

Foreign investment in the Pacific Rim

by Christopher J. Maule

International trade and investment in the Pacific region take place mainly between developed countries, especially between North America and Japan. While the trade picture is well documented, less is known about the rapidly changing nature of the investment relationships and the interrelationship between trade and investment. As a result of trade frictions between the US and Japan over steel, automobiles, and now semi-conductors, machine tools and other high technology items, there is an increasing flow of investment from Japan to the US assisted by a dollar that can now be purchased for about 150 yen compared to 250 yen a year ago. But if Japanese investors can establish plants that quickly in North America, how easy will it be for them to close them down and reverse the flow when conditions change?

There are other questions that need to be raised about the relationship between investment and trade. In those cases where the new Japanese plants assemble cars in other countries from imported components, then the principal change may be the substitution of intermediate for final goods and payments made for dividends and head office expenses. Individual components of capital importing and exporting countries' balance of payments will change but the net effect is at present unknown.

Pacific Rim investment

The purpose of this article is to survey the investment relationships among Pacific Rim countries, describe the parallel trade relationships and indicate the related issues which were discussed in the Pacific Economic Community Conference in Vancouver in November 1986.

Multilateral trade negotiations take place in the GATT framework of agreement and rules. But no GATT exists for foreign investment and, although codes of conduct exist for investors, governments engage in less formal investment negotiations. The separation of trade and investment negotiations is partly a product of institutional developments since Bretton Woods. Today it has become less relevant where countries are concerned over their total economic relationships with each other and trade and investment are known to be interrelated. A case can therefore be made to integrate trade and investment negotiations.

In 1984 the GATT Secretariat noted that the value of trans-Pacific trade exceeded trans-Atlantic trade for the first time (Table 1); in 1963 it had been about one-third of trans-Atlantic trade.

North America stands between Asia and Europe and is now looking keenly at developments in Asia, partly as a result of an economic slowdown in Europe and partly due to the growth of Japan, of other countries in southeast Asia, as well as of Australia and New Zealand over the last twenty years.

Canadian participation

Apart from diplomatic linkages, Canada participates in a variety of Pacific organizations. These include the Pacific Trade and Development (PAFTAD), the Pacific Business Economic Council (PBEC) and the Pacific Economic Cooperation Conferences (PECC). The last has government, business and academic representatives from over twelve Pacific countries. The Canadian government recognizes the importance of Canada's economic relationships with the region and has supported the establishment of the Asia-Pacific Foundation with offices in Vancouver.

The term Pacific Rim or Pacific Economic Community (PEC) suggests that there is a set of identifiable countries in the region with economic ties and possibly common interests. Geographically the region consists of Canada, the US, the Pacific coastal states of Central and South America, New Zealand, Australia, various small Pacific islands, the ASEAN countries, the Asian newly-industrialized countries (NICs), the People's Republic of China and the USSR.

The following statistics divide the Pacific Rim countries into five groups using data published by the Japan Member Committee of the Pacific Basin Economic Council in *Pacific Economic Community Statistics 1986*.

1. The Advanced Countries: Australia, Canada, Japan, New Zealand and the United States.
2. The Asian NICs: Hong Kong, Korea and Taiwan.
3. The ASEAN Countries: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.
4. The Island Countries: Fiji, French Polynesia, Papua New Guinea, Vanuatu, Solomon Islands, Western Samoa and others.

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