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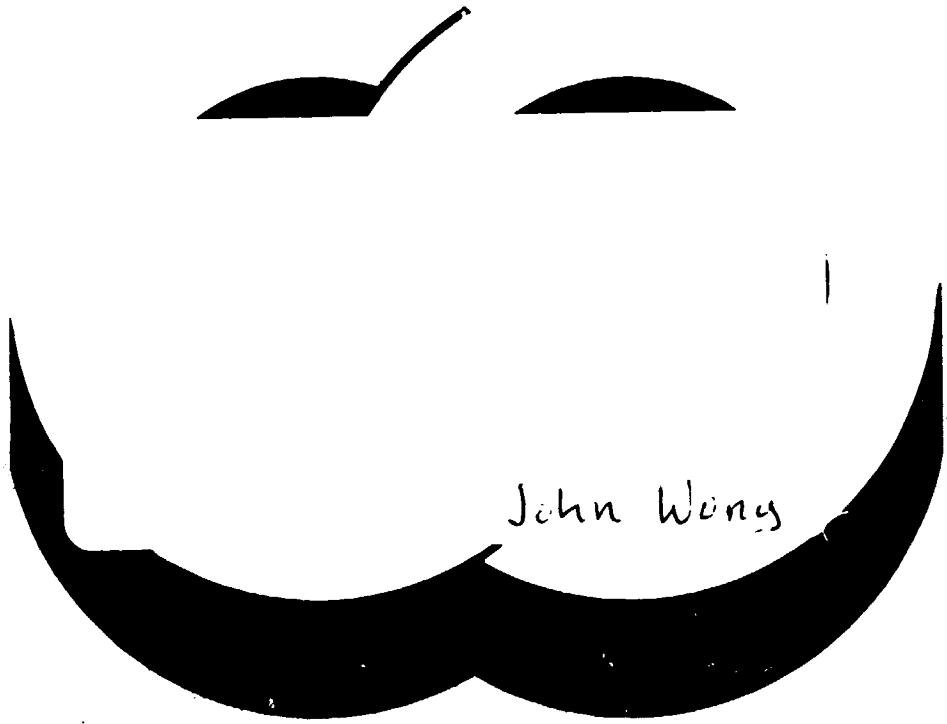
REGIONAL INDUSTRIAL CO-OPERATION: EXPERIENCES AND PERSPECTIVE OF ASEAN AND THE ANDEAN PACT



John Wong

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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ASEAN AND THE ANDEAN PACT**

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UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna, 1986

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Preface

As part of its research programme, the Regional and Country Studies Branch of the Division for Industrial Studies of the United Nations Industrial Development Organization is studying issues pertaining to industrial co-operation between developing countries in various regions and subregions, such as industrial complementation, joint ventures, industrial financing and industrial policies (see annex I).

A series of studies was made on the experience, current approaches and prospects relating to industrial co-operation in the Association of South-East Asian Nations (ASEAN) and the Andean Pact. In order to facilitate a direct exchange of experiences and a joint review of key issues in industrial co-operation, a conference was organized at Lima from 11 to 14 October 1982 with officials of ASEAN and the Andean Pact, followed by a study tour by the ASEAN participants to the capitals of the five Andean Pact countries (UNIDO/IS/R.9).

The major findings of the series of studies and of the ASEAN/Andean Pact Conference and Study Tour on Regional Industrial Co-operation have been consolidated into this publication, which also contains proposals for action. The information on the experience and outlook of ASEAN and the Andean Pact can be considered to be an important basis for continued industrial co-operation in these two regional schemes and for initiating co-operation mechanisms in other developing country groupings.

The paper was prepared by John Wong, National University of Singapore, as a UNIDO consultant, in co-operation with the staff of the Regional and Country Studies Branch, and issued in August 1983 as a working document (UNIDO/IS.401).

EXPLANATORY NOTES

All dollars referred to in this publication are United States dollars, unless otherwise stated.

Abbreviations

AAF	ASEAN Automotive Federation
ABA	ASEAN Bankers Acceptance
ABC	ASEAN Banking Council
AFC	ASEAN Finance Corporation
AIC	ASEAN Industrial Complementation
AIJV	ASEAN Industrial Joint Venture
AIP	ASEAN Industrial Project
AJDC	ASEAN-Japan Development Corporation
ASEAN	Association of South-East Asian Nations
CACM	Central American Common Market
CAES	Economic and Social Advisory Committee
CAF	Andean Development Corporation (Corporación Andina de Fomento)
CCI	Chambers of Commerce and Industry
CMET	common minimal external tariff
COFAB	ASEAN Committee on Finance and Banking
COFAF	ASEAN Committee on Food, Agriculture and Forestry
COIME	ASEAN Committee on Industry, Minerals and Energy
COTAC	ASEAN Committee on Transportation and Communications
COTT	ASEAN Committee on Trade and Tourism
DCM	basic components demanded as "a condition of national manufacture"
DOS	components originating from the subregion
ECLA	Economic Commission for Latin America
EEC	European Economic Community
FAR	Andean Reserve Fund
GDP	gross domestic product
GSP	generalized system of preferences
IDP	integrated development project
IFC	International Finance Corporation
IRP	industrial rationalization programme
ISIC	International Standard Industrial Classification
JIC	Japan Investment Company
JIP	joint industrial programme
JUNAC	Secretariat of the Andean Pact
LAFTA	Latin American Free Trade Association
MIDF	Malaysian Industrial Development Finance
ND	components not demanded for the purposes of SPID
NIC	national industry club
OECD	Organisation for Economic Co-operation and Development
PADT	Andean Programmes of Technological Development
PTA	preferential trading arrangements
RIC	regional industry club
SAFICO	Andean System of Trade Financing

SAIT	Andean System of Technological Information
SPID	sectoral programmes for industrial development
TNCs	transnational corporations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WGIC	Working Group on Industrial Complementation

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Introduction

A. Regional economic co-operation and integration

Regional economic co-operation or integration[1] has by now become widely accepted as an important instrument and potentially an effective means of facilitating development in a group of third world countries. When regionalism started to develop, in the early 1960s, first in Latin America and later in other parts of the developing world, it was believed that the traditional international trade theory could yield concepts or produce variants that would be adequate for explaining the process of regional economic co-operation or integration. Thus the issue was often analysed on the basis of the theory of customs union, that is, whether welfare losses from the trade diversion effect could be offset by welfare gains from the trade creation effect arising from integration. It was later conceded that, for developing countries, the basic economic rationale for co-operation and integration might not be found in the static, efficiency criteria of resource and production reallocation effects as provided in the theory of customs union, but rather in terms of considerations associated with the growth and development potentials for the countries involved in integration.

In the 1970s a series of global economic crises, touched off by the first oil-price adjustments, hit many developing countries very hard. In retrospect, the turbulent world economy of that period proved to be a great spur to regional economic co-operation efforts in the third world. Although those crises clearly demonstrated that national economies were actually more closely interdependent than had been previously thought, at the same time, developing countries, being mostly small to medium-sized with weak economic structures, felt vulnerable to the deteriorating international economic environment and were increasingly inclined to seek more autonomous means or greater self-reliant patterns of development. When national self-reliance was often too unrealistic a policy to pursue, self-reliance on a regional basis seemed to be an acceptable alternative, an idea that was incorporated into the new international economic order. Hence the crisis period in the 1970s witnessed renewed attempts and fresh efforts by groups of developing countries at regional economic co-operation, which was also strongly endorsed by many development economists as a form of South-South economic co-operation.

[1]The two terms are often used interchangeably though imprecisely; in this report, the regional co-operation is used for activities in ASEAN countries while regional integration refers to the activities undertaken by the Andean Pact Group. According to Bela Balassa, co-operation includes various measures to harmonize economic policies and to lessen discrimination, whereas economic integration includes measures to suppress or remove discrimination. For example, an international agreement on trade belongs to the broad area of economic co-operation, but the abolition of trade restrictions is an act of economic integration. ("The theory of economic integration", in *Latin American Economic Integration: Experiences and Prospects*, Miguel S. Wionczek, ed. (New York), Praeger, 1966.)

The upsurge of interest in regional economic co-operation between third world countries can also be easily understood in terms of the international economic relations prevailing in the 1970s. It was argued that many developing countries would obtain a more equitable participation in the growth of the international economy if they acted as a group. Many developing countries were affected, in varying degrees, by the increasing number of global issues involving primary commodities, foreign investment, transfer of technology, protectionism, economic aid and so on. There was therefore a clear need for them to organize themselves to deal with those vital international economic issues collectively in order to secure a better leverage *vis-à-vis* the developed countries or other interest groups.

Over the years the objectives and functions of regional economic co-operation or integration in the third world have become more complex and have increased in significance. It is now widely accepted that the net benefits of any regional economic co-operation or integration scheme between developing countries can no longer be realistically analysed within the neo-classical economic framework, but should be understood in a broader institutional context. The bases and rationales for regional co-operation or integration are apt to differ substantially from region to region or case to case, and the various schemes should therefore be judged for success or failure in accordance with the institutional conditions and economic problems specific to the individual regions. Above all, the progress of economic co-operation or integration should not be measured in purely economic terms, but should be put in the larger context of the political reality and historical circumstances from which such efforts have evolved.

B. Experiences of economic co-operation in ASEAN and the Andean Pact countries

Regional economic co-operation in the countries of the Association of South-East Asian Nations (ASEAN)—Indonesia, Malaysia, the Philippines, Singapore and Thailand[2]—and those of the Andean Pact—Bolivia, Colombia, Ecuador, Peru and Venezuela—have stood out in recent years as relatively successful experiments in the third world. Both regional organizations have been actively pursuing or intensifying efforts to improve regional economic co-operation. While the current co-operative efforts of ASEAN are cautious and moderate, and seem to be directed towards more "regional co-operation", those of the Andean Pact are aimed at the more ambitious goal of "regional integration".

This report is focused on regional co-operation in industry, which plays a pivotal role in regional economic co-operation schemes. Most regional schemes start off with co-operation in trade through selective liberalization or tariff reduction, which is easier to administer. However, real progress is achieved usually with industrial co-operation. This is particularly true of economic co-operation in the third world, where intraregional trade is usually low and the

[2]As of early 1984, Brunei Darussalam became a member of ASEAN.

scope for its further expansion limited unless there is a dramatic shift from trade in traditional to trade in manufactured products. For instance, the proportion of intraregional exports of the Andean Pact countries at the time of its formation was only 3 per cent. In the case of ASEAN, the proportion appears to be much higher, being slightly above 15 per cent. However, that figure is highly misleading, for the level of intra-ASEAN trade would be much lower if the entrepôt trade of Singapore and the traditional trade-flow between Singapore and Malaysia, which used to be one country, were not included. Furthermore, the bulk of the intra-ASEAN trade was and still is in primary products and other traditional items. Therefore a significant increase in the intraregional trade for ASEAN or the Andean Pact countries is unlikely until a substantial growth in the volume of trade in manufactures is achieved. But the expansion of trade in manufactures between third world countries is often limited by their lack of industrial complementarity, apart from the fact that the export markets for the major industrial commodities are extremely competitive and have tended to be dominated by the highly industrialized countries and by a handful of dynamic, newly industrializing countries in recent years. One effective means to promote regional trade in manufactured products between developing countries is regionally co-ordinated measures to increase their industrial complementation. Hence the need for industrial co-operation.

Industrial co-operation is the key not only to the continuing growth of intraregional trade, but also to a region's success in its overall industrialization effort. It is well known that the domestic markets of the member States that constitute ASEAN and the Andean Pact are too small to permit the efficient operation of a whole range of manufacturing industries. Smaller economies could concentrate on a limited number of carefully selected manufactured products in order to realize sufficient economies of scale. Such a pattern of selective development of manufacturing industries is known as "truncated industrialization", for which regional industrial co-operation can act as a catalyst. But truncated industrialization is most effective and efficient where there is a large neighbouring industrialized country that can readily supplement or complement the inputs produced domestically, in the way the Japanese economy has interacted with the economy of the Republic of Korea. Thus regional co-operation between third world countries does not necessarily develop into a regional autarky, but the process may well lead to closer economic interdependence with larger industrial centres outside the region.

Currently the member States of ASEAN and the Andean Pact are in the process of making the crucial transition from import-substitution industrialization to that based on export expansion. Indeed, regional co-operation can facilitate industrial development under both phases. In the short run, regional co-operation offers the opportunity for member countries to pool their domestic markets and therefore operates as a convenient arrangement for the extension of the import-substitution process. But some economists have warned developing countries against the temptation of taking advantage of such short-term gains that would result in the prolonging of the otherwise stagnating import-substitution phase through the creation of an artificially expanded regional market. One noted economist has stated that: "A region in which all member countries base their trade and development strategies upon a co-ordinated approach to IS [import-substitution] would be doomed to failure."[3] Regional co-operation works best when member countries are in the initial stage of looking for export expansion. In this way, regional grouping is linked with the more positive industrialization strategy based on sharing export expansion. This can be done by structuring regional co-operation arrangements to promote more outward-looking industries and taking advantage of world-wide opportunities for trade expansion. There are clear advantages for a regional body to formulate a common export-promotion strategy because many export-promotional measures can be more cheaply and efficiently implemented through a regionally co-ordinated framework.

The significance of industrial co-operation between developing countries can further be envisaged in a "dynamic" context. In the long run, industrial co-operation can lead to co-ordinated industrial planning on the regional scale, which will increase the industrialization potential of the region as a whole. Furthermore, the processes of regional industrial co-operation and the region's industrial development can feed on each other. Industrial co-operation provides an impetus for further industrial growth in the region by providing opportunities for the establishment of new industries to take advantage of the regionally based division of labour and specialization of production. At the same time, rapid industrial growth will increase the capacity and flexibility of the region for greater industrial co-operation.

It was in recognition of the importance of industrial co-operation as a key strategy for regional economic co-operation and of its potential impact on a region's overall industrialization that the ASEAN/Andean Pact Conference and Study Tour on Regional Industrial Co-operation[4] was convened in October 1982 at Lima followed by visits by the ASEAN participants to the capitals of the five Andean Group countries. The main objective of the Conference was to review the progress of industrial co-operation in these two regions as well as to provide a forum for the ASEAN and Andean Pact member countries to exchange views and experiences regarding their efforts towards various forms of regional economic co-operation, particularly industrial co-operation. The experiences gained by these two regions in their past and current efforts towards regional economic co-operation could be instructive for other third world countries.

By and large, the members of ASEAN and the Andean Pact belong to what the World Bank has categorized as the middle-income developing countries, sharing a remarkable degree of similarity in their levels of socio-economic development, as shown in table 1. The notable difference between the two groups is that most Andean Pact countries have smaller populations and tend to be more urbanized than the ASEAN countries excepting Singapore. In terms of economic growth performance, however, the ASEAN countries seem to be more dynamic, especially during the last decade, as reflected in the major performance indicators compiled in table 2. In the long run, rapid economic growth can facilitate regional economic co-operation.

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[3]Ann O. Krueger, "Regional and global approaches to trade and development strategy", in *ASEAN in a Changing Pacific and World Economy*, Ross Garnaut, ed. (Canberra, Australia National University Press, 1980).

[4]"Report on the ASEAN/Andean Pact Conference and Study Tour on Regional Industrial Co-operation, 11-23 October 1982" (UNIDO/IS/R.9).

Table 1. Some basic socio-economic indicators of ASEAN and the Andean Pact

	Area (1 000 km²)	Population (millions) mid-1980	GDP (millions of $) 1980	GDP per capita ($) 1980	Life expectancy at birth	Average annual growth of population 1970-1980	Labour force in agriculture (%) 1960	Labour force in agriculture (%) 1980	Urban population (% of total) 1960	Urban population (% of total) 1980	Population per physician 1972	Daily per capita calorie supply (% of requirement) 1977	Adult literacy (%) 1977	Secondary school enrollment as % of age group 1979
ASEAN														
Indonesia	1 919	147	63	430	53	2.3	75	58	15	20	13 670	102	62	22
Malaysia	330	14	23	1 620	64	2.4	63	50	25	29	7 640	116	—	52
Philippines	300	49	34	690	64	2.7	61	46	30	36	2 810	107	75	63
Singapore	1	2.4	11	4 430	72	1.5	8	2	100	100	1 250	135	—	59
Thailand	514	47	31	670	63	2.5	84	76	13	14	8 220	97	84	29
Total	3 064	259	162	625										
Andean Pact														
Bolivia	1 099	6	3	570	50	2.5	61	50	24	33	1 850	87	63	35
Colombia	1 139	27	32	1 180	63	2.3	51	26	48	70	1 970	98	—	46
Ecuador	284	8	10	1 270	61	3.0	58	52	34	45	1 570	90	81	49
Peru	1 285	17	16	930	58	2.6	52	40	46	67	1 530	98	80	50
Venezuela	912	15	54	3 630	67	3.3	35	18	67	83	930	102	82	40
Total	4 719	73	115	1 575										

Source: World Bank, *World Development Report 1982* (Washington, D.C., 1982).

Note: A dash (—) indicates that the item is not applicable.

Table 2. Economic performance indicators

	Average annual growth rate (%) 1970-1980					Manufacturing share in GDP (%) 1980	Annual rate of gross domestic investment (%) 1970-1980	Gross domestic investment as % of GDP 1980	Average annual growth of trade (%) 1970-1980		Current account balance (million $) 1980	Debt service as % of exports 1980
	GDP	Agriculture	Industry	Manufacturing	Services				Exports	Imports		
ASEAN												
Indonesia	7.6	3.8	11.1	12.8	9.2	9	14.4	30	8.7	11.9	2 872	8.0
Malaysia	7.8	5.1	9.7	11.8	8.2	23	10.3	29	7.4	7.0	−470	2.3
Philippines	6.3	4.9	8.7	7.2	5.4	26	10.5	25	7.0	7.1	−2 046	7.0
Singapore	8.5	1.8	8.8	9.6	8.5	28	6.7	43	12.0	9.9	−1 577	1.1
Thailand	7.2	4.7	10.0	10.6	7.3	20	7.7	22	11.8	5.4	−2 280	5.2
Andean Pact												
Bolivia	4.8	3.1	4.3	6.0	5.7	14	2.9	15	−1.6	8.9	−115	25.9
Colombia	5.9	4.9	4.9	6.3	7.0	22	5.4	25	1.9	5.7	−25	9.6
Ecuador	8.8	2.4	12.1	9.8	9.4	8	8.8	23	7.5	9.9	−575	14.0
Peru	3.0	—	3.7	3.2	3.5	27	2.3	19	3.9	0.2	618	31.3
Venezuela	5.0	3.8	3.0	5.7	6.5	16	—	25	−6.7	−10.9	−4 240	13.2

Source: World Bank, *World Bank Report 1982* (Washington, D.C., 1982).

Notes: A dash (—) indicates that the item is not applicable; a minus sign (−) before a figure indicates an amount subtracted.

I. ASEAN industrial co-operation

A. Overall evaluation and framework

The Association of South-East Asian Nations (ASEAN) was formed in August 1967 in Bangkok by Indonesia, Malaysia, the Philippines, Singapore and Thailand. As stated in the Declaration of ASEAN Concord, one of the overall objectives of ASEAN is to "accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership".[5]

During the first part of its existence, ASEAN was little known even to the general public of the region, although regionalism was not an entirely new phenomenon as the region had made several unsuccessful attempts at some form of grouping prior to ASEAN. None the less, the failure of previous efforts in regional grouping and the limited progress of ASEAN towards regional co-operation in its initial period underscore the obstacles to regionalism in South-East Asia. It is one of the world's most heterogeneous regions in terms of culture, language, ethnicity, religion, history and tradition. Great disparity also exists between countries there in respect of physical area, population size, and stages of economic development.

In 1975 the drastic political change in South-East Asia resulted in the stiffening of the political will of the ASEAN leaders for a more active approach to regional co-operation. Meanwhile, a string of international economic crises starting with the oil-price adjustments in 1973 had further increased the awareness of the ASEAN countries of their economic vulnerability, an awareness that culminated in the convening of the first ASEAN Summit in Bali in February 1976, attended by the five Heads of State.

The Bali Summit led to the signing of the Declaration of ASEAN Concord, which was a milestone in the history of ASEAN co-operation. Apart from endorsing the development of regional unity and regional identity, the Declaration puts forward a programme of action as the framework for ASEAN co-operation. Specifically for economic co-operation, it highlights four areas: *(a)* basic commodities, particularly food and energy: member countries agree to allow each other priority access to supplies and markets in critical circumstances; *(b)* industrial development: member countries will establish large-scale regional industrial projects, particularly those that will contribute to the basic needs of the region and will utilize local raw materials; *(c)* trade: member countries will strive to promote intra-ASEAN trade through preferential arrangements and greater access to extra-regional markets; and *(d)* economic issues: member countries will take a unified stand in approaching international commodity and other world economic issues.

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[5]"Declaration of ASEAN Concord", *10 Years ASEAN* (Jakarta, Indonesia, Association of South East Asian Nations, 1978), p. 111.

At the Bali Summit, the Heads of ASEAN Governments also signed the Treaty of Amity and Co-operation in South-East Asia and agreed to establish the ASEAN Secretariat. ASEAN had started without a formal charter and without a central co-ordinating secretariat. Prior to the Bali Summit, the annual meeting of ASEAN Foreign Ministers together with a standing committee constituted the only institutional machinery. As various co-operation schemes were considered and proposed in Bali, a more formal organizational structure was deemed necessary. Hence the decision to set up a central secretariat.

The ASEAN Secretariat is located in Jakarta, the capital of the largest member of ASEAN, Indonesia. Charged with administrative and co-ordinating functions, the ASEAN Secretariat operates under the leadership of a secretary-general. Three bureaus, in charge of economic, science and technology, and social and cultural affairs, have been created, with the Economic Bureau being, perhaps, the most important.

The ASEAN Declaration stipulates that ministerial meetings on economic matters should meet when necessary. With the focus of ASEAN activities shifting to economic co-operation after the Bali Summit, the ASEAN Economic Ministers Meetings have assumed increasing importance relative to the regular ASEAN Foreign Ministers Meetings. The ASEAN Economic Ministers direct all economic co-operation activities through five powerful Economic Committees, each of which is hosted by an ASEAN member country, as follows:

Committee on Industry, Minerals and Energy (COIME), hosted by the Philippines
Committee on Food, Agriculture and Forestry (COFAF), hosted by Indonesia
Committee on Finance and Banking (COFAB), hosted by Thailand
Committee on Transportation and Communications (COTAC), hosted by Malaysia
Committee on Trade and Tourism (COTT), hosted by Singapore

Each of these Committees is in turn supported or serviced by a host of sub-committees, expert groups, working groups and other subsidiaries. COTT, for example, has the sub-committee on Tourism and the Trade Preferences Negotiating Group; COFAB has the Working Group on Customs Matters and the Experts Group of ASEAN Central Bank/Monetary Authorities; COTAC has sub-committees in the fields of land transportation, shipping and ports, civil aviation, and posts and telecommunications in addition to lower-level subsidiaries such as the Joint *Ad Hoc* Working Group on Shipping.

In broad terms, the primary tasks of these five Committees are threefold: *(a)* to review the proposed basic guidelines covering economic co-operation in their particular area and submit them to the ASEAN Economic Ministers Meeting for deliberation; *(b)* to review proposed projects with the aid of an interim technical secretariat in the host country and selected groups of experts; and *(c)* to submit project proposals and recommend action to the ASEAN Economic Ministers.

Apart from the formally constituted groups, other official ASEAN bodies such as the ASEAN Boards of Investments and the Governors of ASEAN

Central Banks/Monetary Authorities have also met formally and informally to discuss those aspects of ASEAN economic co-operation under their purview. In short, as ASEAN economic co-operation activities have developed in scope and intensity over the years, the ASEAN organizational structure has also grown, giving rise to a large number of working committees and *ad hoc* meetings at the lower level. The main organizational features of ASEAN are given in figure I.

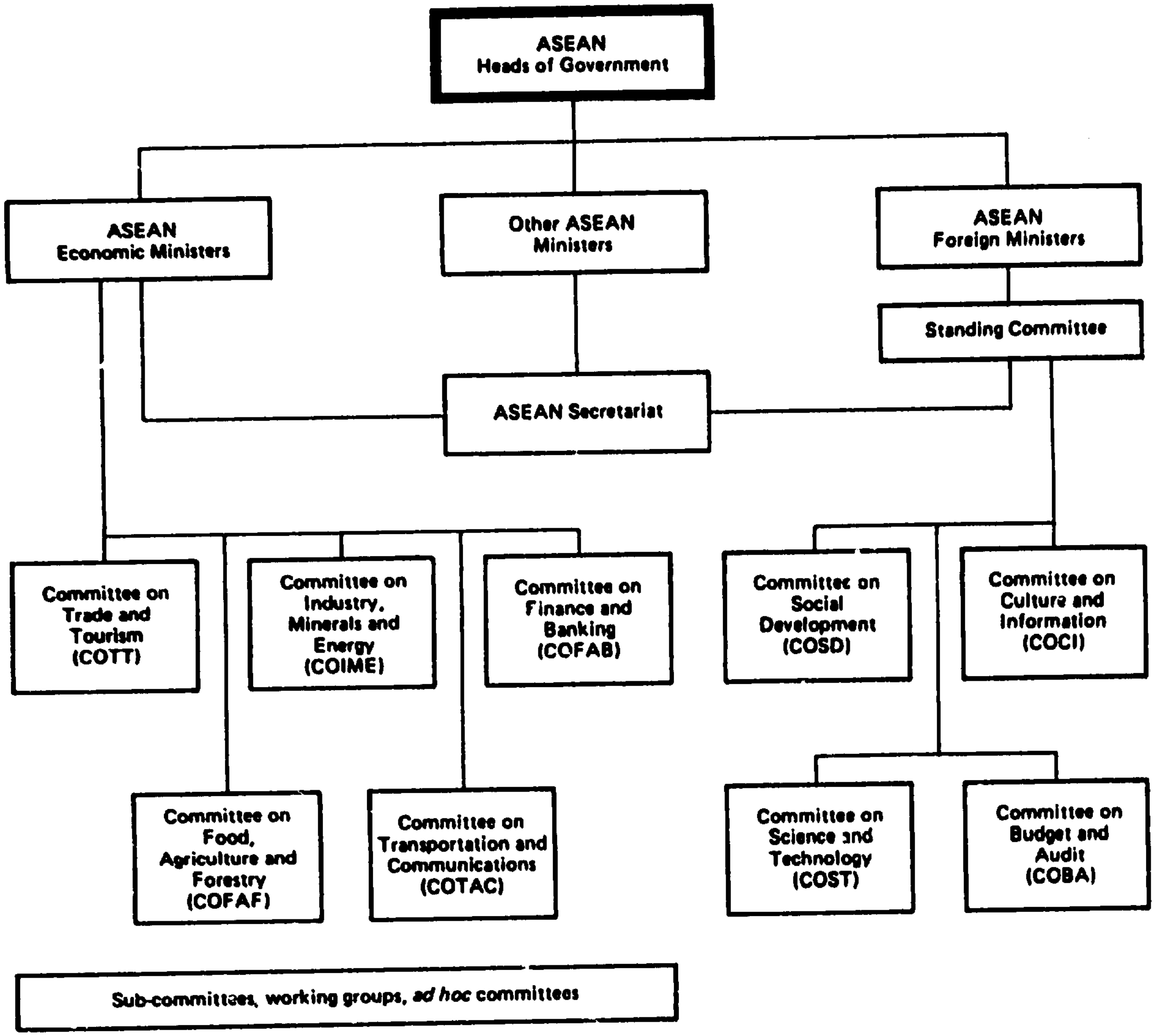
B. Trade and industrial development in ASEAN countries

The ASEAN economies are by nature trade-oriented, with each having a large external sector and a generally high trade-output ratio. These economies belong to the export-propelled type in the sense that their economic growth is largely derived from their export growth. With the exception of Singapore, the ASEAN economies are heavily dependent on primary exports. In addition to a high proportion of its commodities of mineral and agricultural origin, including rice and petroleum, the ASEAN region annually exports over 80 per cent of the world's natural rubber, palm oil, tin and coconut products. Most of these primary products are destined for the industrial countries of the Organisation for Economic Co-operation and Development (OECD). Consequently, trade is both an engine of economic growth and a mechanism by which the ASEAN economies become highly dependent upon the industrialized world.

The structure of the economic dependency of ASEAN countries is well expressed in their pattern of trade relations. In the 1960s, over 70 per cent of the exports of ASEAN countries went to the industrialized countries, which in turn supplied over 65 per cent of the region's total imports. Although in the 1970s these figures had been somewhat reduced (roughly down to around 60 per cent), they remained high. Moreover, trade dependency is but one aspect of the region's overall system of economic dependency on the industrialized countries, which also supply finance, capital, direct foreign investment and technology. It is stressed that this dependent economic relationship on the industrialized countries has not been working entirely to the disadvantage of ASEAN economies, which through such close linkages with the industrial economies have been able to capture and use the international market forces for their own high economic growth. None the less, there is wide consensus among policy-makers in ASEAN, along with those in other parts of the developing world, that a price has been paid for their economic over-dependence on the industrialized countries in the form of subjecting their open economies to the constant ebbs and flows of the international market system. Throughout the 1970s the ASEAN economies experienced large ups and downs in the process of their economic growth due to commodity price fluctuations, recession in the industrialized countries, and then rising protectionism. It is therefore vital for ASEAN to diversify its external economic relations with a view to reducing any excessive dependence on the industrialized countries. One effective means to fulfil this objective is to promote regional self-reliance through greater economic co-operation.

As one consequence of the high trade dependence of ASEAN on the industrialized countries, the volume of intraregional trade between the ASEAN countries is low. In the early 1960s, the share of intraregional trade was around

Figure I. Organizational structure of ASEAN



9 per cent; this increased to around 15 per cent in the late 1970s. It is, however, misleading to suggest that the formation of ASEAN brought about this sharp rise in the level of intraregional trade because much of the "growth" was largely due to changes in the statistical coverage. Traditionally, the intra-ASEAN trade has been heavily concentrated in the subgrouping comprising Singapore, Malaysia and Indonesia, involving movements of primary products, foodstuffs, and other traditional items. This predominance of traditional products actually constitutes a structural constraint on its growth.

The lack of immediate growth potential in intra-ASEAN trade may initially have encouraged the argument, on the basis of the old theory of customs union, that the factor endowments of the ASEAN countries seemed so similar to each other that further integration would result in more trade diversion than trade creation. However, the static assumptions on which such theoretical arguments are based should be borne in mind. In practice, economic policies are rarely formulated within a narrow, purely economic framework but are based on wide-ranging dynamic considerations. Viewed in this light, the present limited growth of intra-ASEAN trade should not be taken to reflect the absence of real benefits from future regional economic integration. The argument may be reversed: the low volume of intra-ASEAN trade turnover may be viewed as a pointer to the existence of potential for future growth.

The high trade dependence of ASEAN on the industrialized countries and much of the structural weakness in its foreign trade sector arises from, or is aggravated by, its high commodity concentration. Commodity concentration is not a problem unique to ASEAN, but is familiar to almost all the post-colonial economies depending on primary exports. The whole problem can be viewed from two angles: the short-term instability of markets for primary products as reflected in wide year-to-year fluctuations in prices and export earnings; and the adverse long-term price trends as reflected in the deteriorating terms of trade and the slow growth in export earnings. From the perspective of the developing countries, ASEAN included, these problems are compounded by the fact that while the prices of most of their primary products face a long-term declining trend, the prices of their manufactured imports from the developed countries, fuelled by rising inflation, have risen steadily over the years.

ASEAN as a major exporter of primary products would clearly stand to gain if the long-term price trends of its main primary exports were steadily moving up and were sustained, so that greater resources could be transferred to the region for development. In the long run, ASEAN needs to develop its own comprehensive commodity strategy for the more efficient management of its primary resources in the face of the rapidly changing international economic environment. This should include diversification and various stabilization measures. Ultimately, successful operation of any commodity policy depends on many crucial external factors emanating from the industrialized countries as much as on its effective implementation on the part of the primary exporting countries. This means that ASEAN could take advantage of the regional framework to negotiate with the industrialized countries individually or in groups, for example the European Economic Community (EEC), on matters such as the reduction of their effective protection of processed primary products. An effective commodity policy cannot be divorced from joint international action as reflected in some successful international commodity agreements. ASEAN could also do well in other international arenas if it were to act in unison by following a regional approach.

While the overall trade structure and pattern of ASEAN has provided a fertile ground for greater regional economic co-operation, the restrictive trade policies pursued by some ASEAN countries, especially the more inward-looking members, have not been generally conducive to that effort. The Indonesian tariff regime, for instance, is protective. The tariffs escalate steeply, with tariff rates rising from earlier to later stages in the production process, so that the rates are much higher for final consumer goods than for intermediate and capital goods. To this must be added, in many cases, the virtually prohibitive non-tariff barriers in the forms of quantitative restrictions and cumbersome customs regulations and procedures. The same pattern, though perhaps to a lesser degree, is repeated in the Philippines and Thailand. In the case of Malaysia, the overall system of protection is less severe than the above three countries, although the average effective rates remain quite high, varying according to industry. Singapore, traditionally an entrepôt-trade centre and with an open economy, has the most liberal trade system in ASEAN. The protectionist trade policy in Singapore was mild even when it was first introduced in the 1960s to promote industrialization; protection and restrictions were altogether removed by the middle of the 1970s.

It is generally recognized that the restrictive trade strategies followed by most ASEAN countries have, on balance, produced unfavourable effects on their economies, largely by distorting their economic structures. The original intention of such policies was to discourage the importation of consumer goods so as to stimulate industrialization. As a result, a number of less efficient industries of the import-substitution type sprang up, while export industries suffered and the balance-of-payments situation deteriorated. Clearly, such an inner-directed development pattern would not be conducive to regional economic co-operation: *(a)* a restrictive trade-protection system would likely be harmful to regional trade; and *(b)* the industrial structure built under import-substitution would be likely to pose more obstacles to regional industrial co-operation, as will be more fully discussed in the next section.

C. Industrialization strategies of the ASEAN countries

The basic rationale behind the determined efforts of the ASEAN countries to push ahead with their industrialization programmes is clear. A common aspiration among the leaders of the developing countries throughout most of the postwar period has been to industrialize rapidly; manufacturing industries were to provide a dynamic force for economic progress towards high standards of living and full employment. Often underlying this notion was the argument that the post-colonial economic structures in their countries, heavily dependent upon primary exports, did not have the capacity to lead to a real development breakthrough, partly because of the limited spread of their past traditional trade-led type of economic growth, and partly due to unfavourable long-term movements in the prices of their major primary exports.

The industrialization strategies that were initially promoted throughout the ASEAN region were on import-substitution, the problems of which are well known. Industries set up behind protective tariffs tend to be small, inefficient and inward-looking, so that they can rarely look beyond their national boundaries to the competitive foreign markets. Nevertheless, the process of import-substitution was a major source of industrial growth for the ASEAN region during the 1960s and to a significant extent during the 1970s.

In Malaysia, import-substitution was a major source of its industrial growth for the period 1959-1968. In Thailand, most industries showed positive import-substitution throughout the period 1960-1972. In the Philippines, with the longest industrialization history in the region, the import-substitution process really spanned two decades, starting from the early 1950s. By comparison, Indonesia was the late comer, with import-substitution industrialization starting in earnest only in the late 1960s or the early 1970s. Starting in the 1970s, the ASEAN countries, with perhaps the exception of Indonesia, have been making serious attempts to transform their industrial sectors from import substitution to export expansion. Singapore has been the exception to the general pattern having set up export-oriented industries from the start, and hence achieved successful transition to "export-substitution" by the early 1970s.[6]

Largely as a result of the import-substitution strategy, certain structural issues or problems have emerged in the process of industrialization that are common to the manufacturing sector of most ASEAN countries. These problems will pose some obstacles to ASEAN industrial co-operation efforts.

First, the ASEAN economies are still highly dependent on manufactured imports, despite years of industrialization efforts. This is in part due to the operation of import-substitution, which tends to replace only consumer goods plus some categories of intermediate goods while the import demand for producer's goods, industrial raw materials and energy in value terms is often well in excess of the reduction in the import of consumer goods. Thus import-substitution-based industrialization in ASEAN countries has in effect contributed significantly towards a deterioration of their balance-of-payments situation.

Secondly, the internal structure of the manufacturing sector of all the ASEAN countries has developed a peculiar dualistic pattern. On the one hand, it is characterized by the proliferation of "small" industries, typically reflecting the early stages of industrial evolution. On the other hand, a few large establishments tend to dominate the whole industrial scene in terms of output and capitalization and even employment. In the Philippines, for instance, establishments with more than 20 workers in 1971 represented only 20 per cent of the total number of establishments but accounted for 84 per cent of total employment, 95 per cent of industrial value added and 96 per cent of fixed capital assets. Such a heavy concentration of industrial activities in large firms reflects the past biased preference of the ASEAN Governments as well as the distortion caused by the import-substitution policy. Consequently, the structure of the manufacturing sector in most ASEAN countries remains rigid, unbalanced and fragmented making it difficult for it to enter into large-scale industrial co-operation on a regional basis.

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[6]For a more detailed discussion of the industrialization problem of ASEAN, see John Wong, *ASEAN Economies in Perspective: A Comparative Study of Indonesia, Malaysia, The Philippines, Singapore and Thailand* (London, Macmillan, 1980, second printing), chap. 3.

Thirdly, a further feature of the industrial imbalance in the ASEAN countries except Singapore is the high degree of geographical concentration of industrial activities, which seems even more conspicuous than the pattern of industrial concentration based on large-scale firms. Thus modern industries are heavily concentrated in Java, on the west coast of peninsular Malaysia along the tin-and-rubber belt, in the Metropolitan Manila region and in Greater Bangkok, much in line with the regional population imbalances and regional income disparities that prevail in the ASEAN countries. To some extent, the present lopsided pattern of locations has been the unanticipated consequence of past development policies—for example, industries set up under import-substitution in the region naturally congregate in big cities as these industries are producing primarily for urban consumption. Regional industrial imbalance in the individual ASEAN countries could also complicate arrangements for regional industrial co-operation.

Finally, discussion of the pattern of industrialization of ASEAN countries is not complete without reference to the role played by foreign investment. On account of the openness of the ASEAN economies, coupled with the promotional efforts of the Governments to attract foreign investment through various packages of incentives and concessions, there is now a high degree of foreign economic participation in their national economies. Much of the region's foreign investment originally stemmed from a colonial background, initially operating in areas connected with the natural resources sector and trading. Later, foreign capital was increasingly drawn into the manufacturing sector in response to the promotional policies of the host Governments. Hence in ASEAN countries there is now a general pattern of concentration of foreign capital in the chemical-based and metal-based industries, which usually require large-scale operations and modern technology. This is not the place to discuss the standard of performance of foreign enterprises in ASEAN countries. On the whole, they have responded well to some major economic objectives in most of those countries. As foreign enterprises have already exerted such extensive influence on the manufacturing sector of the ASEAN economies, it should be considered whether it would be realistic to include the participation of foreign enterprises in some form or other in the process of regional economic integration. And also whether foreign economic components could be utilized at some stages to accelerate the region's industrial co-operation efforts.

In recent years, the ASEAN economies have been undergoing rapid structural changes in response to domestic and international challenges. For the ASEAN countries, the lessons of the 1960s have been well learned, and efforts are being taken to liberalize their economies and render them more outer-directed. Thus the trade regimes have been progressively rationalized and export industries promoted. For the manufacturing sector as a whole, there are clear signs that it is in the throes of making the transition from import-substitution to export expansion.

Singapore's manufacturing sector is almost exclusively oriented towards the export markets. None the less, the industrial structure in Singapore is being vigorously transformed towards more capital-intensive activities due to labour shortages and rising labour costs. In the process, labour-intensive industries are being phased out while efforts are increasingly concentrated on the development of skill-intensive and high value-added industries.

As a late comer to the industrialization scene, Indonesia stands in great contrast to Singapore in the development pattern. Most industrial activities in Indonesia are predominantly in the import-substitution phase, sustained by restrictive tariffs and prolonged by a huge domestic market as well as the foreign-exchange earnings of oil exports of the 1970s. Still, there have been unmistakable changes over the past few years. There are two compelling reasons for Indonesian policy-makers to adopt measures to accelerate industrial restructuring. First, it has become obvious to the Government of Indonesia that the existing import-substitution strategy has not been effective in terms of employment creation. Secondly, the growth of extractive exports, particularly the exhaustible petroleum that alone accounts for nearly 70 per cent of its total exports, is not likely to continue beyond the mid-1980s as the locomotive for the Indonesian economy. Thus Indonesia is reorienting its development strategy to a more diversified industrial base. Many industries have to be restructured for greater efficiency and made more outward-looking.

The problems and prospects of industrial expansion for Malaysia, the Philippines and Thailand seem to be those that fall between the polar cases of Indonesia and Singapore. The former three countries are likely to press for an increased growth of manufactured exports, which started in the late 1970s. Industrial restructuring is being pursued more vigorously as it becomes clear that the relatively easy initial period of import-substitution based on simple fabrication for domestic consumption is over. Industries will have to be upgraded in preparation for the second round of import-substitution in the manufacture of intermediate and capital goods to form the main source of their industrial growth. At the same time, efforts for the development of labour-intensive industries geared to foreign markets will be intensified.

As the manufacturing industries of ASEAN are, in various ways, being geared up to the challenge of the 1980s, the international economic environment, due to the slackening of world trade and the reduction of international flows of capital and technology, is making it much more difficult for ASEAN to continue its high industrial growth. It is beyond a doubt that the export markets for manufactures will be highly competitive in the 1980s. Some ASEAN export industries will face stiff competition from the successful NICs such as Hong Kong and the Republic of Korea, while others will be affected by the resurgence of the Chinese economy and its re-integration into the world market. If China were to be successful in its economic modernization effort in the immediate future, it would have an enormous capacity to mount a large-scale export drive based on low-cost labour-intensive activities with serious repercussion on some of the budding export industries of ASEAN, e.g. some textiles industries. Moreover, the industrially advanced economies, hit by a prolonged recession, are increasingly adopting stringent protectionist measures against manufactured exports from the developing countries.

The rise of domestic and international problems in the 1980s could actually create a greater opportunity for more serious regional economic co-operation endeavours. To cope with mounting protectionist barriers in the industrialized countries, the ASEAN countries will find it more effective to act as a group in pressing for significant tariff concessions from industrialized countries through such mechanisms as multi-lateral trade negotiations, or for easier access to the markets of these countries through the generalized system of preferences (GSP) schemes. The bargaining advantage of a regional economic co-operation framework is more obvious in times of economic crisis. Meanwhile, as the manufacturing industries in ASEAN are forced to undergo structural adjustments to meet new international and domestic pressures, the scope for regional industrial co-operation will also increase. With a more efficient and outward-looking industrial structure, member countries will have greater flexibility to go into various forms of regional co-operation.

D. The techniques of ASEAN economic co-operation

The basic techniques and strategies for ASEAN economic co-operation were laid down in the Declaration of ASEAN Concord. Broadly speaking, economic co-operation in ASEAN operates on three fronts: *(a)* trade liberalization; *(b)* industrial co-operation; and *(c)* a variety of agreements and accords initiated by various government bodies, semi-government organizations and the private sector. Activities in the third area range from arrangements for the priority supply of rice and petroleum or money swapping to those of more symbolic value such as pledges by trade or professional organizations to increase mutual contact. In the long run, all joint activities in the three areas are interrelated and will operate to enlarge the scope for regional economic co-operation and increase its momentum. Even the many gestures in social and cultural areas, which apparently lack real substance, may serve the cause of regional economic co-operation directly and indirectly through popularizing the very notion of regionalism. In concrete terms, however, real progress towards integration will have to come through an advance in either trade or industrial co-operation. Hence in the formal sense, the main thrust of the overall ASEAN economic co-operation strategies hinges on the first two fronts: trade liberalization and industrial co-operation.

This was foreseen by a United Nations study team, headed by G. Kansu, with the British economist E. A. G. Robinson acting as a Senior Adviser,[7] which was organized at the request of ASEAN, to look into the scope of economic co-operation for ASEAN and to identify possible ways and means for more concrete co-operation action. The Study Team recommended three major techniques for regional economic co-operation:

(a) Trade liberalization through preferential trading arrangements, aimed at promoting intra-ASEAN trade and greater specialization between member countries;

(b) Industrial complementation arrangements, mainly undertaken by the private sector and aimed at rationalizing existing industries by introducing complementarity in production;

(c) Package-deal agreements for the allocation of large-scale industrial plants to be negotiated at the official level in order to launch certain large-scale industries that require a regional market to become economically viable.

These recommendations were closely followed by the ASEAN leaders in Bali and became the backbone of their regional economic co-operation.

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[7] "Economic co-operation among member countries of ASEAN", *Journal of Development Planning*, No. 7, 1974 (United Nations publication).

The Study Team report, without recommending any definite form for a higher level of economic integration, such as a free-trade area, customs union or common market, suggested three techniques of co-operation that should have allowed for a more steady growth of intraregional trade and for a balanced allocation of large-scale industrial projects to bring about a more equitable distribution of the benefits of regional economic co-operation. Above all, the recommendations were geared to the political reality of ASEAN as it was perceived in 1970, when a cautious approach to regional co-operation was viewed to be the only politically feasible course of action. By 1976, ASEAN, under mounting external pressures, had grown more cohesive and developed a greater propensity to undertake more serious co-operation efforts. Had the Study Team recommended bolder and more ambitious measures for co-operation, it is conceivable that the ASEAN Heads of Governments, under the euphoric influence of the rising "ASEAN spirit" prevailing at the Bali Summit, might have endorsed them in principle.

E. Trade liberalization

Regional co-operation in trade does not only lead to an alteration in the trade pattern of the region, but also ultimately bears directly on the structure and pattern of the region's industrial development. Before going into a detailed analysis of ASEAN co-operation in the field of industry, a brief discussion of its practice in trade co-operation is warranted.

The existing low level of intra-ASEAN trade has always been the rallying point for the "regionalists", who strongly advocate a rapid growth of intraregional trade in order to diversify the region's market base and to reduce its over-dependence on the industrialized countries. However, the intra-ASEAN trade since 1976 has simply failed to take off in real terms and remains stagnant at around the 15 per cent level, despite the implementation of some regional trade liberalization measures. In a sense, the sluggish expansion of intraregional trade in ASEAN brings to the fore the inefficacy, at least in the initial phase, of the technique of trade co-operation adopted by ASEAN. At the same time, the stagnancy of intra-ASEAN trade also reflects the tremendous structural problems and institutional biases operating against intraregional trade. Many of the obstacles standing in the way of intra-ASEAN trade are well known. First, the existing trade and production patterns have allowed only limited absorptive capacity in the ASEAN countries for each other's major exports, such as rubber, tin, timber, palm-oil and coconut products, which are primarily destined to be consumed outside the region. A notable exception is the Thai export of rice. Secondly, the ASEAN economies at their present stages of development have almost exhausted their commercial capacities in responding to the large and growing export markets of the developed countries during the past two decades. Thirdly, the import-substitution policies together with the balance-of-payments difficulties faced by some ASEAN countries have resulted in certain policies that are inherently biased against regional trade, for example high priority for the import of capital and intermediate goods, which are usually supplied by the developed countries.

To overcome these inherent difficulties, the ASEAN economies need to change their overall orientation in the long run. But in the short run, a fundamental change in the technique of regional co-operation in trade can also be effective. Trade liberalization should be more vigorously pursued and be geared towards the small- and medium-scale industries with excess capacities. Ultimately, growth of intra-ASEAN trade cannot be divorced from industrial growth and industrial adjustment in the member countries.

At the Bali Summit meeting, the five Governments, in their Declaration of ASEAN Concord, expressly committed themselves to trade liberalization through preferential trading arrangements. The Preferential Trading Arrangements Agreement, signed by the ASEAN Economic Ministers in Manila in February 1977, provides an overall framework for the member countries to exchange trade concessions to expand intra-ASEAN trade. The instruments for the implementation of that Agreement include extension of tariff preferences, liberalization of non-tariff measures on a preferential basis, long-term commodity contracts, purchase finance support at preferential interest rates, and preferences in procurement by government entities. Of these instruments tariff reductions has been by far the most important. Tariff negotiations are to be conducted by the Tariff Preference Negotiating Group of the Committee on Trade and Tourism, and preferences are to be exchanged on a product-by-product basis. The preferences are in most cases expressed as a certain percentage of the existing import duty levied on extra-ASEAN imports of the products. In the first round, some 1,700 items were initially considered but 200 items were short-listed, out of which only 71 products were finally picked after protracted negotiations and hard bargaining. The first round was approved in June 1977 and implemented in January 1978. Tariff negotiations are held quarterly on the basis of offer-and-request lists of each member country. By the middle of 1981, 5,825 product items with binding zero tariff rates or preferential margins of 20 per cent, 25 per cent or above have been exchanged. By the end of 1982, the number of commodity items approved for preferential trading arrangements had reached 8,527, even though most of those items carried only 10 per cent reduction.

It should be realized that preferential trading arrangements still account for a small percentage of the total intra-ASEAN trade, one reason being that the existing commodity-to-commodity pattern of tariff preferences involves many articles with a low-trade content, especially since tariff reductions are negotiated on the basis of the Brussels Tariff Nomenclature seven-digit level for articles that enter into world trade. A large number of the commodity items included initially on the preferential trading arrangements list were actually articles so refined that they had almost no trade impact.

All this led to arguments that the preferential trading arrangements scheme based on its present structure, and in this initial phase, is not likely to significantly affect the restructuring of the ASEAN trade pattern towards regional orientation. ASEAN might have followed a faster process of trade liberalization had it from the start adopted the more efficacious across-the-board tariff reductions instead of the commodity-to-commodity approach. The commodity-to-commodity approach has an open-ended time-frame and has given rise to cumbersome negotiations between the member States. In contrast, the big-push way of the across-the-board tariff reductions would have been interpreted as a gesture of serious intent and could well have generated the psychological stimulus needed for a significant breakthrough in intra-ASEAN trade.

However, during the last two years fresh efforts have been made in ASEAN to enlarge the general tariff cut to an average of 20-25 per cent, with the cut-off ceiling for the import value of items on the preferential trading arrangements list being raised from $50,000 to $500,000.[8] In addition, measures are being taken to deepen the trade preferences by introducing a 20 per cent across-the-board tariff cut on items with import values of less than $50,000, subject to national exclusion lists on sensitive products.

In the long run such selective trade liberalization, operated through lengthening and deepening the preferential trading arrangements, could produce a significant impact on the region's trade structure. But the mechanism would be far more effective if the products covered included more non-traditional items, preferably those directly related to regional industrial projects or regional industrial complementation schemes. Hence trade liberalization, in the final analysis, is closely linked to industrial co-operation.

F. ASEAN industrial co-operation in practice

The main thrust of the current endeavours of ASEAN towards industrial co-operation is contained in two basic programmes: ASEAN Industrial Project (AIP) and ASEAN Industrial Complementation (AIC). The AIP programme seeks to establish large-scale government-initiated industrial projects, while the AIC programme attempts to promote greater complementarity between existing industries through private initiatives. It was felt that the private sector would be in a better position to initiate and promote AIC due to their extensive and pervasive network of commercial linkages, while Governments would be better equipped to handle large projects involving heavy capital investments. The AIP programme was launched immediately after the Bali Summit attracting a great deal of attention. However, its subsequent lack of quick progress resulted in a shift of the momentum of industrial co-operation to the AIC programme, which is now the mainstay of ASEAN industrial co-operation efforts.

As mentioned earlier, the scope and techniques of regional economic co-operation for ASEAN adopted at the Bali Summit closely follow the recommendations of the United Nations Study Team. Also, some of the findings and recommendations in the "Asian Industrial Survey for Regional Co-operation"[9] prepared in 1973 by the Economic Commission for Asia and the Far East[10] (ECAFE) are also relevant for the current efforts of ASEAN towards industrial co-operation. The techniques of industrial co-operation as recommended by these two United Nations reports are specially geared to the political reality of ASEAN as well as to its existing industrial structure. Thus, the AIP programme would envisage the launching of large industries on a package deal basis by the ASEAN Governments, while the AIC programme would facilitate the rationalization of existing industries, particularly medium-sized or smaller industries, through complementation to take advantage of the enlarged regional market.

[8] All dollars referred to in this publication are United States dollars unless otherwise stated.

[9] The survey was sponsored by ECAFE (now ESCAP) in co-operation with the Asian Development Bank, UNDP and UNIDO. AIDC (9)/1 (United Nations, 1975).

[10] Now the Economic and Social Commission for Asia and the Pacific (ESCAP).

ASEAN Industrial Project

The Declaration of ASEAN Concord provides, *inter alia*, that member countries "shall co-operate to establish large-scale ASEAN industrial plants, particularly to meet regional requirements of essential commodities", and that "the expansion of trade among member states shall be facilitated through co-operation . . . in ASEAN Industrial Project".[11] Priority is to be given to industrial projects that could utilize the raw materials of member countries, create employment, contribute to the growth of food production, and lead to increased foreign exchange earnings or savings.

Immediately after the Bali Summit in March 1976, the ASEAN Economic Ministers gathered in Kuala Lumpur to identify and allocate the first package of AIPs: urea projects for Indonesia and Malaysia, a superphosphate project for the Philippines, a diesel engine project for Singapore and a soda-ash project for Thailand. Each of these five industrial projects was expected to require an investment of approximately from $250 million to $300 million, with the host country taking up 60 per cent of the total equity and the remaining 40 per cent to be shared equally between the other four member countries. The private sector in the host country could take up equity participation up to 40 per cent. It was also agreed that up to 70 per cent of the infrastructural costs of these projects could be financed by foreign loans. Meanwhile, the Government of Japan announced that it was ready to provide $1 billion in loans to help finance the AIPs. But the Japanese made it clear that their financial commitments could only be extended to projects that had been proved economically viable. This was also a point to which the ASEAN leaders had agreed, and they had since repeatedly stressed that the economic viability of the projects must be established by feasibility studies before approval was given to start.

In some ways the original allocation of the AIPs seems to be fairly rational in terms of location, factor endowment, industrial structure, raw-material supply and market potential. While the engine project was appropriate for Singapore with her urban economy and a relatively advanced industrial structure, the other four industries were resource-based industries clearly suited to the needs of the other four agrarian ASEAN countries for the technical transformation of their agricultural sectors. Beyond such a generalization, rational allocation also required the fulfilment of both efficiency and equity conditions before a particular project be declared viable.

The progress of the AIP scheme has, however, been slow. So far only the Indonesian and Malaysian urea projects are expected to go into commercial production by 1984. The Thai soda-ash project is still a feasibility study, while the remaining two projects allocated to the Philippines and Singapore have been officially withdrawn.

The original concept of the AIPs was, as indicated earlier, based on the "package-deal technique" as recommended by the United Nations team. Such a technique envisages a prominent role for the member Governments in the identification, selection, location and implementation of these projects. It is believed that the direct involvement of Governments in large-scale enterprises

[11] "Declaration of ASEAN Concord", *10 Years ASEAN* (Jakarta, Indonesia, Association of South-East Asian Nations, 1978), p. 111.

would also help to ease the infrastructural bottle-neck that is likely to crop up in some ASEAN countries.

There is a great deal of economic sense in the ASEAN countries undertaking the package-deal approach to industrial co-operation. Industries that are not economical in any one member country could become viable if set up on a regional co-operation basis because of the resultant larger market. Accordingly, the economies of scale become the basic rationale for the establishment of regional industries.

The ESCAP study showed that regional industrial projects actually require less investment and less labour per unit of output than similar national projects. The relative superiority of regional co-operation over non-co-operation is clearly shown in cost differences. The cost of meeting a supply deficiency is significantly less in the case of industrial co-operation than in the case of non-co-operation. Savings in costs would also be greater for industrial co-operation than importing from third countries. Industrial co-operation is expected to lead to a larger positive trade balance than the alternative situation of either national autarky or complete reliance on imports from third countries.

However, it would be naïve to suggest that a group of regional industries could actually be established in a manner that would really be optimal from the point of view of efficient resource allocation. Economic factors may be allowed to dictate the choice of industries for ASEAN industrial co-operation but not the geographical distribution of industries within the region, which entails political considerations as well as the complex issue of trade-offs between economic efficiency and social equity. In the short run, the effects of regional co-operation could well appear much less favourable to member countries since regional industrial projects must emerge from their infancy before cost advantage can be fully realized. This raises the question of protection. The survival of the project during its infancy would then depend crucially upon the preferential treatment to be received from other member countries. Finally it should be stressed that there are many industries in the ASEAN region that could not be competitive at world market prices even if all the national markets in the region were integrated. There are many more such issues, and they all add up to a significant gap between theory and practice.

Taken as a whole, the AIPs package is conceptually sound and appealing. In practice, however, it is not easy to identify economically viable projects that could also pass the test of political acceptability by all member countries. Good economics does not necessarily mean good politics. At the implementational level, there are a host of common problems arising from the setting up of new capital-intensive industries such as minimum plant size, optimal location, adequate support from utilities and infrastructure, style of management, supply of labour, mode of marketing and method of pricing, which all need careful consideration.

Urea projects for Indonesia and Malaysia

The designation of a urea project for both Indonesia and Malaysia is easy to understand. Both countries are food deficient and are heavily dependent on the import of rice to make up for the domestic shortfall. Fertilizers are therefore badly needed to step up their "green revolution" in order to boost food production. Furthermore, both countries have abundant supplies of natural gas, the main raw material for the manufacturing of urea. In the case of Indonesia, there are already domestic facilities for the production of urea geared to the national market.

For ASEAN countries as a whole, the demand for nitrogen fertilizer is expected to increase from 0.3 million nutrient tonnes in 1975 to 1.9 million nutrient tonnes by 1985, which will exceed the region's existing production capacity. At the time of the adoption of the urea project, Indonesia's nitrogen fertilizer output accounted for 71 per cent of the total for ASEAN. With the implementation of the two ASEAN projects for urea, Indonesia and Malaysia will produce a substantial amount over and above the expected needs of other ASEAN members.

Indonesia's two existing urea plants, PUSRI I and PUSRI II, are located at Palembang in South Sumatra with annual capacities of 100,000 tonnes and 380,000 tonnes. In addition, two new plants have just been completed, with another two scheduled to be completed in two or three years. Meanwhile, the Philippines has also made plans for a urea factory, with an annual capacity of 390,000 tonnes, to be built at Limay, while Thailand's Mae Noh Industries is in the process of phasing out its urea and ammonium sulphate production.

If the ASEAN urea projects for Indonesia and Malaysia and the national project of the Philippines were fully taken into account, the total supply picture for ASEAN would change drastically. Total urea output would increase from 0.5 million tonnes in 1976 to 3.7 million tonnes in 1985, when all the planned projects are expected to be in production. Indonesia became self-sufficient in urea in 1979 when its new plant in Kujang became operative. With the completion of the ASEAN urea project at Acheh, Indonesia would have a urea surplus. In the case of Malaysia, which hitherto has produced no urea, over-production will also occur once its ASEAN urea project is fully in production after 1984. Singapore, being a non-agrarian economy, will require only a tiny quantity. In the case of the Philippines their deficit would be largely met if its urea plant at Limay were completed. All in all, it is clear that only the Philippines and Thailand could provide the markets for the surplus urea from Indonesia and Malaysia, but even these two markets could not absorb all the excess output of Indonesia and Malaysia if the two designated ASEAN projects were put into full capacity production. Unless ASEAN cultivates extraregional markets, it will have a considerable over-supply of urea soon after 1985.

It might be argued that in the circumstances, Indonesia's ASEAN project at Acheh, with a planned annual capacity of 670,000 tonnes of urea and 330,000 tonnes of ammonia, should have been planned as an export-oriented operation geared to the international market rather than a national or regional concern, which will require protection and subsidies to become viable. Malaysia has faced no less a dilemma. Malaysia's AIP at Bintulu, Sarawak, with the planned annual output of 530,000 tonnes of urea and 360,000 tonnes of ammonia, has a capacity grossly beyond Malaysia's own domestic needs. Malaysia could have chosen a smaller national plant but that would have involved a higher unit cost with the result that Malaysia's output might not have been even regionally competitive. In short, given the existing level of demand for urea in ASEAN, which at present remains lower than could have been expected due to the relatively low level of fertilizer application on farms, it is clear that there is simply no room in ASEAN for two new urea projects, unless they are sufficiently competitive for the purpose of the extraregional export markets.

Superphosphate project for the Philippines

Much as the other agrarian-based ASEAN countries, the Philippines wanted to develop its own chemical fertilizer industry. The selection of the phosphate fertilizer project for the Philippines was mainly based on the fact that the Philippines has an abundant supply of sulphuric acid from its copper-smelting plants, despite the constraint that it would have to import the other raw material for superphosphate, phosphate rock, from outside the region.

Phosphate is second only to nitrogen in fertilizer consumption in the ASEAN region. The United Nations Study Team estimated the demand of ASEAN for phosphate fertilizer would reach 416,000 tonnes per year by 1980. The production capacity of ASEAN at the time was only 71,000 tonnes. Hence there was a growing demand in the region for this product. The size of the ASEAN project for the Philippines was unambitious: its planned output was only 180,000 tonnes of phosphoric acid per year at the small investment of $44 million. The output would satisfy the demand in the Philippines and leave a small surplus for other ASEAN countries, but would not glut the regional market.

The major problem for the Philippines endeavour was cost, not excess capacity as in the ASEAN urea projects. The estimated production cost per tonne of superphosphate ranged from $308 to $379, depending on the raw-material prices, whereas the ruling world prices in 1977 were around $180. The high unit cost for the proposed Philippines project was mainly because the Philippines would have to import phosphate rock from the United States, which takes up 60-65 per cent of the total production costs. The high costs meant that the project would require an external tariff protection to the extent of 70 per cent in order to make it commercially viable, but this would be an unacceptably high cost for the ASEAN consumers. There was another difficulty. When the Philippines opted for the phosphate fertilizer project, it had counted on the cheap by-product of sulphuric acid from its copper-smelting plants. As the world copper market slumped, this advantage became uncertain. Therefore, it is not surprising that the superphosphate fertilizer project was officially withdrawn in mid-1978 on the strength of a Japanese feasibility study. As an alternative, the Philippines proposed at the Ninth COIME meeting in November 1979 to shift from superphosphates to ammonium sulphate fertilizer involving a much larger investment. However, this alternative was abandoned upon unfavourable findings from a feasibility study prepared by an independent consulting firm. Finally, in January 1982 the ASEAN Economic Ministers Meeting approved copper fabrication for the Philippines.

Diesel engine project for Singapore

The Singapore project for diesel engines has been perhaps the most controversial in the first AIPs package. Diesel engines are usually classified according to the range of horsepower (hp). Diesel engines below 20 hp are primarily used for power-tillers, rice hullers, small water pumps and other agricultural implements, while engines with higher horsepower ranges are usually stationary and are used as power generators, air compressors and power units for tractors and construction vehicles. Diesel engines are also widely used for various types of marine craft. The region offered a fast-growing market for diesel engines of smaller horsepower, especially since its existing production capacity was inadequate.

Most of the region's diesel-engine production capacity was confined to less than 300 hp and was concentrated in Indonesia, Malaysia and the Philippines as neither Thailand nor Singapore manufactured or assembled diesel engines. Furthermore, Indonesia, Malaysia and the Philippines had firm plans to expand their existing production capacity of engines below 500 hp, while Thailand was moving into small stationary engines within the 5-50 hp range. In the case of Singapore, plans were also made for manufacturing marine engines of high hp. The picture is clear. The bulk of the region's demand for diesel engines was confined to the small horsepower range, but the potential residual market for smaller diesel engines would become extremely narrow once the various national plans for diesel engines were completed.

The designated ASEAN diesel-engine project for Singapore at the cost of \$200-300 million was planned for a wide range of from 5 to 12,000 horsepower with an annual output of 100,000 units, the bulk of which would have to be for exports in the region. At the Ninth COIME meeting in November 1979, Singapore made it clear that it could not go ahead with the assigned project unless other member countries dropped their own national plans for diesel engines. At the same time, Indonesia opposed Singapore for planning to manufacture diesel engines below 500 hp, rendering the Singapore project commercially unfeasible. In the end, Singapore abandoned the ASEAN diesel-engine project.

Rock-salt and soda-ash project for Thailand

Soda ash is an important ingredient in the manufacturing of glass, although it is also used in a number of industries including sodium-based chemicals, pulp and paper, scrap, and detergents. When the first AIPs package was initiated, the Philippines was the largest consumer of soda ash, accounting for 40 per cent of the total ASEAN consumption, with Indonesia and Thailand together constituting only 16 per cent. The Philippines originally indicated interest in a proposed soda-ash project. The project was, however, eventually designated to Thailand mainly on the grounds that Thailand has huge rock-salt deposits estimated at 2 billion tonnes in its north-eastern part. The cost of the Thai soda-ash project was initially estimated at \$233 million, and the annual production capacity at 400,000 tonnes.

From the outset, there were many misgivings over this project among economists in Thailand who argued that it would not be economical for any ASEAN country to go into that line of production as it would be cheaper for the region to import soda ash from outside. Concern was also expressed regarding transport problems in north-east Thailand. The rock-salt mining site is located at Bamnet Narong about 260 kilometres from Bangkok, while the limestone quarry is near Bangkok. Both the rock-salt and limestone deposits are 430 kilometres from the new port of Laem Chabung, which means that heavy infrastructural investment for a new rail link is a precondition for constructing the proposed soda-ash plant. While the cost of extracting rock salt at $3-4 per tonne might be fairly competitive by world standards, the inclusion of heavy transport costs would raise the f.o.b. price of rock salt to about $10 a tonne. The construction of a new railway and the development of new port facilities would substantially reduce the transport cost eventually, but would increase the total capital cost of the project. Subsequently, the Government of Thailand decided to adopt the project by absorbing the entire infrastructure costs incurred in the construction of railroad and port facilities. The Government held 20 per cent of the equity, with the private sector taking up 40 per cent.

The first meeting of the shareholder entities for the project, the ASEAN Soda Ash Co. Ltd., was held at Bangkok in October 1979. Following a recent decision by the ASEAN Economic Ministers Meeting, studies are being carried out as to the best of two alternatives: one, to retain the rock-salt mine with the ASEAN Rock Salt-Soda Ash Project as earlier agreed upon but to reduce the rock-salt production capacity from 1.8 million tonnes[12] to 600,000 tonnes per year; or two, to exclude the rock-salt mine so as to reduce the total project cost.

Other ASEAN Industrial Projects

While the numerous initial problems related to the first AIPs were still being tackled, the Second ASEAN Summit in Kuala Lumpur in August 1977 identified for prefeasibility studies the second package of seven new ASEAN Industrial Projects, namely, heavy-duty tyres, metal-working machine tools, newsprint, electrolytic tin plating, television picture tubes, potash and fisheries. These seven projects were allocated as follows: Indonesia, heavy-duty rubber tyres; Malaysia, metal-working machine tools; Philippines, newsprint and electrolytic tin-plating; Singapore, television picture tubes; and Thailand, potash and fisheries.

The selection of heavy-duty tyres for Indonesia is appropriate because not only is there a large and increasing demand for heavy-duty tyres, but also the region itself is the major producer of the basic raw material, natural rubber. Although it may seem that Malaysia should have put up a bid for this project as it is the most significant producer of natural rubber in the region and is the only ASEAN country that is currently exporting heavy-duty rubber tyres, Indonesia was given the project on the grounds that it had been heavily dependent on imports of rubber tyres.

There are considerable scale economies in the manufacturing of machine tools, products for which ASEAN has a considerable demand. Singapore seemed to be a strong contender for such manufacturing. However, Malaysia, having no existing plants producing machine tools, was given the allocation for the ASEAN machine tools project.

[12]Of these 1.8 million tonnes of rock salt 560,000 tonnes would be supplied to the soda-ash plant and the remainder would be locally consumed or exported. The market prospects for rock salt, however, are uncertain.

ASEAN has sufficient tropical timber resources as raw materials for the production of newsprint, and all ASEAN countries except Singapore have existing newsprint capacity. The Philippines expressed the strongest interest in this project and even suggested it as a substitute for its ill-fated superphosphate project in the first AIPs package. The Philippines was allocated the electrolytic tin-plating project, even though Malaysia, Thailand and Indonesia are also major producers of tin.

The ASEAN countries still depend on imports of television tubes, particularly those for colour television. At the same time, all the ASEAN countries are making efforts to expand their television-tube output to meet domestic demand. Originally Singapore took up the television-tube project as a substitute for its abandoned diesel-engine project. However, it soon came to realize that the ASEAN market for colour television picture tubes would be too small to support an economic-sized ASEAN plant. Accordingly Singapore went ahead with the television-tube manufacturing as its own national project aimed at the world market.

The region's entire potash consumption at the time of adopting the second AIPs package was met by imports, and the inclusion of a potash project in the second package was therefore considered rational. Thailand was assigned this project because it was then the region's largest potash consumer. Thailand was also assigned the fisheries project as its fishing industry was the most developed in the region.

Thus, the second AIPs package has been assigned to countries in various ways and for various reasons. Currently, most of these projects are still in the stage of planning and feasibility studies, with a few ready for the initial phase of implementation.

ASEAN Industrial Complementation

Evolution of AIC

ASEAN Industrial Complementation (AIC) takes many forms. One type of complementation agreement provides for the establishment in each member country of an integrated industrial plant covering all stages of the manufacturing process from raw materials to finished products with a portion of the output to be supplied to the other participating countries. In this way, the participating industry can specialize in a particular product in the vertical manner and stands to benefit from the enlarged regional market. Another type of complementation agreement provides for horizontal specialization, by which member countries can specialize in producing different components or parts for the same products, which are then shipped to other member countries for final assembly or finishing. Finally, complementation can combine both vertical and horizontal specialization.

Following the approval of the first AIPs package at the Bali Summit, steps were taken to work out the basic guidelines for industrial complementation. As the AIPs scheme was running into difficulties and losing momentum, industrial co-operation shifted to industrial complementation leading to the signing of the Basic Agreement on ASEAN Industrial Complementation by the ASEAN Foreign Ministers in October 1980. The most important provisions of the Agreement are as follows:

(a) An AIC package must be participated in by at least four of the five member countries, unless otherwise approved by the ASEAN governmental organizations;

(b) Identification of products for inclusion in an AIC package shall be done by the ASEAN Chambers of Commerce and Industry (ASEAN-CCI); while approval of the package and associated trade preferences shall be undertaken by the ASEAN governmental organizations;

(c) The products in the AIC package shall receive "exclusivity privileges", lasting for two years for existing products or three years for new products.

In view of the dominant role played by the private sector in the largely market-oriented mixed economies of ASEAN, the AIC programme, in enlisting the active participation of the private sector, may well be the most effective way of achieving industrial co-operation in the long run.

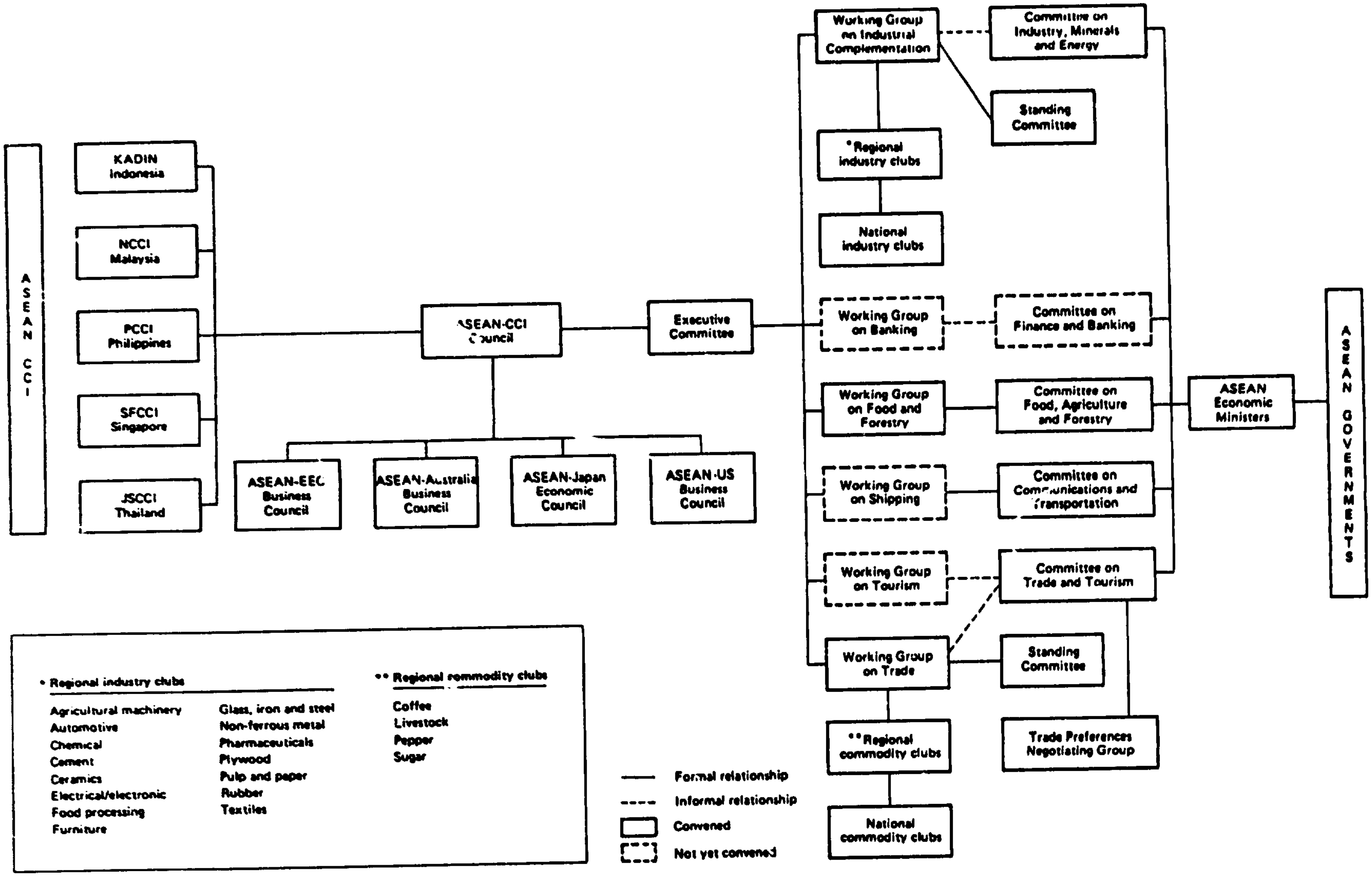
Institutional machinery for AIC

Two of the five economic committees, namely the Committee on Industry, Minerals and Energy (COIME) and the Committee on Trade and Tourism (COTT), that serve the ASEAN Economic Ministers, are heavily involved with the complementation activities. The accreditation of the AIC package is performed by COIME, while requests for trade preferences for the products in the complementation package are evaluated by the Trade Preferences Negotiating Group of COTT. The final decision is taken by the ASEAN Economic Ministers, who meet from time to time to give general direction to the complementation operations and assess their progress.

The key component of the institutional structure for AIC is the private sector, which is given the task of identifying and formulating the AIC package. ASEAN-CCI is to act as the official spokesman for the private sector and therefore will officially become the recognized channel of communication between the Government and the private sector in the ASEAN countries. In all the ASEAN countries there is a well-established CCI, which represents the interests of the powerful business and industrial establishment. Members of CCI in the individual ASEAN countries have close links with the technocrats in the Government.

Figure II depicts the intricate linkages between ASEAN-CCI and ASEAN Governments in the area of regional economic co-operation. One notable feature is that for each of the five ASEAN governmental economic committees there is a counterpart in the form of a working group within the ASEAN-CCI structure. In the field of industrial co-operation, for instance, there is the ASEAN-CCI Standing Committee on Industrial Complementation in addition to the Working Group on Industrial Complementation (WGIC). WGIC co-ordinates the work of various regional industry clubs (RICs). RICs are essentially the aggregates of private sector entities, associations, federations or groups within the same industry representing each of the identified industries for possible regional industrial complementation. They are composed of representives of the national industry clubs (NICs) but have been officially accredited by ASEAN-CCI. Some industries are by nature so extensive, for

Figure II. **ASEAN-CCI/ASEAN Government interaction chart**



example chemicals, that their RICs have found it necessary to divide into several subgroups within each Club in order to focus effectively on some specific branches of the industry such as paints, sulphuric acid, soaps, detergents and fertilizers.

Proposals for industrial complementation initiated by the national industry associations are first submitted to a RIC for consideration. That RIC then forwards the proposal to WGIC for the endorsement of the ASEAN-CCI Council. The Secretary-General of ASEAN-CCI finally transmits the AIC proposals for action to the Chairman of the ASEAN Governmental Committee concerned. Care is taken that there is sufficient consultation and discussion at each level before the final submission. In practice, the national industry groups hold prior consultations with their own ministry officials to ensure that the intended proposal has met national policy priority. At the ASEAN-CCI level, WGIC works intensively to identify the various issues and problems and to resolve conflicts before making recommendations to the ASEAN Governmental Committee. At the ASEAN level, the relevant ASEAN technical committee, normally COIME, will evaluate the proposal before putting it up for the next ASEAN Economic Ministers Meeting for final approval. Thus the process for the development of an AIC package can be long. In particular, proposals for the AIC package for the "new products" usually require a lot of data not readily available. Hence the prolonged process of discussion and consultation. The process of interaction of various groups is shown in figure III.

The activities under the AIC programme are summarized in table 3.

Implementation of AIC packages: the automotive industry

So far some 30 AIC proposals have been considered by various RICs, most of which are concerned with "new products". However, there are only two AIC packages that have gone through the whole exercise and been approved by the ASEAN Economic Ministers. The first AIC package is concerned with "existing products" and the second with new products. Both are in the automotive industry.

Since the automotive industry has displayed the greatest potential among all the proposals for regional co-operation and has made more progress than the others, it warrants special consideration here.

Except for Singapore, assembly of motor cycles, private passenger cars, light commercial vehicles and trucks is much encouraged in the ASEAN region. Indeed, the automobile assembling industry was initially promoted as one of the key industries under import-substitution, with substantial tariff differentials applied to imports of completely built-up vehicles and components in a knocked-down form.

However, the demand for vehicles in each ASEAN country, and even in the entire ASEAN region, is too small to support the integrated manufacture of vehicles on an internationally competitive scale. The automotive market in each ASEAN country is further affected by the proliferation of different makes and different models. The total sales of private passenger cars in ASEAN in 1979 amounted to only 190,000. Even if these sales were all of one make or one model, the region's aggregate demand would not support a fully integrated motor vehicle industry competitive with those in Japan, the United States of

Figure III. Interaction of NIC, RIC, ASEAN-CCI and the ASEAN Governments

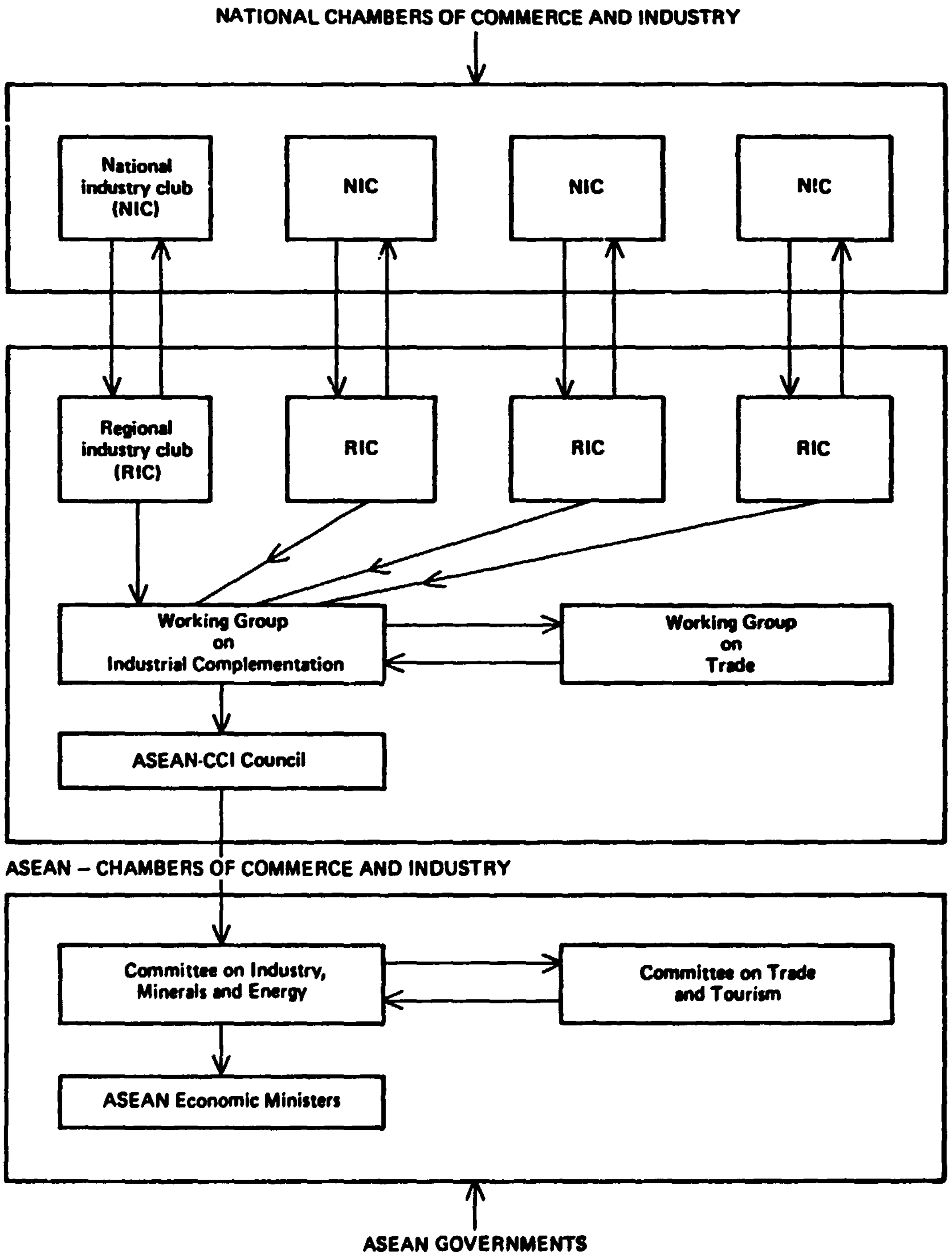


Table 3. ASEAN Industrial Complementation projects considered by the regional industry clubs

Industry	*AIC projects considered*	*Status of project*
Automotive	First AIC package (existing products)	Approved by ASEAN
	Second AIC package (new products) (Total of 10 projects)	Approved by Economic Ministers
Electrical/electronics	Television picture tubes, black-and-white	Dropped in 1978 due to lack of consensus
	Transformers	Dropped in 1981
	Hermetic compressors	Feasibility study discontinued, 1981
Agricultural machinery	Mini tractors	UNDP technical assistance requested by COIME for feasibility study
	Power sprayers	Under consideration by RIC
	Power transmissions	Under consideration by RIC
Chemicals	Acetylene black	For discussion at RIC meeting, December 1981
	Chlorinated paraffin wax	
	Titanium dioxide	
	High-test sodium hypochlorite	
	Freon gas	
Food processing	Regional grain storage	Disapproved December 1981 by Committee on Food, Agriculture and Forestry
	Fish cannery	Endorsed to Working Group on Food, Agriculture and Forestry, December 1980
	Slaughter-house and cold storage for beef	Seeking feasibility study
	Dry baker's yeast	To be proposed for PTA
Rubber products	Heavy duty tyres	
	Carbon black	RIC concluded not viable
	Nylon tyre cord	Under RIC consideration
	Chemical for fabrication of rubber products	Dropped by RIC, November 1978
	Synthetic rubber	RIC concluded not viable
Glass	Tinted sheet glass	Under discussion by RIC
	Figured sheet glass	
	Safety glass	
Pulp and paper	Security paper mill	UNDP technical assistance for feasibility study requested by COIME
Textiles	Mill spare parts and accessories	Study group to be convened to make pre-feasibilty study
Iron and steel	Magnesia clinker	UNDP technical assistance requested by COIME for feasibility study
	Billet mill	Dropped by RIC, March 1980
	Ferro alloys	To be presented to RIC at next meeting
	Graphite electrodes	Pre-feasibility study to be prepared

America or large European countries. With fast technological progress towards fuel efficiency and less pollutive engine designs, an integrated manufacture of passenger cars by countries with a weak industrial base could well be a high-risk undertaking.

At the same time, a vast market exists in the ASEAN region for components manufactured in the region to be used either for new vehicle assembly or for the replacement market. The scope for component manufacture in ASEAN could be even more significant if the national component industries could be rationalized and reorganized on a regional basis through industrial complementation. Furthermore, the development of different automotive component industries could exert a major impact on the industrialization progress of the ASEAN countries because of its potential linkage effects. The hundreds of automotive components that go into an automotive vehicle require a variety of industrial processes and materials—including iron, steel, non-ferrous metals, plastics, rubber and glass—to manufacture. The standards of precision needed to manufacture these components to the tolerance and interchangeability requirements will foster the development of manufacturing techniques, training methods and quality control systems, which will all add up to a substantial boost to the industrial capability of the member countries.

The automotive components that could become the subject of a regional complementation scheme are those that require the enlarged regional market to be economical. They include sub-assemblies such as petrol engines, diesel engines, transmissions, drive axles, drive shafts, suspension parts and steering mechanisms. Components of sub-assemblies, such as engine crankshafts, valves, pistons, bearings, transmission gears and gear forgings, could also be part of the complementation package. The possibilities for exports to the original maker or as replacement parts to other export markets outside the region should not be ruled out.

The AIC package for automotive components was first developed by the ASEAN Automotive Federation (AAF), which was the first RIC under the aegis of ASEAN-CCI. AAF is made up of five automotive associations. At the first AAF Council meeting in December 1976, a technical committee was appointed to study and identify automotive components, parts and products for regional complementation. Subsequently, the Technical Committee recommended 32 out of 121 items identified as products for possible industrial complementation as follows:

Suspension system

Shock absorber complemented by models
Coil spring

Power train

Transmission assembly complete
Driving axle including differential carrier assembly, complete
Propeller shaft including "U" joints
Constant velocity joints

Electrical system

Horns
Wiper motors
Starter motors

Alternators
Regulators
Gauges
Headlight bulbs

Engine and parts

Engine assembly by make
Engine parts:
Oil screen
Oil-pressure gauge
Oil-temperature gauge
Thermostat
Water-temperature gauge
Timing-chain cover
Cylinder block
Cylinder head
Crankshaft
Valves
Carburettor
Timing chain

Brake system and wheels

Brake hoses, clutch hoses

Body parts (to be complemented by models)

Floor side-panel assembly
Side structure
Roof panel
Frame side rail
Cross members

Of the 32 products, there is:

(a) No existing facility in any of the five ASEAN countries for three components;

(b) No existing facility in four ASEAN countries for seven components;

(c) No existing facility in three ASEAN countries for six components;

(d) No existing facility in two ASEAN countries for seven components.

After the AAF Third Council Meeting held in Singapore in November 1978, the initial package for regional complementation was agreed upon by AAF members. This package consists of the following:

Indonesia	Diesel engines (30-150 hp)
Malaysia	Spokes, nipples and drive chains for cars
Philippines	Body panels
Singapore	Universal joints
Thailand	Body panels for commercial vehicles of 1 tonne and above

Carburettor and headlight projects were also agreed upon by AAF.

The proposed initial package as well as the carburettor and headlight projects were approved at the WGIC Standing Committee Meeting held in February 1979 for recommendation to COIME. After a few rounds of meetings and consultation with the expert group on the automotive industry, COIME eventually adopted the first two AIC packages for final approval by the ASEAN Economic Ministers in Bali in September 1980:

First package

Indonesia	Diesel engines (80–135 hp)
Malaysia	Spokes, nipples and drive chains for motorcycles and drive chains for motor vehicles
Philippines	Body panels for passenger cars
Singapore	Universal joints
Thailand	Body panels for motor vehicles of 1 tonne and above

Second package

Indonesia	Steering systems
Malaysia	Headlights for motor vehicles
Philippines	Heavy-duty rear axles for commercial vehicles
Singapore	Fuel injection pumps
Thailand	Carburettors

To facilitate the implementation of the first package, AAF agreed that the companies involved in manufacturing should take the initiative to work out multilateral or bilateral complementation. Government bodies had to be requested for appropriate tariff concessions. At the Fourth ASEAN-CCI Meeting held at Jakarta in December 1980, AAF was authorized to communicate and negotiate with COIME and the Expert Group on the Automotive Industry on all matters relating to complementation in the automotive industry. Meanwhile, negotiations on trade preferences on products covered under the two automotive complementation packages had started at the Eighth Meeting of the Trade Preferences Negotiating Group of COTT held in January 1981. The requests for tariff concessions from each other are being considered and will no doubt involve further rounds of negotiation. This is because all the ASEAN countries (with perhaps the exception of Singapore) have numerous automotive-parts industries operating behind tariff walls.

ASEAN Industrial Joint Venture

Evolution

Because of the problems and obstacles that have impeded the progress and implementation of AIPs, it is considered that AIC may be a more effective avenue for ASEAN industrial co-operation in the long run. However, it has proved difficult to identify sufficient packages for industrial complementation similar to the one on the automotive industry, which can involve participation from all the ASEAN countries despite their different industrial structures. As has been discussed above, even the complementation scheme for the ASEAN automotive industry has not been progressing fast enough and by itself it cannot be counted upon to provide a breakthrough in regional industrial co-operation. Hence other more innovative procedures for regional industrial co-operation within the broad framework of AIC have been explored.

It was with a view to stepping up progress in industrial complementation that the ASEAN-CCI President, Wee Cho Yaw of Singapore, in his address to the fourteenth ASEAN-CCI Council Meeting held at Jakarta in December 1980, proposed a new concept of industrial complementation called "ASEAN Industrial Joint Venture" (AIJV). One distinguishing feature between an AIJV and a conventional AIC project is that the former can proceed even with two or three ASEAN partners from the private sector, while the latter is normally presented as a package involving more or less equal participation from all member countries. Conceivably AIJVs can be launched as small projects with less capital investment and less preparatory groundwork. In project development or formulation, the more flexible AIJV can reduce the problem of mismatching or lack of matching among the member countries that has posed great difficulties for the identification of an acceptable AIC package. It is envisaged that AIJVs can be approved individually or separately by the relevant ASEAN Economic Ministers so long as these projects can yield benefits to the member countries concerned and do not bring about unacceptable distribution of benefits and costs among the promoting member countries, thus avoiding going through the whole cumbersome ASEAN machinery.

At the ASEAN-CCI meetings at Manila in June 1981 and at Bangkok in November 1981, the AIJV proposal was formally considered. Meanwhile, the various ASEAN RICs, notably the ASEAN Chemical Industries Club, the ASEAN Iron and Steel Industry Federation, the ASEAN Automotive Federation and the ASEAN Federation of Textile Industries, were undertaking studies to identify potential joint ventures. It is understood that AIJVs will soon be submitted to COIME for approval. COIME has already drafted the Basic Agreement on ASEAN Industrial Joint Ventures in conjunction with ASEAN-CCI.

The key guiding principles in the draft Basic Agreement include: *(a)* participation in an AIJV includes at least two ASEAN countries but is not necessarily limited to ASEAN countries provided that the ASEAN national component is at least 51 per cent; *(b)* an approved AIJV product will enjoy up to 50 per cent of ASEAN PTA; *(c)* other ASEAN countries can choose to opt out of the AIJV but their similar products cannot enjoy such special tariff preferences; *(d)* participating countries may consider not to encourage new or additional capacity for approved AIJV products during a certain predetermined short period; *(e)* whenever feasible, AIJV products are to be equitably allocated to the participating ASEAN countries; and *(f)* an AIJV product should be of internationally accepted quality and its price competitive.

It can thus be seen that AIJVs carry certain distinct advantages not embodied in the conventional AIC package. Since AIJVs have such flexibility of participation as allowing each member country freedom to join or not to join, a wide range of industrial projects can be more easily initiated or identified for the purpose of regional co-operation. Further, the provision for non-ASEAN participation in the regional project gives an opportunity for the multinational corporations to come in. It is well known that foreign enterprises have played a crucial role in the region's industrial development. With their superior technical know-how, management skills, overseas marketing connections and outside capital funds, multinational corporations are likely to add greater economic viability to the projects. The emphasis on international competitiveness is also a right move. If an AIJV is economically efficient and becomes less dependent on preferential trading arrangements, it will also become less susceptible to the vagaries of regional political influence.

Potential AIJVs

At the Thirteenth Meeting of COIME at Kuala Lumpur in January 1981, a decision was taken to recommend prefeasibility studies on a magnesium clinker plant, a mini-tractor plant and a security-paper mill as potential AIJVs.

Magnesium clinker is needed as a basic refractory used for making heat-resistant bricks for the furnaces of the iron and steel industry and the cement industry. Among the raw materials for magnesium clinker, dolomite is the most important and is available in ASEAN countries, especially Thailand. The demand for magnesium clinker (which is a derived demand) therefore depends on the growth of two vital industries in ASEAN countries, namely, steel and cement. The investment cost of the magnesium clinker project depends a great deal upon the scale of production, location, labour costs etc. A preliminary estimate of the total investment for a workable size amounts to $40 million.

The mini-tractor project was proposed by the ASEAN Agricultural Machinery Federation. In Indonesia and Thailand, small tractors are increasingly used for rice cultivation, and demand for them is expected to continue to increase rapidly to meet the requirement of farm mechanization. In these two countries there are already a number of small tractor-assembly plants. Indonesia has planned to set up a large-scale national project for the production of agricultural tractors. The conceived AIJV for mini-tractors is to be concentrated on the units with 15-25 hp. The projected annual output is 10,000 units. However, the possibility of over-production should not be ruled out since the individual ASEAN countries, except Singapore, already have their own tractor factories.

The ASEAN security-paper mill project, as proposed, will manufacture security paper used for bank notes, cheques, certificates of indebtedness, stock certificates, revenue and postage stamps, contracts, legal documents, lottery tickets and other forms of financial instrument. This project was initiated by the private sector in the Philippines in view of the availability of the principal raw material, abaca, a long-fibre plant. It is, however, difficult to ascertain the exact ASEAN demand for security paper, which is simply a high-quality paper. Some ASEAN countries traditionally have their own legal tender notes printed in the United Kingdom of Great Britain and Northern Ireland and others in the United States of America.

The foregoing AIJVs have been seriously considered and prefeasibility studies carried out with the support of the United Nations Development Fund (UNDP) and UNIDO. Other projects also have been proposed and identified, including graphite electrode, ferro-alloy, chlorinated paraffin wax, acetylene black, titanium dioxide and freon. Most of these projects are still under deliberation in their RICs. Some of these projects, however, may not be feasible or likely to be accepted by the relevant ASEAN authorities. The process of getting an AIJV off the ground might be faster if ASEAN-CCI were to draw up a sort of prescreening list of feasible projects that would be likely to be approved by the ASEAN countries.

ASEAN co-operation in industrial financing

The limited progress of ASEAN industrial co-operation through various schemes as surveyed above is due in part to the many structural problems in these schemes and in part to the overall institutional constraint associated with a particular ASEAN organization or a particular member country. It is interesting to speculate on how far the sluggish progress of these projects has been due to lack of financial support and in what way regional financial co-operation could contribute to ASEAN industrial co-operation. Another question is whether financial considerations are crucial to the success of a regional industrial project.

Financing industrial development in ASEAN

The progress of industrialization in developing countries is highly dependent upon the availability of financial resources. For ASEAN, because of the constant inflow of foreign investment, availability of international aid and rising export earnings from the region's primary commodities and natural resource products, its industrialization programme has not been constrained by shortage of capital or foreign exchange. In addition, domestic financial resources in each of the ASEAN countries have been adequately mobilized for development, mainly because all the ASEAN countries are well endowed, at least by the average standard of the third world, with financial institutions. Consequently, few industrial projects, public or private, are known to have been aborted due to lack of financing.

Indonesia is adequately served by financial institutions. The Bank Negara Indonesia is the largest State-owned commercial bank specializing in financing industrial undertakings. The Bank Pembangunan Indonesia extends medium- and long-term loans to new industrial projects particularly in the transportation sector, while the Credit Insurance Institution extends credit guarantee cover to banks for financing small and medium-sized industries.

In Malaysia, financial services are generally adequate for the purpose of industrial development, but they are largely geared towards assisting the *bumiputras* (native Malays) and small-scale industries. Apart from the Bank Negara Malaysia, which is the Central Bank, the financial institutions with a major role in industrial financing include the Credit Guarantee Corporation, which offers guarantee cover for small enterprises; the Malaysian Industrial Development Finance (MIDF), which promotes *bumiputra* participation in industrial activities; and the Industrial Development Bank of Malaysia, mainly for financing capital-intensive and high-technology industries.

In recent years the financial system in the Philippines has grown extensively and increased in sophistication. At the end of 1979, there were

38 private development banks specializing in providing medium- and long-term loans for economic development purposes. Lending to the small and medium-sized pioneering industries is mainly done by the wholly State-owned Development Bank of the Philippines.

As a financial centre in South-East Asia, Singapore is well served by a whole range of financial institutions, both foreign and domestic. With a high savings ratio and no balance-of-payments problem, Singapore's industrial expansion is easily met by domestic financial resources, usually channelled through the large semi-governmental Development Bank of Singapore.

In Thailand, the industrial sector is currently in need of financial help for restructuring in order to make it more export-oriented and to expand into areas outside the greater Bangkok region. The Bank of Thailand (the Central Bank) has been providing funds at subsidized rates to industries through the Industrial Finance Corporation of Thailand. Small industries can resort to the Small Industry Finance Office, which is run by the Ministry of Industry. In practice, many industrial undertakings in Thailand have been funded largely through self-finance by borrowing from commercial banks.

It may be concluded that the ASEAN countries have developed a variety of financial institutions, which have by and large effectively mobilized domestic resources for industrial development. This does not mean that there is no demand for external financing. Small industries, particularly those from the priority sectors, e.g. in the rural areas, can turn to governmental or semi-governmental financial corporations. But the need for outside financial resources arises in the case of large, capital-intensive projects, especially from the financial sources in the industrialized countries, which can offer attractive or concessional terms.

Financing ASEAN industrial co-operation projects

As discussed earlier, two of the five original projects from the first AIP package have been withdrawn, with only the urea projects for Indonesia and Malaysia proceeding as planned and the soda-ash project for Thailand still under consideration. Of all the obstacles faced by the AIPs, the financial aspects have posed the least problem. The financial requirements of the above-mentioned three projects of the first AIP package have been adequately met by long-term borrowings at concessional rates from Japan (see table 4).

There are, however, certain snags on the financial side. First, the initial delay and subsequent slow-down of these projects have escalated the final costs. This necessitates the renegotiation of loans and additional borrowings, which have caused additional delay. Secondly, there are substantial differentials in the interest rates for different projects because the major creditor, Japan, has insisted on treating each project on a case-by-case basis. The Japanese also maintain that loans will be advanced to the individual ASEAN countries concerned and will then be re-lent to the project companies. Thirdly, the Japanese loans are not without strings, and the procurement formula to the projects is tied to Japan.

As for the AIC programme, the projects have not actually started and the detailed financial arrangements have yet to be worked out. The main possible external sources of finance are Japan, the European Economic Community

Table 4. Terms of loans for three AIPs

	Indonesia	*Malaysia*	*Thailand*
Project	Urea	Urea	Soda ash
Site	Aceh, Sumatra	Bintulu, Sarawak	Rayong Province
Start of construction	March 1981	1982	
Total investment:	$403 million	$322.64 million	$280.8 million[a]
(a) OECF[b] loan:			
Amount	Yen 46.53 billion	$158.094 million	
Rate of interest	2.5% per annum	4% per annum	
Loan (grace) period	18 (7) years	20 (5) years	
Procurement formula	Generally untied	Generally untied	
(b) Ex-Im-Credit:			
Amount	Yen 20.17 billion	$67.754 million	
Rate of interest	7.5-7.7% per annum[c]	7.75% per annum	
Repayment period	10 years (after commissioning)	10 years (after commissioning)	
Procurement formula	Tied to Japan	Tied to Japan	

[a]This amount includes investment in the mining of rock salt and limestone quarrying, which may not be included in the AIP.

[b]Overseas Economic Co-operation Fund of Japan.

[c]The higher interest rate is charged on an additional sum of yen 5.67 billion.

(EEC) countries and the United States of America, with Japan being the most likely source due to Japanese economic pre-eminence in the region.

ASEAN has so far been successful in eliciting financial assistance from Japan for its regional economic co-operation efforts. Through the Fukuda Doctrine, Japan had pledged $1 billion to help finance the ASEAN regional industrial projects; but the Fukuda Fund could be easily depleted once other AIPs are confirmed. In order to maintain a continuous flow of funds from Japan to finance other ASEAN endeavours, a new Japanese merchant bank called the Japan Investment Company (JIC) was set up in 1980. JIC is supposed to provide financial resources to the ASEAN projects through the newly established ASEAN-Japan Development Corporation (AJDC), of which JIC is a shareholder. With capital amounting to 1 billion yen, the JIC counts among its shareholders some 150 big Japanese corporations and securities houses. JIC will solicit governmental and private financial resources in Japan and other international financial centres to participate in the AJDC equity for its lending activities. JIC will mobilize long-term funds by issuing capital notes to Japanese corporations or by borrowing from Japanese governmental agencies. In this way, JIC provides a vital avenue for various AIPs, provided they are economically viable, to tap the vast financial resources of the yen market.

Efforts by ASEAN for external financial assistance have also met with some success in EEC. In March 1980, ASEAN and EEC signed an agreement for financial co-operation. Subsequently, a proposal was made for the formation of the ASEAN-EEC Development Fund, along with a request from ASEAN that the EEC contribution of $10 million go towards the financing of the prefeasibility studies of some industrial projects provided under the AIC package. Subsequently, ASEAN formally requested EEC for the sum of $1 billion in the form of concessional credit to finance AIPs. The ASEAN request has raised difficulties in view of the EEC financial and technical aid policy with regard to non-associated developing countries. EEC would rather deal with ASEAN through the Interact Group, an informal association of Europe's public development finance corporations. Negotiations between the ASEAN Committee on Finance and Banking and the EEC Interact Group are being continued.

Apart from EEC, ASEAN could approach other advanced countries such as Australia, Canada, New Zealand and the United States for credit lines. The usual mechanics for negotiation are through a "dialogue" between ASEAN and these countries. However, no significant results have so far been produced.

ASEAN financial institutions

The problems in connection with the external sources of finance of the co-operation activities of ASEAN has reinforced the region's decision towards more financial self-reliance. In August 1976, ASEAN bankers met in Singapore and decided to establish the ASEAN Banking Council (ABC) as a mechanism for promoting banking co-operation in the region. A year later the idea for an ASEAN merchant bank was raised at the ABC meeting, leading to the formation of the ASEAN Finance Corporation (AFC) in Singapore in 1981 with an initial paid-up capital of $50 million, to be equally shared by the five members of the ABC. The shareholders are drawn from all major banks and financial institutions in the five countries.

The idea behind the establishment of AFC was the creation of an ASEAN-owned financial institution that could provide financing facilities for the regional co-operation projects or other ASEAN-based enterprises. It was noted that the existing financial institutions inside or outside the region were reluctant to finance regional ventures. The United Nations Study Team had recommended the formation of the ASEAN Development Corporation at a suitable time for the purpose of trade co-operation and economic integration, but ASEAN viewed that as premature.

In practice, the AFC is functioning more like an ASEAN investment bank. Its major objective is to serve as a catalyst for the region's economic development by actively participating in or initiating new investment activities, especially underwriting both debt and equity issues of ASEAN-based industries. Thus seed equity capital may be offered by AFC to the various AIC projects. AFC can also serve as a conduit through which international financial resources outside the region are channelled to the region for development. Above all, the formation of AFC fills an important gap in the overall ASEAN machinery for regional co-operation as being a formal channel for outside funds to be transmitted to various ASEAN projects. Prior to this, the lack of an official ASEAN financial institution as the counterpart to financial organizations outside the region had given rise to cumbersome procedures for the disbursement of funds to various ASEAN agencies or projects.

Japan was most eager to establish links with AFC, and let AFC hold half of the equity of the ASEAN-Japan Development Corporation (AJDC), which started operating at the end of 1981. The main objective of AJDC is to solicit and channel private and official financial resources from Japan and other international financial centres to the ASEAN region for the promotion of ASEAN co-operation or ASEAN-Japanese joint ventures.

Meanwhile, the idea of setting up an ASEAN export-import bank along the lines of a similar organization in Latin America was also voiced. This would provide concessional export and import credits to promote intra-ASEAN trade. The proposal was formally put to the first meeting of the ASEAN Committee on Finance and Banking in May 1977. Subsequently, the International Finance Corporation (IFC), an affiliate of the World Bank, was asked to organize a mission to look into the feasibility of setting up an ASEAN export-import bank. However, the recommendations of IFC were against this kind of financial institution on the grounds that the growth of trade in ASEAN countries, especially for non-traditional goods, had not been hampered by the lack of medium- and long-term credits, and that the ASEAN exporters had been generally adequately provided with trade credits by their national monetary authorities. In short, the IFC mission did not detect a sense of urgency in the region for the creation of such a regional export-credit institution. Thus, the idea of an ASEAN export-import bank has been shelved for the time being.

At the ASEAN Banking Council meeting in January 1980, another idea concerning the setting up of the ASEAN Bankers Acceptance (ABA) market was proposed. It was held that ABA would cut down the cost of intra-ASEAN import financing, which is normally done through the New York Bankers Acceptance Market. Commercial banks in ASEAN, if allowed to create ABA, could charge their customers lower discount rates through a secondary market for ABA. The ASEAN central banks and monetary authorities have already approved the ABA scheme in principle. But the high interest rates in the international money market throughout 1982 have stalled progress of the scheme.

The ASEAN Swap Arrangement, which came into being in August 1977, must be mentioned. This is a mechanism for short-run liquidity financing arranged by the central banks and monetary authorities in the region to alleviate the temporary balance-of-payments needs of the member countries. It is done with the central bank of the needy member country swapping its local currency for United States dollars provided by other member countries. The original amount of credit available under this facility was \$100 million, with each member country contributing \$20 million. In 1978, the credit line available under this scheme was raised to \$200 million. In 1979, the Swap Arrangement was extended for another three years.

Earlier, in 1976, a proposal to organize an ASEAN clearing arrangement was put forward as similar clearing arrangements had been adopted in other regional groupings. The scheme would save foreign exchange conversion costs in the ASEAN region and could lead to more intraregional trade, but it was later frozen as its potential benefits for ASEAN were considered not sufficiently significant.

In conclusion, the ASEAN region is reasonably endowed with fairly well-developed and a diverse range of financial institutions, which have so far provided a creditable foundation not only for the region's industrialization, but also for its recent industrial co-operation efforts. Unlike the regional groupings in other parts of the third world, the extensive financial network in ASEAN has offered adequate financial services for regional co-operation activities in trade and industry. Some programmes in ASEAN industrial co-operation have run into problems because of their structural and institutional difficulties, but not because of a lack of financial facilities. In short, regional financial co-operation in ASEAN has advanced significantly over the past few years, and further progress in this field could in the long run have a still more positive effect on regional co-operation in the field of industry.

Other areas of industrial co-operation

The main thrust of ASEAN economic co-operation, as identified and discussed above, is contained in the programmes covered by PTA, AIP, AIC, AIJV and AFC. These activities may be treated as "formal" regional economic co-operation in the major sectors. But regional economic co-operation is a broad term and can take a variety of forms; there are other aspects or areas where more "informal" and less visible regional co-operation activities can take place. This refers to occasions or frameworks that provide opportunities for various groups from the member countries to make contact with each other and to exchange views on matters of regional interest. The numerous rounds of meetings for negotiation, consultation and discussion generated from such formal regional co-operation programmes as AIP and AIC have also enabled the relevant groups in each member country to understand more the problems and needs of their counterparts in other member countries. The various formal programmes may not yet have yielded concrete results, but their prolonged implementation process has certainly created beneficial spill-overs in terms of increasing public awareness or even public acceptance of these programmes. Eventually there will be positive feedback to the Governments or decision-makers, which will be under more pressure to modify policies or restructuring programmes for some genuine co-operation. This may be a long way from the regionally co-ordinated industrial planning, but is nevertheless a step towards the harmonization of policies.

For instance, the development of industrial complementation involves an extensive process of interaction at various levels, from the private sector as the initiator at the bottom all the way up to the ASEAN Governments for the final decision, as sketched in figure III. This is a cumbersome procedure for mounting a complementation project and has contributed to slowing down the progress of implementation. Viewed from a different angle, the framework for achieving AIC also serves as an effective channel of communication between various parties and interest groups involved in AIC, and information exchange is a precondition for regional co-operation. It also leads to more technological co-operation.

The procedures and processes for generating the AIC package are a convenient network for the exchange of technical information. The various feasibility studies and technical surveys and their evaluation can achieve the same. More concretely, regional technological co-operation is conducted through specific arrangements, often initiated by the various RICs. For instance, the ASEAN Federation of Cement Manufacturers has organized several technical symposia, with resource persons from both ASEAN and outside, on themes including energy management and planned cement-plant management. The ASEAN Federation of Textile Manufacturers has also organized training courses for ASEAN nationals on textile production techniques such as fibre testing. Some RICs have arranged technical visits that promote the regional transfer of technology along practical lines.

Various regional professional groups, such as medical personnel, bankers, economists, engineers, shippers and managers, hold regular meetings or seminars and conferences on technical topics related to their own professions but often with a regional bias. All these activities contribute to increasing regional technological co-operation. Since most of the technical knowledge transacted in these forums has a special regional bearing, such activities may possibly lead to the development of some regionally oriented appropriate technology that will in the long run contribute to the goal of regional industrial co-operation.

The ASEAN framework not only facilitates regional technological co-operation, but also promotes external technological co-operation and technology transfer from outside. Over the years, various international organizations, such as EEC, UNDP and UNIDO, and the Governments of Australia and Japan have been approached for financial and technical help for regional co-operation activities. Indeed, many of the feasibility studies or background technical surveys for regional economic co-operation projects were financed by funds from outside or conducted with technical advice provided from outside.

Much of the regional economic co-operation of ASEAN still depends crucially on the breakthrough in the main programmes such as PTA, AIP or AIC. But the gradual progress in the less notable areas, as highlighted in this section, should not be dismissed. In the long run these informal activities can add up to something of more than symbolic significance. They increase the general robustness of the overall regional co-operation system, laying a groundwork or creating momentum for progress in the formal areas.

II. Andean Pact industrial co-operation

Introduction

Following intensive negotiations during 1968 and early 1969, which ended in Cartagena, Colombia, the Andean Pact came into being after the plenipotentiary representatives of Bolivia, Chile, Colombia, Ecuador and Peru signed the Subregional Integration Agreement (Cartagena Agreement) in Bogota on 26 May 1969. In December 1973 Venezuela joined the Andean Pact, but Chile opted out in 1976. The Cartagena Agreement called for the acceleration of economic integration within the framework of the Latin American Free Trade Association (LAFTA). The Andean Pact was thus an outgrowth of the overall regional economic co-operation efforts in Latin America centred in LAFTA. In reality, the Andean Pact was formed largely as a result of dissatisfaction with the working of LAFTA, which by the late 1960s had lost most of its momentum.

From the outset, the Andean Pact, with several distinctive features, promised to inject some much-needed vigour into the stagnating regional movement in Latin America. The Andean Pact was characterized by a few imaginative or innovative economic integration programmes such as the automatic process of elimination of intraregional trade barriers, the formation of a common external tariff, the provision for special treatment of foreign investment and the sectoral programmes for industrial development, all of which were bold experiments in regional economic integration efforts in the third world. These programmes of integration activities were far more vigorous than those later proposed in ASEAN or other third world regional groupings, hence the Andean Pact has been described as a model of economic integration for developing countries.[13] Without doubt, the Andean Pact experience in economic integration is instructive for ASEAN and other third world regional groupings.

A. Evolution of the integration framework

The idea of regionalism in Latin America was conceived long ago. Strong sentiments for greater inter-American co-operation had often been expressed at the various meetings of the International Conference of American States, but serious ideas of economic co-operation only emerged during and after the Second World War. In 1948, Colombia, Ecuador, Panama and Venezuela attempted in vain to form a free-trade area. Argentina had also tried to initiate some regional arrangements between the southern countries of Latin America,

[13] R. Frenc-Davis, "The Andean Pact: a model of economic integration for developing countries", *World Development*, No. 5, 1977.

but nothing substantial had emerged. Less ambitious schemes, such as regional payments systems, were also tried out.

During the 1950s, two significant and practical measures towards regional economic co-operation were undertaken under the auspices of the United Nations Economic Commission for Latin America (ECLA). The first was the setting up of the Central American Economic Co-operation Committee in 1951 to study the problems of setting up an economic union. This led to the establishment of the Central American Common Market (CACM) and the General Treaty on Central American Economic Integration signed in December 1960 by El Salvador, Guatemala, Honduras and Nicaragua, and by Costa Rica in 1962. The second was the sponsoring of various official conferences and working groups on the promotion of regional trade and customs unification. This culminated in the formation of LAFTA in February 1960 by Argentina, Brazil, Chile, Mexico, Peru and Uruguay. LAFTA was later joined by Bolivia, Colombia, Ecuador, Paraguay and Venezuela.

As in other country groupings of the third world, the LAFTA countries differed substantially in economic and social development, and were without significant traditional commercial ties with each other as they were geographically isolated, with their economies primarily oriented towards the industrialized countries. Internally, these Latin American countries faced population explosion and chronic external economic imbalances caused by their deteriorating terms of trade. Their industries were inefficient, partly because of over-protection as a result of prolonged import-substitution strategies and partly because of the smallness of their domestic markets. All these structural weaknesses offered a powerful rationale for regional economic integration. It was argued that integration could enable these countries to accelerate specialization and complementary production as well as to reduce their economic over-dependency on the few developed countries. Politically, integration could also strengthen the bargaining power of Latin American countries in the world economic arena.

The Montevideo Treaty for LAFTA[14] embodied the determination of the original signatories to persevere in their efforts to establish, gradually and progressively, a Latin American common market. Article 2 provided that the free-trade area was to be brought into full operation within 12 years from the date of the Treaty. During that time, the member countries were expected to eliminate gradually "such duties, charges and restrictions as may be applied to imports of goods originating in the territory of any contracting party". To achieve this aim, the contracting parties agreed to enter into negotiations from time to time to draw up national schedules of products, the duties on which were to be reduced by not less than 8 per cent annually, and also a common schedule of products for progressive tariff reduction.

Trade liberalization brought about some notable achievements. Between 1961 and 1969, the intraregional trade of the LAFTA countries had more than doubled in volume and had expanded more rapidly than their global trade. A total of 11,000 national list tariff concessions and nine complementation agreements had been negotiated. By 1967 regional tariffs had been reduced to

[14] *Montevideo Treaty 1960* (Montevideo, LAFTA Secretariat).

about 50 per cent of the level applicable to non-regional exports. Progress had also been made in other fields—for example, in 1969 the central banks of LAFTA created multilateral credit arrangements to help member countries to cope with a dollar shortage.

Despite the achievements, however, LAFTA soon started to create problems for itself, and ramifications generated by these problems operated to slow down the integration progress. Although the major efforts of the LAFTA integration were concentrated on removing tariffs in the initial period, by 1966 tariff concessions had been made on less than half of the tariff items, and most of those items were not produced by the country making the concessions. Increasingly LAFTA negotiators began to find it difficult to reach agreement on tariff concessions on products within the common schedules. The fact that the Treaty of Montevideo allowed a high degree of selectivity in the negotiation process so that member countries could also negotiate withdrawal of products in the national schedules made matters much worse. While concessions made on products included in the common schedule could not be modified, no country was obliged to reduce any duty or charges on those products until the end of the 12-year period. Consequently, the trade liberalization process was soon slowed down.

Besides trade liberalization, other problems had cropped up to impede integration. LAFTA kept on putting off agreement on a common investment policy. Above all, some member countries were deeply concerned that protection enjoyed by their domestic industries could be prejudiced by the development of a broader market envisaged by the free-trade area. Such sentiments were evidenced in the regional automobile project.

It thus became clear that after the euphoric start in the early 1960s, the integration process of LAFTA was losing momentum and was not proceeding as smoothly and as rapidly as was required. It was essentially their disappointment with the slow progress of integration within LAFTA that led Bolivia, Colombia, Chile, Ecuador and Peru to form the Andean Pact as a subregional approach to integration. Those countries constituted a narrower range of variation in size and level of development and thus held a brighter promise for successful integration from the start.

B. Objectives and framework of the Andean Pact

The main objectives of the Andean Pact as provided in the 1969 Cartagena Agreement are the promotion of a balanced and harmonious development of the member countries and the acceleration of development through regional economic integration. Furthermore, the Andean Pact aims at establishing a favourable precondition for the formation of a Latin American Common Market. The ultimate objective of the Andean Pact is to promote faster economic growth through integration so as to improve the living standards of all the inhabitants of the subregion.

What distinguished the Andean Pact from ASEAN or other regional groupings in the third world was that the Andean Pact's economic integration objectives were more explicitly spelled out. The Andean Pact was aimed at the much more ambitious integration target, which was some kind of an economic union. That meant that the Andean Pact would not limit itself to promoting regional trade through the establishment of a free-trade zone as advocated by LAFTA. A free-trade zone is designed to remove all restrictions to reciprocal trade but leave individual member countries free to handle their own trade relations with the rest of the world, while a customs union is characterized by the elimination of duties and other trade restrictions between member countries and by the setting up of a common external tariff barrier *vis-à-vis* outside countries. Even further, the Andean Pact set a higher goal of a more intensive form of integration that would include not only the free flow of goods and factors of production, but also effective harmonization of the economic and social policies of the member countries.

In order to achieve its objectives the Cartagena Agreement laid down, *inter alia,* the following major policies:

Trade liberalization through progressive tariff cuts

Establishment of a common external tariff

Joint industrial programming and sector industrial development

Harmonization of economic and social policies

Implementation of the agricultural development programme

Arrangements for physical integration

Preferential treatment for the less developed members, Bolivia and Ecuador

Through these policies, the Andean Pact seeks to achieve an equitable and balanced economic development for member countries by exploiting the common opportunities created by integration. At the same time, efforts are to be taken to minimize differences and to avoid conflicts that may crop up between member countries. The institutional framework for implementing the various co-operation programmes is made up of two organs, the Commission and the Board, together with two auxiliary bodies, the Advisory Board and the Economic and Social Advisory Committee (CAES).

Commission

The Commission is the highest decision-making organ of the Andean Pact constituted of the plenipotentiary representatives of all the member countries. It is primarily responsible for formulating the general policy of the Cartagena Agreement, approving the essential guidelines for regional harmonization and other objectives of the Agreement, and ensuring the fulfilment of obligations in accordance with the Agreement and the Treaty of Montevideo.

The Commission is headed by a Chairman nominated by the member countries in rotation in alphabetical order. The Chairman represents the Commission and cannot simultaneously act on behalf of his own country. The Commission normally holds three regular sessions a year.

Board

The Board is the "technical" organ of the Andean Pact and is made up of three elected officials from member countries for a period of three years. These officials are to act in the common interest of the subregion as a whole and do not represent any member country. The Board, located in Lima, functions as the Permanent Secretariat of the Andean Pact, complete with a host of administrative personnel and technical staff. The primary responsibilities of the Board are to ensure that the stipulations of the Agreement are duly implemented and that the Commission's decisions are complied with. The Board also submits proposals regarding the fulfilment of the Agreement to the Commission for approval. From time to time, the Board also conducts studies and initiates measures for consideration by the Commission.

Advisory Committee

The Advisory Committee is made up of official representatives from the member countries, and its main function is to counsel the Commission and the Board and to co-ordinate their work. This enables member countries to maintain close touch with the work being undertaken by the Board.

Economic and Social Advisory Committee

The Economic and Social Advisory Committee (CAES) consists of three representatives each from the labour unions and the management in each of the member countries. Its main function is to bring activities from the economic sectors of each member country into the integration processes of the subregion. It aims at encouraging participation of the private sector in various regional economic co-operation activities.

Apart from the above four instruments, which constitute the major institutional machinery for the economic integration of the Andean Pact, there is also the Andean Tribunal of Justice, which was formed in May 1979. This Tribunal is the formal legal arm of the Andean Pact, primarily concerned with the enforcement of the subregional rules covered by the Agreement. The Tribunal is empowered to interpret or even nullify decisions or resolutions of the Agreement and to investigate any infringement of the Agreement. It is useful to set up such a legal body to settle any disputes or conflicts that may arise from time to time in the process of integration.

C. Industrial development of the Andean Pact

Industrial strategies in the Andean Pact countries

One basic rationale behind the drive of developing countries towards regional economic co-operation is the need to restructure their existing trade and industrialization patterns. For a proper evaluation of the industrial co-operation programmes in the Andean Pact, it is necessary to briefly review the industrialization processes and policies of the Pact and to bring out their salient features.

Most of the socio-economic features of the Andean Pact countries have been briefly noted in the introduction of this publication. Suffice it to say that the Andean Pact with a total population of 73 million comprises five relatively small countries, the largest country in terms of population size being Colombia with 27 million. A very high proportion of the population in all these countries is concentrated in the towns, and the rates of population growth are generally high. Rapid urbanization over the years has given rise to open urban unemployment, which is a familiar problem in other parts of the developing world. In the Andean Pact countries, as in most developing countries, the need to create employment has provided the main impetus for the subregion's industrialization efforts.

The strategy of industrialization undertaken in the Andean Pact countries is typical of the import-substitution pattern, with countries manufacturing primarily labour-intensive consumer goods to replace imports. Colombia was the first country to have begun this process in the 1940s and has since developed a complex industrial structure. By contrast, Bolivia and Ecuador were late starters in the industrialization scene, and their manufacturing activities are still mainly in the stages of simple fabrication involving food processing, beverages, textile and clothing as shown in table 5. Peru and Venezuela have in recent years made considerable progress in restructuring their import-substitution industries towards the higher stages of import replacement of durable consumer goods.

The extent of industrialization in each of these countries depends on its overall economic characteristics, particularly the predominance of its primary-producing sector. In Colombia, agriculture and cattle-raising are still the main

Table 5. Andean Pact: Structure of gross domestic product at market prices for manufacturing industries by country, according to ISIC,[a] 1973

(Percentages calculated on the basis of millions of US dollars at 1973 exchange rates)

Division	*Bolivia*	*Colombia*	*Ecuador*	*Peru*	*Venezuela*	*Andean Pact*
Food, beverages and tobacco	35.0	31.2	45.6	30.7	25.5	30.7
Textile, wearing apparel and leather	27.3	23.7	20.3	17.1	9.3	17.9
Wood and wood products, including furniture	5.3	1.7	5.7	2.7	2.2	2.6
Paper and paper products and printing	1.8	5.8	5.4	5.4	5.7	5.5
Chemicals and chemical, petroleum, rubber and plastic products	16.9	18.1	8.7	16.2	36.0	21.5
Non-metallic mineral products	4.5	4.7	7.0	4.1	4.8	4.6
Basic metal industries	3.6	2.9	2.4	8.4	5.7	5.3
Fabricated metal products, machinery and equipment	3.0	10.8	4.5	13.9	10.1	10.9
Other manufacturing industries	2.7	1.1	0.7	1.4	0.6	1.0
Total[b]	100.0	100.0	100.0	100.0	100.0	100.0

Source: Board of the Cartagena Agreement, "Andean Group, gross domestic product at market prices for manufacturing sector, 1970-1980" (Lima, 15 February 1982) (J/VE.ES/004).

[a]International Standard Industrial Classification.

[b]Totals may not add precisely because of rounding.

activities, just as mining is in Bolivia and Peru, and petroleum in Venezuela, as can be seen from table 6. The primary sector in these countries therefore makes an impact on the character of industrialization of the Andean Pact. The kinds of industry now in existence in these countries are essentially resource-based, making use of raw materials and similar inputs from domestic sources—for example, the food-processing industries in Colombia, metal industries in Peru and Bolivia, and petro-chemical industries in Venezuela.

Table 6. Andean Pact: Gross domestic product at factor cost by sector and country, 1973

(Percentages calculated on the basis of millions of US dollars at 1973 exchange rates)

Sector	*Bolivia*	*Colombia*	*Ecuador*	*Peru*	*Venezuela*	*Andean Pact*
Agriculture, fishing	20.2	29.4	21.4	14.9	6.5	17.8
Mining	8.1	0.5	0.3	6.5	1.2	2.4
Petroleum	2.2	1.0	7.4	0.6	20.7	7.7
Manufactured goods	14.0	19.5	18.0	22.6	15.4	18.6
Building	4.6	5.4	4.5	3.7	5.4	4.9
Basic services	8.9	7.6	7.7	6.8	11.7	8.8
Government	8.5	7.3	8.8	11.0	11.3	9.6
Other services	33.5	29.3	31.8	33.7	27.8	30.2
Total[a]	100.0	100.0	100.0	100.0	100.0	100.0

Source: Board of the Cartagena Agreement, "Consolidated accounts for the Andean countries" (Lima, 9 July 1981).

[a]Totals may not add precisely because of rounding.

With the availability of raw materials as well as ready-made domestic markets, the import-substituting industries of the Andean Pact have grown rapidly since the late 1960s. All the Andean Pact countries are resource-based economies, thus deriving much benefit from the first world oil-price adjustments. With the high oil prices and the commodity boom in the early 1970s, the Andean Pact economies chalked up impressive growth rates (see table 7). In the second half of the 1970s, however, the economic growth of the Andean Pact slowed down. The slackening of economic growth brought to the fore many structural problems inherent in these economies, especially in the manufacturing sector. The basic problem of the manufacturing sector was how to improve resource allocation and to increase the efficiency of the industries. A brief survey of the industrialization processes of the individual Andean Pact countries follows.

In Colombia, although the industrial sector was not given the highest priority in the three Four-Year Development Plans in the 1970s, emphasis was put on increasing production efficiency within the overall framework of liberalizing the economy. It was reasoned that industrialization in Colombia had reached a stage of maturity so that attention should be paid to structural adjustment and internal upgrading rather than to further extensive growth.

In Bolivia, the development strategy in the early 1970s originally stressed social reforms. Later, a new development plan was drawn up emphasizing

Table 7. Andean Pact: Gross domestic product at market prices, 1970-1980

(Rates of growth in 1973, national currencies in percentages)

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*	*1970-1975*	*1975-1980*	*1970-1980*
Bolivia	4.9	5.7	6.8	6.1	5.1	6.8	3.4	3.1	2.0	0.8	5.7	3.2	4.5
Colombia	5.8	7.8	7.1	6.0	3.8	4.6	4.9	8.9	5.1	4.0	6.1	5.5	5.8
Ecuador	4.9	7.2	25.3	6.4	6.4	5.6	5.6	6.2	5.8	4.6	9.6	6.3	7.9
Peru	5.0	1.7	4.3	7.5	4.5	2.0	2.0	−0.5	3.7	3.1	4.6	1.6	3.1
Venezuela	3.0	3.3	6.1	6.1	5.9	8.4	8.4	3.2	0.7	0.7	4.9	3.9	4.4

Source: Board of the Cartagena Agreement, "Consolidated accounts for the Andean countries" (Lima, 9 June 1981).

specific projects aimed at selective replacement of imports of foodstuffs, textiles, clothing, timber and furniture. This was a more pragmatic approach, although somewhat on an *ad hoc* basis, lacking overall coherence. But there was also increasing recognition of the need for a more balanced industrial structure geared towards the exploitation of the country's natural resources. Generally speaking, Bolivia's industrial base is still weak, with a lot of features characteristic of the early stages of industrialization. Its industrial capacity lags far behind that of Venezuela and Colombia.

In Ecuador, the Plan covering the period from 1972 to 1979 also focused on industrial development in order to reduce the country's dependence on oil exports. This was put as one of the country's long-term objectives. The priority list for industrial development included strategic industries such as oil refining, iron and steel, fertilizers, fishing and cement. But top priorities were also given to industries that could utilize opportunities created by regional or subregional integration.

In Peru, the 1971-1975 Plan gave priority to the social reforms based on economic growth, but industry was still considered the focal point of the entire development strategy in order to achieve self-sustained development. The General Industrial Law classified industries into four groups based on a descending order of priority. Thus, the group given top priority included iron and steel, chemical fertilizers and industries producing capital goods. The second category included goods for mass consumption and the main items of industrial equipment. The third included industries established for "complementarity", while the fourth was for the non-priority industries. The incentives system was structured according to the above priorities.

In Venezuela, a more prominent role was assigned to industry in the development plans than was the case with Colombia. The Venezuelan plans recognized that the initial phase of import-substitution was over, but not all industries were ready to mount an export drive. The Government was to play a different role from that of the private sector in promoting further industrial growth. The oil bonanza had produced enormous spill-overs for a wide range of consumer goods industries, which led to industrial imbalance. The Government was particularly concerned over the lack of internal cohesion in the manufacturing sector. In the latest (1976-1980) Plan, emphasis was placed on the long-term need for improving industrial efficiency as well as the setting up of basic industries such as aluminium, iron and steel, and petrochemicals in order to make use of the upstream and downstream effects of the booming petroleum sector.

Role of the Government

The role of the Government in the Andean Pact's industrial development takes a variety of forms. With few exceptions, the Government occupies a secondary position rather than directly operating or controlling the operation of industries. However, it is decisive in the channelling of resources from the primary to the industrial sector. By and large, the private sector still assumes the primary role in the growth and development of the manufacturing sector in the Andean Pact subregion.

Colombia has the most market-oriented policy in the Andean Group. Its development plans establish the guideline that governmental intervention in the running of the economy is basically confined to the establishment of rules and the creation of the necessary institutional environment and incentives for the private sector to operate. The Government's direct participation in economic activities is found largely in the mining sector and in basic industries including development of energy and infrastructure, leaving the manufacturing sector primarily in the hands of the private sector.

In Venezuela, the Government is heavily involved in intersectoral resource transfer, which means the channelling and redistribution of surplus from the booming oil industry to other segments of the economy. Since the coffers of the Government rapidly filled as oil revenues went up, the Government had to invest its surplus in basic industries on the official priority list. In Venezuela, as in other small oil-rich States, oil revenues have rapidly led to an expansion of the Government's stake in the economy, and sharply increased the role of Government in the functioning of the economy.

In Peru, the scale of governmental intervention in the economy is the highest in the Andean Pact countries. The Government intervenes not only in production operations in some industries, but also in foreign trade and the financial system. The Government is also actively involved in supervising the implementation of the socio-economic reforms at the micro level, for example in the labour market. At the same time, there is an official movement towards decentralization, which could well reduce the effect of governmental intervention.

Like Venezuela, Ecuador is an oil-exporting country although on a smaller scale; the Government plays an active and supportive role for industries. It serves an important function in reinvesting income from oil to other basic industries. Thus, apart from the oil sector, governmental intervention is heavy in industries such as iron and steel and chemical fertilizers.

In Bolivia, the Plan of 1970 prescribed a heavy role for the basic industries in the public sector; however, the Plan of 1975 reduced the role assigned to the Government. None the less, the Government was still responsible for three quarters of the total industrial investment for the period 1975-1980. For the whole decade of the 1970s, some 60 per cent of the total investment was attributable to the Government. The Bolivian Development Corporation, a main economic arm of the Government, now has control of a fairly wide range of corporations covering consumer and intermediate goods. The economic backwardness of Bolivia relative to the other countries in the Andean Pact, has provided impetus for more governmental intervention in the economy.

Trade-related policies

The Andean Pact countries are small economies and as such they have many external operations. Furthermore, industrialization in a small developing country cannot be self-reliant or completely free from international economic influences. Hence, the policy apparatus that determines the size and levels of foreign economic interaction needs to be discussed. In this section, the focus is on exchange policy and tariff policy, which are also interrelated.

On the whole, the exchange policy of the Andean Pact countries during the 1970s, a decade characterized by economic uncertainty and international monetary instability, was passive, particularly that of Ecuador and Venezuela, which exported oil, and the huge oil revenues worsened these inflation-prone economies. Their exchange policy was not effectively employed for either moderating inflation or stimulating their manufactured exports, although such a passive exchange-rate policy operated to favour production for the domestic market.

In Bolivia, an unrestricted exchange market lasted until 1972 when the United States dollar started floating. After a large devaluation in 1973, the Bolivian pesos maintained a fixed rate; in 1979, it was devalued again, as a result of high inflationary pressure. Consequently, the fixed rate regime, reinforced by the tariff protection policy, tends to discriminate against industries producing for the export markets. This is more or less true also for Colombia, where the rate of inflation has grossly outstripped the rate of devaluation.

In Ecuador, an official exchange rate has been fixed with the inflationary rates fluctuating. This works in favour of imported goods. The same situations, in varying degrees, apply to Peru and Venezuela (see table 8).

The effect of the exchange-rate policy on industrial development cannot be evaluated independently of the effect of the tariff protection. In general, the tariff structure of the Andean Pact countries is supposed to operate in such a way as to expedite the import-substitution process. Thus tariff rates are structured and non-tariff barriers set up to protect domestically produced finished goods and to discriminate against the import of consumer goods. Tariffs on intermediate goods and capital goods are either exempted or levied at very low rates. In practice, the final net effect of tariff protection often turns

Table 8. Andean Pact: Devaluation and inflation rates by country, 1971-1980

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*
Bolivia										
i	3.6	6.4	31.6	62.3	8.3	4.5	8.1	10.4	19.7	47.2
d	0.0	11.4	51.1	0.0	0.0	0.0	0.0	0.0	2.9	
Colombia										
i	11.0	13.1	19.6	23.3	22.1	20.5	31.4	18.8	23.9	24.9
d	9.4	9.6	8.2	13.8	15.1	12.1	5.8	6.1	8.3	
Ecuador										
i	9.5	7.7	12.0	22.7	14.4	10.2	12.9	13.1	10.1	12.8
d	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Peru										
i	6.8	7.2	9.5	16.9	23.6	33.5	38.1	57.8	67.7	59.2
d	0.0	0.0	0.0	0.0	5.4	40.8	45.9	86.5	43.6	
Venezuela										
i	3.3	2.8	4.2	8.3	10.3	7.5	7.8	7.1	12.4	23.2
d	0.0	−2.3	−2.2	−0.4	0.0	0.0	0.0	0.0	0.0	

Source: Board of the Cartagena Agreement, *Socio-economic Indicators, 1970-1979* (Lima, May 1981).
i = percentage variation between average annual price indices.
d = percentage variation between average annual exchange rates.

out to be quite different. In some cases the goods exempted for tariff purposes are consumer goods. In other cases, as in Bolivia, the basic tariff structure affords greater protection to consumer goods than to intermediate and capital goods. This is another example of effective protection producing, often unintentionally, results different to those of nominal protection.

In Venezuela, the average level of protection works out to be 55 per cent, though the actual figure is estimated to be 69 per cent. Import licences are required for products already produced at home. In Colombia, the tariffs have been reduced progressively, and the average rate comes to 26 per cent after the tariff reform of 1979. In Peru, the tariffs have remained unchanged for the greater part of the 1970s, with the average rate staying at the high 55 per cent. In addition, Peru has a much stricter system of physical controls than any other Andean Pact country. Finally, in Ecuador, the tariff structure is quite complex and is differentiated to treat goods according to category, for example luxury or capital goods.

On the whole, the tariff system of the Andean Pact countries is administratively cumbersome and economically irrational. The Cartagena Agreement has provided the much needed framework for the rationalization and streamlining of the tariff policy in the subregion.

Subregional integration and industrialization

The brief survey given above illustrates some structural shortcomings and policy problems in the industrialization process of the Andean Pact countries. This process has reached the stage of intensive import-substitution activities in the more advanced sector including many basic industries of capital-intensive industries. Some industries are in the process of making the crucial transition from import-substitution to export expansion. For a smooth transformation, many of the structural shortcomings in the manufacturing sector would have to be overcome.

Since the economies of all the Andean Pact countries are small, the obvious structural constraint of their manufacturing sector is the limited domestic markets, which are easily exhausted in the initial phase of import-substitution. But most dynamic industrial activities with specialization in production demand a scale of operation exceeding that of domestic markets. The many basic industries set up under the various development plans in the 1970s would clearly not be viable if their outputs were to depend entirely on their small national markets. But the world export markets for manufactured products are extremely competitive and tend to be dominated by a few efficient industrialized countries together with some dynamic newly industrializing countries. Worse still, access to the markets of the industrialized countries for manufactured exports from the developing countries has become increasingly more difficult due to increasing protectionism. In the circumstances, regional economic integration is seen as an attractive and realistic option for these small countries to achieve wider and more stable markets for continuing their industrial growth.

The Andean Pact economic integration is supposed to promote the subregion's further industrialization efforts in two ways: the first is to make the import-substitution process more rational and more efficient by looking beyond the narrow horizon of the individual member country markets; and the second is the progressive introduction of competition into the subregion's industrial development process. In this way, the industrialization process of those countries will present them with opportunities as well as challenges.

D. Andean Pact programmes for trade liberalization

One mechanism of the subregion's economic integration is the automatic and irrevocable liberalization of reciprocal trade between member countries and the establishment of a common external tariff barrier *vis-à-vis* the rest of the world. The ultimate objective is to eliminate duties and restrictions on all kinds of imports originating from member countries. From the outset, the Andean Pact countries have been committed to work towards the establishment of a common market.

The range of products covered by the trade liberalization programme is divided into four categories. For tariff reduction, the Andean Pact has created its own nomenclature, NABANDINA, which is based on the Brussels Customs Nomenclature with adaptation to the requirement of the Andean Pact subregion. The four categories are as follows:

(a) Products included in the first section of the LAFTA Common List, roughly corresponding to 132 items in NABANDINA. These products were completely liberated from tariff restrictions as of 14 April 1970 except for Bolivia and Ecuador, which were still covered by the Montevideo Treaty. Venezuela put into effect the tariff liberalization for these products on 1 May 1974;

(b) Products not produced in the Andean Pact subregion but reserved for the sectoral programme. This corresponds to 228 commodity items in NABANDINA, which were completely liberalized by 28 February 1971 except in Venezuela, which started from 1 May 1974. Special preferences were also given to Bolivia and Ecuador. Another batch of 140 items were liberalized on 31 December 1978;

(c) Products reserved for the sectoral programme of industrial development, i.e. selected for the establishment of regionally oriented industries. This corresponds to 1,100 items in NABANDINA. Most of the products on the list should be liberalized within three years starting from 31 December 1981. Special consideration was given to Bolivia and Ecuador, which should complete the process of reduction by 31 December 1990;

(d) Products subject to automatic tariff reduction. The list covers about 3,000 items in NABANDINA. In addition, it covers the products hitherto not regarded as of basic significance for industrial programming at the subregional level. In reality, the commodities in this category are the bulk of the Andean Pact tariff schedule, and they are subjected to a process of automatic intraregional tariff reduction. Tariffs on these commodities were reduced to a maximum of 100 per cent in 1971, by a further 10 per cent per year until 1976, and finally by 6 per cent per year afterwards. Therefore, in 1980 the maximum tariff on commodities in this category was 26 per cent, and tariffs scheduled to be completely eliminated by 1983. Once again, Bolivia and Ecuador were entitled to a slower process of tariff reduction.

Two special features in the Andean Pact liberalization programme need to be mentioned. First, as already pointed out, the two relatively backward member countries, Bolivia and Ecuador, were given special consideration whenever possible. Thus certain products from these two countries are treated with preferential margins so as to facilitate the access of their products to the more competitive subregional markets. Secondly, in order to protect national production activities, which are just starting or which are susceptible to competition from similar products produced under better conditions by other member countries, the Cartagena Agreement allows member countries to exclude certain products from the list of tariff liberalization and from the common external tariffs. The list of exceptions for Colombia and Venezuela amounted to 250 items; and for Peru, initially 450 items but reduced to 350 in 1974 and to 250 in December 1982. Special treatment was also given to Bolivia and Ecuador. It was agreed that exceptions were to be removed in 1980 at the latest.

As a result of implementing trade liberalization through progressive tariff reduction and the harmonization of foreign trade, trade of the subregion registered remarkable growth during the 1970s. In 1969 when the Cartagena Agreement was signed, the reciprocal trade of the five member countries amounted to only $61 million. By 1979, the volume had increased to $1,061 million, or a 16-fold increase. Because the starting points in 1969 were low, the subsequent increases therefore appear very high. Still, it is undeniable that much of the increased trade flow has been generated by the operation of the trade liberalization programme.

The real significance does not lie in the rapid growth of intraregional trade as much as its structural change. During the same period, the share in traditional regional exports declined while that of manufactured exports increased. The proportion of manufactured exports in the Andean Pact subregion's trade increased from 25 per cent in 1970 to 65 per cent in 1979 (see table 9). This shows that the gro[illegible] of intraregional exports, excluding oil, has been largely a result of incre[illegible] trade in manufactured products. The expanded regional trade opportunities were mainly captured by Colombia and Peru and also to some extent by Ecuador (see table 10). Bolivia was economically not developed enough to respond to the growing subregional market while Venezuela was all along oriented to oil exports. The differential responses to the increasing subregional trade opportunities as a result of the subregional arrangements for trade liberalization are shown in table 11. There was an enormous difference between Bolivia and Ecuador in their initial response to the new market opportunities created by trade liberalization. The sharp rise of Ecuador's exports to the subregion clearly shows that its economy was sufficiently dynamic to benefit from regional economic co-operation. Above all, the industrial maturity of Colombia is fully expressed in its dominant shares in various arrangements under the overall trade liberalization programme.

E. Common external tariffs

More than the elimination of tariffs and non-tariff barriers to regional trade, the pattern of a regional integration scheme for developing countries is shaped by common external tariffs. While the removal of tariffs fosters growth

Table 9. Andean Pact: Structure of exports by production sector, 1970 and 1979

	1970	*1979*
	Millions of dollars	
Total		
Andean Pact countries	111	1 289
World	5 380	24 166
	Percentage	
Agriculture and cattle		
Andean Pact countries	33	12
World	24	16
Mining		
Andean Pact countries	12	4
World	17	12
Petroleum and derived products		
Andean Pact countries	30	19
World	56	64
Industrial		
Andean Pact countries	25	65
World	3	8

Source: Board of the Cartagena Agreement, *Socio-economic Indicators, 1970-1979* (Lima, May 1981).

Table 10. Andean Pact: Development of industrial exports[a] by country, 1970 and 1979

(Millions of dollars and percentage of total exports)

	1970	*1979*
Bolivia	5.5	60.1
	(2.4)	(7.0)
Colombia	94.7	1 168.5
	(12.9)	(34.3)
Ecuador	19.9	195.3
	(10.5)	(9.6)
Peru	38.4	835.2[b]
	(3.7)	(24.8)
Venezuela	65.4	315.5
	(2.1)	(2.2)

Source: Board of the Cartagena Agreement, *Socio-economic Indicators, 1970-1979* (Lima, May 1981).

[a]Products are those classified as type B by JUNAC.

[b]National information.

Table 11. Andean Pact: Exporting of intra-subregional products under the programme of trade liberalization, 1970 and 1979

(Millions of dollars)

	Immediate opening		*General list*		*Reserved for SPID*		*Bolivia and Ecuador without liberalization*		*Petrochemical*		*Automatic lowering of taxes*		*Automatic lowering of taxes (exceptional)*	
	1970	*1979*	*1970*	*1979*	*1970*	*1979*	*1970*	*1979*	*1970*	*1979*	*1970*	*1979*	*1970*	*1979*
Ecuador	0.1	40.9	0.1	2.4	0.0	1.7	0.1	0.6	0.0	0.0	1.7	16.2	0.0	0.0
Bolivia	0.0	1.0	0.0	0.1	0.0	0.0	0.0	0.3	0.0	0.0	0.0	1.5	0.0	0.0
Colombia	...	...	0.3	18.1	1.6	28.3	8.5	76.3	0.0	7.3	0.9	188.8	0.4	197.0
Peru	...	...	0.0	1.9	0.8	7.8	4.4	186.2	0.0	11.7	0.2	49.8	0.0	13.8
Venezuela[a]	...	...	0.0	1.6	0.0	18.1	0.0	1.9	0.0	7.3	0.0	2.1	0.0	2.9
Total	0.1	41.9	0.4	24.1	2.4	55.9	13.0	265.3	0.0	26.3	2.8	258.4	0.4	213.7

Source: Board of the Cartagena Agreement, *Socio-economic Indicators, 1970-1979* (Lima, May 1981).

[a]Venezuela starts at zero in each case as it was not included until 1974.

. . . = not applicable.

in intraregional trade, common external tariffs are a crucial instrument that fosters regional industrial growth and regional industrial co-operation, as they affect the degree of protection to be granted to regional industries. In the long run, common external tariffs will determine whether the Andean Pact subregional co-operation will tend to prolong the import-substitution process or lead to a new stage in its industrial development.

According to the Cartagena Agreement, common external tariffs are to be introduced in two stages. The first stage is common minimum external tariffs, which started in 1971 and were in full operation in Colombia, Peru and Venezuela in 1975. As usual, Bolivia and Ecuador were not obliged to adopt them except for products from outside the subregion for which minimal duties were scheduled to be adopted by three annual estimates. The second stage is concerned with common external tariffs with definitive levels, which are under negotiation.

The first common minimum external tariffs gave an average 40 per cent protection *ad valorem*, with a maximum protection of 110 per cent. Each of the sectoral programmes of industrial development has its own common external tariffs, with the average being 10 points higher than the minimal ones in force. Once a product is totally liberalized from duties, provided under the Trade Liberalization Programme, the product will be subject to either common minimal external tariffs or common external tariffs. Member countries are not allowed to alter the common tariff duties unilaterally and have to consult others before committing themselves to any new tariff deal with a non-member country.

While it has been fairly easy for Andean Pact countries to implement the common minimal external tariffs, it proved to be quite difficult to set up the second stage of the common external tariffs, mainly because of the tremendous differences between member countries in respect of their preferred degrees of protection. It was reported that Peru favoured an effective rate of protection not higher than 40 per cent, although it could accept the Colombian proposal of 60 per cent. However, Ecuador and Venezuela wanted an effective protection rate of not lower than 80 per cent. It has been argued that a big reduction in the protection rate could result in disrupting the strongly protected domestic industrial sector of the Andean Pact countries by exposing it to world markets, apparently with no immediate direct benefit whatsoever to regional integration efforts. It thus appears that measures for reducing the effective protection in order to bring greater efficiency to domestic industry could clash with those undertaken to promote regional integration in order to encourage further development of import-substitution industrialization. Such a dilemma is often faced by regional groupings in the developing world. A heavily protected process of import-substitution always demands considerable sacrifices in terms of the sub-optimal allocation of resources.

F. Joint industrial programmes

Regional co-operation in trade is inseparable from regional co-operation in the field of industry. The sharp rise in the intraregional trade in manufactured products has been the major source of the impressive growth of intraregional trade in the Andean Pact region, as shown in the above section. But the increase in the regional trade for manufactured products depends on progress in regional industrial co-operation as well as the implementation of the selective trade liberalization programme. In the long run it is advances in industrial co-operation that will provide the dynamic impetus for further progress in regional economic integration.

The Andean Pact has several innovative approaches to regional industrial co-operation, as embodied in its joint industrial programmes (JIPs). Apart from fostering industrial growth in the subregion, JIPs are designed to achieve a regionally balanced pattern of industrialization, and to prevent the uneven distribution of costs and benefits arising from economic integration. Thus the Cartagena Agreement has committed member countries to the process of regional industrial development through joint planning in order to realize, *inter alia,* the following major obectives: *(a)* greater expansion, specialization and diversification of industrial production; *(b)* maximum utilization of the available resource in the subregion; *(c)* improvement in productivity and more efficient use of the productive apparatus; *(d)* the operation of scale economies; and *(e)* equitable distribution of profits. In addition, the Cartagena Agreement has made special provisions for Bolivia and Ecuador by assigning special production facilities and locating plants in these two countries under the overall regional industrial programme.

According to the Cartagena Agreement, JIPs are to be the main instrument for achieving a harmonious and balanced development of the subregion. To fulfil its objectives, JIPs are to operate through four major mechanisms: *(a)* sectoral programmes for industrial development (SPID); *(b)* industrial rationalization programmes (IRPs); *(c)* integrated development projects (IDPs); and *(d)* product reservations for Bolivia and Ecuador.

G. Sectoral programmes for industrial development

SPID are the major apparatus within the framework of the Cartagena Agreement for regional industrial planning and for the equitable distribution of the benefits of the integration process. The SPID mechanism was designed to correct the potential imbalances and inefficiencies that some less developed member countries had feared would appear when they were grouped together with the more developed member countries in a single market. It was also envisaged that industrial programming under SPID would not be restricted to geographical allocation of sectors or activities. To achieve an efficient growth for some manufacturing industries, other decisions were also centralized, for example marketing and technological development within some kind of multinational Andean corporations.

There is a substantial difference between national industrialization programmes under import-substitution and the regional industrial development under SPID. The difference arises from the size of the market and hence the scale of operation. Typically, national industries under import-substitution in the Andean Pact countries are characterized by the lack of scale economies and high unit costs. Their continuing existence is made possible by strong effective protection created by high tariff and non-tariff barriers. Furthermore, inefficiency is not a temporary phenomenon, as in the case of an infant industry, but has become a permanent feature of the manufacturing sector in many Latin American countries. In contrast, SPID are designed to cater for a regional market several times bigger than any individual national market. More significantly, SPID are not supposed to allow more plants to produce a commodity than will be efficient once the regional market is fully developed, for example only efficient plants, in terms of scale economies, are contemplated. Thus from the start SPID had to take into consideration the conflicting demands of national and regional interests.

Some elaborate approval procedures have been devised to screen SPID. To begin with SPID covered some 1,100 NABANDINA commodity items, later reduced to 851 items, specially reserved for sectoral industrial programming. SPID would have to take into account a number of essential aspects or issues as stipulated in the Cartagena Agreement for JIPs, including the investment commitment and measures for ensuring its operation, problems related to policy harmonization and trade liberalization, and the common external tariffs requirements. Specifically, member countries were required to stick to those requirements and not to deviate from them unilaterally. The idea is to ensure that the products of SPID would be adequately protected in the regional markets from competition from similar products of extra-regional countries. In assigning the product-families to specific member countries, it would appear that the Cartagena Agreement Commission takes away from the market the basic decision of where to invest. Actually the role of the market has not been entirely eliminated from the succeeding phases of programmes. Centralization of decisions on where to invest is accompanied by more decentralized control of how much, when and how to produce, one of the mechanisms of control being the common external tariffs, which set the maximum surcharge in relation to the international prices that the exporting country can impose. Furthermore, member countries are not forbidden to employ incentive measures to promote exports of SPID products. In this way, SPID are supposed to embody sufficient institutional flexibility to allow for an appropriate mix of planning and marketing for the regional projects.

To date, three SPID have been approved: metal fabricating, petrochemical and the automotive industry. In particular, the package on the automotive industry has received wide attention outside the region.

Metal fabricating programme

The metal fabricating programme, originally with the participation of Bolivia, Chile, Colombia and Peru, was approved in 1972. With the departure of Chile from the Andean Pact and with the entry of Venezuela, the programme had to be revised in 1979. The scope of the metal fabricating programme is rather limited, covering only parts of metal fabrications. It consists of 267 NABANDINA items, grouped into 76 units on the basis of technical and economic criteria of minimum efficiency size. The 76 units are further divided into the following components: 21 for specialized machinery, 15 for general machinery, 11 for machine tools, 7 for electrical equipment, 1 for transport equipment, 14 for miscellaneous instruments and tools, and 7 for consumer goods. It can thus be seen that the programme is basically concerned with capital goods production. Some of the 76 units are allocated to specific member countries in totality while others are divided up.

A common external tariff is set up to maintain preference margins for subregional production *vis-à-vis* products from extra-regional countries. The tariff levels vary between 20 and 80 per cent, with an arithmetic mean of 51 per cent. Of the items forming the programme 87.6 per cent have common external tariff preferences of 40-65 per cent. In addition, member countries also undertake not to set up new production facilities or to expand existing set-ups for the designated products within a specific period. Nor can member countries authorize new foreign investment commitments for the designated products.

So far 122 of the 267 core items of the programme have been approved. The progress of the approved items in countries has not been even, with Colombia and Peru taking the lead. A total of 153 companies are involved in the production of the approved items, mainly parts or components for machinery. The degree of integration achieved by the companies or firms has been relatively high, especially in the context of the stage of industrialization of the member countries. Roughly 80 per cent of the Peruvian and Venezuelan companies show a level of integration of over 70 per cent. The subregional trade for the designated products has also registered impressive growth, rising from \$5.6 million in 1975 to \$17.8 million in 1979.

Petrochemical programme

The petrochemical programme of the Andean Pact countries was originally an outgrowth of a similar project initiated by LAFTA before the formation of the Andean Pact. In 1968, Bolivia, Chile, Colombia and Peru signed an agreement to take part in the first Latin American multilateral programming of the petrochemical industry. The principles of the agreement, which covered the methods of allocating products to participating countries and an undertaking by participants not to duplicate the designated production activities in their territories, were subsequently incorporated in the petrochemical programme of the Andean Pact countries.

In October 1970, the Commission of the Cartagena Agreement resolved that the original LAFTA petrochemical project be adapted and programmed within the Andean Pact context, with all the Andean Pact members participating. The Andean Pact's own petrochemical programme was designated for better utilization of the hydrocarbon-yielding resources of the subregion, for higher productivity and for more efficient development of the petrochemical sector. The idea was to replace subregional imports of these products and eventually to develop export markets for them. Covering 161 products of which 56 were allocated in totality or in a shared form between the member countries, the petrochemical programme was to operate on an open market model, with a relatively low level of protection and allowing linkages with extra-regional countries. It was envisaged that once the programme had reached full scale operation and maturity, it would be possible for each of the Andean Pact countries to have integrated modern petrochemical complexes, ranking next only to those found in the industrially advanced countries.

The capacity of the petrochemical industry in the subregion in 1975 is shown in table 12. The value output of the petrochemical programme for 1975 was estimated to be \$110 million, equivalent to one third of the subregion's total demand. It was projected that by 1985 the total value output of the

Table 12. Andean Pact: Existing capacity of the petrochemical industry, 1975

(Thousands of tonnes per annum)

	Colombia	*Peru*	*Venezuela*
Basic products	183.4	9.1	—
Allocated intermediate and finished products	215.4	81.6	76.0
Unallocated intermediate and finished products	144.5	60.8	90.0

Source: MITI, Office of Secretary of State for Integration, Lima.

petrochemical programme would reach $830 million, which would be adequate to meet the subregion's total demand. The initial capital investment for the entire programme was estimated to cost $2,000 million.

It is expected that for a SPID project of this kind involving heavy capital investment and high technology, extensive bilateral and multilateral supplementary agreements must be made. The internal markets of the member countries are obviously too small to sustain an integrated complex and hence a great deal of regional co-operation arrangements are required. The key instrument for facilitating the development of a petrochemical programme is the common external tariff.

For the petrochemical programme, common external tariff levels of protection were established between 20 and 35 per cent in nominal terms. The tariffs would come into effect immediately for existing production or for new production being planned. To harmonize the tariff regimes, exceptions for imports and subsidies for related exports were abolished. Once again, preferential treatment for Bolivia and Ecuador was granted through special exemptions or by allowing them longer periods of adjustment.

The implementation of the petrochemical programme has lagged behind schedule. Between 1975 and 1980, the Andean Pact group increased its installed petrochemical capacity by 481,000 tonnes per year. Nearly 60 per cent of the increase was attributable to plants in Venezuela, 30 per cent in Colombia, 8 per cent in Peru and less than 1 per cent in Ecuador. Colombia and Venezuela accounted for 43 per cent and 45 per cent of the total installed capacity. The slow progress of the petrochemical programme is clearly manifested in the fact that the Andean Pact countries are still heavily dependent on supplies for the petrochemical products originating from sources outside the subregion.

Automotive industry programme

In developing countries there is a rising demand for motor vehicles, particularly passenger cars. But this is one manufactured product that clearly carries scale economies often exceeding those that can be provided for by the small domestic markets of most least developed countries. Hence the automotive industry is often the favorite project for most regional economic co-operation efforts in the third world. Such has been the case for ASEAN and for the Andean Pact countries. In 1980, the Andean Pact countries represented a market of 300,000 vehicles, which was expected to more than double by 1988. A ready-made market is there. In May 1971, the meeting of Andean Pact Industry Ministers in Bogota resolved that high priority was to be assigned to the proposal for the automotive industry programme, which was finally approved in September 1977.

There were several obvious reasons for the Andean Pact Industry Ministers to attach high priority to the implementation of an automotive industry programme. First, the programme would be conducive to employment creation, technological development and foreign exchange savings for the subregion. Secondly, it would provide a basis for a much needed rationalization of the subregion's existing automotive industries. Thirdly, it would bring about an extended market needed for the efficient operation of the automotive industries, particularly components and parts. Finally, it was considered that the programme would provide the much needed economic linkages for the development of the subregion's fabricating industries.

As for the scope of an automotive industry programme, vehicles are grouped into three categories: category A for passenger cars and their derivatives; category B for commercial vehicles and their derivatives; and category C for the four-wheel-drive vehicles. Each category was further divided into subgroups as follows:

Category	
A1	up to 1,050 cylinder capacity (cc)
A2	above 1,050 and up to 1,500 cc
A3	above 1,500 and up to 2,000 cc
A4	above 2,000 cc
B1.1	up to 3,000 kg of vehicle gross weight
B1.2	above 3,000 and up to 4,600 kg
B2.1	above 4,600 and up to 6,200 kg
B2.2	above 6,200 and up to 9,300 kg
B3	above 9,300 and up to 17,000 kg
B4	above 17,000 kg gross weight
C	four-wheel-drive with gross weight up to 2,500 kg

The components also cover three large groups: *(a)* basic components demanded as a condition of national manufacture (DCM); *(b)* components originating from the subregion (DOS); and *(c)* components not demanded for the purpose of SPID (ND). In accepting the allotted vehicles, member countries are obliged to produce or use the DCM components. Those DCM components that are commonly used in great amounts are allotted to some member countries for specialization. Each must produce DCM components for use in its allotted vehicle or else that vehicle can not enjoy preferences from the subregional market. After fulfilling its national requirement, a member country can voluntarily manufacture components for use in vehicles assigned to other member countries. If that component can be produced efficiently, the Board can designate to it a subregional status. In this way, a component is initially manufactured to meet the national requirement and then becomes a subregional product.

The basic model consists of a set of parts and components, the characteristics of which are defined for the purpose of identifying a subregional vehicle. Each member country has to select a basic model within each category and has to inform the Board of the main technical characteristics of the essential parts and components such as the engine, gearbox and axles. Member countries can produce different versions of vehicles from the basic model in order to meet their market demand provided that the variations and modifications do not differ fundamentally from the basic model assigned to them.

Standards are also set in respect of the origin and degree of integration for the components. By "original vehicle" is meant one which is manufactured in accordance with the basic model chosen by the member countries concerned, and which incorporates the components demanded as the condition for national manufacture. Those components, in turn, must be produced with a degree of national integration for which the reference value of imported parts should not exceed 30 per cent of the reference value of the components incorporated in the vehicle. This means that the degree of integration would not be less than 70 per cent. DCMs require national integration while subregional components require subregional integration. An original vehicle is also called a "subregional vehicle", and it contains "original components", i.e. both DCMs and DOSs. Once the prices of the DCMs become equal to or less than the prices of those imported from outside the subregion, the DCMs are to be treated as subregional components.

There are other built-in flexibilities in respect of the components. In case some DCMs can not meet the required national integration standard, the Board can authorize higher import contents. To avoid over-protection for the subregional components, the Board from time to time assesses the levels of common external tariff protection in accordance with the movement of international prices for similar products.

Apart from the ruling on components, several sub-agreements in regard to co-production, assembly and complementation may be of interest. Article 20 of the automotive industry programme states that co-production agreements may be entered into between two or more countries sharing the assignment of the same vehicle, or between those on the assigned vehicle and others not on it. The idea is to encourage specialization in production. But certain preconditions must be met before co-production is authorized. The components must be demanded as a condition for national manufacture, and the country taking up the components must have fulfilled the required degree of national integration.

For assembly arrangements, the assembling country should include the components incorporated by the assignee country. In the event that Colombia, Peru and Venezuela should decide to go into assembly arrangements for vehicles already assigned to Bolivia or Ecuador, they would have to incorporate the components demanded as a condition for national manufacture for Bolivia and Ecuador. On the other hand, if Bolivia and Ecuador were to go into assembly arrangement with Colombia, Peru or Venezuela, the former two countries might incorporate the components produced by themselves, as specified in the basic model assigned to them.

For complementation, two or more member countries may enter into complementation agreements for the production of parts and components demanded as a condition for the national manufacture of vehicles assigned to these countries. Through this mechanism member countries can specialize in the production of certain parts and components with higher production efficiency.

The Andean Pact trade liberalization programme and the common external tariffs are crucial for the implementation of the automotive industry programme. Member countries were required to eliminate restrictions of all kinds on the import of products covered by the automotive industry programme. With effect from 31 December 1981 Colombia, Peru and Venezuela would lower their national tariffs by three equal, annual and successive reductions; and for Bolivia and Ecuador, by six annual successive reductions, starting on 31 December 1983. With respect to DOS components, Colombia, Peru and Venezuela would apply duties from December 1978 not higher than the levels set for the common external tariffs. Afterwards these three countries would eliminate such duties among themselves in five successive annual reductions, starting from December 1979, with preferential treatment for Bolivia and Ecuador, which would in turn make their markets available to the three.

As for the common external tariffs, member countries undertook to impose duties on the import of products covered by the automotive industry programme, not originating from the subregion. Member countries whose national tariffs on the subregional vehicles were lower than those set for the common external tariffs would bring up their national tariffs gradually to common external tariffs levels by December 1983, except for Bolivia and Ecuador, which could prolong such a process until 1988. Similarly, member countries whose tariffs for some vehicles exceed those provided under the common external tariffs will have to make the adjustments after 1983; and for Bolivia and Ecuador, after 1988. In all cases, member countries are expected to make a commitment towards the adoption of the common external tariffs as soon as subregional vehicles start their production. The norms of the common external tariffs are compulsory for all the member countries, which may not defer their application or unilaterally alter the common duties.

For ordinary components, the common external tariffs were set at levels ranging from 35 to 55 per cent. For subregional components, member countries undertook to bring their existing national tariffs to approximate the common external tariffs levels by December 1983; and for Bolivia and Ecuador, by December 1988. To make use of the market of a third country to complement the expanded regional market, components from outside the subregion could be imported as the counterpart of an export and be accorded preferential treatment.

Of equal importance has been the undertaking given by the member countries to avoid duplication of activities. It was agreed that member countries would not promote new facilities to produce vehicles designated to other member countries or to produce components required as a condition of national manufacture of a different member country without appropriate authorization. In case facilities were already in existence, member countries would refrain from expanding or upgrading those facilities, especially in respect of components not for the domestic market. Also, member countries agreed not to accept direct foreign investment for the production of vehicles allocated to other countries for DCM components required by other member countries. Foreign participation in the regional projects would have to follow a unified approach under regional arrangements. In fact, the Andean Pact countries met in September 1977, after the approval of the automotive industry programme, to agree to negotiate with the transnational corporations (TNCs) possessing the required technology for manufacturing the DCM components. From the standpoint of TNCs, it is not just the technological requirement, but also the overall economic condition of the subregion as well as the feasibility of a particular basis model that will determine their final commitment to participate in such a subregional project. Generally, the TNCs favour projects that employ the most advanced techniques or projects closer in line with the overall development of the world automotive industry. Thus the choice of basic models is crucial in determining the level of foreign participation.

Apart from the above commitments, arrangements to harmonize policies related to foreign exchange, credit, state procurement, intraregional exports etc. are also essential for the smooth progress of the automotive industry programme. A proposal covering norms for harmonizing tax legislation in respect of domestic taxes applied to vehicles was submitted to the Commission in 1978, by which member countries also undertook not to operate differential rates of exchange for imports and exports of the automotive industry programme products, nor to apply discriminatory credit and price regulations against the automotive industry programme products manufactured in other member countries. The ex-factory prices of the automotive industry programme products for export to other member countries should be the same as their prices in the domestic market.

Finally, the automotive industry programme also contains provisions for the exchange of information concerning new foreign investment commitments and the development of new technology in the automotive industry. Agreements have also been reached in regard to the technical standardization such as product specifications and certification of quality. All these measures in the long run would strengthen the technical and economic base of the automotive industry in the subregion.

It is conceivable that a sectoral programme for industrial development as ambitious as the automotive industry programme, with its inherent technical and economic complexities, is bound to encounter numerous difficulties in implementation. But the Andean Pact countries still consider the automotive industry programme a worthwhile undertaking. Thus the planners have set about the task of studying and defining the conditions for adjusting the programme with a view to bringing it into line with the new reality of the world automotive industry.

In 1980, the total demand for motor cars in the subregion amounted to 300,000 units. In order to make regional car production fully efficient, the automotive industry programme only allows one regional model of small cars (up to 1,050 cc), two models of small and medium-sized cars (1,050-1,500 cc), three models of medium-sized to big cars (1,500-2,000 cc) together with two local assembly plants. It would thus seem that considerable production capacities for each model exist and the projected market potential would create sufficient demand. By the end of 1980, the models had been assigned to member countries. Some countries have already reached production agreements with certain international motor vehicle companies. Thus the automotive industry programme, despite some teething problems, is poised to take off and holds the promise of being the most significant SPID.

H. Industrial rationalization programme

Apart from SPID, the industrial rationalization programme (IRP) is another pillar of the Andean Pact joint industrial programmes. Whereas SPID are mostly geared towards the development of large capital-intensive industries, IRP is concerned with the restructuring and streamlining of the existing, largely traditional, industries in the subregion, activities that are excluded from the trade liberalization scheme. From the standpoint of regional integration, SPID form the core of the joint industrial programming. But IRP is no less important, especially for the less developed members, whose traditional industries are not efficient. The rationalization process would first result in the upgrading of the less efficient industries and then bring them out from the "exception list". In this way, IRP would expand the scope of regional industrial integration.

The concept of IRP is contained in article 36 of the Cartagena Agreement. Decision 25 of the Commission further defines industries for rationalization as those that are not included in the reserve for SPID or those not subject to the automatic tariff reduction. This is sometimes quite confusing as products reserved for SPID, such as motor vehicles, are also products from the existing industries.

At the micro-level or plant level, rationalization is traditionally linked to industrial engineering and other production techniques that can boost productivity. In the organizational sense, rationalization includes simplification of administrative procedures and management reorganization. Besides, rationalization also involves higher-level decisions such as takeovers, mergers, and multi-plant streamlining of product lines. From the standpoint of the economist, rationalization ultimately involves more efficient allocation of scarce resources. In this sense, trade liberalization indirectly constitutes one of the best rationalization programmes as it could lead to the rise of more efficient industries due to increased competition.

It was only in 1976 that the Board produced the first conceptual documents for IRP, which attempted to provide clear guidelines for future rationalization activities. The documents linked IRP to the formation of the enlarged Andean market. The process of IRP could result in the reduction of protection and then increased efficiency for certain firms.

After October 1976, there were no further official statements on IRP until early 1980 when the Board published a study on the methodology for the choice of priority industries in the exception lists and other technicalities concerning rationalization. Subsequently two pilot studies on bicycles and textiles were also put out. New perspectives have been increasingly brought into IRP, including: *(a)* linking the IRP to structual adaptation of firms as their long-term strategy; *(b)* a shift of emphasis from the negative aspects of the intra-Andean trade to its positive aspects due to the widened regional market; *(c)* an explicit policy of implementing IRP by providing incentives and assistance to firms rather than by direct intervention; and *(d)* a procedure for generating IRP processes in the member countries through the existing technical, financial and training institutions.

As in other programmes, the economically less developed members of the Andean Pact, Bolivia and Ecuador, which together account for only 10 per cent of the Andean Pact's total industrial output, are to receive special attention for the IRP. On the one hand, the relatively backward industries of Bolivia and Ecuador are badly in need of an increase in competitive efficiency. On the other hand, it seems fairly easy to organize rationalization efforts for these two countries as their industrial structure is still simple. Meanwhile, the Board has sent technical missions to Bolivia and Ecuador to study the problem of their manufacturing sector.

At the outset, the small and medium-sized industries in the subregion were supposed to be the main target for industrial rationalization, and some Andean Pact countries have special organizations to promote such industries because of their importance in employment creation. It was later felt, after some analytical studies of those industries, that rationalization of industries, large or small, in the first instance should fulfil the objective of economic efficiency rather than subsidize inefficient industries for certain social goals. This brings to the fore some inevitable conflict between broad support for small and medium-sized industries on the one hand and the primary requirement of rationalization for achieving efficiency and growth on the other. The official position of the Board is that action regarding the small and medium-sized industries of the Andean Pact countries should be oriented towards improving the efficiency of the enterprises under IRP. Attention is now given to bicycles, textiles and mining equipment.

I. Product reservation for Bolivia and Ecuador

Third world economic co-operation efforts often run into difficulties because their constituent member countries are often not at the same levels of economic and social development. Most economic integration programmes tend to carry uneven distribution of benefits and costs so that the more developed members tend to stand to gain more than the lesser developed ones. In the case of the Andean Pact countries, the lesser developed are Bolivia and Ecuador. From the outset, the Cartagena Agreement provided for preferential treatment for these two countries so as to avoid unbalanced development following from the rational economic integration process.

The preferential treatment of Bolivia and Ecuador is provided for in virtually all the mechanisms and programmes of integration covered by the Cartagena Agreement. In particular, the Commission of the Cartagena Agreement approved a special programme to support Bolivia, which is the least developed member in the Andean Pact group. Lacking adequate infrastructure, capital and skilled human resources, land-locked Bolivia has been trapped in various problems of economic backwardness. Thus special efforts are necessary to aid Bolivia in upgrading its economy in order to benefit from the integration.

In the area of trade liberalization, tariff concessions were made for a list of products originating from Bolivia and Ecuador from 1 January 1971 so as to allow them immediate participation in the extended regional market. Since 1974, about 2,370 NABANDINA commodity items from Bolivia and Ecuador have enjoyed complete exemption from duties and restrictions in the subregion.

More significantly, markets were reserved from April 1974 for a range of products originating from these two countries in order to promote their own industrial development. The list of products has since been updated and extended. To facilitate the development of SPID in these two countries, certain products not produced so far were also reserved for their production by Decisions 28, 108 and 137 of the Andean Pact.

To start the reservation process, Colombia, Peru and Venezuela immediately opened up their markets completely for exports from Bolivia and Ecuador for a specific period, which in some cases extended up to 10 years. To reciprocate, Bolivia and Ecuador were to open up their markets to the products on the reserved list from Colombia, Peru and Venezuela, but those products were subject to tariffs as though they were produced from outside. In this way, products reserved for production in Bolivia and Ecuador were assured of margins of protection.

After the Board had established a list of products reserved for production in Bolivia and Ecuador, other member countries undertook not to adopt measures to encourage similar activities in their own territories. Once production of the reserved products had started, other member countries would set up the common external tariffs for these products. Bolivia and Ecuador were obliged to go into production of the reserved products within given periods, failing which the market reservation process would lapse. If some SPID products were not already on the reservation list, the Board would add new products to make up the list. Thus the Board has submitted 12 items of chemical and pharmaceutical products reserved for production in Bolivia, and 18 for Ecuador.

In theory, the mechanism of product reservation seems to have provided the less developed members, Bolivia and Ecuador, ample opportunity to initiate new industries or to upgrade the existing facilities to gear to regional integration. In practice, however, not all the opportunities thus created have been fully utilized by Bolivia and Ecuador on account of their own institutional constraints or other domestic economic problems.

J. Harmonization of economic policies and other aspects of co-operation

The success of regional economic integration efforts is normally measured by the progress of the integration programmes such as trade liberalization measures, SPID and so on. But the successful implementation of the integration programmes, in turn, depends on their objective conditions. Clearly at the macro-level, if the general climate for integration could be made more conducive and if there were more co-ordination and harmony between member countries in respect of their overall economic and social policies, a favourable precondition would exist for the smoother implementation of the various integration programmes. Hence the need for the harmonization of economic and social policies and the co-ordination of national economic plans in the Cartagena Agreement.

The main decisions approved by the Commission of the Cartagena Agreement in the field of harmonization of economic policies include:

(a) Common regulations for the treatment of foreign capital, trade marks, patents, and licensing and royalties;

(b) A convention to prevent double taxation between member countries;

(c) Uniform regulations governing multinational corporations and treatment applicable to subregional capital;

(d) Rules to prevent or correct practices that might be harmful to the well-being of the economy of the subregion such as dumping, hoarding and unfair competition;

(e) Moves to harmonize legislation for industrial promotion in the member countries;

(f) Establishment of a common tariff nomenclature, NABANDINA, for the Andean Pact countries;

(g) Means and measures for harmonizing or co-ordinating national development plans;

(h) The Andean policy for social security and labour migration.

K. Common policy towards foreign investment

The common policy towards foreign investment, first approved in 1970 and amended in 1976, covers a number of rules and regulations for foreign capital and foreign technology to operate in the Andean Pact countries in order to safeguard the interests of the member countries. It is well known that when liberalization of reciprocal trade is not accompanied by co-ordinated industrial development policies and uniform treatment of foreign investment, the integration process could well weaken the position of the member countries *vis-à-vis* the big transnational corporations (TNCs). This is because integration, in opening up the region's markets, offers TNCs access to the markets of all the member countries and provides them with an opportunity to take undue advantage of some member countries. Hence the need for a unified and definite policy to cope with foreign investment on a collective basis.

From the beginning, the Board and the Commission of the Cartagena Agreement thought it advisable to establish strict but stable regulations for the treatment of foreign capital. It was also thought that in this way TNCs would be attracted to the subregion to operate joint ventures with either the State or the private sector there. The relevant regulations are contained in "Decision 24" of the Agreement, which seeks to establish a common set of rules with the minimum restrictions to be applied by each Government to foreign capital, but which also allows individual Governments to subsequently legislate stricter norms if deemed necessary. In view of the obvious difficulties of reaching an agreement on issues of this kind, Decision 24 provides for differentiated treatment of activities closely linked to integration and other activities. Foreign investors in the first group of activities may not receive more favourable treatment than that prescribed in the common norms, whereas other activities may be granted exemptions by specific countries. Some of the fundamental aspects of the common foreign investment policy need elaboration.

First, the policy is stable or predictable in that it cannot be modified unilaterally but only through the consensus of several member countries. Secondly, it is sufficiently selective as each new foreign investment requires the express authorization of a national body responsible for approving foreign investment projects. Thirdly, the Agreement regulates the use of internal and external credit. Fourthly, automatic reinvestment of profits and purchases of shares in domestic enterprises are restricted in order to prevent foreigners from acquiring large interests in domestic companies. Finally, Decision 24 recommends the exclusion of foreign interests from certain strategic sectors such as financial activities, advertising and communications media.

Norms have also been set for TNCs to transfer ownership to domestic firms. Three categories of firms are defined, according to the composition of their capital: national, mixed and foreign. National firms are those with more than 80 per cent domestic capital; mixed are those with a domestic capital share between 50 and 80 per cent; and foreign firms are the remainder. Decision 24 stipulates that all foreign firms taking advantage of the expanded regional market are required to be transformed gradually into mixed enterprises, generally within a period of 15 years, or they will not be afforded the benefits of integration such as reduced tariffs within the Andean Pact market. Enforcement of this provision is to be left to the individual member countries. It is also specified that foreign investors can repatriate profits up to 20 per cent a year, but the individual member countries are given the authority to alter this percentage.

The unique feature of Decision 24 is the way it seeks to rationalize the treatment of foreign capital on a unified basis, and at the same time give individual member countries sufficient flexibility to fine-tune their own foreign investment policy and the authority to implement the Decision. It was anticipated that the rationalization process would discourage the entry of some TNCs and cause the exodus of others, particularly those primarily geared to the domestic markets under the shelter of high protective tariffs. It was thought that such a common approach to foreign investment would in the long run work to the advantage of the subregion. It would increase the effective bargaining power of the Andean Pact countries *vis-à-vis* the normally powerful TNCs at the same time operating as a screening mechanism for channelling the right types of foreign capital and foreign technology to meet the subregion's economic development. Between 1971 and 1977 foreign investment in the subregion grew at the average rate of 7.6 per cent, as compared with the −0.4 per cent for the period 1967-1971 before Decision 24 went into operation. At least, this can be taken as an indication that the harmonization of foreign investment policy has not disrupted the inflow of foreign investment to the subregion.

L. Financial co-operation

Regional industrial integration must proceed hand-in-hand with some form of regional financial arrangements. One important area of harmonization is therefore co-ordination in finance and payments. Even more, there should be regional facilities for channelling public and private savings in the subregion for the promotion of regional trade and regional industrial development, and the creation of other subsidiary financial facilities such as the system of multilateral compensation of balances and a common reserve fund.

The main financial organization is the Andean Development Corporation (Corporación Andina de Fomento, or CAF), founded in 1968, before the formation of the Andean Pact. CAF has $400 million as authorized capital. Its chief function is to promote regional integration by giving financial and technical support to regional projects and approved complementary schemes. It also aims at promoting the overall financial development of the subregion and acts as the main instrument for co-ordinating the subregion's financial matters.

CAF has so far approved financial activities amounting to $500 million, operated through investment financing and trade financing in the Andean Pact countries. In 1974, CAF created an organization, the Andean System of Trade Financing (SAFICO) to specialize in the financing of intraregional trade and trade between the Andean Pact countries and those outside the subregion. SAFICO operates through exporter's or buyer's credit for non-traditional goods of the subregion. The minimum amount for such credit is $10 million from one year up to five years, with an interest rate at 13.5 per cent. To help member countries to ease temporary difficulties with payments, another specialized institution, the Andean Reserve Fund (FAR) was created in 1978.

Currently CAF is placing a high priority on agricultural and agro-based industrial projects, with particular attention being given to new technology inputs provided through such projects. It has also undertaken industrial development studies such as industrial rationalization in the Andean Pact countries.

Other actions in the fields of financing and capital movement have been the recent revision of Decision 24 to facilitate the reinvestment of profits by existing companies, and new regulations for the treatment of subregional capital.

M. Technological co-operation

The Cartagena Agreement covers technological policy for the subregion and provides for the establishment of the Andean System of Technological Information (SAIT) and the Andean Programmes of Technological Development (PADT). SAIT functions as a clearing house in the subregion for the exchange of technological information whereas PADT aims at promoting assimilation and development of technology relevant to or appropriate for the subregion.

PADT has since developed a few significant technological programmes for the subregion. First, the Andean Project for Technological Development in Copper Hydrometallurgy was approved. This was designed to step up the transfer and adaptation of technologies for copper extraction by acid solution and by bacterian-acid process, and recuperation through ion exchange and electrode position. The project was also involved in the training of qualified personnel as well as in adapting and integrating the advanced equipment and technology from the transnational corporations for regional application. The main beneficiaries of this project are the copper-producing members, Bolivia and Peru.

Secondly, the Andean Forest Project was set up with a view to conducting research and disseminating knowledge in regard to the timber and other forest resources in the subregion. Work on testing various forest species has been carried out and new technology for timber exploitation has been developed. Specifically the Andean Laboratory of Wood Engineering was founded in Lima and the Andean System of Classification of Structural Wood was developed.

Thirdly, the Andean Project of Food Technology was approved by Decision 126 of the Agreement. The project has five programmes designed to carry out research on the production, marketing and consumption of food in the subregion with a view to developing food of high nutritional value and low cost for groups such as children and pregnant women.

Finally, a programme for promoting social and economic development of the rural environment has been set up by PADT. The programme is charged with the generation and transfer of technology related to the development of a sound rural environment.

Apart from activities within the two formal organizations, SAIT and PADT, regional technological co-operation as provided by the Cartagena Agreement also includes appropriate legislations for marketing technology, patent rights and the legal aspects of technology transfer from outside the subregion.

N. Agricultural integration

One distinguishing feature of the Andean Pact integration process is, at least from the viewpoint of ASEAN, its incorporation of a special system for agricultural co-operation. The economic and social importance of the agricultural sector in the developing economies hardly needs emphasizing. Suffice it to say that the Andean Pact countries have recognized the vital role played by agriculture in raising the level of living of broad segments of the population, developing the renewable resources, saving foreign exchange by replacement of imports, and providing a market as well as a wide range of inputs for the industrial sector. For all these reasons, the agricultural sector is included in the subregion's overall economic integration process.

The Cartagena Agreement provides that the Commission will study and approve joint programmes of agricultural development by products or groups of products through a common system of marketing or through co-ordination in agricultural planning and agricultural research. Joint programmes have also been initiated in regard to agricultural exports and agricultural financing. The ultimate objective is to achieve some kind of common agricultural policy oriented to agricultural development. The institutional structure for achieving agricultural integration consists of the Annual Meeting of Agricultural Ministers, the Agricultural Council, the Units of Agricultural Integration, and the Technical Meetings of Government Experts. Activities for agricultural integration include production, marketing, health, training and planning.

For agricultural production, the Board and the relevant authorities from the member countries have developed projects for increasing the output of cereals, oil seeds, and meat and dairy products. Promotional activities include the processing of palm trees, certification and trading of seeds, joint purchases of wheat, and agro-industrial activities covering meat and dairy products. Specific integration programmes cover arrangements between two or more member countries for the planning and financing of production and other aspects of agronomical development, including the creation of regional companies for certain agricultural products.

For marketing, focus is on the creation of basic conditions and the improvement of the institutional structure for accelerating agricultural trade.

To this end a provisional system of technical rules for agricultural products is under preparation. The *Directory of Agricultural Importers and Exporters in the Andean Group* has been issued, and the first Andean Agricultural Exhibition has been organized. In addition, plans are on hand for the establishment of storage facilities for grain and for perishable products. Also, there are joint programmes covering animal and plant health, such as the Andean System of Agricultural Sanitation, and procedures for the harmonization of national agricultural development policies. Arrangements have also been made for training and technical co-operation in agricultural development. To date, over 1,280 personnel have been trained for agricultural development. Finally, the Special Programme for the Agricultural Development of Bolivia has been created as a result of the Second Meeting of the Agricultural Ministers of the Andean Pact. The mainstay of this Programme is the establishment of the Cattle Fund and the National Seed Company.

O. Other areas of integration

Although harmonization of national economic policies of the member countries will increase regional economic integration, harmonization of social policies could also contribute to the goal of integration. Thus the Cartagena Agreement contains measures for co-operation in the fields of education, culture, science, labour and health. Activities in these areas are designed to increase the general consciousness of the people in the subregion towards regionalism and to promote fraternity between member countries so as to develop a strong regional identity. Harmonization of social and labour legislation, and co-operation in science and education can produce concrete results in terms of making direct contribution to regional integration efforts. So can co-operation in public health. Many of these activities spill over into the subregion as a whole, and co-operation would be necessary even if there were no Andean Pact.

Of even greater importance is physical integration, which refers to regional co-operation activities involving energy, communications and transport. The Council of Physical Integration was created to take charge of arrangements that would promote the contact of member countries through such projects as interregional highways. Development in this area has actually produced favourable side effects such as the growth of regional tourism and intraregional trade.

In short, the subregional economic integration in the Andean Pact is proceeding on a wide front. While substantive progress still depends on such formal instruments as trade liberalization and the sector-based industrial programming, harmonization of a wide range of economic and social policies has also directly and indirectly contributed to the successful endeavour of the Andean Pact group towards regional economic integration.

III. Prospective analysis

A. Obstacles to regional co-operation efforts in the third world

The background review of the regional economic co-operation efforts in ASEAN and the Andean Pact, and the discussions and exchanges that took place at the ASEAN/Andean Pact Conference on Regional Industrial Co-operation at Lima, have brought out the progress so far achieved by ASEAN and the Andean Pact as well as the major problems and obstacles each has encountered. In an overall evaluation, it seems that these two regional groupings have created as many problems as they have resolved. There is also an impression that what they have failed to achieve often tends to overshadow what they have already achieved.

Thus, in the case of ASEAN, there is a long way to go before it can be considered an effective, integrated economic grouping, its very considerable achievements hitherto in the field of economic and industrial co-operation having mainly been those of establishing a wide network of close contacts, at official as well as private industry levels, and of building up frameworks for collaboration. The achievements of ASEAN to date in real regional economic co-operation have been uneven and at best moderate. Its trade liberalization programmes, lacking in both breadth and depth, are still ineffective in terms of restructuring its trade pattern towards a greater regional orientation. Years of hard negotiations have only resulted in a proposed low margin of tariff preferences for just over 8,000 commodity items, and most of these items still lack significant trade content. The volume of intraregional trade created by the trade liberalization scheme still amounts to a tiny portion of the total intraregional trade. Progress in the field of industrial co-operation is equally limited. The ASEAN Industrial Project programme has failed to take off as a package, and only two of the original five projects are nearing completion. As for the ASEAN Industrial Complementation scheme, much activity and consultation has taken place but none of the programmes have made a delivery yet.

The Andean Pact seems to fare somewhat better by comparison as it can point to a number of areas or projects as evidence of concrete achievements. But this should not obscure the fact that the overall integration process of the Andean Pact, which started off with such great promises and good purposes, has been slowing down in recent years, with some programmes having lost their original momentum. More and more, political and economic constraints have surfaced as the Andean Pact integration proceeds. There are new politico-economic problems associated with changes of Governments in the member countries, and there are structural rigidities in the economies of some member countries arising from the world recession. These problems have presented a great challenge to the Andean Pact's integration efforts.

Since the Andean Pact and ASEAN groupings have often been singled out as successful regional integration/co-operation experiments in the third world, their sluggish progress towards the various objectives and targets has prompted many sceptical observers to express serious misgivings as to whether there is a real future for concrete co-operation efforts in the developing countries, given their enormous political and economic constraints. They tend to view such regional groups as mainly political arrangements, with the links between them being essentially of convenience. ASEAN is often cited as a case in point as its political clout tends to dwarf its efforts towards economic co-operation. To these observers, regional groupings in the third world have only limited potential for real regional economic integration.

Is such a pessimistic view warranted? To begin with, it should be pointed out that there are many fallacies in assessing the success and failure of regional co-operation efforts in the third world on the basis of conventional criteria and on comparisons between regional groupings. Lack of conspicuous success so far in the various ASEAN co-operation programmes or in some integration schemes of the Andean Pact does not mean that they have altogether failed to work. Furthermore, it is certainly not possible to pass a proper judgement on the present rate of progress towards economic integration in either ASEAN or the Andean Pact without taking into account their time frames. Both regions have categorically stressed that economic co-operation and integration are their long-term goals, and fluctuations of events in the short run provide a poor basis for evaluating against long-term objectives. Obviously, had the member Governments been more willing to subordinate their national interests to regional interests, the Andean Pact and ASEAN would have advanced towards real economic integration at a more impressive pace. But there were institutional constraints and structural problems that cropped up as exogenous shocks to the integration process, and any fair assessment of the individual programmes or policies should take these extenuating circumstances into consideration.

If the achievements of the two regions were judged by the same criteria as used, for instance, for the European Economic Community, the two regions have achieved little in terms of real progress towards integration. But as pointed out at the beginning of this report, there is a difference in the basis and rationale for regional co-operation and integration between the advanced and the developing countries. Strictly speaking, it is even inappropriate to compare the ASEAN regional co-operation efforts with those in the Andean Pact. A proper analysis of the success and failure of any third world integration scheme should be undertaken in the context of the specific historical circumstances from which such a scheme has evolved, for example the geo-political forces that shaped it and the many structural problems inherent in the economies covered by the scheme.

Take the case of ASEAN, which is probably one of the world's most heterogeneous regions by virtually all criteria. Regional economic co-operation in ASEAN may have yet to produce significant benefits, but whatever it has achieved is significant if measured against the possibility of non-co-operation. Given the fact that the modern history of South-East Asia is strewn with strifes and conflicts, there might well have been considerable negative benefits from non-co-operation had ASEAN never come into existence. Viewed in such a broad context, the ASEAN record is far from dismal. Similarly, the Andean record is certainly not unimpressive.

Third world countries have never experienced smooth sailing in their efforts towards regional economic co-operation. Following independence, most of them faced immense political problems with their neighbours. Apart from their overall economic backwardness, the structures of their economies were generally oriented towards the industrially advanced countries and they had a low level of complementarity with each other. This is evident in the low volume of intraregional trade (e.g. 3 per cent for the Andean Pact). A long period of dependent development has therefore resulted in these economies being closely integrated with the industrialized countries, not necessarily their former metropolitan countries in the colonial times but the industrialized economies in general. Successful regional economic integration will involve both disintegration, in the sense of disengaging some economic activities of the member countries from their traditional ties with the industrialized countries, and reintegration, in the sense of redirecting economic acitivities towards the regional focus. It is therefore exceedingly difficult for the developing countries to achieve substantial breakthrough in regional economic integration in the short run without extensive structural change. The process demands adjustments on the part of the member countries and gives rise to considerable internal and external imbalances for their economies, particularly for the less developed members.

Furthermore, economic integration may be a desirable long-term goal for a region as a whole, but it may not be immediately crucial for the individual countries or it may not turn out immediate benefits in a significant way, especially during the initial stages of integration activities. Thus integration programmes usually cannot claim high priority from individual member countries, which will continue to be preoccupied with their own domestic economic and social problems. For instance, with the exception to a certain extent of the globally oriented Singapore, which is also economically the most advanced, the ASEAN countries still have such acute development problems as poverty, unemployment and income inequality (as have the Andean Pact countries). To cope with these problems effectively, the individual ASEAN Governments cannot count on any external economic co-operation scheme at this stage, but need to devise more determined domestic policy measures, for example a more imaginative rural development programme or a broader-based development policy aimed at greater employment generation. Within a specific member country, the benefits of economic integration, arising from the so-called trade-creation effect, are invariably concentrated in its urban sector and are unlikely to trickle down to the millions of peasants in its rural hinterlands. To the extent that an integration programme could alter the relative economic position of different social groups in different sectors or localities, care will have to be taken that it will not lead to undesirable polarization effects that may well undermine the country's development efforts in the short run.

Apart from the above macro-economic considerations, regional integration activities at the sectoral or industry level are faced with different but no less difficult obstacles. Take regional co-operation in the field of industry, which can be regarded as the engine of economic integration. It is true that regional economic co-operation could contribute greatly to the region's overall industrialization efforts. But the circumstances from which industrialization in each member country has evolved often bear little relationship to the conditions for regional economic co-operation. Specifically, the approach to industrialization in each member country has been nationally rather than regionally oriented, even though the basic rationale behind the drive to industrialize (e.g. to diversify their primary export-based economies) and the basic pattern of industrialization (e.g. to follow import-substitution strategy) in these countries are the same. Within each member country industries have generally been set up with the locality, scale and linkages calculated to meet national demand, and national economic policies such as tariff protection have been specially designed to nurture the viability of those industries as national concerns. Thus any regional industrial programme will involve the difficult task of crossing the formidable national barriers of the member countries. A regional industrial programme might appear simple or moderate in design at the regional level but, as shown by the Andean Pact's experience, it could turn out to be a very complex undertaking as soon as attempts are made to integrate it into the national structure, because it might touch off chain reactions in the national economy. A whole range of issues and problems could ensue: new infrastructural development, changes in tariff and pricing policies, and problems associated with employment, location, linkages and so on. In short, even a simple micro-integration project would entail wide-ranging macro-economic issues at the national level. This explains why AIPs have met with delay in implementation or even outright cancellation even when these projects have been approved at the regional level.

In view of the tremendous problems and obstacles inherent in the regional economic integration schemes of the third world, it would be highly unrealistic to expect quick results. Similarly it would be unrealistic to pass hasty judgement on the success or failure of any programme. First, regional integration endeavours must be viewed as a long-term undertaking, and the process must be sufficiently long to allow national economies to make crucial structural adjustments. Secondly, any regional integration scheme, to be effective, must not be independent of the national development policies pursued by the member countries. Indeed, as in the case of Venezuela, the regional scheme might be used as a tool to bring about needed rationalization in the local industry having developed behind high tariff walls. In the long run, continued economic development is the best means of achieving the regional integration goals. Thirdly, for smooth implementation, individual micro-economic integration programmes must be designed to fit into the macro-economic reality of the member countries.

Both ASEAN and the Andean Pact have been in existence for over a decade, and their efforts towards regional economic co-operation and integration have yielded considerable experiences that will not only be useful for their future work programmes but also will be valuable lessons for similar efforts to be undertaken in other parts of the third world. It is therefore time to take stock and to bring out the salient features of the co-operation and integration activities of these two regions in a comparative perspective.

B. Co-operation versus integration

As already stated, there is a clear distinction between regional economic integration and regional economic co-operation, even though the two terms are often used interchangeably. The Andean Pact has officially referred to all its regional activities as integration whereas in ASEAN the word integration has never been in the official records and all regional activities are consciously referred to as co-operation, implying less far-reaching objectives. The use of different terms by these two regions is deliberate. It is important to bear this in mind in making any comparison of the events and developments between ASEAN and the Andean Pact.

Right from the start, the Andean Pact was aimed at an ambitious integration objective along the lines of an economic union. It broke away from LAFTA primarily because the Andean countries were impatient over the lack of progress in the integration schemes under LAFTA or, rather, that the integration benefits of LAFTA tended to a bias against the smaller members. The Cartagena Agreement was designed to look beyond the mere establishment of a free-trade zone as advocated by the Treaty of Montevideo for LAFTA, and to proceed with a much more intensive integration process for a more advanced form of regional set-up. Thus tools for the fulfilment of the integration goal were devised by the Cartagena Agreement to attack the problem of integration from several angles. First, an aggressive trade liberalization programme was spelled out with the objective of not only reducing existing tariff and non-tariff barriers between the member countries, but also eventually setting up a common external tariff. Secondly, there were the regional industrial programmes to ensure industrial complementation and to avoid wasteful duplication. The back-bone of the regional industrial programmes is contained in the sectoral programmes for industrial development, which are very much an innovation in themselves. The third major instrument was the Andean Development Corporation, which is charged with the responsibility of studying and identifying new integration projects in the region as well as channelling resources to these projects. There were also other mechanisms for promoting integration, such as harmonization of economic and social policies in the Andean Pact subregion and the objective of concerted agricultural policies.

All these integration instruments were supposed to operate concomitantly. The objective was to promote regional integration in such a way that it would lead to harmonious and balanced development for all the member countries. Clearly the Andean Pact's approach to regional integration is unique. Many a regional grouping in the third world has too often contained integration mechanisms, ineffective in achieving real integration. Others have taken a piecemeal approach, which is also ineffective in achieving an initial break-through or in ensuring the subsequent smooth progress towards real integration. In contrast, the Andean Pact followed a forceful approach to integration from the outset, attacking the problem on a broad front. The overall objectives were made clear to all the members, who would pledge to work towards the common goals.

Having set out the ambitious integration targets, the technocrats of the Andean Pact proceeded to build up an elaborate implementational machinery based in Lima. Thus the Cartagena Agreement is backed up by strong institutional and technical organs, complete with technical and administrative staff, for the implementation of the integration agreements. However, as has been repeatedly indicated earlier, the Andean Pact programmes, such as the sectoral programmes for industrial development in their implementation phases have run into numerous difficulties and obstacles, resulting in non-compliance and other hindrances. Above all, the elaborate agreed programmes have turned out to be difficult to implement in times of dynamic changes strongly affecting the sector, such as in the petrochemical and automotive industries.

It may be argued that the Andean Pact has several favourable preconditions for developing a unique system for regional integration, which may not be immediately present in the case of other regional groupings. To begin with, Latin America has inherited a strong integration movement. The Andean Pact countries were already highly motivated towards integration when they decided to go ahead with their own subregional arrangements for integration. Many of the Andean Pact's work programmes and mechanisms were developed in an effort to avoid the mistakes and shortcomings of LAFTA, and the experience of LAFTA was very useful for the Andean Pact in devising its separate approach to integration. Politically, some Andean Pact countries have followed a somewhat authoritarian style of Government, and as a group they are quite amenable to a strong centralized approach to integration, or an integration scheme with a high interventionist tone. Socially and culturally, the Andean Pact countries are homogeneous, making it easier for individual Governments to commit themselves to support such a high-profiled integration scheme. Even geographically, the Andean Pact countries form a compact group, which also facilitates physical integration although in practice the direct physical transport and trading links are not well developed, and are often much less developed than those with overseas countries through shipping.

Few regional groupings in the third world are endowed with all those initial advantages. This is certainly the case of ASEAN, which in many ways stands in sharp contrast to the pattern of integration taking place in the Andean Pact countries. ASEAN has officially expressed no immediate desire for any far-flung integration objectives. Any regional activity officially falls into the narrow confines of only regional economic co-operation, not integration. Compared with those of the Andean Pact, many ASEAN co-operation programmes are certainly not sufficiently effective in terms of building up a sizeable regional component in the overall ASEAN economy. Nor is there any sophisticated structure in the Secretariat of ASEAN comparable to that in the Andean Pact. The implementational machinery of ASEAN is largely composed of a host of *ad hoc* committees or working groups, with the final decision-making vested in the ministerial meetings. In short, for the earlier part of the existence of ASEAN, there was no formal charter, nor even a secretariat; that came into being only after the Bali Summit in 1976. Economic co-operation was only a small aspect of the broadly defined regional co-operation. However, even after the Bali Summit, when serious efforts were mounted to get away from symbolic co-operation, the progress towards substantive regional economic co-operation has been limited. In contrast to the forceful method adopted by the Andean Pact, the approach of ASEAN is gradual. Much energy in ASEAN co-operation has been absorbed in building up a consensus, and most co-operation programmes have to go through the long and tortuous course of negotiation before achieving any progress.

The best way to characterize the pattern of ASEAN economic co-operation seems to be a *laissez-faire* form of regional co-operation, which leaves member Governments a great deal of leeway to adjust to regional demand. It is tempting to jump to the conclusion that the powerful approach to integration by the Andean Pact is the most effective one. While there may be an element of truth in this, such a conclusion is over-simplified. Although the integrated approach of the Andean Pact certainly represents a remarkable achievement, the forceful approach to regional co-operation and integration for these developing countries may not, in its implementation phase, have had the necessary flexibility and sensitivity to change, thus running the risk of over-stretching the integration system or outstripping the limits of the changing economic realities existing in these countries.

An optimal system of co-operation for a region is one that takes full account of its conditions. It may be said that ASEAN has from the start tailored its co-operation programmes to suit its own needs and to fit its own circumstances. It has therefore placed top priority on nurturing consensus rather than reaching for unrealistic objectives. This process was considered indispensable for a region with so much inherent diversity and heterogeneity. In ASEAN, the political, social and cultural distance among the five members, though considerably narrowed over the years, remains wide. The physical distance is also there. What is really crucial for ASEAN economic co-operation is not the speed, but the direction. It seems clear that the process of regional economic co-operation for ASEAN will be a long, drawn-out affair. There will be no likely sensational breakthrough, but neither will there be a turning back. Instead, the unmistakable trend of steady and gradual movement towards a higher level of co-operation will continue. Such is the South-East Asian way of regional integration, which is perhaps the only way for the region to achieve that goal. It is no drawback for ASEAN economic co-operation to grow slowly and steadily, provided it has not lost its direction.

The ASEAN approach to regional economic co-operation, characterized by gradualism and consensus building, is also a valuable lesson for other third world regional co-operation endeavours. The ASEAN experience is particularly instructive for countries short of favourable preconditions for regional economic co-operation.

C. Special treatment of less developed member countries

Any regional economic co-operation scheme is apt to produce a differential impact on the member countries in respect of their foreign trade, production structures, factor availability and infrastructural needs. But the participants are sovereign nations, with each naturally seeking the objective of maximizing its own national welfare as a starting point. They will extend genuine co-operation only if they can expect to reap what they perceive to be an equitable share of gains. Thus the problem of uneven distribution of potential benefits and costs arising from a co-operation programme is a real one.

The equity issue looms particularly large in the regional economic co-operation schemes of the third world, whose member countries usually have great disparities in respect to stages of economic development and the orientation of their economies. Thus the member countries that are more dynamic are likely to gain more from the emerging regional economy, as do those that are more outward-looking. It is therefore necessary for a viable regional economic co-operation scheme to give special consideration to the relatively less developed members in the group in order to reduce any glaringly unequal distribution of benefits and costs.

One outstanding feature of the Andean Pact is the ways it has addressed the distributional issues. From the beginning, the Andean Pact countries stressed that they could maintain their national sovereignty only if they could preserve a definite equality between themselves. Such equality would be realized only if measures were taken to counteract the tendency for development to be concentrated in the areas that are already more developed than the rest of the region. Hence the Cartagena Agreement incorporated special treatments for Bolivia and Ecuador, the subregion's least developed members. Special measures for these two countries were largely contained in trade liberalization and the market reserve arrangements under industrial programming.

The special treatment for Bolivia and Ecuador has been briefly dealt with in chapter II, but some salient points are repeated here. In the trade liberalization programme, it is provided that Bolivia and Ecuador need not eliminate tariffs and restrictions on products included in the Common List for a period of protection of 10 years. In the industrial programming for the industries and products selected by the Andean Pact and the Commission for sectoral development, substantial concessions will be made to Bolivia and Ecuador in regard to the designation of plants, determination of intra-Andean Pact tariff-cutting rules and common external tariffs. In addition to the privileged treatment within the sectoral programmes, the Cartagena Agreement also contained an important provision for the automatic assignment of production to Bolivia and Ecuador.

The question arises whether Bolivia and Ecuador have benefited from the special attention given to them. Although the Cartagena Agreement recognized the danger arising from the uneven distribution of gains from integration, it did not establish any desired distribution pattern, partly because it would be difficult to work out explicit distributive norms. Consequently, the main thrusts of the Andean Pact integration process as contained in the establishment of a minimum common external tariff, the introduction of trade liberalization and the allocation of industries within the sectoral programmes of industrial development have been largely the result of intergovernmental bargaining rather than of conscious economic analysis. Yet these are activities that will precisely determine the distribution of benefits between members. As a result, the special programme for Bolivia and Ecuador has fallen short of its targets.

In the ASEAN/Andean Pact Conference at Lima the delegates from the Andean Pact admitted that Bolivia and, to a lesser extent, Ecuador have not derived as many real benefits from the special arrangements made for them by the Andean Pact as they should or could have, basically because these two economies are still less developed than the other Andean Pact members. To the extent that Bolivia and Ecuador are not sufficiently trade-oriented, they stand to gain not much from the trade liberalization programme, despite concessions granted to them. Since their infrastructures are under-developed, SIDP has also not been effective for them. This brings to the fore the very important issue in the special treatment of less developed member countries in an integration scheme. It is not sufficient to recognize the importance of the distributive problem in an integration process, nor is it sufficient just to incorporate special treatment measures in the integration scheme. Of greater importance is that the special treatment mechanism must be realistically designed in such a way as to properly match the capacity of the less developed member countries or to enable these countries to absorb the benefits from integration. It does seem to be the case that the integration projects of the Andean Pact have been ambitiously aimed at too high a level or have been biased too much towards large-scale activities, so that the small and less developed economies of Bolivia and Ecuador were not in a position to gain directly from all these integration arrangements. This is a useful lesson for other third world regional groupings.

ASEAN has given no official provision for special treatment of any member country, but it does not follow that the issue of distributive gains is not important in the ASEAN context of co-operation. The problem is indirectly tackled under the consensus mechanism; in reaching a consensus, no member country could take undue advantage of others. Indeed, much of the delay in implementing the ASEAN co-operation projects has been due to the difficulty in fostering the required consensus, and the failure to build up the consensus has been largely caused by the fears of the potential uneven distribution of benefits and costs. This is particularly evident in the negotiations over the AIP package and the trade liberalization scheme. Negotiations over specific projects are usually undertaken by cautious bureaucrats, mostly technocratically inclined but often perhaps too sensitive to the potentially adverse redistributive effects on their own countries. The negotiators would commit themselves to projects only if they could perceive prospective gains or expect the gains to be equitably distributed. In short, ASEAN has not left out the distributive issue but has instead handled it in a rather time-consuming manner.

As noted before, ASEAN as an economic grouping is much more diverse than the Andean Pact. But the economic asymmetry of ASEAN stands in even sharper contrast to that of the Andean Pact. In ASEAN, as shown in table 1, the poorest member in terms of per capita income is Indonesia, which happens to be the largest country, while the most advanced member, Singapore, is a city-state. In the Andean Pact, the more developed member countries could afford to give special consideration to the less developed ones, which happen to be relatively small and may not impose an unacceptable cost on the more developed countries. The same can not be true for ASEAN, in which the relatively more backward member is such an enormous country. In ASEAN, at its present stage of development, no amount of redistributive bias, which could impose high sacrifices on the part of the more developed members, could be sufficient to make a substantial difference in terms of upgrading the Indonesian economy. It may be added that Indonesia's relative economic weakness in per capita terms is in part compensated for by its considerable natural resources and its political pre-eminence. Indonesia is politically the most powerful nation in South-East Asia on account of its sheer size, which naturally carries with it a strong political bargaining power. In a decision-making process based on consensus, political influence is an important factor.

Since the vital distributive issue is incorporated in the consensus process, the consensus mechanism warrants an additional comment here. Virtually all the ASEAN co-operation projects have involved a lengthy process of negotiation, which accounts for their low implementational rates to date. The first major advantage for reaching a consensus is that all the difficult issues have been sorted out beforehand so that the subsequent smooth implementation can be assured once the final approval is given. Further, the consensus process ensures that no party will object to the approved arrangements and no party needs to make disproportionate sacrifices; hence an acceptable level of equity will prevail. But the whole mechanism of reaching consensus is cumbersome and rigid. It often turns out to be a political exercise, involving a lot of balancing of pros and cons or adjusting to reciprocal demands, so that the end result may be far removed from the economist's ideal of equitable distribution of benefits and costs. Further, a total consensus is one that will have to accommodate the demands of all parties, and this often proves to be an extremely difficult business.

In April 1980, Mr. Lee Kuan Yew of Singapore put forward the principle of "five-minus-one" as a modified consensus. This new approach can be used to replace total consensus as the basis for industrial co-operation. Thus, if four ASEAN members have agreed and one did not object, this could be taken to be an ASEAN consensus for any regional programme. In practice this means that, for instance, if Singapore could stay out of some regional programmes, it would facilitate their implementation without causing fear that the most advanced member, Singapore, would take too much advantage from the programmes. In short, the consensus mechanism itself needs to incorporate flexibility. It is very much in this vein that the new ASEAN Industrial Joint Venture (AIJV) scheme has been developed.

This raises another issue crucial to the success of regional economic co-operation. Member nations must approach co-operation with flexibility and pragmatism. While it is important for them not to leave out the distributive implications in any co-operation or integration programme, the question of equity should not be interpreted in a narrow and static framework whereby one member's gain is necessarily another's loss. It should be stressed that many of the benefits and costs of a regional programme, such as the creation of a new industry in a developing economy, are at best difficult to detect or quantify, especially before the industry is put into operation. All new investment projects involve some elements of risk; their execution therefore requires an act of faith. Economic analysis should serve only as a rough guideline, but decision-makers must approach the co-operation problem with an open mind. In the short run, regional co-operation demands adjustments from member countries, and there could be negative external factors arising from such an adjustment process. Member countries must be prepared to trade off short-term costs for long-term gains. In other words, beyond the cost-benefit exercise, vision is also required for implementing economic co-operation programmes.

The distributive issue is central to the success of a regional scheme, but the problem should be tackled with pragmatism and flexibility. In terms of a long-term strategy for regional co-operation or integration, too much emphasis on the distributional aspects at the initial stage could well be misdirected.

D. Industrial programming

The Andean Pact has not only placed a strong emphasis on industrial co-operation as the mainstay of its overall integration programme, but also has devised an innovative technique for regional industrial programming (or joint industrial programmes). The main thrust of the industrial programming lies in the much publicized sectoral programmes for industrial development, which cover the metal fabricating programme, the petrochemical programme and the automotive industry programme, with the last in particular receiving wide attention.

It is easy to understand why the Andean Pact has paid so much attention to industrial programming. First, as previously emphasized, when these developing countries formed a regional grouping, it was evident that the potential immediate gains from their trade liberalization would be rather limited as they did not basically trade with each other. Gains were thus expected to come mainly from industrial integration through greater investment, better utilization of productive factors, and larger external economies of production. At the same time, some member countries were already deep in the import-substitution process while others were about to intensify their efforts within such a strategy, resulting in the proliferation of high-cost industries that were badly in need of rationalization. The pattern of industrialization and the status of its progress in the Andean Pact offered an excellent opportunity for initiating regional industrial co-operation in selected sectors within the framework of SPID.

It has been suggested that the industrial programming as developed by the Andean Pact is essentially a form of extended import-substitution. Strictly speaking, there is a substantial difference between the Andean industrial programming under SPID and the national import-substitution industrialization so characteristic of the individual Latin American economies. This difference lies in the size of the market that each of these options for industrialization has envisaged. Typically, national import-substitution is characterized by the establishment of too many inefficient large- or medium-scale industries, heavily protected by high tariffs. Their unit costs are excessively high, because the actual scale of production falls short of the optimal scale on account of the limited domestic market.

The Andean SPID are supposed to tackle directly the problem of excess capacity. In principle, not only is the regional market several times bigger than any individual national market, but the individual sectoral programme for industrial development does not allow plants to produce more of a commodity than will be required to ensure efficiency once the regional market is fully developed. In other words, only enough firms to ensure some competition are allowed, and the gaps between optimal and actual scales of operation in these firms will therefore be reduced.

The automotive programme may be taken as an example. The Andean Pact represented a market of 300,000 vehicles in 1980, which was expected to more than double by 1988. In order to make regional car production more efficient, SPID allow only one regional model of small car (up to 1,050 cc), two models of small to medium-sized cars (1,050-1,500 cc), three models of medium-sized to big cars (1,500-2,000 cc), and two models of big cars (more than 2,000 cc). This is a total of eight models, allowing a reasonably large market for each model. By the end of 1980, models had been assigned to member countries, with several immediate effects. First, it led to consolidation and rationalization of the existing automotive industries in the member countries. Secondly, in moving from national markets to a regional one, the various automotive plants were expected to lower costs and prices. Thirdly, as a result of regional arrangements, the automotive industries found it easier to enter into technical and production agreements with some international automotive companies on more attractive terms.

How relevant is the Andean Pact experience in industrial programming to ASEAN or other regional groupings? With its own regional co-operation programmes in the field of industry (AIP, AIC and recently AIJV) progressing at a slow pace, ASEAN has been looking with interest at the experience of industrial programming of the Andean Pact. As with other areas of integration in the Andean Pact, the great merit of its industrial programming lies in the co-ordinated approach or the way in which the Andean Pact technocrats have boldly and comprehensively planned the joint industrial programmes for the key industries in the subregion. The lessons to be learned from the less successful implementation are also well taken.

Apart from SPID for the new regional industries, there are also measures for rationalizing the existing small and medium-sized industries with a view to bringing them eventually into the integrated regional economy. In contrast, the approach of ASEAN to regional industrial co-operation, as reflected in its existing AIPs and AIC activities, has been somewhat incoherent, based on a great deal of *ad hoc* piecemeal arrangements.

It should, however, be pointed out that while the Andean Pact technocrats might have performed a superb task in formulating comprehensive joint industrial programmes for SPID and might have faced little difficulty in the selection of sectors to be included in such programmes, the major stumbling block to the implementation came from the allocation of industries for the operation of SPID. The allocation process, i.e. the assigning of industries to specific member countries for the implementation of SPID, actually determines the benefits to be derived by the member countries and thus poses the greatest obstacle. For any integration attempt in the developing world, the major problem is not with the initial formulation of the integration plans, but with the allocation of new industries to the individual member countries. The overall industrial programming may be a well-conceived scheme, but it has to go through the political process of allocation, usually done on the basis of negotiation between member countries. The problem is that there is no assurance that the negotiated solutions are optimal in the sense that industries are rationally allocated to minimize costs. More often than not, the negotiation process is likely to be a protracted one and its outcome highly coloured by political considerations. In reality, there is no indication that the allocation process itself in the Andean Pact is inherently superior to the one in ASEAN, or vice versa, because it is basically a political process reflecting the dominant political characteristics of the group, although it may be true that the process of consensus building as developed by ASEAN has more merits in the long run than that followed by the Andean Pact.

Another point about the Andean Pact practice of industrial programming is that its approach seems to be too oriented to import-substitution. As has been pointed out earlier, there is indeed a considerable difference between the Andean Pact's approach to industrial programming and the conventional import-substitution strategy. The Andean Pact countries have taken steps to ensure that the SPID industries are viable by themselves within the enlarged regional market whereas the conventional national import-substitution industries are usually inefficient due to excess capacity. While it is difficult to generalize, if industries behind national tariff barriers are inefficient, there is no reason to expect that industries behind regional tariff barriers are any different in the long run once the extended regional market is exhausted. It seems clear that the SPID industries are essentially inward-looking. The ultimate test of efficiency for industries is not the degree of their reduction of costs and prices as a result of a larger regional market, but whether the industries can stand up to international competition. In other words, the regional industries too will have to make the transition from import-substitution to export expansion. Indeed, it is even more important for regional industries than for national ones to achieve such efficiency as in each case the non-host countries among the Andean Pact members certainly wish to see costs and prices approach those of international fully competitive industries.

Import-substitution has deep roots in the Latin American economies. Economies such as those in ASEAN, which are more outward-looking, will have to look into ways and means whereby the methods of the Andean industrial programming can be modified or restructured in order to incorporate more dynamic elements of export expansion. In the long run, regional industrial co-operation should be more than an extended phase of import-substitution. After the initial transition, regional industries should also look to the dynamic world markets.

E. Role of foreign investment

Although regional economic co-operation/integration in the third world is manifestly an attempt towards a high degree of "regional self-reliance", regional groupings in the third world have maintained more or less intensive interaction with the world economic processes. Many developing countries are small and open, and their economic links with industrial countries have been so extensive that the foreign influence on these economies is likely to remain a major factor well after the start of the integration process. It seems realistic for these regional groupings to plan their co-operation and integration programmes to interact with the foreign economic component by taking advantage of it.

Within the integration process, programmes such as trade liberalization or co-ordinated industrial development can weaken the position of the member countries *vis-à-vis* the TNCs if the integration activities are not accompanied by some regionally agreed treatment of foreign investment. For now the gamut of options open to TNCs is expanded along with integration because TNCs, by investing in one of the member countries, can have access to the newly opened regional market. Some TNCs may well be in a position to drive a bargain with more than one of the countries to ensure greater privileges. Hence the need for a common policy towards foreign capital.

As already discussed in chapter II, the Andean Pact from the outset established strict but stable regulations governing foreign capital. The original

Decision 24 was intended to be a kind of common investment code for the subregion that contained uniform minimum restrictions to be applied by member Governments to foreign capital but left them to legislate stricter norms if deemed necessary. The key expression for the Andean Pact's common approach to foreign investment is "stable and predictable". But it was at one time interpreted, by some foreign countries, as "anti-foreign investment", because the primary objective of Decision 24, at least for its first six years, was to protect the incipient common market from foreign transnationals that might take undue advantage of the enlarged regional market. Accordingly, two provisions were laid down to counter the potential threat from TNCs. First, new foreign investment was to be excluded from certain basic industries and those already established would have to divest themselves of up to 80 per cent of their shares within three years. Secondly, there was a "fade-out" formula for all old and new foreign investors. Foreign enterprises already established in the subregion would have to work out a gradual divestment plan that would give locals majority control (51 per cent) of the total shares within a period of 15 years. New foreign investment was also required to work out a similar fade-out schedule once production started. The Andean Pact had meted out a tough deal to foreign investment, by the average standard of the third world.

In implementation, however, the severity of the Andean Pact's common investment policy was much reduced, partly due to the existence of loopholes and partly because individual member countries had the leeway to work out their own special deals with particular TNCs to suit their own national interests. For instance, foreign interests controlling the vital, foreign-exchange earning extractive sector have been largely subjected to relatively liberal treatment. The Andean Pact experience in dealing with foreign capital has therefore yielded a valuable lesson in that it would be highly unrealistic for third world regional groupings, given their existing economic structures, to exclude the foreign economic elements entirely from their mainstream integration process. It is really a question of balance: how much foreign economic interests, foreign capital plus foreign technology, and what kind of foreign economic interests should be utilized to accelerate the integration process. A carefully planned strategy for interacting positively with foreign economic interests could work to the advantage of a regional grouping.

The role of foreign investment is clearly viewed from a different perspective in ASEAN which, as mentioned earlier, appears to be generally more outward-looking than the economies of the Andean Pact. In ASEAN, TNCs do not raise the same degree of emotion as they do in some other regions of the third world, largely because the ASEAN countries have been able to harness these external economic forces, namely, foreign trade and foreign investment, for their high economic growth. The sources of foreign investment in ASEAN, unlike those of the Andean Pact, are also quite diversified. Apart from United States foreign investment, Japanese and EEC capital is getting increasingly more prominent in the ASEAN countries. Foreign investment in ASEAN was originally concentrated in trading and the development of primary resources, but in recent years it has spread to the manufacturing sector in response to the various incentive schemes offered by the individual ASEAN countries. On the whole, foreign capital has played a useful catalytic role in the industrialization progress of ASEAN. It has also contributed significantly to the manufactured exports of ASEAN, although its performance in employment creation and technology transfer is generally less satisfactory. The fact that the ASEAN Governments still spare no effort in putting up new forms of incentive structures to attract more foreign capital attests to the continuing economic importance of foreign investment in the ASEAN region.

If the foreign economic component has already carved out an important existence in the ASEAN economies, it would be economically unwise to plan the regional co-operation process to bypass it. Thus, from the beginning, ASEAN has made no specific attempt to exclude foreign participation from the many ASEAN co-operation programmes. The first AIP package was originally envisaged as an exclusively ASEAN concern. As it ran into difficulties, the barriers against foreign elements were broken; for example, the Thai project does not rule out foreign participation as a minor share-holder. In the AIC scheme, the door for foreign participation has opened up further, as the private sector is supposed to play a dominant role; but the private sector in ASEAN countries is known to have a close linkage with foreign companies through various forms of joint-venture arrangements. The view that foreign investment is not inimical to the efforts of ASEAN towards regional co-operation is rapidly gaining ground. If foreign capital has already played an important role in the individual national economies, there is no reason why it cannot similarly play a positive role in the regional economy in future.

ASEAN economic co-operation has not yet advanced to the stage that it needs to set up elaborate regulations and rules for the uniform treatment of foreign capital, though a kind of ASEAN code for TNCs may be useful. ASEAN may also find it useful to employ the regional framework to promote foreign investment in the region. Certain steps towards such co-operation have been taken, *inter alia,* through meetings with representatives of the boards of investment or investment committees of the individual countries.

Whatever the move in this direction, ASEAN is likely to co-opt the foreign economic elements to aid its regional co-operation process. The approach of ASEAN to foreign investment is a lesson that could be instructive for the Andean Pact as well as for other regional groupings in the third world.

F. Role of the private sector

Regional economic co-operation and integration can take place under all economic systems. For the market economies, integration is basically a process of market integration, which can be explained by the theory of comparative advantage as a form of international division of labour.

The discussion and exchange at the ASEAN/Andean Pact Conference clearly brought out the basic difference between the Andean Pact's approach to integration and the ASEAN way towards regional co-operation. The whole process of Andean Pact integration was marked by intense bureaucratic (or technocratic) designs, which were implemented with a strong central direction. On the other hand, ASEAN had largely followed a more *laissez-faire,* open-ended approach to regional economic co-operation. While there are considerable merits to the Andean Pact's approach, which have been discussed earlier, the advantages when viewed from the perspective of a different regional grouping based on different political and economic orientations may prove to be disadvantageous. The highly structured integration programme of the Andean Pact could be regarded as one that tends to be rigid and inflexible. Such a manner of integration could pose many real problems to the economies operating primarily on the dynamic market forces system. The issue depends on the role assigned to the private sector.

By comparison the ASEAN economies are more oriented to the market system than are those in the Andean Pact. In ASEAN, the private sector, both foreign and local, has played a significant role in the region's economic growth. It does not follow that the Governments of ASEAN are not active or do not intervene in their economies. Indeed, in some ASEAN countries, one finds a strong public sector in the economy. The point is that the private sector has not been crowded out and there is sufficient market incentive for it to thrive and expand, particularly in the manufacturing sector. If private enterprises are already deep-seated in the ASEAN economies, political and economic realism will naturally dictate that they be given a proper role in the regional economic co-operation process.

The slow progress of the first AIP package generated some criticism of the practicability of the ASEAN process for such large government-sponsored projects. It was suggested that had the private sector been given a greater role in AIPs, its progress could have been faster. Subsequently, in the AIC scheme, the important role of the private sector was properly recognized. In all AIC activities, the ASEAN-CCI is to act as the official spokesman for the private sector. Thus, the private enterprises from various sectors are drawn into the regional co-operation process through their regional industrial clubs. Specifically, the new scheme, ASEAN Industrial Joint Venture, was created by the private sector for the private sector. Instead of the top-down process as in AIPs, co-operation initiative can now start from the bottom.

The private sector can no doubt make a substantial contribution to regional economic co-operation and integration efforts by complementing the role played by the public sector. In ASEAN, the private sector often operates its own network of business contacts, which can offer a convenient avenue for promoting regional co-operation. More pragmatic and with a keen sense of economic viability, the private sector can bring a business-like approach to bear on the problems of co-operatio quite different from the bureaucratic style followed by most government of .als.

Increasingly the ASEAN Governments have come to recognize the vital role played by the private sector in ASEAN economic co-operation. Greater participation by the private sector is expected to inject more flexibility into the ASEAN system of economic co-operation and increase its momentum. The ASEAN experience of generating active involvement of the private sector in regional economic co-operation deserves close attention from other regional groupings.

G. Extra-regional co-operation

Regional economic co-operation is made up of two interrelated components, intraregional and extra-regional co-operation. Intraregional co-operation refers to various programmes that will increase the level of internal economic integration of the region and usually forms the main agenda of regional activities. But the group is bound to interact with outside countries, and the leverage yielded to the group *vis-à-vis* the outside countries through its collective action can be termed "extra-regional co-operation". In light of the growing economic interdependence of the world, the gains derived from the group's external relations are no less important. The pursuit of external political and economic objectives has increasingly become the main impetus for third world countries to form regional groupings. It may well be the case that some regional groupings can reap higher rewards from their external operations than from their existing internal co-operation programmes.

At the ASEAN/Andean Pact Conference, the Andean Pact participants seemed quite impressed by the process of ASEAN in its extra-regional co-operation. Whatever the issues that might have divided the ASEAN countries, the region appeared to be united in a commonality of interests in its relationships with countries outside the region, including its economic relationships with the industrially advanced countries. The relationship of ASEAN with the industrialized countries are systematized through various dialogues, for example the ASEAN-Japan, the ASEAN-EEC and the ASEAN-USA dialogues. These dialogues offer an effective means for ASEAN to maintain close relations with the individual or groups of industrialized countries and to exchange views on issues of mutual interest, both political and economic. More significantly, the dialogues provide a formal mechanism by which ASEAN could exert collective pressures on the industrialized countries for more concessions or to listen to the common grievances of ASEAN on a wide range of vital issues such as primary commodities, protectionism and the multi-fibre agreement. It was because ASEAN could negotiate as a group that each of the five countries was able to get better benefits than if it had negotiated individually. Besides, ASEAN took a unified stand in various international forums organized by United Nations bodies and other international organizations such as the Organisation for Economic Co-operation and Development, the World Bank and the Non-Aligned Movement. Over the years the effectiveness of ASEAN has increased immensely due to its approach to international problems and its stand on various issues. ASEAN as an important emerging economic force is steadily gaining international recognition.

The economic influence of ASEAN, botn actual and potential, is strongly grounded on real factors. Its relatively strong economic position, at least in the third world context, was developed as a result of a long period of high economic growth and is supported by rich natural resources. As already noted, ASEAN is in one of the world's fastest growing regions and is endowed with a significant range of both renewable and non-renewable resources. Of even more importance is the outward-looking economic policy generally pursued by the ASEAN Governments. To exploit its basic economic advantage, ASEAN has maintained close linkages with the economies of the industrialized countries. It is true that such linkages have led to a high dependence on the industrialized countries; however, ASEAN is not over-dependent on any single country, as has been the case with Latin American countries. Its diversified dependence creates a leeway for it to take advantage of economic linkages with the industrialized countries.

It thus becomes clear that the strong performance of ASEAN in its extra-regional co-operation is rooted in some special economic and political circumstances peculiar to the ASEAN region. Some have pointed out that its achievements in external relations have by far overshadowed its internal progress in economic co-operation, leaving the impression that ASEAN is more an economic pressure group than a serious body for regional economic co-operation. This observation is too simple. It may be true that it is much easier for a regional grouping such as ASEAN to make progress in extra-regional co-operation because for many issues the ASEAN countries can find common grounds to work for their common interests and common needs. Thus there is no reason why ASEAN should not make use of its inherent advantages to obtain more leverage in its external relations with others. On the other hand, intraregional co-operation is much more difficult, as it often entails the uneven distribution of costs and benefits at the initial stages and demands adjustments from individual member countries. Hence the progress in internal co-operation is bound to be slower. At the same time, it should be stressed that ASEAN has not reduced efforts at promoting intraregional economic co-operation.

While it is time for the Andean Pact to look outward more and step up its extra-regional co-operation, it is also imperative for ASEAN to take measures for more vigorous intraregional economic co-operation. In the long run, there should be a proper balance between extra-regional and intraregional co-operation. The ASEAN experience in extra-regional co-operation has, none the less, clearly demonstrated that regional economic co-operation and integration in the third world should not be inward-looking in nature. A regional grouping should also be inclined to interact with countries outside the group and be ready to maximize whatever leverage and external opportunities arise from the formation of the regional group.

H. Other issues

Apart from the above dominant considerations, there are a few more issues that arise from the comparative analysis of the co-operation and integration experience of ASEAN and the Andean Pact. One crucial area that has potential significance but has yet to produce practical results is the harmonization policy.

Whenever a group of countries move together in a progressive manner towards serious economic integration, a common framework will develop, providing member countries with a base to interact for the pursuit of some common objectives. But the framework will inexorably tighten as integration intensifies. Within the framework each member country must adjust its policies to accommodate other members. Such a process of interaction for the achievement of some common goals is the harmonization of policies. Harmonization is not sought for its own sake, but mainly for its contribution to a more efficient use of potential benefits from the integration. Thus the ultimate objective of harmonization is to bring as much national economic activity as possible into the newly created regional economy and to enable member countries to derive equitable gains from the integration process.

A wide variety of public policies, tools and institutions are amenable to policy harmonization, depending on the extent and objectives of integration. The design of an effective harmonization programme requires a proper balance of technical sophistication and political realism with due sensitivity for the national authority in respect of its autonomy of decision over certain aspects of the regional project.

In the Andean Pact, the individual integration programmes carry their own instruments for policy harmonization. For instance, SPID for the Automotive Industry are accompanied by specific measures for harmonizing tax legislation and exchange rate policy with respect to vehicles. Apart from the specific measures, the process of harmonization at the macro-economic level is also important. It aims at bringing a regional perspective in industrial planning, monetary and fiscal policies, and social and physical infrastructural development of the member countries. Greater harmonization in all these areas will provide a more conducive environment for the implementation of the various integration projects and hence ultimately pave the way for more integration.

The Andean Pact countries have no doubt made great efforts towards harmonization of economic and social policies for regional integration. But the Andean Pact experience serves to show that broadly speaking, the process of harmonization is subject to the same set of forces that has hindered the progress of its specific integration programmes. Thus the overall policy harmonization has progressed no further than what is politically and economically feasible for the Andean Pact at the present stage.

Apart from harmonization, the Andean Pact has achieved good progress in technological co-operation. The various regional technological centres and their research programmes, directed to solve problems common to the region, have warranted special attention. There is great potential for developing more technological co-operation in ASEAN, which has not had much of a start.

As ASEAN and the Andean Pact have followed different patterns and developed different modes of regional co-operation and integration, what they have achieved or failed to achieve will be highly instructive for each other in their future regional endeavours. Any systematic synthesis of their successes and failures will in turn provide a valuable lesson for regional economic co-operation and integration efforts in other parts of the developing world.

The current international economic situation has presented a great challenge to all regional economic co-operation and integration efforts. If the challenge has spurred the member countries of ASEAN and the Andean Pact to make the necessary adjustments and to strengthen their existing regional programmes, then the two regions will survive the difficult period and emerge as even more viable groupings.

IV. Proposals for action and further studies

This analytical study is concluded with some proposals for future action and further studies, as given below.

A. Suggestions for immediate action

The first round of the exchange between ASEAN and the Andean Pact should be completed as soon as possible by taking measures to expedite the return visit to ASEAN by the Andean Pact representatives.

The ASEAN participants at the ASEAN/Andean Pact Conference said that their visit to the Andean Pact had been a valuable experience for them. The prospective return visit to ASEAN holds great promise for an equally useful experience for the Andean Pact representatives, apart from providing another opportunity for both sides to continue their exchange and discussions.

Besides the return visit to ASEAN by the Andean Pact representatives, efforts should be made to bring other important groups of people from the two regions into contact through conferences, seminars or other methods. These are the people from the private sector, the academic circle, and the mass media. Contact between business men and industrialists from the two regions could strengthen economic relations, while contact between academics and journalists could help to publicize the issues of regional co-operation.

At the ASEAN/Andean Pact Conference, both sides indicated a strong desire to stay in contact and were keen to explore avenues for formalizing or institutionalizing such contacts. At the initial phase continued outside support, particularly financial, would be needed to maintain the flow of exchanges.

The ASEAN/Andean Pact Conference in Lima has shown that regional groupings in the third world are apt to follow a different rather than a uniform pattern in their regional industrial co-operation or integration, and that there is much that regional groupings can learn from each other's experience, particularly in respect of the techniques or methodologies of regional co-operation and integration. Participants of the Conference also felt a strong need for more exchanges of information on regional industrial co-operation and integration efforts in the third world. Consideration might be given to the possibility of establishing a network for regional industrial co-operation studies, which could also function as an information clearing house for all regional industrial co-operation and integration endeavours in the third world. The third world might be strewn with the wreckages of setbacks and even failures in regional industrial co-operation and integration attempts, but regionalism continues to hold a strong appeal to developing countries. Such an international network would therefore perform a great service to regional industrial co-operation efforts in the third world in terms of synthesizing useful experience and effecting its transfer.

B. Suggestions for further research

Macro-perspective studies

The pattern of regional economic co-operation or integration for a region is normally shaped by its historical forces as well as the political and economic structure of its constituent members. Hence the intrinsic difference between ASEAN and the Andean Pact in the modalities adopted. However, they must also share some common goals, employ some similar tools, and face some similar constraints. There is therefore a need to analyse their structural similarities as well as their differences. In chapter III of this publication, an attempt has been made to bring out some salient structural differences and similarities in the approach to regional economic co-operation or integration by ASEAN and the Andean Pact. It is proposed that more formal in-depth research should follow. Such a study would make a comparative analysis, in a much more comprehensive and systematic manner, of the overall framework and mechanisms of regional economic co-operation or integration undertaken by ASEAN and the Andean Pact, with two major objectives: *(a)* to sift and analyse the aspects of the ASEAN and Andean Pact experiences in regional economic co-operation or integration for their operational relevance and applicability to each other; and *(b)* to construct a "synthetic model" of regional economic co-operation or integration based on the combined experiences of ASEAN and the Andean Pact, with relevance and applicability to other regional groups in mind.

The current international economic situation is not conducive to the growth and expansion of regional economic co-operation or integration. To cope with the economic crisis, both developed and developing countries are making economic adjustments, which will further strain many regional groupings. But the economic crisis also presents regional groupings with an opportunity to strengthen their existing programmes and framework. It is proposed that research be carried out on how the member countries of ASEAN and the Andean Pact respond to the current international economic crisis and the need for structural changes in their industrial set-up, and what the implications are for their future co-operation or integration activities.

Specific research programmes

Chapter III has already sketched in broad terms how ASEAN and the Andean Pact might learn from each other's experience in regional economic co-operation or integration. Detailed follow-up studies on some major topics should be undertaken.

For ASEAN, it will be useful to organize a team, to include ASEAN researchers, to undertake an in-depth study of the following major integration programmes of the Andean Pact with a view to evaluating their relevance for ASEAN, and suggesting concrete measures for their possible application to ASEAN:

(a) The overall integration strategy of the Andean Pact, together with its implementational framework developed over the years;

(b) The industrial programming of the Andean Pact, particularly the sectoral programmes for industrial development, with emphasis on the techniques in the formulation of the various SPID;

(c) The special treatment of the less developed members, with emphasis on rationale, mechanism and redistributive impact;

(d) The Andean Pact's experience in technological co-operation.

In return, a research team including Andean Pact experts may find it profitable to look in detail at the following aspects of ASEAN economic co-operation: *(a)* the process and pattern of its consensus building, including the political style of negotiation; *(b)* the mechanism of extra-regional co-operation; *(c)* the role of foreign investment; *(d)* the role of the private sector; and *(e)* financial co-operation.

In addition, there are diverse research topics on regional co-operation that could yield high dividends to both ASEAN and the Andean Pact, and that could be undertaken jointly by researchers from both regions, in *(a)* agro-industries; *(b)* resource-based industries; and *(c)* the promotion of manufactured exports.

Annex

STUDIES PREPARED ON REGIONAL INDUSTRIAL CO-OPERATION: EXPERIENCES AND PERSPECTIVE OF ASEAN AND THE ANDEAN PACT

UNIDO/IS.281	The development of the ASEAN Industrial Projects (AIPs) *Mohamed Ariff*
UNIDO/IS.282	ASEAN Industrial Complementation *Vicente T. Paterno*
UNIDO/IS.291	ASEAN Finance Corporation: prospects and challenge *J. Panglaykim*
UNIDO/IS.310	ASEAN Industrial Joint Ventures (AIJVs) in the private sector *Lee Sheng-yi*
UNIDO/IS.311	Regional industrial co-operation—the approaches pursued by ASEAN
UNIDO/IS.312	General overview of the Andean Group *Andean Pact Secretariat*
UNIDO/IS.313	Economic and industrialization policies in the Andean group of countries, 1970-1980 *Javier Iguiñiz*
UNIDO/IS.329	The role of the private sector in industrial and technological co-operation in ASEAN *Pakorn Adulbhan*
UNIDO/IS.346	Co-operation in industrial financing in ASEAN *Supachai Panichpakdi*

SOMMAIRE

L'ouvrage intitulé *Regional Industrial Co-operation: Experiences and Perspective of ASEAN and the Andean Pact* donne un tableau d'ensemble des questions liées au renforcement de la coopération industrielle entre pays en développement sur le plan sous-régional et expose les données d'expérience, les méthodes actuellement employées et les perspectives concernant cette coopération entre deux groupements régionaux, à savoir l'Association des nations de l'Asie du Sud-Est (ANASE) et le Pacte andin.

Diverses études ont été effectuées sur divers aspects de cette coopération, notamment la complémentarité des industries, les coentreprises, le financement industriel et les politiques industrielles. En vue de faciliter l'échange direct de données d'expérience et l'examen en commun des questions essentielles de coopération industrielle, une conférence de fonctionnaires du Groupe andin et de l'ANASE a eu lieu en 1982 et elle a été suivie d'un voyage d'étude de participants des pays de l'ANASE dans les capitales des cinq pays du Groupe andin. Le document qui fait l'objet du présent sommaire récapitule les principales conclusions des études susmentionnées ainsi que de la conférence et du voyage d'étude, et elle renferme aussi des propositions en vue de la suite à leur donner.

Les deux organisations régionales s'emploient activement à poursuivre ou à intensifier leur action en vue d'un mode plus efficace de coopération économique. Alors que les efforts de coopération des pays de l'ANASE paraissent porter avant tout sur la "coopération régionale" au sens limité de l'expression, les pays du Pacte andin tendent vers les objectifs plus ambitieux d'une "intégration régionale".

Les renseignements sur l'expérience et les perspectives du Groupe andin et de l'ANASE devraient pouvoir utilement servir à poursuivre la coopération industrielle à l'intérieur de ces deux groupes régionaux et à concevoir des mécanismes de coopération à l'intérieur d'autres groupes de pays en développement.

EXTRACTO

Cooperación Industrial Regional: Experiencia y Perspectivas de la ASEAN y del Pacto Andino se propone dar una visión general de las cuestiones referentes a la intensificación de la cooperación industrial entre países en desarrollo a nivel subregional y examinar la experiencia, los enfoques actuales y las perspectivas relativos a esta cooperación en las dos agrupaciones regionales: la Asociación de Naciones del Asia Sudoriental (ASEAN) y el Pacto Andino.

Se han realizado una serie de estudios que abarcan diversos aspectos como la complementación industrial, las empresas mixtas, la financiación industrial y las políticas industriales. A fin de facilitar el intercambio directo de experiencia y el examen conjunto de las cuestiones más importantes de la cooperación industrial, se organizó en 1982 una conferencia de funcionarios del Grupo Andino y de la ASEAN, seguida por una gira de estudio de los participantes de la ASEAN a las capitales de los cinco países del Grupo Andino. Los principales resultados de los estudios, la conferencia y la gira se han consolidado en el presente documento, en el que también figuran propuestas de acción.

Ambas organizaciones regionales han proseguido o intensificado activamente los esfuerzos tendientes a conseguir un modelo de cooperación económica más viable. Al parecer, los esfuerzos de cooperación de la ASEAN se han orientado hacia la "cooperación regional" en un sentido más restringido mientras que los del Pacto Andino han tendido a metas más ambiciosas de "integración regional".

Se considera que la información sobre la experiencia y las perspectivas del Grupo Andino y la ASEAN constituiría una base importante para una cooperación industrial continuada en esas dos agrupaciones regionales, así como para la concepción de mecanismos de cooperación en otros grupos de países en desarrollo.

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