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A Note On Forming A New Trading Bloc For Asia

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INTRODUCTION

During last three decades, Asia has become one of the world's most important economic regions with the creation of trading blocs in North America and Europe. Policy advisers are beginning to ask whether it is time for Asia to form such a blocs as well.

Trade has been the undisputed engine of growth for virtually all the post war Asian economies. The annual growth rate of Korean exports has remained in the double digits reaching a phenomenal 34 percent in the 1960s and 23 percent in the 1970s. In the 1980s when world trade grew more slowly than in the previous two decades China, Korea, Malaysia, Taiwan, Thailand saw their exports growth by more than 10 percent annually (World Bank 1995).

In 1967, six Asian countries made the first attempt towards regional integration, forming the association of Asian Nations (ASEAN). The goal of six countries Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand was to promote intra-regional trade. As a result proportion of the total trade among the Asian grew from 3.2 percent in 1980 to 4 percent in 1990 (Word Bank 1995).

Currently, North America Free Trade Agreement (NAFTA), the continuous widening and deeping of the European Union (EU), previously it was (EC), and the protracted negotiations at the Uruguay Round have rekindled interest in regional groupings in Asia. On January 28, 1992, the ASEAN countries signed a framework agreement to create the ASEAN Free Trade Area (AFTA) by 2006. Economists and policy makers/advisors are now beginning to ponder over question : whether Asia too, should form a regionwise trading bloc of its own.

It is to be reported that both economists and politicians are against a discriminatory trading bloc in Asia. Historically, Asia has benefited greatly from an open world trading system. Despite a redirection of trade towards itself in recent years, the region still ships two-third of its exports to the rest of the world(World Bank 1995). Almost without exception, studies of the newly industrialising economies (NIES) draw a direct connection between growth in exports and growth in GDP. China, Indonesia, Malaysia and Thailand have been repeating the experience of NIES.

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AN ALTERNATIVE ROLE FROM REGIONALISM

An approach that encourages regionwise trade liberalisation on non-discriminatory basis may still hold some promise in the long run. This approach could serve as a stepping stone for Japan and China to assume a leadership role in promoting global free trade similar to that played by England in the 19th century and the USA in the post war era.

The countries in the region are at very different levels of development, Japan, with a per capita income of US $ 23,800 in 1990 is the richest in per capita income, and in the remaining countries it ranges from a low US $ 327 in China to US $ 11,490 in Hongkong with the NIES enjoying significantly higher levels than the ASEAN. Singapore and Hongkong have higher per capita income than Korea and Taiwan, while Malaysia and Thailand have the highest income of the ASEAN countries. Unfortunately Nepal, Bangladesh and others are still providing worse picture which may be beyond of imagination(Word Bank 1995).

Being a richest one, the Japanese economy is by far the largest. In 1990 its share of world GDP was 13.2 percent, within Asia, its share was approximately 70 percent. Without Japan, Asia's share of world GDP drops from one fifth to one twentieth. China lags behind Japan but is rapidly becoming another major player in the region. Using GDP figures based on purchasing power parity for 1990, the WB puts China's share of world GDP at 6 percent below Japan's 7.6 percent but above Germany's 4.3 percent(Word Bank 1995).

When we start to talk about Nepal, it is extremely essential to know what's happening in South Asia especially in SAARC region. As far as South Asia is concerned, its economic picture is dismal and gloomy. There are several justifications put forward by economists in favour of stronger regional economic cooperation is South Asia including the historical cultural and socio-economic commonalties, geographical and ecological consanguinity and trade expansion as well as joint investment related benefits. Moreover, some experts claim that the common civilization heritage, integrated nature of ecological and natural resources system, and common ethnic cultural and socio-economic features provide a basis for regional cooperation in South Asia.

It was found that important differences do exit among South Asian countries e.g. while trade volume of Sri Lanka is about 80 percent of its GDP, it is only 17 percent in the case of India. In this connection it is worthy to note that trade deficit in 1991 was 16 percent of GDP in Nepal, 15 percent of GDP in Sri Lanka, 8 percent of GDP in Bangladesh, 5 percent of GDP in Pakistan and less than 2 percent of GDP in India(Word Bank 1995). Obvisouly it is known that while balancing of trade in inter-regional trade for each partner may neither be feasible nor desirable, it is also true that the significance of trade deficit varies substantially among the member countries Meanwhile, the shares of value added in industry and manufacturing in the GDP vary from 28 percent and 19 in the case of India and to 14 percent and 5 percent in the case of Nepal, respectively(Word Bank 1995).

SOUTH ASIAN STAND

SAARC is sometimes known as a *poor men's club* and it is argued that the lack of capital among SAARC countries poses a serious problem for any regional cooperation arrangement. The South Asian countries depend on industrialised donor countries for capital goods due to lack of long term capital because such goods are normally traded on long term credit. Hence, even those South Asian countries that are capable of producing these goods are not able to provide long term credit facilities to cover the credit needs of purchasers. Countries of South Asia rely heavily on foreign capital to overcome the resource and trade gaps, and foreign capital is usually tied to imports from donors or their allies. There is also the fear of economic domination by India among the smaller countries in the region because of various reasons.

For Nepal, movements of goods to and from India vis-a-vis those with respect to their SAARC countries are completely different matters. Even the nearest place in Bangladesh seems many thousand miles further away than a much more distant place in South India. Similar problems exit with other SAARC countries in more or less degree. Until the South Asian countries are not intergrated by efficient transport and transit system any other attempt for stronger economic integration will have only marginal impact.

It would be an advantage to have closer economic ties with South East Asian countries and promote optimal utilisation of the available resources in the region for the benefits of the people in member countries of South East Asia and as China and India alone have half of the world's population, it clearly shows the potentiality of market. Joint investments on bilateral or multilateral basis to exploit the immense hydropower potential of Nepal and the natural resources in Bangladesh and Pakistan should be promoted.

For Nepal tourism sector might be an additional asset and intra-regional tourism promotion in this respect may prove to be one of the most effective means of fostering closer economic ties among the SAARC members. Similarly, for Nepal it would be an advantage to adopt flexible exchange rate with respect to India in view of its large and increasing trade deficit which is currently at the level of about 8 percent of GDP of the country and more than 50 percent of country's total trade deficit (NPC 1992). On the other hand country should improve the investment in human development infrastructure and technological research. Without adequate investment in these areas no accelerated development is achieved.

In addition, greater economic cooperation requires a lot of patience, good understanding among member states and political will. The dismantling of trade barriers in intra-regional trade would provide an opportunity for the business communities of the members states to take an comparative advantage of production, trade, technology, and resources. Moreover, the enlargement of market may not automatically provide opportunities of proper utilisation of economies of scale in smaller and relatively less developed member states because of huge investment requirement. Therefore, to be benefited by SAPTA the member states like Nepal will have to adopt an outward looking orientation so that joint investments can be promoted to harness the variety of natural resources possessed by the region.

CONTENTATION OF ASIAN TRADING BLOC

In General, trade regimes in Asia can be characterised as open, though the level of protection varies widely across countries. In terms of trade to GDP ratio, the region's smaller economies are very open. Exports and imports as percentage of GDP are high for all countries except China and Japan. Singapore has so far the highest level which is more than 100 percent. Hongkong and Singapore are next best examples of free trading economies, with no quantitative restrictions and low tariffs. Korea Malaysia, the Philippines and Thailand all have eliminated their quantitative restrictions on manufactures in the 1980. Though China has liberalised its import regime considerably since the early in 1980, it is still in the place among the most protected countries of the region (Kim et al. 1993).

The openness of Japanese trade regime has been a matter of some controversy. In terms of formal barriers, Japan's trade regime is as open as those of other industrial countries. Yet Japan's import to GDP ratio is well below those of other countries of comparable size and with similar income level. This fact has led some economists to argue that Japan's markets are protected by informal trade barriers and are thus relatively closed to outsiders.

Now, economists are arguing that Asian trading bolc depends on various factors: the effects on real income in member countries and the effects on the income resulting from the bloc's impact on the openness of the trading system because the second factor is the more significant for large region such as Asia. Therefore, an Asian bloc must be evaluated primarily in terms of its impact on the global trading system. In this regard two supporting arguments can be forwarded :

- First, an Asian bloc may serve as a deterrent to the formation of closed trading blocs around the world. According to this argument, the world is already dividing into blocs. To ensure that they do not become overly protective of and limit access to their own markets, Asia should be united and be in a position to retaliate.

- Second, the formation of regional blocs could facilitate future rounds of the General Agreement on Tariffs and Trade (GATT). One reason for the success of past GATT rounds was that the United States of America could deal with the EC as a single unit. This fact has led many to conclude that a small number of blocs could make future GATT negotiations more manageable. Such blocs would also assume responsibility for many intra-regional trade issues, so that the GATT process could be used primarily to resolve problems between regional trading areas and to bring down barriers swiftly and efficiently. Thus EU, an Asian bloc and an extended NAFTA could speed up the opening of global markets.

CONCLU SION

Both of these arguments have merit but are highly contentious. Some critics note that blocs enjoy more market power than individual countries, so that, in principle, nothing prevents blocs from raising rather than lowering trade barriers. As a deterrent, then, blocs function only as long as they do not raise barriers or else, once trade war breaks out, retaliatory actions are likely to be more severe. In addition critics note that small numbers do not necessarily mean faster progress in trade talks.

Some economist argue that there are at least three interrelated factors working against a region wide free trade area (FTA). First, the major players in the region have historically been political rivals. Though time, trade and intra-regional investments have gone a long way towards bringing these former economies closer, the situation in East and South Asia differ fundamentally from, for instance, Western Europe after World War II.

Second, Asian countries have different levels of protection and are at very different stages of development. Obviously the distribution of gains from an FTA would be uneven.

Third, Asia comprises a large number of countries, making negotiations for an FTA a daunting task. The external factors at work against an Asian FTA are even more formidable.

A discriminatory bloc is not a very feasible position. But there is another regional approach centred around GATT style non discriminatory liberalisation. Using this approach, Asian countries could come together at a common forum. Several arguments can be offered in favour of this approach. Trade liberalisation would be no trade diversion. This type of bloc would not face a serious challenge from the USA, for non discriminatory liberalisation would also improve the USA access to Asian markets and liberalistion would take place simultaneously in all major countries of the region so that short run adjustment cost could be minimized.

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BOOK REVIEW

Bruno, Michael and Boris Pleskovic (1997) *Annual World Bank Conference on Development Economics 1996*, (eds.), World Bank, Washington D.C., pp 360, price US $ 30.

The articles in this book are initialy presented as papers at Eighth Annual World Bank Conference on Development Economics, organised by World Bank held in Washington D.C. in April 1996, which has focused on the main theme: The Appropriate Role of Government in Economic Development.

Growth Theory, since the Harrod, Domar model, initially conceived as definition of conditions for equillibrium, was transformed into a set of growth instruments, the capital output ratio being reinterpreted as production and investment function. Linear programming, operation research and activity analysis were developed during the Second World War. Eastern European countries experienced government control in economic life. Planned economy approaches in non-communist countries specially in Holland, France and Norway adopted quantitative economic policies to formulate consistency and optimisation models for national economics. Authors like Timbergen, Frisch, Rosentein-Rodan, Nurkse, Lewis, Perbish and Myrdal drew special attention to the fact that model assumptions on equillibrium and perfect competition are not fulfilled in early stages of development and emphasised the importance of groups-specific distribution aspects, the dynamics of accumulation of income and power, as well as regional agglomeration and stagnation tendencies.

In this context, therse was a broad consensus among development theorists and politicians that it was impossible to achieve rapid growth by means of laissez-faire. The market mechanism was supposed to be unable to exercise its signalling function under the given conditions; it only functions imperfectly or with considerable time lags because of socio-cultural patterns of behaviour and inadequate transport, communication and information system. In view of the prevailing power, ownership and distribution relationships, market forces were considered to be incapable of initiating modernisation processes against the resistance of traditional social structure. Thus the predominant argument was put forward in terms of public sector paving the way to success. State investment was given the task of breaking up structural disequilibria, providing in advance infrastructure services and building up economic sectors considered to be strategically important. State was empowered to be active to ensure in optimum allocation of economic resources as private sector is unable to take on the business risk because of lack of capital, technical know-how, knowledge of international markets or bargaining power or else in areas where the domestic distribution of income had to be improved and private monopolies were to be prevented

This model worked for a long time to foster a state monopoly but the hope and concern of closing the substantial gap between the developing and developed countries resulted in vain along with the thirty years journey of development efforts. The Republic of Korea, whose percapita income in 1960 was the same as of India, less than US $ 500 in 1995 dollars, is now a member of the OECD. The increasing economic and political-social complexity called for a transition from direct governmental control and allocation mechanisms to indirect incentive system and gave the successes to most of the East Asian economies which demonstrate the effectiveness of the market based strategies.

In this perspcetive, the book under review focuses on four themes which are of the current development issues: Banking Failures as Crisis or Opportunities for Reforms which analysis banking and financial crisis in developing countries and extends the opinion that source of the causes are same in industrial and developing countries like rising interest rates, increased uncertainty, deteriorating balance sheets, and bank panics. But some factors differ in ways that have important policy implications for developing countries. In industrial countries the monetary authorities can promote recovery through expansionary monetary policies but in developing countries the institutional features of the financial system i.e. high and variable inflation, liabilities denominated in foreign currency, make promoting much more difficult. The author Frederick S. Mishkin argues that in developing countries monetary policies ought to be restricted to promoting low inflation and restoring confidence in the economy, while Caprio and Klingebiel conclude, policy maker must adopt regulatory framework to respond various shocks by banks.

Reducing Poverty: Targeted Programmes and Rural Finance analyses the linear path reaching the poor. Exploring the topic of poverty, Timothy Besley states that inspite of the fact that long term economic growth reduces the poverty, governments and donar agencies must ensure that in shorter term all people in developing countries have means of achieving basic subsistence. Besley concludes that better targeted interventions and ways of delivering resources to the poor that defy or change the governing political mechanism should be adopted as an assault on poverty.

In the second article. Rural Finance in Africa: Institutional Development and Access for the Poor, Ernest Aryeetey analyses the rural finance in Africa with a need of institutional development so that poors have easy access to credits and notes that liberalising financial markets will not of itself improve credit delivery to poors. Therefore, Aryeetey recommends a three-tiered system in which banks lend semi-formal institutions, these would then lend to cooperatives and other informal lenders, which then link up with existing local institutions that lack resources and have comparative advantage in reaching the poor cost effectively.

Legal Systems and Economic Development puts forward the confronting ideas of facilitating economic development by legal system with argument that the most effective law in support of the economy is law that responds to the realities of business practice on the one hand, and informal contract enforcement based on personal trust and reputation to be more effective in sustaining development on the other. While Robert D. Cotter in his article, The Rule of State Law and the Rule-of-Law State, notes that legal system supports the modern economy by ensuring the firms to advance resources to others by lowering the risk, helping firms to create incentives for works, and helping to ensure competition while Avner Greif in his article, Contracting, Enforcement and Efficiency, notes that policies aimed at enhancing contract enforcement must be based on the analysis of the interrelations between the economic, social, cultural, and political factors particular to that economy.

Labour and Environmental Standards in International Trade analyses the divergent national labour standards vis-a-vis international labour standards and shows concern about natural resources use and the environment on the one hand and about the trade effects of environmental policies on the other. Alan B. Krueger exposes the hypocrisy of modern world in disapproving child labour in use and mounting disagreement when it come to what to do about it and giving silent consent to yield it in disguised protectionism. Analysing environmental standards and international trade, Kym Anderson concludes that the direct effect on developing countries of a closer link between trade and environmental issues is likely to be small and may even be positive for some through improved terms of trade, or compensatory transfer mechanism, yet care should be taken to avoid inappropriate uses of trade measures to promote environmental objectives.

Though varied in nature, all the articles illuminate the central themes of the conference: the appropriate role of government in economic development which is changing, and there is a central role for government policy in each area addressed i.e. banking, poverty, legal system, and labour and environmental standards in international trade, that is critical to development. Further more the efforts have been made to explore the role of institutions from a variety of perspective.

In his address Joseph E. Stiglitz focuses on the appropriate role of government in economic development. He advocates a balanced perspective in assessing the role of government in modern economy. Inspite of indulging in fruitless discussion about the superiority of private or public sector over public or private sector, policy makers in charge of running the economy must identify areas where the governments and private enterprises can most effectively complement each other through economic activities. In this context Stiglitz suggests that in a dynamic role of government it can fundamentally alter the economic environment by performing six important roles in key areas like: education by establishing educational infrastructure; promoting technology; supporting the financial sector deploying scare capital resources in the most efficient way; investing in infrastructure including institution; preventing environmental degradation; and creating and maintaining a social safety net thus enhancing social welfare. Stiglitz acknowledges that the market failures are more prevalent in developing countries than in industrial countries, and public sector is less effective to correct these market failures. Thus a balance must be struck by assessing the appropriate role of government with recognition of both the need for and the limitations of government action. He cites East Asian economies which provide a good example of how governments can play a positive role and make a difference.

In all countries that have managed to put into practice a successful development policy, the decisive causes proved to be motivational factors, i.e. the will and ability of all people involved, including a political leadership striving resolutely and continuously towards the goal of development. In the successful countries of East and South-East Asia, the will to achieve tangible results rapidly was reflected in an institutional environment tailored to the realisation of programmes in which politicians and administrators with decision making powers dominated. Practice taught that development could not be reduced to the formulation of programmes. Empirical studies show that the role of cultural factors and their influence on value systems and pattern of behaviours have very strong stinging effect in allocation of resources. If these issues have been also deliberated in the conference, it would have been much more relevant for development planners of developing countries. However, inspite of this lacuna the book is really illuminating and topics of the book are all priority issues of developing countries. Those interested in development problems of developing countries must go through it.

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