

Economic Cooperation Among Indochina, Thailand and Japan toward Self-and Collective-Reliance

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1. Introduction --- South-South Cooperation*

For the developing countries in the world, economic and technical cooperation can make substantial contributions to their development in the form of technical assistance, technology transfer, trade concessions and investment. Given the context of the global economy today and its dynamism and changing character, the importance of regional cooperation is greater than ever. The main objectives of regional cooperation are four-fold, namely:

- I. to enhance flexibility of domestic production through technical cooperation and through greater flows of capital and scarce inputs that can ease specific supply constraints;
- II. to improve efficiency by reallocation of production and encouraging competition within the group;
- III. to take advantage of economies of scale; and
- IV. to improve terms of trade of the group with the rest of the world.

With regard to development cooperation in East and Southeast Asia, there has been much discussion on the “flying geese” pattern, which is a sequential pattern of industrial development across the region, representing the spread of industrialization from Japan to the NIEs, then to the ASEAN-4, which includes Thailand, and now to Indochina. Regional economic and technical cooperation is not, however, limited to such a vertical, top-down development process between Japan and the developing countries in Southeast Asia. Rather the uneven development in the region has led to increasing differentiation between one developing country and another, in terms of economic structure and performance. This provides the economic basis and the need for cooperation among the developing countries.

Economic and technical cooperation among developing countries (ECDC/TCDC) is a concept that emerged from concerns to strengthen the horizontal linkage among the developing countries in the pyramid-type or

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“flying geese” development pattern. Excessive reliance on development aid from the developed countries has brought many developing countries into the spiral effect of perpetual dependency. South-South exchanges of ideas, information, technologies, expertise and experience may, in many cases, be more appropriate and more consistent with developing countries’ development goals than other forms of assistance.

The goal of ECDC/TCDC is to enhance national and collective self-reliance. It is a means of building communication and of promoting wider and more effective cooperation among developing countries. Using this modality, developing countries can create, acquire, adapt, transfer and pool knowledge and experience for their mutual benefit and for achieving national and collective self-reliance, which are essential for their social and economic development. In the present world context, cooperation among developing countries is now perceived by those countries to be increasingly important in promoting sound and sustainable development. Furthermore, the difficulties currently encountered by the world economy make it even more necessary for the developing countries to come up with strategies based on greater national and collective self-reliance, for which ECDC/TCED is an important instrument. This in no way means that the responsibilities of the developed countries can be reduced, rather, ECDC/TCDC modality complements the traditional development aid flow by creating stronger horizontal linkages. Given this framework for economic and technical cooperation among developing countries, we will now look at the challenges for development facing the Indochinese states and examine the potentials for greater regional cooperation among Indochinese states, Thailand and Japan.

2. Development Issues in the Indochina Sub-region

Challenges for Development

In spite of the recession in the world economy, the economic activities that surround Indochina have been perhaps the most dynamic ones in the world. Economic growth in 1991-92 remained strong in a number of East and Southeast Asian economies. The economies of Indochinese states, however, must overcome a number of macroeconomic and structural problems facing these countries in order to be able to fully share in the dynamism displayed by the surrounding ASEAN and NIE countries. Lao People’s Democratic Republic and Vietnam have been struggling to transform their economies from formerly centrally-planned economies to market-oriented economies. Both of these “transitional disadvantaged economies” have been affected by the supply shock arising from the disintegration of the former Soviet Union and have suffered especially from the disruption of aid and technical assistance from the former Soviet Union. Vietnam, for example, no longer enjoy substantial non-convertible assistance from the Council for Mutual Economic Assistance

(CMEA), which amounted to about \$ 1 billion per year until 1989. Thus, Indochinese countries faced the difficult task of transforming their economies to a market-oriented system with a limited inflow of foreign capital and technical assistance at their initial stages.

Vietnam

The lack of adequate foreign capital inflow seemed to be a significant barrier to be overcome for Vietnam's economic development in its initial stage of transition to a market-oriented economy. With the collapse of the Soviet Union and CMEA, Vietnam not only lost Soviet aid, but also lost substantial export markets in the former Soviet Union and in Eastern Europe. Moreover, Vietnam was still facing embargoes with major foreign markets and the relationship with world monetary and financial organizations had not been normalized.

Economic reforms in Vietnam, however, have shown moderate but encouraging results despite many physical and institutional obstacles. Above all, three-digit inflation fell from 300 percent in 1987 to about 15 percent in 1992. This is a reflection of an improved balance between supply and demand, hence a functioning of a market-oriented mechanism. Since the change in priorities in industrialization policy from heavy industrial development to development of food, food-stuffs, consumer and export goods and service sectors, food production has increased remarkably, and the export market has boomed.

Legal reforms in line with the country's economic reform have also been underway. Step by step, Vietnam has been introducing decrees, laws, policies and planning guidance to create autonomy in the private sector, which is a prerequisite condition for the development of a market-oriented economy. Thanks to the favorable policy liberalization, foreign direct investment has risen rapidly. Since the promulgation of foreign investment law in 1987 to 15 April, 1993, the Government of Vietnam has issued licenses to 626 projects with total registered capital of over US five billion dollars. In only the first quarter of 1993, the government granted licenses to 66 projects with a registered capital of US 569 million dollars. This is a 61 percent increase compared to the first quarter of 1992. The volume of FDI inflow in 1992 doubled that of 1991 which already tripled the three previous figures.

The road ahead in Vietnam's transition to a market-oriented economy is by no means a smooth path. Apart from the domestic difficulties in integrating the two economies of the formerly divided country, which were run on totally opposite organizational and operational principles and practices, the country still faces severe difficulties due to economic boycotts by some countries and the sudden loss of its links with the former Soviet Union and Eastern Europe. In spite of the recent success, the structural problems of Vietnam still persist, for

example: a still low GDP per capita, high inflation, serious unemployment, shaky economic and legal infrastructures, and weak banking and financial systems. Lack of knowledge and expertise in project planning and management could also bring acute problems in coordinating the rapidly rising inflow of ODA and FDI. One of the main attractions for FDI is Vietnam's abundant natural resources. Careful management and planning in the use of its natural resources holds a key to Vietnam's sound and sustained growth for the next century.

Lao People's Democratic Republic

In spite of the problems stemming from the process of transition, the Lao People's Democratic Republic is displaying signs of dynamism and gathering support from the international community. Exports rose to 10.9 percent of GDP and imports to 28.3 percent of GDP by 1991, which is a substantial improvement when compared with the respective figures of 2.2 and 8.0 percent in 1985. Real ODA inflows into the country rose from \$61.8 million in 1987 to 161 million in 1991. Efforts are under way to attract foreign investment through a number of new laws relating to investment and ownership. According to official figures, approved foreign investment between September 1988 and June 1992 amounted to \$347.3 million in 232 enterprises; among them, Thai sources amounted for 93 enterprises, involving an investment of \$138 million. Building the trade-investment linkage with Thailand is therefore crucial for the successful transition and development of Lao PDR.

In addition to the problems of a transitional disadvantaged economy, Lao People's Democratic Republic suffers from serious economic disadvantage because of its land-locked geographical nature. The effective implementation of their reform measures has been undermined because of the burden of additional transit costs and other uncertainties associated with transit-transport, which have affected their export earnings and increased their import costs. The two principal ports used by Lao PDR for its international trade are Da Nang in Vietnam for trade with the countries of the former CMEA, and Bangkok for trade with other countries. Thanks to the normalization of bilateral relations with Thailand in 1991, Lao PDR enjoyed a significant increase in trade with and through Thailand. Further strengthening and facilitation of trade is expected as the two countries hope to construct the first bridge over the Mekong River by 1994.

3. Importance of ECDC/TCDC in Indochina

As highlighted above, the Indochinese states possess all the types of problems that exist in developing countries; however, these countries share many common features. It is apparent, however, that each one of these countries alone stands in an extremely weak position to take part in and to

benefit from the dynamic economic activities of the ASEAN-4 region. It is therefore necessary, for the self-reliance of the Indochina sub-region, to pool their capacities together and to learn from each other's development experience in order to keep up with the changing world order of the 1990s.

There is a vast scope in the Indochina region for the implementation of ECDC/TCDC modality. In spite of the world economic recession, the East and Southeast Asia regions have remained strong in their economic growth. Indochina, surrounded by one of the most dynamic regions in the world today, could therefore materialize tremendous opportunities for trade and development. Existence of diversity in the Southeast Asian region in terms of levels of development, resource availability, and consumption patterns indicates a high potential for an expansion of inter-regional trade, particularly border trade and private investment. Cambodia, Laos, Myanmar, and Vietnam, with a total population of over 100 million, form an attractive potential market for ASEAN and Japan as well as economies of other regions. Regional economic and technical cooperation among Indochinese states and the surrounding countries can take many forms, namely, in trade and tariff agreement, investment promotion, macroeconomics cooperation, infrastructure development and human resources development.

Trade and Tariff Agreements

First and foremost, it is apparent that economic growth is primarily induced by the expansion of trade between and among countries. Economic cooperation in Indochina and in Southeast Asia should, therefore, accord highest priority to establishing favorable trade agreements and arrangements. Lowering or elimination of trade barriers between the countries can induce significant increase in the trade volume. In more concrete terms, less severe border controls in terms of reduced tariff levels would induce trade expansion and encourage economies of scale in production. This is crucial especially for a land-locked country such as Lao PDR, since its trade is largely dependent on its neighboring countries' trade and tariff policies. For example, Bhutan, another land-locked country, enjoys generous the transit facilities of India, with whom Bhutan does 90 percent of its external trade. Under the India-Bhutan Agreement on Trade and Commerce for 1990-1995 of March 1990, bilateral trade between the two countries is free. All exports and imports of Bhutan are free from customs duties and trade restrictions. Similar schema could be developed to facilitate the transit of goods from Lao PDR to Vietnam or Thailand. Such an arrangement can be further facilitated by the simplification of customs procedures and documentation requirements.

Inducing Foreign Direct Investment

Secondly, regional cooperation in inducing foreign direct investment requires much attention, since the increase in foreign direct investment is expected as a result of trade liberalization. Promotion of foreign direct investment, and hence of intra-firm and intra-industry trade, would be a key to the eventual self-sustainability of intraregional trade. This process will require exchange of information and experience among the policy makers and the business community in the region on deregulation of FDI controls. Establishment of free-trade zones, for example, with various financial incentives and investment promotion packages, could stimulate intraregional trade and investment flows. Tourism promotion in the “golden triangle,” for example, could also boost the local economies and trade among the three bordering countries.

Macroeconomic Cooperation

Closer intraregional linkages in investment and trade naturally requires greater macroeconomic cooperation. As the liberalization process takes place, regional cooperation and uniformity with regard to monetary, fiscal and commercial issues would be crucial in promoting the unfettered operation of the trade-investment nexus. Establishment of a regularly-held forum of discussion among the policy makers in the region would be desirable in coordinating and ensuring the sustained economic growth of the region.

Transportation and Communication

Infrastructure development, especially in transport and communication, holds a key to the facilitating of economic integration of the region and inducing trade and economic growth. In this modern age of global information networks, telecommunication has become a crucial prerequisite for economic development, especially commercial development. For a land-locked country like Lao PDR, economic growth through trade cannot be materialized without a regional transportation mechanism that provides easy access to the ports or to the markets of neighboring countries. The process of trade liberalization therefore requires coordination of efforts among all the countries in Indochina and the surrounding region to strengthen the regional transport and communication structure. This will also imply regional cooperation for the removal of hindrances so as to facilitate the movement of goods and people within the country as well as across its borders. Each country's efforts to upgrade the domestic infrastructure should be closely coordinated and linked with those of neighboring countries in the region with a view to establish regional transport and telecommunication networks.

Human Resources Development

Maximum utilization of human resources is, without doubt, the basis of all types of development. Education and training are important elements in every national development strategy. Through exchange of experts, expertise, experience and information, developing countries could develop national and regional capacities for sustained development and economic growth. In view of the diverse level of development among the countries in Southeast Asia, Indochinese countries could benefit from the development experience and lessons learned from the more developed countries like Thailand. This type of regional cooperation through transfer of knowledge and experience, from more advanced countries like Thailand to the less developed economies in transition such as Vietnam and Lao PDR, is an extremely useful and effective modality for successful absorption of new technology and skills. As the economies of Indochinese countries grow and more inflows of FDI and ODA are expected, better coordination, management and administrative skills development in the public sector as well as in the private sector will be in greater demand. Thailand, from its long experience in receiving ODA and attracting FDI, could offer valuable assistance to the disadvantaged transitional economies in Indochina.

4. Promoting ECDC/TCDC in Indochina

Role of Indochinese States

The success of ECDC/TCDC is solely dependent on the initiatives and commitment of the developing countries themselves. The governments of the Indochinese countries should develop clear national development strategies and policies for sound and sustainable development. Assessment of needs and priorities for development must be clearly set and resources allocated for the most efficient and effective programmes for development. Governments should learn from the experience of other countries such as Thailand and NIEs in this respect, including a balancing of government intervention and liberal market economy strategies. The point which the policy makers should raise is that how to liberalize, how much, and how quickly.

In view of the increasing interdependence in the region, the Indochinese countries should be willing to cooperate at all policy levels with each other to promote sustained economic growth of their economies and, hence, of the region. In order to encourage the economic growth in the region, the governments of the disadvantaged transitional economies should encourage the establishment and expansion of new enterprises by eliminating restrictive government policies and providing various forms of assistance. In attracting ODA and FDI, the disadvantaged economies in Indochina could become competitive with each other, rather than complementary, without appropriate policy coordination. The detrimental result of such counterproductive

competition must be apparent to all parties involved. Rather, the potential for using the sub-regional groupings as mechanisms to aid the development effort in these economies is substantial and should be encouraged. The governments should cooperate with each other, with appropriate assistance from international agencies, in disseminating timely and useful investment information and providing advisory services for investors.

Restructuring the economy calls for close cooperation between the governments and the private sectors on various issues discussed above, namely, on trade and tariff agreements, investment promotions, macroeconomic issues, transport and telecommunication development and human resources development. Greater initiatives for coordination at all levels and in all sectors are essential in promotion of investment and trade and, hence, of sustained economic growth and overcoming the difficult period of transition.

Role of Thailand

Thailand is in a position to play a leading in promoting ECDC/TCDC in Indochina. As one of the most dynamic economies in the Southeast Asia and as a neighboring country to the Indochinese states, Thailand can offer capital, market, and substantial experience in the development process. Thailand's role is, therefore, to foster and to induce greater economic and technical cooperation among Indochinese states and with the surrounding regions.

For Thailand, the rapidly transforming economies of Indochina represent tremendous trade and investment opportunities. Vast, untapped natural resources in Indochina offer incentive for Thailand to satisfy its energy and commodity demand. Naturally, Thailand accounts for the vast majority of trade in and out of Indochina. Thai investment in Indochina has been increasing markedly and will be a key factor in restructuring the transitional disadvantaged economies in Indochina.

This calls for grater Thai initiative in leading the regional economic and technical cooperation in Indochina. The fact that the Indochinese sub-region is sometimes called "baht zone" represents the wide acceptance of the Thai currency. Therefore the Thai government should take a lead role in negotiating arrangements and agreements in further facilitating the financial flows in the region.

In infrastructure development, Thailand has been proposing the highway link from Northeastern Thailand through Lao PDR to a sea port in Vietnam. Once materialized, together with the bridge over Mekong River under construction, trade among the Indochinese countries and Thailand will further increase. Thailand can also offer considerable experience in tourism development, which can further induce investment and trade.

Finally, Thai government has been generously assisting the development of human resources in Indochina. Thailand's experience in the long process of its development can offer valuable lessons for the Indochinese countries. The Thai government has given priorities in assisting the development of human resources in its neighboring countries under its Thai International Cooperation Programme and Third Country Training Programme. For example, the Thai government extended assistance in training 123 participants from Lao PDR last year in various fields as well as providing agricultural, medical and health equipment. Total budget allocated to these types of activities exceeded 200 million baht in 1993.

Role of Japan

Although initiatives for ECDC/TCDC should come primarily from developing countries themselves, the role of Japan is undoubtedly indispensable in catalyzing the efforts of the developing countries. Given its economic strength, Japan has a significant catalytic role in the sub-regional cooperation among Indochinese countries, mainly to enhance intraregional flow of trade, investment and technology transfer. Japan, as the most highly industrialized economy in Asia, has the most relevant experience for economic development and also for post-war reconstruction of its economy and industry.

Japan can be instrumental in initiating economic and technical cooperation among Indochina and its neighboring countries in various ways. First, Japan can offer assistance, both financial and technical, in overcoming infrastructural bottlenecks in Indochinese states. For example, Japan is a possible source of financing the previously mentioned Thai-Laos-Vietnam Highway development project. Japan, therefore, could play a very useful and effective role in supporting the regional and sub-regional linkages among developing countries.

Recycling of Japanese surpluses into the Indochinese economies in the form of ODA or FDI could also assist the transitional disadvantaged economies of Indochina in acquiring much needed foreign exchange. To give more impetus to the restructuring efforts of the developing economies of Indochina, Japan should, at the same time it is increasing investment and exports to these economies, open up its markets for more imports from the developing countries. Japan could become a major market for absorbing agricultural and labor-intensive manufacturing products from developing economies of the region.

Japan could offer its assistance in the development of the financial structure which could contribute to the industrial and economic restructuring of the transitional disadvantaged economies in Indochina, for example, the provision of venture and risk capital such as the establishment of a so-called "growth fund," or establishment of a "green fund" for cleaning-up of industrial

pollution and development of environment monitoring system for sound and sustainable development. Japan could also offer its experience and expertise in public and private sector management, quality control and standardization measures, which have established the impeccable reputation of Japanese products and services.

In a final remark, recognizing the greater role and responsibility at stake in the region, Japan should extend more generosity in assisting the cooperation among the developing countries, especially in its human resources development. Although Japan may see no direct economic benefit in financing and promoting the exchange of experts, expertise and experience among the developing countries, Japan would be indirectly catalyzing the upgrading of the human resources in the region, which, in the long run, will give high return on investment to Japan and to the economy of those countries.

5. Conclusion --- Prospect for Greater Cooperation

Successful economic and technical cooperation among Indochinese states depends on several factors. Among them, the most important is the political will to cooperate on the part of the developing countries themselves. Sometimes the lack of persistent endeavors to eradicate the problems on the part of the developing countries constitute bottlenecks to be overcome. The extent of cooperation will depend on the willingness of developing countries to reconcile the urge for national self-sufficiency with the economic good sense of global responsibility. Some countries may, in a desperate need for earning foreign exchange, sacrifice their vast natural resources to overexploitation because of the pressure to maintain a sustained level of growth. Such activities could lead to adverse environmental results that could render development unsustainable not only for that country but it could also affect development in neighboring countries.

Successful cooperation will also be affected by the role of other more developed countries such as Thailand and Japan. Japan, as an Asian economic superpower and one of the world's largest suppliers of ODA, plays an important role in catalyzing the restructuring efforts of the transitional disadvantaged economies of Indochina. ODA can be coordinated in such a way that it would be beneficial to both recipients and donors by reducing the pressures to force the pace of growth as well as by shaping a more sustainable process of development. Japan's willingness and initiatives, however, would not be enough for regional cooperation. Thailand, as a neighbor to Indochina and possessing one of the most successful development experiences, has a crucial role in transferring its knowledge and capacities to Indochina and in fostering the dynamism of the region.

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