

Pacific Regionalism and Global Business Strategies
By Mr. Anand Panyarachun
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Vice Chancellor David Smith,
Co-Chairman Derek Burney,
Distinguished Participants,
Ladies and Gentlemen:

This year marks the tenth anniversary of the founding of the Thailand Development Research Institute. Over our first decade, the Canadian International Development Agency has been one of TDRI's principal supporters. CIDA's generous assistance has been instrumental in permitting us to achieve our current status as Thailand's premier independent policy research institute. As we now move towards financial independence, I wish to express our gratitude to Canada for a form of aid that we consider to have been imaginative, path-breaking and of great importance to Thailand.

We are also grateful for the linkages that this assistance has facilitated with Canadian policy researchers and advisors, as well as between our two business communities. The partnership that has developed between the John Deutsch Institute at Queen's University, and TDRI has provided Thailand with what will be a long-lasting "window" on the Canadian policy community. These same linkages will also provide Canada with an important window on Thailand, and through Thailand, many of the other emerging regional economies in East and South East Asia.

The distinguished audience and conference participants gathered here this evening attest to the strength of the relationships that have been developed under CIDA's assistance to TDRI and other regional research institutes. I am sure that the proceedings of the next two days will serve to broaden and further strengthen these linkages.

It is an honour and a privilege for me to address this Conference on Pacific Trade and Investment: Options for the 90's. I don't think that there has ever been a time in recent history when we could look to the future with such confidence. This is especially true for the countries of the Asia Pacific region, which has been widely acknowledged as the world's growth centre for the remainder of this century and beyond.

The experiences of recent years have created a momentum which should be sufficient to sustain regional growth well into the future. Moreover, the expanding economic linkages that have been a part of this process have created in the Asia Pacific, within a period of less than two decades, one of the world's a most integrated and dynamic region. It is curious, and to some quite remarkable, that these monumental developments have occurred without any conscious policy

direction by governments. Indeed, it seems that politics is having a difficult time catching up to economics, as leaders of the Asia Pacific are now grappling with the need to find an appropriate political order for the region in the post-cold-war era.

I would like to begin, however, by briefly reviewing recent economic developments in the Pacific region. I think we are now in general agreement that, for some time now, it has been primarily market forces that have discovered and exploited the dynamic commercial opportunities of the Asia Pacific. Accordingly, it is market forces that have accelerated economic development of Asia Pacific countries, increased their economic weight in world trade and investment, and driven them at a rapid pace towards greater economic integration. The governments of the successful countries in the region, especially those in Southeast Asia, have played a supportive role, first of all by following prudent macro-economic policies, and secondly by creating an institutional framework in which markets can operate freely and efficiently, with minimal distortionary influences from government regulation.

The recent growth experience of Asia Pacific countries has led the rest of the world. This is especially so for China, East and Southeast Asia. At current growth rates, these countries could become as large as Western Europe in eleven years. Fifteen years after that, they would be as large as NAFTA. If purchasing power parity adjustments were made, the time frame would be shorter still.

Similarly, the share of PECC countries in world trade increased from 35 per cent in 1980 to 42 per cent in 1992. Again, China, East and Southeast Asia accounted for much of the increase it should be noted as well that the region as a whole also expanded its trade with the rest of the world in a balanced manner. This is especially obvious if Japan's anomalous trade surplus situation is excluded from the calculations. In other words, the Pacific region remains open to the rest of the world.

It has been the acceleration of intra-Pacific trade, however, which has attracted the most attention in the 80s and 90s. The share of intra-Asia-Pacific trade in world totals increased from 19 per cent to 29 per cent between 1980 and 1991. Putting it another way, nearly 70 per cent of all Asia Pacific trade is with fellow Pacific nations. In dollar terms, intra-Asia-Pacific trade has already surpassed intra-EU trade.

The dynamism of the emerging Asia Pacific region is even more remarkable, at least to some, when it is recognized that it has been basically market-driven, and achieved in the relative absence of government direction. The World Bank, for instance, explains the phenomenal economic successes of China, East and Southeast Asia as being due mainly to their pragmatic and "market friendly policies". In particular, macro-economic stability, investment in people, and outward orientation, were the common attributes of their economic success. Deliberate inter-governmental efforts to promote regional economic integration are very low in the list of explanations of what has happened. As I have already mentioned, efforts

at formalizing economic integration in ASEAN, including the recent implementation of the ASEAN Free Trade Area (AFTA), have lagged far behind economic forces generated by the market. The success of my own country, Thailand, has been cited as having been attained without “visionary” leadership

A strategically important question, therefore, can be posed at this point. Past economic successes of Asia Pacific have clearly been market-driven, export-oriented and individual-country-based, rather than the result of concerted international or regional coordination. For the future, therefore, should we not simply pursue these same policies which have worked so well in the past? Why not take the advice of some APEC members that APEC remains as simply a consultative body? A grand trade liberalization plan for APEC, according to this view, is unnecessary, and maybe even inappropriate, if it were to put at risk or even supersede the new multilateral trade framework recently established at Marrakesh. While regional trade liberalization on the scale of that being undertaken in AFTA might be appropriate, grander schemes for all of APEC, for instance, might be potentially dangerous.

Time consensus that emerges among Asia Pacific leaders on this crucial issue will largely define the Asia Pacific region for the rest of this century, and well into the next. I am inclined to disagree with these more cautious views about the future role of APEC. I would urge our leaders to be bolder in hastening the process of regional economic integration in the Asia Pacific. “Vision” is not really the issue here anymore, since market forces and past successes have already shown the way. I think, therefore, that consideration should be given to finding ways to achieve broader region-wide liberalization.

Unlike past GATT trade rounds, the developing countries in APEC participated actively in the most recent Uruguay Round of trade talks. In the light of our successes, I would claim that we now have the confidence and the ability to push APEC into the fore-front of trade liberalization. By doing so, APEC will lead, rather than follow, the process of world trade liberalization.

Notwithstanding government decisions, market forces will continue to be the primary driving forces of Asia Pacific economic integration. The question is really whether governments will hasten the process and assist market forces to accelerate this trend, or will remain on the sidelines.

While a “grand design” to liberalize trade and investment would have the greatest impact, other less conspicuous measures could have considerable effects on regional economic integration. As businessmen, we all understand the importance of a stable and predictable economic environment. Thus, region-wide attempts to ensure predictability, transparency and consistency of commercial and tariff regulations would contribute towards promoting intra-regional trade and investment. Greater coordination of and exchange of information about macro-economic policies would also be helpful. Greater integration of newly emerging

economies of Indochina would make a significant contribution.

Let me now turn to the implications of Asia Pacific economic integration on global business strategies. Globalization is a fashionable word that means many things to many people. The Canadian communications guru, Marshall McLuhan, coined the phrase “global village” almost 30 years ago, to refer to the ways in which modern communications and information technology would shrink the planet and eliminate many existing barriers to international transactions of all types. The recent successes of the East and Southeast Asian economies is one indication of the implications of the forces which he was describing.

Globalization implies a radically different perspective on the way that firms conduct business. The focus is on a “global market place” rather than on segmented national markets. The technologies of telecommunications and transportation, combined with many financial innovations, have made geographical differences a minor inconvenience in global interactions-be they for commercial, social, or other reasons. Realizing that it would be only self-defeating and counter-productive to do otherwise, forward-looking governments are acceding to the forces of globalization by liberalizing their countries’ trade practices.

Globalization and technical progress often mean also that mass production gives way to low-cost customization, allowing for a proliferation of high-tech niche industries. While product innovations will take place at an increasingly rapid pace, imitators will also be able to “catch-up” and compete for your market more quickly. In these circumstances, firms need to be dynamic and flexible.

Production processes are also becoming increasingly globalized. Functions such as design, engineering, component production, and assembly will be able to be located according to relevant cost factors for each operation. These will not necessarily be in the same place.

These are some of the implications of “globalization”. From even this brief review, it is apparent that some of these exotic concepts do not apply so readily to the circumstances of some of the developing countries of the Asia Pacific. The rapidly growing incomes and increasing liberalization of these economies -- and I think here particularly of China and Vietnam -- will mean an expanding market for mass-consumption products. Standardized products imported into these countries, or produced locally, often by branches of multi-nationals will still be the predominant pattern of international economic inter-action with many developing APEC economies. Global markets notwithstanding, the provinces of China are, to all intents, separate and distinct.

The extraction of natural resources and energy exploitation are other “traditional” activities of multi-nationals which will be have continued importance in the future. There is nothing “global” -- at least in the more exotic sense of the word -- about these activities, which require straight-forward negotiations for market and

investment access. Political stability, trust, and good relations among States provide the necessary back-drop to the establishment of such commercial ties. The post-cold-war era provides the best opportunity for countries in the Asia Pacific to usher in a new order that builds mutual trust and confidence among nations.

The concept of “globalization” seems more applicable to the emerging class of affluent, sophisticated, urban East and Southeast Asians. Demand will grow very rapidly in this market for differentiated “high tech” products, for international communications services, and for new technologies to deal with pressing urban issues such as transport and environmental management. Many new markets are emerging here, and there will be intense competition to participate.

On the production side, many of these countries now have the economic sophistication to move “up the ladder” of comparative advantage, to compete in the production of more capital and skill-intensive products, and even to participate in product innovation, design and marketing. In the case of countries like Thailand, this is now critical in sustaining our recent economic success. As business and investment continue to migrate in response to new opportunities and to changing comparative advantage, it is interesting to observe that entrepreneurs and business groups in countries such as Thailand, Malaysia and Indonesia are now playing a role in the transfer of investment and new technologies to China and Indochina. These investors are now sometimes competing directly with multinational arms of Japanese, North American and European firms.

Past patterns of vertically integrated production relationships seem now to be giving way to more equal business partnerships, characterized by horizontal interdependence. In other words, economic convergence between developed countries and the NIEs and emerging NIEs will mean that time latter two groups represent distinct sets of investment and market opportunities from the economies of China and Indochina.

In addition, I also observe that the rapidly expanding investment needs, in both the private and public sectors of developing APEC economies, will generate enormous opportunities for trade, technology transfer and financing services. By their nature, financial services will be those that are most characteristically “global” in the sense I discussed earlier. I foresee that the financial services sector, which has already grown significantly in recent years will continue to be an area of expanding opportunities in the APEC region. Capital mobility -- especially in the Asia Pacific -- is linking regional financial markets in an unprecedented manner. Among other things, this is presenting major challenges to governments to reform their financial and tax systems. Increasing financial integration will also have serious implications for the coordination of macro-economic policies in the Asia Pacific.

I would like to conclude by simply under-scoring the fact that trade and investment opportunities in the Asia Pacific region will continue to expand rapidly. The trend towards even greater intra-regional trade and investment will lead to further

economic integration, with or without active government direction. There is much that governments can do to facilitate and hasten this process, however, I also believe that, in view of the region's dynamism and economic size, its leaders should take further initiatives, at the unilateral and regional levels, in pursuing economic liberalization. This would further enhance the region's vast economic potential, to the benefit of the citizens of each of the region's economies.

In regard to business strategies, it is clear that a variety of distinct markets and opportunities exist -- from "traditional" trade and investment possibilities, to those which need to be looked at from a "global" perspective. There will also be intense competition to exploit these opportunities. However, the returns will be equally rewarding.

I wish all of you the very best in your deliberations on these and other important issues over the next two days. I hope that the fruits of this meeting will lead to further collaboration among you and other colleagues from the research, policy, and business communities in the countries of the Asia Pacific.

Thank you.