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Regional economic integration between developing countries: The example of South and South-East Asia

Intereconomics

Suggested Citation: Wagner, Norbert (1983) : Regional economic integration between developing countries: The example of South and South-East Asia, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 18, Iss. 6, pp. 270-277, <https://doi.org/10.1007/BF02928230>

This Version is available at:

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developed members have not been adequately dealt with. A further weakness is that so far only secondary attention has been given to the overwhelmingly important non-tariff aspects of cooperation – including monetary cooperation and convertibility – the lack of which (except within CEAO most members of which enjoy a common currency) is probably a more important obstacle to trade expansion than are tariff barriers.

It would be presumptuous to condemn this strategy out of hand – the political dynamics of regional integration are complex and uncertain. However persuasive a more limited approach to integration founded on selective industrial cooperation might be, there can obviously be no assurance that it would in the end be any more productive. But it can hardly be questioned that regional groupings whose common

institutions lack a strong capacity to identify, evaluate and promote significant industrial (and infrastructural) cooperation projects and to identify concrete development gains for its members, will find it difficult if not impossible to develop the impetus needed to sustain fruitful regional cooperation. To develop a significant West African capacity in these fields, greatly strengthened Secretariats, Community Funds and regional development banking institutions will be necessary. At a national level, priority needs to be given to those specific adjustments that would be required to implement joint projects. A willingness to develop effective instruments for industrial cooperation, and to use them, is likely to be the single most crucial determinant of the future role of regional integration in West Africa – and no doubt, of similar arrangements in other less developed regions.

REGIONAL INTEGRATION

Regional Economic Integration between Developing Countries

The Example of South and South-East Asia

by Norbert Wagner, Heidelberg*

Attempts by many developing countries to obtain the benefits offered by various forms of economic integration date back to the end of the 1950s; the successful example of the EEC aroused hopes of a comparable economic advancement. Consequently, a Committee for Economic Cooperation between Developing Countries which was expressly intended to deal with the 'special integration problems of those countries was formed at the Second United Nations Conference on Trade and Development (UNCTAD II, New Delhi, 1968).

The following can be cited as examples of such attempts at integration between developing countries with varying degrees of success:

□ ALADI, Asociación Latino-Americana de Integración (founded in 1980 to replace LAFTA, 11 member states),

□ ASEAN, Association of South-East Asian Nations (1967, 5),

□ CARICOM, Caribbean Community and Common Market (1973, 12),

□ CACM, Central American Common Market (1963, 5),

□ CEAO, West African Economic Community, (1974, 6),

□ ECOWAS, Economic Community of West African States (1977, 16).

The concept of cooperation between developing countries was given new impetus by the Arusha Declaration and the Action Programme of the Group of 77 (1979)¹. The central component of this action programme is a medium-term action plan (First Short Medium-Term Action Plan for Global Priorities on Economic Co-operation among Developing Countries) which is to be implemented by the developing countries

¹ Cf. UNCTAD, Arusha-Programme for Collective Self-Reliance and Framework for Negotiations. Note by the Secretary-General of UNCTAD, TD/236, 28 February 1979. See also: Bremer Ausschuss für Wirtschaftsforschung: Auswertung der Dokumentation der fünften Welthandels- und Entwicklungskonferenz: Manila 1979, Baden-Baden, 1981, pp. 896 ff.

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themselves. Support is demanded from the industrial countries and the United Nations. The main points of the action plan are:

- ☐ a comprehensive system of trade preferences between developing countries (Global System of Trade Preferences, GSTP). Short-term objectives: strengthening and combining the existing preference systems (preferences are considered as the main mechanism for promoting trade, production and employment);
- ☐ cooperation between government trade organizations;
- ☐ multinational marketing organisations;
- ☐ technical cooperation;
- ☐ exchange of skilled and management staff, a pool of manpower;
- ☐ special measures for LLDCs (reserved markets, training programmes, financial aid);
- ☐ cooperation on financial policy.

The action plan was discussed at a number of international conferences. The idea of "collective self-reliance" was also eventually incorporated in the resolutions of UNCTAD V and in the international development strategy for the United Nations Third Development Decade (1981-1990).

Forms and Effects of Integration

Integration between developing countries can relate to a wide range of fields (e. g. culture, politics, communications) and need not be limited to the economic aspects². Yet even the term "economic integration" is linked with various conceptions (e. g. regional or global). Differences in the intensity of economic integration are reflected in different forms of integration, such as preferential areas, free trade zones, customs unions, common markets, economic unions and complete integration.

Needless to say, the type and extent of the potential beneficial and detrimental effects of any regional integration depend upon the form of integration in question. The attempts at integration between developing countries – as in South-East Asia – are usually oriented towards the first stages of integration, the establishment of a preferential area or a free trade zone by removing the tariff and non-tariff obstacles to trade without fixing a common external tariff.

The establishment of an integrated area results in trade creation as well as trade diversion. The welfare

effects depend upon whether or not the most efficient suppliers of the various products are involved in the integration.

Dynamic effects of integration occur in addition to these static ones. Regional integration makes it possible to protect "infant industries" on a regional level at an overall cost lower than that of a corresponding customs protection in each individual country. The costs of regional protection for infant industries are less because they can produce for a larger market and the region's market probably has more intensive competition than the market of any specific country. The markets of the partner countries can be used to test international competitiveness.

Regional integration also allows better utilization of economies of scale for the realization of which the markets of individual developing countries are frequently too small. In addition, competition becomes more intensive in an integration area, compared with the protected national markets. Finally, the establishment of regional integration strengthens the member countries' international position in both political and economic terms.

Regional integration does, of course, have some drawbacks, all of which derive to varying extents from the fact that integration is not worldwide but merely regional. Imports from partners in integration may be more expensive than from the rest of the world; less intensive competition results in more expensive production and delay in introducing new technologies; concentration upon the regional market leads to the loss of potential profits from specialization and trade with the rest of the world. The scale of these drawbacks depends upon the economic measures applied in each case by the members of the integration (e. g. the level of the external tariff and the duration of regional protection).

On the whole, however, regional integration can offer a suitable means of escape from the dilemma in which many developing countries find themselves: on the one hand, their domestic markets and their resources endowment are not large enough to allow them to manage entirely without foreign economic relations (such as China up to the end of the 1970s) while, on the other hand, in many developing countries the preconditions for complete exposure to the outside world have been insufficiently developed. Thus regional integration combines free trade within the region with protection of the region from the rest of the world.

² Thus the term "collective self-reliance" includes not only economic cooperation but also cultural and political aspects.

Cooperation in South Asia

The relations between South Asian states³ can by no means be described as being even rudimentary attempts at regional integration. The political and economic supremacy of India will in any case scarcely encourage such attempts. Neither will India expect any advantages for itself from regional integration nor will the other countries in the region seek over-close dependence upon their large neighbour. In addition, the political will without which economic integration is unthinkable is lacking. The political relations are instead characterized by many, in some cases fundamental conflicts, e. g. with regard to Pakistan and India, the unsolved question of Kashmir, the Pakistani atom bomb and the military support which Pakistan obtains from the USA and India from the Soviet Union while there are tensions between India and Bangladesh concerning the drainage of water from the Ganges to the Brahmaputra, the problem of the minorities in Assam which has recently flared up again and the disputed claims to an island in the Bay of Bengal.

Moreover, there is only a small volume of intra-regional trade. For example, only 8.2 % (1981) of Bangladesh's total exports went to the southern Asian countries, Pakistan alone accounting for 5.3 %. India supplies just under 3 % of its total exports to its neighbours even though its export structure could make it a suitable exporter of industrial goods which are not manufactured in the other countries of South Asia. Although in the past India has tried to expand its exports to its neighbours, it allowed hardly any increase in their

exports to India and, as a result, those countries also had to introduce protective measures in order to prevent deficits in their balances of trade with India⁴.

Trading relations between India and Bangladesh are, however, to be extended; at its first meeting in November 1982 the Indo-Bangladesh Joint Economic Committee concluded loan agreements (approx. US \$ 67 million) and India consented to the establishment of joint ventures for producing cement and iron in Bangladesh. Other cooperation projects are planned. Nepal is a special case. Because of its geographical location, almost all of its foreign trade has to be handled via India (mainly through Calcutta but in part through Bombay as well) and so it is entirely reliant upon the goodwill of the Indian authorities. Yet India is not merely a transit area: it is also the main customer for Nepal's exports, buying more than 70 % (1981)⁵. As a result, Nepal is making particular efforts to reduce this one-sided dependence in its trading relations: firstly, by diversifying its regional export structure and, secondly, by endeavouring to switch to Bangladesh as an alternative transit country. In the early 1980s an agreement was concluded between Nepal and Bangladesh whose provisions included the possibility of Nepal using Chittagong as an export port⁶. Even though this also means crossing Indian territory (approx. 100 km), the crucial objection to using Chittagong was not raised by the Indians but consisted of the fact that Bangladesh offered inadequate preconditions. For instance, it was impossible to provide adequate transport facilities (e. g. railway trucks) and the capacity

³ Only Pakistan, India, Nepal, Bangladesh and Sri Lanka will be considered here.

⁴ Cf. C. D. M a s s : Indien-Nepal-Sri Lanka: Süd-Süd-Beziehungen zwischen Symmetrie und Dependenz, Wiesbaden 1982, especially pp. 112 ff.

⁵ Moreover, the official foreign trade statistics do not give figures for all the trade because smuggling between India and Nepal is an important factor.

⁶ In addition to the port of Chittagong as the most important one, the ports of Chalna, Khulna and Tistamukh-Ghat are also to be used.

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ISBN 3-87895-231-7

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of Chittagong port was unable to cope with the additional traffic.

Nor, according to the conclusions of a United Nations' study which analyses the status of earlier recommendations of various organizations for improving Nepal's export potential, has there been any improvement in this field⁷. The transport capacity could not be expanded; purchases of new railway trucks have indeed been proposed but not yet carried out; no arrangement concerning Nepal's rail transport has been made with the railway administrations of India and Bangladesh; nor has there been any attempt to obtain more rail transport capacity from India or Bangladesh. A maximum of 400 t of goods per week can be transported from Chittagong port for Nepal; the existing storage capacity is insufficient to take additional Nepalese imports.

In August/September 1982 a joint committee from Nepal and Bangladesh discussed the problem of the transit trade through Bangladesh and tried to work out possible solutions.

Pakistan's trading relations with its South Asian neighbours, similarly to those of Bangladesh and India, are not very intensive (5.5 % of its total exports, 1981). Even exports to Bangladesh, the former East Pakistan, are low in volume and their proportion is actually falling. Deliveries to Nepal are also insignificant. Yet Nepal and Pakistan have recently granted each other most-favoured-nation treatment⁸; air cargo flights between the two countries are also to be arranged.

Sri Lanka's exports to the other nations of South Asia are also small as a proportion of its total exports (8.9 %, 1981); only exports to Pakistan have reached any noteworthy level (5.6 %) but they have been falling off in recent years. It should also be mentioned that Sri Lanka has recently been trying to re-intensify its trading and other links with India. The possibilities of greater economic cooperation were also improved by the treaty on the final phase of the Tamil repatriation (1974) and the settlement of frontier disputes (1974 and 1976). Sri Lanka is making particular efforts to expand its trade with India which had become virtually non-existent owing to political differences and India's protectionist trade policy. Initial steps have also been taken in relation to technical cooperation, such as the establishment of a

telecommunications link or in animal breeding and irrigation.

The latest step towards more intensive regional cooperation was taken at the beginning of August 1983 when an agreement on "South-Asian Regional Cooperation" (SARC) was signed by the Foreign Ministers of India, Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal and the Maldives Islands. The main areas of cooperation are to be agriculture, postal services, telecommunications and transport. The facilitation of trade was not included on the agenda so as not to endanger the conclusion of that agreement.

To sum up, there is no question of economic integration – as defined above – between the South Asian countries considered here; at most we can perceive some initial steps towards bilateral economic and technical cooperation⁹. In particular, the political preconditions for more intensive efforts towards integration are lacking. This may be attributed, firstly, to the former or present tensions, some of which actually take the form of armed conflicts between individual countries (India/Pakistan, Pakistan/Bangladesh) and, secondly, to the political and economic predominance of India in South Asia. The fear of becoming dependent restrains the other South Asian countries from expanding their trading contacts with India to any substantial extent or – as in the case of Nepal – prompts them to make every effort to reduce the existing concentration upon their Indian trading partner. Conversely, India – unlike smaller countries – will hardly benefit from the effects which are cited in favour of regional economic integration. Consequently, an essential basis for more intensive efforts to achieve integration is lacking.

Finally, a major question which cannot be examined here in more detail is whether, in fact, any beneficial effects of greater economic integration can be expected in view of the production and foreign trade patterns of the South Asian countries. Taking the resource endowments of those countries into account, it seems likely that no great scope exists for exploiting any comparative benefits of production on a regional level.

Regional Integration in South-East Asia

The Association of South-East Asian Nations (ASEAN)¹⁰ is often cited as a particularly successful example of economic integration between developing countries. Yet its objectives go beyond economic

⁷ Cf. United Nations: Status of Recommendations to Improve the Flow of Nepal's Third Country Trade, UNCTAD/ESCAP, Katmandu, September 1980.

⁸ Nepal is not a member of GATT.

⁹ Other possibilities of economic and technical cooperation were to be formulated in a study started in 1980 and backed by the United Nations Development Programme (UNDP).

¹⁰ ASEAN was founded in Bangkok in August 1967. The member states are Indonesia, Malaysia, the Philippines, Singapore and Thailand.

integration (e. g. the establishment of a preferential area) and include cooperation in the technical, social, cultural, scientific and administrative fields¹¹. In addition, the association of nations is also intended to encourage peace and stability in the region¹².

The successes of the cooperation are most evident in foreign policy because the states have managed to present a united front to third countries, particularly with regard to those foreign policy problems which affect the interests of the Association as a whole. Examples for this are the negotiations with the European Community and Japan and the relations with the Communist governments in Indo-China.

On the other hand, the successes of the cooperation are less marked in the economic field since in most matters the nations have not managed to harmonise their conflicting interests.

Trade Policy

Although economic cooperation was ASEAN's main aim and a number of conferences have been held on that subject, no concrete measures had been introduced by 1976. Agreement on measures of

integration policy foundered on the differing preconditions and concepts of integration in the countries concerned. Whereas Singapore and the Philippines (and subsequently Thailand too) aimed at a free trade zone and thus advocated the gradual removal of all existing intra-regional tariff barriers (across-the-board tariff cut), Indonesia and Malaysia voted for a selective free trade zone in which the tariffs are reduced product-by-product. These conflicting ideas resulted from the different initial economic conditions of the various member states¹³.

A selective free trade zone was finally agreed at the summit conference in Bali (1976)¹⁴. In addition Singapore and the Philippines bilaterally reduced all their tariffs by 10 % (at the beginning of 1977). Thailand and Singapore dropped their tariffs by the same

¹¹ The objectives of ASEAN are set down in the Bangkok Declaration. A large-scale organisation has been set up to achieve those objectives.

¹² The motives behind the individual states' membership differed. Singapore and the Philippines were primarily concerned with the economic benefits while for Indonesia, Malaysia and Thailand political motivations predominated. Cf. A. Kraft: ASEAN – Wirtschaftliche Kooperationsbestrebungen und ihr Realisierungsstand, Forschungs-Institut der Friedrich-Ebert-Stiftung, Bonn 1980, pp. 7 ff.

¹³ Cf. A. Kraft, op. cit., p. 25.

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ISBN 3-87895-236-8

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amount for six groups of products. At the beginning of 1977 it was finally agreed to establish "ASEAN Preferential Trade Arrangements (PTA)". An initial list of 71 products for which preferences were to be granted was adopted in mid-1977. Under an agreement made in 1978 discussions are now held every three months at which each country submits lists of products for which it is prepared to grant tariff concessions (since 1979 these lists must include at least 150 items) in order to obtain counter-concessions for other products¹⁵. By the beginning of 1983 the list of goods for which tariff preferences had been agreed consisted of more than 10,000 items¹⁶.

To ensure that the removal of tariffs was not entirely effected by the wearisome product-by-product approach, in April 1980 the economic ministers agreed upon across-the-board reductions of tariffs for "lightly traded items", that is to say products whose imports were valued at less than US \$ 50,000 in 1978. This threshold was raised to US \$ 10 million at the end of 1982¹⁷.

Concessional financial aid has been agreed to promote intra-regional trade; further agreement was reached on advance information on government invitations to tender and an ASEAN swap arrangement for mutual assistance in the event of balance of payments difficulties.

Minor Effects on Intra-regional Trade

By opting for a selective free trade zone it is indeed possible to allow for the member states' different initial situations and interests; the product-by-product approach to tariff reductions allows very delicate and flexible control of the liberalisation of intra-regional trade so that undesirable drops in output, for instance in those industries to which the country in question attaches particular importance under development or strategic aspects, can be prevented. Unlike a general tariff

reduction, however, this type of trade liberalisation does involve expensive and time-consuming negotiations and high administrative expenditure¹⁸. Constantly changing lists of tariffs tend to cause confusion, thus making it more difficult fully to exploit the progress towards liberalisation.

In particular, however, this type of liberalisation restricts the speed of integration because, of course, the individual partners in the integration are more ready to grant tariff concessions for the products whose tariffs were already comparatively low in the first place and for which the concession entails the least sacrifice¹⁹.

So, in value terms, only a small proportion of the intra-regional trade is affected by the reduced tariffs²⁰ and the agreed tariff reductions have in most cases been extremely modest²¹ or products have been offered which could already be imported duty-free. In Malaysia, for example, 508 items of the 1,068 covered by the PTA were already previously subject to no import duties. Of the 1,199 items whose import value was less than US \$ 50,000 (lightly traded items), 599 were duty-free in any case. In Singapore nearly every product covered by the PTA could formerly be imported duty-free and so increased imports as a result of the removal of trade restrictions cannot be expected.

Across-the-board tariff reductions based upon low import values are also applied only to "non-sensitive" products. The decision as to whether or not a product is sensitive is left to each individual country. As a result, by no means all the products with the appropriate low import value are included in the general reduction of tariffs. In Thailand the number included amounted to only 813 out of 1,512 items with an import value of less than US \$ 50,000²².

Consequently, the removal of trade restrictions has had a comparatively minor impact upon the intra-regional trade of the ASEAN states. Although intra-ASEAN trade has shown a strong rise in absolute terms (by an average of almost 25 % p. a. between 1975 and 1981), its proportion of total trade has increased only slightly from 12.8 % (1975) to 15.2 % (1981).

¹⁴ This system was also recommended by a United Nations group of experts. Cf. Economic Cooperation among Member Countries of the Association of South-East Asian Nations. Report of a United Nations Team, in: *Journal of Development Planning*, No. 7 (1974), p. 30. See also Chua Siow Jue: ASEAN Economic Co-operation – Development and Issues, in: Chua Siow Jue (ed.): ASEAN Economic Co-operation, Proceedings of the ASEAN Economic Research Unit Workshop, Singapore 1980, p. 8.

¹⁵ Non-tariff obstacles to trade are also to be removed. However, so far no perceptible progress has been made along these lines.

¹⁶ Preferences are granted only for goods with a least a 50 % "ASEAN content" (60 % in the case of Indonesia).

¹⁷ Approx. 10 % of intra-ASEAN trade should be affected by these tariff reductions. Cf. H. C. Rieger: ASEAN Trade Directions: Trends and Prospects, Paper for the Conference on "Economic Development and Political Stability – Alternative Scenarios for the 1980s", Berkeley, California, 2-4 May 1983, p. 20.

¹⁸ Cf. J. Wong: Regional Cooperation and Industrialization in ASEAN, in: Institute of Developing Economics, New Directions of Asia's Development Strategies, Tokyo, 1980, p. 149.

¹⁹ Thus the Philippines have reduced from 20 % to 18 % the duty on imported snow-ploughs from the partner countries. See also H. C. Rieger, op. cit., pp. 20 f.

²⁰ The first group of tariff reductions affected less than 4 % of intra-regional trade. See A. Kraft, op. cit., p. 38. See also Chia Siow Jue, op. cit., p. 11.

²¹ The preference often amounts to merely 10 %.

²² Cf. H. C. Rieger, op. cit., p. 22.

Considerable differences occur in the extent to which the various countries are involved in intra-regional trade (see Table 1)²³.

Singapore and Malaysia have a dominant position but the large proportion of ASEAN exports and imports in their total exports and imports derives primarily from intensive bilateral exchanges of goods between the two countries. This is due to historical reasons – until 1965 Singapore and Malaysia were linked in a confederation – and must also be attributed to the fact that Singapore is located on a major international shipping route and has a well-constructed port. So Singapore assumes an important function as a storage and trading centre for the region and especially for Malaysia and Indonesia²⁴.

In contrast to Singapore and Malaysia, the Philippines exchange only a small volume of goods with the other

ASEAN partners. This may be due, firstly, to their greater distance from the other members and, secondly, to their traditional intensive trading links with the USA and Japan²⁵.

Food (e. g. rice) and raw materials (natural rubber, tin, oil and oil products) predominate in the structure of goods traded between the ASEAN states. Apart from transport equipment, manufactured products play only a secondary part accounting for some 30 % of total intra-ASEAN trade (1977). Besides, more than half of the industrial goods traded intra-regionally come from Singapore which is therefore assuming to some extent the function of an industrial nation in relation to the other member states.

Industrial Cooperation

In 1976 the ASEAN states agreed to construct joint industrial projects (package deal approach). The criteria for selecting the projects were to be whether a project

²³ The statistics for intra-regional movements of goods are suffering from a number of shortcomings. Thus Singapore has published no figures concerning its trade with Indonesia since 1963. The value of Singapore's imports from and exports to Indonesia can be approximately determined from Indonesia's exports to and imports from Singapore after adjustment for the cif/fob rates. Smuggling, especially of tin from Indonesia and Thailand, also plays a major role. These movements of goods are, of course, omitted from the official statistics.

²⁴ For 1970-1975 entrepôt trade accounted for an average of 31 % of Singapore's total trade though the trend was declining.

²⁵ In 1981 almost 53 % of Philippine exports went to those two countries and 41 % of imports were obtained from them.

Table 1
Regional Foreign Trade Structure, ASEAN, 1975 and 1981^a
(in US \$ million and %)

Exp/Imp of to/from	Indonesia		Malaysia		Philippines		Singapore		Thailand		ASEAN	
	exports	imports	exports	imports	exports	imports	exports	imports	exports	imports	exports	imports
(in US \$ million)												
World	22.260	13.272	11.198	11.581	5.756	8.864	20.970	27.571	6.784	10.330	66.968	71.618
	7.102	4.770	3.806	3.526	2.273	3.703	5.375	8.134	2.208	3.190	20.764	23.323
(in %)												
Industrial nations	73.5	66.9	51.4	62.7	73.7	58.0	40.7	46.2	54.3	52.8	57.6	55.1
	76.7	70.0	58.5	63.4	86.5	70.6	45.2	52.0	58.0	71.2	64.3	63.0
Developing countries	24.5	29.2	43.3	34.2	21.9	39.2	56.7	51.3	39.4	43.6	39.0	41.8
	21.4	23.1	36.0	34.2	11.7	27.0	52.1	45.6	39.0	25.1	32.8	33.5
Developing countries in Asia	14.4	19.9	38.8	24.6	17.7	15.2	42.4	22.8	26.1	21.1	28.1	21.4
	12.9	16.9	31.4	26.0	6.6	7.9	40.0	22.0	31.3	7.2	24.2	17.3
ASEAN	12.1	12.8	27.5	17.9	7.9	6.6	21.1	14.5	14.3	11.2	17.3	13.3
	10.3	8.7	24.2	15.2	2.7	4.8	21.8	14.0	17.2	2.7	15.7	10.1
Indonesia	–	–	0.5	0.6	3.5	2.7	–	–	1.7	0.4	0.6	0.5
	–	–	0.7	2.2	0.9	1.8	–	–	1.9	0.1	0.4	0.6
Malaysia	0.3	0.5	–	–	1.8	2.1	15.6	12.4	5.1	2.4	5.6	5.5
	0.9	0.5	–	–	0.2	1.5	17.2	11.6	4.7	0.4	5.3	4.4
Philippines	1.8	1.9	1.6	0.8	–	–	1.3	0.4	0.3	0.5	1.3	0.7
	0.5	0.3	1.7	0.5	–	–	1.1	0.4	1.6	0.2	0.9	0.3
Singapore	9.8	9.4	23.7	13.1	2.2	1.6	–	–	7.3	8.0	8.1	5.2
	8.9	7.2	20.3	8.5	1.4	0.6	–	–	9.1	2.0	7.9	3.1
Thailand	0.2	1.1	1.7	3.4	0.4	0.3	4.2	1.7	–	–	1.7	1.5
	0.0	0.7	1.5	3.9	0.2	1.0	3.5	2.1	–	–	1.2	1.6

^a The top figure gives the values for 1981 and the lower one for 1975.

Source: International Monetary Fund, Direction of Trade Statistics, Yearbook 1982, Washington 1982; author's calculations.

showed "economies of large scale" which could be realized within the ASEAN market; whether the states' own raw materials were used; whether it improved internal supplies and saved foreign exchange and whether it created industrial jobs. Each country was initially allocated one project²⁶.

Indonesia and Malaysia were to produce urea, the Philippines superphosphate, Thailand potash and Singapore diesel engines. Each of the five projects was budgeted at between US \$ 200 and 300 million. The country in which the project was established was to hold 60 % of the capital shares with 10 % allocated to each of the other states.

The projects were intended to be a first step towards coordinated industrial planning and the development of complementary industrial structures²⁷. Although the planned allocation of the five projects seemed to make sense, the decision was taken without prior thorough feasibility studies. While this could merely have delayed the implementation of the projects, even more serious problems arose during their preparation. For example, it was found that supplies of raw materials for the Thai production of potash and the Philippine production of super-phosphate were uncertain; transport problems were cited as obstacles in Thailand and the Philippines feared a surplus supply of super-phosphate on the world market. The Singapore project was most hotly disputed because, when selecting the project, the fact that diesel engines were already being produced in the member states was overlooked or given too little importance. Indonesia and the Philippines in particular opposed the production of diesel engines with less than 500 HP in Singapore²⁸. In 1978 Singapore decided to continue with the diesel engine project as a national project in cooperation with a company from the USA.

The disagreement on the diesel engine project is a graphic example of the difficulties of regional integration. The hoped-for benefits of such integration can be achieved only if the countries concerned are willing to accept vertical and horizontal specialisation. The example of Singapore also shows that regional integration can be successful only if all the partner countries are convinced of its potential advantages. Yet, on the one hand, Singapore could not be considered as a customer for the projects of the other four ASEAN

states while, on the other hand, it would have been dependent upon those states as its customers for diesel engines. Consequently, the other countries quite naturally feared that the benefits of such specialisation would be unequally distributed to their disadvantage.

The actual funding of the projects caused no problems because Japan had provided one billion US\$ for that purpose, though on condition that the five countries were involved in every project. The difficulties in implementing industrial cooperation must therefore be considered to lie mainly in the fundamental differences in the views of the aims and means of regional integration.

At the present time the project progressed furthest is the one in Indonesia which was to commence production of 500,000 t of urea a year from 1982. The Malaysian project, with a capacity of 530,000 t of urea and 360,000 t of ammonia, is to start production in 1984. In view of the doubts about the super-phosphate project for the Philippines, a new project, a pulp and paper mill, was finally agreed in 1980.

Shortfall between Objectives and Results

The overall assessment of the attempts at integration in South-East Asia is somewhat ambiguous. Greatest progress has been achieved by the ASEAN states with regard to political cooperation, such as the agreement on a common policy towards the nations of Indo-China or in representing their common interests in relations with third countries (e.g. the EC and Japan). In the field of economic cooperation and integration, however, there is an obvious shortfall between the official objectives and the actual results. Yet, unlike South Asia, South-East Asia does at least have an unmistakable political desire for integration. Progress towards integration depends, however, to a large extent upon a solution being found to the problem of equitable distribution of the advantages and disadvantages of integration. This question of distribution has played a predominant and braking role in the past process of ASEAN integration. The different initial situations and the disparate interests and integration aims have prevented the realisation of major preconditions for the accelerated expansion of intra-regional trade. Industrial cooperation is still in its infancy.

Thus the example of ASEAN once more demonstrates the vital condition for any successful regional integration: a balance must be found between the regional and the national interests. The ASEAN states and, even more, the countries of South Asia still have a long way to go before they achieve that balance.

²⁶ This allocation was based on the proposals of a United Nations team of experts: Economic Cooperation among Member Countries of the Association of South-East Asian Nations. Report of a United Nations Team, op. cit., p. 52.

²⁷ Cf. J. Wong, op. cit., p. 150.

²⁸ Originally, Singapore wanted to manufacture diesel engines with a performance ranging from 1 to 1,000 HP.