

Pacific Regionalism and Global Business Strategies

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The conference on "Pacific Trade and Industrialization: Options for the 90s," held from June 6 to 8, 1994 in Toronto, Canada, highlighted the profound changes currently taking place in world patterns of trade and investment. Focusing on a shift in the economic center of gravity—from the Atlantic to East Asia and Southeast Asia—and investors' willingness to trade and invest across national borders, the papers and discussions at this conference were of fundamental importance to economists, business people and government policymakers. The conference was jointly organized by TDRI, the John Deutsch Institute at Queen's University, and the Centre for International Business at the University of Toronto. TDRI Chairman, Khun Anand Panyarachun, delivered the keynote address, reprinted below.

Vice Chancellor David Smith, Distinguished Participants, Ladies and Gentlemen:

This year marks the tenth anniversary of the founding of the Thailand Development Research Institute (TDRI). Over our first decade, the Canadian International Development Agency (CIDA) has been one of TDRI's principal supporters. CIDA's generous assistance has been instrumental in helping us to achieve our current status as Thailand's premier independent policy research institute. As we now move toward 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 between Thai and 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 Southeast Asia.

The distinguished audience and conference participants gathered here this evening attest to the strength of the relationships that have 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 further strengthen and broaden these linkages.

Ladies and Gentlemen:

It is an honor and a privilege for me to address this conference on "Pacific Trade and Investment: Options for the 90s." I don't think 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 center for the remainder of this century and beyond.

The accomplishments of recent years have created a momentum which should be sufficient to sustain regional growth well into the upcoming decades. Moreover, expanding economic linkages have made the Asia Pacific, within a period of less than two decades, one of the world's most integrated and dynamic economic regions. It is curious, and to some quite remarkable, that these monumental developments have occurred without any conscious governmental policy direction. Indeed, it seems that politics is having a difficult time catching up with economics, as leaders of the Asia Pacific countries are now grappling with

the need to find an appropriate political order in the post-cold-war era.

I would like to begin 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 Asia Pacific's dynamic commercial opportunities. Accordingly, it is market forces that have accelerated the economic development of the Asia Pacific countries, increased their economic weight in world trade and investment, and driven them at a rapid pace toward greater economic integration. The governments of the region's rapidly industrializing countries, especially those in Southeast Asia, have played a supportive role, first of all by following prudent macroeconomic policies, and secondly by creating an institutional framework in which markets can operate freely and efficiently, with minimal distortionary influences from government regulation.

Industrializing Asia Pacific countries have determined current economic trends for the rest of the world. This is especially true for China, East and Southeast Asia. At current growth rates, these countries' economies could become in the near future as large as those of western European countries. Fifteen years on, their regional economic grouping could be as large as NAFTA. If purchasing power parity adjustments were made, the time frame could be shorter still.

Similarly, the Pacific Economic Cooperation Council (PECC) countries' share in world trade increased from 35 percent in 1980 to 42 percent in 1992. China, East and Southeast Asia again accounted for much of the increase. It should be noted 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.

The acceleration of intra-Pacific trade, however, has attracted the most attention in the 1980s and 1990s. The share of intra-Asia-Pacific trade in world totals increased from 19 percent to 29 percent between 1980 and 1991. Putting it another way, nearly 70 percent of all Asia Pacific trade is with fellow Pacific nations. In dollar terms, intra-Asia-Pacific trade has already surpassed intra-European Union 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 its achievements have occurred in the absence of government direction. The World Bank, for instance, credits the phenomenal economic successes of China, East and Southeast Asia mainly to their pragmatic and "market friendly policies." In particular, macroeconomic stability, investment in people, and outward orientation, are perceived as these countries' common attributes. Deliberate inter-governmental efforts to promote regional economic integration are very low on the lists of explanations of what has happened. 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 often been cited as having been attained without "visionary" leadership.

A strategically important question can be posed at this point. If the past economic successes of the Asia Pacific countries have been market-driven, export-oriented and individual-country-based, rather than the results of concerted international or regional coordination, should we not simply continue to pursue this same course of action which has worked so well in the past? Why not take the advice of some Asia Pacific Economic Community (APEC) members who would like to see APEC remain a consultative body? According to this view, a grand trade liberalization plan for APEC would be 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.

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

to achieve broader regional liberalization.

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

Notwithstanding government decisions, market factors will continue to be the primary driving force of Asia Pacific economic integration. The question is really whether governments will hasten the process and assist market forces to accelerate this trend, or whether they 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/women, 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 toward promoting intra-regional trade and investment. Greater coordination and exchange of information about macroeconomic policies would also be helpful. And greater integration of Indochina's newly emerging economies 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 are shrinking the planet and eliminating many barriers to international transactions. The recent economic successes of the East and Southeast Asian countries are examples of what can happen through the forces which McLuhan described.

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. Forward-looking governments are acceding to the forces of globalization by liberalizing their countries' trade practices, since they realize that it would be only self-defeating and counter-productive to do otherwise.

Globalization and technical progress often also mean 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" more quickly and offer stiffer competition. In these circumstances, firms need to be dynamic and flexible.

Production processes are also becoming increasingly globalized. Design, engineering, components production, and assembly are being increasingly located according to the relevant cost factors for each operation, and may not necessarily be in the same region, country or even on the same continent.

From even this brief review, it is also apparent that exotic product and marketing concepts do not apply so readily to the circumstances of some of the Asia Pacific countries. Their rapidly growing incomes and increasing economic liberalization—and I think here particularly of China and Vietnam—will mean an expanding market for mass consumption products. The importation of standardized products, or their local production, often by branches of multinationals will still be the predominant pattern of international economic interaction 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" multinational company activities which will be of continued importance in the future. There is nothing "global"—at least in the more exotic sense of the word—about these activities; they require straightforward negotiations for market and investment access. Political stability, trust, and good relations among states provide the necessary

backdrop to the establishment of such commercial ties. The current post-cold-war era provides the best opportunities for Asia Pacific countries 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 Asian peoples. 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 in this region, and there will be intense competition.

On the production side, many Asia Pacific 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, development in these areas now becomes critical to sustain 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 greater role in the transfer of investment and new technologies to China and Indochina. These investors are now sometimes directly competing with multinational arms of Japanese, North American and European firms.

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

In addition, I have observed that the rapidly expanding investment needs in APEC's private and public economic sectors will generate enormous opportunities for trade, technology transfer and financial services. I foresee that the financial services sector, which has already grown significantly in recent years and which now takes a global perspective, will continue to provide expanding opportunities in the APEC region. Capital mobility—especially in the Asia Pacific—is now 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 macroeconomic policies in the Asia Pacific region.

Ladies and Gentlemen:

I would like to conclude by underscoring the fact that trade and investment opportunities in the Asia Pacific region will continue to rapidly expand. The trend toward even greater intra-regional trade and investment will lead to further economic integration, with or without active government direction. There is, however, much that governments can do to facilitate and hasten this process. I believe that, in view of the region's dynamism and economic power, its leaders should take further initiatives, at the unilateral and regional levels, to pursue economic liberalization. This would further enhance the region's vast economic potential, to the ultimate benefit of its citizens.

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 be intense competition to exploit these opportunities. But the returns will be equally rewarding.

I wish all of you the very best in your deliberations of 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 Asia Pacific countries.

Thank you.

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