Journal of Philippine Development
Number Twenty-Two, Volume XII, No. 2, 1985

THE RECENT RECESSION AND RISING PROTECTIONISM IN DEVELOPED COUNTRIES: SOME THOUGHTS ON THE ASEAN ECONOMIES

Romeo M. Bautista

The five countries that organized the Association of Southeast Asian Nations in 1967 constitute a relatively significant group of neighboring market economies with a combined gross national product of about U.S.$200 billion in 1983. Postwar economic growth of these countries has been generally impressive; even during the 1970's, a period of increased instability in the world economy, the annual GNP growth rate (based on World Bank data) averaged 8.4 percent for Singapore, 7.9 percent for Malaysia, 7.7 percent for Thailand, 7.6 percent for Indonesia, and 6.2 percent for the Philippines.

By developing country standards, their economies are highly trade-oriented, the major trading partners being Japan, the United States, and some countries in the European Economic Community. As a proportion of GNP, ASEAN countries' exports in recent years ranged from 150 percent for Singapore, 57 percent for Malaysia, 32 percent for Indonesia, 19 percent for Thailand, and 15 percent for the Philippines. It is frequently stated, with good reason, that the relatively more open character of their economies and less

---

Research Fellow, International Food Policy Research Institute, Washington, D.C. This paper was presented at the Southeast Asia Program luncheon seminar, Cornell University, Ithaca, New York, on April 11, 1985, and the Second Conference on United States-Asia Economic Relations, sponsored by the Committee on Asian Economic Studies on September 30 - October 2, 1985 in New York City. A revised version will appear in M. Dutta (ed.), *The Asia-Pacific Market: Its Promises and Challenges.*

protectionist trade policies have been a significant contributor to the higher economic growth rates of the ASEAN countries compared to many other developing countries (cf. Garnaut 1980).

The ASEAN countries are widely considered to be in the next tier of developing countries more or less following the development track of the newly-industrializing countries (NICs). Indeed, the economically most advanced ASEAN member — Singapore — is one of the Asian NICs (which also include Hong Kong, Taiwan, and South Korea). Most of the trade and development issues discussed below therefore relate mainly to the so-called ASEAN-4, consisting of Indonesia, Malaysia, the Philippines, and Thailand.

These countries have increasingly relied on foreign trade as an engine of growth since the early 1970's. Export expansion and diversification have been actively promoted by their national governments, contributing to the remarkable economic performance of these countries in the 1970's. Since the start of the 1980's, however, there has been a marked deceleration of their economic growth, attributable in part to adverse conditions in the external economic environment. The two external developments from which all trade-oriented developing countries have suffered in recent years are, of course, the recession and protectionism in developed country markets. The repercussions of these external developments are commonly presumed to be more severe for LDCs with greater orientation to the international economy, such as the ASEAN countries, and this is sometimes used as an argument for reducing the reliance of developing countries on foreign trade to stimulate economic growth.

In a way this is reminiscent of the autarkic attitudes spawned by the export pessimism that encouraged most LDC governments in the 1950's to adopt import substitution policies through heavy protection of domestic industries from foreign competition. The export pessimists and advocates of inward-oriented economic development have, of course, been proved wrong. The 1950's and 1960's turned out to be a period of unparalleled growth in world trade which fueled the rapid expansion of the economies of Western Europe and, later in the period, the newly-industrializing countries. Among other policy reforms, trade liberalization enabled them to develop domestic industries along lines of compartive advantage which led to a remarkable expansion of both exports and GNP.

A recession is not a long-term phenomenon, and its demand-reducing effects will normally be reversed in the subsequent recovery. Recessionary conditions may induce the setting up of protective trade barriers, but it is not necessarily the case that those barriers will automatically be removed during the recovery, i.e., they can become a permanent part of a country's trade policy. The effects of a recession on demand for imports are presumably across-the-board, whereas protectionism in developed country markets has in practice been directed at specific targets (in terms of particular import commodities and supplying countries).

Protectionist measures against developing country exports in fact predate the recent recession, having been introduced in the mid-1970's in reaction to the rapid penetration of labor-intensive manufactured products from the NICs into developed country markets. More recently, the sluggish growth of the industrial economies since 1980 has intensified protectionist sentiments, this time significantly affecting also the nontraditional manufactured exports of the ASEAN countries. While some of the OECD countries appear to be recovering currently from the recession, there are no signs that trade barriers are being lifted despite often-stated commitments to roll back import restrictions. Action has not followed the numerous pledges by leaders of the industrialized nations at summit meetings to halt protectionism, making it difficult for developing countries to expand their exports and accelerate their economic growth.

The strategy of export-led development worked for the NICs in the 1960's and early 1970's but, given the limitations of the current international economic environment, is it an appropriate strategy for other developing countries in the 1980's and beyond? This question is being raised currently not just by self-styled economic nationalists and radical social scientists who are expectedly biased toward autarkic development, but increasingly also by some mainstream economists who see no end to the rising protectionism and slow growth of developed country markets.

The present situation is especially ironic for some of the ASEAN countries which in the recent past have undertaken domestic policy reforms in order to liberalize their foreign trade regimes and make their export industries more internationally competitive. With technical and financial support from international organizations — most notably the World Bank — the three relatively protectionist ASEAN countries, Indonesia, Thailand, and the Philippines, have introduced significant changes in their industrial, fiscal, and trade policies, lowering tariff and nontariff incentives so that domestic industries could develop more efficiently along lines of comparative advantage. Is trade liberalization a mistaken policy under present circumstances?

Labor-intensive manufactured exports are being actively promoted by the ASEAN countries in order to diversify exports and generate productive employment. These are important policy objectives considering the heavy reliance on primary product exports and the high degree of labor force underutilization in the ASEAN countries. It is, however, precisely this class of LDC exports that has been the target of protectionist measures in developed country markets. Apart from garments and textiles for which bilateral trade agreements have been negotiated under the Multi-Fiber Arrangement (MFA) since 1974, ASEAN exports of footwear, electronic products, processed food, wood products, and handicrafts have been subject to a plethora of import restrictions in the OECD countries.

Particular difficulty has been experienced by ASEAN exporters of labor-intensive manufactured products in penetrating the region's biggest market – Japan. This may seem surprising, given that (a) Japan's comparative advantage in labor-intensive manufactures has been considerably weakened by increasing labor scarcity and a rapid rise in wages; and (b) there has been a remarkable growth of ASEAN exports of such products in other developed country markets, including the United States. While the Japanese government, since January 1982, has reduced tariff rates on an increasing number of import commodities (ahead of the original plan set during the Tokyo Round of multilateral trade negotiations) and also lowered some nontariff barriers, this was apparently meant to sooth growing tension over trade with the United States and the EEC.

The United States has been a more important market for ASEAN manufactured exports than Japan. While only 10 percent of Japan's imports from the ASEAN countries are in the form of manufactured goods, the corresponding figure for U.S. imports is more than 30 percent. Market access for ASEAN labor-intensive manufactured exports is therefore less of an issue in U.S.-ASEAN trade relations. The tightening of ASEAN countries' textile and garment exports negotiated under the MFA (and on which the U.S. threat of countervailing duties was recently made) has been the major ASEAN grievance against the United States in this area. However, a more protectionist

U.S. trade policy seems to be looming on the horizon, given the declining international competitiveness of some traditional but politically important industries.

We should also note that imports of ASEAN countries' labor-intensive manufactures by other OECD countries such as Australia, New Zealand, Canada, and the EEC, have been relatively small in value terms, attributable in part to the existence of various trade restrictions which appear to have intensified in recent years.

Another class of export products being promoted by Indonesia, Malaysia, the Philippines, and Thailand are processed primary commodities. These four ASEAN countries are relatively richly endowed with natural resources, and they have understandably viewed the increased processing of primary products and expansion of processed exports as an additional means of promoting economic growth. There are problems raised, however, by the high capital-, scale-, and energy-intensity of the existing technology for most resource-based industries which could offset completely the country's advantage of already producing the primary product. Also, questions have arisen concerning market prospects in view of existing investments on the same processing industries in primary product-importing developed countries. Furthermore, the tariff structure in the latter countries tends to discriminate against imports of processed products. Based on an UNCTAD study involving twenty-one agricultural and mining products, developed country tariffs add only 3 percent to the cost of imported materials, but increase to more than 20 percent along the "processing chain" (Yeats 1979). These higher rates serve to encourage domestic firms in the industrialized countries to import raw materials and process them there.

The trade and development prospects of the ASEAN countries in a changing world economy cannot be fully examined without consideration of the role of the Asian NICs. In the first place, the success of the ASEAN countries and other "near-NICs" in expanding labor-intensive manufactured exports in the medium term is contingent, among other things, on the continued evolution of NICs' comparative advantage into more sophisticated industrial products. In the process, the contribution of the NICs to the world market for labor-intensive manufactures will be reduced and, within their domestic market, import demand for such products will increase. For the ASEAN countries to gain significant access to the domestic markets of the Asian NICs, involvement of the latter countries in import liberalization concerning labor-intensive manufactures is necessary.

To illustrate with the Philippine experience, two-fifths of the country's total exports to Singapore and Hong Kong (which have the most liberal foreign trade regimes anywhere) are already in labor-intensive manufactures. Why the Philippines has not sold proportionately as much of these products to Taiwan and South Korea (only about 8 percent each) is presumably related to the trade restrictions in these two countries. A lowering of import barriers, especially nontariff barriers, by the NICs at this time would not only reduce a source of friction, but would also "contribute to a more stable world trading system by signifying the readiness of the more advanced developing countries progressively to adhere to the rules and obligations applying to the more mature trading nations" (Frank 1981).

The degree to which the NICs are willing to open up their domestic markets will have implications not only on the development prospects of the Philippines and other near-NICs but also on the NICs' own future growth. Thus, increased access to such markets by the ASEAN countries, viewed in conjunction with the latter countries' structural adjustment and efforts (which should lead to expanded NIC exports to ASEAN, especially capital equipment and consumer durables), could provide the stimulus necessary to sustain rapid industrial growth in these two LDC groups which between them have the world's fastest growing national income.

General trade liberalization among the Asian NICs can also be expected to open up possibilities for increased agricultural and mining exports from the resource-rich ASEAN countries (Bautista 1983). This is in view of the existing high levels of protection for primary products, especially agricultural food commodities, in the relatively resource-poor Asian NICs. However, some industries which are both resource- and technology-intensive present difficulties for complementary production and trade, especially if they have to be constructed as integrated plants (or "complexes"); also, because they are often basic industries, individual countries may want to develop them, seeking to be self-reliant in the production of such strategic products. Harmonization of investment plans and trade policies among the ASEAN countries and the Asian NICs would be essential if problems inherent in this field are to be overcome.

Within ASEAN, a preferential trading arrangement (PTA) has been in existence for some time, but the impact of this regional trade liberalization program has yet to be felt by the member countries. This is because of the unwillingness to expose their domestic markets to regional competition, as reflected in the fact that intra-ASEAN trade concessions have been kept to strictly marginal imports. Also, due to the relative success that they have enjoyed (until recently) in expanding exports to countries outside the region, ASEAN countries have not been overly aggressive in promoting intraregional trade. But, if their access to foreign markets becomes increasingly limited, it can be expected that intra-ASEAN trade liberalization efforts will pick up.

Against the ill effects of possible trade diversion, expansion of Philippine trade through preferential arrangements with other ASEAN countries, the Asian NICs and other developing countries would confer dynamic, learning and competitive benefits. Of course, inter-LDC trade cannot fully compensate for the uncertain and slow-growing demand in developed country markets. Clearly, a more generalized, liberal trading system would be preferable, ideally in the international context, or if the EEC is unwilling to participate in the global lowering of trade barriers (given the prevailing mood in that part of the world), at least among developing and developed countries in the Pacific Basin.

Countries in the Asia-Pacific region, representing the world's most economically dynamic area, are in the best position to provide such a contribution toward the strengthening of the multilateral trading system and to become a force within GATT for global trade liberalization (Dunn et al. 1983). As is evident from the above discussion, the ASEAN countries would benefit from import liberalization in several Pacific Basin countries where market access continues to be restrictive with respect to labor intensive manufactures and processed primary products.

Subregional cooperative arrangements such as ASEAN could also serve as a political force toward equalization of trading opportunities. Thus, in view of recent official measures in Japan to boost imports from the United States and EEC, apparently motivated by the need to overcome the increasing threat of protectionism against Japanese exports because of the inaccessibility of its own market, ASEAN would be well-advised to mount its own political lobbying for the lowering of import barriers in Japan involving products of export interest to them. Joint efforts of ASEAN countries in seeking trade concessions from Japan would, of course, be more effective than individual country efforts. ASEAN political clout is a clear case where the whole is greater than the sum of its parts.

More generally, developing countries can exercise their collective bargaining power in trade matters. Industrial leaders in the OECD countries are surely aware that the sustained growth of the NICs and near-NICs is bound to increase their import demand and, hence, their exports of manufactured products from the industrialized countries. Developing countries are, in fact, much larger buyers than sellers of manufactured goods, and the best developing country customers of developed country products have been those with most rapidly growing exports. As Robert Baldwin (1979) has pointed out:

> A willingness by developing nations such as those in Southeast and East Asia to lower some of their barriers against the importation of these goods, as well as a willingness to bind duties on essential producer goods at their existing low levels, would be a very significant bargaining chip for these countries. In return, the United States and other industrial nations may be willing to reduce the high barriers they have erected (or are in the process of erecting) against imports of such products as automobiles, steel, textiles, apparel, and many simply-produced miscellaneous goods. A willingness to take steps to improve conditions of access for developed countries to key raw materials located in developing countries could also be used to obtain important trade concessions.

Finally, in relation to the question of whether the ASEAN countries should continue to liberalize their foreign trade regimes, it must be emphasized that the basic objective in any trade liberalization measure is to help rationalize the country's production structure and to provide for effective competition so that scarce resources can be allocated and utilized more efficiently. Internal barriers, together with a restrictive foreign trade regime that distorts relative prices, need to be addressed in any serious policy effort to realize more fully the economy's potential. And this is true regardless of external developments. The possibility of a protracted decline in foreign demand does not imply that the efficiency with which domestic resources are being used no longer matters. The need to import a large component of producer goods required by domestic industries gives added urgency to earn and save foreign exchange efficiently, which would hardly be facilitated by a return to protectionist policies.

To the problem of increasing trade restrictions in developed country markets, three complementary measures can be adopted by the ASEAN countries. One, as indicated earlier, would be to use their collective bargaining power, perhaps also jointly with other developing countries, aimed generally at reversing the protectionist trend in the industrialized countries, and specifically at lowering the barriers against ASEAN exports. This would require that the ASEAN countries participate more fully in the GATT negotiating process and be prepared to make trading concessions in order to receive meaningful ones in return.

Secondly, also alluded to earlier, other export markets could be tapped. This would entail a more active promotion of intra-ASEAN trade, the development of industrial complementarity and trade with the Asian NICs involving ASEAN exports of labor-intensive manufactures and resource-intensive products in exchange for imports of machinery and consumer durables, and a systematic examination and encouragement of trade possibilities with other developing countries.

Lastly, and on which I would attach the most importance for the Philippines and Indonesia considering their heavy external debt problem, policy attention could be given to the stimulation of domestic demand as an additional means of offsetting the decline in export demand from developed countries. Because of the substantial, if not dominant, importance of the agricultural sector in the national economy, it would be necessary under this strategy to shift the emphasis in policy objectives from rapid industrialization to agricultural development. Such an agriculture-based development strategy will remove existing incentive biases against agricultural production and redirect public investment toward agriculture. This will result in rising agricultural productivity and rural incomes, generating, in turn, an increased demand not only for food and other agricultural products but also for industrial goods through intermediate and final demand linkages. Additionally, the effect on income distribution — to which the ASEAN countries have become increasingly more sensitive — can be expected to be favorable since growth in agricultural output increases the supply and reduces the relative price of food and other so-called wage goods, raising the real income of poorer members of society.

REFERENCES

Baldwin, Robert E. "U.S. Trade Policy and Asian Development," *Asian Development Review* (1984).

Bautista, Romeo M. *Industrial Policy and Development in the ASEAN Countries,* Monograph Series No. 2, Philippine Institute for Development Studies, 1983.

Dunn, Lydia et al. *In the Kingdom of the Blind: A Report on Protectionism and the Asian-Pacific Region.* Trade Policy Research Centre, London, Special Report No. 3, 1983.

Frank, Isiah, "Trade Policy for the Developing Countries in the 1980s," World Bank Staff Working Paper No. 478, 1981.

Garnaut, Ross, ed. *ASEAN in a Changing Pacific and World Economy.* Canberra: Australian University Press, 1980.

Years, Alexander J. *Trade Barriers Facing Developing Countries.* New York: St. Martin Press, 1979.