



Khóa Hội Thảo Về Phát Triển Kinh Tế

Economic Development Seminar 6-12-10-12, 1971

REGIONAL COOPERATION AND ECONOMIC DEVELOPMENT

by Mr. PHITAYA SMUTRAKALIN

Senior Economist at ECOCEN

Chief Economist in Charge of Ministerial Planning

Ministry of National Development, Thailand

REGIONAL CO-OPERATION & ECONOMIC DEVELOPMENT--A PROGRESS REPORT*

It must be, I think quite frankly, admitted that although over the last decade or so many words have been spoken on the ways and means, and the reasons, for regional co-operation as a supplementary technique of economic development policy for the Southeast Asian region, we now can look back at this point to very little real achievement. One very important reason must be that the binding ingredient of politics has often been found insufficient or missing altogether where the economic rationale for co-operative efforts for countries of the region may have been quite evident, and to a limited extent vice versa. We shall come, at a later stage of this present discussion, to another quite vital missing element. But first we shall begin by looking back on the past history of regional co-operation efforts in Asia.

It will be recalled that the first positive initiative for the creation of a framework for regional economic co-operation among countries of Asia was the establishment of the Economic Commission for Asia and the Far East, or ECAFE, in 1947. It was voted into existence by the United Nations Economic and Social Council in that year, the aim being to provide a forum on which to base regional post-war economic development programme. But no scheme equivalent to the Marshall Plan or the European Recovery Programme such as existed and practised in Europe materialised in Asia, to force nations into

* This paper has been prepared by Songkram Grachangnetara, senior economist of the Economic Co-operation Centre for the Asian and Pacific Region, for the First Seminar on Economic Development, under the joint sponsorship of the Ministry of Planning and National Development, the National Institute of Administration, the Industrial Development Bank, the Societe Financiere Pour le Developpement Industriel au Vietnam and the American Cultural Centre, Saigon December 6 - 10, 1971.

some sort of framework or schedule of meaningful co-operation. During the 1950's the three well-known regional international organizations established hardly had anything to do with regional economic co-operation as the term came to be known and understood in the 1960's. These were the Colombo Plan, the Anzus Treaty, and the South-East Asia Treaty Organization or SEATO. The last two organizations were military organizations and had no design to be otherwise.

It was only during the 1960's that economic co-operation bodies, or regional bodies with economic pretensions, began to be formed. The series began with the Asian Productivity Organization, established in 1961, the same year that the Association of Southeast Asia, or ASA, was established. In 1964 the Regional Co-operation for Development was set up among the Islamic countries of Pakistan, Iran, and Turkey. In mid-decade, the Asian Development Bank was established, marking a very significant step forward for economic co-operation within the region. In 1967, the Association of South-East Asian Nations or ASEAN was set up, following on the decision to form the Asian and Pacific Council or ASPAC which was taken in June 1966, at the Ministerial Meeting for Asian and Pacific Co-operation held in Seoul, which was in effect the first diplomatic congress of Asia since the end of the Second World War.

The Asian and Pacific Council formed an economic arm of the organization, called the Economic Co-operation Centre or ECOCEN, in 1970. The Centre began operations in May 1971 and was located in Bangkok. Its specific aims and approach were presented to the parent ASPAC Council at the Sixth Minis-

terial Meeting of Asian and Pacific countries, held in Manila in July 1971. What was stressed quite strongly then, and on more than one occasion thereafter, was that ECOCEN would avoid duplicating the work of other regional bodies already in existence and operating. What was subsequently spelled out, in consequence of the aim of avoiding this duplication, provides an alternative new approach to the all-too-familiar and overworked term of regional economic co-operation in Asia.

The keynote of this alternative approach is industrial complementarity. Taking a number of countries who are both geographically, and more important politically, neighbours and in the same stage of development, which we have in South-east Asia, it would seem that economic complementarity is a natural asset to be exploited and a logical springboard for regional co-operation schemes. The idea is nothing new. In 1960, when the Montevideo Treaty was signed among countries forming the Latin American Free Trade Area or LAFTA, it was made a point of commitment by the signatories that economic development would be hastened by industrial complementarity agreements, as means of both promoting and expanding trade, and of liberalising trade the volume of which could be expected to increase. ASEAN, or the Association of South-East Asian Nations, is also proceeding along the same road, with the United Nations team of experts who have been called in for practical advice adopting complementarity agreements, more or less along the lines already sketched out in the LAFTA model of regional trade agreements, as the bases for the ASEAN group's economic co-operation efforts, although ASEAN itself does not possess a permanent economic secretariat

such as ECOCEN for ASPAC, the lack of which makes the case for complementarity thereby was made all the more awkward to implement.

For in essence, the complementarity agreement approach to regional co-operation comprises a continuing series of rounds of negotiations at various levels, which needs to be prompted and serviced by a permanent secretariat with professional staff devoted in close pursuit of the non-political rationale of such agreements. The cases for them are built upon the initiatives of private businesses of the region, to join efforts in production and planning, where it is evident that such consolidation would yield greater returns than individual pursuits and scattered efforts. The word complementarity used in this context denotes complementarity in production, which permits specialisation and division of labour among manufacturers of the region. What has been provided under ECOCEN's schematic framework is the opportunity for such initiatives on the part of business enterprises of the region to emerge, identify themselves, and come together in a forum not only of discussion, but of pragmatic and businesslike negotiations. To the extent that such negotiations can be worked out to the satisfaction of contracting private business partners, there could be put into motion efforts to back up such production agreements with mutual tariff concessions on the part of respective governments concerned -- drawn into contract, in effect, by the private businesses whose interests they can be safely assumed to represent. There are therefore two dimensions to be considered in this approach for regional

co-operation through complementarity agreements. One is the dimension of pragmatic business considerations, based on the realities of economies of scale and division of labour which are critical for industries requiring heavy investment outlays and subsequently large markets in which to sell their products economically. Another dimension is one within which governments operate, regarding the rule for the maximum welfare for the maximum number of people, which, in trade, is to be acquired through greater intra-regional trade flows and ever greater degree of liberalisation. If tax concessions can best be brought about to supplement and reinforce the rationale of business decisions, and if the developments in these directions can be expedited by a system of complementarity agreements which allows piecemeal approach -- product by product or industry by industry -- to regional co-operation, then the alternative that this system provides would seem to be the answer for which many were searching in the 1960's with so little apparent results.

The dialogue between governments and private sectors of the region, which is a preliminary necessity and a corollary of negotiations for tariff concessions that constitute a critical feature of complementarity agreements, would ensure that the dynamics for trade liberalisation programme are derived from the initiatives of private sectors. Such initiatives, emerging from the forum of discussion among business partners within a regional or sub-regional grouping, ensure that:

1. Distinction is made in the design of the tariff barrier between products imported from a neighbouring country within the regional or subregional grouping and from countries outside the region.

2. Encouragement is given, from the exchange of tariff concessions among countries of the region or sub-region, to those investments that might have thus ~~at~~ been unrealised because of the limited size of local markets within any single country, despite being potentially excellent investments.

3. Negotiations can proceed for a multiplicity of products, item by item ad hoc, or for any particular sector of industry, for an entire industry, without complications resulting from any one set of negotiations having negative feedback effects on other sets of negotiations going on in parallel or about to be arranged. This 'compartmentalisation' of negotiations is a feature which ensures that the whole round of talks on tariffs concessions would not collapse or come to a stall due to any difficulties on any single item or commodity. In reverse it might even be true that such a disparate set of negotiations on unrelated commodities and on an ad hoc basis would help, in certain circumstances, to facilitate agreements on mutual concessions where a reasonably balanced distribution of benefits among countries participating in the talks could be allocated.

The nature of the automobile industry falls naturally into the bracket of industries that could most profit from complementarity agreement schemes among partners of the region. The industry is technology -- and capital -- intensive: local

growth has evidently been restrained and lacking in direction due to the limited size of the automobile market in any one country of the developing region of Asia. Yet a combined market, on regional or subregional basis, for many of the components that go to make up ~~of~~ a motor car would make investments in the manufacturing of such parts worth while. This would necessitate agreements among automobile parts producers of the region to specialise among themselves in the production of certain items. To back up such agreements to specialise in production among the manufacturers, and to ensure that the maximum potential for the benefits to be derived from such divisions of labour within the region is fully realised, the governments of respective manufacturers coming into production partnership will need to agree mutually on some design of tariff structure permitting distinctions to be drawn on imports of parts manufactured under production complementarity agreements. The first part of the scheme -- the production agreements -- rests heavily on business sense and private sector initiatives. The second part -- the negotiations on the format of tariff structure entailing concessions by each participant to the scheme -- without which the critical criterion of a regionally combined market is not to be met -- could best be expeditiously undertaken by a permanent regional economic secretariat, either as a parallel adjunct to the private manufacturers' negotiations regarding the production allocations among themselves, or subsequently, in extension of the successful conclusion of such negotiations. When ECOCEN suggested to private automobile manufacturers of the region that they work out among themselves a plan which was then to be submitted subsequently to the meeting of senior

officials of Boards of Investments of the region which ECOCEN was hosting at a later stage, the response from the manufacturers was overwhelmingly favourable. A Meeting of Private Automotive Sector in Asia was convened in Bangkok in the last days of October 1971, where local automobile manufacturers from the Philippines, Singapore, Thailand and Indonesia were represented. At the conclusion of the meeting, the principles of a regional 'Progressive Car Manufacturing Programme' were jointly endorsed. It was also decided that at the forthcoming Investment Officials' meeting in Bangkok here would be a representation of the manufacturers' case in favour of a specific tariff structure favourable to such a complementarity agreement. Despite the postponement of this latter meeting, originally scheduled for mid-November, due to unforeseen difficulties of a political nature due to the co-hosting arrangements, the manufacturers' case is still a valid one. It will be presented at the meeting now re-scheduled to convene early next year under ECOCEN's sponsorship. In any event, with the meeting of this Asian Private Automotive Group, the blueprint for a working demonstration model for regional economic co-operation through production complementarity agreements can now be said to have been well sketched out, and a course well set for the future.

The choice of complementarity agreements as a technique for stimulation and liberalisation of trade -- a critical factor for development -- within the region of Southeast Asia is based on the acknowledgement of certain economic realities obtaining in the region. The cost of labour in the developing countries of this area is still

cheap; the growth rates in many are commendably high; and the rate of return on capital is still observed to be highly favourable. Indeed, with impressive growth rates in GDP recorded and expected to continue, the implication for the markets for intermediate and capital goods industries is that they will expand at even faster rates. The framework of regional co-operation by means of complementation in industrial production pattern is thus ideally suitable for the circumstances prevailing in Southeast Asia. Moreover, simple observation will indicate that industrial development in many countries has long been dogged by the problem of under-utilisation of capacity. Complementarity agreements backed by a suitable system of tariff concessions to guarantee manufacturers and investors an expanded market not bound by national boundaries, by delineated by some economic rationale and business sense -- a regional approach to trade and investment -- would assist a great deal in eliminating this particular undesirable feature attending past industrial investment outlays. Forms of regional co-operation based on commodities have begun to mushroom in the late 1960's. These were the Asian Coconut Community, established by the six major coconut producers of the region in 1969. There is an Asian Pepper Community, the grouping of Asian Natural Rubber Producing Countries, the Southeast Asian Fisheries Development Centre project. Tentative steps are now being taken to form regional associations of rice, maize, and tapioca producers. But these do not constitute a coherent programme of regional co-operation, each grouping being independently ad hoc in nature. The integration programmes being presently studied by the ASEAN group, and which is being actively pursued by the ASPAC group through ECOCEN, make due allowances for

ad hoc and piecemeal arrangements, but integrate them into what would become, in time, an overall comprehensive and coherent pattern for co-operation. The region's growing industries will be instrumental in furthering the creeping edges of co-operation through complementation agreements.

The experience of countries that form the Latin American Free Trade Association or LAFTA provides insight for the kind of institutional framework that would be necessary for the adoption of the technique of complementation agreements for Southeast Asian countries. The United Nations team of experts presently advising economic integration and trade liberalisation programme for the ASEAN countries has undertaken a comprehensive review and assessment of the legal and institutional framework required, using as model the LAFTA arrangements. The suggestions include, as a first step, a treaty among regional partners to provide legal basis for future negotiations and the procedures for them. Such procedures could be drawn up to induce negotiations by sectors and sub-sectors of industries. Subsequent Protocol or Agreements for these individual sectors could be signed as negotiations for each of them are successfully concluded, which will contain trade liberalisation programmes -- through mutual tax concessions agreed upon by partner countries -- for the commodities specified in the Protocols. Provisions will have to be made for such matters as origin requirements of products, intermediate or raw materials employed in manufacture, and for the prevention of unfair commercial practices, especially with regard to monopoly and cartel arrangements.

These same provisions would have to apply to a complementarity framework for co-operation among a greater number of countries of the region than the ASEAN membership. For the ASPAC group of countries which comprise the developed countries -- Japan, Australia and New Zealand -- as well as developing countries with advanced industrial development -- the Republics of China and Korea -- the principles of complementarity agreements along sectoral or sub-sectoral lines of industries will not present any difficulties provided it is well understood that any agreements reached will not have to cover all of the member countries all at the same time, but can be negotiated on a sub-regional basis or even bilaterally, should that prove to be a more pragmatic first step. Indeed, the 'Progressive Car Manufacturing Programme' presently under study by ECOCEN for regional complementation in automobile production envisages an ASEAN-core of partnerships within a framework of co-operation covering all countries of the ASPAC group. An additional feature of the programme is the provision for differentiated degrees of cross-integration with other blocs of countries within the region as a whole.

At the 25th Session of the Economic Commission for Asia and the Far East, a resolution was made for countries of the ECAFE region to set their growth targets at 6 to 7 per cent per annum during the UN Second Development Decade. The Commission's Committee for Development Planning noted, in relation to this resolution, that "industry will have to serve as the sheet anchor of the modernisation process, with an increase in the manufacturing output of developing

countries to 8 - 9 per cent during the decade." The rate of investment in manufacturing industries implicit in such high rates of growth of output will necessitate radical institutional changes to affect production and trade patterns of the region in manners consistent with the targets set. An industrial complementation programme within a regional economic co-operation institutional framework, such as we already possess, would seem to be a valid answer to the problems posed by the need for an accelerated development of the region's industries through greater volumes of investment and trade. The initiative for a new departure rests now with the private sectors of the region.
