

The Role of Provincial Governments in Regional Economic Cooperation

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INTRODUCTION

Recently, economic cooperation in the Northeast Asia has been hotly debated. The debatable points, however, vary widely. Some point to our simply-enhanced economic exchange in the region, while others stress the need for regional economic cooperation which is as binding as the European Community. So, let us first define what the Northeast Asian economic zone is. Then, we shall consider the economic zone from two different viewpoints – regionalization and economic integration. I would also like to propose the integration of key areas by provincial governments.

DEFINITION OF THE NORTHEAST ASIAN ECONOMIC ZONE

Regionalization

Since the end of World War II, the international movement of commodities and productive factors has been speeded up by trade liberalization measures provided by GATT. In particular, since the 1970s, the internationalization of economics has been promoted rapidly by MNEs (Multinational Enterprise) and FDIs (Foreign Direct Investment) which aim at globalization of their production and markets. Economic regionalization implies the phenomenon in which the internationalization concentrates in a particular region. Typical examples can be found in East Asia, including Japan, Asian NICs, and ASEAN. The coordination of production and markets in these regions is the result of the profit-seeking activities of regional, private enterprises, mainly Japan-based multinational enterprises. Note that regionalization refers to the formation of a wide economic zone by countries which are geographically close to one another through active economic exchanges and the expansion of economic spheres.

Economic Integration

Economic integration is a form of international cooperation between two or more adjoining countries. It secures their economic profits by removing trade barriers and forming a wide, exclusive market for member countries by setting discriminatory trade conditions against foreign countries. Thus, regionalization and economic integration are the same in that they both involve geographically adjoining countries in an economic zone. The difference between them is that regionalization is led mainly by private enterprises which seek their own profits, whereas economic integration is led by the governments concerned. Regionalization is a functional integration while economic integration is institutional.

In this paper, I would like to regard economic integration as that led by government, whether the government is central or provincial.

THE CHARACTERISTICS OF NORTHEAST ASIA

Different Systems

Generally, economic integration refers to any of the regional groups for economic cooperation which have been formed in various parts of the world. Since the end of World War II, typical examples of the economic communities of advanced countries include OEEC organized in 1948, ECSC in 1952, EEC in 1958, EFTA in 1960, and more recently, NAFTA. There are also economic communities in developing countries, such as LAFTA and ASEAN. In addition, after the war, COMECON was organized by socialist states in Eastern Europe with the aim of improving economic efficiency through economic cooperation within the entire socialist bloc. All these are economic communities whose member countries have the same economic and political systems. By contrast, assumed economic integration in the Northeast Asian region would be characterized by economic cooperation among countries which differ in economic and political systems.

Different Stages of Economic Development

As mentioned above, all postwar economic communities were formed by countries which were similar in their levels of economic development. In terms of levels of economic development, countries in the Northeast Asian region differ widely. Japan is a highly advanced industrial society. South Korea has emerged as an advanced industrial nation, but it has structural weaknesses in that its technical strengths are not self-sufficient. China, Russia, and North Korea are still at low levels of development. In

particular, China and Russia have enormous gaps in development between internal regions.

Different Motives for Participation

Economic integration is based on the common economic interests of the countries involved. However, in Northeast Asia, which includes different economic and political systems and different stages of economic development, the motives for participating in economic integration should differ from country to country. North Korea, China, and Russia aim to "secure a protected market which is necessary for them to implement industrial policies."

Japan, in contrast, sees a wide marketplace in Northeast Asia through economic integration that will not contribute much to the expansion of its trade, since countries in this region are already heavily dependent on Japan. Also, promoting market competition through intra-regional free trade, which EC and NAFTA aim at, makes no sense to Japan because there is a wide gap in the level of economic development between them and cooperating countries. In fact, because of its outstanding international competitiveness, Japan has registered big trade surpluses against EC and the United States, and thus forming an economic zone in Northeast Asia will merely narrow their sphere of trade activity.

Therefore, when Japan considers economic integration in this region, it will have unique motives for participation. Since the end of World War II, Japan has developed mainly by fostering economic and trade relations with the United States and countries in the Pan-Pacific region. This development strategy has kept the Japan Sea region from developing economically. As part of Japan's efforts to dissolve the problem of concentration of industrial and economic functions in big cities, measures to activate local economies are being promoted. In view of those conditions, Japan's motive for participating in the economic integration of the Northeast Asian region should be concentrated in the development of rural areas (Japan Sea area).

South Korea's motives for participation will be to promote the transfer of low-technology industries in cooperation with socialist states and to adjust its industrial structure to create new technology and new industries in cooperation with Japan. South Korea also intends to promote the development of its rural areas through cooperation with other countries in the Northeast Asian region. Thus, South Korea's motives are to help with the adjustment of its industrial structure and rural area (East & West Sea area) development.

REASONS FOR ECONOMIC COOPERATION BY PROVINCIAL GOVERNMENTS

Obstacles to Integration by Central Governments

In determining the subject and sphere of economic integration in the Northeast Asian region, consideration should be given to the differences in economic and political systems, the capacity for negotiating with countries outside the region, the provisions of GATT related to regionalism, and to the Greater East Asia Co-Prosperty Sphere which Japan envisioned in the past.

(1) Differences in economic and political systems

Economic integration is based on a consensus of the governments of the countries involved. This means that the governments concerned are directly involved in the economic integration, from the process of consultation on the integration to the preparation of the agreement. In the process of consultation, each of the countries involved considers its domestic economic situations. Capitalist and socialist states which are each based on a fundamentally different economic system cannot be integrated.

(2) Capacity for negotiating with outside countries

The effect of economic integration is largely influenced by the capacity for negotiating with countries outside the community. Generally speaking, the larger the scale of economic integration, the greater the influence of the community is over outside countries and thus, the more advantages it has in negotiating with outside countries on trade conditions. Though the Northeast Asian region has enormous growth and market potential, it cannot be said for the moment that countries in the region have a strong power for negotiating with outside countries. Besides, economic strength is concentrated in Japan. Furthermore, Japan and South Korea, which would become the major markets within the region if an economic community is formed, depend on the American market (25% to 29%). In view of all this, even when an international community involving all the countries in the Northeast Asian region is formed, it is difficult for the community to obtain the economic effect through the reinforcement of negotiating power. On the other hand, much of the success or failure of economic integration depends on previous political negotiations. A typical example is the East Asian Economic Group (EAEG) proposed by the Prime Minister of Malaysia. This plan was frustrated early by the strong opposition of the United States, which considered it a community closed to

outside countries. Apart from the U.S. opposition, this example indicates clearly that the negotiating power of the region is very limited.

(3) Article 24 of GATT

Article 24 of GATT allows for economic integration in the form of a customs union, free trade zone, etc. on the condition that certain requirements are met. The basic principle of Article 24 of GATT has never been observed by any preferential trade agreement characterized by regionalism. Therefore, in light of the recent trend of economic integration, it is necessary to clarify the provisions of Article 24 of GATT. There is also the opinion that any form of trade restrictions on outside countries must be minimized. This indicates a direction which must be considered when economic integration is to be implemented in the Northeast Asian region.

(4) Greater East Asia Co-Prosperity Sphere

Another major obstacle to economic integration among the nations in Northeast Asia is the Greater East Asia Co-Prosperity Sphere that Japan once formed in the region. From an economic viewpoint, that was fundamentally different from today's horizontal economic integrations. Japan aimed to form a vertical, subordinate economic zone. Japan still cannot completely dispel the anti-Japanese sentiment – a historical scar – in East Asian countries. Despite the fact that mutual economic dependence between Japan and other countries in the region is increasing, anti-Japanese sentiment has remained a major obstacle in integrating regional economic relations into a single community, whether it be functional or institutional.

Integration of Key Areas by Local Governments

As a means of integration which should be able to clear the above obstacles, we would like to propose the integration of key areas by provincial governments as the first step. Establishing an international entente among the Northeast Asian countries with different economic and political systems involves not only great difficulty in adjusting the interests of the individual nations, but also huge costs. If entente can be established at the local level, its cost can be cut. Furthermore, the interests of the individual constituents can be adjusted relatively easily. With respect to the negotiating power, the economic and political influence of Northeast Asia would not be so strong as to reflect the interests of the intra-regional countries when international economic integration is attained in the region.

By contrast, the integration of key areas on a local government basis in Northeast Asia is not so closed to outside countries as international integration and can cope with the limit of integration due to its inadequate negotiating power.

From the viewpoint of Article 24 of GATT, the local-level economic integration in the Northeast Asian region will not make outside countries fear that it would reduce their trade opportunities. Thus, the local-level economic integration in the Northeast Asian region is worthy of being promoted positively in that it permits the principle of multilateralism to be firmly maintained.

From the historical fact of the Greater East Asia Co-prosperity Sphere, Japan is the country that is least relied upon in Asia. Economic integration by central governments in Northeast Asia will require Japan to play the leading role. This will, however, invite political chaos in the member countries. In Northeast Asia, therefore, the local-level integration is more desirable than the national-level integration. Though local-level economic integration has not been debated concretely, the three socialist states in Northeast Asia are promoting the opening of their specific areas. On the other hand, South Korea and Japan are spurring the development of their local economies in a way different from the one adopted by those socialist states. In view of this, the possibility of economic integration on a local government basis seems high. In this respect, it is an essential prerequisite that sufficient decentralization be guaranteed to permit the local governments to take part in the international entente while maintaining an organic, cooperative relationship with their central governments.

Basis for Selection of Key Areas

Key areas which offer the maximum propagative effect of development must be selected with consideration given to both domestic and intra-regional conditions. Establishing local-level economic integration involves the exchange of marine transport, airport services, information and communications, and culture to ensure that it is carried out smoothly. Thus, the key areas selected must be such that the economy of scale, economy of functions, and economy of time which permit those exchanges to be carried out smoothly are maximized. So, desirable areas are those where manufacturers of products, suppliers of materials and parts, financial institutions and distributors are concentrated and where enterprises can obtain favorable economic conditions at low costs. In this context, it is advisable to divide the Northeast Asian region into the Yellow Sea Rim region, East Sea Rim region and South China region.

THE ROLE OF PROVINCIAL GOVERNMENTS

So far, we have discussed the reasons for economic integration by provincial governments. Now we'll turn to the role of provincial governments.

Enforcing Mutual Understanding

Provincial governments have different interests. It is a prerequisite that the widening of cultural, educational and information exchanges be guaranteed to adjust the interests of the provincial governments.

The effect of cultural exchange will appear in the short term. For widening of cultural exchange, the establishment of an "Association for Culture Exchange" by two or more provincial governments will be proposed.

The effect of educational exchange will not appear in the short term but clearly in the long term. For the widening of student exchange, we can consider "admission into a school without taking examinations," "briefing to take a degree" and so on. In particular, Japan's provincial governments and non-government organizations have to give scholarships to students who come from Korea, North Korea, China, and Russia.

As for concrete methods of enforcing inter-province information exchange, we can consider "unification and internationalization of trade statistics" and "unification of library management."

The Development of a New International Division of Labor

Economic communities of advanced industrial nations, such as EC, seek the gains of division of labor within the community through free trade. In the case of an economic community of developing countries, it is necessary for the member countries to mutually support their industrialization policies and expand the market through free trade. If intra-regional trade is liberalized in Northeast Asia which involves various different levels of economic development, the gap in economic development will further widen. Therefore, the economic integration in Northeast Asia requires a new method of integration different from intra-regional trade liberalization. Namely, a new form of division of labor which contributes to the sophistication of industrial structures of developing countries is needed. As the new form of division of labor, we propose "one-side or unilateral free trade." Key areas in advanced countries import, without taxation, commodities manufactured in key areas of developing countries. In the reverse case, taxes can be imposed.

From the standpoint of developing countries, when they can smoothly export their products to key areas in advanced countries, they can increase production and thereby improve its efficiency and reinforce their competitiveness in markets at home and abroad. From the standpoint of advanced countries, their exports of capital goods necessary for production in developing countries will increase as production in the developing countries expands. This in turn contributes to the development of the counterpart industries in the advanced countries. It will also help promote rural development. Generally, developing countries are allowed to import, free of tax, those capital goods and parts necessary for industrial production. This ultimately produces the same effect as mutually free trade. The local-level economic integration of Northeast Asia through unilateral free trade not only meets the goals for participation of the individual areas, but is also helpful creating trade between intra-regional countries without diverting it to outside countries.

With respect to the economic integration of key areas in Northeast Asia, the following questions can be raised. First, now that economic cooperation in Northeast Asia has already been carried out smoothly through the development and opening of its coastal areas, is local-level economic integration necessary? In order to promote the industrialization of developing countries in the region more speedily and promote the sophistication of their industrial structures more dynamically, the preferential measures provided by unilateral free trade are indispensable. However, this is impossible in the existing trade environment. The reason is that giving favorable treatment only to countries in a particular region is not allowed by GATT, unless the region is a qualified economic community.

Second, if products manufactured in areas other than the key areas of developing countries flow indiscriminately to advanced countries through any of those particular areas, how are they evaluated? In this respect, there are two ways of evaluation – positive and negative. When evaluated positively, the above case produces the same effect as national-level integration, though the economic integration is limited to some local areas. This way of evaluation reflects the standpoint of developing countries. The negative evaluation is that a mass flow of products from developing countries can disturb the domestic market. From the viewpoint of outside countries, the above case has the same effect as national-level integration and hence can lessen their trade opportunities. So, they will strongly oppose it. In such a case, a certificate of origin system will have to be introduced in each key area.

Third, is the "unilateral free trade" system allowed by GATT? From the GATT viewpoint, the unilateral free trade system can be a problem in that it allows for preferential free trade, not mutually free trade. In the existing free trade agreements, this has often been recognized as a means taken by advanced countries to force developing countries to open their markets. In view of this, the giving of preferential treatment by advanced countries to developing countries within the region through unilateral free trade has a different nature. It may be said that the unilateral free trade system conforms to the purpose of regional economic integration provided for in Paragraph 4 which is considered the most important of Article 24 of GATT. Therefore, a unilateral free trade system in the economic integration of key areas in Northeast Asia should be allowed by Article 24 of GATT.