

Asia Pacific Network on Food Sovereignty *regional workshop papers*

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Regionalism & South-South Cooperation:

*Implications of an ASEAN+3 Regional Block*¹

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What I am going to share with you are findings of a technical study that IGTN developed for Oxfam Hong Kong, who is supporting this event together with Heinrich Boell Foundation. The study gives some details on how regional economic integration is being pursued within the ASEAN with the view of trying to understand the possibilities in a future ASEAN+3 regional economic block, specifically the prospects of alternative trading systems or South-South cooperation in the region. What we studied were some of the processes that have been propelling regional economic integration within ASEAN itself that connects the ASEAN with the plus-3 countries, namely China, Japan and South Korea.

We thought that it would be good to share the findings of the technical study here in the APNFS meeting because everyone knows that such regional integration is being propelled not by agriculture or agricultural trade but by industrial complementation. Therefore it would be worthwhile to look at how industrial complementation leading to regional economic integration has proceeded, and then try to use that as jumping point for a discussion on how regional integration in the agricultural front might look like at the present and future. My discussion, however, is very much focused on the industrialization process.

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My presentation is very brief and is meant to stimulate discussion. Hopefully we will be able to connect my discussion with the prospects in agriculture as far as regional integration is concerned and on regional economic negotiating blocks within the WTO. And also possibly situate this process with the emergence, if not onslaught of free trade agreements, which are bilateral in character.

There are two things we need to be clear about, namely, (1) regionalization and (2) regional economic block. Regionalization is a process of economic integration or creation of a regional market. But the regional economic block, which is ASEAN+3, is still a possibility that entails more of a political process, rather than economic process of integration. We have to be clear that when we speak of regionalization, there is the dynamic of an economic process that is moving it. Then there is the political process that involves the establishment of formal agreements and formation of formal economic blocks.

In East Asia, there is already the process of regional economic integration that has been in existence for the last two to three decades. The main propelling forces for this are the transnational corporations that have set up a regional production base in Asia whose mother companies are based in Japan or Korea. If we look at ASEAN +3 as a formal entity in the future, we have to take note that it is Japan primarily and South Korea, secondarily, who are the prime movers of integration in the East Asia region. We need to be clear that we are not referring to the Japanese government or Korean government but these are transnational corporations based in Japan or South Korea who have set up affiliate firms as they regionalize their production systems covering many countries in the East Asian region.

What are the indicators of this phenomenon? Economic data show that there is much intra-firm and intra-industry relations going on between the countries of ASEAN and Korea, Japan and China. It is obviously a capitalist type of economic integration that is taking place. Companies in Japan and Korea invest and transfer part of their production systems in other countries, wherein a lot of trade goes on between mother and affiliate firms. This is true in at least three big sectors – electronics, transport and machineries.

One characteristic of this regional economic integration is that it is led by the capitalist drive of transnational corporations. Such transnationalization necessarily entails a hierarchical relationship between and among the various phases of the production process. There are those that supply the low-end of production, those that manufacture intermediary goods and those that produce final goods. The final goods are then exported and probably imported by the countries where the lower-end of production is taking place.

The second characteristic of such a regional economic integration is that there will definitely be built-in inequalities among countries depending on their role in the production process or their place in the hierarchical system of production. At the regional level, you might find a dynamic exchange of goods and services but when you look at the benefits for each individual country, you will find these to be uneven. There will be losers and winners. There will be those who gain more and others who gain less. This is true because in the hierarchical system of production, the value added also increases as production moves from the lower to the next higher stage. Hence, it doesn't really mean that when a country exports a lot and imports a lot, it automatically gains more from increased trade. If you look at international economics there has been a big jump in the export of goods from developing countries but the value added is very little and has therefore not benefited developing countries. They earn only from the labor content of the production process while it is actually the developed countries, which have the technologies and highly skilled labor that benefit more from this upsurge in trade.

Inequality is expressed not only in income differential, but more importantly in technology and skills differential. If we look at countries coming to a regional arrangement, we will have to look at the countries' capabilities in technology, in the kind of labor and skills that they bring into that regional integration.

The third characteristic of this economic integration is that often, as evidence shows, there is a weak backward linkage between the TNC-affiliate firms and local production. For instance, in export processing zones and even in complementation schemes that were developed, they do not really link back to the domestic economy such as in terms of production inputs and raw materials. Companies in export processing zones are actually importing a lot of raw materials used in electronics and garments export manufacturing. It is the cheap labor in the low-end production stage which has encouraged Japanese and Korean firms to locate some production phases in East Asian countries.

Having said these, when we try to envision a formal ASEAN+3 market integration or economic block, many economists argue that Japanese dominance over production activities in the region will define the future of

regional integration as a process and especially the formation of a regional market or regional industrial cooperation. This is where we are, as far as mainstream economists say, that Japan will play a primary role if and when regional integration formalizes into a regional block. It is simply because of the advantages that Japan already has, being a prime mover of the regional integration process through the regional production networks of Japanese transnational corporations. This is one area that we need to be informed about when looking at the possibility of an ASEAN+3 economic block.

The other important aspect is to look at how ASEAN, particularly the original members, try to establish or pursue their own cooperation or integration scheme. In the past there have been three to four attempts by the ASEAN itself on developing industrial schemes. And if you will look at these four attempts, you will find that Japanese equity is already involved.

These four attempts are as follows. One is the ASEAN industrial project in 1976 that aimed to establish industries jointly owned by governments of the ASEAN – this is one thing we need to understand, that the industrial complementation scheme of the ASEAN was by the governments and not the private sector. Governments are the prime movers and they got equities from Japanese transnational corporations. The second attempt was in 1981, the ASEAN Industrial Complementation Program or AIC which had the objective of establishing horizontal specialization across plants located in various countries. In the Philippines, we had copper smelting as part of AIC, which has however closed down. The production plants were given incentives and were meant to complement each other. Unfortunately there was only one complete package that was implemented and it was in the automobile industry while all the others did not see any progress. And then in 1988, there was the Brand-to-Brand Complementation Scheme or BBC. This was followed by the ASEAN Industrial Joint Venture or AIJV, that was launched in 1993.

Basically the idea of all these four complementation schemes is to encourage the industries located in each country to produce with the ASEAN countries as the assured market. It is not exactly one transnational corporation establishing affiliates in different parts of the region. In the ASEAN industrial complementation schemes, these are domestic industries that are being linked up to each other with support of the government. All these complementation schemes actually failed. One economist attributed the cause of this failure to three factors: bureaucratic approaches, little private sector involvement and national rivalries among the governments. With the emergence of WTO and all the capacity building inputs given to our countries, the bureaucratic issue, I believe, is more or less neutralized and has been weakened. There has been a lot of harmonization of administrative and regulatory frameworks as well as mechanisms, mainly due to the WTO. But the two other factors, we surmised, remain critical in determining what kind of regional industrial integration will take place in ASEAN+3. These two are the low level of participation of the private sector or the attitude of the private sector in these countries and the attitude of the government. In the most recent ASEAN complementation scheme, it had been rivalry and competition that made it difficult for governments to cooperate. We feel these two factors are very critical in any possible ASEAN+3 regional economic block.

Another point that I would like to talk about pertains to some thoughts on ASEAN+3 in relation to the advocacies that we are engaged in as NGOs. For one, is South-South trade possible in the rubric of ASEAN+3? Because of the inherent inequality in the distribution of production processes, it does not seem likely that South-South trade will emerge, unless ASEAN+3 agreements focus on final goods and not on trading of intermediate goods or parts. In such a case, it is not the production stages that will be concentrated on but the production and trading of final goods. If this does not happen, a North-South trade is more likely to emerge, with Japan and Korea 'representing the North' in that arrangement. Given the current trend of trade in East Asia, the result of a regional North-South trade cooperation that uses an international production network as the backbone of regional integration would see Japan and Korea at the highest end of the production chain while China and possibly the low-income ASEAN countries, e.g. Cambodia, Laos, would be at the low-end and labor-intensive phases of production.

The case of China is a bit more complex because its economy is too big and can actually be sliced up into regions performing different but interdependent phases of the production process. Some regions in China will find themselves performing the role of low-income countries providing cheap labor while others will find themselves among middle-income countries, capable of infusing technology and producing intermediate if not final goods.

Secondly, is South-South trade possible if the agreement explicitly promotes horizontal intra-industry trade, rather than vertical specialization? This would entail moving away from international production networks as the backbone of economic integration. There was such an attempt in the earlier complementation schemes but this didn't get off the ground. So is it really possible? Again we are not optimistic because current trends favor the vertical intra-industry arrangement.

What about the ASEAN+3 in relation to the WTO negotiations? There is a whole lot of discussions on whether regionalism and bilateralism in trade undermine the multilateral trading system. The discussion is important when alliances over trade issues can determine the outcome of the negotiations as in the case of the G20, G33, etc. Under the WTO, we know of course that the Quad heavily influences the outcome of negotiations. Japan is a member of the Quad and at the same time prominently figures in the ASEAN+3 economic block that is being projected. Should there be an ASEAN+3, the global configuration for trade negotiation will change significantly because Japan will now have the option to carry the interest of the region when it negotiates as member of the Quad. Whether Japan will do so or not depends largely on how it will decide on its role in the region. In the end, it will not be the region deciding for Japan but Japan deciding for the region, in terms of how it will play its card with ASEAN+3 in the WTO.

We see two possible scenarios. One, Japan becomes integrated in ASEAN+3 and is replaced in the Quad by the ASEAN+3! If this happens, the Quad also brings in China being part of the regional block. The problem with this is the Quad would not want a configuration of North-South in itself. The other possibility is Japan removes itself from the Quad and negotiates separately as part or leader of ASEAN+3. This does not seem likely. However, if we look at how Japan reacted to the 1996 Asian financial crisis with the idea of an Asian Monetary Fund, that was in itself an indication that Japan is prepared to stand on its own and be responsible for the region vis-à-vis other Northern countries. In fact, in this scenario, Japan need not be the leader in ASEAN+3 in the same way that Europe is able to group together and negotiate as a block without any single country representing its interest.

In closing, I want to note the growing interest of NGOs in ASEAN+3 but also to caution us about believing that this can promote South-South cooperation. As we have pointed out in this intervention, the economic integration currently underpinning the linkage of ASEAN with Japan and Korea are a transnational corporation-led international production networks. Much remains to be done in terms of transforming this integration into a more horizontal one. Thank you.

