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ESTABLISHMENT OF AN ESCAP COUNCIL FOR REGIONAL  
 ECONOMIC CO-OPERATION

Note by the secretariat

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I. PERSPECTIVE; THE VIEWS OF COUNTRIES; LESSONS  
FROM SUBREGIONAL BODIES

A. Mandate

1. At its forty-sixth session held in June 1990, the Commission discussed the secretariat's proposal to establish an ESCAP council for regional economic co-operation. The proceedings were described by the chairman in his summary statement as follows:

The Commission had a lively debate on the theme topic and the documentation prepared by the secretariat. It appreciated the substantive analysis contained in the documents. It broadly agreed on the need for enhanced regional co-operation efforts in the region through, inter alia, expanded intraregional trade and investment flows, and on the need to facilitate economic restructuring to sustain the process of growth and modernization in the developing economies of the region. It was, however, felt that the institutional arrangements for achieving such co-operation needed to be explored in greater detail. In particular, noting the various views expressed on the proposed ESCAP council for regional economic co-operation, the Commission felt the need for exploring and elaborating the idea, in all its facets, in greater detail.

In view of the above, the Commission requested the Executive Secretary to take measures to elaborate the objectives and terms of reference of the proposed ESCAP council for regional economic co-operation in the light of the discussions which had taken place on the issue at the forty-sixth session. The Commission requested the Executive Secretary to consult further with the members and associate members with a view to giving additional impetus to regional co-operation based on expanded intraregional trade and investment flows and to promoting continuing economic restructuring in the region.<sup>1/</sup>

2. The present report is submitted in response to the Commission's request to the Executive Secretary. In complying with the request, the secretariat consulted 13 countries as well as three subregional bodies and a

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<sup>1/</sup> Report of the Commission on its forty-sixth session (Official Records of the Economic and Social Council, 1990, Supplement No. 11) (E/1990/40-E/ESCAP/748), paras. 193-194.

number of prominent academic researchers and analysts in the region. It also took into account the literature on economic co-operation and the ideas and views that had been advanced on the subject by various other sources.

3. The report is organized as follows. The first section reports the views of the countries on the proposal to establish an ESCAP council and appraises these in the light of the principle of regional economic co-operation and the realities of the external economic environment in the Asian and Pacific region. The second section presents a work programme that should command the attention and energies of a council, and is at the same time broadly consistent with the views of the countries. The third section outlines the institutional arrangement for the council to function efficiently, an arrangement which also broadly satisfies the constraints laid down by the countries. The last section summarizes the elaborations on the subject and presents some conclusions.

#### B. The theory of economic co-operation

4. In elaborating the objectives and terms of reference of and institutional framework for a council, it is necessary to keep in mind the opportunities for regional economic co-operation offered by the external economic environment and the compulsions for restructuring generated in domestic economies on the one hand, and the attitudes and views on regional economic co-operation of the countries which constitute the prospective members of any regional economic co-operation scheme, on the other. The opportunities afforded by the external economic environment and the pressure for domestic restructuring have been detailed in other documents and publications and will not be repeated here.<sup>2/</sup> The views and attitudes of the countries were indicated during the consultations.

5. The principle of regional economic co-operation springs from the theory of customs union. The theory is straightforward and can be summarized in the broadest terms as follows: customs union could result in either trade creation or trade diversion, or both. Trade creation resulted when, as a consequence of union, new trade was created among trading partners inside and outside the union. Trade diversion resulted when, as an outcome of

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<sup>2/</sup> ESCAP, "Challenges and opportunities for restructuring the developing ESCAP economies in the 1990s, with special reference to regional economic co-operation", background paper prepared for the forty-sixth session of the Commission, June 1990; ibid., Restructuring the Developing Economies of Asia and the Pacific in the 1990s (ST/ESCAP/879).

union, some or all of the trade was diverted away from efficient partners outside the union to less efficient partners inside it. When trade creation exceeded trade diversion absolutely and relatively, the welfare of the members of the union, their partners outside the union and the world as a whole improved. When net trade diversion occurred, the welfare of the members of the union improved but that of their partners declined. The welfare of the world taken as a whole would suffer.

6. Clearly one's reaction towards regional economic co-operation would have to be conditioned by the viewpoint adopted. If a purely regionally focused perspective were adopted, regional economic co-operation would be favoured, whether it resulted in net trade creation or net trade diversion. If a global view were to be taken, regional economic co-operation would be favoured if it resulted in net trade creation would be rejected if it resulted in net trade diversion.

7. The choice of viewpoint cannot be made on the basis of logical considerations: it can be made only on practical grounds.

8. Reference to complementarities, competitiveness and comparative advantage sheds additional light on the issue. When economies are complementary, trade between them can expand without obstruction, but such expansion can result in the freezing of existing comparative advantage. When economies are competitive, trade expansion can be slower but this can result in the modification of existing comparative advantage. Changes in trade volume are short- or medium-term events; modifications in comparative advantage are long-term phenomena.

9. One's attitude towards trade on the basis of economic structure clearly would have to depend upon one's view in respect of prevailing comparative advantage and the time horizon. If one were satisfied with the prevailing comparative advantage, one would welcome trade on the basis of complementarities; otherwise exchange based on competitiveness would be preferred. If the focus was on the short or medium term, complementarities would be the choice, while if the concern was for the long term, competitiveness would be the answer.

10. As with the issue of trade creation versus trade diversion, so with the question of trade on the basis of structure. The choice between exploiting current complementarities and exploiting prevailing competitiveness cannot be resolved by an appeal to logic. It is an operational issue and its adjudication must rest on practical considerations. Any attempt,

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therefore, to decide the issue of establishing a council on the basis of logical reasoning would be of purely academic interest. Any resolution would have to stand on practical considerations and emerge from a consensus among prospective partners.

### C. The views of countries

11. The secretariat consulted with 13 countries, Bangladesh, China, Fiji, India, Malaysia, Nepal, Pakistan, the Philippines, the Republic of Korea, Singapore, Sri Lanka, Thailand and Viet Nam, and three subregional bodies, the South Pacific Forum based in Suva, the Pacific Economic Co-operation Conference (PECC) based in Singapore, and the South Asian Association for Regional Co-operation (SAARC) located in Kathmandu. The consultations with the countries hinged on a number of issues: their perspective on the issue of Asian regional economic co-operation: whether the Governments supported the establishment of an ESCAP council for regional economic co-operation - if not, why not, and if so, what the broad elements of the proposed council's work programme should be; and what organizational structure should support such a council if it was to function effectively as a vehicle for promoting regional economic co-operation. With respect to the subregional bodies, the consultations were focused on the structure of their organization, the character of their work programme and their ways of carrying out their tasks, with a view to determining what features of those organizations might be useful for adaptation or modification in a regional council for economic co-operation. Their attitude towards an ESCAP council was also sought.

12. All countries visited, without exception, supported the idea of regional economic co-operation in principle. This, of course, was not surprising since they had indicated this in the discussions at the forty-sixth session of the Commission; the countries had also made clear that their opinions were informed by a world perspective - their warning against any move that would undermine the open world trading system was an unmistakable signal of preference for trade creation rather than trade diversion.

13. The countries were also supportive of the idea of regional economic co-operation because they appreciated the benefits that could accrue to them from interacting in a wider economic community on the operational plane. They were aware of the growing trade opportunities inherent in the dynamism of the Asian and Pacific region, particularly for prospective exporters of

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manufactured products but including exporters of commodities. The growing potential for drawing upon the capital surpluses and technology of some members of the region was clear to the countries and so was the prospect of accelerating technology transfer within the region. The possibilities for developing tourism and various other forms of interaction were apparent to them.

14. However, the countries indicated differing perceptions in their perspectives on an Asian and Pacific community, the appropriate geographic area for co-operation, the relevant economic unit for economic co-operation and the advantages of co-operation at the regional level. Finally, the countries were handicapped in concretizing the concept of an institution promoting regional economic co-operation by a lack of knowledge of the institutional framework and programmes of such an institution.

15. Among the countries visited, and indeed in all countries of the ESCAP region, there was no universal agreement on the concept of an Asian and Pacific economic community. Some countries assumed the existence of such an interacting community, pointing to the various modes of exchange taking place among the Asian and Pacific countries. Others considered the Asian and Pacific community more as a geographical expression than as an active geopolitical entity, referring to the region's diversity in history, religion, colonial inheritance, culture, size and economic structure, and strategic and political alignments as restrictive of the formation of an Asian and Pacific consciousness.

16. In the absence of any clear definition of the contours of an Asian and Pacific community, it was not surprising that the countries should differ in their views as to the appropriate arena for economic interaction. Among such countries as were already in subregional groups, the more extensive their economic transactions at the Pan-Asian and Pacific levels, the more attractive the concept of economic co-operation on a regional scale appeared to be. Furthermore, for weaker economies operating within subregional groupings characterized by considerable asymmetry in the capacity of their members, a wider Asian and Pacific community presented opportunities for greater diversification of their external economic relations.

17. For countries with greater outward orientation in their economic policies wanting to keep their entrepreneurs globally competitive, it seemed that the most appropriate externalities were to be derived in a more open global economic community rather than in regional or subregional groupings.

18. Countries which had associations with wider regional groupings, or which sought such linkages, indicated some ambiguity in their identification of the regional community most relevant to their interests. Most countries had not thought through the operational arena for interaction. Some were quite willing to operate in overlapping regional associations, testing these associations on their merits and their demonstrated capacity to deliver benefits to the concerned country. For countries in the Asian and Pacific region which as yet had no particular affiliation to any subregional grouping, the enthusiasm for regional co-operation was understandable.

19. The countries were ambiguous as to which unit would provide viability to regional economic co-operation. Some countries felt that the subregional group was the appropriate arena for co-operation. To make such groups viable was itself likely to exhaust all the diplomatic and political energies available to be invested in programmes of regional co-operation. They were uncertain as to how ESCAP would be able to reconcile the diversity of its members and associate members to forge a coherent programme of regional co-operation. Other countries that were already members of subregional groupings were not too happy at the slowness of progress at the subregional level, and manifested receptiveness to economic co-operation spanning the Asian and Pacific region. Those countries which were not yet involved in any groupings were less ambiguous in their enthusiasm for the idea of the ESCAP council.

20. As to the benefits to be derived from regional economic co-operation, the perspectives inevitably varied according to the levels of development and economic structure of the countries. Those countries with a high degree of outward orientation and resultant competitiveness at the global level looked to regional co-operation as a means of diversifying their markets. They looked to regional partners to provide pressure within GATT (General Agreement on Tariffs and Trade), for building a more open trading environment, and within the region for more ready access to markets hitherto dominated by advanced country exports. They looked to regional suppliers of raw materials to become direct sources of supply in sustaining their industrialization and export drives. They viewed themselves as exporters of technology, and occasionally capital. Some but not all countries were, however, aware of the significant opportunities inherent not just in the growth of the more industrialized countries of the region but in the growth in incomes and employment in the poorest and most populous countries of the region.

21. The weaker economies were aware of the importance of the region as a competitive source of imports, technology and capital as well as its potential for helping them in export diversification. However, there was a corresponding apprehension of dependence on and domination by the more powerful members and of the hazards of being integrated into neo-colonial structures of trade whereby their raw materials would continue to be exchanged for the manufactures of their more developed partners.

22. All countries were concerned in varying degrees about the institutional framework and programme of the ESCAP council. Many noted that there were already several bodies operating in the region: ASEAN, SAARC, the South Pacific Forum and, more recently, APEC (Asia-Pacific Economic Co-operation) and stressed the need to avoid duplication. The countries also had no idea as to how the proposed council would relate to ESCAP: they were awaiting the results of the ongoing review of the ESCAP conference structure. In fact, this was the question foremost in their minds. Some even argued that it was the principal mandate of ESCAP to promote regional economic co-operation and that, if ESCAP was perceived as having been deficient in bringing this about, the solution lay not in creating another body but in reorienting or reorganizing ESCAP.

23. Related to the issue of duplication was that of programmes. This issue was, of course, of fundamental importance for its own sake, but the countries wanted to know why such programmes could not in fact be undertaken by ESCAP.

24. Other issues that engaged the countries included:

(1) Membership: Would this include all ESCAP members and associate Members or only countries of the Asian and Pacific region?

(2) Representation: Would it be on the basis of one country, one vote, or by subregion or levels of development?

(3) What would be the council's relation to the existing ESCAP secretariat?

(4) Would it be a new body or a body formed out of a reorganization or reorientation of existing bodies?

(5) Would it require financing over and above the existing ESCAP

25. Some countries were inclined towards membership on a regional basis, fearing that the inclusion of non-regional countries could interfere with the growth of a spirit of regional identity and co-operation and could indeed change the character of the council. Others felt that membership should include all ESCAP members and associate members, if only to enable the developing countries to take advantage of prevailing complementarities. There was also the consideration that non-regional countries were making extrabudgetary contributions to the Commission's activities. Other countries were ready to go along with whatever decision the majority would take on the matter.

26. All countries realized that if all 48 member and associate members of ESCAP were debating in the ESCAP council, it would create an unwieldy situation. Some form of representation by groups would be necessary, but such representation should take into account the differences in economic size, geographic location, market orientation, and so on of the countries.

27. Some countries were particularly concerned about the financial implications of the ESCAP council. Noting the limited financial resources of many developing countries of the ESCAP region as well as the stringency of development funds in the countries on which the main burden of supporting the council might fall, they expressed preference for an organization that imposed no new financial obligation on any member. Others were not much concerned with that issue.

28. However, the countries had firm suggestions on how a council, if established, should function and what tasks it should set for itself if it were to serve the needs of the Asian and Pacific countries. The countries suggested that such a council, if established, should identify areas of co-operation, assign corresponding priorities, and mobilize members of the region to act on them. However, it should show flexibility in its approach to problem-solving and programme implementation, taking into account differences among the member countries in levels of development and economic and political systems.

29. The countries felt that the council should encourage the participation of the private sector and non-governmental organizations in regional co-operation activities, bearing in mind at all times, however, that the council was an intergovernmental body. The council should establish consultative mechanisms with subregional bodies to avoid duplication and promote co-ordination. All countries wanted the council to be pragmatic and

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action-oriented, and wanted its performance to be judged on the basis of measurable criteria. They also felt that the small and the weak should not be allowed to be dominated by the big and the powerful.

#### D. Lessons from subregional bodies

30. The subregional bodies indicated that a number of considerations had been vital to whatever success they had achieved: clear and limited working objectives commonly accepted by member countries; realistic work programmes responding to member countries' felt needs and requirements; and flexibility in programme implementation.

31. The subregional bodies recognized that objectives must initially be stated in abstract and general terms, that is, to provide member countries with a forum for the discussion of economic and political issues of concern to them or to bring together representatives of governments and other sectors to discuss matters of common interest and promote the adoption of findings and recommendations that are appropriate to the countries' circumstances. But these objectives must later be limited to a small number of clearly specified issues: to promote trade, especially in agricultural commodities, to foster tourism, to develop telecommunications, etc. Work programmes must correspond to the needs of member countries and priorities must reflect the countries' priorities. Tasks must be so ordered as to match the countries' requirements. Finally, any attempt to enforce uniform rules of compliance could only end in failure, if not in alienation. Differences in levels of development, in populations, and in political or economic systems must always be taken into account. Member countries must have freedom to carry out relevant activities or projects at their own pace.

#### E. Assessment

32. The countries needed no convincing of the merits of interacting in a wider economic community. Not only were they aware of these at the level of first principles but they appreciated from experience the benefits that could flow to them from utilizing the opportunities available in the Asian and Pacific region.

33. However, the countries lacked unanimity on their perspectives on the Asian and Pacific community, the proper arena and forum for economic co-operation, and the advantages of co-operating on a wider regional scale. As stated in paragraph 14 above, they were handicapped in their appraisal of

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the council by a lack of knowledge about the programmes and institutional framework of such an arrangement.

34. The lack of unanimity and of knowledge does not alter the fundamental fact that the external economic environment continues to present the countries with challenges and opportunities and that domestic economies remain in need of restructuring.

35. The deficiency in unanimity is inevitable given the immense diversity of the countries, but could be remedied through increased interaction among the countries and among their peoples in various forums of discourse and action. ESCAP has promoted this interaction since its inception.<sup>3/</sup> It should continue doing so, and with even greater vigour.

36. The lack of knowledge about the institutional framework and programmes of the council is a transient phenomenon and could obviously be remedied by an elaboration of the objectives and structure of the proposed council.

37. Concerns expressed with regard to duplication or proliferation were also based on an inadequate understanding of the functions of the council. "Duplication" would mean two bodies or organizations doing the same thing while "proliferation" would suggest too many bodies or organizations doing the same thing.

38. The question of the council duplicating the work of the Commission has no relevance at all, because the council has been envisaged as a part of the intergovernmental structure subsidiary to the Commission. Its establishment was specially proposed with a view to giving further impetus to what has always been the principal mandate of the Commission, that is, promotion of regional co-operation.

39. Fears regarding proliferation are also unfounded. There are three subregional groupings in the ESCAP region, ASEAN, SAARC and SPEC. Each of them has limited membership among the countries of the ESCAP region and addresses itself to issues that arise within its ambit. Membership of the council would be open to all the countries of the Asian and Pacific region and its concerns would extend to the entire region. It has the potential

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<sup>3/</sup> ESCAP, "In-depth study on the intergovernmental structure subsidiary to the Commission", paper prepared for discussion at the Meeting of the Group of Eminent Persons (Bangkok, 27-31 August 1990), pp. 28-31.



not possessed by the subregional groupings, of providing a forum for facilitating exchange of information on the policies and programmes of those organizations in order to strengthen region-wide co-operation.

## II. A WORK PROGRAMME ON REGIONAL CO-OPERATION

### A. The basis of the recommendations

40. In drawing up the broad outlines of a work programme for the council, cognizance was taken of the changed global context of the 1990s which underlay the logic of regional economic co-operation. Also taken into account were: the dynamism of the Asian and Pacific region, the enormous enhancement in the command over investible resources, competitive capacities and complementarities within the region and the escalation in economic interaction. The secretariat has also made a realistic appraisal of the views expressed by the Governments, and the role and potential of the subregional bodies within the Asian and Pacific region, and has taken into account the present programmes, organizational structure and capabilities of ESCAP.

41. The secretariat is convinced that the work of promoting regional co-operation should be clearly distinguishable as having special relevance and significance for the development of the regional countries. The work programme described in this section illustrates what could be the core concerns in that regard. Some of the tasks envisioned would be new and others would enable a sharper focus and refinement of existing ESCAP programmes.

42. In that connection, the secretariat felt that it would be useful to review analytically all important and concrete efforts at regional co-operation in the region. At the top of this inventory should be an in-depth review of the role of ESCAP in promoting such efforts.

43. By way of illustration, such an exercise could cover: the Asian Development Bank (ADB), the Asian Highway, the Mekong project, the Bangkok Agreement, the Asian Clearing Union (ACU), the Asian Reinsurance Corporation (ARC), and the Asian and Pacific Centre for Transfer of Technology (APCTT). Of these ADB has emerged as a great success story and the role of ESCAP in its sponsorship should serve as a valuable guideline to the achievement of such success. It would also be desirable to review carefully the work being carried out in the subregional organizations.

44. Pending more in-depth and detailed analysis, and based on available information, the secretariat submits the following views by way of illustration rather than as a definitive agenda for some of the areas which may be brought within the compass of an ESCAP council.

B. Redirection of resource flows

45. It has been observed that ADB is one of the most successful initiatives of ESCAP in developing a multilateral financial institution to serve the region. However, while ADB has pushed various initiatives in diffusing development finance, a great deal had yet to be done in linking private capital within the Asian region to the official development lending programmes or in promoting private enterprise in the region.

46. The ESCAP region is one of the major sources of investment capital in the global economy. Apart from the massive structural surpluses accumulating within Japan, Taiwan Province of China controls capital surpluses estimated to be in the range of \$US 75 billion. Other countries in the region may not command net surpluses, but hold sizeable reserves in the official and private sectors which are available to be moved around the region in the service of trade and technology transfer. Some of these investible resources are indeed moving into the region through ADB, bilateral ODA (official development assistance), on commercial terms through the capital market and through direct foreign investments.

47. There is obviously some value in ESCAP collaborating with ADB to take some initiative in promoting a more accelerated flow of resources, both official and private, within the region. Part of this initiative lies in identifying all available sources of investment capital within the region, not just those on offer by surplus countries, indicating the current dispersal of these resources in the global capital market and analysing the political and commercial logic of such a configuration of capital movements.

48. The ESCAP/ADB initiative should focus on the functioning of both regional and national capital markets in the region to understand the impediments to greater intraregional movements of capital. It should examine in depth the scope for reforms in these markets as well as the development of appropriate capital instruments designed to capture all varieties of capital from all countries within the region. At the outset, such an exercise would have to be a major state-of-the-art review, but should be updated every year in the form of an authoritative annual report.

on Asian and Pacific capital markets which should be tabled before both the ESCAP Council and the Commission as well as the Board of Governors of ADB.

49. The initial ESCAP/ADB review of the Asian and Pacific capital market should identify the need for and role of an Asian and Pacific investment centre. Such a centre could also generate information on who needs capital and who could supply it within the region, and should indeed facilitate interaction between these two groups. In practice, in a number of the more developed countries of the ESCAP region, private enterprise, including local and regional banks, would be playing such a role effectively. The Asian and Pacific investment centre would be particularly serviceable in identifying investment possibilities in the less developed countries of the region, bringing in prospective financiers from within the region, developing prospective investment projects and finding mechanisms and agencies for underwriting such ventures. Here the scope for setting up an Asian and Pacific investment guarantee facility either within ADB or outside it could also be explored. This facility should seek to build working links with the Asian and Pacific capital markets as well as with a similar ASEAN facility and the World Bank's MIGA (Multilateral Investment Guarantee Agency).

50. As the concept of strengthened economic co-operation gathered momentum, market-based institutions would tend to an increasing extent to recycle capital within the region, bring in capital from outside the region and play a commercial banking role in facilitating investments. For a long time to come, many of the weaker economies would need such institutional support in gaining access to commercial capital within the region.

#### C. Expansion and restructuring of trade

51. In defining a prospective role for a council in the trade sector, it should be recognized that co-operation in the Asian and Pacific region is expanding at an exponential rate through bilateral and market-based efforts. The role of ESCAP should thus limit itself to identifying and seeking to eliminate the prevailing barriers to trade within the region and to provide greater opportunities for the weaker economies of the region to participate in the growing trade opportunities within the region.

52. The Bangkok Agreement was indeed created with the goal of removing such obstacles to greater intraregional trade. But in practice it has yet to realize its original promise and widen its narrow membership. At its inception in 1976, the Bangkok Agreement was ratified by only five countries:

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Bangladesh, India, the Lao People's Democratic Republic, the Republic of Korea and Sri Lanka. Two countries, the Philippines and Thailand, approved but did not ratify it. At the fourth session of the Second Round of Negotiations under the Bangkok Agreement held in May 1990, Afghanistan and Papua New Guinea announced their decision to accede to the Agreement, but they have yet to ratify it. The Agreement's membership thus remained limited.

53. The Agreement has in practice contributed very little to trade enhancement. Tariff concessions on a total list of 126 products were offered by the member countries, including special preferences to Bangladesh and the Lao People's Democratic Republic as least developed countries. However, there is little evidence to show that such concessions have promoted intra-member trade.

54. In fact, imports of the 126 commodities on which concessions were granted under the Agreement have actually declined within the member countries. The decline indicates that member countries have only been giving concessions on items with weaker trade potential rather than using the Agreement as a purposeful instrument to promote trade. This tendency should be reversed.

55. Experience therefore suggests that more effort is needed within the Asian and Pacific region to break down barriers to trade, and the Bangkok Agreement would be a readily available instrument to start with.

56. It is thus suggested that one of the principal tasks of the council should be to make additional efforts to widen the membership of the Bangkok Agreement and to ensure that more substantive concessions covering high-volume items of tradeable goods within the region are placed on the negotiating table. Initially, the council would have to undertake some substantial preparatory work by drawing up an inventory of high-profile items and work out the costs and benefits of the different measures for offering varying degrees of tariff and non-tariff barrier concessions.

57. However, it should be clear that while subregional trade concessions remain important, widening the compact of such concessions to the entire region would enhance immeasurably the opportunities for trade and indeed make it easier to diversify the risks of concession made at the subregional level. An important target for such an exercise should be the opening up of the trade regime in Japan for exports from the Asian and Pacific countries. This should be without prejudice to Japan's non-membership of the Agreement.

58. This body of analyses relating to trade concessions put together by ESCAP should form the basis for widening membership of the Agreement, initiating a dialogue and some institutional linkages with other subregional bodies offering concessions, and realizing more substantive concessions from within the present member countries.

59. Another facility which the ESCAP council could examine would be the Asian Clearing Union (ACU), whose goal is to help members increase the use of local currencies for settling their trading transactions and thereby reduce both the use of hard currencies and the costs of settlement of such commercial transactions. ACU has six member countries: Bangladesh, India, Islamic Republic of Iran, Myanmar, Nepal and Pakistan. All of them made it mandatory that intra-ACU trade be directed through the Union. While it did serve its member countries in varying degrees, this facility remains largely underutilized.

60. The volume of transactions within ACU has remained constrained by the volume of trade transacted between the member countries. The exclusion of Iran-Pakistan and Indo-Nepalese economic transactions from the purview of ACU reduced the ambit of the facility significantly. There is thus obvious scope for increasing the coverage of the agreement immediately by including these two areas in the purview of the Union.

61. The problem within ACU derives from asymmetries in the trading capacity of the respective members. Some countries remain chronic debtors. Measures are needed to convert their payments liabilities within ACU into medium-term credits with a provision for using a "swap" facility for promoting direct or portfolio investment by the creditors to these countries.

62. It is clear that as long as there are countries in the region that suffer from a chronic hard currency shortage, ACU will be useful. While its benefits are less apparent to ASEAN and newly industrializing economies of the region, it has visible benefits for countries wishing to cut down on the use of hard currencies, including those in South-East Asia as well as even China and India. ESCAP could thus try to encourage countries pressed for hard currencies to join ACU and to make provision for the special problems of the structural debtors in the Union. The benefit of a serviceable payments system to the newly industrializing economies and ASEAN is that it would help enhance the import capacity of other countries for intraregional exports.

63. Any effort to expand intraregional trade significantly would need to be addressed more substantively through some arrangements for export credits backed by a serviceable export credit guarantee mechanism. National export credit facilities in India or the Republic of Korea have obvious limitations in their capacity. An attempt to develop a trade-financing facility either as a separate commercial facility within the region or as an affiliate of ADB would be a useful exercise and should be taken up jointly by ESCAP and ADB.

64. Apart from enhancing the capacity of the countries of the ESCAP region to trade among themselves through the Bangkok Agreement and ACU, the council could facilitate greater trade and investment co-operation through developing an updated documentation and facilitation centre for the region. The council could prepare annual reviews of growing and changing trading opportunities for ESCAP members and associate members which would bring to the notice of both policy makers and private entrepreneurs operational information of current trends in the region. Such reviews could identify new trade and investment possibilities. In that regard, special attention should be given to enhancing trade within the region in services, including tourism and freer movement of labour. There is scope for co-operation between ESCAP and the International Trade Centre UNCTAD/GATT (ITC) in this area in order to bring together officials and private entrepreneurs to exchange information, make commercial contacts and sensitize each other to the commercial possibilities inherent in the region.

65. If the service was genuinely effective, it could develop into an autonomous and self-financing regional facility sustained by financial support from the private sector and export promotion bureaux of the region.

66. Also in the area of commodities, the council could contemplate building up a regional network of commodity producers who would consult periodically on their problems and on possible negotiating strategies in global forums. Such consultations could widen the perspective of specific commodity producers and enable them to strengthen their negotiating position.

67. On the matter of customs data, procedures and technologies, the council should intensify the efforts to standardize, improve and adopt these in order to permit easing of trade relations within the region and to keep abreast of the latest trends in other regions with which an ESCAP trade facilitation system would need to be linked. The council should continue to support the Asian Reinsurance Corporation (ARC). It may however, examine

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whether ARC could be expanded to further internalize the risks and costs associated with reinsurance to the region.

#### D. Expansion and restructuring of investment

68. The most fundamental constraint to more accelerated trade within the Asian and Pacific region lies in the asymmetry which characterizes the level of development of its members. Some countries have succeeded in realizing a high rate of investment and growth which has radically diversified their economy and trading capacity. Growth in trade has, however, been constrained by the poverty of many other countries within the region and their dependency on external resource transfers from the developed countries and multilateral financial agencies. Within the region, Japan, ADB and now, on a modest but growing scale, Taiwan Province of China, have been contributing to this process of resource transfers. Such patterns of external dependency of many countries of the region mean that their trading choices are not always determined by the market and remain tied to sources of aid finance. Any measure which enhances intraregional resource flows as well as the earning capacity of its weaker members is likely to promote intraregional trade. It has been argued that greater command over resources which could be freely dispensed on market terms would largely benefit exporters within the region, particularly in the more industrialized countries within the region.

69. It is thus of considerable importance for the council to follow up the work that ESCAP has initiated in the field of restructuring and thus to focus on ways and means to enhance the export capacity of the weaker economies of the region by helping them restructure their economies and exports. This could be achieved if the more developed members of the region, starting from Japan but including the newly industrializing economies, also moved to restructure their own economies and thereby provided market space for the more diversified exports of the weaker economies of the region.

70. The restructuring process obviously could not limit itself to industry but would have to include the production and trade in services which are likely to be the growth industry for the region in diverse areas such as tourism, construction, finance, education and labour movements. Such an exercise would need to identify the factors inhibiting the restructuring process and to spell out the variety of actions needed by governments and the private sector to facilitate an orderly restructuring of the economy of the region. Such a task should relate to the resources

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needed to underwrite the restructuring process. A realistic assessment of the political economy of such a process would be in order.

71. The ESCAP study currently under way for the forty-seventh session of the Commission to be held in April 1991 should serve as a prelude to what should be a set of studies defining the economic landscape of the region, including its industrial and trade profiles for the next quarter of a century. Such an exercise should, however, not be seen as a plan of action but as a basis for a series of consultations aimed at removing impediments to restructuring the economies of the region.

#### E. The acceleration of technology transfer

72. The council should concentrate on accelerating the transfer of technology within the region, building upon the work already done by the Commission.

73. The growing dynamism and diversity of the economies in the region has made it possible for countries to draw upon the technologies and the successful experience of the region. Not only the more developed countries of the region but also many of the less developed ones have developed, through trial and error, a variety of shareable technologies and experience which are appropriate to the resources, factor endowments and social environment of countries. Many of these technologies are already being traded in the market-place. For example, the garment export industry in Bangladesh developed when enterprises from the Republic of Korea entered into business arrangements with firms in Bangladesh to utilize their unfulfilled export quotas in the United States of America, training local workers in the Republic of Korea to use Korean machinery to fabricate export quality garments. There are many such cases of exchange sale of technologies accompanying the sale of equipment.

74. In other areas, regional centres have contributed to the transfer of technology. For example, the International Rice Research Institute (IRRI) in the Philippines disseminates the technology for propagating high-yielding varieties in the region, which serves to transform agriculture.

75. ESCAP has traditionally played a valuable role in analysing technological developments and development experience, and has regularly brought together policy makers, development practitioners, professionals, scholars, the private sector and non-governmental organizations to exchange experience. It uses publications, expert group meetings, seminars, country

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missions, training programmes and manuals to share such experience. It set up the Asian and Pacific Centre for Transfer of Technology (APCTT) in Bangalore, India, specifically committed to preparing inventories of technologies developed within the region and disseminating them to member countries.

76. How far such exchange of knowledge and experience has actually resulted in countries within the region drawing upon each other's skills in the way that IRRI has accomplished is less apparent. There is no systematic inventory of technologies actually disseminated and used within the region. Even APCTT, which is committed to such technology transfers, has no up-to-date information on technologies transferred successfully within the region as a result of its efforts. Given its experience and unique capacity to bring countries together, ESCAP is equipped to play a much more effective role in promoting technology transfer.

77. APCTT should undertake a review and in-depth examination of workable technologies proven by results in their countries of origin. APCTT should then organize meetings between the sources of such technologies and the actual users in targeted countries. This should be followed by the organization of workshops and field trips in which all the relevant information appropriate to an actual transfer of technology would be communicated.

78. The task of APCTT would be immeasurably lightened if it could effectively harness the market mechanism to at least disseminate those technologies which had been profitable for their patent-holders. While the market is already doing this, there are enormous knowledge gaps, particularly at the small and medium-scale enterprise level. In time, the market would bridge most of these gaps but until then APCTT has a role to play in disseminating such information aimed at transferring technology. In particular, it should help less developed countries within the region to actually design and adapt technologies for themselves by drawing upon regional skills.

79. The software associated with such technology transfer as regards patent laws and the actual costs of such transfers should be codified so that a set of uniform rules could be issued to all interested countries. Such a review should also be used for co-ordinating strategies in international negotiations relating to patents and copyrights and technology transfer.

80. ESCAP efforts at knowledge generation should be much more targeted in each area towards identifying national experience which is communicable across borders. This means that economic policies should be evaluated by ESCAP not for their indigenous impact but for their more universal relevance. Programmes on poverty alleviation should be studied for their replicability. Successful institutions such as the Grameen Bank in Bangladesh should be tested for their capacity to be adapted and replicated within the region. Such a body of information on the policy, programmatic and institutional success stories of the countries in the region should then be disseminated through interchange of expertise, workshops and field visits to benefit other countries.

81. All the foregoing activities would provide the council with benchmark information for the formulation of programmes on the acceleration of technology transfer in the region and enable it to identify new programmes to be initiated focusing on technology transfer in the region.

#### F. Other areas of co-operation

82. In many other areas, ESCAP could play an important role in promoting co-operation within the region. In some of these areas, such as the Asian Highway, the Trans-Asian Railway network, the Asia-Pacific Telecommunity, and the Mekong project, it has already demonstrated its capacity to forge regional co-operation. ESCAP should similarly review other areas and programmes of work to identify potential areas for multinational interaction within the region. Even for projects such as the Mekong project, which has become autonomous, ESCAP could still play a role in expanding their scope and coverage. Similarly, in the case of the Asian Highway or the Trans-Asian Railway network, both SAARC and ASEAN could build more serviceable transport links in the region, but ESCAP would have to be the bridge to link the subregional systems and bring in non-affiliated members to fill the gaps in the communications link. The council's role in this respect should be to monitor these projects continuously.

83. The areas indicated above are mentioned by way of example of what ESCAP has achieved and shows the potential for further work. The council could conceivably explore other areas offering possibilities for regional co-operation, such as the environment, human resources development and early warning system. But the focus of such endeavours of the council should be primarily directed towards the economic development of the region.

84. Finally, ESCAP, through the council, could play a role in facilitating consultations among the members in the region prior to participating in various global forums. In this task, the council could bring together various countries having diverse interests and assist them in addressing common concerns. A regular process of consultations among the prospective negotiators, whether in global negotiations or even in more segmented commodity groups, would be of incalculable value in giving strength to the position of the developing countries in the region.

### III. INSTITUTIONAL FRAMEWORK

85. In drawing up the institutional framework for an ESCAP regional co-operation arrangement, it would be desirable to bear in mind the requirements of organizational simplicity as well as management and operational efficiency. It should be consistent with the views of the countries in the region. There is also a need to reconcile considerations of efficiency and economy as far as possible in order to maximize the benefits that can be derived with the resources available. Above all, the interests of the countries, both real and potential, should be the basis for any such arrangement to strengthen regional co-operation. The lessons of the past - during the 1960s and 1970s - are relevant in this respect.

86. In considering a proper institutional framework, it is also necessary to bear in mind the terms of reference of the Economic and Social Commission for Asia and the Pacific. In that regard, paragraphs 2, 3 and 4 of the terms of reference established by the United Nations Economic and Social Council, which make a distinction between the territorial coverage and the membership of ESCAP, are of particular relevance.

87. From the foregoing analysis and taking into account the various factors cited above, including in particular the views expressed by the member countries of the region, the Commission could consider two options as enumerated below for the establishment of a council for regional economic co-operation or a similar alternative arrangement, which would be entrusted with the responsibility of giving focused attention to the promotion of regional economic co-operation under the overall supervision of the Commission. In the context of the dynamism displayed in recent years by several members, which seems to be spreading to other countries of the region, as well as the overall pace of development, a significant and relevant factor should be the ability of the proposed arrangement to focus

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attention on certain specific fields, as well as to meet more than once a year, if necessary. In other words, the council arrangement should function as a standing committee dealing with policy issues concerning the promotion and strengthening of regional co-operation. Accordingly, the following options may be considered:

(a) Since the matter primarily concerns the regional members of ESCAP and is of direct relevance and interest to them, the standing committee should be open to all regional member countries. This option would be consistent with paragraph 2 of the Commission's terms of reference;

(b) The standing committee should comprise a limited membership of some 11 countries elected by the Commission from among its regional members. The composition of the council/standing committee should reflect the geographical balance in terms of representation from various subregions to provide for diversity in respect of stages of development, as well as enable countries with the largest gross domestic product (GDP) in the region to be elected. The members should be elected for a three-year term. Representation should be at a high political level and should preferably involve a cross-section of ministers dealing with such areas as planning, trade, industries, foreign affairs and finance.

88. Both the options would be consistent with the terms of reference of the Commission. In addition, the need for transparency of the work of the standing committee would be fulfilled through the requirement of its reporting to the Commission and receiving mandates from it. All the members of the Commission, including non-regional members, would have an opportunity to review the report of the standing committee. The Commission would also provide a forum for appropriate consultations on the various recommendations and decisions taken by the standing committee with the non-regional members of the Commission. In fact, in due course the Commission could consider providing an arrangement, either formally or informally, for instituting such dialogue and consultations on a regular basis. Such dialogue could indeed have the potential for leading on to new dimensions of co-operation between regional and non-regional members of the Commission.

89. The standing committee should meet as often as necessary, but not less than once a year, to review its work programme and discuss and recommend appropriate policy initiatives to promote regional economic co-operation for development, which should be submitted for the consideration of the Commission. There should be an identifiable unit within the secretariat to

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carry out the assigned work under the direction of the Executive Secretary. The standing committee could recommend establishing task forces on specific subjects identified by it, and approved by the Commission, such as enhancing flows of financial resources to and within the region, promotion of interregional trade and investment, transfer of technology and facilitating regional restructuring. It could also consider other similar action-oriented measures, such as establishing working parties and commissioning studies. The task forces could deal with these issues in their multidisciplinary dimension by drawing on the experience and expertise available within the secretariat.

90. Because of the unique nature of its work and the very special circumstances calling for focused attention on and providing impetus for forging greater regional co-operation, the standing committee should be a very high-level body and its level, composition and functioning would have to be different from those of other activities of the Commission.

#### IV. SUMMARY AND CONCLUSIONS

91. In assessing the question of establishing an ESCAP council for regional economic co-operation, the countries exhibited well-informed awareness of the advantages and benefits of regional economic co-operation at the level of first principles and at the level of experience. They were very conscious of the dynamism of the Asian and Pacific region and the challenges and opportunities it offered for the development of the countries of the ESCAP region. Some of them were concerned over issues of duplication and proliferation, membership, representation and budgetary costs. At the same time, they displayed awareness of the fact that the external economic environment continued to present the countries with challenges and opportunities and that domestic economies remained in need of restructuring.

92. Certain differences in perception are inevitable given the immense diversity of the countries, but could be remedied through increased interaction among them and among their peoples in various forums. ESCAP has promoted this interaction since its inception. It should continue to do so and with even greater vigour.

93. The lack of knowledge about the institutional framework and programmes of a council is a transient phenomenon and could obviously be remedied by an elaboration of its objectives and structure.



94. The programme of work for such a council, which could also be called a standing committee for regional co-operation, is illustrative of what could be the core of ESCAP concerns in promoting regional co-operation. Some of the tasks envisioned are new, but some refine and crystallize existing programmes of ESCAP. Based on objective considerations, there is a clear case for establishing such an arrangement in order to give regional co-operation issues more focused attention, to develop relevant programmes and to make operational decisions when needed.

95. The tasks of the standing committee would be to deal primarily with resource flows, trade, investment and technology. It could also provide further impetus to extending the benefits of several specific regional projects (Asian Highway, Trans-Asian Railway network, etc.), food security, the environment, human resources, changing comparative advantages, and to assisting the countries in the region in their preparation for participation in various global forums.

96. The institutional framework recommended for this is simple, economical and efficient. It could be reviewed by the Commission after a few years of experience.

97. Membership would be open to all regional ESCAP members and associate members, in accordance with the terms of reference of the Commission. The standing committee would be the effective policy-making and programme-approving body in the field of regional co-operation, and would work under the overall mandate given by the Commission, to which it should report annually. Participation in the standing committee would depend on the alternative favoured by the Commission. The secretariat had no preference for any one of them.

98. Both the work programme and the institutional framework broadly conform to the constraints laid down by the countries. At this stage it should not require additional resources other than those that could be obtained from adjustments in the ESCAP programme budget and in the secretariat.

99. But the arrangement outlined here would not be static. Its programmes and institutional framework would be likely to change in the coming years in order to keep pace with changing needs and external circumstances. When the time came, financial requirements would have to be considered flexibly.



100. The arrangement proposed in this report, the standing committee for regional co-operation, would be eminently responsive to the challenges and opportunities of the external economic environment and the requirements for the restructuring of the domestic economies. It would also be in conformity with the expressed wishes of the countries.

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