AN OVERVIEW OF THE PACIFIC BASIN

Prepared for the Western Governors' Association
Annual Meeting
August 25 - 28, 1985
Honolulu, Hawaii

Western Governors' Association

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This paper was prepared by Ronald Ross of the WGA Staff

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Introduction

Secretary of State Schultz summed up the importance of the Pacific Basin in his statement, "to understand the future, you must understand the Pacific." The Pacific Basin is increasingly where the world economic and political action is taking place. President Reagan was noted as observing, "Western history began with a Mediterranean era, passed through the Atlantic era, and is now moving further into a Pacific era."

Hawaii is the gateway to this region and is the host to the Western Governors' Association as the governors gather to discuss western States-Pacific trade issues. Hawaii, like the rest of the nation, enjoys the two-way flow of trade, investment, political ideas, and social exchange. This report presents an overview of the natural resources, trade and investment patterns, strategic implications and short-term challenges of the Pacific Basin.

The expansiveness of the Pacific and the wide variations in natural resources, levels of industrial development, and place in world trade necessitates that only the highlights are presented. The region's natural resources are reviewed in the first section with emphasis on the primary trade commodities of fisheries, oil and gas, and minerals. The land based and offshore deposits are identified as are their importance to regional trade. The triangular trade pattern between the resource countries of the ASEAN and Pacific islands, with the industrialized nations of Korea, Japan, and Taiwan, and the United Sates is described in section two. Intra-regional trade patterns are also described in the second section.

Strategic implications of the Pacific Basin and short term potential challenges are reviewed in sections three and four.

The East-West Center, particularly the researchers of the Resource Systems Institute, were of invaluable assistance in preparing this report. Without their opinions, resources, and information, this paper could not have been prepared. Figures B and C were provided courtesy of Doctors Corazon M. Siddayao and Charles J. Johnson, of the East-West Center.

SECTION 1

OVERVIEW OF THE PACIFIC BASIN

The Pacific Basin

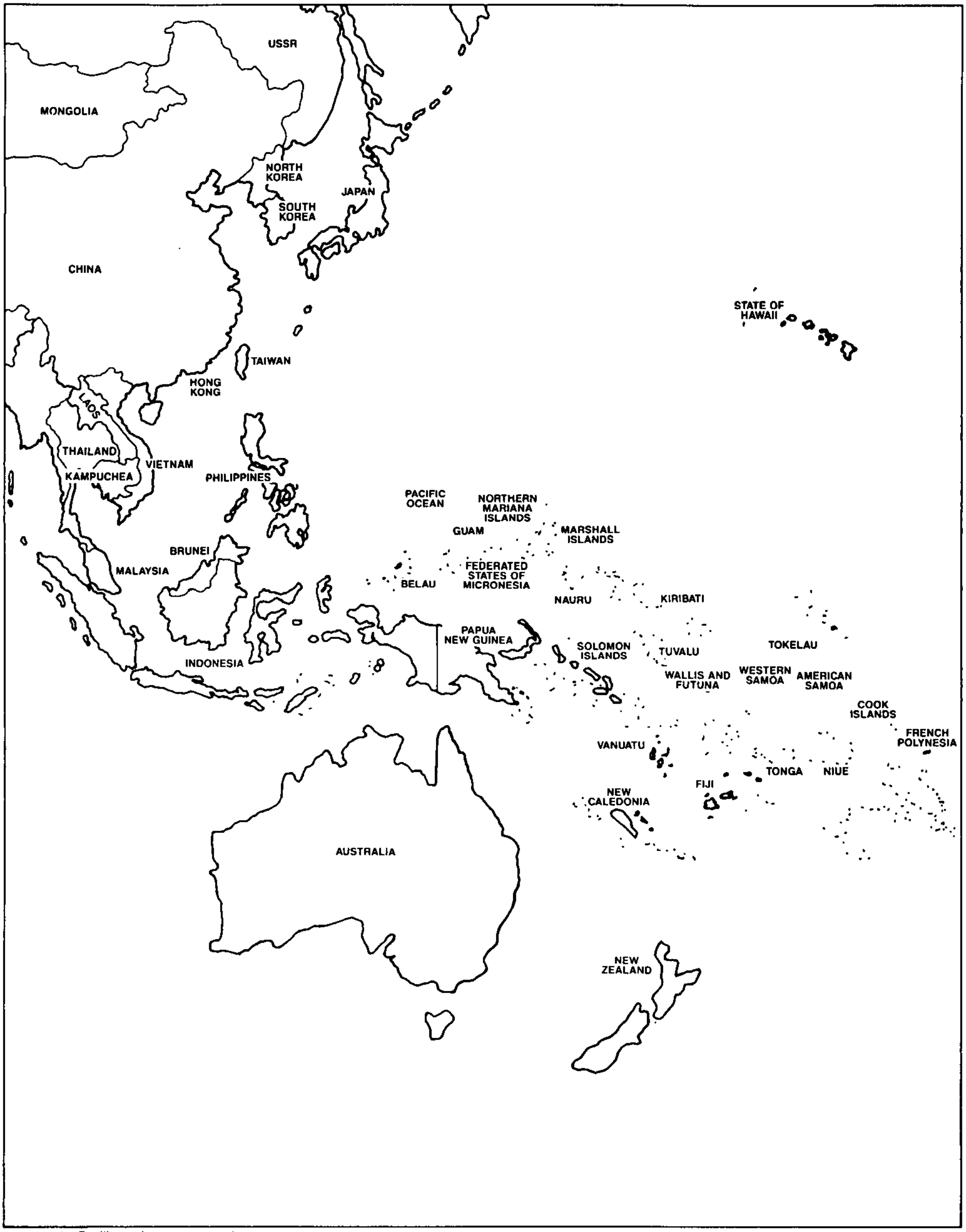
The Pacific Basin extends from Japan, Korea, and China in the North to Australia and New Zealand in the South, from Thailand and Peninsular Asia in the West to the islands of the Pacific in the East. This region is probably the most geographically, ethnically, and economically diverse area of the globe (Figure A). Populations range from the world's smallest independent state, Nauru, in the South Pacific with eight square miles and a population of 8,000, to the world's largest, China, with almost 4 million square miles and over one billion people.

Some nations can trace their origins to ancient times, (e.g., China and Japan) while others are newly formed independent states (e.g., Brunei, which became independent January 1984). Political systems run the full range from highly regimented totalitarian government to liberal democracies. The region contains some of the world's fastest growing economies, such as Taiwan which had an estimated rate of real growth in 1984 of 10.9 percent, to some of the least developed ones where the per capita gross national product (GNP) was less than $350 in 1984.

World trade during the first 60 years of this century averaged less than four percent of the United States' GNP (both imports and exports). In the past 25 years, the percentage has more than quadrupled to 17 percent. If the present rate of increase continues, by 2000 foreign trade will amount to 25 percent of the U.S. GNP, approximately equal to Japan's current level.

Total U.S. trade with the Pacific Basin for the past five years has surpassed trade with any other region of the world, including Europe. In 1984, trade with Pacific Basin nations

Figure A: Nations within the Pacific Basin



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was $174 billion, equaling almost 32 percent of total U.S. trade, exceeding by nearly one-quarter the overseas trade with any other region. Even during the recent world recession when world trade dropped more than five percent, trade with the Pacific Basin was off less than one percent.

The bonds between Pacific Basin countries and the U.S. began with economic trade and now extend to the integration of each other's culture. Americans are eating at sushi bars and sleeping on futons, and two of the more popular U.S. network mini series aired in recent years were the "Thornbirds" and "Shogun" with settings in Australia and Japan respectively. The Japanese are eating at the world's largest McDonald's franchise, Boeing 747s are flocking into all the major airports, U.S. wheat futures are vigorously traded in Singapore, and East Asian young people are listening to American rock and roll. These cultural exchanges between the U.S. and Pacific Basin nations for the most part are welcomed, as is the economic trade, promising a better future for people on both sides of the Pacific Ocean.

Regional Trade Associations

The Pacific Basin is composed of highly nationalistic countries which have formed regional associations for economic, cultural, and political purposes. The organizations often perform in an advocacy role in Washington, D. C. These voluntary associations represent the common interests of their members, but where the individual interests of a nation are in conflict with those of the association, nationalism prevails.

ASEAN

One of the most important multi-national regional organizations in the Pacific Basin is the six-member Association of Southeast Asian Nations (ASEAN). The six members are Thailand, Singapore, Indonesia, Malaysia, Brunei and the Philippines. Founded in 1967, ASEAN's goals are to accelerate economic growth, social progress, and cultural development through a partnership of the member nations. Promoting economic well being and achieving prosperity are clearly the major goals of ASEAN.

ASEAN is a significant force in the Pacific Basin for three reasons: 1) ASEAN economies are among the fastest growing in the world; 2) ASEAN is the cement holding the member nations together to meet the political challenges of post Vietnam war era; and 3) Japan is vigorously moving to become the dominant trade partner of the ASEAN countries which provides an opportunity for the U.S. to learn basic lessons inherent in meeting the Japanese economic challenge. There is movement among the ASEAN nations to explore the potential of negotiating a free trade agreement with the U.S. similar to the trade pact with Israel. A free trade agreement would likely eliminate tariff and non-tariff barriers between the U.S. and ASEAN nations. The diverse interests and trade barriers of the individual member countries will make such an agreement difficult to achieve.

As economic progress and cooperation gained momentum following the first Summit Conference of ASEAN leaders in Denpasar, Bali in 1976, ASEAN established a series of economic consultations with the industrialized countries. These dialogues are held with Japan, Australia, New Zealand, Canada, the European Community, and since 1977, the United States. Discussions are also conducted through frequent meetings in Washington, D.C. with the ASEAN ambassadors (the ASEAN Washington Committee) and the ASEAN-U.S. Economic Coordinating Committee, made up of the economic counselors of the ASEAN embassies in Washington and U.S. government officials. It has become customary for the Secretary of State to meet with the ASEAN foreign ministers each summer after the foreign ministers' annual meeting. The most recent ministerial meeting was held in July 1985.

The ASEAN countries look to the United States and other industrialized nations to provide markets for their mineral, forest, petroleum, and agricultural products and to provide investment capital to improve their industrial base. In July 1979, the joint ASEAN-U.S. Business Council was formed in Manila as the private adjunct to the official dialogue. The Council conducts an ambitious work program directed toward increased involvement of the U.S. and ASEAN private sectors in investment, trade, and technology transfer. U.S. business looks with increased interest to ASEAN countries, both as trading partners and as potential areas for overseas investment.

PBEC

Another organization promoting trans-Pacific cooperation is the Pacific Basin Economic Council (PBEC). PBEC is composed of business leaders from the member countries of the Organization for Economic Cooperation and Development in the Pacific area. Members include representatives from Australia, Canada, Japan, New Zealand, and the U.S. as well as from the ASEAN countries, Korea and several Latin American countries which face the Pacific.

Pacific Basin Development Council

The U.S. flag territories (Northern Marianas, Guam and American Samoa) and the State of Hawaii have formed the Pacific Basin Development Council. The purpose is to stimulate public and private investment in promoting economic and social development. This cooperative effort is taking place even though the flag territories individually have separate long term goals.

Pacific Community

In recent years, there has been increased discussion of a broader "Pacific Community" economic organization. Japanese, Korean, and Austrialian leaders have in the past endorsed this concept, and conferences on the subject have been held in Canberra and in Bangkok. Privately sponsored study of the idea continues. ASEAN spokesmen, however, have expessed the belief that a formal governmental organization is not warranted at this time, and the U.S. concurs on this point.

Private Organizations and Cultural Centers

Private trade and investment relationships are a key to the remarkable economic success of the region. Such organizations as the Asia Foundation, Pacific Science Association, the Pacific Forum, the ASEAN-US Center for Technology Exchange, and the Circum-Pacific Energy Resources Council, are forums for the research and economic development of the region's human and natural resources. The East-West Center in Hawaii has become the focal point for much of this cultural and information exchange as well as being the strategic center for research. Research at the East-West Center is conducted by four institutes: Culture and Communications, Environment and Policy, Population, and Resource Systems.

Resources

The natural resources of the region occur in a very uneven pattern. The northern industrialized and developing countries are generally resource poor and must import their mineral, energy, agricultural and forest product requirements. They in turn produce finished and semi-finished products for export earning revenues to pay for their raw material imports.

In contrast, countries of the ASEAN, the Pacific islands, Australia, and New Zealand are considered to have an abundance of selected resources. These countries export raw materials, agricultural commodities, fish, and forest products and import many of their finished and semi-finished goods produced by industrialized countries, such as Japan and the U.S.

Minerals

Although the region is considered to have high potential for mineral resource development, no comprehensive assessment has been prepared, even on a country-by-country basis. Minerals vary by type and quantity throughout the region, from extensive deposits of a single mineral, such as copper in Papua New Guinea, to scattered small deposits of several strategic minerals, such as coal, petroleum and iron ore in China. Land based resources are most developed in the ASEAN nations, Australia, and Papua New Guinea.

Japan is the principal mineral importer of the region. Its vulnerability, based on strategic mineral resource needs, is second only to its need for energy resources. Other than small amounts of copper, lead, and zinc, Japan has only marginal domestic mineral resources and depends heavily on other Pacific Basin countries, especially the ASEAN nations and Australia.

Japan provides large amounts of direct aid and technical assistance to resource rich countries, particularly the ASEAN nations, for mineral exploration and development of extraction and refining capacities. This assistance is being provided with the expectation of developing secure sources of raw materials to support its burgeoning industrial complex. The Japanese have even sponsored economic feasibility studies in the U.S. and Canada, and have placed great hopes on a joint coal exploration project in China.

Australia is the largest mineral trading nation in the Pacific (excluding petroleum). It is the biggest bauxite producer in the region and has the capacity for refining over 9 million tons annually and for smelting nearly 850,000 tons of aluminum. Australia is also a major producer of iron ore and heavy mineral sands and is the largest exporter of rutile and zircon, both of which are crystalline minerals used by industry. The upward trend in world gold prices gave a big push to gold mining and recovery of gold as a by-product of other mining activities, particularly copper.

Australia's uranium resources are estimated at 314,000 tons or about 20 percent of the western world's total resources. In 1983, the Labour Party placed a moratorium on development of new uranium mines. However, the moratorium did not affect either producing mines or those currently under development.

Petroleum Resources

Petroleum investors, like other businesses, have found the Pacific Basin a growth area and with the exception of small pockets of instability, a generally stable area in which to invest. Structural changes in the petroleum industry (oil and natural gas) resulting from major oil price increases in the 1970s, plus technical and institutional changes, have made the region attractive to petroleum investors.

The patterns of oil and gas reserves, production, and refining are shown in Table 1. Even the significant increases in oil prices during the 1970s did not depress the overall demand for hydrocarbons in the region. Rather, a shift occurred between forms of hydrocarbons, from high cost oil, to coal and natural gas.

Japan and the U.S. are major markets for Southeast Asian petroleum output. However, the Middle East still remains the principal source of oil for Japan, Australia, and Southeast Asia (Table 2). This distribution pattern is not surprising given Middle Eastern reserves, the type of crude produced, and production levels that are many times greater than those within the region. If the current prohibition against foreign sales of Alaskan North Slope oil were removed, this dependence on Middle Eastern supplies would be significantly diminished.

TABLE 1
Pattern of Oil and Gas in the Pacific Region
January 1985

	ESTIMATED PROVED RESERVES 1-1-1985		OIL PRODUCTION			REFINING Capacity (b/cd) Jan. 1, 1985				
Country	Oil (1,000 bbl)	Gas (10 b cu ft)	Producing wells** July 1, 1984	Estimated 1984 (1,000 b/d)	% change from 1983	No. of ref.	Crude	Thermal Op.	Catalytic cracking	Catalytic reforming
ASIA-PACIFIC										
Australia	1,430,900	17,850	545	481.0	+ 15.3	10	696,850	—	175,500	170,020
Brunei	1,400,000	7,300	649	160.0	+ 3.2	1	9,400	—	—	—
China, Taiwan	(c) 5,700	540	78	2.6	- 7.1	2	542,510	3,933	22,600	56,400
Guam	—	—	—	—	—	1	43,700	—	—	—
Indonesia	8,650,000	40,000	4,840	1,332.0	- 3.8	6	630,500	98,500	—	60,700
Japan	56,000	720	348	6.4	- 7.2	45	4,813,000	80,520	422,650	537,550
Korea, South	—	—	—	—	—	6	776,000	43,990	—	36,550
Malaysia	3,000,000	50,000	368	462.0	+ 25.9	4	205,000	—	—	20,600
New Zealand	(c) 155,000	5,438	27	18.0	+ 20.0	1	53,000	—	—	18,000
Papua New Guinea	(c) 50,000	500	—	—	—	—	—	—	—	—
Okinawa	—	—	—	—	—	3	153,000	—	—	11,500
Philippines	16,300	12	10	12.0	- 14.3	3	286,000	—	16,100	39,400
Singapore	—	—	—	—	—	5	1,072,000	133,000	—	50,000
Thailand	156,000	5,900	84	19.0	+171.4	3	171,600	9,600	8,000	24,600
Total	14,919,900	128,260	6,949	2,493.0	—	90	9,452,560	369,543	644,850	1,025,320

Source: Oil and Gas Journal, December 1984

(c) Condensate.

** Does not include shut-in, injection, or service wells.

TABLE 2

OIL FLOW INTO AND FROM THE WESTERN PACIFIC RIM, 1983

(Thousand barrels/day)

From \ To	USA	Canada	Southeast Asia	Japan	Australia-Asia
USA	—	80	80	105	15
Canada	540	—	—	5	—
Latin America	2,160	125	5	180	5
Western Europe	550	15	5	—	5
Middle East	575	60	1,615	2,750	120
North Africa	280	25	—	40	—
West Africa	475	15	—	5	—
East and Southern Africa	—	—	5	—	—
South Asia	—	—	25	15	10
Southeast Asia[a]	345	—	—[b]	780	85
USSR, Eastern Europe, China	60	—	240	235	5

[a]Southeast Asia is defined as: Brunei, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand.

[b]Trade occurs among Southeast Asian countries, but this matrix does not report intra-regional trade.

Source: Siddayao, East-West Center, Honolulu, HA. October 1984

Exploration and development activity in the Pacific Basin mirrored the slow world economic growth during 1984. Crude oil production increased by 8.5 percent in 1984, even though the largest contributor, Indonesia, dropped 3.8 percent. Australia and Malaysia offset the losses by increasing production 15.3 and 26 percent, respectively. Regional production averaged 2.6 million barrels per day during the first half of the 1984. On the exploration side, drilling levels dropped along with the amount of capital invested during 1984. Like other regions, oil producers in the Pacific concentrated more on production development rather than new exploration. Table 1 also shows the estimated proved reserves and refining capacities in the region.

Natural gas production also climbed during 1984, stimulated by more gas discoveries than oil finds and by major exploration and development activities in New Zealand and Malaysia. Higher production is the result of several factors, two of which are accelerated rates of domestic economic growth within the region and a concerted effort toward developing indigenous oil and gas production, thereby improving exports from source countries. Private operators also credited solid prospects, relative political stability, ready markets, and favorable lease terms for the increase in gas exploration and investment. The overall favorable business climate of the region coupled with relatively low seismic and drilling costs provide an optimistic outlook for increased drilling and production development during 1985.

Refining Capabilities

Until recently Singapore was the refining center for the region, although several countries and Guam possess limited capacity. Indonesia, until 1984, exported crude oil to Singapore, where it was refined and re-exported back to Indonesia. Indonesia has consolidated its smaller refineries and is processing much of its own crude for domestic use and export. Singapore since has redirected its products, refining Malaysian crude which is exported to Korea, Philippines and other Southeast Asian countries (Table 1).

The Law of the Sea

The adoption by the United Nations in 1982 of the Law of the Sea and designation of the 200 nautical mile exclusive economic zones (EEZ) unalterably changed the political and economic basis for managing and developing the resources of the Pacific Ocean. Thirty-five percent of the world's oceans are now within EEZs and under the jurisdiction of the adjacent coastal states. The U.S. is not a signator to these conventions, although it has adopted the EEZs adjacent to its coasts. The conventions established under the Law of the Sea have a profound effect on the fisheries, mineral and hydrocarbon extraction, transportation, tourism, and international relations within the Pacific Basin.

Within the EEZs the coastal state has exclusive right to explore and develop living and non-living resources and has the sole responsibility for environmental protection and for maximizing the sustained yield of living resources. Current development of offshore resources within the Pacific Basin has generally been limited to fisheries, petroleum, and tourism. The Pacific islands in particular have been unable to develop the mineral and petroleum resources within their EEZs and have concentrated on supplementing their national incomes by licensing foreign fishing fleets to fish their waters. Conflicting legal regimes and territorial boundary disputes have made the development of uniform permitting and licensing procedures an urgent area for international negotiations.

Fisheries

The Pacific has twice the area of the Atlantic, but its continental shelf is only slightly larger than the Atlantic. The annual catch of fish and shell fish from the Pacific exceeds that taken from any of the world's other oceans. The average catch from the Pacific is more than 43 percent of the world total; the Atlantic yield is 39 percent. The average annual world catch is approximately 60 million metric tons.

Fisheries production constitutes the single largest source of protein for much of the region. With the designation of the EEZs, fisheries have also become the largest source of export income for the Pacific island nations and the American trust territories. Only recently have international efforts begun to assess the fisheries and develop an understanding of whether the rate of exploitation exceeds the rate of replacement.

The establishment of 200 nautical miles as the fishing boundaries for coastal states has had a significant impact on the nations within the region. There are three groupings which reflect the interests held by countries over the 200 nautical mile fishing zones. The groupings include Australia, Brunei, Malaysia, New Zealand and Singapore in the first group; the Pacific islands in the second; and Japan, Soviet Union, the U.S., and other distant fishing nations in the third.

The fisheries of the first group are normally within 50 miles of the coast, along the continental shelf. These fisheries are within waters which were always considered under the jurisdiction of the adjacent states and therefore were not markedly affected by the extension of fishing rights to 200 nautical miles.

The most significant shallow water fisheries are along the continental shelves, the upper slope areas and in areas where upwelling provides a rich nutrient feeding ground (e.g., the Sea of Japan). Principal areas of coastal fishing include the Bering, Okhotsk, Japan, Yellow, and South China seas. The more important varieties of bottom dwellers are cod, flounder, rockfish, sea bass, crooker and snapper. Some sardines and anchovies are taken off the coasts of Japan and South Korea.

The commercially important invertebrates include: prawns, crabs, lobster, and squid. Prawns are caught most frequently in the Yellow and South China seas, off northern Australia and in the Gulf of Alaska. Crab is generally found throughout the Pacific, with the highest value variety, the King Crab, found mostly off of Alaska, the eastern Bering and Okhotsk seas. Lobsters are harvested over a broad area of the tropical Pacific and squid are fished extensively off of northern Japan.

In contrast, tuna and billfish are predominately taken from waters surrounding the Pacific island countries and U.S. flag territories. These fisheries comprised almost 95 percent by weight of the total fish caught, and nearly 90 percent of the catch is taken by distant nations. The most popular species is tuna (over 90 percent), which until 1982 were caught in international waters. Now these fisheries, along with those of the Pacific salmon and billfish, often fall within the boundaries of the EEZs.

The second group of nations affected by the designation of the EEZs is the Pacific island nations. The Pacific island nations view the EEZs as a means to facilitate their involvement in resource management and to participate in the economic yields available from these fisheries. The economic potential of the EEZs is almost 20 times greater than the yields of the original coastal fisheries. In many instances, the island states see the extended jurisdiction as the only means for economic self-reliance.

The third group affected is comprised of the major fishing nations. The open waters traditionally available to the fishing fleets of Japan, Soviet Union, the U.S., and other major fishing nations have been significantly reduced by the EEZs. Nations having jurisdiction over the EEZs levied high licensing fees and imposed tight catch limits. Territorial boundary disputes, licensing inconsistencies, and militant enforcement of territorial restrictions have created significant tension between many of the nations of the Pacific Basin.

The Pacific island nations have formed two regional cooperative associations on fisheries: the South Pacific Commission was formed to conduct research and to determine the populations of tuna, billfish and deep water snapper; and the Forum Fisheries Agency which is primarily oriented toward the pursuit of the economic, legal, and political aspirations of these nations in the exploitation of high value migratory species.

Offshore Energy Resources

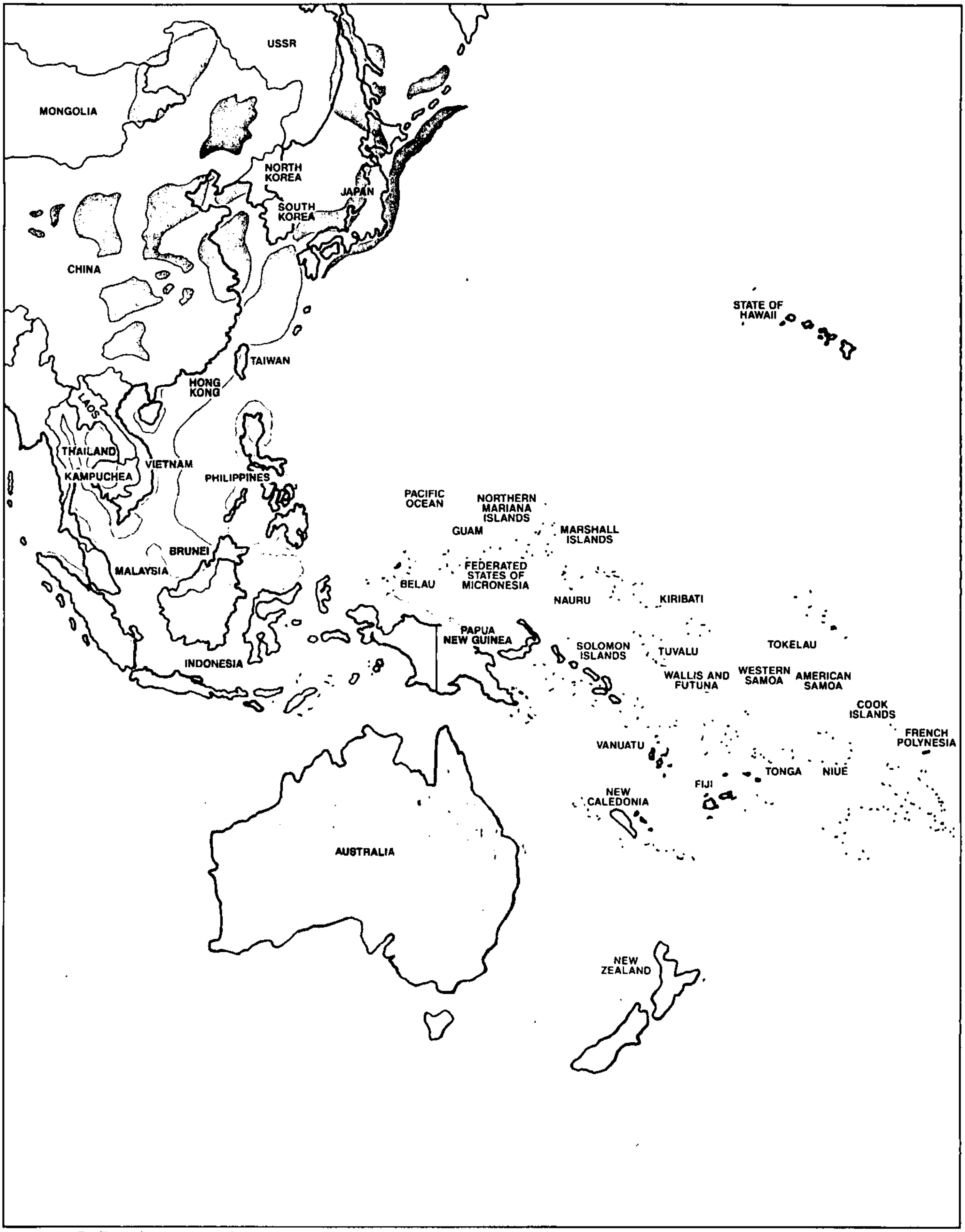
Little verifiable information is known about the potential of offshore oil and gas reserves, although experts believe that undiscovered offshore resources could be substantial. Between 150 and 180 billion tons of recoverable oil, roughly 35-40 percent of world resources, are estimated to remain undiscovered under the Pacific Ocean. Figure B shows existing and prospective zones for oil and gas development. Most of the countries in the region place great hopes on their offshore potential, particularly within the EEZs, and have increased leasing and exploration activities in the EEZs.

Offshore energy resources are gaining economic importance particularly with the ASEAN members and the Peoples Republic of China (PRC). Offshore oil and gas are most extensively developed in Indonesia, Thailand, and Malaysia, although lesser fields are found throughout the region. The full extent of the deposits, even in these relatively developed countries, is still unknown. It is thought that the large and easily accessible fields have been discovered and that future finds will be smaller in total reserves and more remote.

There are four net oil exporting countries within the Pacific Basin: Brunei, PRC, Indonesia, and Malaysia. The total production of these countries in 1984 was 4 million barrels per day (b/d), 35 percent of which was exported. (Burma is included in this estimate.)

China's resource capacity is still unclear although government leaders have placed great hope in locating sufficient oil and gas to earn a substantial portion of the foreign capital necessary to finance their industrial modernization plan. Today, China is a coal-based economy and it appears it will remain so through 1990. During 1984 about 35 percent of the wells drilled in the Yellow and South China Seas had commercial value.

Figure B: Prospective Hydrocarbon Zones within the Pacific Basin



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Estimates show the PRC produced about 2.2 million barrels of oil per day in 1984. This level of production is projected to remain steady—or slowly increase—through 1990. Presuming the PRC is able to maintain a moderate level of domestic consumption, it should be able to sustain the current level of exports (400,000 b/d) through the 1980's, providing about $4 million per year in sales.

The Pacific Basin is a net importer of oil, principally from the Middle East (approximately 3 million b/d). Analysts project that the dependency will decline as a percentage of the total supply, although the absolute volume will probably remain nearly constant in the near future. Japan consumes nearly 90 percent of the region's oil and gas imports.

Countries within the region are also making significant efforts to substitute natural gas, coal, nuclear power and some hydroelectric power for oil. Principal substitution has been for heavy fuel oil used for electric generation. Gasoline, diesel, kerosene, and light distillates continue to increase in demand. The problem encountered is that refineries in the region are unable to convert heavy fuel oil to light distillates, thus a fuel oil glut and a shortage of lighter oil products. It is expected that Middle East sources will fill in the void allowing time for domestic refineries to make the investments necessary to produce the light distillates.

Offshore Minerals

Offshore mineral deposits hold potential for long term future economic export for many of the nations in the region, particularly with the adoption of the EEZs. Currently there are no accurate surveys of these resources and development is not considered economically practical under today's depressed metal market conditions (low prices, saturated market and less than vigorous world economic growth).

The predominant minerals extracted from the sea are aggregates used for beach replacement and as construction materials. While countries such as Australia, New

Zealand, Malaysia, and the PRC have sufficient land based sources, many of the smaller nations are dependent on off shore sources. Given the role tourism has in many of the Pacific island economies, beaches as sources of sand and gravel are passed by in favor of suitable offshore sources. Likewise, calcium carbonate for cement is extracted from offshore deposits.

Jewelry-quality coral has become a significant extractive industry of the Pacific islands. Precious corals are harder than normal corals, and are usually found in the deeper waters. Pink, red, gold, and black corals are the most common colors. The Solomon Islands, Vanuatu and Tonga are the most active in this trade.

Economically important minerals including forms of tin, titanium, zirconium, chromium, iron, and gold are found in sands near shore. Larger known concentrations occur in Indonesia, Thailand, Malaysia, Papua New Guinea, Vanuatu, Fiji, New Zealand and Australia.

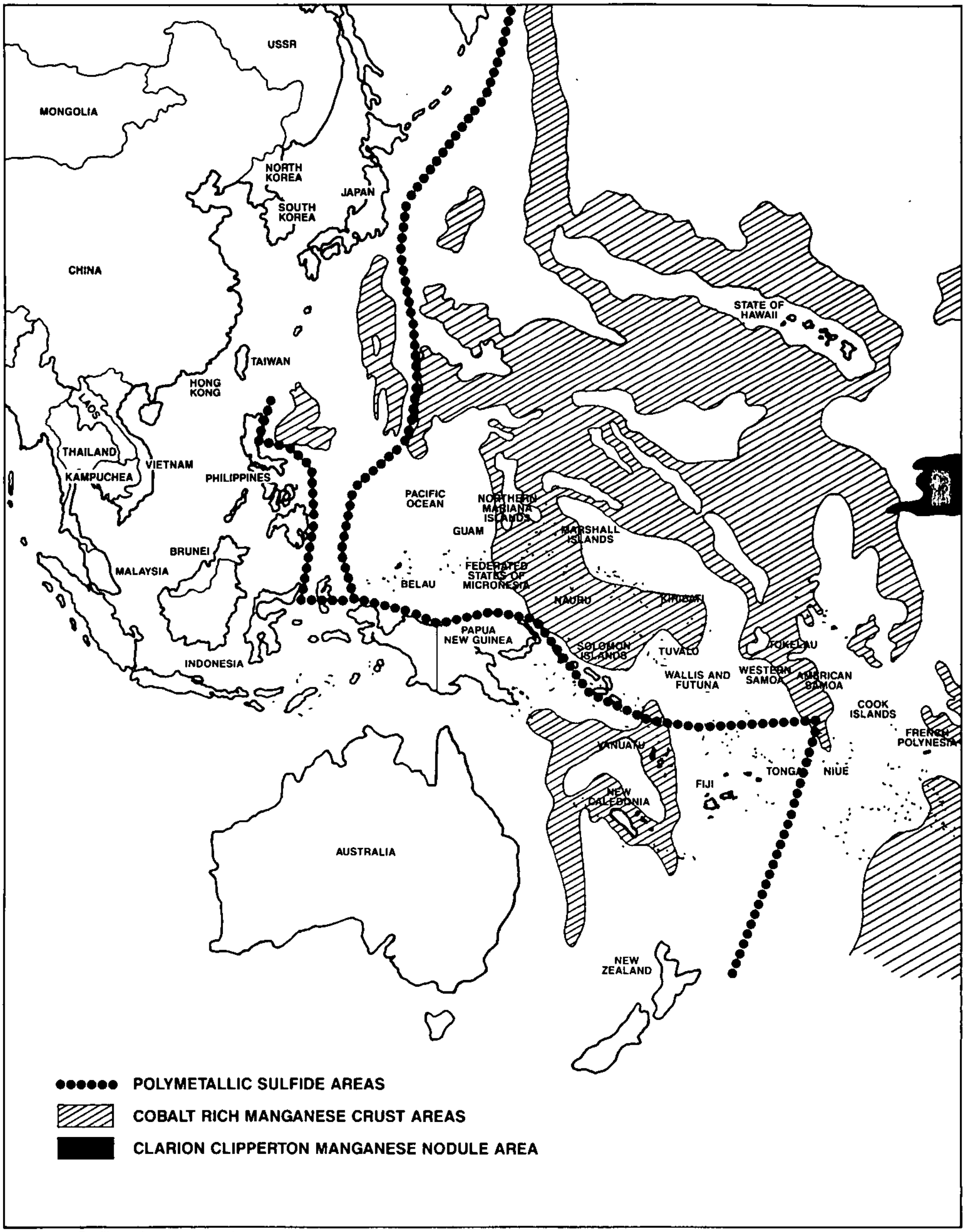
Discovery of ferromanganese occurrences known as manganese nodules were made in 1874 by HMS Challenger. The potential of mining these potato size nodules for possible recovery of nickel, copper, cobalt and manganese has been the objective of many research ventures sponsored by governments and private concerns during the 1960s and 1970s. It is estimated that over $300 million has been spent on evaluating deep sea mineral excavation, 85 percent of which has been spent on these deep sea nodules. To date no commercial mining venture has taken place. The concentrations of nodules generally occur between depths of 13,000 and 16,500 feet which present major technical and economic problems for commercial mining. Given the present low value on world metal markets for manganese, copper and nickel (the principal elements of nodules) and the political issues associated with the EEZs and Law of the Sea, deep sea nodule mining is not economically competitive with onshore deposits. Location of known concentrations of these nodules is shown in Figure C.

Early in the 1980s attention shifted to cobalt rich crusts associated with underwater mountains (seamounts). Factors influencing the shift to cobalt crusts included higher concentrations of cobalt and manganese than found in manganese nodules and the occurrences of the cobalt crusts in the shallower waters of the EEZs. The exploration and development of these crusts could take place under established legal regimes, making them a safer investment opportunity.

A third significant source of concentrated marine metallic deposits are polymetallic sulfides and sediments. Although no deposits have been identified in the western and southern reaches of the Basin, potentials are promising based on known locations along the west coasts of North and South America. In 1981, the discovery of large deposits off of the Galapagos Islands and later along the Juan de Fuca Ridge off the West Coast of the U.S. opened speculation as to their occurrence in other areas of the region. Deposits are associated with active volcanic sites and are found along fracture zones in the ocean floor that are spreading apart at a relatively rapid rate (more than 6 cm per year).

Associated with polymetallic sulfides are metalliferous sediments which are composed of copper, zinc, and iron sulfide minerals of submarine volcanic origins. The Southwest Pacific is a favorable area for such deposits, particularly the island chains of Indonesia and Solomon Islands, the Tonga-Kermadec Ridge and south towards New Zealand, the Lau Basin between Tonga and Fiji, the North Fiji Basins between Fiji and Vanuata, the Vanuata chain and in the Bismarck Sea between New Britain and New Ireland.

Figure C: Permissive Areas for Marine Mineral Resource Occurrences in the Pacific Basin



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SECTION II

TRADE PATTERNS

Economic Performance

During the past two decades, Asia has led all other regions of the world in economic growth. Japan gave the initial impetus with real growth rates of over 10 percent annually in the 1960s, followed in the 1970s by the other advanced developing countries in the Pacific Basin. The Republic of Korea, Singapore, Taiwan, Hong Kong, Thailand, and Malaysia averaged close to eight percent annual increases in their gross national products (GNP) over the last 15 years. Although overall growth slowed during the 1980's world recession, it still outpaced other world regions. Economic growth was strong in 1984 with the GNP increasing at rates of 6 percent in most countries with the exception of the Philippines (which experienced a negative 6-8 percent). The largest rate of growth was achieved by Taiwan (nearly 11 percent annualized in 1984).

Worldwide recession, inflation, and high interest rates have taken their toll over the past four years: governments have been required to scale back development plans significantly and to pay careful attention to budget shortfalls and debt servicing schedules. Countries which are without energy or other natural resource bases, and those which have seen world prices decline for their primary export commodities, have been especially hard pressed.

Nevertheless, the economies of East Asia have demonstrated a capacity to sustain strong long-term growth and generally have weathered adversity better than most others in the developing world. They were, therefore, better positioned to take advantage of the economic rebound that began in late 1983. Private sector forecasts of 1985 growth rates for developing economies in the region issued early this year covered a wide range: one source projected negative gross domestic product (GDP) growth of 6.2 percent for the

Philippines at the low end of the scale to over 9 percent GDP growth for Taiwan, at the top end. These projections of economic growth, although only indicative, are impressive, but with oil prices down and exports to the U.S. rising, actual performance from some industrialized countries may reach such levels.

U.S. Trade with the Region

Total U.S. trade with the Pacific Basin continues to surpass U.S. trade with Western Europe or any other geographic region of the world. In 1984, U.S. trade in merchandise with the region totalled nearly $169 billion, up from $129 billion in 1983, an increase of 31 percent. The U.S. purchased nearly 5 percent of Japan's exports in 1984. Japan alone accounted for more than 15 percent of total U.S. trade in 1984, and accumulated nearly 30 percent of the U.S. trade deficit. Nevertheless, the U.S. remained Japan's largest single source of imports, accounting for almost 38 percent of their imported manufactured goods.

The nations of Hong Kong, South Korea, Singapore, and Taiwan have also become major factors in U.S. trade. Although their combined GNP is less than one-tenth that of the European Community, U.S. imports from these nations are about two-thirds of those from the EC. The U.S. deficit with them is two-thirds larger than with the EC.

The six countries that constitute the Association of Southeast Asian Nations (ASEAN)—Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand—are also gaining a significant position in U.S. trade. ASEAN is now the fourth largest trading partner of the U.S., behind Canada, Japan, and Mexico. U.S. trade with ASEAN grew almost 11.5 percent between 1983 and 1984, and ASEAN bought almost $10 billion of American goods — 4 percent of our total exports.

In the aggregate, the Pacific Basin is the largest buyer of U.S. farm products. In 1982, agricultural exports to the region were $11.7 billion, or 32 percent of total U.S. agricultural exports. The region purchases well over half of U.S. exports of cotton, beef, forest products, and citrus fruits and a significant percentage of U.S. grown wheat, corn, soybeans, and tobacco.

Japan is the U.S.'s largest single agricultural market, accounting for nearly 18 percent of U.S. agricultural exports (dollar value). The U.S. enjoyed a $6.5 billion surplus in this account with Japan. Other significant Pacific markets for U.S. agricultural products include Hong Kong, South Korea, Singapore, and Taiwan. These nations purchased an estimated $3.7 billion worth of U.S. agricultural products, almost 10 percent of U.S. overseas sales.

Trade within the Region

ASEAN countries are net importers of capital and technology from Japan and the United States. They export resource based products as well as some manufactured goods, primarily to Japan and the United States. However, the share of manufactured goods exported to the U.S. is much higher than Japan. The ASEAN countries, along with Australia, form a trading relationship with the U.S. and Japan, which in no small measure has contributed to the prosperity of the entire Pacific Basin in recent years.

The relationship demonstrates characteristics of being both complementary and competitive in nature. An important factor for the complementary relationship is the fact that ASEAN, Australia, New Zealand, Pacific island countries, Japan, and the United States are very different in terms of natural endowments and stages of economic development. ASEAN countries are resource-rich, labor-abundant, and still developing their industrial complex; Japan is resource-poor but highly developed with labor becoming increasingly scarce; the United States is a highly developed, resource-rich economy; and the Pacific islands and Australia and New Zealand are moderately resource-rich in certain raw materials (e.g., minerals, agricultural products, natural gas and fisheries) with limited labor resources.

Japan's role is well recognized as the largest and strongest economy in the region and as a source of new technology, equipment, and capital. It has much to offer the ASEAN and Pacific island countries as they seek to increase the sophistication and capability of mineral extraction and manufacturing sectors. In fact, the complementary relationship between Japan and the ASEAN developing countries, Australia, and the Pacific islands has had a great effect on the growth of the region. During the past three decades, the rapid economic growth of Japan has stimulated growth and income of these developing countries. However, these relationships are undergoing change. Since the first oil shock in the 1970's, Japan's growth slowed relative to Australia, the Pacific islands, and ASEAN nations. Now, it is these nations providing stimulus to Japan's economic growth, through purchases of capital goods and production technology.

A major problem in trade among the nations in the region is Japan's low importation of manufactured and semi-manufactured products from other countries. This is as apparent in Japan's trade relationship with ASEAN countries as it is with the U.S. Large trade imbalances in Japan's favor reflect the difficulty which manufactured exports from other countries in the Pacific Basin have in penetrating Japan's markets. The trade relationship between the ASEAN, the Pacific island countries, and Japan remains largely a traditional one of developed-developing countries, where Japan exports manufactured goods to these countries and imports primary materials, energy, and agricultural goods. For example, in 1981, the United States purchased 28 percent of ASEAN's manufactured exports, while in contrast Japan bought slightly less than 7 percent, only one-fourth as much.

One reason given for the large trade imbalances is Japan's extensive use of non-tariff trade barriers, used to protect domestic markets from imports. A 1984 study completed by the United Nations found that in general the brunt of protectionist policies employed by industrialized countries, both in terms of tariff and non-tariff barriers, falls on labor-intensive exports of developing countries, especially textiles and footwear. The study found that nominal tariffs and domestic price differentials due to the non-tariff barriers of selected developed countries were as restrictive as tariff barriers. The highest protection was accorded to those industries where developing countries have a comparative advantage (e.g., processed agricultural goods, apparel and clothing, and paper products). Trade barriers tend to escalate with processing and thus are biased against the importation of manufactured goods. These non-tariff barriers have been identified as the principal deterrent to foreign manufactured goods penetrating Japanese and other Asian markets such as South Korea and Taiwan. The U.S. is seeking the removal of non-tariff trade barriers and the expansion of trade opportunities with these nations.

The large trade imbalance between the United States and Japan is worrisome. The United States is plagued by large budget deficits, high interest rates, and the overvaluation of the dollar relative to the yen. These combined factors produced a trade deficit of $37 billion in 1984. The major concern is the continued erosion of U.S. competitiveness in world markets for many of its industries, including high technology products. These factors are creating a political situation which could lead to protectionist measures affecting not only Japan, but also the other developing nations of the Pacific Basin.

The Japanese claim their persistent trade surplus stems from the inherent structure of their economy, primarily their high savings rate. The Japanese save 31 percent of their GNP compared with only 18 percent for the United States. In addition, they do not spend as much as they produce and this difference shows up as exports. But this does not satisfactorily explain why their imports of manufactured goods are so low. The structure of the Japanese domestic economy may have to change in order to allow foreign products, services and capital to play a larger role for the mutual benefit not only of Japan but also of other Pacific nations.

Japanese Prime Minister Nakasone announced Japan's "action program" at the end of July of this year. In the "action program" Japan promised to open its markets to U.S. telecommunications equipment, reduce tariffs on wood products by 1987, and to accept U.S. test data when certifying pharmaceuticals and medical equipment. The U.S. Administration's reaction was reserved, while Congress reacted negatively. Business leaders noted that Japan avoided any concessions that might cause serious problems for Japanese industry. The program was described as being laced with promise, but with no significant changes taking place before 1987.

Without a doubt the relationship between the United States and Japan, the largest market economies in the world, is one with important global implications. However, no third countries are more affected by this relationship than the countries of the Pacific region, both developed and developing. It is in the interest of both Japan and the United States to reduce imbalances and ensure that the trade interests of third parties are taken into account when implementing any corrective measures. The continued success of developing Pacific Basin countries depends on expansion of exports which in turn depends on healthy growth of developed countries in the Pacific and the commitment to an open market trading system.

The emergence of China as a significant trading nation, now one of the U.S.'s top 20 trading partners, adds a new factor to Pacific trade relations. The Chinese market provides major new opportunities and competition for Pacific and U.S. exporters. China is also proving to be highly competitive as an exporter of consumer goods such as textiles. Although U.S. trade with China declined 24 percent in the first half of 1983, it increased significantly in the second half and was down only 15 percent for the year. Trade with China increased by one-third during 1984, exceeding the 1981 peak of $5.5 billion by nearly $400 million. This growing trade relationship between the U.S. and China has caused concern with many other countries in the region who are in direct competition.

The U.S. also depends on the Pacific Basin for significant quantities of raw materials as well as finished and semi-finished products vital to its economy. More than 90 percent of this country's natural rubber, and large amounts of tin, meat, forest products and plywood, bauxite, sugar, and oil are imported from the region. In sharp contrast, the Republic of Korea, Japan, Taiwan, and Hong Kong import large amounts of U.S.-produced food, raw materials, machinery and heavy equipment.

Investments

Japan and the United States are the two most important sources of capital and technology for the Pacific Basin. U.S. capital and technology exports have concentrated in the non-resource extraction sectors. U.S. direct investment was $30 billion in 1982, over 12 percent of this country's total overseas investment. Both in absolute dollars and percentage terms these figures are increases over recent years. Australia and Japan are principal focal points for investment, followed by Taiwan, Thailand, Singapore, Indonesia, Korea and Malaysia.

U.S. and Japanese capital and technology investment in the ASEAN countries shows the U.S., relative to Japan, has concentrated its investments in resource extractive industries. The raw materials are then exported to resource poor countries, such as Japan. The Japanese direct investments are aimed at industries which are labor-intensive, using standardized technology for producing manufactured goods. These goods, such as textiles, are exported to the U.S. The U.S. in turn has a comparative advantage in capital intensive, high technology products. The final leg of the triangle is Japan which is the largest single market for U.S. agricultural products.

Investment climates in the region are generally favorable to U.S. investors and virtually all the open economies are seeking foreign capital to improve the economic base. China also is seeking to attract foreign capital and technology, having begun with foreign exploration of their offshore oil and natural gas fields. Other areas receiving special interest from Chinese leaders include modernization of manufacturing, transportation, and communications industries.

Bilateral U.S. aid to other East Asia countries has declined over the last twenty years, particularly to Taiwan and Korea. Vietnam, Laos, and Kampuchea have essentially lost access to U.S. aid. U.S. assistance to the region is considered by the U.S. Department of State as cost effective; for example, the total of all development assistance provided Taiwan and Korea equals only about half of the value of U.S. exports to those countries in a single year.

U.S. assistance to Thailand, Philippines, Indonesia, Burma and Pacific island states in 1983 was about $253 million. Nearly $20 million of the U.S. assistance to ASEAN was for regional programs, concentrating on agricultural, health and population projects.

Japan contributed almost six times that amount, allocating around 70 percent of its foreign aid to Pacific Basin countries. No other region is perceived as more vital to Japan's political/economic interests than the ASEAN countries. Annually these countries receive between 30 and 35 percent of Japan's bilateral development assistance, about $1 billion per year.

Japan and the United States were two major suppliers of technology in recent years to Malaysia, Thailand, and the Philippines. Together those countries accounted for approximately one half of the license agreements made by Japan and the U.S. It is surprising to note, however, that the developing countries of ASEAN were also a significant source of technology for Malaysia and Thailand.

The U.S. provides direct aid to the three U.S. flag territories, accounting for a significant portion of their annual net income. The territories have few exportable commodities and depend primarily on fishing, fish processing, tourism, light manufacturing, and their locations as transhipment centers. Additionally, Guam is of strategic military importance with major air and naval bases located on the island.

SECTION III

STRATEGIC BALANCE

The Pacific Basin nations just marked the 40th anniversary of the end of World War II in the Pacific and the ten year anniversary of the U.S. withdrawal from Vietnam. These anniversaries remind the nations of the Pacific Basin that this is where six of the world's seven largest military forces intersect - Peoples Republic of China, Soviet Union, Vietnam, North Korea, the Republic of Korea, and the United States. Vietnam has one million men under arms in three countries. The Korean Peninsula is where three armies with a combined force of 1.5 million men are separated by a small zone of demilitarization. China has 4.4 million men in uniform. The Soviet Union maintains between one-third and one-half of its ground forces in the Soviet Far East (estimated at 52 divisions). Additionally, the Soviet Pacific Fleet is now its largest; there are 3,000 modern Soviet combat aircraft and about one-third of the Soviet SS-20 intermediate-range ballistic missile battalions (135 nuclear missiles) stationed in the region.

According to Admiral William Crowe, commander in chief of U.S. Pacific Forces, "the Amercian shield has permitted (the Pacific nations) to concentrate on internal economic development and to realize their own potential at their own pace." The economic life blood of the region is merchant shipping with approximately 4,000 ships passing through the Pacific straits each month, and an average of more than 130 each day passing through the Straits of Malacca, between the Indian and Pacific Oceans.

According to the Department of Defense, U.S. defense strategy for East Asia and the Pacific Region is "... based on forward deployed U.S. forces, robust alliances, and self-sufficient friends." There are four pillars to this strategy: Japan, the Republic of Korea, the ASEAN nations and the ANZUS (Australia, New Zealand and the United States) alliance.

Japan

Japan's strategic value and economic significance cannot be overstated, particularly its economic strength and location on the global shipping routes. Bilateral defense relationships improved during 1984, even though Japan still refrained from spending more than one percent of its GNP on defense. The U.S. has gently encouraged Japan to continue to assume more of its defense responsibilities, including contributing more than $1 billion towards supporting U.S. bases and improving Japanese naval capabilities in its proximate sea lanes out to a distance of 1,000 miles.

Korea

Across the Taushima Strait from Japan lies the Republic of Korea (ROK) which in recent years has become a more self-reliant military power. ROK annual purchases of military equipment are 50 percent greater than the U.S. sales credits provided. Seoul faces an adversarial neighbor in North Korea which has a quantitative superiority in men and equipment. North Korea annually spends 25 percent of its GNP on its military and has taken an offensive posture as demonstrated by the Rangoon bombing in October, 1983. In addition to the 700,000 regular army troops, North Korea maintains a special force of 100,000 troops which are trained to carry out unconventional military actions.

ASEAN

The ASEAN nations have taken the lead in bringing the world's attention to the problem of Vietnam's occupation and domination of Kampuchea (formerly Cambodia) and of Laos. Hanoi maintains an estimated 170,000 troops in Kampuchea and 40,000 in Laos, which is made possible by the Soviet Union providing $3 million per day support to the Vietnamese domestic economy.

Thailand plays a strategic role not only in the security of the Asian peninsula, but also provides aid and asylum for hundreds of thousands of displaced Cambodians, Laotians, and Vietnamese. Recent Vietnamese attacks on refugee camps are causing major concern and pose the danger of direct confrontation between Vietnamese and Thai military units. Additional concerns focus on the Soviets reacting to U.S. sales of military equipment to Thailand, by supplying more sophisticated military hardware and aircraft to Vietnam.

ANZUS

U.S. relations with Australia and New Zealand were seriously challenged in 1984 with the defeat of New Zealand Prime Minister Robert Muldoon by his Labour Party opponent, David Lange. Lange moved quickly to formalize his campaign pledge of a "no-nuclear policy" by refusing port calls by naval ships either carrying nuclear weapons or which are nuclear powered. Low key negotiations over this issue continued until early 1985 when the U.S., due to the New Zealand stance, cancelled port calls by one of its naval destroyers. It is U.S. defense policy to not disclose which ships carry nuclear weapons; therefore, port calls are being made in Fiji. The 1985 ANZUS conference was cancelled as well as several joint military exercises. Even more serious is the pressure from the Labour Party to legally ban nuclear weapons and nuclear powered vessels. This would precipitate a review of the ANZUS treaty by the U.S. with formal action a possible outcome.

Pacific Islands

Australia plays a key role in supporting economic development, regional cooperation, and communication among the Pacific island states. Most of the countries, with the exception of Vanuatu, express nervousness over the ANZUS crisis. The U.S. expressed mild concern with Vanuatu's flirtation with Cuba and the Soviets and the potential support given by Libya to the New Caledonian independence movement. Fiji has assumed a role outside of the Pacific Basin by participating in the Middle East peacekeeping forces and by allowing U.S. warship port calls as an alternative to New Zealand.

China

China, even though not a pillar in the U.S. strategy, is a significant influence in the region. On a case by case basis the U.S. is contributing to the modernization of their military, including under an agreement in principle; antitank missiles, transfer of technology for artillary shells and avionics for fighter aircraft. These transfers have made China's neighbors uneasy, even with assurances from the U.S. that the weapons and technology are defensive and will enable China to counter Soviet military intimidations.

SECTION IV

CHALLENGES

The future of the Pacific Basin is very positive, but behind the glowing projections there are several worrisome signs. The most important challenges may be embodied in the good news of strong economic growth. A strong U.S. recovery provided the economic stimulus that fueled rapid growth in the region. The consequence has been a severe adverse balance of payments between the U.S. and Asian countries, estimated at $60 billion in 1983, and roughly 50 percent of the total U.S. trade deficit for 1984. Analysts project this figure will continue to rise in 1985.

Trade Deficits

The first efforts to correct this trade deficit are aimed at Japan. Much significance has been attached to the understanding reached on January 2 by President Reagan and Prime Minister Nakasone to remove trade barriers on telecommunications equipment, electronics, forest products, pharmaceuticals, and medical equipment. Neither this January 2 agreement, nor the Prime Minister's two television appeals for the Japanese to buy more American goods nor the "action program" announced in July quieted Congressional overtures for restrictions on foreign goods from countries with huge trade surpluses which have not opened their markets to U.S. goods.

The warning went out not only to Japan, which represents nearly 30 percent of the U.S. trade deficit, but also to other countries such as South Korea and Taiwan. The trade ministers of these countries see the problem stemming from structural differences between their economies and the U.S. economy. They claim the surpluses can be accounted for by three factors: their countries' high rate of savings (33 percent in Taiwan, 31 percent in Japan, and 18 percent in the U.S.); American companies not knowing how to sell in their countries (e.g., small markets, selling by consignment and specialized marketing); and the overvalued dollar, causing U.S. goods to be more expensive than those of other Pacific nations.

Philippines

The Philippine economy and political situation are very unstable. The U.S. continues to encourage democratization of the political system and reform of the military, thereby allowing it to counter insurgency in rural areas. In partnership with Japan, loans were made to the Philippines in 1984, keeping their economy afloat until an agreement could be completed with the International Monetary Fund for rescheduling their debt. Even with vigorous reforms and political stability, recovery is not expected to occur until the 1990's.

China

China is encouraging foreign investment, industrial modernization, and vigorous expansion of its exports. China's economic modernization and greater participation in the world economy is expected to contribute to stabilizing East Asia. Increased trade with countries outside the region, however, is in direct competition with China's neighbors and has caused concern within Indonesia, Malaysia, Singapore, and Burnei. Additionally, though China speaks of peacefully resolving the Taiwan issue, military and political incidences during 1984 kept tensions high between the two countries.

Korea

Korea is becoming an important and growing factor in U.S. trade. Trade between the countries is dominated by manufactured goods, steel and electronic imports from Korea. U.S. trade deficit with Korea increased each of the past five years. The deficit increased $2 billion between 1983 and 1984 to over $4 billion.

Militarily, the Korean Peninsula is still a potential location for conflict. North Korea is unpredictable in its actions and has continued to spend 25 percent of its GNP on the military. The terrorist killings of members of the South Korean cabinet in Rangoon in 1983 and the defection of a Soviet across the DMZ in 1984 caused dark clouds over political relations between the two countries. These confrontations were countered by great strides which were made during the first economic cooperation meeting between the two countries. During the second round of economic talks in May, 1985 the North Koreans unexpectedly proposed formation of a joint economic committee to implement joint ventures and economic exchanges. The first meeting of this committee took place in North Korea recently. These interchanges hold some hope of the two nations politically addressing their differences, although for the time being, indirectly through economic talks. Both China and USSR have compelling reasons to avoid a new Korean war and China has acted to restrain Pyongyang from committing hostile acts. Soviet intentions are not as clear.

Asian Peninsula

On the Asian Peninsula a political settlement of the Kampuchea issue is necessary for easing of tensions. Continued military intrusions by the Vietnamese into Thailand create the potential of a significant military encounter between the two countries. The Khmer forces are still actively resisting the Vietnamese Army in Kampuchea also keeping tensions high. The MIA and refugee issues still play a large role in U.S. normalizing relations with Kampuchea and Vietnam.

ANZUS

U.S. relations with Australia and New Zealand were normally troubled only by minor trade problems. The most serious challenge to the ANZUS pact followed victory by the Labour parties in both countries, which support a nuclear free stance. Australia reviewed the pact and reaffirmed its commitment. New Zealand's continued nuclear free stand has closed its ports to all nuclear power or nuclear armed vessels. This action placed the ANZUS relationship in serious jeopardy.

Nuclear Issues

The continued underground testing by France in French Polynesia is one of the most emotional issues of the South Pacific. A nuclear free zone treaty was placed on the agenda of the South Pacific Forum in August and signed by all Pacific participants except Vanuatu. The carefully crafted proposal would ban dumping and testing but would allow transit and port visits of nuclear powered warships. Other nuclear issues include: criticism of the Japanese-U.S. feasibility study for an interim spent fuel storage site on a Pacific island (the proposal has been shelved); a U.S. environmental impact statement on disposal of obsolete nuclear submarine hulls (EIS has not been published); Japanese proposal to dump low-level nuclear waste in the North Pacific; and French nuclear testing.

EEZs

Of greater concern to the Pacific islands are the economic questions brought on by the adoption of the 200 nautical mile exclusive economic zones (EEZ), particularly enhancement of fishing rights. Negotiations between the Pacific island countries and the distant fishing nations centers on a note of urgency that the Pacific islands establish a regime for a single licensing system encompassing the waters of the entire area. A fourth round of talks were scheduled for June on these issues. Additionally, the economic embargo of the Solomon Islands due to their seizure of a U.S. tuna vessel is hopefully near settlement with talks taking place between the American Tuna Association and the Solomon government.

Compact of Free Association

A central issue to the U.S. Trust Territories is the Compact of Free Association. In 1986 the U.S. is expected to end its trusteeship of the Federated States of Micronesia and the Marshall Islands. The compact is being heavily debated in the U.S. House of Representatives due to special tax and tariff provisions, liberal immigration policies, a guarantee of $3 billion in assistance to each territory for up to 17 years (indexed for inflation from 1981), restrictive law enforcement provisions and the designation of Palua as a nuclear free zone. The Northern Mariana Islands have opted for a designation of commonwealth status and is not affected by the compact.

USSR

As Asia prospers USSR interest in the region becames greater, although its economic initiatives have been remarkably unsuccessful. Only 7 percent of its exports are destined for the region and only 12 percent of its imports originate from the Pacific. Vietnam and North Korea are its principal allies.

The Soviet's lack of economic success is overshadowed by its increasing military strength. During the last fifteen years there has been a steep rise in its Far Eastern forces. USSR forces include a theater nuclear force of 135 SS-20 missile launchers, 80 Backfire bombers, 52 divisions stationed near the Chinese border, 3,000 combat planes, and the permanent stationing of its largest of four naval fleets in the Pacific. Cam Ranh Bay, Vietnam has become an important forward air and naval base, even though the Soviets declare the facility to be just a liberty port.

SECTION V

CONCLUSION

Whatever direction regional cooperative efforts take, it is clear that U.S. attention is increasingly being drawn westward. The United States is a principal member of the Pacific Community and has its destiny tightly bound with those of its Asian and Pacific partners. Secretary of State Schultz, speaking last year on "A Partnership for the Future," noted a growing community of interests in this region. He cited not only trading relationships but political and strategic interests as well, emphasizing the immense stake in continued economic growth and an open world economy. The latter provides the means for assuring the socio-political stability on which international cohesion, strength, and ultimately, maintenance of the prosperity of the region depends. Trade frictions most often capture media attention, and officials within the region clearly face interesting challenges in managing the conflicts that sometimes rise in vigorous trading relationships. However, they represent merely the byproducts of the great opportunities available to the United States in the vast and varied Pacific Region. How imaginatively each nation responds in resolving them constructively will shape not only the region's future, but that of the world as well.

Western Governors' Association
600 17th Street
Suite 1205 South Tower
Denver, Colorado 80202-5442
(303) 623-9378