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ASPAC – An Asian Solution

by Shin Joe Kang, Seoul

During the period of more than 20 years after World War II, Asia as a whole has changed enormously and is developing. This period has seen a tumultuous change in power politics and has been observing the emergence of new powers in this part of the world. One is Japan whose leadership in Asia was perforce lost after its failure in the War, and the other is Communist China who has successfully defeated Nationalist China in mainland China during the civil war. The former, enjoying its special standing in the midst of the cold and the hot war between the West and the East, has developed to become the only industrialised power in Asia, and on this ground of economic power, is newly extending its own sphere of influence in this area. The latter, having a gigantic area of land and also a huge population, has emerged as the strongest military power in Asia to seek its own sphere of leadership.

In which direction would the substantial great powers, the United States and the Soviet Union, who exercise the decisive influences on this area in every aspect, and in addition to these two nations, the newly emerging great powers, Japan and Red China, play their leading roles in Asia? In addition to this, in which direction would the potential powers in Asia, such as India, Indonesia and Australia, develop and contribute for the sake of protecting their national interests as well as the remaining countries' interest in this area? In the midst of power politics, how would the remaining Asian countries, politically weak and economically underdeveloped, respond? These are the problems of the vast political arena in Asia, and Asia's fate will be dictated by these factors.

Three Aspects of Regional Integration

However, it is assumed, with a few exceptions, that the immediate urgent task facing most of the underdeveloped countries in South-East Asia is economic development, while they are leaving the assignments of defence measures to the great powers inside or outside Asia. Although they are facing threatening political and military menaces, most leaders of the developing countries in the area admit that their worst foe is "poverty". In this connection, it is worthwhile noticing that the leaders in the governments and business quarters are ever-increasingly taking cognisance of regional integration and cooperation in one form or another as one of the effective weapons to cope with poverty.

It is, in fact, difficult to consider regional economic integration only from an economic viewpoint, disregarding all other factors. Since regional economic integration is always concerned with political and security motives, the success of economic integration depends potentially upon smooth cooperation in three aspects, namely: economic, political and regarding security.

Regional Cooperation Schemes in Asia

Efforts to come to some sort of cooperation or integration, which were mainly due to the initiative of Asian countries themselves, did not start until the beginning of the sixties, and just because of the apparent success of the EEC in Western Europe, similar efforts in Latin America by means of the establishment of a Latin American Free Trade Association (LAFTA) and the Central American Common Market (CACM), and the efforts of the United Kingdom to join the EEC. Although these integrational efforts started relatively late, there have been a number of organisations since the beginning of the fifties, whose aims and purposes are mainly concerned with the promotion of cooperation among Asian countries. In the field of security policy there are to be mentioned the South-East Asian Collective Defense Treaty Organization (SEATO), the ANZUS-Treaty¹, and the Central Treaty Organization (CENTO), and in the economic field the Economic Commission for Asia and the Far East (ECAFE) and the Colombo Plan.

Resuming Asian regional cooperation schemes of the 1950's, it is to be said that above all they deserved well of establishing closer relationships between Asian countries and thus furthermore far-reaching integrational efforts. With regard to integration in South-East Asia this may be the major result of those agreements. On the whole, however, they do not seem to be an adequate framework for such projects.

ANZUS, SEATO, and CENTO primarily are security agreements. Moreover, besides the United States, ANZUS only comprises Australia and New Zealand which without that have been closely linked by the Commonwealth, SEATO turns out to be incapable of working, and CENTO becomes more or less useless since the establishment of the Regional Cooperation for Development (RCD), not to mention the dominating role the United States plays in all these organisations.

¹ ANZUS means (A)ustralia, (N)ew (Z)ealand, (U)nited (S)tates.

As for the cooperation schemes in the economic field, the Colombo Plan, indeed, succeeds in implementing some important cooperation projects between South and South-East Asian countries, but because of its loose form of organisation and the heterogeneity of its numerous members, it does not seem to be an adequate framework for more far-reaching agreements on cooperation or integration. With regard to ECAFE, the same is to be said. ECAFE's efforts at promoting regional cooperation proved to be successful in various fields. However, it is not to be expected that ECAFE itself could lead a movement for regional economic integration for the whole of Asia, because of the region's geographical size, heterogeneity in culture and religion, plurality of races and its overpopulation, backwardness in agriculture and poverty, the political confrontation and the turmoils, etc. Therefore it is rather appropriate for ECAFE to play its role to encourage sub-regional integrations in the area.

Keeping in mind those cooperational efforts of the 1950's and taking into consideration the success of integration schemes in other parts of the world, the increasing efforts of Asian countries towards regional cooperation and integration, resulting in the establishment of a number of plans, agreements and organisations since the beginning of the 1960's become quite understandable. These plans include the Association of South-East Asia (ASA) in 1961, the Maphilindo in 1963, the Regional Cooperation for Development (RCD) in 1964, the Pacific Free Trade Area plan (PAFTA), the Ministerial Conference for Economic Development of South-East Asia, and the Conference of South-East Asia on Agricultural Development under the auspices of Japan in 1966, and the Association of South-East Asian Nations (ASEAN) in 1967.²

Shortcomings of Present Organisations

However, the above-mentioned regional cooperative organisations have developed without organic relationship to one another and have not very much contributed to formulating regional integration. Until now, the RCD of the Near East nations Turkey, Iran, and Pakistan has been the most successful agreement upon regional cooperation and integration in Asia. Beside the RCD-area, which also includes Afghanistan as a potential member, two further sub-regions in Asia may be discerned, namely India and the South-East Asian and Pacific region.

Although India has been always very eager in intensifying trade relations with the other Asian countries, it has never been especially interested in regional integration. This is a fact, which is mainly due to the size of its own area, its abundant natural resources and the difficulties arising from a lack of integration on a national level. In the South-East Asian area, Burma, Cambodia, and Laos have been similarly reserved towards regional cooperation and

² For further information on these organisations and plans see Shin Joe Kang, *An Economic Integration in Asia through ASPAC*, Hamburg, 1968 (to be published shortly).

integration, mainly because of their neutral foreign policy.

The rest of the South-East Asian countries have been deeply interested in mutual cooperation and integration. But in spite of various plans and agreements upon regional cooperation and integration, there have been hardly any results, and this partly because of the lack of an adequate framework. Therefore, an integration scheme is proposed which comprises nearly the whole South-East Asian and Pacific area.

ASPAC — A New Proposition

The proposal is based on the concept of the Asian and Pacific Council (ASPAC). ASPAC is a new type of regional cooperation composed of developing and developed countries from the very beginning. Composed of nine member countries, namely Australia, New Zealand, Japan, Korea, Taiwan, South Vietnam, Thailand, Malaysia, the Philippines, and one observer, Laos, ASPAC has a combined population of approximately 245 million and a total area of 9,781 thousand square kilometers. Since its foundation by the first ministerial meeting in Seoul in June 1966 and through the second meeting in Bangkok in July 1967, ASPAC seems to be changing its original emphasis from political to economic aspects. This is verified by the fact that several economic projects, i.e., the Asian common market scheme, fertiliser and rice bank, technicians pool, etc., were dealt with officially or unofficially at the Bangkok meeting and will be more conclusively discussed at the third meeting in Canberra in 1968. And those first cooperative attempts can be taken as a basis for further cooperation and integration. Naturally the proposal is not limited to the present ASPAC member countries, but includes the possibility for other South-East Asian countries, especially Indonesia, Singapore, Laos, Burma, and Cambodia, to join the agreement.

Necessary Conditions

Although we are dealing mainly with economic motives for the establishment of a regional economic integration, we must take into consideration the following conditions:

- a homogeneous political system;
- close economic relations;
- a similar level of economic development;
- beginning with possible type of integration and possible countries;
- coordination and specialisation of industries;
- balanced benefits among the member countries;
- parallel implementation of regional and sub-regional integration;
- appropriate preparation of organisational facilities; and
- agreeable external discriminatory treatments.

As to political homogeneity, we can cite that the member countries of ASPAC are founded in general on a capitalistic system and oppose Communism as

an ideology. In this connection, it is an encouraging fact for the region's future cooperation that the Philippines, Indonesia and Malaysia agreed to give up the more than a decade's continued confrontation policy over the jurisdiction of territory among them.

The ASPAC region has been improving its economic relations recently. As compared with the total exports and imports of this region in 1965, the intra-regional exports and imports shared about 21 per cent, respectively. Such a rate of intra-regional trade is a promising factor for regional economic integration. Comparing the facts with the intra-regional trade dependence of EEC and EFTA in 1958 which averaged 30 and 17 per cent, respectively, this rate was indeed not disappointing. Particularly, as compared with those figures of LAFTA and the Central American Common Market, which were showing only 11 and 4 per cent, respectively, in 1957 at their beginning, there are brighter prospects for ASPAC as far as the intra-regional trade is concerned.

The dependencies on intra-regional trade of countries, based on trade figures of 1965, were as follows: Taiwan export 50.9 per cent and import 47.5 per cent; Korea export 38.9 per cent and import 43.7 per cent; Vietnam export 12.8 per cent and import 32.8 per cent; the Philippines export 31.8 per cent and import 27.3 per cent; Thailand export 30.1 per cent

and import 38.3 per cent; Malaysia export 16.8 per cent and import 29.9 per cent; Japan export 15.8 per cent and import 16.8 per cent; Australia export 27.9 per cent and import 12.6 per cent; and New Zealand export 13.2 per cent and import 24.5 per cent.

The Preponderance of Japan

There is, however, an unfavourable factor which is hindering rapid expansion of intra-regional trade among the developing countries in the ASPAC region. It is the preponderant dependency of those countries on Japan and several developed countries outside the region. Excluding the trade with Japan, the trading volumes among the ASPAC countries are shrinking to half and, at the same time, the trade relations in this region are losing their nucleus. This fact is due to the wide gap of economic development between Japan and all other developing countries in South-East Asia.

Japan is in a position to import raw materials mainly from this region and to export the goods manufactured from the imported raw materials to this area. All other countries are exporting only a limited number of primary products to Japan, and no complementary trade relations have substantially developed among them. It is, also, noted that there is a competitive situation among them in exporting primary

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In Preparation

INTEGRATION IN ASIA

by Shin Joe Kang

During the last years, integration policy has become a central topic of economic policy in Asia. Under the impression of European and Latin American moves towards integration, several organisations were founded in the sixties, and plans were discussed, which aim at intensifying Asiatic integration. The present volume gives a comprehensive survey on the hitherto made integration efforts and their results. Moreover, the author develops concrete plans for creating an efficient Asiatic integration area.

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products and some products of light industry. In other words, no mutual horizontal division of international trade resulted among the developing countries, while a vertical trade division with Japan as a pivot was promoted.

Taking into account the trade volumes of the six developing countries in ASPAC, the share of intra-regional imports compared to their total imports in 1965 amounted to only about 7.6 per cent while the share of intra-regional exports was 7.0 per cent. Even though the expansion of intra-regional trade did not show such a rapidly expanding trend, it is, nevertheless, expanding.

Two Groups of Members and their Tasks

In the light of the economic development level, it is preferable to divide the ASPAC countries into two groups: Group A composed of the developed countries, such as Japan, Australia and New Zealand and Group B composed of the developing countries. In order to undertake more easily and to expedite more quickly the integration, the latter can be again sub-grouped into two parts: the one group can be called the "ASA region", composed of the countries Thailand, Philippines, and Malaysia; and the other group may be called the "non-ASA region" composed of the countries South Korea, Taiwan and South Vietnam.

Group A is to develop toward a complete free trade area within a period of ten years with a moderate beginning of a limited free trade area based on the so-called "negative list system", trying, at the same time, to formulate a limited common market for selected articles agreed upon among the members. On the other hand, Group B is to establish a limited free trade area within ten years through a reciprocal approach between the two sub-regional limited free trade areas (the ASA region and non-ASA region) based on the so-called "positive list system". During the transit period of ten years the non-ASA region is to exert its efforts for the creation of a common market for the selected articles through the implementation of international specialisation and the promotion of joint venture projects. At the same time, the ASA region is to strive for the maintenance of price stabilisation of their traditional export items of primary industry. It is necessary for Group B to allow mutually preferential tariffs between the ASA and non-ASA regions, so that a possible exclusive development within Group B can be prevented.

In the meantime, the developed group is to give proper capital and technical assistance to the developing group as well as preferential tariffs to the primary products and light industrial products from the developing countries. In the future, Group B is to consider their granting of preferential treatments for capital goods and necessary raw materials originating from the countries of Group A. If any member of Group B accepts the clauses of the rights and obligations valid for the members of Group A, it

must become a full member of Group A. Through this process, an economic community of ASPAC as a whole will be realised.

Intra-regional Industrial Coordination

The economic integration in ASPAC requires the coordination of industries among the members. In other words, movement of production factors cannot be entirely left to the function of autonomous manipulation of the market economy. Apart from the dairy industry, Australia and New Zealand have some export-oriented industries, for which Japan's cooperation is requested. Moreover, Japan has to concede some factories of intermediary products to Australia and New Zealand, from which the raw materials are obtained.

New Zealand and Australia are bound to cooperate with earnest efforts in the building of their respective specialised industries lest they should collide on exports of certain industries due to the similar location of natural resources.

As possible joint venture projects in the region of Group A, there are, for instance, maritime development (shipbuilding and marine engine manufacturing), motor vehicle plants (with high local contents in vehicles assembled in New Zealand and Australia), heavy electrical industries (i.e., transformer) and petro-chemical industries. In the light industries, chemical and synthetic fibre products can be cited for the possible integrated project. Besides these, in the field of raw materials: coal, iron, crude oil mines, etc., are hopeful projects for joint venture.

On the other hand, in the region of Group B, neither fully free trade mechanism nor isolated construction of large-scale industries on the basis of only domestic demand will be desirable and feasible. Therefore, appropriate manipulation and interference by the government and coordination of economic policy among the members must be complemented. Prior to these nations being impelled to reinforce industrialisation by the sacrifice of their own people, regional economic integration must be initiated as soon as possible. If it is undertaken too late, difficulties will be increased.

Protective Measures Required

Implementation of economic integration on an equal basis without having any preparatory and protective measures will hardly be workable. It is, therefore, a prerequisite for the comparatively less developed countries to take some proper measures for newly emerging industries. For such industries, various protective measures are required. The following, inter alia, are of prior importance:

- In the operation of a free trade area, reduction of tariffs and abolishment of import restrictions must be implemented on reciprocal basis;
- in pursuit of establishing a common market for some selected articles, the same conditions should

be imposed on these commodities flowing into the partners' markets;

□ projects other than the integration projects should be allowed to take necessary protective measures for development during the transit period.

If there are fears that the growth of the members' own industries is hampered and equal benefits cannot be secured, any type of economic union is not feasible. For particular branches of industry and particular areas, which will be hampered by the initial activities of integration, a regional joint financing institution to compensate them or to finance them must be organised in the future. This institution can also help integration projects both in the finance and technical aspects.

Provided that a sub-regional integration is executed under the premise of establishing regional integration in wider areas, efforts for a whole area's integration should also be explored from the beginning. Since the developed countries, namely Japan, Australia and New Zealand, are economically rich, the success of integration of the remaining developing countries hinges on their attitudes. Therefore, economic integration of the three countries should not be directed to an exclusive rich nations' club.

Necessary Conclusion of a Formal Treaty

In order to develop ASPAC into an economic community eventually, it is necessary to conclude a treaty which binds the member countries. Necessary provisions on the type of integration, detailed action programmes, time schedules, and organisational facilities will be determined by the treaty. Organisa-

tional facilities like those of EEC are desirable. These should include a decision-making body (say, council of ministers), administrative body (say, standing committee similar to the Commission of EEC) whose members are acting independently from their own governments and other functional committees.

Since one of the main purposes of economic integration in the developing region is to accelerate economic development, it is accompanied by various measures for the promotion of intra-regional trade. In the initial stage, trade of primary and light industry products can be promoted. In any type of economic union, it is unavoidable to adopt some discriminatory schemes: for imports from the area outside, trade barriers are installed and, to the contrary, for intra-regional exchanges trade barriers are eliminated. In this case, attention must be paid not to make the situation worse than before for the outsiders.

According to the guidelines of GATT, economic integration is not allowed to purport means of external discrimination. Privileges applying to the framework of regional integration can only be permitted tacitly when the privileges can bring about expansion of trade among the members through mutual allowances and result in eventually contributing to the expansion of world trade. These privileges must be temporary. Accordingly, all preferential treatments to be executed are allowed within the period of achieving economic integration in the ASPAC region. Furthermore, such preferential treatments should not exclude the existing ones in the region and new ones in future to be agreed on internationally.

Farm Policy

Revival of Protectionist Ideas

by Helmut Stodieck, Hamburg

To stem the tide of imports and to relieve the burden on the American balance of payments is the declared aim of protectionist circles in the USA. To achieve their purpose they would like to use means which range from an import duty of 2 to 3 per cent to a drastic surcharge on imported goods amounting to 10 to 15 per cent and even to a wide range of import quotas. Up to now the American Government has, however, shown little inclination to adopt a policy along the lines advocated by the protectionists. If, on the other hand, the prevailing mood in both houses tends to favour import restrictions in whatever form, this is due not least to the fact that the American economy is primarily geared to the home market. With exports representing only some 4 per cent of total trade, the USA is less interested

than other countries in maintaining or even intensifying international division of labour. It is, however, doubtful, whether the supporters of a policy of import restrictions clearly realise the consequences, that an American protectionism would have for world trade. Apart from momentary advantages, which may conceivably accrue to the USA, such policy would be sure to lead to reciprocal action by the most important trading partners—action which could easily be reconciled with the principles of GATT.

But the revival of protectionist ideas is by no means confined to the USA. If, in particular, the industrial nations of West Europe loudly complain of the tendency towards isolationism in the USA, it is obviously only because they fear for the export of their