ECONOMIC INTEGRATION IN SOUTHEAST ASIA

A thesis submitted in partial satisfaction of the requirements for the degree of Master of Arts in Economics

by

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June, 1972
The thesis of Chakramon Phasukavanich is approved:

Committee Chairman

California State University, Northridge
June, 1972
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ABSTRACT

ECONOMIC INTEGRATION IN SOUTHEAST ASIA

by

Chakramon Phasukavanich

Master of Arts in Economics

June, 1972

Although the importance of economic integration in developing regions for the objective of accelerating economic development has been widely accepted in substance, it is, however, possible to hold the view that, despite the general acceptance of the ideas, not much has happened in the way of their translation into practice. This is probably because of certain handicaps with which the developing regions are confronted. In the case of Southeast Asia, it is possible that this region, as an agricultural region, may face difficulties in achieving the goal of economic integration due to the nature of agricultural products.

It is the purpose of this study, therefore, to examine the relationships between the characteristics of agricultural products produced in the Southeast Asian region and the efficiency of economic integration and determine the desirability of economic integration in the
region. To accomplish the purpose, an extensive research has been made through the publications of the United Nations, reports, periodicals, and published books.

Conclusions of the study reached are as follows: (1) the supply inelasticity and the demand inelasticity of agricultural products, together with the lack of complementarity in agricultural trade result in the limiting efficiency of economic integration; and (2) the likely size of the gains as a result of the formation of economic integration is insufficiently appreciated to decide on the desirability of economic integration in Southeast Asia. The study recommends that plan harmonization or partial economic integration is considered more suitable than economic integration for the Southeast Asian region at present. Regional cooperation in the fields of agriculture, industry, and transportation is essential in bringing about an increase in economic activities in the region.
CHAPTER I

INTRODUCTION

Statement of the Problem

Economic integration in less developed countries has been widely studied since the emergence of the European Common Market. Apart from the objective of fostering and accelerating economic development through economic integration, the interest in establishing regional organization for the purpose of economic cooperation in less developed countries appears to have been motivated by the desire to imitate the European Economic Integration and yet escape its discriminatory effects. So far, only two major trading blocs in Latin America have become stable and productive. Economic integration in other less developed areas is still lagging far behind.

The Southeast Asian experience, however, presents special problems. The low level trade pattern has led some economists to conclude that efforts to increase trade are the necessary first step toward cooperation. As one specialist has put it: "It is natural that at this time the idea of a common market for Asia and other forms of regional trade cooperation should get serious
consideration.\textsuperscript{1} Others, however, have come to the conclusion that the emphasis on a common market, customs union, free-trade area, or any of the other measures designed primarily to remove obstacles to trade is misplaced. Professor Lim Tay Boh made this point as follows:

Regional cooperation at the liberalization of trade alone will not be sufficient to exploit the potentialities of integral trade without a vigorous policy of regional cooperation in spreading industrial know-how and promoting investment in a wide range of diversified production.\textsuperscript{2}

In most studies of economic integration and development, emphasis has been placed on industrialization, while less attention has been devoted to the agricultural sector. This is probably because of the feelings that industry is superior to agriculture in its nature and agriculture plays a very small part in economic integration. Since the Southeast Asian region is predominantly agricultural, it could be possible that the nature of agriculture is one of the economic obstacles to integration.


in the region. In order to determine whether or not the nature of agricultural products is one of the economic obstacles to integration in Southeast Asia, an in-depth study of this particular subject will be undertaken.

THE NATURE OF AGRICULTURAL PRODUCTS IS A FACTOR CONTRIBUTING TO THE LIMITING EFFICIENCY OF ECONOMIC INTEGRATION IN SOUTHEAST ASIA.

Definition of Terms

Nature of Agricultural Products: characteristics of agricultural products in demand and supply, including elasticities and patterns of demand and supply.

Economic Integration: Intergovernmental agreements which are made in order to abolish discrimination among economic units belonging to different national states.

Efficiency of Economic Integration: a change in potential welfare or real income—involving changes in the quantity of goods produced, or changes in the quantity of inputs with the same quantity of outputs, and a change in the degree of discrimination between domestic and foreign goods—resulting from economic integration.
**Objectives of the Study**

An analysis of the nature of agriculture that considerably limits the efficiency of economic integration in Southeast Asia is the general objective of this study. In attaining the general objective, the study has the following specific objectives:

1) to analyze the general situation concerning the possible forms of economic integration in the region,

2) to analyze the problems of poor export performance of the region,

3) to study the prospects of trade expansion,

4) to examine the relationships between the demand for and the supply of agricultural products and the limitation of efficiency of integration.

**Method and Procedure**

Since none of the varied forms of economic integration has yet been established in Southeast Asia, empirical findings cannot be used as the tested evidence. Logical reasoning supported by a related statistical evidence will be the process employed. The analysis must measure up to the standards set up by the information gathered from existing literature and statistics.
Sources

This study is based upon secondary data and information. Its primary resources were the publications of the Economic Commission for Asia and the Far East. Other references were Reports of Southeast Asia Development Advisory Group, periodicals, and published books. A detailed list of references will appear in the bibliography.

Organization

The basic concepts of economic integration and the scheme of integration in Southeast Asia will be discussed in Chapter II. The trading performance and prospects of trade expansion will be enumerated in Chapter III. Chapter IV will examine the possible efficiency of integration and analyze the relationships of the nature of agricultural products and the limitation of integration. The study will conclude with comments and summation of the results.
CHAPTER II

GENERAL BACKGROUND

Theory of Economic Integration

Authorities essentially agree on the definition of the term "economic integration," but differ in their manner of presentation. Balassa defines economic integration as: a process encompassing measures designed to abolish discrimination between economic units belonging to different national states, and a state of affairs with the absence of various forms of discrimination between national economies.\(^1\) Tinbergen states it as: "removing artificial hindrances to the optimal operation and introducing deliberately all desirable elements of coordination and unification."\(^2\) The term definitely suggests that economic integration includes any cooperation, and preconceived and deliberate attempts to intensify economic relations between two or more


national economies. Generally it could be said that integration is the high level form of cooperation in bringing the government-intervening economies of different states into a commercially oriented economy.

The stages of economic integration, from the lowest to the highest, can be classified into:

1. free trade area—abolition of tariffs and quantitative restrictions among member countries,
2. custom union—in addition to the conditions of free trade, external tariff against non-member countries,
3. common market—in addition to the conditions of the custom union, abolition of restrictions on movements of resources,
4. economic union—in addition to the conditions of common market, some degree of harmony in national monetary, fiscal, social and countercyclical policies,
5. total economic integration—unification of monetary, fiscal, social and countercyclical policies, and setting up of a supra-national authority whose decisions are binding for member states.
Economic Welfare and Integration Scene

It is possible to say that the ultimate objective of economic activity is an increase in welfare. In general terms, an increase of one man's welfare can be considered as an increase in his wealth or real income. However, an increase in one man's welfare leads to an increase in social welfare only if there is no reduction in the welfare of any other members of the group. In case of economic integration, if we consider a customs union's welfare as a social welfare and a country's welfare as one man's welfare, the concept of economic welfare is basically the same.

The change in one country's welfare refers to changes in the quantity of goods and services produced in the country and changes in the degree of discrimination between domestic and foreign goods and services. The change in a customs union's welfare, however, is concerned with changes in the quantity of goods produced and a redistribution of welfare gains between the nationals of member countries.

There is an increase in a customs union's welfare if--owing to the reallocation of resources consequent upon integration--the quantity of goods produced with given inputs increases or, alternatively,
if the production of the same quantity of goods requires a smaller quantity of inputs. At the same time, the removal of intra-union tariffs will eliminate the discrimination between the commodities of the member countries. This, in turn, is likely to improve the efficiency in exchange within a customs union, thus constituting an increase in welfare.

In determining the change of economic welfare of a customs union, however, the distribution of welfare needs to be considered. It can be seen that an evaluation of economic welfare of a customs union would require inter-country comparisons of welfare within the union, since the union's economic welfare will increase only if there is no reduction in the welfare of any other member countries. It has been criticized that an increase in welfare could be taken as equivalent to an increase in economic welfare if compensation is paid by the welfare-gaining countries to the welfare-losing countries. In other words, an increase in welfare or real income is considered equivalent of an increase in economic welfare of a customs union if that increase in welfare or real income makes everybody better off, or, at least, nobody worse off.

Trade Creation and Welfare Gains

The theoretical problems involving the effects of the formation of a customs union had been discussed in
earlier writings; nevertheless, there had been no consistent theoretical analysis of the issues involved until 1950, when Jacob Viner\textsuperscript{3} investigated the impact of a customs union on trade flows and distinguished between the "trade-creating" and the "trade-diverting" effects of a union. According to Viner, the effects of "trade creation," referring to the increase of trade, and "trade diversion," referring to the reduction of trade due to the formation of integration, are arbitrary factors evaluating the efficiency of integration.

When two countries form a union, new trade will be created because the removal of trade barriers makes it possible to enlarge the size of market and exploit the differences in production costs that could not be done before; at the same time reallocation of resources enables a union to lower costs of production. The increase in imports resulting from a movement to a position of freer trade than prevailed prior to the abolition of the tariff between two member countries can be referred as the trade-creating effect of a customs union.

The welfare gain from the trade-creating effect can be subdivided into one due to production effect and another due to the consumption effect. The welfare gain

from production effect may refer to savings in costs due to the shift of purchases of a given commodity from more expensive domestic to cheaper member country of supply. While the production effects of a customs union are examined under the assumption that commodities are consumed in the same proportions before and after integration, the consumption effects, on the other hand, may refer to the change in consumption pattern resulting from tariff abolition.

Generally, the domestic consumers were restricted in their demand for imported goods by the tariff, and, after tariffs are removed, they can adjust consumption by either expanding consumption or substituting the higher-valued imported goods from member country for the lower-valued domestic and foreign goods. Welfare gain from consumption effects is therefore the result of the expansion of consumption and the substitution of commodities produced in member country for domestic and foreign goods.

The magnitude of welfare gains from production and consumption effects depend mainly on (1) the height of the pre-union tariff, (2) the elasticity of supply, and (3) the elasticity of demand. It becomes apparent that the higher the pre-union tariff, the greater is the distortion of the consumption pattern, which can be
eliminated through the removal of tariff. At the same time, if the elasticity of supply in the home country is higher, the reduction in home production tends to be larger and thus the greater welfare gain from production effects. Similarly, the higher the elasticity of demand, the larger is the increase in consumption and thus the greater welfare gain from the consumption effects.

**Trade Diversion and Welfare Losses**

Generally, under the assumptions of pure competition and zero transportation costs, the domestic consumers will buy goods from the lowest-cost producer in the world. However, when a customs union is established, it is possible that the domestic consumers may shift their purchases from the lowest-cost producer in the world to the lowest-cost producer in the union, if the sum of the outsider's production costs of the commodity and the common tariff exceeds the cost of production in the union member.

The extra costs of producing a commodity in the member country rather than the lowest cost producer can be regarded as welfare losses from the trade-diverting effect. In other words, if there is a shift of purchases from the lowest-cost producer to the higher-cost producer (the union member) after integration, it can
be said that there will be welfare losses due to the trade-diverting effects of the customs union.

Finally, it can be concluded that trade diversion is considered harmful to welfare whereas trade creation tends to be beneficial, and the net effects of a customs union on welfare will depend on the balance of these opposing forces.

**Southeast Asia and Economic Integration**

Southeast Asia is the collective peninsulas between India and China. Burma, Cambodia, Laos, Malaysia, Philippines, Singapore, Thailand, and The Republic of South Vietnam comprise this region. It contains considerable unexploited natural resources, as well as a combined population of two hundred fifty million. Since Southeast Asia is located between two giant countries, the region historically has been strongly influenced by these two powerful neighbors and their civilizations. Today, there are over fourteen million Chinese and nearly two million Indians in the region.

The influence from the West, however, began in the island periphery in the sixteenth century and extended to the continental region in the late eighteenth century and the nineteenth century. The era of colonial rule in Southeast Asia has also continued to have a
political impact on the countries in this region even after their achievement of national independence. Their present borders were mainly imposed by former colonial powers on political grounds regardless of ethnic, historic consideration and/or geographic standard measurements. As a consequence, the conflicts among Southeast Asian countries on territorial issues and borders, notably, Thailand and Cambodia, Malaysia and Philippines, and Malaysia and Indonesia, have often emerged from time to time.

However, since the Second World War, most of Southeast Asian countries have removed the shackles of colonialism and gained political independence, but the majority of its people remain ill-clad, ill-housed and illiterate. The new leaders of Southeast Asia are therefore determined to fight the age-old enemies of poverty, disease, and ignorance. Most of them realize that these ambitious goals are not easily attained, and that the gap between the rich and poor countries has widened instead of narrowed. Therefore, almost all of the leaders of today's Southeast Asia are confronted with several problems, two of which are critical and most pressing.

The first is the problem of population. Southeast Asia, like other underdeveloped parts of the world, has a rapidly increasing population. During the decade
between 1950 and 1960, for example, the region's population increased by 20 per cent. Thus the benefits obtained from the accelerating economic growth are largely absorbed by the additional population.

The second serious problem is Southeast Asia's poor export performance. In conformity with its low production and income, the share of the region in world trade is also small. Most Southeast Asian countries export commodities in which the region enjoys a natural advantage, such as tropical agricultural products. Unfortunately, there has been an international tendency for the prices of these commodities, such as rubber, to show a long-term decline. The development of synthetic substitutes, as well as technological development, has drastically reduced the amount of raw materials per unit of output in industrial countries.

In attempting to cope with these problems, more and more leaders in Southeast Asia have realized the importance of regional cooperation. Only through regional cooperation will these countries be able to make full use of their rich natural resources for the welfare of the present and future generations of Southeast Asia. Economic planners in the region generally agree that there is an increasing urgency in stepping up the pace of economic development not only to maintain, but also to improve the levels of living of the fast growing
population. Owing to various internal and external factors, individual country's efforts to break the vicious circle of poverty seem to be inadequate; attempts towards collective action are increasingly gaining grounds in bringing about, more effectively, an accelerated rate of economic development. The developing countries of the region themselves must look to each other for strength and must make joint efforts to accelerate economic growth. For, while the individual efforts of the countries have not proven very satisfactory, there was certainly much to be expected from regional cooperation and mutual help. If the scarce resources of the countries could be pooled and the narrow domestic markets combined, many of the obstacles to economic growth would be overcome. As a way of dealing with the problem, the strategy harmonization should be acceptable.

The existing level of living in Southeast Asia is already extremely low. Improved means of transport and communication have made the impact of the demonstration fully felt. Southeast Asian leaders are acutely aware that their people are living in the age of increased expectations. To answer the challenge, developing Southeast Asian countries have relied on various measures, such as formulation and operation of
economic plans, and diversification of the economy, especially in the fields of industrialization and foreign trade.

Recognizing the urgency of the problem, the developing countries of Southeast Asia have, in recent years, intensively and extensively endeavored to promote regional economic cooperation. Developing countries have to be contented for the present with limited cooperation primarily in technical and cultural aspects. The causes of such limitations, among others, are the domestic difficulties these countries are facing in their economic, political, and cultural development. However, the realization of the need for concerted action has received concrete institutional expression in many areas and through many institutional arrangements both within and outside the Southeast Asian region. This matter is increasingly drawing the attention of policy-makers, ambassadors, ministers, and presidents of the countries in this region.

The trend towards intra-regional solidarity is one of the major patterns of postwar international relations in Southeast Asia. In the brief time at their disposal, the Asian countries have participated, to a surprising degree, in regional and world organizations, and their sentiment for a regional approach has been greatly buttressed. Moreover, with the 1960's, there have
been various initiatives for joint regional action. Almost every nation in Southeast Asia sponsored some kind of regional conference or proposed some regional organization. This was an important feature of the policies pursued by these new sovereign states.

Another favorable indication gathered from the ensuing ministerial conferences and conventions is the fact that most Asian governments are now prepared to consider seriously more intensive forms of regional economic cooperation. A number of Asian countries are now prepared to explore, in a serious and realistic manner, a problem which only a few years ago they were not even willing to discuss with the United Nations Economic Commission for Asia and the Far East (ECAFE). This may be noted as a significant advance in the spirit of cooperation within the region.

There are also other factors which increase prospects for the growth of effective regional organization in the future. In recent years, there has been considerable activity among various groups of developing countries aimed at achieving an expanded trade among themselves within a broad framework of regional economic cooperation. Since 1961, several organizations were formed dedicated in one way or another to bringing Asia to a point of harmonious economic cooperation. This is
apart from the regional cooperation being promoted within the framework of the United Nations ECAFE. Instead, there are some sub-regional integrations established by the participating countries themselves.

The Southeast Asia region, for instance, has seen the emergence of such sub-regional organizations as: the Association of Southeast Asia (ASA) which was formed on July 31, 1961 consisting of Malaysia, Thailand and the Philippines; the MAPHILINDO⁴ which was formed in August 1963 among Malaysia, the Philippines and Indonesia; the nine-member Asian and Pacific Council (ASPAC).⁵

The Association of Southeast Asia's underlying objective is the promotion of economic and cultural cooperation among its member nations: Malaysia, the

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⁴In 1963, the Heads of State of the Federation of Malaysia, the Philippines, and Indonesia agreed to set up MAPHILINDO. It aimed at closer economic and cultural ties among the participating countries. Disputes over the legal ownership of Sabah (North Borneo) between Malaysia and the Philippines caused the organization to be dissolved.

⁵Asian and Pacific Council (ASPAC) is composed of Japan, New Zealand, Australia, South Korea, Taiwan, Thailand, Malaysia, South Vietnam, and the Philippines. ASPAC is now expected to seek the participation of Burma, Cambodia, Laos, Indonesia and Singapore. Formerly confined to discussing regional economic development projects, the council is including political, social, educational and cultural affairs in its agenda. The sole objective of ASPAC is to strengthen the cooperative relationship among its member nations on a broader scale.
Philippines and Thailand. Cooperation entailed trade liberalization, joint action to develop industries and establish shipping and airlines, joint efforts to stabilize primary commodity markets, technical training and research, and promotion of educational development and cultural ties among the countries.

ASA has had a short and chequered life and not much progress has been reported. It received a setback at an early stage of its existence with the diplomatic break in 1962 between the Philippines and Malaysia over the Sabah issue. It was revived in 1964 with the re-establishment of the consular relations between the two countries and revitalized in June 1966 with the complete normalization of the relations between the two. Since the latter date, ASA's activities have gathered momentum and the Association can be expected to move into the direction of limited coordination of industrial development plans.

At the present time, ASA has transformed itself into the Association of Southeast Asian Nations (ASEAN) composed of: Malaysia, Thailand, the Philippines, Indonesia and Singapore. In its declaration of principles and objectives, on August 8, 1967, ASEAN expressly committed itself to "maintain close and beneficial cooperation with existing international and regional
organizations with similar aims and purposes, and explore avenues for even closer cooperation among themselves.  

Obstacles to Economic Integration

Although the leaders of Southeast Asia have been aware of the importance of joining hands to foster economic development, the prospects of integration do not seem as bright as one might expect. The experience of being colonies in the past has created personal contacts with their metropolitan countries rather than with their neighboring countries. Furthermore, the Western countries had also left the unsolved problems on territories and borders to the Southeast Asian countries; and this is an important factor that tends to weaken the intention of the countries to unite themselves for the purpose of accelerating regional economic growth. Differences in language and religion have been cited as non-economic hindrances. Then too, these nations vary


7 Indonesia was a former Dutch colony; Burma and Malaysia were once under the British empire; Vietnam, Cambodia, and Laos formerly belonged to France; and the Philippines was once under the trusteeship of the United States. Only Thailand has maintained her sovereignty throughout the colonial era.

8 In contrast with Latin American countries which are predominantly Spanish-speaking and Christian in faith, Southeast Asian nations have their own separate languages and a mixed populace of Buddhists, Christians and Muslims.
in their basic economic and political policies. Malaysia, Thailand, and the Philippines have been sympathetic towards the West and are classified as "outward looking" countries, relying more on private enterprise and relatively free trade. Burma, Laos, and Indonesia declaring themselves neutral, have been classified as "inward looking" nations, relying on direct controls and controlled trade. Whereas the "outward looking" group has performed relatively well in its economic development, the "inward looking" group has become almost stagnant in its economic growth.  

A simple and unconditional integration in the Southeast Asian region will not benefit all countries equally, since the countries with free enterprise and a higher level of development will be in a more advantageous position. Inevitably, sensitivities will enter the picture. Even among countries with similar background, there is the fear of competition in domestic markets caused by integration.

In conclusion, although the welfare effects of integration, as described in the theory of a customs union, are the arbitrary factors determining the

desirability of economic integration, but the formation of a customs union is also based upon the political ground as well. While leaving the political problems to leaders and politicians to solve, it is a task of economists to lay a solid groundwork of economic studies in order to change deficient political will into determined policy for economic cooperation. There are several problems in the economic field, including export performance and a decline in price of agricultural products, that need to be studied. In the next chapter, the paper will discuss the causes of poor export performance, the marketing conditions, and the prospect of agricultural trade which may have effect on the efficiency of economic integration in Southeast Asia.
CHAPTER III

AGRICULTURAL TRADE AND EXPORT PERFORMANCE

Major production of Southeast Asia is predominantly tropical agricultural. Although this region does not assume any real importance from the standpoint of direction of world trade, it however remains a dominant producer of several exceedingly important commodities. The region holds a commanding position in production of: natural rubber, more than 80 per cent of the world output originates in the region; copra, nearly 80 per cent of world copra export; rice, more than 25 per cent of world exports; and tin, approximately 60 per cent of the world supply (see Table I).

Unfortunately, Southeast Asian countries doubt their ability to increase the value of their traditional exports of primary products, food, and raw materials, as fast as imports will increase. They do believe that the demand for primary products in advanced countries is inelastic and growing very slowly. If they attempt to sell larger quantities, they will simply run into falling prices. Technological advancement in developed countries has brought a number of substitutes such as synthetic rubber and artificial fibres (nylon, acrylic fibres,
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<td>2,217</td>
<td>2,645</td>
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<td>2,082</td>
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<td></td>
<td>Export</td>
<td>391</td>
<td>503.6</td>
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etc.), thus reducing drastically the dependence on natural rubber, raw silk, raw cotton, jute fibres and the like. Furthermore, agricultural productivity made spectacular progress in most advanced regions, whereas the Southeast Asian region itself has been strongly pressed by the rapid population growth which tended to absorb the large part of agricultural surplus.

Consequently, the gap in trade between the region and developed countries tends to be widened. National development programs in the region have been heavily dependent on the fortunes of agricultural exports. This heavy dependency on one or two types of export is critical since the economic transformation of the traditional societies of Southeast Asia to modern economics requires an increased importation of goods, technical skills, which all must be paid for in foreign exchange.

**Trade Pattern**

A common feature of most Southeast Asian countries is the high degree of concentration on trade of a few primary products. Malaysia has depended on rubber and tin; the Philippines on coconut products, timber and sugar; Thailand on rice and rubber; and Indonesia, on oil and rubber. Only recently have there been alterations in such a composition of exports with secondary products and manufactures coming to play a greater role.
Concentration in a few agricultural commodities has been complemented with a great degree of narrowness in the direction of trade brought about by special country biases. Malaysia and Singapore have had special ties with the British Commonwealth; the Philippines, with the United States. This pattern, too, has been recently changing.

Perhaps mainly in response to economic progress in many Asian countries, Southeast Asian nations are pulling back from a narrow flow of goods to and from former colonial powers. New directions are appearing. The trade of the Philippines, Thailand, and Indonesia is becoming more and more directed toward Japan and India. Between 1962 and 1967 exports to Japan from the Philippines and Thailand doubled, while those from Indonesia even tripled. Malaysia and Singapore are furthermore developing an active trade with Mainland China.

While intra-regional trade in the Southeast Asian region is more active than in other developing regions of the world, it is still hardly significant except for foodstuffs, especially rice, and Singapore's entrepot trade. Nevertheless, there have been qualitative changes in this flow. Instead of exchanging primary commodities for processed manufactured imports from the developed countries, the Southeast Asian countries now engage in more productive regional inter-changes. For example,
Singapore processes Indonesian and Malaysian rubber and refines Indonesian oil, allowing greater value added to be realized within the region itself.

In the past each country has faced the problem of relatively slow growth of traditional exports coupled with frequent and sharp fluctuations in export incomes. All this has been inconsistent with national development objectives, and the countries in the region have tried to cope with the problem in various ways. Export diversification has been promoted by Malaysia and Thailand; the Philippines and Singapore have pushed industrialization through import substitution. On the extreme, Indonesia until recently represented a special case of official neglect. The national policies adopted have thus had great influence over the respective international trade and financial position as well as over the patterns of trade and development of the countries of the region.

It is possible that if the Southeast Asian countries promote a higher degree of diversification of commodity exports, these countries may achieve a faster growth of exports. Adaptation to changing world demand conditions should be easier, the greater the variety of exports which a country produces. This could possibly be followed by a greater intra-regional trade.

The relationship between export concentration and export growth has been observed and tested by economists.
For Southeast Asia, the coefficient of commodity concentration of exports has been calculated by Michaely (1954), Massels (1959), and ECAFE (1955 and 1965), see Table II. As illustrated in the table, Thailand and the Philippines whose annual rates of export growth were relatively high had a consistent increase in the degree of commodity diversification of exports. In Malaysia, there was increasing concentration until 1959. When rubber prices started to fall after 1959, Malaysia has reacted to falling prices by developing other crops, thus resulting in a decline in concentration. In Burma, where annual rates of export growth was negative, the trend has been towards higher concentration. Apparently, when the concentration ratios are considered in conjunction with the rates of growth of exports between 1960 and 1966, countries with negative or low rates of growth of exports are also those with the high commodity concentration ratios in 1965 and vice versa.¹ It is reasonable, therefore, to believe that if export diversifications in this region become more promoted, intra-regional trade should be larger.

### Table II
Southeast Asian Countries:
Coefficients of Commodity Concentration of Exports, 1954 - 1965

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports: Annual Rates of Growth 1960-66</th>
<th>Index of Commodity Concentration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1965 ECAFE</td>
</tr>
<tr>
<td>Burma</td>
<td>-1.8</td>
<td>81.25</td>
</tr>
<tr>
<td>Vietnam</td>
<td>-16.1</td>
<td>73.81</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.1</td>
<td>52.75</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-2.9</td>
<td>45.46</td>
</tr>
<tr>
<td>Thailand</td>
<td>9.2</td>
<td>40.69</td>
</tr>
<tr>
<td>Philippinés</td>
<td>8.7</td>
<td>31.37</td>
</tr>
</tbody>
</table>
Note: Coefficient of commodity concentration of exports of a given country is defined, in mathematical terms, as

\[ C_{jt} = 100 \sqrt{\frac{\left( \frac{X_{ij}}{X_{jt}} \right)^2}{\left( \frac{X_{ij}}{X_{jt}} \right)}} \]

where \( X_{ijt} \) = the value of country j's exports of commodity i in year t;
\( X_{jt} \) = the value of total exports of country j in year t.

\( ^a \) ECAFE Secretariat.


\( ^c \) Michaely, M., Concentration in International Trade, North Holland Publishing Co., Amsterdam, 1962.

Trade Barriers

In general, the present situation in which countries of the Southeast Asian region restrict their imports from other countries of the region comes from the result of their general import control system. This is mainly because most of the agricultural products in the region are not fundamental to economic development programs, thus leaving no incentive for governments to consider the interests of other countries when posing their import regulations. The following brief review of import restrictions that exist in the region has chiefly an illustrative purpose.

In the Philippines, the control of imports relies mainly upon monetary and fiscal measures rather than quantitative restriction. Deposits are required on the opening of letters of credit to import, the extent of the deposit depending upon the commodity. The tariff rates, as imposed in 1967, were 25 per cent for essential producer goods and essential consumer goods, 50 per cent for semi-essential producer goods, 75 per cent for semi-essential consumer and non-essential producer goods, 100 per cent for non-essential producer goods and unclassified items, and 150 per cent for luxury items and non-essential producer goods. Imports of rice, corn, essential consumer goods, certain farm equipment, and essential producer
goods are, however, exempted from the margin deposit requirements. Imports of certain agricultural products are prohibited in order to protect domestic production. The regional producers, except rice producers, may find it difficult to expand their markets in the Philippines, since most of their products are neither essential producer goods nor essential consumer goods in the country.

In Malaysia, most imports are permitted freely and tariff rates are low in comparison with other Southeast Asian countries, but some agricultural imports are subject to quantitative restriction in order to protect domestic production. Imports of rice from any country are conditional on the importer's purchasing one ton of rice from the government reserve stockpile for every ton imported. Imports of wheat flour and rice bran from all sources and imports of sugar are subject to quantitative restriction, while imports of certain agricultural products are prohibited.

Direct control of imports has been established in Burma. Imports into the country are made through governmental agencies and import customs duties are relatively high compared to other Southeast Asian countries.

In Indonesia, luxury items, such as television sets with screens of 21 inches or more, are prohibited. Import tariff rates are changed frequently and are calculated on the c.i.f. value of imports. In addition
to standard import duties, import surcharges of 75 to 200 per cent are applied to a number of items subject to import duty at a rate of 50 per cent or more.

Generally speaking, the trade restrictions on agricultural imports in Southeast Asian countries have been imposed mainly on quantitative basis. It is possible that removal of trade restriction on regional trade may result in a trade expansion. To be able to know the extent of trade expansion as a result of economic integration, however, requires a study of elasticities of import demand and export supply.

Prospects of Agricultural Trade

Demand Elasticity

The traditional theory judges the desirability of customs unions according to their trade-creating and trade-diverting effects, and the establishment of a union of developing countries would be considered undesirable if it was, on balance, trade diverting. But trade diversion may be called for if export possibilities are limited. It has been argued, for example, that an increase in the export supply of primary products from developing countries, in excess of the rise of demand on the part of developed countries would be accompanied by a fall in export prices, and, if the price elasticity of
demand for primary products is less than unity, export earnings would decline rather than increase.

Apart from the problem of price elasticity, there is another unfavorable prospect for primary exports, namely, the income elasticity of demand. In general, the income elasticity of demand for exports refers to the proportional change in quantity of exports in the exporting countries associated with a proportional change in income of importing countries. The hypothesis that primary exports have a low response to income changes in the importing countries in comparison to industrial exports has been empirically tested by ECAFE.

In the test (Table III), ECAFE used the gross domestic product (GDP) as incomes, and the volume of exports as demand changes in the time series during 1955-65. The results of the test indicate that primary exports, excluding mineral fuels, of developing countries have a low response to income changes in both developed and developing groups, while exports from world market to both developed and developing groups have a higher response to income changes. In other words, the rate of export growth of developing countries, whose economy relies heavily upon primary exports, is likely to increase more slowly than that of developed countries, when world GDP, as a whole, increases.
Table III

Rates of Growth of the Volume of Exports Related to Rates of Growth of GDP in Importing Regions, by Broad Commodity Classes

(Elasticities of Imports f.o.b. with Respect to Income)

<table>
<thead>
<tr>
<th>Designation of Food, Beverages, Tobacco</th>
<th>Crude Materials (Excluding Fuels) and Oils, Fats Products</th>
<th>Mineral Fuels &amp; Chemical Products</th>
<th>Machinery Transport Chemical Equipment</th>
<th>Other Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Exports from world to developed areas related to GDP (constant prices) in developed areas....</td>
<td>B2 1.08865 0.95675 1.98587 2.91863 2.37216 1.97383</td>
<td>R2 0.979 0.931 0.976 0.990 0.992 0.993</td>
<td>SB 0.04793 0.07818 0.09318 0.08934 0.06394 0.08992</td>
<td></td>
</tr>
<tr>
<td>Designation</td>
<td>Crude Materials (Excluding Fuels) and Oils, Fats</td>
<td>Mineral Fuels &amp; Products</td>
<td>Chemical</td>
<td>Machinery Transport Equipment</td>
</tr>
<tr>
<td>-------------</td>
<td>-----------------------------------------------</td>
<td>--------------------------</td>
<td>----------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>B₂</td>
<td>0.97028</td>
<td>0.49071</td>
<td>1.75037</td>
<td>0.77229</td>
</tr>
<tr>
<td>R²</td>
<td>0.921</td>
<td>0.892</td>
<td>0.992</td>
<td>0.783</td>
</tr>
<tr>
<td>SB</td>
<td>0.08541</td>
<td>0.05132</td>
<td>0.04685</td>
<td>0.12245</td>
</tr>
</tbody>
</table>

2. Exports from world to developing areas, related to GDP (constant prices) in developing areas....

<table>
<thead>
<tr>
<th>Designation</th>
<th>Crude Materials (Excluding Fuels) and Oils, Fats</th>
<th>Mineral Fuels &amp; Products</th>
<th>Chemical</th>
<th>Machinery Transport Equipment</th>
<th>Other Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>B₂</td>
<td>0.60685</td>
<td>0.49764</td>
<td>2.34261</td>
<td>1.93833</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.895</td>
<td>0.884</td>
<td>0.992</td>
<td>0.983</td>
<td></td>
</tr>
<tr>
<td>SB</td>
<td>0.06240</td>
<td>0.05440</td>
<td>0.06424</td>
<td>0.07539</td>
<td></td>
</tr>
</tbody>
</table>
Note: B-elasticity of exports with respect to income; $R^2$-coefficient of determination and SB-standard error of estimate. For the growth coefficients, double logarithmic equations were used; $\log y = \log a + B \log x \ (y = axB)$, where $y =$ commodity exports and $x =$ GDP. $B$ therefore measures the coefficient of import demand with respect to income. Time series between 1955 and 1965 were used.

It is noticeable, however, that the growth coefficient of exports from developing countries to developing areas related to GDP in developing areas is the lowest. This, in turn, indicates that the trade within developing group is likely to grow more slowly than the trade between developing group and developed group, or the trade within developed group. As illustrated in Table IV, the share of intra-regional trade in total trade of developing regions, except Latin America, had decreased between 1960-1964, while the annual rate of increase in intra-regional trade was very low.

While the exports of the developing countries are rising at a lower rate than its imports, the increase in agricultural production in the developed countries together with competitive markets in the developing countries result in declining terms of trade for the developing countries. The slow rate of expansion of exports and the deterioration of the terms of trade limit the ability of the developing countries to increase export earnings and this tendency is supported by reason of the low price elasticity of demand for primary products.

In the case of Southeast Asia, the region's export performance has not been satisfactory since 1960. Considerations of the region's export commodities reveal that the problems of declining demand are the basic factors resulting in the poor export performance.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Africa</strong> and Middle East</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exp.</td>
<td>7.6</td>
<td>7.8</td>
<td>7.3</td>
<td>6.9</td>
<td>6.4</td>
<td></td>
<td>2.5</td>
</tr>
<tr>
<td>Imp.</td>
<td>8.6</td>
<td>8.7</td>
<td>8.5</td>
<td>8.6</td>
<td>7.7</td>
<td></td>
<td>1.6</td>
</tr>
<tr>
<td>Developing ECAFE region</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exp.</td>
<td>24.3</td>
<td>23.3</td>
<td>21.7</td>
<td>21.8</td>
<td>22.0</td>
<td>20.6</td>
<td>.8</td>
</tr>
<tr>
<td>Imp.</td>
<td>25.4</td>
<td>22.6</td>
<td>22.3</td>
<td>22.6</td>
<td>20.8</td>
<td>19.7</td>
<td>.04</td>
</tr>
<tr>
<td>Latin America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exp.</td>
<td>8.0</td>
<td>7.1</td>
<td>7.5</td>
<td>8.0</td>
<td>9.5</td>
<td></td>
<td>10.0</td>
</tr>
<tr>
<td>Imp.</td>
<td>9.8</td>
<td>8.6</td>
<td>9.7</td>
<td>11.5</td>
<td>12.7</td>
<td></td>
<td>9.1</td>
</tr>
<tr>
<td>EEC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exp.</td>
<td>34.5</td>
<td>36.8</td>
<td>39.7</td>
<td>42.4</td>
<td>43.2</td>
<td></td>
<td>15.7</td>
</tr>
<tr>
<td>Imp.</td>
<td>34.2</td>
<td>36.3</td>
<td>37.4</td>
<td>38.9</td>
<td>40.1</td>
<td></td>
<td>15.5</td>
</tr>
</tbody>
</table>
Table IV--Continued

Note:  a excluding South Africa.

Rice

Rice experienced in recent years a major change of the market position. After almost a decade of continuous excess production and the accumulation of huge stocks in exporting countries in Southeast Asia, the region in recent years has witnessed an increase in regional demand due to rapid population growth. With an annual rate of increase in regional demand that exceeded the rate of growth of rice production, rice exports from the region have had to be sharply reduced to prevent a decline in per capita consumption. As shown in Table V, the region's share in world rice exports dropped from 53 per cent in 1952-56 to about 26 per cent in 1969, and rice exports in the region appeared to decline. On the other hand, the region's share in world rice imports increased from 19 per cent to 34 per cent during 1952-1969, and the regional imports also increased.

Recognizing the rapid increase in demand, the rice-importing countries recently have aimed at self-sufficiency in rice. Excessive policies of self-sufficiency in rice have been undertaken in most rice-deficit countries. In Indonesia, for example, 36 per cent of total public outlay was directed to the achievement of self-sufficiency in rice in 1967. In the Philippines, public expenditure under the Update Rice Programme (1967-
<table>
<thead>
<tr>
<th></th>
<th>Average 1934-38</th>
<th>Average 1952-56</th>
<th>Average 1961-63</th>
<th>1965</th>
<th>1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burma</td>
<td>3,070</td>
<td>1,440</td>
<td>1,660</td>
<td>1,360</td>
<td>541</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,390</td>
<td>1,280</td>
<td>1,420</td>
<td>1,850</td>
<td>1,022</td>
</tr>
<tr>
<td>South Vietnam</td>
<td>--</td>
<td>--</td>
<td>190</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>North Vietnam</td>
<td>1,320</td>
<td>170</td>
<td>10</td>
<td>10</td>
<td>102</td>
</tr>
<tr>
<td>Cambodia</td>
<td>--</td>
<td>--</td>
<td>240</td>
<td>3,690</td>
<td>1,866</td>
</tr>
<tr>
<td>Total, Southeast Asia</td>
<td>5,780</td>
<td>2,890</td>
<td>3,520</td>
<td>3,690</td>
<td>1,866</td>
</tr>
<tr>
<td>Percentage of World Total</td>
<td>68</td>
<td>53</td>
<td>56</td>
<td>53</td>
<td>26</td>
</tr>
<tr>
<td>RETAINED IMPORTS</td>
<td>Average 1934-38</td>
<td>Average 1952-56</td>
<td>Average 1961-63</td>
<td>1965</td>
<td>1969</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Indonesia</td>
<td>160</td>
<td>450</td>
<td>1,070</td>
<td>200</td>
<td>604</td>
</tr>
<tr>
<td>Malaysia</td>
<td>--</td>
<td>320</td>
<td>330</td>
<td>260</td>
<td>315</td>
</tr>
<tr>
<td>Singapore</td>
<td>--</td>
<td>130</td>
<td>180</td>
<td>190</td>
<td>235</td>
</tr>
<tr>
<td>Philippines</td>
<td>30</td>
<td>40</td>
<td>150</td>
<td>570</td>
<td>--</td>
</tr>
<tr>
<td>South Vietnam</td>
<td>--</td>
<td>10</td>
<td>20</td>
<td>240</td>
<td>325</td>
</tr>
<tr>
<td><strong>Total, Southeast Asia</strong></td>
<td><strong>830</strong></td>
<td><strong>950</strong></td>
<td><strong>1,750</strong></td>
<td><strong>1,460</strong></td>
<td><strong>1,479</strong></td>
</tr>
<tr>
<td><strong>Percentage of World Total</strong></td>
<td><strong>10</strong>.</td>
<td><strong>19</strong></td>
<td><strong>29</strong></td>
<td><strong>20</strong></td>
<td><strong>34</strong></td>
</tr>
</tbody>
</table>

1970) was set at 322 million pesos of the total public investment of 3.090 million pesos.²

Meanwhile, rice production has been rising rapidly in other rice-producing areas. The United States and main-land China are becoming major rice exporters, whereas rice exports from Southeast Asia are declining. The situation of world markets for rice recently has not been favorable for rice exports from the region, the world leader of rice exporters, since the world market has become more competitive. It is time for the rice-exporting countries in Southeast Asia to realize that they can no longer rely on rice trade as they have been for several decades.

Rubber

Production and exports in recent years have increased slightly and marginally. Prices of natural rubber, however, continued to drop; this was caused by a fall in demand for raw rubber in western Europe, the United States, Canada and the USSR. The decline in prices is estimated to have reduced the foreign exchange earnings of the major rubber-producing countries, especially the Southeast Asian countries.

The rise in the stocks in both producing and consuming countries may indicate a tendency for a decline in future demand. The decision of the United States in 1967 to reduce its rubber stockpile disposal program from 120,000 tons to 70,000 tons annually, as a gesture of support for the Southeast Asian countries, somewhat arrested the sharp decline in rubber price during the last 5 years.

The competition from synthetics in the rubber industry is yet another threat to exports from the Southeast Asian countries. During 1953-1966, total world rubber consumption increased approximately 100 per cent, but the proportion of natural rubber in the total declined, however, from 58 per cent to 38 per cent in the period. This decline in the importance of natural rubber has occurred uniformly in most markets in western developed countries. In the United States the proportion of natural rubber in total rubber consumed declined from 43 per cent to 29 per cent in the same period whereas in developing countries, the share of natural rubber in their consumption declined from 97 per cent to 56 per cent.4

Although the consumption of natural rubber is still increasing, unit values have continued to drop. The

4 Ibid.
Southeast Asian region is hardest hit by this decline. Malaysia has reacted to declining rubber prices by developing palm oil and other crops and by a rubber-replanting scheme to make its rubber industry more efficient. These efforts, however, have not prevented a deceleration in the rate of aggregate exports.

Intra-regional trade in rubber is confined to Singapore's imports. About 60 per cent of Indonesia's rubber exports for the whole developing Asia goes to Singapore, while Malaysia exports about 90 per cent of its rubber to Singapore. Intra-regional trade in rubber products however is modest in volume and is confined to Japan's exports to the rest of the region. The possible outcome of regional cooperation would be for the trade in rubber products to replace the trade in natural rubber. The major rubber-exporting countries, Malaysia, Indonesia and Thailand, should be capable of manufacturing tires and other products using rubber on a much larger scale than at present and exporting them to the remaining countries of the region.

Finally, it can be concluded that the trade in rubber at present is not favorable for the region due to the declining prices. Intra-regional trade in rubber is mainly directed to Singapore's entrepot trade and appears to decline. The only possible outcome of economic
integration would be the trade creation in rubber products which, however, requires the establishment of rubber industries in the region.

Coconut Products

Between 1963 and 1969, Southeast Asia produced, on an average, more than 65 per cent of the world output of coconut and copra and shipped over 77 per cent of the exports of coconut oil, copra, and kindred products.\(^5\) Among the countries in the region, the Philippines is the largest coconut producer, followed by Indonesia, Malaysia and Thailand, in that order. The bulk of the region's exports go to destinations outside the region, intra-regional trade being relatively unimportant.

Prices, however, have remained constant or have slightly risen and the rise in prices has encouraged the substitution of other oils for coconut oil. Coconut oil is replaceable to varying degrees in both food and non-food uses by other oils and fats, the principal competing oils being soybean, groundnut, cotton seed, and palm oil. Among animal oils and fats, lard, marine and whole oils also compete with coconut oil in many uses.

\(^5\) The figures were calculated and based upon statistic tables in *Production Yearbook 1970* (Rome: Food and Agriculture Organization of the United Nations, 1971), and *Trade Yearbook 1970* (New York: United Nations, 1971).
It is anticipated that the developing countries will face increasing difficulties in maintaining their exports of vegetable oils, including coconut oil, in the traditional markets in North America and Western Europe. Coconut oil is also losing ground to petroleum-based synthetics.

The development of intra-regional trade is thus an urgent necessity for the main coconut exporters of the region. While they have to explore the markets of Eastern Europe, the large scope for expansion lies in the developing countries of the region itself. Consumption of oils and fats is still very low in the region and income elasticity of demand is still higher than that of other tropical foods. Trade is, however, restricted by various barriers and many countries are developing domestic production. Others are engaged in the production of substitute oils (e.g., palm oil in Malaysia). There seems to be a case for removing import restrictions on coconut products. However, a mere liberalization will not go far enough, unless surplus and deficit countries find it possible to agree, by way of plan harmonization, on scales and purchases of specified quantities at specified prices.

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6 According to the calculation of FAO, the coefficients of income elasticity of the demand for fats and oils in most Southeast Asian countries are higher than those of the demand for cereals, sugar, vegetables, and fish. See Commodities-Projection for 1970 (Rome: Food and Agriculture Organization of the United Nations, 1962) Annex on Method, Table M.4.
Although the trade in coconut products appears to be more stable than rice and rubber, the increasing competition from substitute products may cause a decline in prices of coconut products in future trade. Intra-regional trade in coconut products, however, can be improved by regional cooperation or plan harmonization.

**Spices**

The most important type of spice is pepper which constitutes about two-thirds of the exports of all spices originating in the ECAFE region. The other principal varieties which occupy significant positions in the overall trade are nutmeg, mace, cinnamon and chilies. The principal exporters in Southeast Asia are Indonesia, Malaysia and Cambodia. Singapore is an important re-exporting country.

Pepper production is characterized by violent fluctuations. As it is a crop exposed to the hazards of weather and plant diseases, there are heavy fluctuations in the year-to-year output. These affect prices significantly, since demand in the developed countries is inelastic with respect to price. The short-term supply and price fluctuations, on the other hand, result in the unstable export earnings, and producer's incomes.

It is doubtful whether intra-regional trade can be expanded by any considerable amount through any liberalization measures, since habits regarding the consumption of spices are not likely to change very fast. The main emphasis should be placed on cooperative effort among the chief spice-exporting countries to stabilize their market conditions.

Wood

Among the primary commodity exports which showed considerable expansion are forest products. In Europe, the use of tropical hardwoods for construction has grown rapidly during the last few years, and the import of plywood, mainly from ECAFE countries, has also increased rapidly in the United States. The principal Asian exporters are the Philippines and Malaysia; the chief importer in the region is Singapore. However, the extra-regional imports of wood products from North America and Japan can be presumed to include qualities not produced in any of the Southeast Asian countries.

For this reason, the scope of diversion in trade of wood products is relatively limited. The prospects of the intra-regional trade of the region therefore depend on the growth of trade between the main exporters and other countries that do not possess high-quality wood and yet do not, at present, import wood in any quantities.
The liberalization of import restriction alone may not be enough in this case. To create a greater and more diversified intra-regional trade, the planned supplies and demands will have to be coordinated. The contracting parties of a possible economic agreement on wood would adjust their forest resources expansion and preservation plans and agree upon quantities of assured supplies and purchases.

**Policies for Trade Expansion**

**Extra-Regional Trade**

Although the Southeast Asian region's trade expansion as a whole has developed favorably since 1960, it has lagged behind the trade expansion of the other developing regions in the world. The region's exports increased at an annual rate of 4.7 per cent during 1960-1970; this was mainly attributed to the quantitative increase, since the export prices for most of the region's major primary commodities declined sharply. It may be said that the primary commodity producing countries in the region increased their export quantum in order to offset the adverse effects arising from the falling prices, and this reaction has resulted in a further fall in prices.

Moreover, the substitute products such as synthetic rubber, synthetic fiber animal oils, etc., have become more competitive in both prices and qualities, thus
resulting in a fall in price of primary products. At the same time, the shift toward synthetic materials has strongly affected the export earnings that the Southeast Asian countries derive from the sale of natural fibers and rubber.

It is true that the Southeast Asian region's earnings would have been higher, if the export prices of primary exports had been favorable. Therefore, the countries in this region should promptly take some realistic measures to prevent, or if possible, to improve, the prices from falling further. Cooperative measures among the producing countries have to be clearly indicated for working out appropriate price arrangements at least for such major export primary commodities as rubber, copra, coconut oils and spices which the region is the dominant producer in the world market.

Intra-Regional Trade

The Southeast Asian region's intra-regional trade has been long stagnant. The trade of this region, in fact, is increasingly becoming directed towards developed regions. This carries the fact that the region's trade remains heavily dependent upon exports of primary commodities to, and imports of manufactured goods from, the developed countries. It is perhaps natural for the region to expand its trade with the developed countries,
since their markets offer greater complementarity in trade than those of the developing countries. Intra-regional trade, on the other hand, expands very slowly due to the lack of complementarity.

Intra-regional trade expansion, however, can be achieved in the long run by diversifying the region's commodity exports in order to provide a greater dimension of trade. With progress in industrialization, many new items, such as processed food, cement, rubber products, veneer products, processed wood, light engineering goods, and so on, can be produced and traded within the region in addition to the traditional primary commodities.

Deliberate attempts to create complementary patterns of production among developing countries in the region would provide a basis for mutual trade expansion in these new items, and the opening up of broader markets for new exports would provide a stimulus to the domestic economy through economies of scale. A well-planned expansion of trade would reduce the pressure on the balance of payments not only for individual countries but also for the region as a whole. Accordingly, some positive cooperative action is needed to bring about harmonization of production programs and liberalization of trade among the Southeast Asian countries.

Finally, it can be concluded that prospects for trade expansion in agricultural products of Southeast Asia
do not appear very great because of the slow growth in demand, the increase in agricultural production in developed countries, and the competition from synthetic products. Considerations on the supply side also suggest that trades in agricultural commodities are in a disadvantageous position in world markets due to the relative inflexibility of supply, which, in turn, results in a violent price fluctuation.

As for intra-regional trade, it is possible that removal of trade barriers may bring about trade expansion in certain agricultural commodities, especially foodstuffs, whose regional demand is relatively high. To be able to estimate the magnitude of trade expansion in agricultural commodities in the region, it would require more of an analysis on the effect of integration of trade. Such an analysis will be the subject discussed in the next chapter.
CHAPTER IV

ANALYSIS OF THE EFFICIENCY OF ECONOMIC INTEGRATION AND AGRICULTURAL TRADE

In the preceding chapter, analyses mainly of trade patterns and marketing conditions of agricultural commodities, have been made. What needs to be done next is to analyze the efficiency of integration, which will be discussed in this chapter. Discussion will be limited to agricultural trade. Examination will also be made of the possible desirability of economic integration in the Southeast Asian region.

Will Integration Bring About a Trade Creation in the Southeast Asian Trade Flows?

Practically, intra-regional trade is not likely to be affected immediately by the measures of integration, abolition of trade barriers and/or abolition of restriction on factor movement. This is because:

Firstly, the Southeast Asian countries are competitive and sell the same commodities. Consequently, the degree of economic intercourse in the region is relatively low and trade in the region is mainly directed to extra-regional sources and destinations. The share of intra-
regional trade among the Southeast Asian countries is less than 20 per cent of their total trade; and if Singapore's entrepot trade is excluded, it falls to a mere 6 to 10 per cent. The only substantial trade, other than Singapore's entrepot trade, exists between the food-surplus countries, Burma, Cambodia and Thailand, and the food-shortage countries, including Laos, the Philippines, Indonesia, Malaysia, Singapore, and Vietnam. Among the food-surplus countries themselves, there seems to be no trade at all. For example, the volume of trade flows between Thailand and Burma falls around $200,000 per year, and only $10,000 between Cambodia and Thailand. ¹

In the food-shortage countries, most of the main intra-regional trade flows are created by Singapore and Malaysia, who were once the same country. As for Vietnam and Laos, whose economies depend almost entirely on American aid, they participate in intra-regional activities only as an importer. This is not surprising, since their total exports amounts to less than one-tenth of their total imports. The Philippines contributes no significant activity to intra-regional trade. Indonesia, however, plays a greater role in intra-regional trade by

exporting raw materials, amounting to 10 per cent of her total exports to Malaysia and Singapore, and importing foodstuffs from the food-surplus countries. Overall, although the intra-regional trade in Southeast Asia is considered more active than in other developing regions, it still is hardly significant except for foodstuffs and Singapore's entrepot trade.

Secondly, plans for the creation of integration usually involve relatively long time periods for fruition regarding future markets rather than the existing trade patterns. An analysis of the short-term effects of integration, however, can be made by focusing on the responsiveness of the demand for and the supply of traded commodities to price changes in the member countries. Such analysis, in turn, requires a study of the elasticities of import demand and export supply, and the pre-union tariff rates. Econometric methods with restrictive assumption can be scientifically used in evaluating the short-term effects or the long-term effects, but the limitations of reliable economic and technological data make such methods impractical. Even if reliable data are available, there are several practical as well as theoretical reasons to feel somewhat skeptical about the usefulness of the programming exercise in guiding economic policy towards regional integration.
Why Does the Nature of Agriculture in Southeast Asia
Play a Part in Limiting the Trade-Creating Effect of
Integration?

Since food cereals are the most important traded commodities in the intra-regional trade, the analysis, as regards the question, will thus focus mainly on the demand for and the supply of food cereal. As for other agricultural products, there is no indication that the absence of trade barriers would result in a significant change in the existing trade patterns.

A. Price Elasticity of Demand

Price elasticity of demand refers to the percentage change in the quantity of a product that consumers will buy in response to a given percentage change in price.2

In Southeast Asia, the ecological factors, as well as the characteristics of a non-commercial and agriculturally oriented economy, play an important role in determining the pattern of food consumption. As a result, only one or two main foods tend to become staple items in diet. The region, for instance, has had rice as a staple food for centuries, thus becoming the

traditional region of rice consumption and production. It is true that if the Asian people have a greater variety of foods to eat they will consume less traditional foods and vice versa. But at the present time, however, there is no other food that can replace traditional foods in the diet. It is logical therefore to expect that the proportional change in the quantity of traditional foods consumed by the Southeast Asian people will be very much less than a proportional change in prices. This means that the residents in the food-importing countries in the Southeast Asian union will consume approximately the same amount of traditional foods even if prices in these countries are lowered as a result of tariff abolition.

For the above reason, a welfare gain on the consumption side due to trade creation, as described in the theory of customs union, is of little relevance to the food trade in Southeast Asia.

B. Income Elasticity of Demand

Another type of elasticity of demand for foodstuffs, especially cereals, which also reflects the inferiority of food exports in international markets is the income elasticity. Income elasticity of demand refers to proportional change in quantity associated with a proportional change in income. It shows the responsiveness of quantity to differences in income. By a simple
question, one might be asked, will a consumer with a doubled income eat twice as much cereal? Without going into complicated statistical analysis, he would say that he may eat less cereal because he may eat more of other expensive foods such as meat or dairy products, or he may spend more of his income on housing, education, clothing, medical care, saving, etc. It is reasonable to say that the income elasticity of demand for cereals is usually low.

In the FAO estimate of coefficients of income elasticity of demand for food in some Asian countries (Table VI), it was found that in a developed country such as Japan, where the standard of living is high by the Asian standards, the coefficient of cereal consumption with respect to income change is even negative. In a less developed country with a low per capita income such as Indonesia, the increase of income per capita may result in a slight increase in cereal consumption, particularly in the low income group, but the increase in quantity will not be proportional to the increase in income.

C. **Supply Elasticity**

Supply rigidity in agricultural economy is obviously one of several features which the Southeast Asian countries share in common. As discussed earlier, the structure of traditional productions has created the
Table VI

Coefficients of Income Elasticity of the Demand by Major Items Expressed in Terms of Quantities in Some Selected Countries in Asia and the Far East

<table>
<thead>
<tr>
<th>Country</th>
<th>Cereals</th>
<th>Sugar</th>
<th>Vegetables, Fruits</th>
<th>Fats and Oils</th>
<th>Milk and Milk Products</th>
<th>Meat</th>
<th>Eggs</th>
<th>Fish</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ceylon</td>
<td>0.3</td>
<td>0.7</td>
<td>0.9</td>
<td>1.2</td>
<td>2.6</td>
<td>1.7</td>
<td>2.0</td>
<td>0.8</td>
</tr>
<tr>
<td>India</td>
<td>0.5</td>
<td>1.2</td>
<td>1.0</td>
<td>1.2</td>
<td>1.7</td>
<td>1.4</td>
<td>2.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.5</td>
<td>1.5</td>
<td>1.0</td>
<td>1.2</td>
<td>3.0</td>
<td>1.6</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.1</td>
<td>0.8</td>
<td>0.5</td>
<td>1.1</td>
<td>2.0</td>
<td>1.7</td>
<td>1.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.5</td>
<td>1.3</td>
<td>0.9</td>
<td>1.4</td>
<td>1.7</td>
<td>1.6</td>
<td>2.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.2</td>
<td>1.0</td>
<td>0.6</td>
<td>1.1</td>
<td>2.0</td>
<td>1.5</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>0.1</td>
<td>1.1</td>
<td>0.8</td>
<td>1.0</td>
<td>3.0</td>
<td>1.0</td>
<td>1.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.2</td>
<td>2.0</td>
<td>0.8</td>
<td>1.1</td>
<td>3.0</td>
<td>1.4</td>
<td>1.8</td>
<td>1.0</td>
</tr>
</tbody>
</table>

problem of supply inflexibility which, in turn, reflects a low supply response. Generally a priori hypothesis that cultural and institutional restraints make any price response of developing agriculture insignificant, appears repeatedly in literature and policy discussions which are related to developing countries. Many economists believe that the economic theories cannot analyze underdeveloped agriculture as efficiently as in the developed world, since the social systems which prevail in developing areas are different from the social systems of advanced areas not in degree, but in kind. 3

The institutional and cultural constraints limit to relative insignificance the responses which are implied by generally accepted micro-economic theory. Human inelasticity, poor capability in increasing rate of

production, inadequate transportation and facilities, a
number of oligopolistic middlemen, lack of pervasive
monetary exchange, and market imperfections not only
cause supply rigidities, but also prevent underdeveloped
agriculture from exhibiting significant price responses.

Moreover, acceleration in food production may
encounter difficulties, since the process of agricultural
production in Southeast Asia is inefficient, and over
large parts of the region a defective agrarian structure
is an enormous obstacle to the attainment of a high level
of agricultural efficiency. The only simple way for the
region to increase total agricultural output is to extend
the cultivated area. At this point, Professor Hla Myint,
in his argument against free trade in underdeveloped
countries, puts it:

This failure to achieve Adam Smith's ideal
of specialization leading on to continuous
improvements in skills can also be observed in
the peasant export sectors. Where the export
crop happened to be a traditional crop (e.g.,
rice in South-East Asia), the expansion in
export production was achieved simply by bringing
more land under cultivation with the same

4 It has been argued that the production of
underdeveloped countries, in fact, is poor, but relative-
ly efficient. That is: the peasant farmers utilize
the available equipments such as draft animals, ploughs,
etc., in a maximum degree despite the fact that such
equipments are poorly efficient by the western standards.
For extended discussion, see T. W. Schultz, Transforming
Traditional Agriculture, (New Haven: Yale University
methods of cultivation used in the subsistence economy. Even where new export crops were introduced, the essence of their success as peasant export crops was that they could be produced by fairly simple methods involving no radical departure from the traditional techniques of production employed in subsistence agriculture.\(^5\)

In the modern context, however, the method of increasing output by simply extending cultivated land is likely to be virtually closed, since the arable land frontier is becoming less available.\(^6\) To increase agricultural output, the per-hectare output of the existing cultivated land must be raised, and basic investment in land is the precondition for it in those countries with very low land productivity. Unfortunately, such basic investment is scarce in Southeast Asia, and this is one of several obstructing factors in underdeveloped agriculture.

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\(^6\) It has to be pointed out here, however, that the virtual disappearance of an arable land frontier is by no means implied in a physical sense (but presents the situation in economic terms).
Other than the basic conditions particular to agriculture--agricultural inefficiency and lack of basic investment--as discussed above, other specific conditions to the economy as a whole have to be taken into consideration as well, since agricultural sector is the core sector of the economy and likely to be affected most.

Those basic conditions are (1) population explosion which results in a surplus of labor and a potential absorption of farm products, and (2) a low per-capita income which also carries other conditions such as a high propensity to consume and a low saving and investment ratio in both agricultural and non-agricultural sectors.

The problem which arises from the combination of population explosion and low per-capita output is that the resulting small quantity of surplus or marketable farm products tends to limit the possibility of industrialization to a narrow range, since the large part of the increase of surplus farm products is likely to be consumed on the spot where it is produced.

Another problem which arises from the combination of low per-capita income and a high propensity to consume is the shortage of basic investment for raising land productivity. The basic investment to raise such productivity, however, has to encounter the initial condition regarding the low saving and investment ratios. The savings in agricultural sector are not large enough
to meet the capital requirements; but it is even more
difficult to expect non-agricultural savings to flow
into the agricultural sector without sacrificing the rate
of development of non-agricultural sector.

Generally speaking, the elasticity of supply of
agricultural exports in Southeast Asia is relatively low
due to (1) the inefficiency of production and (2) popu-
lation growth which tends to absorb the large part of the
increase of food surplus. Since supply of exports is
considered limited, chances to expand trade are not great.
Integration may encounter difficulties in bringing about
a significant increase in food trade in the union.

D. Non-Economic Condition to Agricultural Production
(Farmer's Behavior)

The behavior of farmers is considered to be one of
the non-economic factors limiting the progress of agri-
cultural production in the developing countries.\(^7\) The
problem has been widely discussed under the subject of the
motivation of the peasants related to economic progress,
or the economic rationality of the peasants in the
allocation of resources. It has been the popular thought
that the peasant farms are in fact subsistence farms,

practically self-sufficient in themselves and closed to the outside civilized society, and even where there are chances for improving their subsistence level of living by producing marketable surplus, they are not willing to do so.

The behavior of peasant farmers sometimes has been termed 'human inelasticity,' whose aspects include limited knowledge, limited tastes, limited inquisitiveness, and a natural conservatism. In Southeast Asia, such characteristics are predominant among people. The people in the region produce goods just enough for their own needs although they are capable of producing more. Moreover, the people do not take matters too seriously, they discard work at any stages, not caring whether the moment of leaving is critical to the success or failure of the job, in order to walk several kilometres to the fair.

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8 Professor Myrdal strongly puts it: "The prevailing attitudes and pattern of individual performance in life and work are from the development point of view deficient in various respects: low levels of work discipline, punctuality, and orderliness; superstitions, beliefs and irrational outlook; lack of alertness, adaptability, ambition, and general readiness for changes and experiment; contempt for manual work; submissiveness to authority and exploitation; low aptitude for cooperation; low standards of personal hygiene; and so on." Gunnar Myrdal, An Approach to the Asian Drama: Methodological & Theoretical, Selections from Asian Drama: an Inquiry Into the Poverty of Nations. A Twentieth Century Fund Study (New York: Random House, Inc., 1970), Appendix 2, p. 226.
Difficulties are frequently encountered when introducing changes, because the farmers are afraid that such changes may disturb the rhythm of village life and work. For centuries, farmers have been conditioned to the belief that one must work with nature in contrast to the modern techniques of agriculture which call for the control of nature. Consequently, the native varieties and traditional farming methods which are characterized by the resulting stability of yield remain relatively resistant to natural conditions. The problem of inheritance leading to the fragmentation of holdings is another social barrier to changes. The tradition of having many children, preference for leisure, and extravagant practices in connection with social religious ceremonies all exert an ever-present drain on the family budget. The provision of dowries and generous hospitality offered to kinfolk from far and near leave little for investment in land or for improvement which entail additional outlay.

The serious problem of the behavior of peasant farmers as described above is that it is likely to work as a factor preventing agricultural progress, even when chances to achieve agricultural progress were extended by making available improved methods of farming, reallocation of resources and a favorable change of relative prices for agriculture.
Transportation Costs and Integration

In traditional theory, it is customarily assumed that transportation costs are zero. In the less developed countries like Southeast Asian countries, however, the transportation costs may be an important factor reducing the effective size of a market area. The transportation costs in Southeast Asia are relatively high as a result of inadequacy in facilities.

Generally, more than 90 per cent of existing trade in the region uses the ocean route as a means of transportation. The Southeast Asian countries have a very few commercial fleets of their own and their ocean transport depends heavily on the western shipping lines. Quite often, the use of ocean transport in the region is hampered by the inadequacy of land and water approaches that link the ports with their hinterlands, and the insufficiency of harbor facilities. For example, it commonly takes two or three weeks for shipping lines to wait in a queue before they can load (or unload) cargoes at Thailand's ports or Indonesia's ports, while only a week or less is enough for the lines to load (or unload) cargoes at Hong Kong's ports or Japan's ports. The shipping costs between Southeast Asian ports and some of the non-Southeast Asian ports, in many cases, are even lower than between the Southeast Asian ports themselves, since the freight rates are imposed basically on economic
distance rather than geographic distance. Similarly, the lack of facilities for land transportation has caused the high costs of land transportation in the region.

The relationship between trade and transportation is by no means simple. The expansion of trade would lead to an imbalance between trade and transportation facilities, and this imbalance, on the other hand, would lead to the limitation of trade expansion. At the same time, a consideration of transportation costs within the region would speak against the expansion of intra-regional trade. The problems of transportation in the region are perhaps the factors reducing the effective size of an integrated market area, and thus limiting the extent of trade expansion.

Trade Diversion and the Southeast Asian Integration

The welfare losses as a result of trade reduction between Southeast Asia and other regions, mainly advanced regions, are expected to be relatively low. This is probably because Southeast Asian imports from other parts of the world are mainly industrial and capital goods which can hardly be produced and obtained in the region.

It is possible that after integration the Southeast Asian region, with a larger size of market area, may try to promote import substitution in order to reduce the heavy deficit in the balance of trade between the region
and the advanced regions. But considerations of economies of scale, lack of technical skills and basic facilities for industrial production, paucity of resources, and absence of competition, however, suggest that import substitution leads to inefficient investment allocations. Furthermore, the substituted products are not perfect substitutes for the products of the developed countries because of differences in quality, cost and price. Static welfare comparisons are, therefore, of little relevance to the choice of a growth strategy.

Since imported goods from the developed countries are fundamental to economic development and continue to increase in number, and import substitution is not the choice of a growth strategy in the region due to the costs of production and quality, trade diversion between the region and the advanced countries is unlikely to be affected by integration in the short run.

Integration: Welfare Gain or Welfare Loss?

Generally, it can be said that, under present-day conditions, Southeast Asian countries face certain handicaps in attempting to utilize a customs union as a means of economic acceleration. The possibilities for expanding agricultural exports are often limited due to the conditions of demand and supply and transportation problems. This would indicate that the welfare gains from trade creation are relatively limited.
Trade diversion between the region and the advance countries, however, is not suitable for present-day needs of the region. Even if a union is formed in the region, there are still a few possibilities of trade diversion. It is true that the region's trade dependence upon the advanced countries is of paramount importance and will continue to remain so for some time to come. The welfare losses from trade diverting effect due to economic integration, in this case, are expected to be minimal.

A comparison of welfare effects as a result of economic integration is now in order. Although the factors which are said to determine the trade-creating and trade-diverting effects of a customs union have only limited relevance for a union in Southeast Asia, but considerations of present-day economic conditions suggest that the formation of a customs union in the region is likely to provide, on the balance of welfare effects, the net gains to the region. The likely size of the gains is, however, too small to provide an overwhelming criterion for deciding on the desirability of economic integration in Southeast Asia.
CHAPTER V

CONCLUSIONS, COMMENTS AND SUMMARY

Conclusions

Several conclusions evolve from materials discussed in the previous chapters. The sequence of presentation is presented as follows:

1) The Southeast Asian economy is characterized by the heavy dependence on an extremely narrow range of primary commodity exports. The dependence of primary exports is readily seen as a variable which comes under great pressure, for it must bear the cost of meeting two basic demands: the requirements of rapid population growth and the increasing quantities and higher costs of needed capital imports. This is a losing battle.

2) The low level of intra-regional trade and its decline in relation to total trade is a fact of the economic environment in Southeast Asia. Similar climates and natural resources result in the production of similar agricultural products such as rice, rubber, timber, coconut, oil seeds, and hard fibers. Food is the only major commodity traded mainly within the region, but most of the food-deficit countries are attempting to achieve
self-sufficiency and control food import quotas. The final result will probably be a reduction or slowing down in the rate of increase of food trade. The prospect for expanding intra-regional trade in other primary products is also limited.

3) The nature of agricultural products which is said to be one of economic obstacles in the declining efficiency of economic integration in Southeast Asia also indicates the economic structure of the region. Supply deficiency, in fact, is the result of inefficient production, market imperfections and cultural and institutional restraints which prevail in the economic structure of the region.

4) This study argues that, in the context of the Southeast Asian region, the market mechanism of free trade cannot be relied upon as the principal method of economic integration. This is because the existing pattern of production and trade in the region is not such that the mere lifting of trade barriers among the countries in the region would considerably increase the intra-regional trade flow. The economic structures of most countries in the region lack complementarity to such an extent that there is not much prospect for expanding the commodity flow through measures of trade liberalization or a customs union.
5) In evaluating the efficiency of integration in the region, it can be concluded that the region may have slight gains, in terms of static welfare, from the balance of trade-creating effect and trade-diverting effect. This is conceivable, since there is hardly any possibility of trade reduction between Southeast Asia and other developed regions, as long as the economy of the region still remains dependent upon a narrow range of primary commodity exports and import substitution is too costly for the region. However, welfare gains from trade-creating effect are expected to be low and not sufficient enough to determine the desirability of economic integration in Southeast Asia.

Comments

Plan Harmonization: An Alternative Form of Integration

This study raises two additional questions which will be commented on at this time. Economic integration conceivably brings benefits, in terms of static welfare, to the region, but (1) why is integration in the form of a customs union considered undesirable in Southeast Asia, and (2) what is the alternative form of integration?

In the previous chapters, the discussions indicate that economic integration would result in a slight increase in static welfare in the region. Nevertheless, it is possible that each member country may not have an
equal share from the gains. This is more likely to occur if free trade is applied within a group of countries at different levels of development, such as Southeast Asia.

The goals of integration can be partially attained, in principle, by economic harmonization through intergovernmental negotiations. Plan harmonization would relieve the potential conflict between planned development of member countries and trade liberalization, since plan harmonization is based upon the intergovernmental negotiations, not upon the 'invisible hand.' Experience suggests that the mere trade liberalization not only gives insignificant gains to underdeveloped regions, but provides an unequal distribution to member countries. Plan harmonization, in contrast, is likely to offer an equal opportunity to all concerned in sharing welfare gains and more relevant to the national development plans of an individual country.

The approaches of plan regional harmonization, if the full measures of economic integration cannot be realized, are suggested as follows:

A) Development Planning -- While effective coordination of investment plans in industry, mining and agriculture, in a modest start, could be made through the exchange of information of the contents of national development plans, a national development plan of the country should take into account the development program
of other countries. Agreements on trade in certain products could be made part of agreements on the development of production in participating countries. Such partial plan harmonization, providing for the production of, and the trade in, certain commodities at different stages of production, could be envisaged for commodities and industries such as:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>rubber</td>
<td>tires, tubes and other rubber products</td>
</tr>
<tr>
<td>pulp</td>
<td>paper</td>
</tr>
<tr>
<td>fruit and vegetables</td>
<td>canned food</td>
</tr>
<tr>
<td>cotton and silk</td>
<td>textile</td>
</tr>
<tr>
<td>wood</td>
<td>timber products</td>
</tr>
</tbody>
</table>

B) Business Participation in Integrational Trade -- There are several ways of business participation in intra-regional trade, such as: 1) removal of obstacles to business travel, particularly those arising from foreign exchange and visa controls, to enable businessmen to establish contacts and to explore more fully the opportunities for intra-regional trade; (2) simplification of customs formalities, adoption of a uniform tariff nomenclature and greater exchange of information relating to customs rules and procedures, transport facilities and shipping rates, banking procedures and facilities and other matters affecting the conduct of intra-regional
trade; (3) establishment of trade information centers, trade fairs and display centers in order to increase knowledge of potential regional markets; and, (4) organization of training courses for businessmen on practical subjects such as customs and export credit procedures and other trade matters like standards of quality, satisfactory packing and prompt fulfillment of orders.

C) **Primary Commodities** -- Regional cooperation in the field of primary commodities should be done by:

(1) adoption of a common and agreed policy on appropriate commodities which the Southeast Asian countries sell outside the region, to strengthen their bargaining position by obtaining more stable and remunerative prices for these commodities and to enable them to secure a relaxation of duties and other restrictions particularly on semi-processed and processed goods; (2) measures to secure the extension of the number and scope of international commodity agreements which provide for expanding production to meet estimated demand at competitive prices. It was recognized that this could be done on the basis of a commodity-by-commodity examination; (3) regular intra-regional consultations on commodity problems in respect to appropriate major products produced in the region. Special attention should be given to problems of improving production, grades, standards and marketing. Consultations could be held on, among other commodities, rice,
maize, coconut and coconut projects, jute and kenaf, rubber, timber and marine products; (4) conclusion of long-term contracts or agreements covering mineral and agricultural products, including investment in the exploitation of untapped resources and the purchase of the products; and (5) measures for the conduct and application of scientific and technical research of a cooperation basis as a means of reducing production costs and developing new uses for the products of the region. These measures would have to be taken with reference to particular commodities or group of commodities.

D) Transportation and Communication

Cooperation in these fields would bring about an increase in size of a market area, a better mobility of internal resources, and a reduction in costs of production. Improvement of transport and communication links between the countries in the region can be done through:
(1) reduction of postal rates to the level of internal rates; (2) increase in number of air flights within the region, improvement of air transport services, and the eventual establishment of a joint airline; (3) construction and improvement of rail and road links; and (4) closer cooperation in the field of shipping, including the establishment of a joint maritime line or conference arrangement.
Summary

The traditional theory of economic integration has been applied here for evaluating the possible efficiency of economic integration in Southeast Asia. Generally, chances that intra-regional trade in traditional exports would be created after integration do not appear very great because of not only the fact that the Southeast Asian countries are competitive and sell the same commodities, but also the fact that reallocation of resources is hardly possible. The demand inelasticity, due to the inferiority of agricultural products, and the supply inelasticity, due to the supply inefficiencies and market imperfections, also play a part in preventing market mechanism to enlarge the existing intra-regional trade.

For the trade-diverting effect, as import substitution is too costly for the region and the extra-regional trade flows still remain fundamental to economic development in the region, trade diversion between the region and the outsiders, at the present time, seems undesirable, even though the region has long suffered from the extra-regional trade deficit.

Finally, the balance of the trade-creating effect and the trade-diverting effect indicates that the region may gain somewhat a static comparative advantage, since
there is hardly any possibility for trade diversion. However, the likely size of the gains as its welfare criterion is too small to evaluate the efficiency of economic integration in Southeast Asia.
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