DEVELOPMENT

CHALLENGES

IN ASIA AND THE PACIFIC IN THE 1990S

undp

DEVELOPMENT CHALLENGES IN ASIA AND THE PACIFIC IN THE 1990s

Edited by

Seiji Naya
Stephen Browne

East-West Center

United Nations Development Programme

Library of Congress Cataloging-in-Publication Data

Development challenges in Asia and the Pacific in the 1990s
/ edited by Seiji Naya, Stephen Browne.
p. cm.
Includes bibliographical references.
ISBN 0-86638-145-7
1. Asia—Economic policy. 2. Pacific Area—Economic policy.
3. Economic forecasting—Asia. 4. Economic forecasting—Pacific
Area. I. Naya, Seiji. II. Browne, Stephen.
HC411.D485 1991
338.95'009'049—dc20 91-22350

Foreword

Regional cooperation is based on the premise that countries can achieve certain objectives better through collective than through individual efforts.

Among the developing countries of Asia and the Pacific, an awareness of the development virtues of cooperation is quite recent and is still emerging. Although the concrete benefits are as yet quite limited, there is evidence of stronger bilateral economic ties and, in the subregions of the South Pacific, Southeast Asia (ASEAN), and South Asia, a growing sense of common identity. Furthermore, we may soon be seeing new links among the countries of continental East Asia.

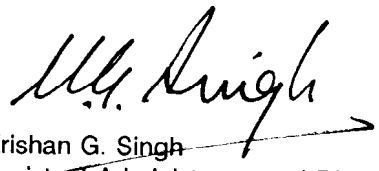
The current climate is unusually propitious for increased cooperation. But countries need to perceive the potential dividends of cooperation before embarking on new initiatives. The motivation for regional cooperation therefore begins with national development priorities. If cooperative initiatives do not respond clearly to those priorities, they will be difficult to sustain. The cooperative premise, in other words, has to be demonstrated.

The Symposium on Cooperation in Asia and the Pacific, held jointly by the East-West Center and the United Nations Development Programme (UNDP) in May 1990, was an attempt both to identify the contemporary development priorities of the countries of the region and develop the premises for cooperation as a basis for UNDP's next phase of regional programming. The Symposium brought together a large group of experts together with East-West Center and UNDP staff, constituting a broad pool of technical and practical experience of the region.

The first part of this volume begins with an introductory chapter on the major themes underlying regional cooperation in the Asia-Pacific. An edited summary of the proceedings of the Symposium discussions follows. The discussions were mainly conducted within four concurrent working groups: three to consider the needs of South Asia, ASEAN, and the South Pacific, respectively, and a fourth to examine regionwide issues. Parts II and III of the volume reproduces the nine papers that were written for and presented at the Symposium.

This distillation of four days' intensive deliberations provides many clear and authoritative messages to guide the future direction of UNDP's regional programme. Three are worthy of special emphasis. In the first place, the Symposium demonstrated the importance of examining collective development priorities from the viewpoint of subregions, within which economic, social, and cultural identities underscore the utility of geographic proximity. Secondly, the Symposium confirmed the preeminence of priorities based on major development themes rather than economic sectors, suggesting that UNDP sponsorship should be increasingly policy-oriented. Thirdly, the number of primary themes was confined to three only: **human development**, reflecting the importance of putting people back at the centre of concern; **environmental and natural resource management** as the basis for sustainable development in resource terms; and **economic reform and management** to continue the process of policy review and adaptation to changing needs.

The Symposium could not have reached these satisfying ends without the extensive involvement of Dr. Seiji Naya and his team at the East-West Center. This volume provides, we hope, adequate evidence of the success of our partnership.



Krishan G. Singh
Assistant Administrator and Director
Regional Bureau for Asia and the Pacific
United Nations Development Programme

Note on contributors

Dr. Florian Alburo
Professor of Economics
School of Economics
University of the Philippines

Mr. Stephen Browne
Deputy Chief
Division for the Regional Programme
Regional Bureau for Asia and the Pacific
United Nations Development Programme, New York, USA

Dr. Lawrence Hamilton
Research Associate
Environment and Policy Institute
East-West Center, Hawaii, USA

Dr. Mahbub ul Haq
Senior Advisor to the Administrator
United Nations Development Programme, New York, USA
Former Finance Minister, Pakistan

Dr. Abulmaal A. Muhith
UNDP Consultant
Former Finance Minister, Bangladesh

Dr. Seiji Naya
Professor and Research Associate
Institute of Economic Development and Policy
East-West Center, Hawaii, USA

Dr. A. Terry Rambo
Research Associate
Environment and Policy Institute
East-West Center, Hawaii, USA

Mr. Victor Santiapillai
UN Consultant
Former Executive Director
UNCTAD/GATT International Trade Centre

Mr. Savenaca Siwatibau
Head
Pacific Operations Centre
United Nations ESCAP, Vanuatu

Mr. Ricardo Tan
Programs Manager
Programs Department (West)
Asian Development Bank, Manila, Philippines

Dr. Anthony Tang
Visiting Professor
Department of Operations and Systems Management
The Chinese University of Hong Kong

Contents

PART III: Regional and country papers

Part I: Overview

Regional cooperation in Asia and the Pacific: major themes in the 1990s

Seiji Naya

Development involves more than rising real incomes. Recently there has been a renewed emphasis on the quality of life, on education and health, and on general social well-being. This is not to say that we are no longer concerned with economic growth, but rather, social and human development in conjunction with economic growth. A key concept that captures this concern is sustainable development or growth. Sustainable development is related to how a country can meet the development needs of the present generation without compromising the opportunities of future generations. It involves thoughtful consideration of the values of natural, human-made, and cultural environments.

What does the achievement of sustainable development entail? Economists have generally concentrated on the role of good economic policies and getting prices right to promote economic growth. Country experiences have shown us the importance of using the market as a guide to policymaking. But economic growth alone is not a sufficient condition, though it is a necessary condition, for sustainable development. To achieve sustainable development, we must look beyond traditional economic concerns and consider ways to manage and improve both human and natural resources which form the foundation upon which the development of the economy is based.

Although admittedly an oversimplification of complex and interrelated issues, the above suggests that the issues discussed in the Symposium can be divided into two broad categories: (1) economic policies and their effect on economic growth and regional interdependence, particularly as they relate to externally generated issues that result from closer trade and investment linkages; and (2) issues regarding sustainable future development. The latter includes topics such as environmental concerns and human development which if not addressed now will negatively affect the welfare of future generations. Although these issues were thought of as mainly national problems in the past, they have now taken on regional and international significance.

ECONOMIC ISSUES IN SUSTAINABLE DEVELOPMENT

Starting with the first point, strong economic performance has distinguished Asia from other developing regions. In particular, several of the East and Southeast Asian countries in the region have achieved the highest rates of economic growth in the world for the past three decades. Some South Asian countries have also grown rapidly in the 1980s.

A major reason for this strong economic performance has been the emphasis on market-oriented, outward-looking policies. These policies contributed to the remarkable growth of exports that have been an important element in the region's economic success. The NIEs (newly industrializing economies) have been especially successful and were able to more than triple their share of world exports since 1960. More recently, ASEAN (Association of Southeast Asian Nations) countries have also achieved rapid export expansion. This emphasis on market-oriented policies is becoming even more notable as privatization and market reforms are now occurring throughout the region. As discussed in my paper for the symposium, governments in the region have moved to encourage private-sector development through privatization, deregulation, and liberalization, and are relying more and more on the private sector as the engine of growth. This movement is occurring in the state-controlled, large-population economies, although at a much slower pace, and, as pointed out by Ricardo Tan, also appears to be budding in previously economically isolated areas such as Indochina. However, market reforms in China, which accompanied the country's vigorous opening-up process, appear to have stalled even prior to the turbulent events in the spring of 1989. As Anthony Tang has indicated, the direction of China's future reform measures is heavily dependent on the willingness of its leadership to abandon or drastically alter its doctrinaire underpinnings.

Several important regional issues may be drawn from the above. First, there is no universal nor easy road to market reform and liberalization. Even some of the NIEs are facing domestic opposition to further market reform. For other countries in the region that are attempting overall market reform, economic theory has little to say about the speed, sequencing, and timing with which reform should occur. Nor does successful experience in one setting automatically translate into success in other areas.

For the socialist economies, the problems are more severe. How does one go about introducing the market into socialist economies? The market socialism model suggested by Polish economist Oskar Lange some 50

years ago has been vigorously challenged on a theoretical level and is yet to be validated in any empirical setting. Nevertheless, comparative analysis and the sharing of experiences can contribute to the continued movement toward market-oriented and outward-looking growth in the region.

A second implication of the high growth and the openness to trade and investment in the Asia-Pacific is the growing regional interdependence. Not only has trade and investment flows increased in total, they have also increased among the countries in the region, where the developing countries have forged especially close economic ties with the more developed countries. In particular, the United States has been the most important market for the exports of the developing countries in the region while Japan has provided necessary imports and has more recently greatly expanded aid and investment. Moreover, linkages among some of the developing countries themselves are also rising.

With this growing interdependence, however, has come increasing tension and conflict. Developing countries in the region are concerned that the market of the developed countries will not remain open to their exports. In addition, as their export capabilities increase, there is concern of excessive competition and market saturation. The sluggish pace and uncertain outcomes of the present GATT negotiations heightens this uneasiness. The increasing number of bilateral or regional arrangements among developed countries, such as the EC in 1992 and the U.S.-Canada Free Trade Agreement, adds to uncertainties about the future of export markets.

The conflicts and pressures resulting from the greater interdependence and uncertain world trading environment call for greater regional cooperation. Interestingly, the interdependence in the region was not the result of institutional factors; there was no regional organization like the EC which stepped forward to promote expanded regional trade and investment. Instead the interdependence came about through a natural process of growth and development in the region.

There are a few formal regional subgroups in existence, but as discussed by Victor Santiapillai and as shown in the workshop discussions of the individual subregional groups, efforts at regional economic cooperation have progressed slowly due to the diversity of the nations involved and their concern with the loss of national sovereignty with closer regional cooperation. The countries differ not only in terms of culture, but also in terms of geography, religion, levels of development, and ideology.

For the South Pacific countries, as mentioned by Savenaca Siwatibau, this problem is especially severe because of the large distances between the countries. As discussed by Abulmaal Muhith, the dominant role of India in SAARC compounds the problems. Even in ASEAN, which is often considered to be the most successful regional grouping among developing countries, progress in economic cooperation has been slow. As Florian Alburo puts it, although ASEAN has just begun to make significant moves to expand economic cooperation, much more should and can be done.

Several broader regional cooperative efforts exist, but there is no regional organization where conflicts can be resolved, a consensus reached, and important policies or agreements set forth. For example, the Pacific Economic Cooperation Conference (PECC) is a widely-based organization that has been an informal setting for dialogue among businessmen, government officials in an individual capacity, and academic specialists. Through its meetings, ideas have been exchanged and critical issues have been discussed, but the assemblage, like other existing regional organizations, is loosely organized. There are also forums for business executives, such as the Pacific Basin Economic Council (PBEC), and for scholars, such as the Pacific Trade and Development Conference (PAFTAD).

The more recent Asia-Pacific Economic Cooperation (APEC) was formed to fill the gap, but it is still in its infancy. Further, as expressed by Florian Alburo, there is some concern that the push for a broader regional cooperation framework will reduce the influence of ASEAN and other subregional groups. The question of membership of China, Hong Kong, and Taipei-China is also problematic.

Clearly, however, closer economic cooperation is needed to deal with the issues arising from interdependence and growth and with the uncertainties in the international environment. Problems concerning domestic market reform or external markets may best be dealt with in a regional setting. Symposium participants were in unanimous agreement that UNDP can contribute to the growth and progress of the region by providing technical assistance to deal with these issues.

ENVIRONMENTAL AND HUMAN RESOURCE ISSUES

Before highlighting some of their recommendations for further consideration and action, we must turn to the second of the broad issues which underlay Symposium discussion of sustainable develop-

ment—namely, the roles of environmental protection and human resource development. These issues are linked both directly and indirectly with economic growth. Without proper management and safeguard of natural and human resources, sustainable development cannot occur. In the case of the environment, it was felt in the 1970s that there was a trade-off between economic growth and environmental protection. This view, in turn, led to the conclusion that environmental issues were of concern only to developed countries. That is, developing countries could not afford to worry about environmental concerns lest this hampered necessary growth.

But, as several of the papers have pointed out, the choice does not seem to be so simple. The exclusive choice between growth and environmental protection would be true only if there were no other way to protect the environment besides reducing output. The most pessimistic growth scenarios do not consider the effect of recycling, pollution controlling devices, shifting to less polluting activities, and other technological developments. Nor have they grappled with the issue of property rights—that is, whether or not a more rigorous definition or determination might result in more or less beneficial social consequence.

On the other hand, the debate has shifted toward a more fruitful discussion in terms of the complementarity of growth and environment. Environmental quality can improve economic growth by improving the health of the work force and by creating jobs in the environmental sector. The economy is not separate from the environment. Of course, there are some trade-offs between short-term economic growth and environmental protection. The Symposium participants agreed that social decisions must be made with full understanding of the issues involved, the choices available, and the costs or benefits to the groups affected, and this fuller understanding can only come with deeper research and analysis, and more open discourse and debate.

Economic management and environmental quality in the dominant Symposium view can no longer be treated as if they are separate, noninteracting elements. This is clear not only in the case of developed countries but also in developing countries. The immense pollution problems which have come to light in the Soviet Union, East Germany, and other Eastern European countries accentuate this point. The high cost of industrialization without concern for the environment will be borne by future generations. It is no longer believed that developing countries can afford to wait until later to worry about the environment. Futhermore, pollution is not the only concern for sustainable development; conservation and proper manage-

ment of renewable and nonrenewable resources are also important. For example, excessive logging affects the immediate and long-term profitability of the timber industry. This two-way interaction between the environment on the one hand and economic growth and well-being on the other is basic to sustainable development. In other words, protection of the environment is a necessary condition for sustained economic development.

The paper by A. Terry Rambo and Lawrence Hamilton clearly shows the need for environmental management in developing countries and the complexities involved. The farmer clearing the land or peasants availing themselves of firewood consider only the benefits and costs of those acts upon themselves. They do not consider additional costs to the larger community of the soil erosion in watersheds that accompanies deforestation. Nor do they consider the even larger effect of destruction of tropical rain forests which add to global warming. The lesson here is that when considering overall social well-being, we have to include externalities—those costs that are not normally part of the cost and benefit calculations of the individual—in our decision-making processes. The social costs of poor resource management can go far beyond the costs and benefits immediately affecting individuals or even countries, and can have vast regional if not global impact.

Because of these externalities and their cross-boundary effects, environmental concerns often require intercountry cooperation. The arduous efforts and difficulties in coping with acid rain pollution between the United States and Canada is but one current example. Resource degradation in the Himalayas and the Mekong peninsula are other prominent regional issues. Understandably, one country acting on its own may be reluctant to bear the costs of environmental protection, but each country affected may be more willing to do so on a regional basis. Again, participants pointed to an important role that UNDP can play in this area. UNDP, by convening workshops and providing direct technical assistance, can assist countries to fully understand environmental issues and offer viable options for dealing with them. This includes complicated issues involving costs and benefits of externalities, specification or negotiation of property rights, and uses and management of common property resources or public goods.

The issues involving human resources are closely related to environmental concerns in that economic growth also clearly depends on human resource development. A country must develop a healthy, skilled work force with flexible and innovative management in order to succeed in