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**ECONOMIC POLICIES FOSTERING REGIONAL TRADE AND COOPERATION:
Illustrations of Philippine and Other Asian Cases**

by

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by Gerardo P. Sicat*

Paper presented to the SEADAG Regional Development Seminar held at the East West Center, University of Hawaii, Honolulu, U.S.A., from July 6-8, 1970.

Are there policies that are favorable to the growth of trade and economic cooperation? If there are, then it is a useful exercise to spell them out.

We shall consciously omit from this paper any discussion of the commendable work being done by the ECAFE, the Asian Development Bank, and many regional institutions in forging greater economic integration within Asia, in particular, within Southeast Asia. But we begin on the premise, if it is correct, that the work of these institutions will become much harder if internal policies promoting economic development are wanting.

INWARD NATURE OF INTEREST IN INTERCOUNTRY TRADE AND COOPERATION

Since the last decade, regional economic groupings have attracted wide attention. Because of its success, the European Common Market has provided a good model. It is also a "hard" model to follow, being composed of countries whose per capita incomes have a center of gravity of about US\$1,000 per year. Most less developed countries have per capita incomes in the mag-

*Professor of Economics, University of the Philippines. The preliminary thoughts that went into the organization of this paper, together with a partial first draft, were conceived while the author spent a short but fruitful period of reflection as Guest at the Villa Serbelloni, Bellagio, Italy in June, 1970. Thanks in favor of the Rockefeller Foundation are therefore happily recorded. I am grateful to Rosalita Centeno, Cesar Dixon, and Elena Aquitania for research and secretarial assistance.

nitide of US\$200 per year. Yet regional economic associations among the less developed countries have been formed in Latin America and Africa. These are the Latin American Free Trade Area, the Central American Common Market, East African customs union, and similar regional arrangements in Africa.

The Asian countries have been more slow in forming such unions. Of course, much discussion has now been in order. Continual discussion may result in a treaty. However, even when the legal framework in the context of international law already exists -- as in the case of the Latin American and African unions -- there are still some economic difficulties that stem from the inflexibilities of internal economic policies of member nations. The ASEAN countries -- Indonesia, Philippines, Malaysia, Thailand -- have for sometime been exploring possibilities of economic cooperation. This has ranged from proposals of harmonization (or, in any case, rationalization) of industrial plans to limited commodity agreements with preferential tariff access. Taiwan and South Korea have made preliminary agreements with respect to rationalizing the capacity of steel-related industries. The economic arguments for regional cooperation are now known and widely accepted by economists: enlargement of markets and regional specialization. But why is there substantial resistance to the idea of even limited commodity agreements?

[Sovereign nations look inward, as a precondition to the discussion of external commercial policy, first to see if the national interest is served. Only if it is demonstrated that the national interest is promoted by some form of bilateral or multilateral cooperation is the lid truly opened to more progress on efforts to promote regional cooperation

and trade. Yet, this is the hardest point to put across. The outward manifestations of interest in cooperative regional groupings may be there, and some platitudes may be often heard about the desire to promote close regional ties and cooperation. But in any event, any multilateral action has, first, to be referred to the "national constituents". These constituents may not simply be plain citizens, but industries, conflicting interests of economic and even political sectors, and the interests of other nations with which, as is true in many of the countries in Southeast Asia and elsewhere, some binding arrangements are already in effect. And, as Nurul Islam (1969) has ably pointed out, [the most tricky problem is how the gains from such arrangements are redistributed among participating nations, so that no severe inequality of gains, or even losses, accrue to some members of the arrangement. This is one of the ticklish problems confronting LAFTA lately, since the gains are going mostly to Mexico and Brazil.]

[Therefore, any overt attempt to foster regional groupings in the form of limited commodity trade arrangements, customs union, payments union, or even bilateral treaties of friendship and commerce requires a "referral slip" to all the varied national constituents interested in, or affected by, the question.] Little wonder is it therefore that the obstacles are insurmountable in some cases, easy in others.

[It is our contention that some of the biggest obstacles to these trade arrangements are economic. Of course, major problems are rooted in history, or politics. Little successful union in economic or tariff policies can be achieved if governments are unstable so that policies become, likewise, unstable. The case of the Latin American regional associations

illustrates how political conditions can hamper further progress, even when a gradualistic customs union treaty has already been in operation. But given some level of irritations related to these last noneconomic problems, the economic factors become predominant. While it is impossible to promote bilateral arrangements when two countries' relations with each other are on the brink of deterioration -- such as the undeclared war between Malaysia and Indonesia in the early 1960's and the political question centering on North Borneo between the Philippines and Malaysia -- many avenues for economic intercourse often occur, because such relations are fostered and developed, not by nations but by individual economic units -- firms, industries, and even individuals. For instance, it has been observed that bilateralistic trade patterns abound.¹

If there are, then, economic relations that manage to grow, in spite of political, historical and cultural barriers, we ought to look into conditions that help to foster their growth. We begin, first, with a most commonly observed phenomenon in many less developed countries, including the countries of Southeast Asia, [that individuals respond correctly to price and other incentives. This is found to be true for the common traditional farmer and for those living within urbanized sectors, who have been exposed to policies of industrialization.] In many respects, this economic finding clarifies and modifies much of the literature on economic development and puts an optimistic vent on the role of economic policy.

¹See Sicat (1969b).

In the realm of inter-regional trade and cooperation, therefore, we may search for those policies that become necessary conditions toward promoting, in the long haul, prospects of greater interdependence in the context of a progressing region, where the benefits of interdependence are as widely diffused as possible.

Our aim in the following pages is to enumerate policies that are likely to be conducive to the formation of a community of interests in a regional economic community. As a secondary aim, we shall attempt to demonstrate, where possible, from the experience of the Philippines. We expect to be less successful in the second aim, because a wealth of material exists, throughout the less developed world, and in Asia, too. And we wish to benefit partially from that material.

For the purpose, we concentrate on three major areas: (1) the exchange rate, (2) resource pricing, (3) international factor movements.

But before we go to these policies, it will be helpful to examine the statistical picture of intra-regional trade of some countries in Asia.

SOME SALIENT STATISTICAL GUIDELINES

Rates of Growth of Income.

Table 1 shows recent average yearly growth rates of gross domestic product of some representative countries of Asia, total and per capita, as well as the 1966 per capita GDP's measured in US dollars. The growth rates are for two distinct periods. Several of the countries selected here have exceptionally good records of growth -- Malaysia, the Philippines, Thailand are the leading countries of Southeast Asia in terms of growth per-

**Table 1. AVERAGE ANNUAL RATES OF GROWTH OF REAL GROSS DOMESTIC PRODUCT
AT MARKET PRICES AND PER CAPITA GDP, 1966**

Country	Period	Gross Domestic Product ^a (In per cent)		GDP (in US dollars)	NI
		Total	Per Capita		
Ceylon	1958-60	5.4	2.6	140	132
	1960-66	4.2	1.6		
Hongkong		n.a.	n.a.	313	298 ^b
India ^c	1950-60 ^d	3.7	1.9	84	79
	1960-66	2.9	0.5		
Indonesia ^{c,d}	1958-60	0.5	-1.7	90 ^b	87 ^b
	1960-66	2.1	-0.2		
South Korea	1953-60	5.0	2.7	123	117
	1960-66	7.6	4.7		
Malaysia: West ^c	1955-60	4.1	1.0	281	254
	1960-65	6.4	3.2		
Pakistan	1960-66	5.7	3.6	101 ^e	95 ^e
Philippines	1955-60	4.5	1.5	259	231
	1960-66	5.5	2.1		
Singapore		n.a.	n.a.	549	529
Taiwan	1951-60	7.8	4.1	215	199
	1960-66	10.0	6.7		
Thailand	1951-60	6.4	3.3	141	120
	1960-65	7.0	3.9		

Source: United Nations, Statistical Yearbook 1967 (New York, 1968),
Tables 182, 183, and 185.

^aGross domestic product at constant market prices.

^b1963.

^cAt factor cost (constant).

^dNet domestic product at constant factor cost.

^e1965.

formance. However, the best performers are South Korea and Taiwan, both in the region of Northeast Asia. Even the rates stated here are on the low side; after the mid-60's, both economies experienced more impressive real expansion. Two small countries -- Hongkong and Singapore -- do not have any records of growth rates, but fortunately some magnitudes of per capita GDP are available.

Intra-regional Trade and Growth

Tables 2 and 3 present limited trading matrices of these countries among themselves and with the United States and Japan, the principal industrial countries with which most of these countries, with the exception of the members of the British Commonwealth, do a lot of trade.

Table 2 shows rates of growth of exports, where exports were measured in f.o.b. values. The Appendix table shows the complete data basis of these computations. It also shows the relative magnitudes of the intra-regional export trade with respect to total exports recorded for the year 1966. We note that different valuation units have been used for different countries. Table 3 presents rates of growth of imports, noting that imports are uniformly measured in their c.i.f. values.

A few remarks are in order before we derive any conclusions from these data. The two tables are in fact two ways of looking at the same thing, and therefore, if statistical information were in their full perfection, they would be identical. That is, the rates of growth of exports of, say, Ceylon to Hongkong in Table 2 would be the same as Hongkong's rates of growth of imports from Ceylon in Table 3. But as we have already said, the units of valuing trade are different for most countries,

e 2. RATES OF GROWTH OF EXPORTS, (f.o.b.), 1962-1966
(In per cent)

Indo- nesia	Korea	Malaysia, Sabah	West Malaysia	Pakistan	Phil- ippines	Singapore	Taiwan	Thailand	United States	Japan
n	n	n	n	n	n	0	n	0	11.44	18.08
257.90	5.13	0.47	9.39 ^a	-7.43	48.24		51.20	21.84	135.93	99.90
-73.33	n	56.97 ^b		-99.89	n	-0.85	n	114.57	92.34	221.55
---	n	-80.00	-100.00	n	69.58	-100.00	n	-64.64	63.79	173.22
930.00	---	0	46.80	7.48	145.79	505.30	53.25	1,073.83	699.78	178.06
-81.90	227.72	---	1,962.40	n	-50.98	199.41	770.20	0	20.50	81.75
-95.46	n	2,615.18	---	58.42	127.97	36.22	81.14	54.70	22.05	12.59
1451.72	n	n	215.94	---	78.95	1,666.67	9.09	138.33	90.80	3.36
17.65	44.83	200.00	146.67 ^a	220.00	---	---	180.63	194.12	-2.91	-45.29
-180.00	-59.54	61.17	-3.60	7.45	24.96	---	101.67	29.87	-43.05	-23.18
24,450.00	28.64	-47.69	190.53	314.46	35.88	54.08	---	62.68	120.88	147.35
-17.82	60.05	-47.54	-15.00	-12.80	7,073.24	28.54	218.87	---	21.08	128.23

ook of International Trade Statistics 1966 (New York, 1968).

Table 3. RATES OF GROWTH OF IMPORTS (a.i.f.), 1962-1966
(In per cent)

Indonesia	Korea	Malaysia, West Sabah, Malaysia	Pakistan	Philippines	Singapore	Taiwan, Thailand	United States	Japan
-33.33	n	n	297.65	n	-43.56	n	290.20	69.07
58.88	67.33	-45.56	57.09 ^a	25.68		28.91	-11.62	37.58
-94.20	n	16.81 ^b	-91.83	n	85.70	n	5,222.10	116.13
---	n	n	n	n	n	n	n	n
497.27	---	162.16	53.65	-70.72	5,577.78	48.93	150.88	15.14
-78.76	50.40	---	796.75	n	-67.21	-47.20	1.68	14.91
-95.53	n	34.54	---	109.54	88.24	15.85	-28.20	7.32
1,207.69	n	n	-19.72	---	66.67	-8.23	-70.00	-6.41
6.88	175.80	192.81	43.04 ^a	59.85	---	49.09	4,340.00	16.38
-100.00	286.51	193.80	29.67	359.87	223.68	46.48	34.91	4.70
446.67	266.91	101.12	288.87	-95.24	89.13	---	184.68	44.35
-28.72	431.07	-3.70	378.93	124.44	314.22	53.71	---	363.06

Yearbook of International Trade Statistics 1966 (New York, 1968).

so that exchange rate conversion factors enter the picture prior to their being recorded in trade statistics. Also, the measures of imports and exports from port of delivery differ; the former is c.i.f. and the other is f.o.b. There are also other factors that enter, such as when trade figures, when converted to the same monetary and physical units often-times do not tally, because of undervaluation, overvaluation and the like by trading partners.

Yet, despite these shortcomings, there are some findings which are notable.

(1) Taiwan and South Korea have fairly high intra-regional trade growth rates. They are the highest growing countries in the sample countries in our table.

(2) Some countries are beginning to experience, on a bilateral basis, an expansion of their trade, although no such pattern is shown in their dealings with many other countries. For instance, we observe this for Pakistan with Hongkong, with Indonesia, with Singapore and with Malaysia; for Thailand with the Philippines and with India.

(3) Hongkong and Singapore's intra-regional links are weaker. Yet, an examination of Hongkong's intra-regional links with Asia for the latter part of the 1950's reveals that, in the 1960's, the trade links with Asia are improved, although not impressively so.

(4) Some regions are having declining bilateral links. Notable among these are Pakistan and India (a political matter, largely) and Ceylon and India (due probably to their exchange and trade policies).

(5) Many of the intra-regional trade links are negligible from the standpoint of their relative size to their total trade. However, any expansion observed for trade is an indication of an expansion of absolute size, which in due time, if sustained, can become relatively substantial. Another reason for this is that expansion of trade with other non-Asian countries, as in the case of Taiwan and South Korea, is also at a very last pace.

(6) With minor exceptions, all the countries mentioned have increasing trade links with the US and Japan, but the more impressive ones are best exemplified, again, by Taiwan and by South Korea.

[Since these intra-regional trade links are not the result of any harmonization of plans or customs union, they may be related to the growth of each respective economy and to policies that are in operation which govern their respective trade.] ✓

POLICIES AFFECTING THE EXCHANGE RATE

We shall call the set of exchange rate policies that foster an "equilibrium" rate of exchange as "liberal", in contrast with policies which are "restrictive" or "restrictionist" in the sense that maintaining a fixed rate of exchange requires severe impositions of a variety of monetary and trade controls.

The adoption of exchange rate policies must be assessed in terms of whether they promote the national interest, firstly, and secondly, only regional trade, in the context of a group of countries. To argue that they promote national development is to stress that they are, in a sense, biased in favor of internal development. [It is our contention that liberal ex-

change rate policies promote more healthy directions for internal economic development, foster international trade, and as a consequence, intra-regional trade.]

During the decade of restrictionist exchange rate policies, the 1950's, the Asian region had a unique example of a country that deviated entirely from these policies -- Hongkong. Many economists in the 1950's have dismissed the case of Hongkong as entirely without relevance. To this view, we have great reservations. Hongkong, through all the postwar years (and, of course, her entire history under British control except for minor interludes, notably during the last Great War) has maintained a completely flexible exchange rate system. It is now history that industrial progress moved swiftly in the 1950's, and we may add, at the "expense" of other Asian countries, the Philippines included, which have opted for restrictionist exchange rate policies. In many respects, Hongkong did not only develop as the shopping emporium of the world, it being a tariff-less economy; it can be said with the same force that it became the shopping center of affluent Asians, who could travel.

Hongkong's intra-regional trade in Asia fell after the mid-50's while her total trade was expanding with the industrialized world. But in the 1960's the expansion of intra-regional trade is notable. This is a hopeful sign, full of the consequences we have predicted that [liberal exchange rate policies lead eventually to expanded intra-regional trade.]

While the Asian miracle of the 1950's is represented by Hongkong, the 1960's is dominated by the examples of Taiwan and South Korea, two

(Northeast Asian) economies which, subject to a few qualifications,² begin to have the basic endowments of relatively larger economies in Southeast Asia. Again, in the case of these economies, economic policies began clicking once they had opted for realistic exchange rate policies and continued to retain them. To be sure, in these two countries the exchange authorities have continued to put some controls over import levels, but certain classes of industries began to get liberal access to foreign exchange, to be purchased, of course, at realistic rates of exchange. Again, to say ✓that exchange rate policies have been important is not to say that they are the one and only condition for achieving development. With a bagful of traditional policy tricks, which will be obvious in the next section, these two countries were able to generate rates of economic progress which are not only very satisfactory; they also give examples that real GNP growth of the order of 10 per cent per year is not even an upper limit to economic expansion. We also note the traditional pattern of a much faster trade with the industrial countries rather than with Southeast Asia. This is only in relative size, because total volume of intra-regional trade has gone up, especially more recently.

✓The Philippines has reached a phase in her exchange rate policies which turns back on restrictionist policies. The policies liberalizing exchange rates began in 1962 and have continued to the present, with a brief interlude in the 1960's which seemed to revert to stricter monetary controls.

²These exceptions are enormous per capita foreign aid received by these countries, plus, in the case of Taiwan, the influx of mainland Chinese capitalists, as in the case of Hongkong. The case of Taiwan and South Korea are treated in Sicat (1969*).

Her real rate of growth of 5 to 6 per cent per year on the average per year during the decade is a very respectable rate. The effects of exchange rate reform have been on the whole beneficial, when viewed in the context of re-aligning incentives within the whole economy. Enormous trade expansion ensued, and the record of export growth during the period is both a matter of luck (centering on a few key industries like sugar), but it is also a matter of fundamental policy change.³ What was missing in Philippine export performance is the expansion of industrial exports, the very engine of export growth of Taiwan, South Korea, and Hongkong.

How do these fit into the picture of promoting intra-regional trade? If we refer back to Tables 2 and 3, we discover that the increasing trend towards intra-regional trade measured in rates of change has been substantial for countries with fairly liberal exchange rate policies.

We are not putting forward that liberal exchange rate policies in the tradition of Hongkong should be followed by every government. What we are suggesting is that liberal exchange rate policies have the capacity of pricing resources correctly, be they foreign or domestic. They not only release some scarce governmental resources away from administrative work related to exchange controls but also direct these to other activities which are related to economic planning. They also tend to attract foreign capital resources from abroad and create further conditions for retaining them within the country when prospects of greater growth become obvious. To say that exchange rate policies can do all the above

³See Sicat (1969b).

alone, however, is to mislead. Other supplementary policies are needed to strengthen the basic fiber which is inherent in liberal exchange rate policies. [In other words, exchange rate policies are not a sufficient condition to attain progress, but they may well be a necessary condition.] ✓

FACTOR PRICING POLICIES

✓A country which utilizes a realistic factor pricing policy will have a greater chance of promoting trade expansion than one which does not. First, our comments with respect to foreign exchange rate pricing apply here with full force, because the exchange rate translates domestic factor costs into foreign factor costs. As an example, an overvalued exchange rate will make domestic factors relatively more expensive with respect to foreign factors. This will do both of the following: on the one hand, abundant factors do not go into use in export sectors as fully; foreign factors, being relatively cheaper, are encouraged into use even in domestic market feeding industries. ✓

✓But within the country itself, realistic factor pricing is important for an efficient allocation of its scarce resources. When there exist serious price distortions among inputs, resources do not go into their best economic use among broad economic sectors, industries, and firms. ✓

✓Thus, policies that have to do with factor pricing must be conceived with an eye towards perceiving, and thereby preventing, serious factor price distortions. We have to note that a legally sanctioned pricing of labor (in the form of minimum wage and other labor policies), of

capital (interest rates on savings and time deposits, on lending rates of commercial and long-term finance institutions), and of intermediate inputs (effects of domestic taxes, tariffs and import quotas, as the theory of effective rate of protection reveals) have a way of interacting to produce a system of prices. In many less developed countries, the end result of factor pricing policies is one which is severely biased against the use of domestic factors which are most abundant. These get reflected in the following results:⁴

- (1) total industry composition tends to have a premature capital-intensiveness;
- (2) within given industries, an encouragement of techniques which are labor-displacing when labor is most abundant; and
- (3) within the economy, a weakening of incentives for technological adaptation and innovation which are compatible with resource endowments. ✓

Wage-Pricing.

Of the truly outstanding success stories of less developed Asia in the field of economic development in recent years -- Hongkong, Taiwan, and South Korea -- we find that wage-pricing policies have been "realistic". No serious impediments have been placed in the way of overpricing industrial labor. In the last two countries, a very significant reason which has allowed them to maintain realistic wage levels of industrial labor is keyed to the attention paid to agriculture, so that ample supply of food -- basically rice -- would be forthcoming as new labor is absorbed into urban-dependent occupations. In Hongkong, where agriculture is really insignifi-

⁴See Sicat (1968).

cant, liberal food supply through import sources is available. As a result, a great surge of labor-intensive industries has engineered early industrial growth, and results in export performance in these industries have been demonstrably accomplished.⁵

✓Elsewhere, the story is different. The Philippines has some of the most advanced labor laws in Asia. And their ideological basis has now almost become a matter of fact. The same may be true in other countries like India, Singapore, and Malaysia. Yet, advanced labor policies which impede industrial labor absorption of the rapidly growing labor force in these countries have begun to instill doubts about whether labor laws are, indeed, biasing themselves against the greater bulk of unemployed or underemployed labor. In Singapore, lately, a backtracking on advanced labor laws appears in evidence. And in the Philippines, despite the eventual approval of a higher minimum wage after the institution of the floating exchange rate early this year, responsible voices in the legislature were heard to caution against the bad side effects on employment of a high minimum wage floor. ✓

✓Can we now foresee that greater attention will be paid towards public understanding of the bad effects of overpriced industrial labor? Some comparisons may be helpful in placing some perspective, so that we may begin the program of positive education. In recent years, we have witnessed the rise of real wages in Hongkong and then, later, in Taiwan and South Korea. Industrial expansion based in part on a cheap wage policy, coupled with the linkage effects this has on all service occupations,

⁵See Lary (1968).

has at last led to situations in which the emerging equilibrium wage is always on an upward-sloping supply-price of labor. In particular, we may make comparisons of three countries with which we have greater familiarity -- Taiwan, South Korea, and our own: the Philippines. Table 4 shows real wage indexes for these three countries, with all wage indexes reduced to a common base, 1963. We note the rapid rise of real wages in the first two countries and a fall in the Philippines. Some economists observing the Philippine economy -- both foreign and indigenous -- have doubted the validity of the Philippine series. Yet, the outward evidence is clear that even if there is some upward correction, it cannot be anything more dramatic than sustaining perhaps the view that real wages may not have fallen, but that they have not risen either. If we translate the real wages of Taiwan and South Korea in terms of Philippine real wages, that is, by dividing each series by the corresponding Philippine real wage (as we do in the last two columns of the table), the comparison becomes all the more severe.✓

Now, of course, it has been advanced especially by noneconomists and even by some economists that the above is true because, anyway, Taiwan's and South Korea's real wages have begun from very low levels and that these observed increases in real wages have been the pure and simple application of "sweatshop" strategies toward industrialization. On the first comment, it is easy to admit that, indeed, it is statistically correct. ✓One might add, however, that attempts to raise "real" wages by artificial means may prevent the aggregate demand for labor from crossing the rising supply-price segment of labor, because of the discouragement (a) of labor-intensive enterprises and (b) of employment itself in large-

Table 4. REAL WAGES IN TAIWAN, SOUTH KOREA, AND THE PHILIPPINES
(In per cent)

		Taiwan	Korea	Philip- pines	<u>Taiwan</u> <u>Phil.</u>	<u>Korea</u> <u>Phil.</u>
		(1)	(2)	(3)	(1)/(3)	(2)/(3)
					%	%
1962		98.20	105.42	101.30	94.94	104.07
1963	= 100	100.00	100.00	100.00	100.00	100.00
1964		102.30	94.21	86.86	17.77	108.46
1965		110.96	98.33	85.81	129.31	114.59
1966		115.51	104.11	89.01	129.77	116.96
1967		126.71	115.04	81.68	155.13	140.84
1968		130.83	131.35	88.08	148.53	149.12
1968	Sept.	131.60	139.90	85.60	153.74	163.43
	Oct.	127.50	135.94	90.88	140.29	149.58
	Nov.	129.59	134.13	88.00	147.26	152.42
	Dec.	139.89	143.47	90.88	153.93	157.87

Note: Comparative statistics on money wages and prices are derived from government reports of each country. From these, real wage statistics were computed.

scale factory-type organizations. The rapid expansion of the labor force in many countries as a result of the postwar population explosion is a sword of Malthus-Ricardo-Marx-Lewis hanging over the development potentials of these countries, like that of Damocles.

✓The second point -- "sweatshop" industrialization -- deserves a fuller answer, but we raise questions to answer it instead. On what or whose standard is the "sweatshop" description to be applied? On the standard of the presently advanced industrial countries, whose industrial labor has grown very scarce through the effects of decades of sustained industrial growth and technological progress? Or on the standard described so ably by Charles Dickens in his novels (say, *Oliver Twist*) and by Karl Marx in Part III of his Das Kapital, both of which are keen reportings of working conditions in England during the Industrial Revolution? (Humanitarian standards have been raised to higher levels among Asian countries, through protective laws (unrelated to labor pricing) on labor, and the inhuman excesses of the Industrial Revolution are not necessarily being repeated.) Or on the Asian standard that the poor Asian, shackled to his farm or his craft, will have to work a long, long day during peak seasons to be able to eke out a subsistence living or even a small economic surplus? Or on the standard used particularly in Mainland China of mobilizing rural labor for works on infrastructure and industry at practically little real wages? As we can see, the question is much easier understood in the context of appreciating problems of economic development and on what would happen if alternative labor-pricing policies were in existence.

Interest-rate pricing.

Taiwan and South Korea have pursued a high interest rate policy; Hongkong has not. Given their special circumstances, this is a sensible policy for all countries concerned.

With the advent of Central banking in Taiwan and South Korea, which internalized their respective monetary systems, capital -- viewed both as investment and as saving -- has become a relatively scarce factor. The separation of the domestic capital market from the world capital market in many respects has necessitated the correct pricing of a scarce resource: capital. Of course, the pursuit of high interest rates might have been accidental, having originated largely as anti-inflationary instruments of policy in both countries. But their effects in mobilizing domestic capital cannot be understated.^{6/}

The case of Hongkong is unique with respect to interest-rate pricing since it has complete access to world capital markets. Thus, since the Hongkong money and capital markets are tied to the world capital market, it can afford to have interest rates close to the world prime rate structure of interest rates.

However, many Asian economies owe themselves an interest rate reform, if they have internal monetary systems which are insulated from world capital markets for a variety of reasons. By having low interest rate policies, they undervalue a very scarce commodity. When they raise interest rates, it is in response to rising world interest rates (as has

⁶See Sicat (1969a).

happened recently). The experience of Taiwan and South Korea indicate that, if the interest rate is high enough, voluntary saving may rise, thus giving the optimistic result that private savings are interest-elastic.

The above is best put in terms of the recent explanation put forward by Hla Myint (1970) and also recognized by others.⁷ Analyzing the economic reasons for the persistence of dualism in the context of modernizing less developed countries, Myint puts great stress on the factor price distortions caused by policies which serve as impediments toward unifying dualistic factor markets.[✓]

Intermediate Goods Pricing.

Much is now known about the effects of systems of tariff and non-tariff protection, in view of seminal work in this area by international trade theorists.⁸ All countries in the world, developed and less developed, except Hongkong (which continues to remain a free trade port), are subject to the vicissitudes of unforeseen effects of complicated trade regulations and complex tariff codes. And in Asia, this is true of South Korea, Taiwan, Malaysia, the Philippines, and Thailand.⁹

Yet, what has made Taiwan and South Korea escape from the fate of becoming victims to autarkistic import-substituting industries, in the way of some countries having similar effective protection systems? ✓ Exchange rate policies and realistic factor pricing of primary factors, like labor

⁷ See, for instance, the study of Power and Sicat (1970).

⁸ E.g., Corden (1966) and Johnson (1965), among the earlier writers.

⁹ See, for instance, Naya (1970) on South Korea, Power (1969a, 1969b, respectively) on Malaysia and the Philippines, I-Shuan Sun (1969) on Taiwan, and Trairong Suwankiri (1970) on Thailand.

and capital, are partly the answer. Another is the attention given export industries, through eased administration of procedures for tax rebates and customs drawbacks (whereas they are difficult in other countries), and through encouragement of industrial estates for exports, as the ease of the Kaohsiung Export Processing Zone of Taiwan shows. Another is preferential access to foreign exchange supplies and to interest rate pricing when borrowing for exports. These are ingredients that help to compensate for the harm generated by uneven industrial incentives to enterprises that are spawned by a system of protection. Very similar, too, is the export bonus scheme of Pakistan which, to all indications, has proved to be a success, though not perhaps a truly impressive one, in a regime where exchange controls are still highly in their heyday.✓

POLICIES ON INTERNATIONAL FACTOR MOVEMENTS

✓Much of the literature on international economics and on regional economic integration concentrate on commodity trade flows, no doubt because of the presumption that commodity trade substitutes for the immobility of factors of production.]

✓Yet there is substantial evidence in Asia, which has not been systematically studied by any economist, that human, monetary, and physical capital has been mobile and has fostered continuing contact among Asian countries. This is partially due to the shrinking size of geography with the advent of modern communications and transport systems, to growing income differentials for special types of occupations and to growing trade opportunities in specific industries.

Many Filipinos are all over Asia -- musicians, technicians, teachers, medical doctors, and engineers. The Chinese, with their embodied and

disembodied capital resources, have been mobile from country to country, owing sometimes to political turmoils which unsettle Chinese communities in some regions. Likewise, Indians have been mobile within Asia. And Japanese businessmen are beginning to swarm into many countries where trading posts or new industries are being set up. In Hongkong, Singapore, Taiwan, and South Korea, and now in post-Sukarno Indonesia, foreigners from Asia and elsewhere are coming in as direct investors.

All these developments call to mind a variety of topics not usually grouped under "capital movements." Yet they pose a question related to the future of intra-regional trade and cooperation. We shall need more space to develop this theme, but here we offer the following hypothesis without elaborating. Provided minimal safeguards are instituted so that foreign factors (in the form of migrants, direct investments, or proprietary rights attached to inventions) do not exploit the nationals, it is in the interest of intra-regional trade to have the following:

- (1) favorable policies toward immigration and travel;
- (2) favorable policies to direct and indirect foreign investment, whether by Asians or by non-Asians;
- (3) explicit policies favoring technological assistance in processes involving foreign ownership of proprietary rights; and
- (4) explicit policies which favor intra-regional exchanges of institutions of higher learning: (There is one such organization in Asia, yet these institutions still continue to have problems of evaluating accreditations of curricula.)

CONCLUSION

This paper is concerned more with assessing policies which are not directly related to intra-regional trade and cooperation. It is premised on the assumption, idealistic perhaps, that even without any direct negotiations of specific forms of regional trade and cooperation, the road will eventually lead to greater intra-regional trade and cooperation if countries were to follow certain types of policies.]

This premise has its obverse: no amount of negotiations, whether realized in the form of an actual treaty to which nations bind themselves on paper or simply in the form of gradualistic approaches to ideal forms of integration, can succeed in fact if all countries follow policies contrary to those suggested above. When one, two, or some countries pursue them, a reaping of the rewards of trade expansion among countries occurs.

Such an expansion brings in new dimensions in the international trade problems which eventually turn to questions involving some form of integration or cooperation. Taking an analogy in the business world, so long as business remains small (because of autarkistic or distorted policies related to trade and development), large problems do not arise, and so grand solutions never even come to mind.

APPENDIX. DATA BASIS OF TABLE 2

Exporting Country	Exported to	Ceylon	Hongkong	India	Indonesia	Korea
		(1)	(2)	(3)	(4)	(5)
Ceylon (million rupees)	1962		7.20	63.20		
	1966		6.50	20.40		
Percentage Dist.	1966		0.39	1.22		
Hongkong (million Hongkong dollars)	1962	19.61		8.40	124.34	31.96
	1966	29.70		3.41	445.02	33.60
Percentage Dist.	1966	0.39		0.04	5.88	0.44
India (million rupees)	1962	133.60	40.50		40.50	
	1966	185.20	80.60		10.80	
Percentage Dist.	1966	1.59	0.69		0.09	
Indonesia (million rupiahs)	1962		26.00	15.20		
	1966		87.20	16.30		
Percentage Dist.	1966		1.23	0.23		
Korea (thousand US\$)	1962		4,682.00	10.00	10.00	
	1966		9,489.00	281.00	803.00	
Percentage Dist.	1966		3.79	0.11	0.32	
Malaysia: Sabah (thousand Malayan \$)	1962		12,936.00	554.00	1,171.00	8,536.00 ^a
	1966		12,024.00	192.00	212.00	27,974.00
Percentage Dist.	1966		3.90	0.05	0.06	7.81
West Malaysia (million Malayan dollars)	1962	1.84	6.50	75.47	26.45	
	1966	2.23	22.50	46.77	1.20	
Percentage Dist.	1966	0.07	0.72	1.50	0.04	
Pakistan (million rupees)	1962	19.00	40.70	189.30	5.80 ^a	
	1966	65.70	116.70	0.90	32.00	
Percentage Dist.	1966	2.30	4.08	0.03	1.12	
Philippines (million US dollars)	1962		4.44	0.26	0.17	11.42
	1966		4.23	0.30	0.20	16.54
Percentage Dist.	1966		0.49	0.03	0.02	1.92
Singapore (million Malayan dollars)	1962	16.48	70.35	44.73	292.49	20.69
	1966	9.93	120.43	26.85	0.00	8.37
Percentage Dist.	1966	0.29	3.57	0.80	0.00	0.25
Taiwan: China (million New Taiwan dollar)	1962	1.20	1,008.70	8.70	0.20	246.40
	1966	135.50	1,318.00	10.50	249.10	452.50
Percentage Dist.	1966	0.63	6.14	0.05	1.16	2.11
Thailand (million bahts)	1962	100.58	1,026.83	36.29	561.18	8.31
	1966	417.99	937.00	882.81 ^b	464.00	13.20
Percentage Dist.	1966	2.90	6.49	6.12 ^b	3.21	0.09

Appendix. Continuation

Continued		Exported to				
Exporting Country		Malaysia Sabah (6)	West Malaysia (7)	Pakistan (8)	Philip- pines (9)	Singa- pore (10)
Ceylon (million rupees)	1962			22.80		3.30
	1966			42.50		3.30
Percentage Distribution	1966			2.54		0.20
Hongkong (million Hongkong dollars)	1962	63.53	450.77 ^c	18.16	51.85	
	1966	63.83	125.33	16.81	76.86	367.76
Percentage Distribution	1966	0.84	1.66	0.22	1.02	4.86
India (million rupees)	1962	0.20	66.50	93.80		93.70
	1966	104.70 ^d		0.10		92.90
Percentage Distribution	1966	0.90 ^d		0.001		0.80
Indonesia (million rupiahs)	1962	8.00	597.00		105.20	1,461.30
	1966	1.60	0.00		178.40	0.00
Percentage Distribution	1966	0.02	0.00		2.52	0.00
Korea (thousand US \$)	1962	0.00	250.00	35.00	321.00	415.00
	1966	1.00	367.00	60.00	789.00	2,512.00
Percentage Distribution	1966	-	0.15	0.02	0.32	1.00
Malaysia: Sabah (thousand Malaysian dollars)	1962		125.00		32,671.00	13,677.00
	1966		2,578.00		16,015.00	40,950.00
Percentage Distribution	1966		0.72		4.47	11.33
West Malaysia (million Malaysian dollars)	1962	1.12		8.03	3.79	521.18
	1966	30.41		12.32	8.64	709.93
Percentage Distribution	1966	0.97		0.39	0.28	22.76
Pakistan (million rupees)	1962		6.90		3.80	4.50
	1966		21.80		6.80	79.50
Percentage Distribution	1966		0.76		0.24	2.78
Philippines (million US\$)	1962	0.01	1.35 ^c	0.05		
	1966	0.03	3.33 ^c	0.21		
Percentage Distribution	1966	0.003	0.39 ^c	0.02		
Singapore (million Malaysian dollars)	1962	83.67	941.55	13.28	12.18	
	1966	134.85	907.63	14.27	15.22	
Percentage Distribution	1966	4.00	26.90	0.42	0.45	
Taiwan: China (million New Taiwan dollars)	1962	47.60	57.00	15.90	217.10	248.40
	1966	24.90	165.60	65.90	295.00	383.50
Percentage Distribution	1966	0.12	0.77	0.31	1.38	1.79
Thailand (million bahts)	1962	182.59	1,378.77	1.25	4.11	804.39
	1966	95.78 ^b	1,172.00	1.10 ^b	294.82 ^b	1,034.00
Percentage Distribution	1966	0.66 ^b	8.12	0.01 ^b	2.04 ^b	7.16

Appendix. Continuation
and End

Continued

Exporting Country	Exported to	Taiwan	Thailand	United States	Japan	TOTAL
		(11)	(12)	(13)	(14)	(15)
Ceylon (million rupees)	1962		0.40	152.10	35.40	
	1966		0.40	134.70	41.80	1,676.00
Percentage Distribution	1966		0.02	8.04	2.49	14.90
Hongkong (million Hongkong dollars)	1962	64.04	109.60	907.53	220.05	
	1966	96.83	133.54	2,141.14	439.88	7,563.11
Percentage Distribution	1966	1.28	1.76	28.31	5.82	52.52
India (million rupees)	1962		19.90	1,141.80	333.70	
	1966		42.70	2,196.20	1,073.00	11,646.90
Percentage Distribution	1966		0.37	18.86	9.21	32.51
Indonesia (million rupiah)	1962		95.60	967.10	410.00	
	1966		33.80	1,584.00	1,120.20	7,065.50
Percentage Distribution	1966		0.48	22.42	15.85	42.75
Korea (thousand US\$)	1962	1,354.00	405.00	11,976.00	23,841.00	
	1966	2,075.00	4,754.00	95,782.00	66,293.00	250,334.00
Percentage Distribution	1966	0.83	1.90	38.26	26.48	73.18
Malaysia: Sabah (thousand Malayan dollars)	1962	1,842.00	0.00	3,625.00	1,627.00	
	1966	16,029.00	5.00	4,368.00	211,338.00	358,286.00
Percentage Distribution	1966	4.47	0.001	1.22	58.98	93.11
West Malaysia (million Malayan dollars)	1962	6.15	24.28	382.57	363.99	
	1966	11.14	37.56	466.93	409.82	3,119.47
Percentage Distribution	1966	0.36	1.20	14.97	13.14	56.40
Pakistan (million rupees)	1962	1.10 ^a	0.60	172.90	119.00	
	1966	1.20	1.40	329.90	123.00	2,860.80
Percentage Distribution	1966	0.04	0.05	11.53	0.43	23.36
Philippines (million US\$)	1962	6.34	0.34	289.82	137.17	
	1966	12.72	1.00	364.71	273.60	861.30
Percentage Distribution	1966	1.48	0.12	42.34	31.76	78.57
Singapore (million Malayan dollars)	1962	7.79	91.10	283.62	160.55	
	1966	15.71	117.58	161.52	123.34	3,373.60
Percentage Distribution	1966	0.46	3.48	4.79	3.66	49.07
Taiwan: China (million New Taiwan dollars)	1962		435.60	2,134.10	2,083.50	
	1966		708.40	4,712.80	5,153.60	21,450.80
Percentage Distribution	1966		3.30	21.97	24.03	63.76
Thailand (million bahts)	1962	60.84		817.99	1,332.91	
	1966	194.00		990.00	2,962.00	14,436.00
Percentage Distribution	1966	1.34		6.86	20.52	65.52

Source of Computations: United Nations, Yearbook of International Statistics 1966
(New York, 1968)

^a1964.

^b1965.

^cIncluding Singapore.

^dIncluding West Malaysia

*Percentage total of columns (1) to (14).
(Figure above is total value of re-
corded exports of country.)

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