CHAPTER 4: THE GLOBALISATION OF TRADE & TRANSPORT IN SOUTH EAST ASIA

4.1 INTRODUCTION

The purpose of this chapter is to present an understanding of the region that will be studied in this research. Firstly, global trends in trade and logistics are explored in order to assess their numerous implications. Secondly, South East Asia is presented with a brief overview of the countries studied. Thirdly, regional trade patterns and transport policies are examined in relation to cross-border and transit trade. Lastly, the region's transport infrastructure is described with its institutional framework.

4.2 BACKGROUND

Trends towards globalisation, international logistics, and supply chain management are all reshaping the world's trading patterns and physical cargo flows (Demkes *et al.*, 1999). Such restructuring is generally leading to economic growth, better allocation of resources and above all greater freedom of choice for the consumers (Goh, 1999).

The setback to the world economy triggered by the Asian crisis in the middle of 1997 had repercussions throughout 1998 and 1999. World output growth is estimated to have fallen to 1.9% in 1999 from 3.3% in 1997, and this slowdown has affected all regions and economic groupings (see Table 4.1). Growth in developing countries was strongly influenced by the impact of the crisis on trade and commodity prices, capital inflows and financing costs, as a result of which slowed dramatically from 5.4% in 1997 to an estimated 2.1% in 1999 (UNCTAD, 1999).

Table 4.1 World output, 1990-1999 (percentage change)

Country/region	1990-1995	1996	1997	1998(e)	1999(e)
World	1.9	3.3	3.3	2.0	1.9
Developed market economy countries	1.7	2.9	2.9	2.2	1.9
of which:					
United States	2.3	3.4	3.9	3.9	3.4
Japan	1.4	5.0	1.4	-2.8	-1.3
European Union	1.3	1.6	2.5	2.7	1.8
Developing countries	4.9	5.8	5.4	1.8	2.1
of which:					
Asia	6.4	7.1	5.8	1.6	3.3

Source: Adapted from UNCTAD (1999), based on data in 1990 USD

(e) Estimate

4.3 TRENDS IN GLOBAL TRADE AND LOGISTICS

In the past few decades many trade barriers have fallen. Key factors in demand and supply have resulted in a burgeoning of trade relationships between nations and regions across the world. Growth in the volume of world trade, which began to slow with the Asian crisis in 1997, decelerated abruptly in 1998, along with a significant slowing of world output growth. Growth in the volume of imports also slowed down in all regions, especially in Asia where there was an absolute decline (see Table 4.2). According to the UNCTAD Secretariat, for 1998 world trade failed to grow in value-term for the first time since 1982, with export falling by 2% and imports by 1%. While the Asian crisis has lasted longer and spread more widely than initially expected, it is predicted that overall imports and exports will expand moderately from the year 2000 onwards.

Table 4.2: Exports and imports by major regions and economic groupings, 1990-1998

(% Change in volume over previous year)

	Exports				Imports			
	1990-1995 annual average	1996	1997	1998	1990-1995 annual average	1996	1997	1998
World	6.0	5.5	10.5	3.5	6.5	6.0	9.5	4.0
Developed market countries	5.3	5.2	10.2	3.4	5.6	5.4	8.5	7.4
of which:								
European Union	5.5	5.5	9.5	5.0	4.5	5.0	7.0	7.5
Japan	1.5	1.0	12.0	-1.5	6.5	5.5	1.5	-5.5
United States	6.4	6.3	11.8	2.4	6.9	5.6	12.1	10.9
Developing countries	9.0	6.9	12.3	3.4	10.1	6.6	10.8	-4.5
of which:								
Asia	12.6	6.2	12.4	1.4	13.7	5.8	7.0	-10.1

Source: Adapted from UNCTAD (1999), based on World Trade Organisation statistics

Complex trading networks have evolved primarily to exploit labour cost differentials and the availability of raw materials in particular countries (Markusen, 1998; Brulhart, 1998). Their development has also been facilitated by major regulatory and technological trends. Trade liberalisation under the WTO[1], and particularly within trading blocks such as the EU, NAFTA, AFTA[2], etc., has removed constraints on cross-border movement and reduced related 'barrier costs' (Venables, 1998). Globalisation of the world economy continues to lead the development in logistics trends and practices. Advances in telecommunications and information technology have also given companies the means to manage the physical movement of product over long, often complex routes. Many carriers have invested heavily in 'track and trace' systems in order to establish the location of any consignment at any time, improving the visibility of the global supply chain to shippers and their customers. The way in which individual logistics trends manifest themselves varies according to

[1] World Trade Organisation
[2] Association of South East Asian Nations (ASEAN) Free Trade Agreement

the geographical scale at which companies and markets are operating. Table 4.3 illustrates the main trends in international logistics and their implications.

Table 4.3: Main trends in logistics and their implications

Trend	Implications
• Globalisation and international outsourcing originally due to cheaper labour, now due to more competitive labour	• Need for borderless transport management • International standardisation of documentation and IT systems • Regional transport networks may have great difficulty in responding to the growth in demand caused by sudden access to changes in the geographical patterns of flows.
• A more diversified spectrum of consumer demand, combined with a shift from production to stock to production to order	• Just in Time delivery systems, resulting in the demand for faster, more frequent services and an increase in vehicle movement per unit of output • Synchronisation of the activities of multiple organisations in the supply chain. • Need for real-time cargo monitoring and information systems.
• Development of sophisticated IT systems	• Generation of large amount of information, which can be used to develop more intelligent transportation systems if ways can be found for processing and analysing it.
• Increasing concern about the environment	• A possible move away from today's highly concentrated hub-and-spoke systems and towards more direct deliveries and movement through smaller terminals. This trend is supported by traffic growth, which is generating the critical mass needed for direct deliveries on more and more routes • Political pressure for infrastructure pricing policies, which internalise environmental costs. These will have a major impact on the future level and structure of transport demand.
• Increased importance of the role of logistics and transport in lowering manufacturing costs	• More government attention to the improvement of transport infrastructure.

Source: Adapted from OECD (1996)

4.4 SOUTH EAST ASIA

4.4.1 The Association of South East Asian Nations (ASEAN)

The five founding member countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand, established the Association of South East Asian Nations or ASEAN on the 8th of August 1967 in Bangkok, Thailand. Brunei joined on the 8th of January 1984, Vietnam on the 28th of July 1995, Lao PDR and Myanmar on the 23rd of July 1997, and Cambodia on the 30th of April 1999. The ASEAN region has a population of approximately 500 million, a total area of 4.5 million square kilometres, a combined gross domestic product of USD 737 billion, and a total trade volume of USD 720 billion (ASEAN, 1999).

The economies of the ASEAN countries, at the centre of the 1997 economic crisis, have been some of the most successful emerging market countries in terms of growth and gains in living standards (Hart-Landsberg and Burkett, 1998a & 1998b). With generally prudent fiscal policies, these countries had become a model for many others. The fact that this region had become embroiled in one of the world's worst economic crisis was hardly ever considered (IMF, 1998). Indonesia had the highest foreign debt of USD 107.8 billion. Thailand, the Philippines and Malaysia each had foreign debts amounting to USD 88, 39.4 billion and 28.9 billion respectively. According to ASEAN statistics[3], ASEAN exports to the rest of the world declined from USD 126.5 billion in the first half of 1997 to USD 122.2 billion in the first half of 1998 or by 3.6%. Exports to the rest of East Asia also fell significantly, reflecting the major contractions in the economies of this part of the world. Exports to Hong Kong, Japan and the Republic of Korea declined by 10.7%, 17.4% and 23.3% respectively. ASEAN also suffered declines in its exports to the United States (-6.8%) and the European Union (-0.9%). Intra-ASEAN trade also contracted from 19.42% growth during the 1993-1994 period to 6.34% for the 1996-1997 period.

[3] www.aseansec.org

The developing economies of ASEAN have shown that they have become increasingly linked into the global economy through trade, investment credit, and technology (Bullard, 1997). Adequate transport and communication facilities play a vital role in their economic recovery and development. A possible way out of the crisis is through export-led recovery strategies, which are dependent not only on governmental policies, but also on an integrated and harmonised transport system both at national and regional level (Lall, 1998).

ASEAN member states are not geographically contiguous. Only seven of them (Singapore, Malaysia[4], Thailand, Myanmar, Lao PDR, Cambodia, and Vietnam) are physically connected (see Figure 4.1). In this research, only these seven countries will be studied with a particular emphasis on Lao PDR as the sole land locked country in the region. These seven countries will be referred to as "Continental South East Asia" or "Continental SEA" in this study. A brief synopsis of the economic situation of the studied countries is presented here below. This will create a better understanding of the differences in regional and national level of economic development. Singapore, Malaysia and Thailand are considered the 'developed' economies in the region while Vietnam, Cambodia, Lao PDR and Myanmar are still far behind.

South East Asia is very strongly dependent on maritime transport corridors for its international trade. The region's trading flows are affected by the gravity pull of two of the world's biggest ports: Hong Kong and Singapore, who are considered the main transhipment point for cargo moving in and out of South East Asia. Singapore is the dominant port for the European and Australian trade while Hong Kong is a major player for North Asia, Japan and North American trade.

[4] Only peninsular Malaysia is considered here, as it is where 90% of Malaysia's manufacturing, and all major ports are located. Peninsular Malaysia is the focal point of the national transportation network.

Figure 4.1: Map of South East Asia

Source: www.odci.gov

- **Singapore: overview**

Singapore has an open economy with strong service and manufacturing sectors and excellent international trading links derived from its entrepot history. Extraordinarily strong fundamentals allowed Singapore to weather the effects of the Asian financial crisis better than its neighbours, but the crisis did pull GDP growth down to 1.3% in 1998 from 6% in 1997. Projections for 1999 GDP growth are in the -1% to 1% range. Rising labour costs and appreciation of the Singapore dollar against its neighbours' currencies continue to be a threat to Singapore's competitiveness. The government's strategy to address this problem includes cutting costs, increasing productivity, improving infrastructure, and encouraging higher value-added industries. In applied technology, per capita output, investment, and labour discipline, Singapore has key attributes of a developed country. Table 4.4 presents the main export and import partners of Singapore.

Table 4.4: Singapore's main commercial partners

Exports	United States (19.9%)	Malaysia (15.2%)	Hong Kong (8.4%)	Japan (6.6%)	Taiwan (4.3%)
Imports	United States (18.4%)	Japan (16.7%)	Malaysia (15.5%)	China (4.8%)	Thailand (4.8%)

Source: Adapted from Britannica World Annual Data 2000

- **Malaysia: overview**

After a decade of 8% average GDP growth, the Malaysian economy—severely hit by the regional financial crisis—declined 7% in 1998. Malaysia is likely remain in recession 1999; official statistics continue to show lower volumes of exports, and some private financial analysts forecast a further drop in GDP of 1% in 1999. Prime Minister MAHATHIR has imposed capital controls to protect the local currency while cutting interest rates to stimulate the economy. Kuala Lumpur also announced an expansionary budget for 1999 to combat rising unemployment. Malaysia continues to seek funding from domestic and international sources to help finance its budget deficit and re-capitalise its weakened banking sector. Table 4.5 illustrates Malaysia's main trading partners.

Table 4.5: Malaysia main trading partners

Exports	Singapore (20.4%)	United States (18.2%)	Japan (13.4%)	Hong Kong (5.9%)	Taiwan (4.1%)
Imports	Japan (24.5%)	United States (15.4%)	Singapore (13.4%)	South Korea (5.2%)	Taiwan (5.0%)

Source: Adapted from Britannica World Annual Data 2000

- **Thailand: overview**

After months of speculative pressure on the Thai baht, the government decided to float the currency in July 1997, the symbolic beginning of the country's current economic crisis (Warr, 2000). The crisis, which began in the country's financial sector, has spread throughout the economy. After years of rapid economic growth averaging 9% earlier this decade, the Thai economy contracted 0.4% in 1997 and shrunk another 8.5% in 1998. In the years before the crisis, Thailand ran persistent current account deficits. With the depreciation of the Thai baht and the collapse of domestic demand, however, imports have fallen off sharply, by more than 33%, and Thailand posted a trade surplus of approximately $12 billion in 1998. Foreign investment for new projects, the long-time catalyst of Thailand's economic growth, has also slowed. The government has closely adhered to the economic recovery program prescribed by the IMF. The co-operation afforded Thailand stability in the value of its currency in the second half of 1998 and helped replenish foreign reserves. Tough measures, including passage of adequate bankruptcy and foreclosure legislation as well as privatisation of state-owned companies and re-capitalisation of the financial sector remain undone. Table 4.6 presents Thailand's main trading partners.

Table 4.6: Thailand main trading partners

Exports	United States (19.6%)	Japan (15%)	Singapore (11%)	Hong Kong (5.9%)	Malaysia (4.3%)
Imports	Japan (25.6%)	United States (13.9%)	Singapore (5%)	Malaysia (4.8%)	Germany (4.7%)

Source: Adapted from Britannica World Annual Data 2000

- **Lao PDR: Overview**

The government of Lao PDR, one of the few remaining official socialist states, has been decentralising control and encouraging private enterprise since 1986. The results, starting from an extremely low base, have been striking with an annual growth averaging 7% between 1988-96 but the Asian Development Bank has considered the macroeconomic management in recent years inadequate[5]. Because Lao PDR depends heavily on its trade with Thailand, it fell victim to the financial crisis in the region beginning in 1997. Lao PDR is a landlocked country with a primitive infrastructure. It has no railroads, a rudimentary road system, and limited external and internal telecommunications. Electricity is available in only a few urban areas. Subsistence agriculture accounts for half of GDP and provides 80% of total employment. In non-drought years, Lao PDR is self-sufficient overall in food, but each year flood, pests, and localised drought cause shortages in various parts of the country.

[5] "Laos' economic management draws flak", in: *The Nation*, 19 April 2000, Internet Edition.

For the foreseeable future the economy will continue to depend on aid from the IMF and other international sources; Japan is currently the largest bilateral aid donor; aid from the former USSR/Eastern Europe has been cut sharply. Table 4.7 illustrates Lao PDR's main trading partners in order of importance.

Table 4.7: Lao PDR main trading partners

Exports	Vietnam (49.1%)	Thailand (30.2%)	France (2.6%)	United Kingdom (2.1%)	Germany (1.5%)
Imports	Thailand (45%)	Japan (7.6%)	Vietnam (3.7%)	China (3.4%)	Singapore (2.5%)

Source: Adapted from Britannica World Annual Data 2000

- **Cambodia: overview**

After four years of solid macroeconomic performance, Cambodia's economy slowed dramatically in 1997-98 due to the regional economic crisis, civil violence, and political infighting. Foreign investment fell off, and tourism has declined from 1996 levels. Also, in 1998 the main harvest was hit by drought. The long-term development of the economy after decades of war remains a daunting challenge. Human resource levels in the population are low, particularly in the poverty-ridden countryside. The almost total lack of basic infrastructure in the countryside will continue to hinder economic development. Recurring political instability and corruption within government discourage foreign investment and delay foreign aid. Table 4.8 presents Cambodia main trading partners in order of importance.

Table 4.8: Cambodia main trading partners

Exports	Thailand (42.7%)	Singapore (11.1%)	India (7.6%)
Imports	Singapore (32.7%)	Thailand (23.8%)	Vietnam (6.8%)

Source: Adapted from Britannica World Annual Data 2000

- **Myanmar: overview**

Myanmar has a mixed economy with private activity dominant in agriculture, light industries, and transport, and with substantial state-controlled activity, mainly in energy, heavy industry, and the rice trade. Government policy in the last 10 years, 1989-98, has aimed at revitalising the economy after three decades of tight central planning. Thus, private activity has markedly increased; foreign investment has been encouraged, so far with moderate success; and efforts continue to increase the efficiency of state enterprises. Published estimates of Myanmar's foreign trade are greatly understated because of the volume of black-market trade. A major ongoing problem is the failure to achieve monetary and fiscal stability. Although Myanmar remains a poor Asian country, its rich resources furnish the potential for substantial long-term increases in income, exports, and living standards. The short-term outlook is for continued sluggish growth because of internal unrest, minimal foreign investment, and the large trade deficit. Table 4.9 lists the main trading partners of Myanmar.

Table 4.9:Myanmar main trading partners

Exports	Singapore (16.4%)	Indonesia (15.6%)	India (12.9%)	Thailand (10%)	China (5.1%)
Imports	Japan (23.6%)	Singapore (16.4%)	China (12.2%)	Thailand (10%)	Malaysia (9.4%)

Source: Adapted from Britannica World Annual Data 2000

- **Vietnam: overview**

Vietnam is a poor, densely populated country that has had to recover from the ravages of war, the loss of financial support from the old Soviet Bloc, and the rigidities of a centrally planned economy. Substantial progress has been achieved over the past 10 years in moving forward from an extremely low starting point, though the regional downturn is now limiting that progress. GDP growth of 8.5% in 1997 fell to 4% in 1998. These numbers masked some major difficulties that are emerging in economic performance. Many domestic industries, including coal, cement, steel, and paper, have reported large stockpiles of inventory and tough competition from more efficient foreign producers, giving Vietnam a trade deficit of $3.3 billion in 1997. While disbursements of aid and foreign direct investment have risen, they are not large enough to finance the rapid increase in imports; and it is widely believed that Vietnam may be using short-term trade credits to bridge the gap, a risky strategy that could result in a foreign exchange crunch. Meanwhile, Vietnamese authorities continue to move slowly toward implementing the structural reforms needed to revitalise the economy and produce more competitive, export-driven industries. Privatisation of state enterprise remains bogged down in political controversy, while the country's dynamic private sector is denied both financing and access to markets. Reform of the banking sector is proceeding slowly, raising concerns that the country will be unable to tap sufficient domestic savings to maintain current high levels of growth. Administrative and legal barriers are also causing costly delays for foreign investors and are raising similar doubts about Vietnam's ability to maintain the inflow of foreign capital. Ideological bias in favour of state intervention and control of the economy is slowing progress toward a more liberalised investment environment. Table 4.10 presents Vietnam’s main trading partners in order of importance.

Table 4.10: Vietnam main trading partners

Exports	Japan (22.7%)	Germany (8.3%)	Singapore (5.7%)	France (5.0%)	Australia (4.9%)
Imports	Singapore (12.9%)	South Korea (12.5%)	Taiwan (10.1%)	Japan (9.9%)	China (8.4%)

Source: Adapted from Britannica World Annual Data 2000

4.4.2 Regional trade and transport patterns

Trade and investment initiatives require closer co-ordination of transport and communication infrastructure, which implies the removal of barriers so as to facilitate movement. An interconnected infrastructure network will accelerate trade and introduce efficient transport and communication facilities across ASEAN. This will reduce trade transaction cost in ASEAN (Banomyong, 1999). The flow of goods information and services within and cross borders must be ensured in the most effective way. Bottlenecks in small segments could lead to congestion, late delivery, increase in costs and ultimately loss of future contracts. Transport in ASEAN must be considered as a critical sector to enhance regional economic growth and integration. As an economic sector, transport (i.e., by improving efficiency and reducing costs) is an essential contributory ingredient to international competitiveness. "An integrated transport system is a prerequisite for the competitiveness for goods[6]". Tables 4.11, 4.12, 4.13 & 4.14 present some of the basic transport infrastructure and statistics that are available in Singapore, Malaysia, Thailand, Myanmar, Lao PDR, Cambodia and Vietnam.

It must be reminded that some authors (Myrdal, 1966; Hirschman, 1978; Hart-Lansberg & Burkett, 1998a & 1998b; Bakker, 1999) have challenged the view that investment in infrastructure projects will lead to full economic development. These authors believed that investment in large scale infrastructure project could weaken an area's development prospect by restricting its natural comparative advantage (Hirschman, 1978).

[6] Integrated Implementation Programme for the ASEAN Plan of Action in Transport and Communications (1997).

Myrdal (1966) believed that improvement in agricultural productivity is a precondition for economic development. Infrastructure improvement could be made but it would create the heaviest demand for capital that is not readily available in a developing country. Private capital may be used to fund infrastructure projects but Bakker (1999) suggested that the increase of private capital to infrastructure improvement have led to a lack in transparency, accountability, and an incomplete assessment of the economic returns and the environmental and social impacts of proposed projects. These effects are not necessarily intended, nor are they an inevitable outcome of the involvement of private capital, but nevertheless do occur. According to these authors, infrastructure cannot be assumed as the only factor for economic development and trade competitiveness, other variables such as skilled labour force, natural resources, technological development, etc., must also be considered.