



INSTITUTE OF SOUTHEAST ASIAN STUDIES

# **ASEAN Co-operation and Intra-ASEAN Trade**

Hans Christoph Rieger

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by

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## INTRODUCTION

One of the main purposes of economic co-operation in ASEAN (Association of Southeast Asian Nations) is to improve the international division of labour within the region. To the extent that such division of labour is achieved, trade must increase among the member countries of ASEAN in order to distribute the products of each country to the centres of demand in the others. An increase in the share of intra-ASEAN trade in total ASEAN trade can thus be looked upon as a measure of success of ASEAN economic integration.

Several of ASEAN's economic co-operation programmes entail selective and preferential liberalization of trade within the region. The products of the ASEAN Industrial Projects (AIP) are to be accorded freedom from tariffs in the member countries. The ASEAN Industrial Complementation Scheme (AIC) specifically intends to implement the division of labour within selected industries (for example, the automotive industry) and to accord duty-free privileges to the items produced under the scheme in the various ASEAN countries. And, perhaps most important, the Preferential Trading Arrangements (PTA) have the sole purpose of facilitating the increase of trade within ASEAN by giving preference to ASEAN-produced goods over goods from third countries.

This paper examines the record with regard to intra-ASEAN trade. In Section 1 the problems of obtaining and evaluating the statistical evidence are discussed. Section 2 presents the relative magnitude of intra-ASEAN trade in total ASEAN trade and depicts the trends over the last decade or so. Section 3 turns to the various trade flows between individual ASEAN countries and evaluates their relative importance in the light of overall intra-ASEAN trade. In Section 4, a first attempt is made to analyse the composition of the individual trade flows. Finally, in Section 5 some conclusions are drawn from the analysis and a proposal is outlined for an alternative approach to ASEAN economic co-operation.



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## THE STATISTICAL EVIDENCE

The most important data source for an analysis of ASEAN trade directions is the Direction of Trade Statistics Yearbook of the International Monetary Fund (IMF). This lists for each country the exports to and imports from each other country in millions of U.S. dollars for seven consecutive years. Thus the 1984 yearbook, the latest presently available, provides time series from 1977 to 1983. By combining the data from various yearbooks it is possible to extend the time series backwards. In our analysis we have combined the yearbooks of 1982, 1980 and 1984 to create the time series 1973 to 1983.

However, this data base has a number of drawbacks. For instance, one of the major trading partners of the ASEAN countries, the Republic of China (Taiwan) is excluded from the IMF statistics. The reason for this is that Taiwan has been ostracized from the international community by the international organizations to an extent that practically negates its existence in official publications. It is possible to close this gap by making use of the Taiwanese statistics. This has been done by inserting Taiwanese exports to ASEAN countries as imports of these ASEAN countries from Taiwan and, vice versa, Taiwanese imports as exports of the ASEAN countries to Taiwan. It would have been equally feasible to extract the required data from the country statistics of the ASEAN countries, but this would have left gaps in some years of the time series and, since each country provides information on foreign trade only in its own currency, it would have required more extensive calculations to obtain the trade data in millions of U.S. dollars.

During the course of calculations it was found that significant discrepancies between exports and imports of Singapore and the corresponding imports and exports of its trading partners emerged. These discrepancies are due to the fact that Singapore includes re-exports in its export statistics, thus leading to a large extent of double counting. (See the Appendix for details

of Singapore's system of recording trade statistics.) For instance, when a Malaysian exporter ships his goods through the Port of Singapore to the United States, Malaysia considers this as an export to the United States, while Singapore considers it as an import from Malaysia and an export to the United States. Thus, when the statistics of the ASEAN countries are combined to calculate extra-ASEAN trade, such double counting leads to an overstatement of exports to the United States and to a discrepancy between the figures for Singapore's imports from Malaysia and Malaysia's exports to Singapore. In the same way, when Malaysia imports goods, say, from Japan via the Port of Singapore, Singapore's trade statistics will include both an import from Japan and an export to Malaysia that has already been accounted for in the Malaysian statistics. While it is possible by recourse to Singapore statistics to divide out Singapore's re-exports from its total exports to its ASEAN partners, it is not feasible to do this on the import side. This is because the Singapore statistics list their re-exports only by destination, but not by country of origin. One way of getting over this difficulty is to substitute the statistics of Singapore partner countries, making an allowance for insurance and freight on the basis of some arbitrary or average coefficient. In the case of our examination of ASEAN trade, we have undertaken this recalculation on the assumption that insurance and freight comprise 10 per cent of export value. In this way we have also been able to make the intra-ASEAN trading matrix more consistent than it would otherwise be.

The third major difficulty with regard to the data base is the fact that Singapore does not publish any statistics on trade with Indonesia. Singapore compiles these statistics for internal use, but access is restricted to a few government officials only. The reason for this as stated unofficially by an official of the Department of Trade of the Government of Singapore is that there had been a tendency to construe the discrepancies between Indonesia and Singapore's trade statistics as a measure of the amount of smuggling taking place between the two countries. In fact, according to this statement, the discrepancies were due to the double-counting implied by the inclusion of re-exports in the Singapore statistics, as described above in the case of Malaysia. It is no secret that some amount of clandestine trade between Singapore and Indonesia exists and that Singapore has little interest in contributing to the exact estimation of its magnitude. In any case, it is very likely that any official statistics on trade between Singapore and Indonesia will underestimate the volume of actual trading that goes on. It is obviously not possible to obtain official data for what might be termed the "informal" foreign trade within ASEAN, and no estimates have been made to date. It is likely that its magnitude,

while considerable, is not overwhelming in financial terms but contributes substantially to employment. What we have done is to utilize the Indonesian statistics to make up the gap in the Singaporean statistics, that is, Indonesia's official imports from Singapore have been inserted as Singapore's exports to Indonesia, and Indonesia's official exports to Singapore have been inserted as Singapore's imports from Indonesia. No adjustment was made for freight and insurance, since this would have further reduced figures already considered to be underestimates. While this procedure may seem unsatisfactory in estimating actual trade volumes (including clandestine trade), some idea of the trends over a time series may still be obtained.

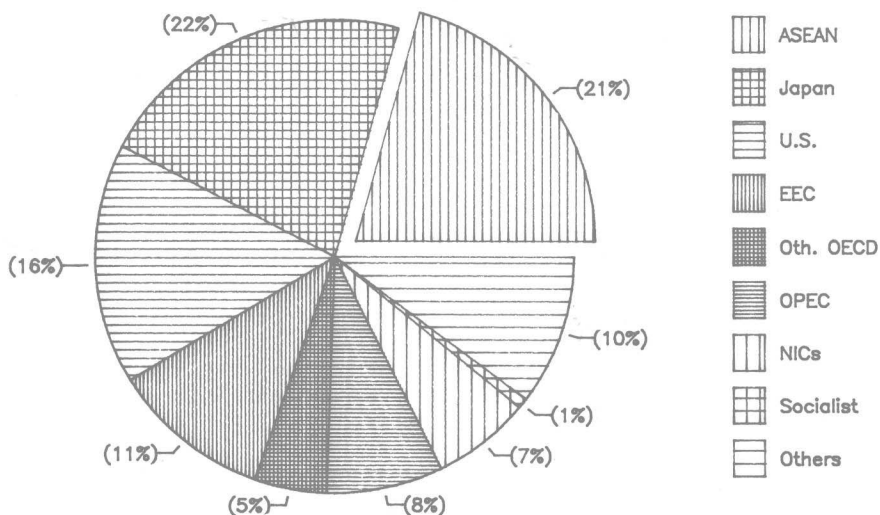
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## INTRA-ASEAN TRADE AS A PROPORTION OF TOTAL ASEAN TRADE

Figure 1 presents the breakdown of ASEAN trade (exports plus imports) in 1983. Trade with Japan is the single biggest component (22 per cent). The other major items are trade with the United States (16 per cent) and with the European Community (11 per cent). Trade with member countries of OECD (Organization for

FIGURE 1

### ASEAN Trade by Major Trading Partners (1983)

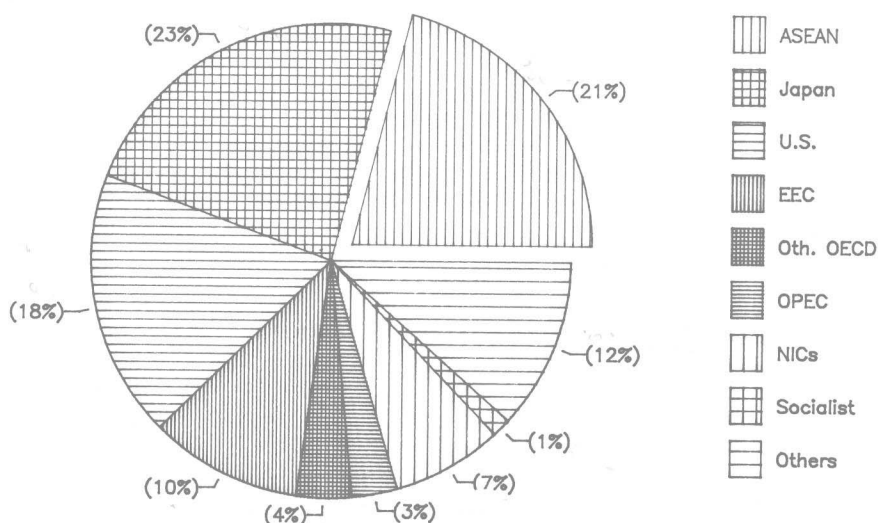


Economic Co-operation and Development) countries in all accounts for almost 54 per cent of total ASEAN trade.

Figures 2 and 3 present breakdowns for the same year, but separated according to exports and imports. The main difference

FIGURE 2

ASEAN Exports by Major Destination (1983)

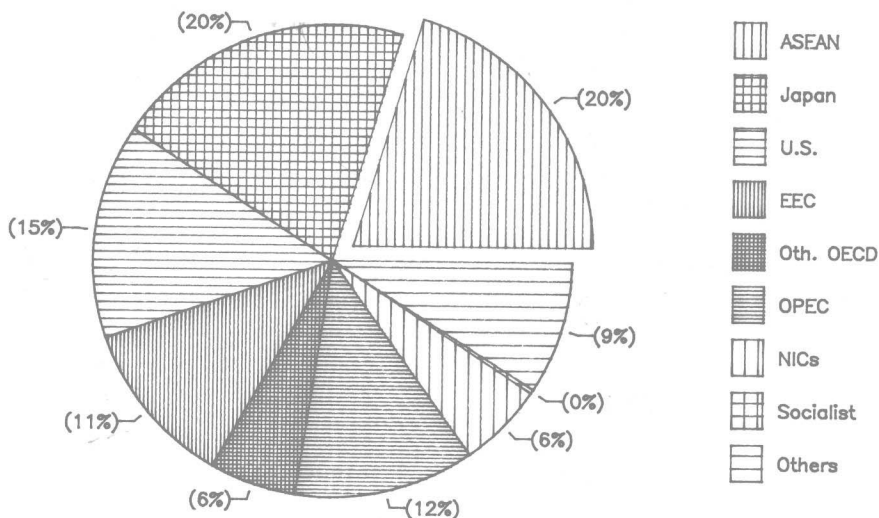


is to be found with regard to the role of the oil exporting developing countries, that is, essentially OPEC (Organization of Petroleum Exporting Countries). While ASEAN exports to OPEC countries accounted for 3 per cent of total ASEAN exports, as much as 12 per cent of ASEAN imports came from OPEC countries in 1983, exceeding even the imports from the EEC (European Economic Community). In passing, one might note the very low share of trade with the countries of Eastern Europe and with the Soviet Union grouped under "socialist countries".

It is worth comparing the breakdown of ASEAN's trade by major trading partners in 1983 with the situation a decade ago. Figure 4 presents the breakdown of total ASEAN trade for the year 1973. The main difference in comparison to 1983 is the relative

cent) in 1983. Ten years ago the share of EEC trade was far more important than today (16 per cent as opposed to 11 per cent),

FIGURE 3  
ASEAN Imports by Major Origins (1983)



while OPEC trade was of relatively minor significance in 1973 (3 per cent) compared to 1983 (8 per cent). In the latter case the oil price rises in 1974 and again in 1980 (first and second "oil shock") undoubtedly played a major role. This is borne out by comparing the breakdown of imports in 1973 in Figure 6 with the corresponding breakdown of imports in 1983 in Figure 3. In 1973, imports from the OPEC countries comprised less than 6 per cent of total ASEAN imports, and this rose to 12 per cent by 1983. On the export side, Figures 2 and 5 show that ASEAN exports to OPEC countries comprised only 1 per cent of total ASEAN exports in 1973, and this rose to just over 3 per cent in 1983.

The significance for intra-ASEAN trade in the strong expansion of trade with OPEC countries is this: if oil prices had developed in line with overall prices in the world economy, the increase in the share of intra-ASEAN trade in total ASEAN trade from 1973 to 1983 would have been even more pronounced than

FIGURE 4

ASEAN Trade by Major Trading Partners (1973)

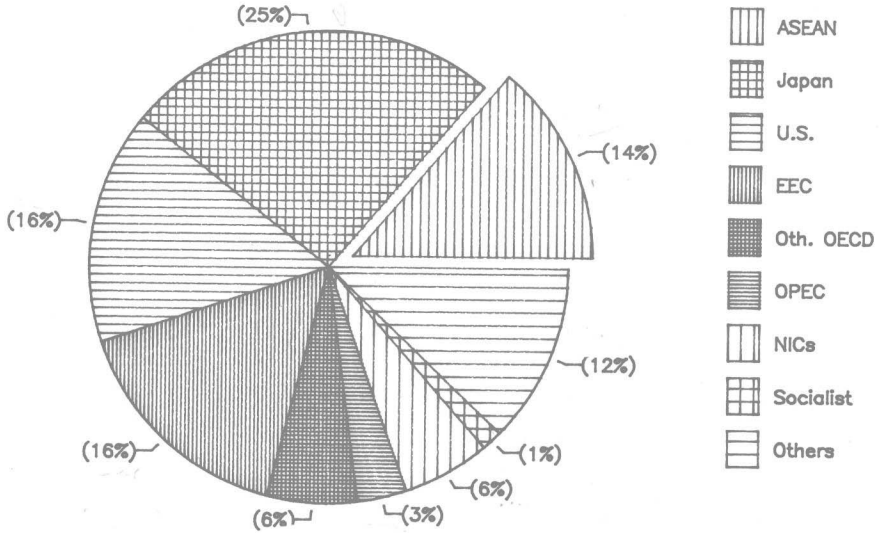


FIGURE 5

ASEAN Exports by Major Destinations (1973)

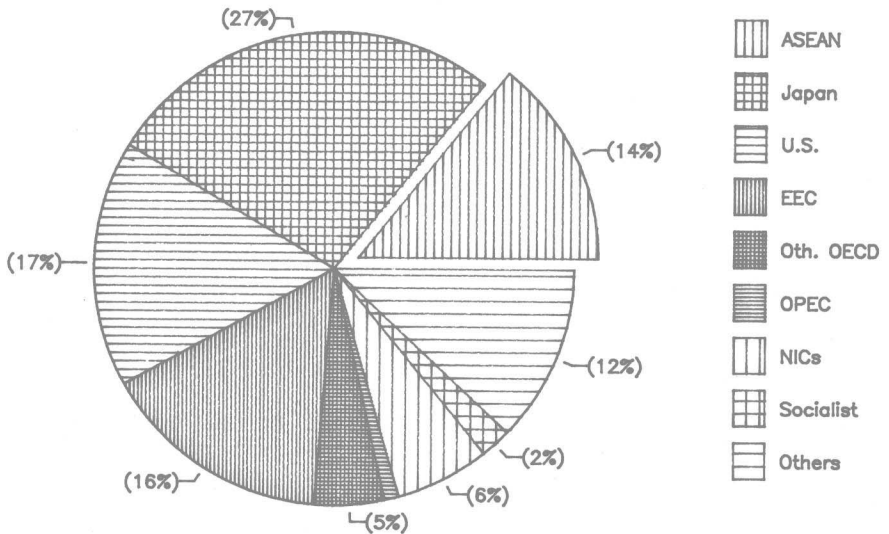
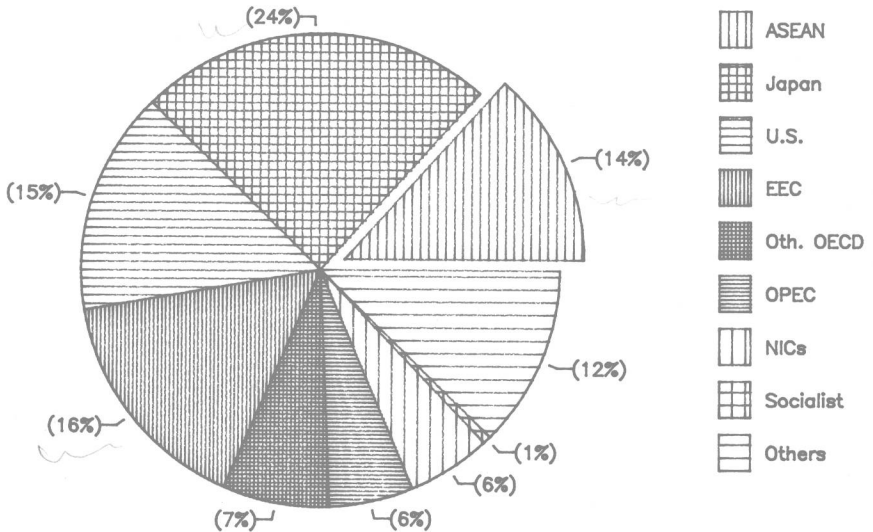


FIGURE 6

ASEAN Imports by Major Origins (1973)



indicated by the figures presented above. Even the mere maintenance of the 1973 share of intra-ASEAN trade in total trade would have had to be regarded as a success. The fact that the share increased substantially from 14 per cent to 21 per cent over ten years in the face of drastically rising oil prices must, therefore, be considered a spectacular achievement.

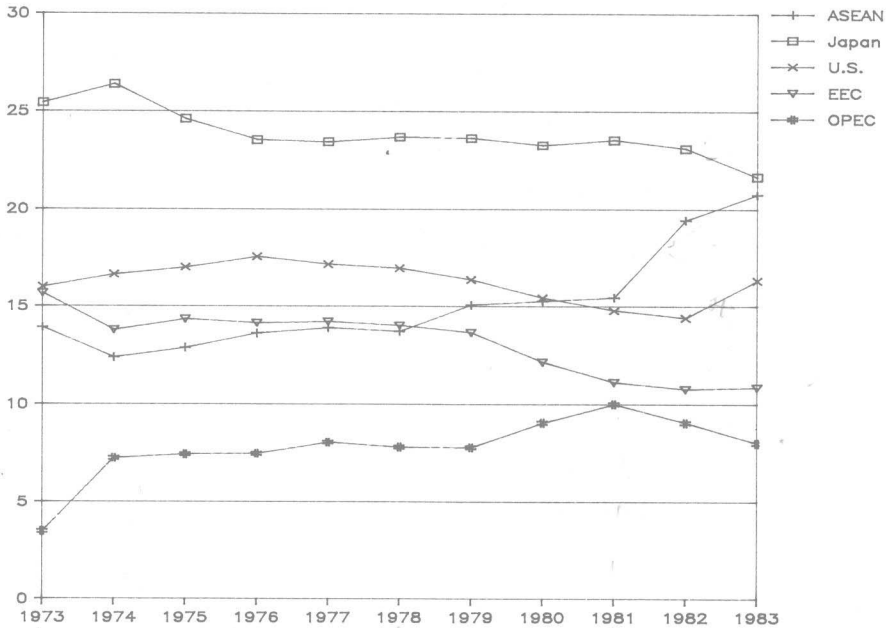
Nevertheless, in comparison with trade within the European Community, the level of intra-ASEAN trade is still quite low. Within the EEC, 50 per cent to 60 per cent of all trade is conducted between member countries of the Community. Even if present trends continue, it will obviously be some time before ASEAN can achieve anything like this level of economic integration.

In addition to comparing the two end points of our time series, it is useful to analyse year by year changes from 1973 to 1983, in order to gain an impression of more recent trends and to see what degree of fluctuation there is from year to year. Figure 7 depicts various components of intra-ASEAN trade as percentages of total ASEAN trade year by year for the period from 1973 to 1983.



FIGURE 7

## Shares of Total ASEAN Trade (per cent) 1973-83



It is evident that, while intra-ASEAN trade has grown consistently from year to year -- with the exception of 1974, when the steep rise in oil prices cut into all other elements of trade -- the share of trade with some major OECD countries has declined. This is particularly evident for the EEC, whose share in total ASEAN trade has dropped consistently every year except in 1983, and for Japan, whose share also dropped in nine of the ten years considered, although still remaining at a high level. In the case of ASEAN-U.S. trade, the trend has fluctuated, with the 1983 share of total ASEAN trade lying higher than in 1973, a reflection of the strong U.S. recovery beginning in 1983. (Closer analysis shows that the recent increase in the share of trade with the United States is overwhelmingly attributable to the increase of the share of ASEAN exports to the United States during the period.) The share of OPEC trade in ASEAN total trade has grown throughout the period up to 1981, after which the decline of oil prices began to be felt. Trade with OPEC consisted mainly of ASEAN imports, which outweighed ASEAN exports to OPEC almost 4.5 times.