

## EXPORT PERFORMANCE OF DEVELOPING ASEAN COUNTRIES<sup>1</sup> : PAST TRENDS AND POLICY OPTIONS

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### 1. Introduction

Despite the first oil shock in 1974 and the subsequent recession in industrialized countries (ICs), the 1970s were a period of high economic prosperity for the developing ASEAN countries. These resource-rich countries have experienced high rates of income growth which were attributed to a significant degree to rapidly intensified trade relations with each other and with the rest of the world. They were able to cope with the adverse changes in their economic environment and maintained high rates of export expansion by adjusting the composition of their exports and by diversifying their export destinations. However, the sluggish world economic activity since the second oil shock in 1979 has taken its toll also in ASEAN countries. Sharply declining commodity prices and a weak export demand for manufactured exports have caused a substantial decline in export growth in all member countries at the beginning of 1980s, thus aggravating the balance-of-payments problems which surfaced in the wake of successive oil price increase.

The purpose of this study is to examine the nature of the adjustment undertaken by the developing ASEAN countries during 1970-1985. We pose the following questions: On which commodities or products have these countries based their outstanding export performance and how has the commodity composition

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<sup>1/</sup> The term developing ASEAN countries will be used to refer to Indonesia, Malaysia, the Philippines and Thailand.

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changed? Which were the major trading partners and did the pattern of export destinations shift from extra-regional to intra-regional trade? Answers to these questions should provide some insights into the policy options of developing ASEAN countries for further expansion of their exports in the late 1980s.

## 2. Composition of Exports

The deliberate efforts of the developing ASEAN countries to expand manufactured exports have been quite successful. Table 1 shows that these countries achieved rates of growth of manufactured exports clearly above the expansion of world trade.

This success was attributed to the adoption of policy reforms in favour of diversifying the composition of their exports which in 1970 consisted almost entirely of primary commodities (ranging from 94 percent in Thailand, Malaysia and the Philippines to 99 percent in the case of Indonesia). As a result of these policy

**Table 1 : Growth of Manufactured Exports of Developing ASEAN Countries during 1970-1985, current prices.**

	Total Exports (Million US\$)			Annual Growth Rates	
	1970	1979	1986	1970-79	1979-85
ASEAN 1/	4,512	36,568	42,241	26.2	2.4
Indonesia	1,055	15,590	18,587	34.9	3.0
Malaysia	1,687	11,079	11,925	23.3	1.2
Philippines	1,060	4,601	4,607	17.7	-
Thailand	710	5,297	7,122	25.0	5.1
World Trade (billion US\$)	312.4	1,639.3	1,935.3	20.2	2.8
	Manufactured Exports (Million US\$ 2/)			Annual Growth Rates	
	1970	1979	1986	1970-79	1979-85
ASEAN 1/	223.2	4,448	12,489	39.4	18.8
Indonesia	12.2	400	2,494	47.7	35.7
Malaysia	160	1,929	5,557	38.0	19.3
Philippines	68	927	1,464	33.8	7.9
Thailand	37	1,192	2,974	47.1	16.5
World Trade (billion US\$)	172.9	870	1,021.3	19.7	2.7

1/ Excluded Singapore

2/ SITC 5+6-67-68+7+8

Source : United Nations, Commodity Trade Statistics, various issues.

United Nations, Statistical Yearbook for Asia and the Pacific various issues.

reforms (which included tariff reforms, exchange rate adjustments, liberalization of foreign direct investment, establishment of export processing zones and various other incentives) and despite the slower growth of world trade, the share of manufactured goods in total exports had risen to about 45 percent in Thailand and Malaysia, and to about 31 percent in the Philippines by 1985. Indonesia achieved a higher rate of manufactured export growth during 1979-1985 but, given the low base in 1970 and the oil price hike, the share of manufactured goods in total exports was still low (11 percent) at the end of the period.

The growing importance of manufactured exports is stated by the high shares for Thailand and Malaysia. Moreover, the almost sixfold increase of the share of manufactured exports (from 5 to 30 percent) for the four ASEAN countries as a group could provide more accurate indication of the change in the composition of exports in the 1970-1985 period.

The remarkable export performance of the four ASEAN countries in the 1970-1985 period has been accompanied by significant changes in the product composition of exports. Table 2 lists the top export products (or product groups) in 1970 and 1985 which accounted for 80-98 percent of the total exports of these countries.

The evidence presented shows that the four ASEAN countries have diversified their range of export products considerable, although exports of primary commodities have continued to account for the bulk of total exports. In 1970, when the industrial base was still very small in all these countries, almost manufactured exports consisted of resource-based manufactures. The production of these goods is based on locally available material, on some traditional skill and on relatively high labour inputs. The four ASEAN countries remained internally competitive in the production of resource-based products throughout the period. Their share in total exports increased from 2.3 to 6.2 percent. Under a deliberate industrialization policy, the industrial base widened during the period and new products became prominent in the export basket. Two important examples are electronic parts and components and clothing which both were not among the top export products in 1970.

**Table 2 : The Top Export Products of Developing ASEAN Countries, 1970 and 1985.**

1979		1985	
SITC	Share in Total Exports	SITC	Share in Total Exports
Raw Materials	66.2	Raw Materials	51.1
Agricultural Product	27.6	Agricultural Product	25.7
Resource-Based Manufactures	2.3	Electronic Parts and Components	8.2
Textile	0.5	Resource-Based Manufactures	6.2
Miscellaneous Manufactures	0.3	Textile	2.1
		Miscellaneous Manufactures	0.6
		Clothing	0.2
Total	97	Total	94

SITC- Nos for Agricultural Products : 0+1+22+4; Clothing : 84; Electrical Components 76+77; Miscellaneous Manufactures : 812+831+89 : Raw Materials 2-22+3+67; Resource-Based Manufactures 61+62+63+64+66; Textile : 65

Source : See Table 1

Comparing the export performance of each individual ASEAN countries, the changes in international competitiveness are differences, reflecting the resource endowments of the different countries Thailand and Malaysia, which were focussing on resource-based exports in 1970, had expanded into textiles, clothing, integrated circuits, and precious stones, while resource-based exports were maintained.

### 3. The Direction of Trade

The pattern of market destination was quite different between individual ASEAN countries. Indonesia and Philippines have maintained a strong orientation towards trade with Japan and the US as Table 3 shows while Thailand and Malaysia have gradually moved away from exporting to other regions, though over 50 percent of their total trade was still with Japan and the US in 1985. The relative decline of Malaysia's exports to the US is remarkable. This relative decline could be balanced by the moderate expansion of exports to Japan and other developing ASEAN countries. The trade relationship between Malaysia and the European Community (EC) has also undergone some major changes. These are in part related to the entry of the United Kingdom to the EC in 1973. While the African, Caribbean, Indian Ocean and Pacific Commonwealth countries were granted Association to the

EC under the Lome Convention and thus retained many of their well-established links with Britain, Commonwealth Asia included Malaysia found itself outside the framework of Association. For Malaysia, the effect was a weakening of her traditional ties with Britain, in particular in the field of trade.

**Table 3 : Direction of Developing ASEAN Countries by Principal Destination, 1970-1985, percentages.**

Destination	Indonesia		Malaysia		Philippines		Thailand		ASEAN <sup>1</sup>		
	1975	1985	1975	1985	1975	1985	1975	1985	1970	1975	1985
Singapore	8.9	6.0	18.5	19.5	1.4	5.4	8.4	7.9	3.0	9.7	10.3
ASEAN <sup>1</sup>	1.4	1.9	1.3	5.2	1.3	6.0	7.5	6.3	2.2	2.3	4.6
Japan	44.1	49.1	5.9	10.8	37.9	19.0	25.6	13.4	28.1	32.1	28.4
US	26.3	22.7	18.5	16.9	28.5	35.9	10.2	19.7	19.6	22.5	22.0
EC	5.7	6.2	25.5	14.8	16.2	13.6	14.8	18.5	15.4	13.0	11.6
Other	13.6	14.1	30.3	32.8	14.7	20.1	33.5	34.2	31.7	20.4	23.1

Source : See Table 1.

The significant shift in Thailand's export shares occurred in the case of export to the US which increased from 10 to 20 percent of total exports. The pattern of export destination in Thailand is also characterized by an decreasing dependency on Japan.

As a whole, the four ASEAN countries still depended on a few export destination. The main trading partner of these countries is Japan which accounted for one third of the total exports in 1985. However, the US has remained the second most important market for ASEAN exports, and Japan and the US together accounted for about half of the total export from ASEAN countries in 1985. The EC has become less important trading partner : EC's share in the total exports of ASEAN countries has declined from 15.4 in 1970 to 11.6 in 1985.

The relative decline of ASEAN exports to Japan during 1975-1985 suggests that ASEAN countries have been effected by the worldwide recession following the second oil price shock in 1979 until 1982 when the economic activity slowed down markedly in Japan. The high dependency on the Japanese market means a sluggish export demand for ASEAN products during 1979-1982. Even if the economic recovery took place in the US and Europe after 1983, the upturn in these countries could not much benefit the developing ASEAN countries.

Concerning intra-ASEAN trade more specifically, which accounted for about one quarter of ASEAN exports, a change of emphasis is noticeable. Trade

1/ Excluded Singapore

relations with Singapore were greatly enhanced during 1970-1985 while trade between the other four members of ASEAN remained virtually unchanged despite various efforts of the member countries to expand mutual trade. The evidence suggests that these efforts did not have much of an impact on total trade volume and that countries at similar levels of economic development such as the four members of ASEAN observed here tend to trade with more developed countries rather than with each other.

#### **4. Policy Options and Conclusion**

The analysis of the changing pattern of exports of developing ASEAN countries has yield some features which could help to understand the trade performance of these countries in the latter half of the 1980s. These countries have diversified their manufactured exports in the 1970s and maintained close trade relationships with Japan, the US, and the EC. The rapid expansion of manufactured exports roughly followed a pattern in line with the neo-factor proportions hypothesis. Developing ASEAN countries efficiently used their abundant labour supply for the export of unskilled-labour-intensive products such as simple consumer goods and electronic parts and components.

Export revenues of the developing ASEAN countries continued to rely on primary commodity exports (inclusive oil, gas and food) which in 1985 represented over 90 percent of total exports in Indonesia and over 50 percent in the other three countries.

As regards the direction of trade, the following features emerge from the analysis. Japan was a major trading partner of the developing ASEAN countries but only with respect to exports of primary commodities and resource-based products. Manufactured exports went to the US and the EC.

In the case of intra-ASEAN trade, the developing ASEAN countries still focused on primary commodities. A substantial share of these exports was absorbed in trade with Singapore rather than with the other four members of ASEAN. As a whole, intra-ASEAN trade still accounted for roughly one quarter of ASEAN exports in 1985.

Given this pattern of trade at the beginning of the 1980s we can now address the prospects for a sustained growth of exports from developing ASEAN countries in the latter half of the decade. The prolonged and severe recession in ICs has had a dramatic impact on exports from developing countries. During 1979-1985, export expansion had come to a standstill in most of the developing ASEAN countries and export revenues even declined in absolute terms in some countries such as Malaysia and the Philippines.

In addition to the economic slump in ICs, export expansion of developing ASEAN countries was slowed down in the early 1980s by the emergence of a new wave of protectionism including, for example, a restrictive Multi-Fibre Arrangement, Voluntary Export Restrain Agreements and an increase in non-tariff protection particularly in the EC. Most of these measures are directed against imports from both developing and other industrialized countries. The impact on the export of the developing ASEAN countries is, however, severe because of the high weight of the sensitive products in the export basket of these countries, in particular clothing, textiles, miscellaneous products, some resource-based products and electronic parts and components.

For ASEAN countries, protectionism has contributed to the resurgence of export pessimism despite the economic recovery in ICs. One who views supply constraints in developing countries as the major obstacle to a future expansion of manufactured exports may take an opposite view. We, however, do not wish to contribute to this debate on demand versus supply constraint. Rather, some of the options available to ASEAN countries for sustaining high export growth are briefly surveyed against the experience of the 1970-1985 period.

The four ASEAN countries would slightly benefit from a revival of demand in the US and the EC in term of simple consumer goods and electronic parts and components. However, the restrictions in these developed countries, aimed in particular at these goods, would remain a major stumbling block. It is also questionable whether their access to Japanese markets with simple traditional consumer goods could be improved. Japan, however, has been an important outlet for primary commodity exports of the four ASEAN countries once the country has recovered from the economic slump.

Intra-ASEAN trade could be an important part of the ASEAN trade relationships in the late 1980s. However, the prospects for this trade are ambiguous. Declining oil revenues, shrinking aid flows and balance of payment problems in almost all member countries will have an adverse effect on the import demand of these countries.

Even if external demand for commodities were to increase considerably, the impact on total export revenues is likely to be modest and subject to sudden supply or demand disruptions. Recent experience has shown that, in the face of declining world prices for commodities in 1981 and 1982, efforts to cope with price instability through international commodity agreements have proved ineffective. Despite the mobilization of a variety of stabilization instruments, including export quotas, buffer stocks and even production cutbacks, these schemes have so far been unsuccessful in reversing price declines or improving export volumes. The four

ASEAN countries will, therefore, have to continue their efforts to diversify and expand manufactured exports if export revenues are to be stabilized and increased substantially.

Despite protectionism, the four ASEAN countries still may have a fair chance to continue their former successful export performance, essentially for two reasons :

First, rising wage levels in the newly industrializing countries (NICs) reduce the international competitiveness of these countries in clothing and textiles products as well as electronic parts and components, and there is scope for countries at lower levels of industrial development such as the four members of ASEAN countries to take the place of NICs in exporting these products to other industrialized countries.

Second, for countries with a comparative advantages in the production of labour-intensive goods there is considerable scope for export expansion in products other than clothing and textiles. For example, Thailand's diversification into such labour-intensive goods as integrated circuits, china, glassware, furniture and footwear offers as promising prospects for trade with developed countries.

Summarizing, it seems over-optimistic to expect that the export boom which the four ASEAN countries experienced in the 1970-1985 period will continue until the end of the 1980s. However, these countries still may have a chance to success if they are well-placed to do better than others in the current decade despite past rates of export expansion can not be sustained.



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