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Asean Foreign Trade
(Parts 1 & 2)
ASEAN FOREIGN TRADE (PART I)

EXPORTS MUST RISE DESPITE HURDLES

The ASEAN five have thrived on exports by doing very much better on this front than other similarly placed countries. But with protectionist barriers restricting access to markets, and the prices of what they have to sell likely to stay put or even fall in real terms during the next decade, the five are now faced with a dilemma.

The question they have to answer for themselves is whether the priority they give to foreign trade should be lowered in favour of a greater effort to meet their domestic needs for what they now buy from abroad. In sum, should they now put more emphasis on an import-substituting strategy of development instead of relying on exports to expand their economies?

Although the question is often posed in this manner in the economic debate currently taking place in several ASEAN capitals, the truth is that it is not an either/or choice. It is possible to do both at the same time, with the domestic sales serving in many cases as a secure foundation for moving into export markets.

Whether the emphasis should fall on reducing imports by doing more at home - by stepping up, for example, the production of oil palm in Thailand or of automobile components in the Philippines - or on expanding exports from industries which the countries have a decisive comparative advantage has to be settled on a case-by-case basis.

The large debts that countries have run up in recent years require that the decisions should be made very carefully and rigorously. The squeeze on resources - foreign as well as domestic - does not leave them room to cover up for mistakes of the kind typified by Pertamina's decision to go into international shipping in the mid-1970s.

Whatever choice any country makes in specific cases, there is no getting away from the overall need to expand export earnings because of three compulsions: First, all the ASEAN five suffer from a resource gap - their own savings are not sufficient to cover their investments on development. The gap is closed partly by aid, the biggest chunk coming from Japan to safeguard its political and economic interests in the region. But a larger part comes from commercial borrowing or export credits, mainly for capital goods which typically account for a quarter to a third of the total imports of each country. The access to such loans is critically dependent on the ability to repay which is largely determined by the rate of growth in exports.
Secondly, exports make an important contribution to employment as well as to the improvement of incomes in both urban and rural areas. Textiles, garments, timber products, footwear, handicrafts and electronics are some of the labour-intensive manufactures which the ASEAN five successfully sell to world markets. These sales create jobs and help either to stabilise or raise wage rates. Likewise, exports of refined palm oil from Malaysia, tapioca pellets for feeding livestock from Thailand or processed fruits and vegetables from the Philippines, make farming more profitable than it would otherwise be.

Thirdly, exports provide the added demand that makes for economies of scale that would not otherwise be achieved. Exports of cement from the Philippines and Singapore and rolled steel from Indonesia and Singapore illustrate the benefit. There will be more of such exports for scaling up production as the ASEAN industrial structure broadens.

The domestic benefits of employment, income and above all the push towards greater cost efficiency accrue to all exporting countries but are greater in the ASEAN case because exports loom larger in their economies than elsewhere in the Third World. In relation to the GDP, the proportion of exports varies from about 15 per cent in the Philippines to 162 per cent in Singapore (because of its entrepot character).

Even for the Philippines, the ratio is higher than that of Japan, the champion exporter. Singapore, likewise, is well ahead of Hong Kong, a comparable case. Moreover, the export/GDP ratio is likely to keep on rising because the growth of exports is in all five cases outpacing the growth of GDP. This is part of a world-wide trend underlining the growing internationalisation of global economic activity.

As exports rise, imports will rise too because almost all productive activities have an unavoidable import content (e.g. fertilisers for raising crops or high-speed sewing machines for making garments). The task of the ASEAN economic strategists is to keep the rise in imports below that of exports as the Philippines, Singapore and Thailand managed to do in 1970-81 but Indonesia and less so Malaysia failed to do. The latter two had more leeway because of their oil bonanza which obviated the need for import restraints.

In deciding what exports to push or what imports to cut out, the ASEAN five have to keep in mind that foreign trade - taking exports and imports together - is a higher proportion of their GDP than the world average of about 30 per cent. The figure for the Philippines and Thailand, the least exposed among the five, is 35-36 per cent. It follows that subsidies for exports or higher cost import substitutes will involve a larger sacrifice in the ASEAN economies than
elsewhere. In other words, initiatives in both directions will require production to be on an internationally-competitive basis - except for such departures from this norm that overriding national interest (e.g. food security for Indonesia) may require.

In considering where the emphasis should fall in building up exports, the answer is obvious. Manufactures constitute the fastest-growing segment of world trade, and the margin is likely to increase. In the case of developing countries, their manufactured exports grew by 12.9 per cent in 1970-80 or much faster than total world trade. The World Bank is now projecting that the rate for 1985-95 will be about 12 per cent for manufacturers against only 2.6 for non-fuel primary products and 6.6 per cent for all merchandise.

The question that immediately arises is whether such growth will be possible for Asean countries which have, with the exception of Indonesia, already built up a sizeable volume of manufactured exports. Are they not going to be held back by quotas and other barriers? There is no doubt that the task ahead will be tougher but it will not be insuperable for three reasons:

The first is that composition of Asean manufactured exports is better diversified. The share of textiles and clothing is at its highest, only 9 per cent in Thailand compared with 29 per cent in South Korea and 45 per cent in Hong Kong. In fact, a country like Malaysia does not fully utilise its textile quotas and hence its endeavour to draw in investors from South Korea to close the gap by setting up export-oriented units in free trade zones.

Secondly, Asean countries have barely began to capitalise on their natural resources like rubber, timber or copper for manufactured exports. They have an undoubted comparative advantage in products based on these raw materials but have lacked both the requisite capital and technology. They are seeking to make up for this by importing both - as in the case of the Asahan aluminium plant in Sumatra, or Malaysia's success in making itself the largest exporter in the world in dipped rubber goods like gloves.

Thirdly, Asean, despite the hectic growth of its exports in the past decade, is still a small actor on the world trade scene. Its aggregate exports of all commodities valued at US$67 billion in 1981 represented a share of only 3.6 per cent of world total, rather less than that of Italy. In the case of manufactures, the proportion was much smaller still - suggesting that expansion need not run into problems provided the mix of products and markets is further diversified.
ASEAN FOREIGN TRADE (PART II)

CHALLENGES FACING THE FIVE

It is against this background that the Asean five will have to pursue their efforts to increase exports and reduce imports. While the specific tasks will differ in the light of national circumstances, the expansion of manufactured exports through a diversification of products and markets will have to be a priority concern.

In Indonesia, petroleum accounted for 74 per cent of export earnings in 1982 - a dangerously high proportion. International recession cut demand and prices of all commodities but more so of non-oil exports. There was therefore a sharp rise in the dependence on oil compared with only 59 per cent in 1980, a good year for commodities. Back in 1972, the year before the oil prices explosion, the share was just 46 per cent.

Indonesian as well as foreign economists have long urged high priority for economic diversification but Opec-dictated price increases encouraged the choice of a time-taking strategy of building up large capital-intensive units for basic materials like the Krakatau steel plant to provide a sound basis for downstream manufacturing.

Progress in establishing these forward linkages has been slow - the share of manufacturing in GDP was as low as 12 per cent in 1981 or about the same as in handicapped African countries. Equally disappointing is the fact that manufactures constitute only 2 per cent of total exports (against almost nil 20 years earlier). This minuscule share is partly because of the overwhelming preponderance of oil in Indonesia's trade. Even as a proportion of non-oil exports, the share of manufacturers is a lowly 14 per cent - much lower than in other Asean countries.

Malaysia too is an oil exporter but it derives only a quarter of its income from this source (against only 5 per cent a decade ago). Despite this difference with Indonesia, it made the same mistake of relying too much on oil revenues. The result is evident from the very rapid build-up in its imports: these doubled in volume (and much more in value) between 1975 and 1981 during which export volume increased by less than half.

Apart from oil, another factor contributing to this disparity was the commodity price boom. When both oil and other commodities were hit by recession in 1981, Malaysia found itself faced with a trade deficit for the first time in its history. Taken together with the customary gap on invisibles, meaning the outflow on account of shipping, insurance and remittance by foreign enterprises, the overall
deficit on current account soared to well above US$2 billion in 1982 in contrast with the comfortable surpluses it enjoyed in the late 1970's.

To close this gap, Malaysia will need to do three things. Although the share of manufactures in total exports is already significant, 19 per cent in 1980 compared with only 6 per cent 20 year earlier, it is too heavily dependent on electronics and textiles which account for three-fifths of total earnings. There is a clear case for seeking diversification. Secondly, it needs to regain the momentum its agricultural exports have lost because of the stagnation in the volume of rubber exports. Thirdly, it has to take care that rising wages in a growing economy do not make it uncompetitive in labour-intensive exports too soon. What this implies is that wage increases should as far as possible be offset by higher productivity.

The Philippines has done a remarkable job in diversifying its exports: the share of primary commodities dropped from 96 per cent in 1960 to 63 per cent in 1980. Its manufactured exports are, however, too heavily concentrated - as in Malaysia's case - on electronics and textiles which together accounted for 58 per cent of the total. Broadening the base will require a change in the orientation of industrial entrepreneurs who have enjoyed the benefits of a heavily sheltered market for too long.

A shift in policies to bring about this change is under way but progress has been slowed by the recession of the last two years - a case in point being the poor response to loans offered with the World Bank's help for restructuring the textile industry. The government's ambitious plan to build up resource-based heavy industries - e.g. copper smelting and chemicals from coconut oil - has also had to be slowed as well as trimmed because of the recession-induced financial constraints.

Although the Philippines has expanded its exports faster (at 7.7 per cent a year in volume terms) than Indonesia or Malaysia, its trade and balance of payments deficits have steadily worsened nevertheless. This is partly because of the drain on account of imported oil and partly because its major export commodities - sugar and coconut - are particularly vulnerable to price swings. The country's terms of trade - a measure of what a country's exports actually buy in the world marketplace - had deteriorated by 31 per cent between 1975 and 1981, a sharper fall than for any other Asean country.

Singapore has done extremely well, qualifying it for a place among the champion exporters. Even more remarkable is the shift that it has successfully made from dependence on entrepot exports to domestic exports which now account for 65 per cent of the total compared with 38 per cent in 1970.
It should also get credit for avoiding concentration on vulnerable products like textiles - only 4 per cent of the total in 1980.

But it is vulnerable in one important respect. Almost half of its exports are of petroleum products because of its role as one of the world's largest refining centres. As countries in the region build up their capability to do their own processing, the market is shrinking. On top of it, the demand for oil is slowing down world-wide. Diversification is, therefore, as urgently necessary in its case as in that of Malaysia's manufactured exports.

Singapore is trying very hard to do this by moving into technology-based manufactures in such fields as aerospace, industrial electronics, and precision engineering. Success in this is dependent however on the ability to draw in relevant foreign investments because of the diffidence of local investors. Capital inflows have continued to be strong but the degree of reliance on them constitutes a risk which prudence requires reducing. To an extent this is happening: the share of foreign investors in total investment commitments declined from 88 to 94 per cent in 1978-79 to about 70 per cent in 1981-82.

Thailand would be in the same plight as the Philippines is in now but for three factors working to its benefit. One is that it has managed to expand its exports much faster (at 11.8 per cent a year in 1970-81, only a shade slower than Singapore). Secondly, although its terms of trade have deteriorated, the fall has been less sharp than in the Philippine's case. Thirdly, the share of manufactured goods in the total is larger, 35 per cent, than the Philippine's 24 per cent.

Thailand will undoubtedly have to work even harder to improve its foreign trade performance because the deficit on its trade account is, as a proportion of its imports, almost as large as in the Philippines. This improvement will require steps to curb imports as well as to promote exports. Initiatives in the first direction are being taken by utilising gas to substitute for imported oil and by using gas to build up a petrochemicals industry to provide the raw materials needed by local processing industries.

Since farm products constitute the bulk of its exports, the challenge facing Thailand is to prevent population growth from eroding its exportable surpluses - particularly of rice which is the biggest single earner. A growing shortage of land and water may hold back agricultural growth unless the country can offset the handicaps by raising yields from the present low levels.

All five countries are thus facing a considerably tougher task than in the 1970s when world trade was not as hampered
as it is today by slow growth in industrial countries, the main markets, and by barriers inhibiting market access. Unless they manage to overcome these challenges, "the likely results will be lower GNP growth and larger debt burden". This judgement of Mr. Parvez Hasan, the World Bank's chief economist for the region, underlines the imperative need to ensure an appropriate policy framework as well as an adequate effort to achieve the desired results.