "hot" topic of the international conference circuit. This helped to add to the momentum of the regional cooperation movement but also contributed to a skeptical backlash along the lines of "If it ain't broke, don't fix it." This viewpoint had a special appeal for some government officials at the time: distracted by other foreign policy priorities, they felt that economic regionalism was a solution in search of a problem.

Interest spread among think-tanks, universities, and associations throughout the Asia Pacific region, resulting in an outpouring of research and debate about the merits of creating an organization for Pacific economic cooperation. Several international meetings and lecture series in the 1979–80 period are remembered today for having clarified or otherwise influenced the course of the debate, among them an early 1980 lecture series sponsored by the East–West Center (Hooper 1982); the Asian Dialogue at Oiso, Japan (JCIE 1980); the Centre for Strategic and International Studies(CSIS) Indonesia conference in Bali in January 1980; a conference on the Pacific community concept held on Easter Island, Chile, in 1979; and a security conference held in Pattaya, Thailand, in December 1979 at which Malaysia's then Minister for Home Affairs, Tan Sri M. Ghazali Bin Shafie, presented a highly skeptical assessment of the regional cooperation agenda.

Governmental Views and Activities

Ghazali Shafie's concerns provide a useful introduction to the critical role that governments would play in the creation of PECC: although the non-governmental networks such as PAFTAD and the conferences and hearings mentioned above played important roles in PECC's creation, the organization in its present form would not have emerged without the direct intercession of governments, particularly those of Japan and Australia. The fact that it took nearly two years to fully discern the responses of governments around the region to the Canberra Seminar is testimony to the complexity of the regional environment in East Asia at that time.

Ghazali's concern, as he expressed it in 1979, was that any ambitious version of Pacific cooperation involving governments could easily be a stalking horse for the larger strategic objectives of Australia, Japan and the United States, particularly if it involved "a Pacific containment scenario with different combinations of antagonists" (Ghazali 1981). Ghazali did, however, accept the prospect of a gradually evolving regional cooperative process. Officials from other ASEAN countries also expressed objections, the most detailed and articulate coming from Gerardo Sicat, Minister of Economic Planning in the Philippines (Sicat 1982). His reluctance to endorse the regional cooperation movement could be summarized as follows:

- ASEAN bilateral dialogues with any developed nation were likely to produce better results than a multilateralized consultation system.

- An organization affecting the Asia Pacific required a serious agenda leading to negotiations in order to hold the interest of the participants.

- Government consultative forums held little appeal alongside ASEAN, which had "become an exciting organization" with "a feeling of movement and progress".

Sicat did concede that if a "Pacific organization were able to provide a framework for solving common regional problems that cannot be dealt with on a bilateral level" it would be worthy of consideration (Sicat 1982). Unlike Ghazali, he welcomed the notion that the developed capitalist economies should rationally pursue their long-term political and security interests with ASEAN. In his view, this would mean a significant increase in the flow of resources and technology.

These and other viewpoints expressed by ASEAN leaders demonstrated a strong awareness of recent history. ASEAN officials were more likely to be inspired by events like the Bandung Conference of non-aligned nations of 1955, or the founding of ASEAN in 1967 than by proposals for an OPTAD in 1979. As Sicat (1982) noted, ASEAN in particular was gathering its own momentum and had little time for distractions.

The unease with which ASEAN greeted the early Pacific cooperation proposals was compounded by vagueness about the structural details, membership, and even the benefits to be derived from any new regional arrangement. The fact that the proposals were limited to economic cooperation was small comfort. ASEAN states were positively inclined to the West but sought to avoid antagonizing China and the Soviet Union, the latter being notably suspicious of the Pacific cooperation movement.

The US government expressed interest but was generally passive in its response to the idea, notwithstanding the personal support of Holbrooke and some leading members of Congress. In 1979, the State Department sent Deputy Assistant Secretary Erland Heginbotham and Professor Donald Zagoria to Asia for the purpose of assessing ASEAN and other Asian views about regional cooperation. While not making a specific proposal, the Heginbotham mission sought to understand which people and institutions might readily comprise an informal network for developing the Pacific community concept. For a brief period the United States weighed the formation of such a network, but it dropped the idea when it was clear that Prime Minister Ohira of Japan had decided to make a more ambitious scheme the centrepiece of his regional policy. For the remaining period of the Carter administration, US official statements on Pacific economic cooperation were constrained in deference to ASEAN's sensitivities while, paradoxically, ASEAN leaders awaited a clearer signal of American intentions.

Together with Australian Prime Minister Malcolm Fraser, Ohira had been laying the diplomatic groundwork for the Canberra Seminar. In January 1980 they launched their proposal, indicating that the Canberra meeting should be the first in a series of regional seminars of government, business, and academic leaders. The proposal was derived from Ohira's personal policy advisory task force, the Pacific Basin Cooperation Study

Group, which was initially headed by Okita prior to his becoming foreign minister in November 1979.

Prior to Ohira's Pacific Cooperation initiative, the most recent definition of Japan's relationship toward the region had been the 1977 Manila Doctrine, proclaimed by Ohira's predecessor and political rival, Prime Minister Takeo Fukuda. Amounting to little more than an expression of good intentions and economic assistance toward ASEAN, the doctrine reflected the safe postulates of a foreign ministry bureaucracy. This was what Ohira sought to avoid by drawing on the imagination and expertise of Saburo Okita, a ministry outsider. The only precedent for such an ambitious Japanese-led foreign policy initiative was the Asian Development Bank (ADB) under the administration of Prime Minister Watanabe, who had also tapped non-bureaucratic talent to help conceptualize and launch it. (Notably, the ADB, like the Pacific Cooperation initiative, encountered initial resistance from entrenched government bureaucracies, including the United States and the World Bank, before it was launched in 1965.)

By the mid-1970s the ADB had become a going concern of considerable prominence, and Ohira wanted to replicate Watanabe's success. The difference this time, however, was that from the perspective of other governments Ohira's initiative remained overly vague and exploratory. The Pacific Cooperation concept had become like a Rorschach inkblot, subject to interpretation by regional governments based on their historical experiences both collectively and individually – and recent history had been both momentous and traumatic. The decade of the 1970s had begun with Henry Kissinger's historic visit to Beijing and the start of the US–China rapprochement; it was punctuated at mid-point by the fall of Saigon, the ignominious withdrawal by the United States, and decisive, if defensive, steps by ASEAN to reinvigorate itself; near the end came the shocking assassination of Korean President Park and the grisly killing fields of Cambodia.

A decade like that does not encourage risk taking. Despite the steady improvement in Asia Pacific prosperity, "Make haste slowly" was the aphorism most commonly used by even the most enthusiastic proponents of Pacific cooperation. Above all, progress would require some important underlying elements of geopolitical and economic stability as summarized by the Carnegie Endowment's Robert W. Barnett just a few months before the Canberra Seminar of September 1980 (Barnett 1981). In order of priority, the premises were as follows:

a) The United States will subject its economy to good management, stabilize the international value of the dollar, take account of the needs of the developing world for energy resources and capital, remain committed to a worldwide, non-discriminatory, and competitive commercial and financial system, and preserve the military capability appropriate for a global superpower.

b) Japan will have continued access to the oil and the raw material imports necessary for its survival, and operate an economic system to which the rest of the world will have increasingly easy access.

c) The People's Republic of China will preserve its unity and stability while carrying forward its strategy of modernization.

d) The newly industrialized countries of Northeast and Southeast Asia will maintain political stability necessary for sustained economic growth.

e) The USSR will not cause other countries to take on new and heavy financial burdens for their defence.

Today, this list requires but little alteration, even if the current US commitment to non-discrimination, sound macroeconomic management, and a stable value of the dollar is increasingly questioned.

There was considerable uncertainty, then, as preparations for the Canberra Seminar wore on in the early months of 1980. Amid the palpable sense that something significant was about to occur, the following had become known:

- Academic research institutions and think-tanks stood ready to contribute time and resources.
- Businesses were prepared to support and participate in new regional initiatives to improve the commercial environment for trade and investment.
- A group of government leaders wanted to move beyond bilateralism toward a multilateral framework for addressing regional issues.

By August the remaining great question was how ASEAN, concerned with its unity, would respond to concepts and proposals for a Pacific institution that might be put forward the following month. The answer to this question, eventually leading to the formation of PECC, was to come deliberately and in stages. But, as will be seen in the next chapter, it would nevertheless confirm the fact that a new regional consciousness was steadily taking shape.

References

Barnett, Robert W. (1981), "Introduction and summary: The concept of community", in *Pacific Region Interdependencies*, US Congress, Joint Economic Committee, Washington DC: US Government Printing Office, p. 4.

Ghazali Bin Shafie, Tan Sri M. (1981), "Toward a Pacific Basin Community: A Malaysian Perception", in *Pacific Region Interdependencies*, US Congress, Joint Economic Committee, Washington DC: US Government Printing Office, p. 75.

Hooper, Paul F. (ed.) (1982), *Building a Pacific Community: The Addresses and Papers of the Pacific Community Lecture Series*, Honolulu: East–West Center.

Hooper, Paul F. (1994), "A Brief History of the Institute of Pacific Relations", available at <http://mcel.pacificu.edu/aspac/papers/scholars/hooper/hooper.htm>; published previously as *Rediscovering the IPR: Proceedings of the First International Research Conference on the Institute of International Relations*, Honolulu: University of Hawaii Center for Arts and Humanities, pp. 110–142.

JCIE (Japan Center for International Exchange) (1980), *The Proceedings of Asian Dialogue at Oiso, Japan, January 1980*, JCIE Papers, No. 1, Tokyo: JCIE.

Marris, Esme and Malcolm Overland (1997), *The History of the Pacific Basin Economic Council 1967 to 1997: Bridging the Pacific*, Wellington and Honolulu: Pacific Basin Economic Council, May.

Sicat, Gerardo, P. (1982), "ASEAN and the Pacific Region", in Hooper, Paul F. (ed.), *Building a Pacific Community: The Addresses and Papers of the Pacific Community Lecture Series*, Honolulu: East–West Center, pp. 57–61.

Tawney, R.H. (1966), *Land and Labor in China*, Boston: Beacon.