



### **Session III: Economic Cooperation and bilateral relations in the regional context**

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By agreement with Ambassador Kember, who is much better informed on bilateral relations than I am, I will concentrate on economic cooperation in the regional context.

#### **1. Introduction**

This does not mean that I am unaware of the importance of the bilateral relationship. I welcome its growth and its nature. It has some aspects which I think especially important. It involves services such as expertise in mine-management and provision of research-based advice by the New Zealand CRI, GNS, and it is not governed by old-fashioned thinking about the sale of finished consumer goods across international borders.

Furthermore, I was involved in an effort to establish a relationship between the School of Government at Victoria University of Wellington and the National Academy of Public Administration in Hanoi. Contributing to improved governance is important, and development of tertiary education services beyond somewhat primitive thinking about exchange of international services were both welcome to me, but what was especially interesting was that the relationship depended on mutual self-interest. The VUW School of Government not only contributed content based on experience and reflection but also benefited from interacting with those who were developing skills and capabilities in the Vietnamese public service as they sought to adapt knowledge gained in international experiences to the particular circumstances of Vietnam.

HRD is important. As part of the Vietnam-New Zealand bilateral relationship, and in the regional context, it needs to draw on current knowledge and not depend on old memories of officials who have had little connection with education for many years. It should be conceived in terms of learning for life, continuous learning to adapt to change, and not be seen as a distinct initial period of receiving information before beginning real life. Furthermore, change is so important that HRD needs to be built around developing the capacity to learn independently rather than be conceived as absorbing existing information.

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This will be done best by interactions which depend on mutual interest rather than paternal gifts from one party to the other. The world of official aid is full of rhetoric of engaging recipients in choice of aid projects and in their implementation, but we should aim to go beyond that to the original APEC conception of "economic and technical co-operation", building durable relations based on mutual self-interest. Ironically, there has been some loss of momentum in APEC ecotech because it was allowed to become a list of conventional aid projects. The Vietnam-New Zealand bilateral relationship provides opportunities for demonstration of effective collaboration.

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**2. Community**

The regional context is dominated by the evolution of an ASEAN community, an East Asian community and an Asia-Pacific community. It is a mistake to conceive "community" in terms of a single organization. The core of "community" is definition of whose interests should be given weight as national decisions are made. It is an attitude rather than an organization.

Vietnam is a member of the ASEAN Community with its three pillars of economic, political & security, and social & cultural. The development of the ASEAN community will be measured by the extent to which member governments take account of the interests of other members as they make their own decisions. It will not be measured by the extent to which ASEAN copies the EU.

New Zealand will not be a member of the ASEAN community, but it participates in the evolution of both East Asian and Asia Pacific communities. The East Asian community is being built around the East Asia Summit and there is no point in engaging in linguistic analysis of how geographic terms change over time. Nor is there any incompatibility among institutions which have overlapping but different memberships although there may be problems in securing consistency (and challenges to diplomats in managing multiple relationships).

Sometimes, as in at least some statements by the Japanese government, Asian community is conceived with a security dimension. The US is then a more natural participant, which diminishes the distinction between East Asia and Asia Pacific. But we should not look for a single geographical arrangement even though we will have to manage the overlap between economic and security agendas. This is not unique to Asia-Pacific as is shown by EU attempts to evolve a common foreign and security policy while still operating within NATO.

There is particular interest in the place of Latin America in the security element of an Asia Pacific community. Despite the topics of Southern Hemisphere naval issues and security issues related to Antarctica, defence communities tend to find a clear distinction between East Asia and Latin America; the former is focused on links between the Indian and Pacific oceans, and conventional flash points such as the Korean peninsula. Latin America is less maritime and looks towards the Atlantic. More interesting, though, is that the human security agenda is also significantly different. There is obvious some common interest in disaster preparedness, and some issues of trans-national crime link Asia and Latin America (mostly as conduits to North America) but the big cross-boundary health issues for Asia are related to the close proximity of humans, pigs and chickens and despite the Mexican origins of H1N1 Latin America has different priorities. There is a further difficulty in that Latin America does not divide easily between those with and those without a Pacific coastline, and the Forum for East Asia and Latin America has the advantage of including Latin American heavyweights, Argentina and Brazil.

There is, however, no doubt that Latin America has important relationships with East Asia, and that Asia Pacific is more than the addition of the US to East Asia although that point seems to escape many US commentators. It is no longer simply convenient but grossly misleading to focus attention exclusively on market access for goods. The temptation is difficult to resist because data is most available for trade in goods, negotiators are comfortable at trying to find a mutually-acceptable trading of concessional entry, lobbyists can formulate their interests most easily on preferential access for goods trade, and politicians are used to managing conflicting pressures

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from officials and lobbyists and most of it seems to come from bargaining about tariffs. The changed terminology to “economic integration” is important. Whereas APEC grew with the trilogy, liberalization, facilitation, and economic and technical co-operation - and the framework can be found with only a little modification in CEPEA, the better guide would be the current APEC terminology of “Leaders’ Agenda for Implementing Structural Reform”. The fundamental issue is determining the criteria on which business can be conducted across boundaries and for governments that translates into aligning regulatory structures and processes with cross-border economic drivers. The notion of “increasing WTO-plus elements” is not adding a few items to the main business; it recognises the changed agenda of international economic diplomacy. This is the basis for an Asia Pacific community, and it obliterates any boundary between economic and human security.

Vietnam and New Zealand have common interests in developing these ideas of community.

### **3. Asian Development Plan**

The driving force behind a Development Plan as part of building an East Asian community is clearly the Japanese government although equally clearly it is being super-careful to do nothing which cuts across the development of the ASEAN Economic Community. The Japanese Cabinet on 30 December 2009 adopted “On the New Growth Strategy (Basic Policies)”. Commentators have been disdainful, thinking that it is no more than an addition to “strategies” announced by former administrations but buried without implementation. While I also await the promised implementation plan, the chosen priorities of green technology, lifestyle reforms, green cities, and building the socioeconomic structure from local areas, are sensible as is emphasis on health and care of the aged, tourism, an FTAAP by 2020, and integration with Asia although the suggestion of agriculture and forestry as a growth engine looks like political wishful thinking. Japan is developing its own strategy rather than assuming that it will follow the same trajectory as the US.

The ideas underlying the New Growth Strategy relate to the mandate given by EAS leaders on 3 June to the Economic Research Institute of ASEAN and East Asia, ERIA, to collaborate with the ADB and the ASEAN Secretariat in preparing a comprehensive development plan, with ERIA being responsible for developing policy recommendations. The objectives specified for the plan, stimulating economic growth, deepening regional integration and strengthening partnerships, translate readily to established ERIA research pillars, economic integration, reducing development gaps, and sustainable development. For many people “development plan” will still suggest something like the documents produced by central planning. That would be inappropriate for East Asia, and ERIA’s conception is quite different. It emphasises understanding existing production networks and clusters, and how they might develop as income grows and infrastructure is improved.

ERIA’s research has a strong empirical focus. It includes a good deal of conventional development planning so that there is an emphasis on “infrastructure” and special economic zones. Infrastructure is understood as more or less equivalent to “social overhead capital” or large investment projects in transport which facilitate a range of businesses although ERIA thinking extends to “soft” infrastructure; customs procedures are essentially about time, cost and reliability and may have as much impact on business as improved traditional infrastructure. “Growth areas” or “special economic zones” remain significant devices for promoting infrastructural development in East Asia with Malaysia-Indonesia-Brunei, Malaysia -Thailand, and

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the Mekong zone attracting attention. However, especially interesting in ERIA work is a novel emphasis on cross-border supply chains. They are most studied in the area of electronics industries, but the ERIA thinking is quite general. It envisages supply chains being extended to economics where they are currently absent or barely present such as Cambodia, Laos and Myanmar; made more varied and intensive in developing economies which are already part of the network, such as Vietnam; and given a new emphasis on innovation in developed economies, which resonates in New Zealand although so far domestic policy on innovation amounts to little more than subsidies for traditional science research. There is clearly room for New Zealand and Vietnam to collaborate in development of these initiatives, not least in modifying existing cooperation in the Mekong region.

**4. Economic Growth**

Asian discussion of economic growth policies is increasingly dominated by ideas of “balanced”, “inclusive”, “sustainable”, and “knowledge-based”.

There is little doubt that Asian economic growth is going to become less dependent on export sales to the US, Europe, and other markets outside Asia, and more concerned with satisfying final demand within the region. Much regional discussion is about clarifying this point and giving reassurance to those concerned about change rather than constituting policy analysis. There is a lot of nonsense about new economic models, which reminds me of the rhetoric from the 1970s about “new international economic order” which generated nothing new, frustrated rather than facilitated international development, was not “economic” in focus, and produced anything but order. The basic process underlying likely development is a conventional insistence on meeting international productivity standards while serving domestic consumers.

A major challenge, however, is finding way to ensure that evolving international norms incorporate Asian thinking and do not perpetuate dominance by North Atlantic thinking. This is the most significant aspect of the G20. Vietnam will participate in preparations for the G20 through its membership of ASEAN, especially but not only in 2010 when Vietnam chairs ASEAN, but there will also be interest in the relationship between EAS and the G20. On the one hand, Australia, China, India, Indonesia, Japan, and Korea will not want to be constrained as members of the G20 by membership of EAS (or ASEAN), just as Australia, Canada, China, India, Japan, Korea, Mexico, Russia and the US will not want to be constrained by membership of APEC, but all have an interest in ensuring that the G20 understands the positions of Asia and Asia Pacific.

Inclusive growth is often interpreted in terms of social safety nets, and they are important from the point of view of poverty prevention and generating confidence among consumers so that the consumption-savings balance fits with economic growth driven by domestic demand. But the real issue is more general. As the balance shifts from export demand to domestic demand, there are likely to be income distribution changes which might bring social cohesion under pressure in the relevant economies. It is a macroeconomic rather than a sectoral issue. Asian discussion includes a concept of “poverty elasticity of growth”; the change in poverty incidence as a result of a rise in GDP, with the suggestion that growth now has less impact on poverty than it did in the past. While something new may be involved, we are probably seeing simply an aspect of the broader international impact of technology on the relative rewards of skilled and unskilled labour. Whereas HRD is

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often seen as a discrete area, requirements for education and skills mean that the very poor benefit less than average from rising incomes.

Dealing with the whole income distribution rather than focusing discussion on poverty alleviation has implications for those who have built careers advocating for the poor and where political rhetoric about the bourgeoisie remains sensitive. Furthermore, the idea of an expanding middle class recalls what was a historical cliché about 40 years ago in which “rising middle classes” played important roles in many cases of social change, whether it was the revolutions in England in the seventeenth century, the French Revolution, or the economic progress of India from 1857 to 1947. However, there is a serious issue at the heart of the debate. At a level of discretionary income which permits a choice of expenditures, especially one which encompasses education costs and development of human capital, consumer behaviour is likely to be distinctive - and to be more similar across national boundaries than with elites and poor in the same economy.

“Inclusive” also has implications for ensuring that all members of the relevant group share in the benefits of economic growth. In the case of ASEAN and East Asia, particular attention is paid to Cambodia, Laos and Myanmar - and to some extent, Vietnam, although it is clearly “graduating” from a distinct CLMV group towards parity with longer-established members. There is a lot of rhetoric about the different levels of development among Asian economies. It has a solid basis, but it is not always obvious why diversity matters. It is worth remembering that in the nineteenth century and up to the middle of the twentieth century, it was precisely diversity which was seen as underlying the mutual gains from trade. Agricultural protectionism and faster growth of productivity in manufacturing then generated intra-industry trade based first on specialization within conventional industrial classification categories especially in the North Atlantic, and then on specialization within supply chains and the international exchange of intermediate products, especially in East Asia. Diversity per se is not a barrier to economic integration although it will influence the nature it takes. Different levels of development are relevant in particular contexts, in for example having the human and institutional capabilities to manage logistics and customs procedures, but it is these specific areas which should be explored as “inclusiveness” is considered, not a generalized view of different levels of development.

The direct implications for New Zealand and Vietnam are rather different. But both have an interest in promoting sound regional discussion and understanding.

“Sustainable” also points in various directions. In New Zealand, it relates especially to climate change, now rather less a direct advocacy of emissions reduction and more a balance of reliance on mitigation and technology innovation. There is even some recognition, since Copenhagen, that commitment, monitoring and sanctions, so beloved in western thinking, may not prevail in any simple fashion over an Asian concept of agreed objectives and peer review.

In Asia, “sustainable” points rather towards reduce, reuse, and recycle and even towards food security and energy security. It is very much part of the thinking about infrastructure in the Asian Development Plan.

“Knowledge-based” reflects the importance of innovation. It too is related to the direct economic issue of balanced growth since one of the attractions for investment in the US is its position as the dominant source of innovation. This has not always

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been true. US dominance dates from around the time of the 1930s and owed a good deal to immigrants from Europe. One of the indicators of major change in the relative position of the US in the international economy will be a change in the proportion of major innovations which originate in Asia. They are already likely to involve Asian implementation (and much refinement happens in the course of implementation) but there are some preliminary signs of deeper change.<sup>1</sup> Even more important, innovation has to be conceived in terms of achieving netter use of resources; scientific research is a minor component.

**5. Regional integration**

There are two major issues in the regional context for Vietnamese-New Zealand economic co-operation. One is the role and sequencing of free trade agreements (under whatever name). The other is the role of financial integration.

The order of regional agreements which appears to many to be administratively tidy is ASEAN, ASEAN + 1, AP3, AP6 and APEC, while places have to be found for the idea of an East Asia community, the place of China-Japan and Korea, and an alternative of not deciding an order but allowing for “competitive liberalization”. My own view is that officials spend too much time trying to be tidy while integration proceeds where business finds it useful. My iconoclasm is not entirely idiosyncratic and there is some support for the idea that EAFTA and CEPEA can proceed together allowing countries to sort out those which are prepared to proceed to negotiation on specific aspects of integration. A bottom-up approach and reliance on linking existing agreements is a likely process and it has the same effect. It is hard for officials to conceive of something other than conventional negotiations leading to a single agreement. It seems to me that much more likely is a set of linked agreements in which case there is no need to determine an order. In particular, if discussions among parties to CEPEA determine that a subset is willing to contemplate an agreement on services or on customs procedures, there will be no need to decide whether it is proceeding towards an EAFTA or CEPEA. The Information Technology Agreement shows that a sectoral approach is not always impossible. APEC still suffers from the experience of EVSL, but there is movement in EAS. There is currently a focus on “connectivity” in the sense of transportation, logistics and tourism as a source of low-hanging fruit in progress in integration. The real constraint is that some economies will not be willing to contemplate acquiescing in what is agreed by others but will be equally unwilling not to be part of a regional integration initiative.

There is also the particular issue of Asia and Asia-Pacific. The US is unlikely to be content to wait for agreement elsewhere which could generate a “take it or leave” approach to the US. We already see signs of this in the US belief that it is beginning a process of negotiating towards a TPP whereas TPP exists and the relevant question is the manner in which its provisions should apply to the US, and how it should develop with an enlarged membership. New Zealand and Vietnam have an obvious role in this area - Vietnam will surely be an active and courted “observer” in the current proceedings - but it is the broader question on which Vietnam and New Zealand have most to contribute to the regional context.

The “currency question” will be increasingly important in the regional context. It is often framed as whether the dollar will remain the dominant international currency. The discussion confuses at least three topics: the denomination in which trade is

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<sup>1</sup> e.g. a special feature on “Will China Achieve Science Supremacy?” *New York Times* 18 January 2010 which included evidence of changing intentions among Chinese students in the US; see also Keith Bradsher “China Drawing High-Tech Research From U.S.” *New York Times* 17 March 2010

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conducted, the nature of exchange mechanisms, and co-operative crisis management. The first requires knowledge about markets and confidence in their working; exchange risk need not remain in the currency in which transactions are denominated. It took New Zealanders a while to realize that it is not possible to get all the upside of currency speculation without experiencing the downside, and exchange risk is now passed to professionals. There are still some problems of convertibility in ASEAN and even in some larger economies, and it is not always easy for an individual to speculate by having renminbi or yen accounts but markets can cope with aggregate issues.<sup>2</sup> Market participants earn an aggregate income according to the services they provide, while luck and skill in gambling influence how the aggregate is divided among them. Determination of exchange rate mechanisms is mostly a matter of the autonomy of monetary policy and the availability of the exchange rate as an adjustment mechanism. Developed and developing countries may have different preferences about the optimal combination of inflation and economic growth, but more important is determination of the optimal area for operating in a single currency. Business likes the idea of eliminating the need to consider separate currencies, but fixing exchange rates with particular markets may well increase uncertainty for businesses which trade with markets not within the region of the combined currency. Whether there is a gain from a common currency depends on whether the reduced uncertainty for those who trade within the currency area outweighs the greater uncertainty for those who trade outside it. There is already an Asian monetary unit in the sense of calculated relative values of Asian currencies, which is a monitor for macroeconomic policy (reflecting both intended policy actions and different challenges resulting from different resource endowments). We might reflect that in respect of choosing currencies as units of account and even in determining currency are as, officials are seeking to extend their roles into areas best left to business. Crisis management is appropriately addressed

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<sup>2</sup> Robert J. Carbaugh and David W. Hedrick “Will the Dollar be Dethroned as the Main Reserve Currency?” *Global Economy Journal* 9(3) (2009) provides a well-balanced discussion. Staying with the familiar reduces transactions costs. The Euro is used mostly in Europe and has not overtaken the usage of the former EMU currencies. It would be helped if it absorbed sterling, but there are still concerns about fiscal deficits of member countries, and disagreements among Euro members about whether an international role is sought, France liking kudos while Germany is cautious. Drawing rights lack a genuine market. The yuan has a long way to evolve especially in relation to property rights and deep financial markets. So the challenge to the dollar is not immediate. However, the US overtook UK as the world’s largest economy in the 1870s, and became the largest exporter after WWI, when the UK became a net debtor and the US a net creditor - and after 1945 the dollar replaced the pound as the main reserve currency. The US is a net debtor, China the world’s largest creditor and it is on the way to being the biggest exporter. So the authors suggest the “addition of the yuan as a reserve currency is not inconceivable.” Note, that they foresee an additional reserve currency, as in the late 19<sup>th</sup> century, rather than an exclusive role. See also Huang Yiping “Renminbi Policy and the Global Currency System” (*China Center for Economic Research Working paper* No C2010004, 11 March 2010). Yuang Hiping recalls that Keynes’s bancor was not favoured in the US; however, creditor countries are still inclined to think that adjustment is a problem for debtors, much as Germany currently thinks about Greece. Interestingly, China’s behaviour as a creditor is exceptional. Yuang Hiping notes that China’s exchange policy is now attracting criticism from more than the US as developing countries worry about competitiveness if they appreciate against the RMB and about money inflows if they do not. The last point is an important part of the argument, one which is often omitted in one-level media discussion.

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in the Chiang Mai initiative. The crucial task is to determine how conditionality of assistance is determined and managed.

It is important to think about financial surpluses in relation to the underlying trade flows. If there is not to be a financial flow to the US, then US exports have to increase or its imports have to diminish. We cannot simply switch the surplus to financing infrastructure and SMEs in Asia. Appropriate regulation and governance structures for investment in the region are needed, as is recognition that investment flows are driven by self-interest rather than charity, but the connection with trade flows is even more fundamental.

New Zealand and Vietnam share interests in ensuring that regional debates are well informed.

Views expressed in this paper are personal to the author and are not to be taken as representing the full delegation or the Asia New Zealand Foundation