

Regional Report on  
**The Impact of  
Trade Liberalization  
on Small Scale Producers  
in South East Asia**  
**- A Cause for Concern**



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**SOUTHEAST ASIAN COUNCIL  
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SEACON**

# **Regional Report on The Impact of Trade Liberalization on Small Scale Producers in South East Asia - A Cause for Concern**

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# Regional Report on The Impact of Trade Liberalization on Small Scale Producers in South East Asia - A Cause for Concern?

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# Foreword

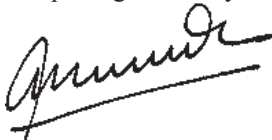
This study is timely and fills a long-felt need among civil society movements for a critical but balanced assessment of the socio-economic impact of the ASEAN Free Trade Area agreement, in particular its effects on the small scale producers (men and women). Analyses on AFTA's socio-economic impact are rare and usually anecdotal. Most references and academic studies carried out in the South East Asia region emphasis on the positive side of trade liberalization and the rate of the liberalization process, not on whether such liberalization is improving or worsening life in the ASEAN. Hence, this study was carried out to assess the positive and negative impact on trade, investment and agrarian situation in the individual ASEAN economies *viz a viz* other liberalization initiatives such as the bilaterals, Free Trade Area and the World Trade Organization (WTO).

Compared to the ten-year old World Trade Organization (WTO) or even the recent bilateral trade talks, AFTA does not elicit the same level of civil society attention and discourse. One reason being, the AFTA schedules of tariff reduction, tariff harmonization and tariff inclusion-exclusion seem too complex, even to social activists and business people. This study seeks to give a concise overview of the AFTA schemes and status implementation of the schedules and it is indeed a guide for those who wish to understand the AFTA scheme in a simplified but socially relevant manner.

The study has also been an effective tool in strengthening SEACON as a network. SEACON member-partners from Cambodia, Indonesia, Laos, Malaysia, Philippines, Thailand and Vietnam were directly involved in the conceptualization, planning and implementation of the project.

On behalf of SEACON, I would like to extend our utmost gratitude to NOVIB, MISEREOR and APHD, our funders. Without their support, commitment, dedication and guidance in helping to improve the lives of the marginalized and vulnerable small scale producers, this study would not have been possible.

We are indebted to our respondents of this study, the men and women farmers and fisher folks who took time off their work to respond to our study. SEACON is also grateful to all our lead researchers who worked very hard in completing this study.



Marimuthu Nadason  
*Chairperson, SEACON*

# 1. Introduction

The Association of Southeast Asian Nations (ASEAN)<sup>1</sup> has faced a broad range of economic and political issues. It is now 12 years since the establishment of a free trade area (AFTA) in Southeast Asia, 10 years since the formation of the World Trade Organization (WTO) and six years since the Asian financial crisis.

Over the last 12 years, Southeast Asian (SEA) markets have been increasingly integrated by dismantling trade barriers through regional (e.g. ASEAN Free Trade Area), multilateral (General Agreement on Trade and Tariffs – World Trade Organization) and bilateral trade agreements.

The process of economic integration and globalization started much earlier for countries in Southeast Asia. In the 1980s and early 1990s, countries such as Indonesia and the Philippines were pressured to adopt market-led economic policies (or neo-liberal policies) by the International Monetary Fund-World Bank (IMF-WB). As a pre-condition for new loans, governments had to undertake structural adjustment programs (SAPs). In agriculture, this meant liberalizing the agricultural markets by lowering tariffs and other trade barriers and removing taxes, which made the entry of imports easier. It also meant creating incentives for medium and large-scale agribusiness investments. It also led to a diminished role of governments in providing support to agriculture and small farmers in particular. Governments either drastically reduced or eliminated subsidies such as price subsidies or input subsidies. Further opening of SEA markets came about with the establishment of the ASEAN Free Trade Area (AFTA) in 1992 and the WTO in 1995.

As an economic community, ASEAN is envisioned as a single market and production base. To achieve this, ASEAN has established mechanisms and measures such as the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services (AFAS) and ASEAN Investment Area

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1 ASEAN's founding members are Indonesia, Malaysia, Singapore, the Philippines, and Thailand. Brunei joined in 1984. Vietnam became a full member in July 1995, Laos and Myanmar (Burma) in July 1997 and Cambodia joined in April 1999.

(AIA).

Central to the regional economic integration is the setting up of AFTA. AFTA is viewed as ASEAN's "collective strategic response to pursue ASEAN's goals of stimulating intra- and extra-regional trade, improving the investment climate and enhancing the competitiveness of industrial performance of its member countries."<sup>2</sup> AFTA was established at the 4<sup>th</sup> ASEAN Summit in Singapore in January 1992. A free trade area<sup>3</sup> in the region was envisioned to be fully realized in 15 years (1993 - 2008) by eliminating trade and non-trade barriers among Southeast Asian countries.

Although originally scheduled to be achieved by 2008, the target of completion has been moved to 1 January 2003 (then 2002) at the 26<sup>th</sup> ASEAN Ministers' Meeting in Chiang Mai, Thailand in 1994. A year after the Asian financial crisis, at the 6<sup>th</sup> ASEAN Summit in Hanoi, Vietnam in December 1998, ASEAN member-states decided to bring forward AFTA's completion date from 2003 to 1 January 2002 for the six original signatories of AFTA, with later signatories given a longer time to adjust to regional free trade.

After the collapse of WTO negotiations in 2003, there is a flurry of initiatives towards bilateral agreements, accelerating again AFTA's implementation and moves towards an integrated East Asian region. In August 2003, the ASEAN+3 (ASEAN plus China, South Korea and Japan) process of East Asian regional cooperation advanced forward when four more bilateral swap agreements (BSAs) were concluded, bringing the total to 16 BSAs with the size of the network to US\$36.5 billion.<sup>4</sup> Singapore has signed a free trade agreement with the United States. Similar initiatives are being negotiated between Thailand and the United States and the Philippines and the United States. Trade with China further expanded with the signing of

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2 Joseph L.H. Tan, "Introductory Overview: AFTA in the Changing International Economy," *AFTA in the Changing International Economy*, (Singapore: Institute of Southeast Asian Studies, 1996.

3 An ASEAN free trade area refers to the removal of obstacles to freer trade among member countries by reducing tariffs to 0-5 per cent on traded manufactured goods and processed agricultural products and the removal of non-tariff barriers and quantitative restrictions that limit the entry of imports. Each country was given the flexibility to set import tariffs for non-ASEAN members.

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the ASEAN-China Free Trade Agreement.

The recent development is the decision of the ASEAN leaders at their summit in Laos this November to accelerate the implementation of AFTA to 2007 for ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Thailand and Singapore) and 2012 for new ASEAN members. They also approved the ASEAN-China free trade arrangement, which encompasses only the ASEAN-6. The new members – Laos, Myanmar, Cambodia and Vietnam – have until 2015 to comply. This development may bring joy to those who are able to maximize the opportunities of a bigger market but also some serious misgivings to those whose livelihoods may be in jeopardy as they face stiffer competition from imports.

Twelve years have passed since the establishment of AFTA. Has AFTA been good for ASEAN economies in general and small Southeast Asian producers in particular? Did it contribute towards sustained development and improve the welfare of the rural populace?

So far, assessments of AFTA's socio-economic impact are usually anecdotal. ASEAN governments and other studies frequently laud on the positive effects of regional integration and how fast trade liberalization had been implemented. It is in this context that the Southeast Asian Council for Food Security and Fair Trade (SEACON) embarked on a regional study of AFTA.

### Objectives of the study

1. Assess the impact (both positive and negative effects) of AFTA at the national level (focus on trade and investments) and on small producers (capacity to compete in a liberalized market).
2. Provide recommendations to address and mitigate its negative impact and enhance its positive impact, especially on rice and priority-based commodities (e.g. corn/maize, fisheries, and sugar) and to promote

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4 Joint Ministerial Statement of the ASEAN+4 Finance Ministers' Meeting, 15 May 2004, Jeju, South Korea. [http://www.mof.go.jp/english/if/as3\\_040515e.htm](http://www.mof.go.jp/english/if/as3_040515e.htm). (The BSAs aims to provide liquidity support to members in the event of temporary balance of payment problems. They are also intended to complement and supplement IMF facilities.)

fair trade in the region.

This paper hopes to provide independent analysis on AFTA and its impact on small producers (farmers and fisher folk) in the region. It studies the implementation of AFTA (facilitating trade and investments) in eight countries (Cambodia, Indonesia, Laos, Myanmar, Malaysia, the Philippines, Thailand and Vietnam) and the current situation of small producers in Southeast Asia. In evaluating the situation of small producers and their capacity to maximize an expanding regional market, the study identified key indicators. These are demographic information of small producers, ownership of productive means (land and boats), cropping and production expenses, prices and marketing of small producers' products, indebtedness and credit, farm incomes, their perceived major problems, perception on government intervention and support, and knowledge of AFTA. The study also aims to provide some data on gender issues in agriculture and fishery. SEACON also hopes that new policy measures to enhance the well-being of small producers and a more responsive and appropriate government intervention in trade and agriculture could be put in place.

In understanding the social and economic impact of AFTA, it is important to clarify at the outset that many ASEAN countries have adopted various trade liberalization measures (as part of their IMF-AFTA-WTO commitments) which makes it difficult to isolate the impact of AFTA-related trade liberalization measures on the winning or losing industries under regional integration. For instance, the Philippines implemented three inter-related trade regimes, namely the unilateral tariff reduction program (started in 1981), trade commitments under the WTO and AFTA-CEPT commitments. Indonesia, aside from its trade commitments under the AFTA-CEPT and the WTO, has also adopted other liberalization commitments as pushed by the IMF. Thailand and Malaysia fully subscribed to free trade tenets.

## **Analytical framework**

Since the 1980s and early 1990s, most ASEAN countries (especially ASEAN-6) had undertaken far-reaching economic reforms (e.g. trade,



## SEACON

services, financial and capital account liberalization). The reform process is still ongoing. Within and outside the Southeast Asian region, there is a strong push towards further trade liberalization and regional integration.

Economic liberalization (or the integration of national economies to world economy) was seen as the engine of growth and development. Southeast Asian decision makers have subscribed fully to this concept. They established an ASEAN free trade area (AFTA) in 1992. ASEAN tariffs are now down to 0-5% in 91 per cent of the Inclusion List.

The Asian financial crisis, the collapse of trade negotiations in Seattle in 1999 and Cancun in 2003 and massive citizens' protests against globalization lead us to question anew the impact of trade liberalization as exemplified by AFTA in Southeast Asia.

AFTA as a major national and regional policy should provide for ample security and protection of identified vulnerable sectors such as the small farmers as producers and consumers in relation to their right to food, gender rights and right to livelihood within the framework of sustainable development.

The various country experiences on regional integration under AFTA show that regional integration has both positive and negative impacts, winners and losers. Trade liberalization has created trade openings and expanded the market of goods and services. However, embracing economic globalization blindly does not automatically result in benefits as promised by some of the advocates of free trade. In many cases, positive developments in macro-economic indicators (e.g. higher foreign exchange earnings, expanded markets, more product choices) mask a parallel trend towards the social and economic dislocation and exclusion of millions of small farmers and rural workers and their families. Trade liberalization is not the solution for structural poverty and the neglect of marginalized sectors in society. The reverse is happening. The liberalization process has worsened the situation of many. Many people are losing their land, jobs, and other means of production or their control over meagre resources. Many small producers become more indebted. Many workers were forced to take on

jobs under inhuman conditions and terms. Trade liberalization has also put a lot of stress on the fragile environment as big and small producers use intensive agriculture to attain higher productivity.

## **Methodology and approach**

A number of methodologies were used in the study. These include archival work in the form of secondary data gathering and survey of related literature, key informant interviews with government officials and private sector leaders, price monitoring, focus group discussions and case studies of costs and incomes. Small farmers<sup>5</sup> and fisher folk were interviewed in Indonesia, Malaysia, the Philippines, Thailand and Vietnam. An interview questionnaire for small farmers and fisher folk was developed. The questionnaire was translated in national languages. A manual was also developed to assist the lead researchers and field interviewers in administering the questionnaire.

Training-workshops for lead researchers and field interviewers on the content of the questionnaire and the process of/manner of interviewing were conducted. The SEA Council Secretariat with the assistance of resource persons/consultants conducted the trainings of lead researchers in Malaysia. On the other hand, the lead researchers with the help of the SEA Council's national members trained the field interviewers.

Survey results were encoded using Microsoft Access program and data processing was undertaken using the Statistical Package for Social Sciences program (SPSS).

The research targeted 250 samples per country. Statisticians (consultants) assisted the research team in finalizing the sampling design and actual distribution of samples. Table 1 shows the distribution of respondents and crops covered in five countries.

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5 Small farmers in this study refer to producers tilling three hectares and below. Small fisher folk refer to fishers who have/use boats of less than three gross tons in the Philippines and 10 gross tons in Malaysia.

**Table 1: Distribution of Respondents (Rs) and Crops Covered by Country**

Country	Sample	Crops Covered
Indonesia	233	Rice (125 respondents), Sugarcane (58 Rs), Potato (50 Rs)
Malaysia	256	Rice (147 Rs), Fisher folk (109 Rs)
Philippines	297	Rice (125 Rs), Corn (75 Rs), Fisher folk (53 Rs)
Thailand	250	Rice (175 Rs) and Soya bean (75 Rs)
Vietnam	235	Rice (97 Rs), Coffee (48 Rs), Corn (44 Rs) Cashew (46 Rs)
<b>Total</b>	<b>1,271</b>	

## Limitations of the study

The AFTA research covered only small producers in selected commodities as shown in Table 1 (farmers tilling three hectares and below and fisher folk with boats at 10 and below gross tonnage).

Given the limited budget and time, the study covered limited sample areas and respondents.

Some countries also faced constraints in implementation. In Thailand, the researchers had a hard time identifying farmers tilling three hectares and below in the initial research areas. Farmers in the central Thailand, where rice is being produced for export, have bigger plots of land (more than three hectares). The researchers had to cover more areas to get the necessary sample. In Indonesia, the lead researcher had a difficult time interviewing female respondents because of cultural limitations. Female respondents have to be interviewed in the presence of another family member.

Some countries also had difficulty accessing information on AFTA in a timely manner, which caused delay in implementation.

## **Organization of the paper**

The first part introduces the study and presents the objectives, analytical framework, the limitations and research methodology used. The second part discusses AFTA implementation. It also analyzes the patterns of trade and investments in the context of the ASEAN countries' economic performance.

Providing the context is the third part, which discusses ASEAN economic and agriculture performance. The fourth part presents the current situation of small producers (small farmers and fisher folk in Southeast Asia. It describes their situation based on the key indicators: ownership of productive means (land and boats), cropping and production expenses, prices and marketing of small producers' produce/products, indebtedness and credit, farm incomes their perceived major problems, perception on government intervention and support and knowledge of AFTA. The fifth part looks at the impact of AFTA and the increasing efforts towards trade liberalization. The last part presents the conclusions and recommendations of the study.

## 2. AFTA in Retrospect and at Present<sup>6</sup>

### **ASEAN trade cooperation prior to AFTA**

Prior to AFTA, ASEAN economic cooperation had been limited. The ASEAN preferential trading arrangement (ASEAN PTA) was first introduced at the Tenth ASEAN Ministers' Meeting. ASEAN put emphasis on tariff preferences. It began with a margin of 10 per cent and rose to 20-25 per cent in 1981 and to 40 and more per cent later. Agreements were voluntary and on a product-to-product basis. Later they adopted across-the-board tariff cuts but accompanied by the exclusion of sensitive products to protect certain industries. It was realized that the impact of intra-ASEAN trade had been very limited by the mid-1980s.

At the Third ASEAN Summit in 1987, they endeavored to make ASEAN PTA work more effectively. They undertook some measures such as the reduction of inclusion lists to not more than 10 per cent of traded goods and/or 50 per cent of value of intra-ASEAN trade, phase-out plan for the exclusion lists to be included in the PTA with minimum margin of preference of 25 per cent and reducing the ASEAN content level to 35 per cent. The measures were given a five-year implementation period with an annual review to monitor the progress. The impact on intra-ASEAN trade, however, was negligible.

### **Key features of AFTA and country commitments**

The creation of AFTA is contained in three agreements issued at the Fourth ASEAN Summit, namely the Singapore Declaration of 1992, Framework Agreement on Enhancing ASEAN Economic Cooperation and Agreement on the Common Effective Preferential Tariff (CEPT) Scheme.

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6 This section draws heavily from the ASEAN Secretariat website and database.

The main objective of AFTA is to increase ASEAN's competitiveness as a production base for the world market by eliminating intra-ASEAN tariffs and non-tariff barriers (NTBs). The main mechanism is CEPT. The original CEPT scheme covered all manufactured products (capital goods and processed agricultural products). It excluded unprocessed agricultural products.<sup>7</sup> Box 1 shows the AFTA commitments of the original signatories.

It is projected that tariffs will be eliminated for ASEAN-6 in 2010 and in 2015 for the newer members with flexibility on some sensitive products until 2018.<sup>8</sup> The new ASEAN members were given longer time to reach the 0-5 per cent tariff for intra-ASEAN trade (Vietnam in 2006, Laos and Myanmar in 2008, and Cambodia in 2010).

The ASEAN Free Trade Area is nearly achieved with about 94.3 per cent of all products in the Inclusion List (IL) of ASEAN-10 (Table 2) whose tariffs have been removed or reduced to 0-5 per cent. All the tariff lines of Singapore and Thailand are already in the Inclusion List.

The ASEAN Secretariat reported that of the 103,288 tariff lines under the AFTA-CEPT commitments of ASEAN-10, 88.84 per cent of all products have tariffs of 0-5 per cent and more than 11 per cent of these products have tariffs of above 5 per cent. All the tariff lines of Indonesia and Singapore belong to the 0-5% tariff category (Table 3).

There has been a significant reduction of tariff levels, from an average tariff for ASEAN-6 under the CEPT Scheme of 12.76 per cent in 1993 to 2.39 per cent in 2003 (Figure 2).

Are the trade and FDI effects of AFTA, as projected by the theory of a free trade area, significant?

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7 ASEAN defines agricultural products as agricultural raw materials and unprocessed products covered under Chapters 1-24 of the Harmonized System Code (HS) and similar agricultural raw materials and unprocessed agricultural products in other related HS headings and products which have undergone simple processing with minimal change in form from the original products (ASEAN Secretariat, *AFTA Reader*, Volume I, November 1993).

8 Trade – The ASEAN Free Trade Area. <http://www.aseansec.org/12022.htm>

**Box 1: ASEAN-6 CEPT Package & Commitments to AFTA**

1. To extend, on a reciprocal basis, Most-Favored Nation (MFN) and National Treatment to ASEAN member countries;
2. To provide relevant information on its country's economic, profile, particularly trade statistics requirements when requested;
3. To prepare a list for tariff reduction and begin tariff reduction effective on 1 January 1993 and ending at 0-5% tariff rate on 1 January 2008;

**Number of Tariff Lines in CEPT (1993)**

Country	Fast track	Normal	Temporary Exclusion
Brunei	2,377	3,618	236
Indonesia	2,819	4,539	1,648
Malaysia	2,985	5,710	621
Philippines	960	3,432	694
Singapore	2,183	3,473	1
Thailand	3,531	5,146	122
<b>Sub-total</b>	<b>14,855</b>	<b>25,918</b>	<b>3,322</b>
<b>TOTAL</b>		<b>44,095</b>	

*Source: ASEAN Secretariat*

Tariff cuts under the CEPT Scheme are done through the:

**Fast Track Program:**

1. Tariffs above 20% will be reduced to 0-5% within 10 years (1 January 2003).
2. Tariffs 20% and below – will be reduced to 0-5% in 7 years (1 January 2000).

*Covered under the Fast Track Program were:*

*Covered under the Fast Track Program were:*

- |                    |                                |                      |
|--------------------|--------------------------------|----------------------|
| 1. Vegetable oils  | 6. Wooden and rattan furniture | 11. Leather products |
| 2. Chemicals       | 7. Gems and jewelry products   | 12. Textiles         |
| 3. Fertilizer      | 8. Ceramics and glass products | 13. Cement           |
| 4. Rubber products | 9. Pharmaceuticals             | 14. Copper cathodes  |
| 5. Pulp and paper  | 10. Plastics                   | 15. Electronics      |

**Normal Track Program:**

1. Tariffs above 20%: to be reduced to 20% within 5-8 years by 1 January 2001; 0-5% in 7 years, ending on 1 January 2008)
2. Tariffs 20% and below to be reduced to 0-5% within 10 years (by 1 January 2003).

To promote commonality of tariff rates, reduction in tariff rates will be done in three tranches: 2003 – 15%; 2005 – 10% and 2007 – 0-5%.

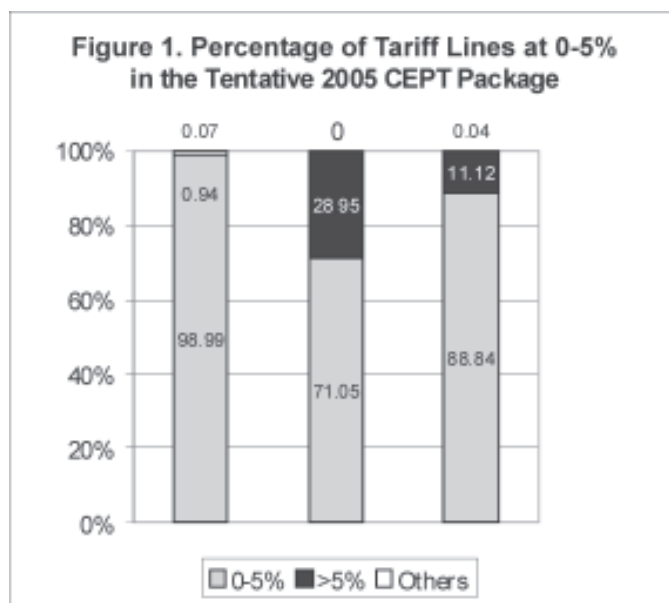
*Source: ASEAN Secretariat, AFTA Reader, Volume 1, November 1993*

**Table 2: Number of Tariff Lines in the Tentative 2005 CEPT Package by Status**

Country	Number of Tariff Lines					Percentage				
	IL	TEL 1)	GEL	SL/IISL	Total	IL	TEL	GEL	SL/IISL	Total
Brunei (AHTN)	9,924	-	778	-	10,702	92.73	-	7.27	-	100
Indonesia (AHTN)	11,028	-	100	25	11,153	98.88	-	0.90	0.22	100
Malaysia (AHTN)	12,043	-	87	-	12,130	99.28	-	0.72	-	100
Philippines (AHTN)	11,013	-	27	19	11,059	99.58	-	0.24	0.17	100
Singapore (AHTN)	10,705	-	-	-	10,705	100.00	-	-	-	100
Thailand (AHTN)	11,030	-	-	-	11,030	100.00	-	-	-	100
ASEAN-6	65,743	-	992	44	66,779	98.45	-	1.49	0.07	100
Cambodia (AHTN)1)	6,784	3,670	181	54	10,689	63.47	34.33	1.69	0.51	100
Laos (AHTN)	10,023	-	464	205	10,690	93.76	-	4.34	1.90	100
Myanmar (AHTN)	10,461	135	59	34	10,689	97.87	1.26	0.55	0.32	100
Vietnam (AHTN)	10,277	14	371	27	10,689	96.15	0.13	3.47	0.25	100
CLMV	37,545	3,819	1,075	318	42,757	87.81	8.93	2.51	0.74	100
ASEAN 10	103,288	3,819	2,067	362	109,536	94.30	3.49	1.89	0.33	100

Source: ASEAN Secretariat, as of August 2005

Note: 1) 2004 Package





**Table 3: Number of Tariff Lines in the Tentative 2005 CEPT Package by Tariff Category**

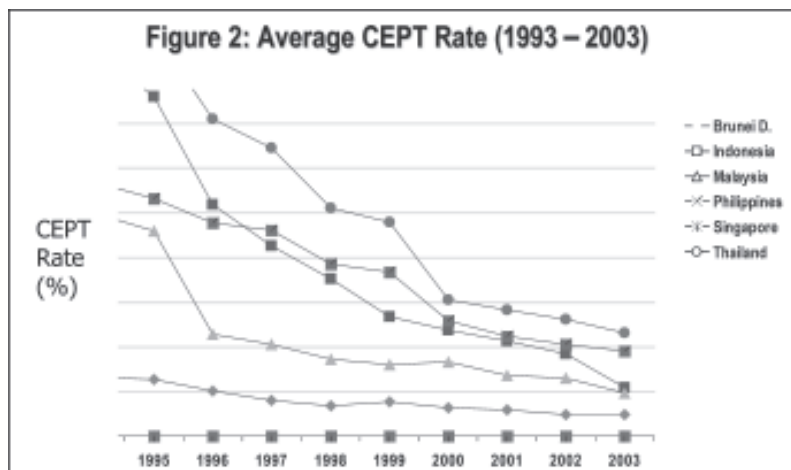
Country	Number of Tariff Lines				Percentage			
	0 - 5 %	> 5 %	Other I	Total	0 - 5 %	> 5 %	Other	Total
Brunei (AHTN)	9,748	161	15	9,924	98.23	1.62	0.15	100
Indonesia (AHTN)	11,028	-	-	11,028	100.00	-	-	100
Malaysia (AHTN)	11,678	334	31	12,043	96.97	2.77	0.26	100
Philippines (AHTN)	10,901	112	-	11,013	98.98	1.02	-	100
Singapore (AHTN)	10,705	-	-	10,705	100.00	-	-	100
Thailand (AHTN)	11,020	10	-	11,030	99.91	0.09	-	100
ASEAN-6	65,080	617	46	65,743	98.99	0.94	0.07	100
Cambodia (AHTN)	1,427	5,357	-	6,784	21.03	78.97	-	100
Laos (AHTN)	8,240	1,783	-	10,023	82.21	17.79	-	100
Myanmar (AHTN)	8,513	1,948	-	10,461	81.38	18.62	-	100
Vietnam (AHTN)	8,496	1,781	-	10,277	82.67	17.33	-	100
CLMV	26,676	10,869	-	37,545	71.05	28.95	-	100
<b>Total ASEAN</b>	<b>91,756</b>	<b>11,486</b>	<b>46</b>	<b>103,288</b>	<b>88.84</b>	<b>11.12</b>	<b>0.04</b>	<b>100</b>

Source: ASEAN Secretariat, as of August 2005

1) Items with specific duties

2) Items that has just moved from GEL into IL for Brunei and from SL into IL for Malaysia, the Philippines and Thailand

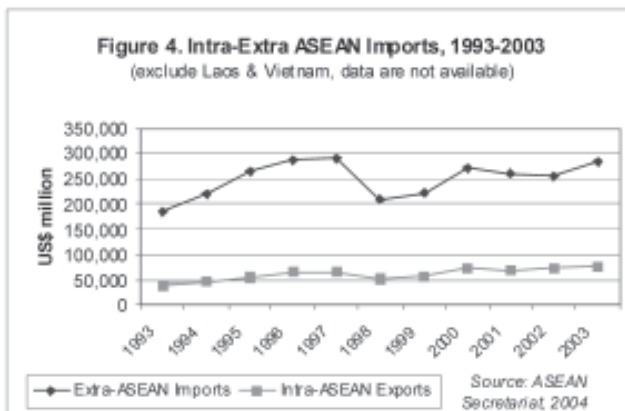
3) 2004 Package



## Trade and investments: Achievements and challenges

### Direction of ASEAN Trade

ASEAN's total exports had been on an upward trend until 1997, from US\$206,637 million in 1993 to US\$342,670 million in 1997 but declined resulting from the Asian financial crisis in 1997-1998. The value of ASEAN exports went up from 1999 to 2000 but dipped again in 2001. With the economic slowdown in the United States and Europe and the recession in Japan, the value of ASEAN exports declined in 2001 to US\$370,355 million. The 2002-2003 export figures show an upward trend. Intra-extra ASEAN export data show the same pattern (see Figures 3 and 4).



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While trade with traditional industrial markets remained robust, collective share of trade remained low with intra-ASEAN exports constituting 22.8 per cent in 2003. This share was 21.1 per cent in 1993 when AFTA was launched and 25 per cent in 1996 (See Table 4). The United States remained the second major export market of ASEAN, although its market share declined continuously from 20.3 per cent in 1993 to 14.2 per cent in 2003. On the other hand, China increased its market share from 2.2 per cent to 6.4 per cent over the same period. The ASEAN-China Expert Group on Economic Cooperation put forward that the possible reasons for the strong growth of ASEAN-China trade was the high GDP growth of both prior to the financial crisis and the reduction of most-favored nations (MFN) tariff rates in ASEAN and China.<sup>9</sup>

Japan used to be the premier source in terms of imports with about 25 per cent in 1993. It was supplanted by ASEAN in 2001 although its share remained significant. The share of ASEAN increased to 20.4 per cent in 2003 from 17.4 per cent in 1993. The US maintained its third position over the years (see Table 5).

**Table 4: ASEAN-6 Major Export Markets**

1993		1996		2001		2002		2003	
Country	%	Country	%	Country	%	Country	%	Country	%
ASEAN	21.1	ASEAN	25.0	ASEAN	22.2	ASEAN	22.4	ASEAN	22.8
USA	20.3	USA	18.4	USA	16.8	USA	15.9	USA	14.2
EU	15.2	EU	14.5	EU	15.3	EU	14.2	EU	13.3
Japan	15.0	Japan	13.3	Japan	13.1	Japan	11.7	Japan	11.8
Taiwan	3.0	Taiwan	3.5	Hong Kong	5.5	Hong Kong	5.8	Hong Kong	6.7
South Korea	3.0	Hong Kong	3.3	South Korea	4.0	China	5.1	China	6.4
China	2.2	South Korea	2.9	China	3.9	Taiwan	4.9	South Korea	4.0
Australia	1.8	China	2.3	Taiwan	2.4	South Korea	4.1	Taiwan	3.3
Canada	0.9	Australia	1.9	Australia	2.3	Australia	2.5	Australia	2.7
India	0.7	India	1.2	India	1.6	India	2.1	India	1.8
Top 10 countries	83.2	Top 10 countries	86.3	Top 10 countries	87.1	Top 10 countries	88.8	Top 10 countries	86.9
Others	16.8	Others	13.7	Others	12.9	Others	11.2	Others	13.1
<b>TOTAL</b>	<b>100.0</b>	<b>TOTAL</b>	<b>100.0</b>	<b>TOTAL</b>	<b>100.0</b>	<b>TOTAL</b>	<b>100.0</b>	<b>TOTAL</b>	<b>100.0</b>

Source: ASEAN Statistical Yearbook, 2003 and 2004

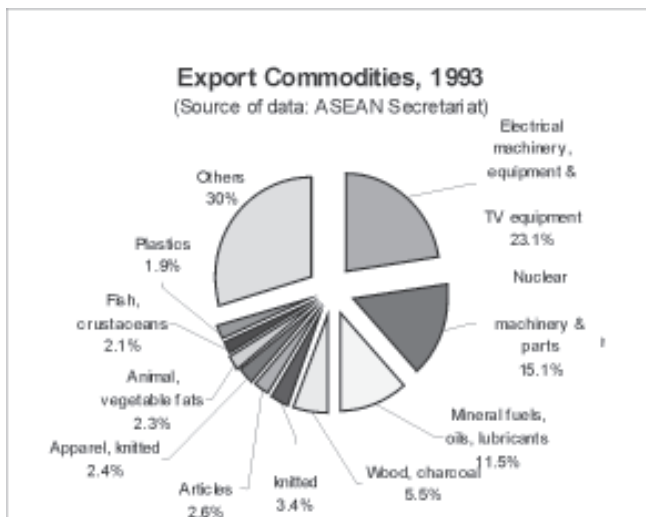
9 ASEAN-China Expert Group on Economic Cooperation, Forging Closer ASEAN-China Economic Relations in the Twenty-first Century, October 2001, p.11.

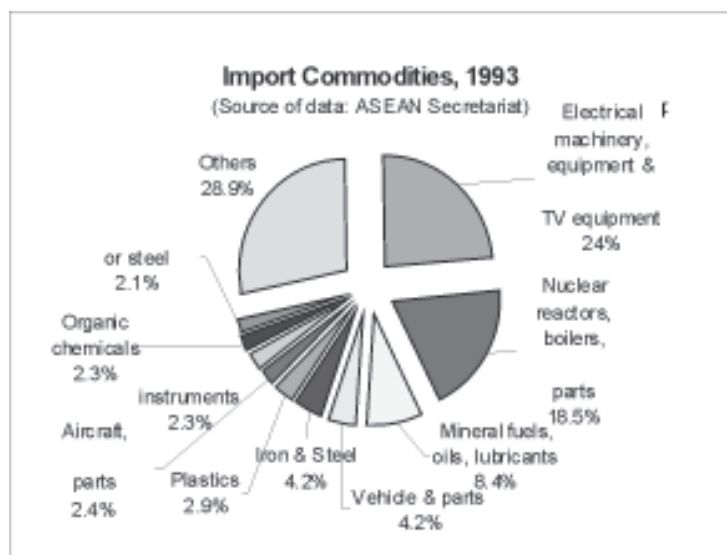
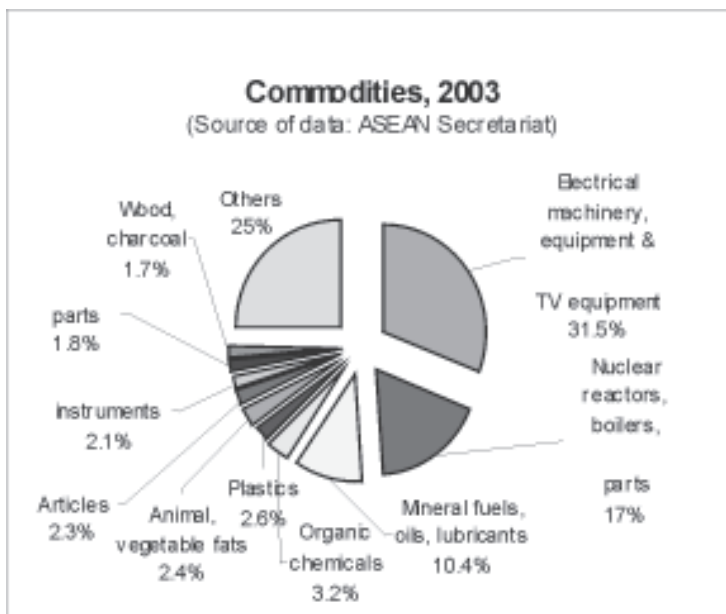
**Table 5: ASEAN-6 Major Import Origins**

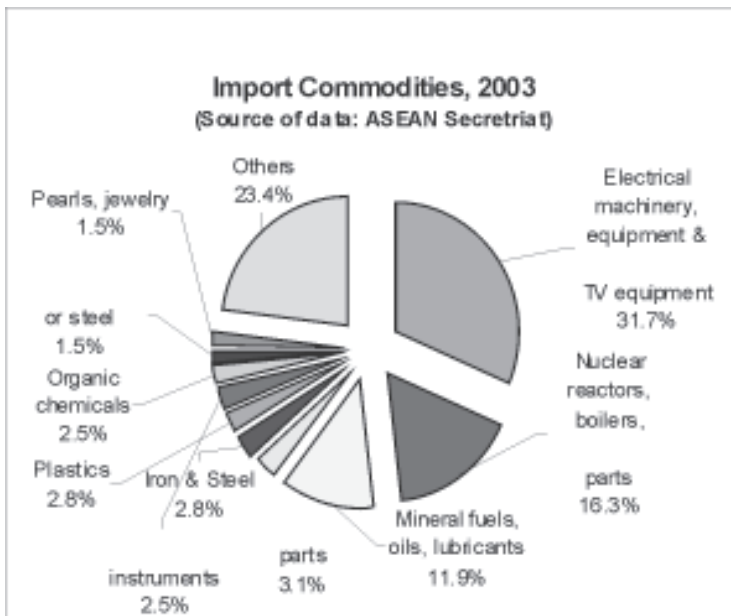
1993		1996		2001		2002		2003	
Country	%	Country	%	Country	%	Country	%	Country	%
Japan	24.9	Japan	20.9	ASEAN	20.6	ASEAN	21.7	ASEAN	20.4
ASEAN	17.4	ASEAN	18.3	Japan	16.9	Japan	16.3	Japan	16.3
USA	15.1	EU	16.4	USA	14.6	USA	13.4	USA	14.0
EU	14.3	USA	15.1	EU	12.6	EU	12.3	EU	12.0
Taiwan	3.7	South Korea	3.8	China	5.1	China	7.0	China	7.8
South Korea	3.2	Taiwan	3.6	South Korea	4.2	South Korea	4.5	Taiwan	4.4
Australia	2.1	China	2.6	Australia	3.0	Taiwan	3.8	South Korea	4.2
China	1.9	Australia	2.5	Hong Kong	2.3	Hong Kong	2.4	Australia	2.1
Switzerland	0.9	Hong Kong	1.5	Taiwan	2.1	Australia	2.2	Hong Kong	2.1
Canada	0.7	Switzerland	1.1	India	1.1	Saudi Arabia	1.9	Saudi Arabia	2.0
<b>Top 10 countries</b>	<b>84.4</b>	<b>Top 10 countries</b>	<b>86.1</b>	<b>Top 10 countries</b>	<b>82.9</b>	<b>Top 10 countries</b>	<b>85.6</b>	<b>Top 10 countries</b>	<b>85.3</b>
<b>Others</b>	<b>15.6</b>	<b>Others</b>	<b>13.9</b>	<b>Others</b>	<b>17.1</b>	<b>Others</b>	<b>14.4</b>	<b>Others</b>	<b>14.7</b>
<b>TOTAL</b>	<b>100.0</b>	<b>TOTAL</b>	<b>100.0</b>	<b>TOTAL</b>	<b>100.0</b>	<b>TOTAL</b>	<b>100.0</b>	<b>TOTAL</b>	<b>100.0</b>

Source: ASEAN Statistical Yearbook, 2003 and 2004

The top 10 commodities being exported by ASEAN-6 from 1993 to 2003 are mostly industrial goods. The topmost commodities (2 digits HS Code) being exported and imported (intra- and extra-ASEAN) are electrical machinery, equipment and parts, sound and TV equipment. Exports of these goods were 31.5 per cent in 2003 from 23.1 in 1993 while imports of these commodities made up 31.7 per cent in the same year. Its import share was 24 per cent in 1993. Top agricultural exports include wood and wood products, rubber and animal and vegetable fats (see Figures 5-8).







## Uneven Intra-Trade Growth among ASEAN Members

**Thai-ASEAN Trade:** Since the implementation of AFTA, the value of Thai-ASEAN trade grew from 316,593 million baht in 1993 to 1,048,426 million baht in 2002. In 1993, Thailand's exports to ASEAN amounted to 165,949 million baht and rose to 580,566 million baht in 2002 while its imports from ASEAN grew from 150,644 baht to 467,660 baht over the same period. Thailand has continuously posted a positive trade balance with ASEAN. ASEAN was the fourth largest trading partner of Thailand before AFTA but moved to second place since the agreement was implemented. Among ASEAN members, Singapore is the leading trade partner of Thailand with a total trade value of US\$9,497.1 million, followed by Malaysia with US\$6,207.6 million-trade value in 2002. Thai-Cambodia trade has least trade value at US\$369.3 million. The five top most exports of Thailand to ASEAN include computer, peripherals and accessories, oil, integrated circuit, chemical products, motor and generators. It has also exported sugar and

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rice amounting to 13.97 billion baht and 13.68 billion baht to ASEAN countries in 2002. Its top five imports are the same as its top five exports.<sup>10</sup>

**Philippine-ASEAN Trade:** Philippine trade with ASEAN members grew significantly in the 1990s, from only US\$1.88 billion in 1990 and US\$2.67 billion in 1993 to US\$10.8 billion in 2003. In spite of this significant growth, ASEAN is still the Philippines' third largest trading partner after the United States and Japan. In 2003, Philippine trade with Singapore accounted for the highest percentage at 38.8 per cent of total Philippine-ASEAN trade, followed by Malaysia at 28.8 per cent and Thailand at 20.2 per cent. In 1993, more than half of Philippine-ASEAN trade was with Singapore. Electronics dominates the country's top exports to ASEAN. Trade with Indonesia was considerable in 1993 at about 15 per cent of total Philippine-ASEAN trade but this went down to 8.7 per cent in 2003.<sup>11</sup>

**Malaysia-ASEAN Trade:** Malaysia's largest export market is ASEAN. Its exports to ASEAN grew by almost 2.3 times from RM42.9 billion in 1994 to RM99.0 billion in 2003. Malaysia's total trade with ASEAN in 2003 amounted to more than RM175 billion. Its trade with ASEAN has yielded for Malaysia positive trade balances through the years. Singapore continues to be its leading trading partner among ASEAN, followed by Thailand and Indonesia.

**Vietnam-ASEAN Trade:** Vietnam incurred deficits in its trade with ASEAN. In 1998 alone, this deficit amounted to US\$1.34 billion, representing 60 per cent of Vietnam's total trade deficit and more than 50 per cent of total exports to ASEAN. In 2002, Vietnamese exports to ASEAN were valued at US\$5,789.8 million while imports from ASEAN amounted to US\$7,411.2 million. Vietnam had a trade deficit of US\$1.6 billion with ASEAN in 2002. Singapore is also Vietnam's biggest trading partner, followed by Thailand and Malaysia.<sup>12</sup>

**Indonesia: ASEAN Trade:** Indonesian trade is predominantly with

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10 See Thailand AFTA Report (2005)

11 See Philippine AFTA Report (2005). Also see Rene Ofreneo, "RP, AFTA and TNCs" (2004), unpublished report.

12 See Vietnam AFTA Report (2005)

developed countries, notably Japan, the European Union (EU) and the United States. In 2002, about 39 per cent of its imports of goods and services came from developed countries. Indonesian imports from ASEAN (mainly from Malaysia, the Philippines, Singapore, Thailand and Vietnam) amounted to US\$4.6 billion, US\$4.4 billion from Japan, US\$3.9 billion from EU and \$2.6 billion from the United States. Indonesian exports mainly go to Japan (US\$11.8 billion), EU (US\$8.1 billion), and the United States ((US\$57.5 billion). Indonesian-ASEAN trade is about 20 per cent of total foreign trade. In 1993, ASEAN market share of total exports was 12.5 per cent as opposed to 9.2 per cent of total imports. By 2001, the ASEAN market share of exports grew to 16.9 per cent and 18.5 per cent of imports. From 1993 to 1998, Indonesian trade with ASEAN yielded a positive trade balances. In 1999 and 2001, however, trade deficits with ASEAN were recorded. Historically, the top three trading partners of Indonesia in Southeast Asia are Singapore, Malaysia and Thailand. It has minimal trade relations with Laos, Brunei and Myanmar.<sup>13</sup>

**Laos-ASEAN Trade:** With the collapse of trade with the Eastern bloc, Laos trade has been re-oriented towards Southeast Asia. In 2002, Laos-ASEAN trade was mainly with Thailand and Vietnam. About 58.5 per cent of its total exports went to Vietnam (33.8 per cent) and Thailand (25 per cent). Thailand accounted for 61.8 per cent of Lao total imports. Its imports from Thailand accounted for 91.3 per cent of total ASEAN imports. Major Lao imports include petroleum (50.55 per cent of total imports), construction materials (15.96 per cent) and agriculture machinery (4 per cent). On the other hand, major Lao exports include electricity (50.9 per cent), wood and its processing (33.84 per cent) and agricultural products (3.78 per cent).<sup>14</sup>

**Cambodia-ASEAN Trade:** With regard to Cambodia-ASEAN trade, negative trade balances were recorded from 1995 to 2000. From 2001 to 2002, Cambodia had positive balances of trade. In 2002, Cambodia's exports

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13 Greg McGuire, et al. "Trade Policy at the Crossroads: the Indonesia Story (Jakarta, Indonesia: UNSFIR-UNCTAD, August 2004), p. 9. Also See Indonesia AFTA Report (2005)

14 See Lao AFTA Report (2005), The Economist Intelligence Unit, Laos Country Profile, 2004.



to ASEAN amounted to US\$1.4 billion while it imported goods valued at only US\$59.8 million. The top six destinations of Cambodia's exports are the United States, Germany, United Kingdom, Singapore, France, the Netherlands and Vietnam. Cambodian imports in 2002 came from Thailand, Singapore, Hong Kong, China and Vietnam.<sup>15</sup>

**Myanmar-ASEAN Trade:** Myanmar's foreign trade is mainly with Asian countries. Of total foreign trade in 1999-2000, 44 per cent is accounted by ASEAN, 36 per cent by other Asian countries and 20 per cent with the rest of the world. Among Southeast Asian countries, its main trading partners are Singapore, Thailand and Malaysia. The same trend is observed with 2001-2002 foreign trade data. Myanmar-ASEAN trade in 2001-2002 was valued at 9.8 billion Kyat. Myanmar has also strengthened its border trade with several countries – China, India, Bangladesh, Thailand, Laos and Malaysia. The total volume of border trade in 1999-2000 amounted to US\$344 million representing about 9 per cent of total foreign trade volume. Bilateral trade between Myanmar and Thailand amounted to US\$400 million in 2001-2002. It imports from Thailand amounted to US\$330.45 million while its exports to Thailand only amounted to US\$63.4 million. Malaysia-Myanmar trade is valued at RM1.045 billion. Its imports from Malaysia amounted to RM748 million while Myanmar's exports to Malaysia amounted to RM297 million. The trade balance is in Malaysia's favor.<sup>16</sup>

## **Direction of foreign direct investments (FDIs)**

A new wave of foreign direct investments (FDI) flowed into ASEAN in the mid-1980s from Japan, South Korea, Taiwan and other newly industrializing economies (NIEs). These investments can be attributed to the sharp rise in the value of the yen against the US dollar, rising labor costs in their home economies and trade conflicts with the United States.<sup>17</sup>

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15 Asian Development Bank, "Cambodia," Key Indicators of Developing Asian and Pacific Countries, 2003. Also see Cambodia AFTA Report (2005).

16 "Trade Regime of the Union of Myanmar" [http://www.mandalaycity.net/trade/mayanmar\\_bizguide.htm](http://www.mandalaycity.net/trade/mayanmar_bizguide.htm). See also Burma AFTA Report

17 Tran Van Tho, AFTA in the Dynamic Perspective of Asian Trade (Tokyo Japan: Japan Center for Economic Research, April 2002), p. 19.

**Table 6: FDI Inflows to Asian Countries (US\$ million)**

Country	1986-91	1992	1993	1994	1995	1996	1997	1998	1999
South Korea	863	727	588	991	1,357	2,308	3,088	5,215	10,340
Taiwan	1,034	879	917	1,375	1,559	1,864	2,248	222	2,962
Hong Kong	1,711	2,051	1,667	1,828	6,213	10,460	11,368	14,776	23,068
Singapore	3,592	2,204	4,686	8,550	7,206	8,984	8,085	5,493	6,984
<b>NIEs</b>	<b>7,200</b>	<b>5,861</b>	<b>7,858</b>	<b>18,744</b>	<b>16,335</b>	<b>23,616</b>	<b>24,789</b>	<b>25,706</b>	<b>43,354</b>
Malaysia	1,605	5,183	5,006	4,581	5,816	7,296	6,513	2,700	3,532
Thailand	1,325	2,114	1,804	1,343	2,000	2,405	3,732	7,449	6,078
Philippines	501	228	1,238	1,591	1,459	1,520	1,249	1,752	737
Indonesia	746	1,777	2,004	2,109	4,346	6,194	4,677	-356	-3,270
Vietnam	68	385	523	1,936	2,349	2,455	2,745	1,972	1,609
Cambodia	-	33	51	69	151	291	168	121	135
Laos	3	8	30	59	88	128	86	45	79
Myanmar	68	171	149	126	277	310	387	315	300
<b>ASEAN-8</b>	<b>4,316</b>	<b>9,899</b>	<b>10,808</b>	<b>11,814</b>	<b>16,486</b>	<b>20,602</b>	<b>19,557</b>	<b>13,998</b>	<b>9,200</b>
China	3,105	11,156	27,515	33,787	35,849	40,180	44,236	43,751	40,400
East Asia	14,621	26,916	46,181	64,345	66,670	84,398	88,582	85,455	92,954
Asia	15,135	27,863	47,348	65,954	71,654	87,952	93,518	87,158	96,148
<b>Developing Countries</b>	<b>29,090</b>	<b>51,108</b>	<b>72,528</b>	<b>104,920</b>	<b>111,884</b>	<b>145,030</b>	<b>178,789</b>	<b>179,481</b>	<b>207,619</b>

Source: Compiled from UNCTAD, *World Investment Report 1998, 2000* as cited in Tran, 2002.

Investment flows into ASEAN were bigger compared to China from 1986 to 1991. From 1992, China received more investments than ASEAN, increasing from an annual average of US\$3.1 billion in 1986-1991 to a phenomenal US\$40.4 billion in 1999. FDI inflows to Hong Kong grew from US\$1.7 billion in 1993 to US\$23 billion by 1999. In comparison, FDI inflows in Thailand grew from US\$1.8 billion in 1993 to US\$6.1 billion in 1999. Thailand generated the biggest percentage of FDI inflows in comparison to other ASEAN countries. Yet Thailand's FDI growth could not match that of Hong Kong and China. Non-ASEAN countries such as Hong Kong, China and South Korea have been able to generate more investments compared to ASEAN countries (Table 6). Its large population, economic reforms (e.g. adoption of a pro-FDI policy) and huge domestic market potential (more than one billion consumers) have spurred investments in China. On the other hand, the attractiveness of ASEAN for FDI inflows was eroded further with the financial crisis in 1997.<sup>18</sup>

18 Op.cit. p.22-23.

Data from FDI inflows to ASEAN-10 show that the FDI effects of AFTA had been uneven. Cumulatively, Singapore, Thailand, Malaysia and Vietnam garnered most of the investments poured into the region. Singapore is the top destination of investments in Southeast Asia. In 2004, 62.6 per cent of total investments went to Singapore. On the other hand, there were disinvestments in Indonesia from 1998 to 2001 (Table 7). The lack of adequate investments in Indonesia was attributed to four factors: the weak legal system, increasing labor unrest, new regional autonomy laws and security concerns. UNCTAD ranked Indonesia 138<sup>th</sup> out of 140 countries in its ability to attract FDI. Numerous companies, big and medium sized, have closed, merged or downsized. Multinational corporations such as Reebok and Nike have shifted to China and Vietnam.<sup>19</sup> In the case of the Philippines, the ESCAP study views the weak investment in Philippine industry as a reflection of low savings and investment rates and inadequate FDI. Business confidence of domestic and foreign investors was affected by the Philippine government's seeming lack of credibility in addressing the ballooning fiscal deficit.<sup>20</sup>

The impact of ASEAN investments on Thailand was remarkable. FDI inflows from ASEAN grew from only eight per cent in 1995 to 42.5 per cent in 2001. The success of Singapore and Malaysia in attracting FDIs can be attributed to their stable macroeconomic environment, high quality infrastructure and availability of skilled labor. These factors are not as developed as in other ASEAN member countries. Indonesia and the Philippines have difficulty in attracting FDIs because of their unstable political situation.<sup>21</sup> For the other countries, they still rely on FDI inflows from the rest of the world.

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19 ESCAP, 2003, p.183

20 Ibid.

21 Xiqin Fan and Paul M. Dickie, "The Contribution of Foreign Direct Investment to Growth and stability: A Post-Crisis ASEAN-5 Review," *ASEAN Economic Bulletin*, Vol.17, No.3, December 2000, p.313.

**Table 7: FDI Flows to ASEAN, US\$ Million**

Host Country	Years										Cumulative 95 - 04
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	
Brunei	583	651	702	573	748	549	526	1,035	3,123	161	8,651
Cambodia <sup>1</sup>	151	294	168	243	232	149	149	145	87	131	1,749
Indonesia	1,346	6,191	-1,678	-356	-2,745	-1,350	-3,279	145	-596	1,023	1,861
Laos	88	128	86	45	52	34	24	25	19	17	519
Malaysia	5,815	7,297	6,323	2,714	3,895	3,788	554	3,203	2,473	-4,624	40,686
Myanmar <sup>2</sup>	318	581	879	683	304	208	192	191	128	145	3,629
Philippines	1,577	1,618	1,261	1,718	1,725	1,345	982	1,111	319	469	12,125
Singapore <sup>3</sup>	11,503	9,503	13,555	7,591	16,067	17,218	15,038	5,730	11,431	16,959	123,476
Thailand	2,070	2,338	3,382	7,491	6,091	3,350	3,886	947	1,869	1,414	33,338
Vietnam	1,780	1,803	2,587	1,700	1,484	1,289	1,300	1,200	1,450	1,610	16,204
<b>ASEAN TOTAL</b>	<b>28,231</b>	<b>30,209</b>	<b>34,099</b>	<b>22,406</b>	<b>27,853</b>	<b>23,380</b>	<b>19,373</b>	<b>13,733</b>	<b>20,304</b>	<b>25,653</b>	<b>245,240</b>

Sources: ASEAN Secretariat, *Statistics of Foreign Investment in ASEAN, 2004*; Raul Cordenillo/ASEAN FDI Database 2005

Note: (1) Cambodia's figures are estimated aggregate figures; (2) Myanmar's figures are in fiscal years, which end in March of the following year; (3) Singapore's figures for 2004 are preliminary.

Manufacturing got most of the investments, followed by services and trade/commerce. Investment in agriculture is very low, at less than 10 per cent of total investments (Table 9). Although agriculture is open to foreign investors, there are restrictions (limitation in terms of equity and requires cooperation with local cooperatives).

## ASEAN Plus: More RTAs and bilateral FTAs being negotiated

After the collapse of trade negotiations in Cancun in 2003, several regional trading agreements (RTAs) and bilateral free trade agreements (BFTAs) were negotiated or being negotiated in Southeast Asia as shown in Table 10. Notable of these is the ASEAN-China FTA.

The ASEAN-China FTA is touted as “the world’s biggest free trade area embracing 1.7 billion consumers, a combined gross domestic product (GDP) of approximately 2 trillion US dollars and total international trade of 1.23 trillion US dollars.”<sup>22</sup> Projected economic benefits include increased bilateral

22 Tariff Commission, Republic of the Philippines, Briefing Paper on the Establishment of the ASEAN-China Free Trade Area (FTA), 18 February 2003.

**Table 8: Share of Intra-ASEAN FDI in FDI inflows into ASEAN Member Countries (1995 – 2003)**

ASEAN Member	1995	1996	1997	1998	1999	2000	2001	2002	2003	1995-2003
<b>Brunei</b>										
ASEAN	53.4	54.0	54.9	43.1	0.6	1.9	2.0	2.1	25.0	16.2
Rest of the World	46.6	46.0	45.1	56.9	99.4	98.1	98.0	97.9	75.0	83.8
<b>Cambodia</b>										
ASEAN	-	-	-	-	-	-	-	-	-	-
Rest of the World	-	-	-	-	-	-	-	-	-	-
<b>Indonesia</b>										
ASEAN	14.0	3.1	5.8	10.8	15.6	5.1	7.3	-	-	48.4
Rest of the World	86.0	96.9	94.2	89.2	84.4	94.9	92.7	-	-	51.6
<b>Laos</b>										
ASEAN	7.1	80.1	74.6	62.6	60.8	10.3	12.8	31.1	53.1	51.9
Rest of the World	92.6	19.9	25.4	37.4	39.2	59.7	87.2	68.9	46.6	48.1
<b>Malaysia</b>										
ASEAN	28.8	20.2	35.8	17.3	13.8	6.8	14.1	0.0	20.1	20.1
Rest of the World	71.2	79.8	64.2	82.7	86.2	93.2	85.6	100.0	79.9	79.9
<b>Myanmar</b>										
ASEAN	30.4	39.4	36.8	22.5	13.5	35.6	35.1	15.7	30.5	29.8
Rest of the World	69.6	60.6	63.2	77.5	86.5	64.4	64.9	84.3	69.5	70.2
<b>The Philippines</b>										
ASEAN	15.3	4.6	11.3	6.2	8.2	8.3	20.0	3.8	9.5	9.5
Rest of the World	84.7	95.4	88.7	93.8	91.8	91.7	80.0	96.2	90.5	90.5
<b>Singapore</b>										
ASEAN	10.1	12.7	7.0	10.5	4.0	3.3	3.1	5.4	6.7	6.2
Rest of the World	89.9	87.3	93.0	89.5	96.0	96.7	96.9	94.6	93.3	93.8
<b>Thailand</b>										
ASEAN	7.8	13.2	7.7	7.6	9.4	11.6	42.1	-	16.9	17.2
Rest of the World	92.2	86.8	92.3	92.4	90.6	88.4	57.9	-	83.1	82.8
<b>Vietnam</b>										
ASEAN	21.8	18.2	21.1	23.5	19.5	15.7	18.6	16.7	19.7	18.5
Rest of the World	78.2	81.8	78.9	76.5	80.5	81.3	81.4	83.3	80.3	81.5
<b>ALL ASEAN</b>										
ASEAN	16.6	14.3	15.4	12.3	6.6	5.1	12.4	26.4	10.7	12.9
Rest of the World	83.4	85.7	84.6	87.7	93.4	94.9	87.6	73.6	89.3	87.1

Source: ASEAN Statistical Yearbook 2004 (Balance of Payments Basis)

Source: ASEAN Statistical Yearbook 2004 (Balance of Payments Basis)

trade, expanded GDP, greater economic efficiency, lower costs and increased investments. The Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China was signed in November 2004 in Vientiane, Laos. The agreement was in force by 1 January 2005 and the implementation of concessions

**Table 9: FDI Flows to ASEAN by Sector**

(in millions of US\$)	1999	2000	2001	2002	2003	2004	1999-2004 *)
AGRICULTURE, FISHERY AND FORESTRY	-17	133	13	525	177	198	1,027
MINING AND QUARRYING	2,086	1,164	2,116	1,760	4,238	129	11,493
MANUFACTURING	6,578	8,952	5,933	5,367	4,698	11,499	43,028
CONSTRUCTION	-71	-232	-271	16	106	4	-448
TRADE / COMMERCE	4,332	2,319	2,227	1,870	2,103	1,569	14,419
FINANCIAL INTERMEDIATION AND SERVICES (including Insurance)	6,530	4,371	6,393	399	3,907	7,762	29,362
REAL ESTATE	624	722	660	973	889	1,075	4,944
SERVICES	2,126	1,332	1,511	1,302	-189	468	6,550
OTHERS (Not Elsewhere Classified)	5,063	3,911	2	1,496	2,517	2,934	15,923
FDI FLOWS IN ASEAN BY ECONOMIC SECTORS	27,251	22,672	18,584	13,705	18,447	25,638	126,297
<i>FDI in Cambodia</i>	<i>232</i>	<i>149</i>	-	-	-	-	381
<i>Philippines' data on Reinvested Earnings</i>	<i>370</i>	<i>-174</i>	<i>-127</i>	<i>120</i>	-	2	191
<i>Philippines' data on Inter-Company Loans (2004)</i>	-	-	-	-	-	-278	-278
<i>Singapore's data on Inter-Company Loans (2004)</i>	-	-	-	-	-	293	293
<b>ASEAN TOTAL</b>	<b>27,853</b>	<b>22,647</b>	<b>18,457</b>	<b>13,825</b>	<b>18,447</b>	<b>25,654</b>	<b>126,883</b>

Source: ASEAN Secretariat - ASEAN FDI Database, 2005

began by 1 July 2005. It is envisioned that an ASEAN-China FTA will be established by 2010 under the following tracks (Table 10).

**ASEAN-India Regional Trade and Investment Area (AI-RTIA):** The Framework Agreement on comprehensive Economic Cooperation was signed in Bali, Indonesia in 2003. An Early Harvest Program should have been implemented in November 2004 but negotiators could not agree on issues pertaining to rules of origin (ROO). No definite schedule yet as negotiations can only resume if parties are willing to move on their current positions on the ROO.<sup>23</sup>

Negotiation on the **ASEAN-Japan Comprehensive Economic Partnership (AJCEP)** was officially launched in April 2005. Japan proposed a two-tiered structure for the AJCEP Agreement: the Framework

23 ASEAN Secretariat Discussion Paper, 26 April 2005.

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Agreement (areas, principles and future direction for the AJCEP, agreed and signed by all parties) and sector-specific Protocols (with flexibility for those not yet ready to sign but may join later). The AJCEP still has to define the relationship between bilateral EPAs of some ASEAN members and Japan and the regional CEP.<sup>24</sup>

Negotiation on the **ASEAN-Korea Free Trade Area (AKFTA)** was launched in early 2005 with the goal of achieving zero tariffs of 80 per cent of products by 2009. The Framework Agreement, Agreements on Trade in Goods (TIG), Dispute Settlement Mechanism (DSM) and ROO text had been drafted and currently being deliberated. There is a plan for an ASEAN-Korea Summit in November 2005 in Malaysia. Negotiations have also began for the **ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)**. Senior officials have met twice to discuss certain aspects of the FTA. It is expected that negotiations will be concluded within two years.<sup>25</sup>

**Table 10: Tariff Reduction - Elimination**

Reduction/Elimination Track	End Rate (%)	Implementation Period
Early Harvest Programme (EHP)	0	2004-2006
Normal Track	0	2005-2010, with flexibility up to 2012
Sensitive Track		
Sensitive List (SL)	0-5%	2012-2018
Highly Sensitive List (HSL)	50%	2015

*Source: ASEAN Secretariat Discussion Paper, 26 April 2005*

## Initial Results and Effects

Seen as the “factory of the world,” many ASEAN countries view China as both a threat and opportunity. Chia (2004) contends that China has strong competitive advantage in labor-intensive products and processes given its

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24 Ibid.

25 Ibid.

abundant labor supply and low wages. China has high comparative advantage in the production of traditional labor-intensive products such as toys, garments, footwear, plastic articles, watches, clocks and electrical and electronic equipment. With considerable overlaps in manufactures, especially textile and clothing, ASEAN producers have to improve their productivity and quality and lower costs to meet the price competition from China. In terms of price, Philippine-made shoes cannot compete with Chinese-made shoes. The garments industry in Cambodia and the Philippines would have to compete in the same markets (e.g. US, EU, Japan).

Thailand is one of the SEA countries, which concluded an FTA with China under the Early Harvest Program. While it is still early to make some definite conclusions, some indicators point to mixed effects. Taneewut (2005) discloses that at the macro level, the China-Thailand FTA yielded a positive trade balance for vegetables but a negative trade balance for fruits. But she argues that at the farmers' level, it was a different story since many of the produce of Thai farmers had to compete with Chinese products.<sup>26</sup> (For a lengthier discussion of the Thai-China FTA, please see Thai AFTA Report)

The Philippines is currently negotiating two key FTAs: Japan-Philippines Economic Partnership Agreements and the US-Philippines FTA. The United States is the biggest trading partner of the Philippines while Japan is its second largest trading partner. The Philippine government is especially keen on gaining access to Japan's healthcare service industry and improving access to automotive electronics and agriculture exports. Japan expects to expand its export and investment opportunities in the Philippines. The JPEPA also has political value for Japan, with its free trade ambitions assuming new urgency after China is seen as an economic rival and ASEAN agreed to remove all trade barriers by 2010. It has been speeding up its campaign to liberalize trade in the Asian region through bilateral agreements and pursuing talks with the ASEAN.<sup>27</sup> On the other hand, the United States is the top destination of Philippine exports and the country's second import source. In 2003, 19.91 per cent of total exports were absorbed by the US

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26 Supanee Taneewut, *The Impact of AFTA on Small Producers in Thailand*, 2005, p. 37-39.

27 Aurora Regalado, Trade Liberalization in the Philippines (A PowerPoint Presentation), April 2005.



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market, while 19.73 per cent of total Philippine imports were supplied by the United States. The United States does not believe that the Philippines is ready for a full FTA and it has set conditions including dealing with corruption, tightening on intellectual property rights (IPRs) and human rights (HRs). The Philippines is proposing a selective FTA for specific industries (e.g. electronics and garments). In the final analysis, the Philippines viewed as not having the economic and political clout to negotiate favorable trade agreements.<sup>28</sup> Civil society groups are also criticizing the un-transparent manner of the Japan/US-RP FTA negotiations.

The Vietnam-United States Bilateral Trade Agreement was ratified in 2000. The value of trade between the two countries increased significantly from US\$1.5 billion in 2001 to close to US\$5 billion in 2003. In the process, the United States supplanted Japan as Vietnam's biggest export market.<sup>29</sup>

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28 Ibid.

29 Vietnam News Agency (VNA) website, 13 December 2003 as cited by Nguyen Manh Hung, "Vietnam: Facing the Challenge of Integration," *Southeast Asian Affairs 2004* (Singapore: Institute of Southeast Asian Studies), p.308.

### 3. ASEAN's Economic and Agricultural Performance

ASEAN's economic and agricultural performance provides the context for the implementation and impact of AFTA.

**Economic Performance:** Most ASEAN economies (except for the Philippines) had relatively good economic performance prior to the Asian financial crisis (Table 10). In the period 1980-1995, the best performers were Thailand, Singapore and Malaysia. Likewise, Indonesia and Vietnam performed well from 1990-1995. In both periods, the Philippines lagged behind as its economy grew by only 1.7 per cent and 2.2 per cent respectively. The new ASEAN members outperformed ASEAN-6 from 1996-2003. Myanmar's economy grew by 8.1 per cent while Vietnam's and Cambodia's economic growth was 6.7 per cent and 6.3 per cent respectively.

**Table 10: Rate of Economic Growth (GDP at Constant Prices)**

*Source of data: ASEAN Statistical Yearbook, 2004*

**Table 10: Rate of Economic Growth (GDP at Constant Prices)**

Country	1980 - 1990	1990 - 1995	1996 -2003
Brunei	-	-	2.0
Cambodia	-	5.8	6.3
Indonesia	5.4	7.8	1.0
Laos	5.6	6.4	5.9
Malaysia	6.0	9.5	3.4
Myanmar	1.3	5.7	8.1
Philippines	1.7	2.2	3.5
Singapore	7.3	9.1	3.6
Thailand	7.9	8.6	1.5
Vietnam	5.9	8.2	6.7
ASEAN	5.1	7.4	2.7

*Source of data: ASEAN Statistical Yearbook, 2004*

ASEAN economies that were hit by the financial crisis recovered a little in 1999. The rate of economic growth in Cambodia, Laos and Myanmar was high at 10.8 per cent, 7.3 per cent and 10.9 per cent respectively. Modest growth rates were posted in 2000 at an average of 5.9 per cent for ASEAN. This rate went down to 3.2 per cent in 2001 and went up a little to 4.4 per cent in 2002.<sup>30</sup> For Cambodia,

<sup>30</sup> Ibid.

its real GDP grew to 5.5 per cent in 2002 and the main source of growth is the garment sector.<sup>31</sup> In the case of Vietnam, the sustained growth from 1990 to 2003 can be attributed to several factors. These include the positive impact of Vietnam's new economic policies and management mechanisms, the rural development programs undertaken and foreign direct investments generated.<sup>32</sup> In the case of Malaysia and Thailand, economic growth was due to rising consumer expenditure and recovery of exports in electronics and electrical goods as well as primary commodities.<sup>33</sup>

By economic sector, the growth of agriculture in most ASEAN countries is modest in the 1990s and early 2000s. The growth of industry is remarkable in Cambodia, Laos and Vietnam from 1990-2002. Indonesia and Vietnam had the highest growth rates in services over the same period (Table 11).

**Table 11: ASEAN: Growth of Output by Economic Sector**

Table 11: ASEAN: Growth of Output by Economic Sector

Country	Population 2002	GDP		Agriculture		Industry		Services	
		Average annual % Growth		Average annual % Growth		Average annual % Growth		Average annual % Growth	
		1980-90	1990-2002	1980-90	1990-2002	1980-90	1990-2002	1980-90	1990-2002
Cambodia	12	..	6.6	..	3.2	..	14.8	..	5.8
Indonesia	212	6.1	3.6	3.6	1.9	7.3	1.5	-1.0	8.1
Laos	6	3.7	6.3	3.5	4.9	6.1	10.9	3.3	6.5
Malaysia	24	5.3	6.2	3.4	0.3	6.8	7.5	4.9	6.4
Philippines	80	1.0	3.5	1.0	2.0	-0.9	3.5	2.8	4.2
Thailand	62	7.6	3.7	3.9	1.5	9.8	4.9	7.3	3.1
Vietnam	80	4.6	7.6	2.8	4.2	4.4	11.4	7.1	7.1

Source: WB, 2004 World Development Indicators

Source: WB, 2004 World Development Indicators

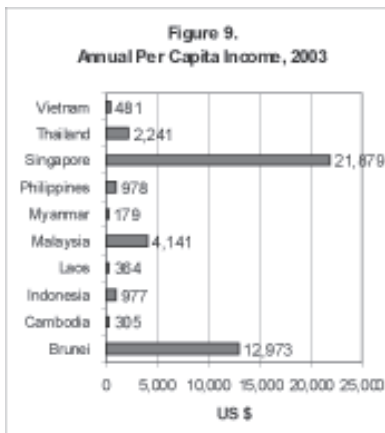
In terms of GDP share of major group of economic sectors, the share of agriculture had been decreasing over the years in most ASEAN economies. The exception is Thailand (GDP share grew from 9.3 per cent in 1996 to 9.9 per cent in 2002). The GDP share of services has been increasing in

31 <http://www.state.gov/r/pa/ei/bgn/2732.htm>

32 Bui Quang Toan and Nguen Huu Nhuan, *The Impact of AFTA on Small Producers in Vietnam: A Research Report*, 2004, p.7

33 ESCAP/United Nations, *Economic and Social Survey of Asia and the Pacific 2003* (New York: U.N., 2003), p.154.

Laos, Malaysia, the Philippines and Singapore. The GDP share of industry increased in Thailand, Vietnam and Laos but declined in the Philippines and Singapore over the same period.<sup>34</sup> For Laos, construction and the garment industries were the sources of industrial growth while tourism has become an important source of foreign earnings in Cambodia.<sup>35</sup> In the case of the Philippines, the decline in GDP share of industry was attributed to “a narrow export basket, low productivity in the non-exporting sector, rising cost of labor and electricity, hesitation of domestic market-oriented manufacturers to compete in their home ground and underdeveloped backward and forward linkages.”<sup>36</sup>



In terms of gross national income per capita, Singapore and Brunei posted highest incomes in 2003. Of countries covered by the research, Malaysia and Thailand posted the highest per capita income at US\$4,141 and US\$2,241 respectively. Myanmar (US\$179) Cambodia (US\$305) and Lao PDR (US\$364) registered the lowest per capita incomes (figure 9)<sup>35</sup>. While Malaysia and the Philippines had almost the same income in 2002, the per capita income in the Philippines is lower at \$1,030 because

it has a bigger population. In 2003, per capita income in the Philippines even went down to less than US\$1,000 (Figure 9)

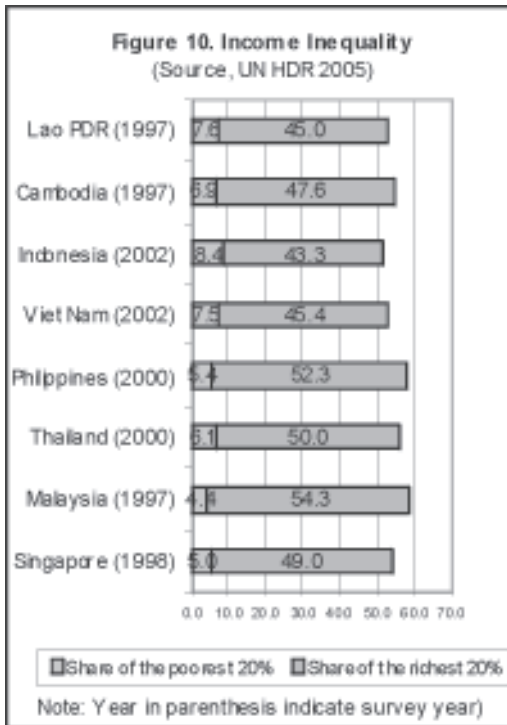
Figure 10 shows the distribution of wealth in each country. There is higher income inequality in the Philippines and Malaysia. Of total income, the share of poorest 20 per cent is only 4.4 per cent while the share of the richest 20 per cent in Malaysia is more than half (54.3%). The share of the richest 20 per cent in Thailand and Indonesia is 50 per cent and 43.3 per cent respectively.<sup>37</sup>

34 ASEAN Statistical Yearbook 2003, pp.38-39

35 Op.cit., p.193

36 Belinda Formanes, *The Impact of AFTA on Small Producers in the Philippines*, 2004, p.2

37 UN Human Development Report, 2005



In terms of overall trade, the value of ASEAN export-imports had been steady increasing over the last five years (2000-2004). The value of exports grew from \$377.216 billion in 2000 to \$492.569 billion in 2004. Overall, ASEAN posted a yearly positive trade balance since 2000. By country, the best performer is Malaysia, whose trade balance had been consistently growing, from \$16.267 billion in 2000 to \$20.446 billion in 2004. Indonesia and Thailand also posted positive trade balances. Thailand positive trade balance is on a decline, from about \$7 billion in 2000

to \$2 billion in 2004. The Philippines, Vietnam, Cambodia and Laos have negative trade balances (Appendix 1).<sup>38</sup>

**Agricultural and Fishery Performance:** The agricultural sector remains a main pillar of most Southeast Asian countries' economies and culture. The majority of their people still depend on agriculture for their continued survival (except Malaysia and Singapore). (Table 12)

Agriculture in Southeast Asia has a dual character. Many farms are small-scale and dependent on manual labor. This type of operations is dominant in rice, corn and vegetables. On the other hand, large-scale farming operations (mainly multinational corporations or joint ventures with MNCs) are in oil palm, rubber, and sugarcane. The same trend is also observed in the fishery sector. There is the predominance of small fisher folk along the

38 UN Monthly Bulletin of Statistics, 2005

coastlines but the commercialization in fisheries is also high, especially in aquaculture and in big fishing vessels as they entail large capitalization.

Southeast Asian smallholder agriculture is vulnerable to the vagaries of international commodity markets as most SEA economies had been liberalized from the 1980s. The opening of the domestic markets to foreign competition as a result of their commitments to regional (AFTA) and multilateral (WTO, APEC) trade agreements challenges these sectors (whether small or big) to become competitive both in quality and price. Given the low incomes derived from farming operations by small producers and the lack of / limited support from their governments, they may not be able to remain competitive even in their home markets.

**Table 12: Labor and Employment by Gender and Economic Activity**

Country	% Employment in Agriculture						% Employment in Industry						% Employment in Services					
	1980		1990		2001		1980		1990		2001		1980		1990		2001	
	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M
Brunei Darussalam	-	-	79.0 <sup>a</sup>	70.8 <sup>a</sup>	-	-	-	-	3.3	5.5	-	-	-	-	17.8 <sup>a</sup>	25.4 <sup>a</sup>	-	-
Indonesia	54.2	57.2	56.5	55.6	45.0 <sup>b</sup>	40.2 <sup>b</sup>	13.1	12.1	13.4	14.1	15.2 <sup>b</sup>	20.2 <sup>b</sup>	32.7	39.5	21.1	29.7	41.2 <sup>b</sup>	35.6 <sup>b</sup>
Laos	83.4	77.2	80.9	75.7	-	-	4.7	0.5	5.0	7.4	-	-	15.1	16.7	14.1	15.9	-	-
Malaysia	42.8	35.9	35.3	29.4	17.1 <sup>b</sup>	20.8 <sup>b</sup>	20.0	21.7	25.0	27.1	28.7 <sup>b</sup>	32.2 <sup>b</sup>	35.5	36.8	46.5	45.3	37.6 <sup>b</sup>	41.8 <sup>b</sup>
Philippines	61.2 <sup>a</sup>	60.2 <sup>a</sup>	-	-	-	-	8.2 <sup>a</sup>	10.2 <sup>a</sup>	-	-	-	-	16.3 <sup>b</sup>	24.2 <sup>a</sup>	-	-	-	-
Thailand	37.3	59.3	51.3	53.1	26.0 <sup>b</sup>	30.7 <sup>b</sup>	14.0	15.6	13.8	15.1	12.5 <sup>b</sup>	12.9 <sup>b</sup>	17.8	24.0	33.8	30.5	40.2 <sup>b</sup>	35.8 <sup>b</sup>
Singapore	0.9	-	0.2	0.6 <sup>a</sup>	0.1 <sup>a</sup>	0.4 <sup>a</sup>	40.1	31.2	32.3	30.8	22.9	32.4 <sup>b</sup>	38.8	64.6	66.9	62.1	52.0 <sup>a</sup>	66.0 <sup>a</sup>
Vietnam	74.5	69.3	-	-	-	-	1.6	0.1	-	-	-	-	19.0	21.0	-	-	-	-
Average	-	-	52.8 <sup>a</sup>	60.8 <sup>a</sup>	-	-	-	-	10.8 <sup>a</sup>	11.7 <sup>a</sup>	-	-	-	-	6.2 <sup>a</sup>	13.6 <sup>b</sup>	-	-

Legend: F – Female, M – Male (1) As percentage of working age population. Data for working age population refer to ages 15 years and over (b) refers to data available nearest the reference year

Source: ADB, 2003

The Philippines and Thailand posted the highest percentage (38% and 36.8% respectively) in terms of area devoted to agriculture. Singapore, Brunei and Laos had the least areas devoted to agriculture (see Table 13).

- In Laos, 97 per cent of farmers have owner-like possession of the lands they till and only 5 per cent of landholdings are being rented.<sup>39</sup>

39 Prak Sereyvatth, *Country Report – Cambodia*, 2003, Census Results in Brief, no date.

Ownership of land use is through inheritance or purchase of land use rights. Under the Law of Land Use No. 01-97, the government also set land use limitations per labor force at 1 hectare for rice and corn production, 3 hectares for industrial and annual crops and fruit trees, and 15 hectares for pasture.<sup>40</sup>

**Table 13: Land Use, 2000**

Country	Total Area ('000 Ha)	Land Area ('000 Ha)	Agricultural Area ('000 Hectares)					Agriculture Population (%)
			TOTAL			Permanent Crops ('000 Ha)	Permanent Pasture ('000 Ha)	
			('000 Ha)	% of Land Area	Arable Land ('000 Ha)			
Brunei	577	527	13	2.5	3	4	6	0.9
Cambodia	18,104	17,652	5,307	30.1	3,700	107	1,500	70.1
Indonesia	190,457	181,157	44,723	24.7	20,500	13,046	11,177	44.1
Laos	23,680	23,080	1,836	8.0	877	81	878	76.5
Malaysia	32,975	32,855	7,890	24.0	1,820	5,785	285	17.7
Myanmar	67,658	65,755	10,811	16.4	9,900	595	316	70.2
Philippines	30,000	29,817	11,330	38.0	5,550	4,500	1,280	39.3
Singapore	62	61	1	1.6	1	0	0	0.1
Thailand	51,312	51,089	18,800	36.8	14,700	3,300	800	49.0
Vietnam	33,169	32,549	7,992	24.6	5,750	1,600	642	67.3
<b>Total</b>	<b>447,994</b>	<b>434,542</b>	<b>108,703</b>	<b>25.0</b>	<b>62,801</b>	<b>29,018</b>	<b>16,884</b>	<b>49.4</b>

Source: FAO Database

## Land utilization for agriculture, ownership and tenure arrangements

- In Myanmar, they subscribe to the collective forms of land ownership. This means that all lands and other natural resources belong to and are controlled by the state.<sup>41</sup>
- In Indonesia, the Basic Agrarian Law was enacted in 1960. It provided the comprehensive legal basis to modernize Indonesian landownership. The law recognized previous ownership rights under both *adat* (custom based on unwritten village practices) and Western systems, but provided a new certification process under which land

40 Ibid., p. 6.

41 Kyaw Moe, *Country Report – Burma*, 2003, pp. 2-3

was to be surveyed, mapped, and registered. All unclaimed land reverted to government ownership. Land certification, however, was not compulsory and registration was still far from complete by the end of the 1980s. The law also set limits on the size of landownership, depending on the population density of the region and the type of land. In areas with over 401 people per square kilometre, rice fields were limited to a maximum of five hectares and a minimum of two hectares. Absentee ownership was forbidden.

Some concentration of landownership had followed the collapse of the colonial sugar cultivation system on Java, but in essence the problem was one of land shortage, not distribution. By the standards of *sawah* cultivation, a wealthy landholder possessed three to five hectares, so the maximum of five hectares left very little surplus land. Only a small amount of land was redistributed before Suharto's New Order shifted the emphasis of agricultural policy from land reform to increasing production. The 1983 agricultural census showed that about 44 per cent of all farm households were either landless or operated holdings too small to meet more than subsistence requirements. The average landholding on Java was 0.66 hectares, and ranged from about 1.5 to 3 hectares in other parts of the archipelago.<sup>42</sup>

In 2001, the National Assembly enacted the Agrarian and Natural Resources Program which provides for the principles and guidelines in managing land and other natural resources.<sup>43</sup>

In Vietnam, the collective farming system was in place before the 1980s. Under the system, 95 per cent of the land was collectively owned and the remaining 5 per cent was reserved for farmers to grow vegetables. When farmers spent more time on their garden plots rather than on their collective farms, the Vietnamese government instituted the contract system in 1981 where farmers were "obliged to enter into contract with a designated cooperative to produce a specific level of output on their land, which then had to be sold to the state at a fixed price. The cooperative would in turn deliver the required

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42 Arif Rahman Hidayat, *Country Report – Indonesia*, 2003, p. 12

43 Arze Glipo and Jerome Ignacio (2003). *Public Sector Intervention in Indonesia's Rice Sector*. Quezon City Philippines: Oxfam Hong Kong and IRDF, p.20



inputs to the farmer.”<sup>44</sup>

In 1988, the Party Central Committee through Decision No. 10 authorized the issuance of 10-15 year land use rights. By 1998, there were proposals for full private farming. Under existing land laws, individual land ownership is limited to 3 hectares (Cantos, 2003).

- In Cambodia, agricultural land holdings are relatively small, with each household owning only one hectare. It is interesting to note that female-headed households have smaller landholdings (about ½ hectare). While the Cambodian government started privatizing and redistributing lands to rural households since the end of the Khmer Rouge regime in 1989, only 10 per cent of the households received ownership certificates that are largely temporary. The Land Law of 1992 was enacted but it was criticized as not clearly defining common land.<sup>45</sup>
- In the Philippines, total agricultural area has increased significantly from 1965 (8.3 million hectares) to 1990 (13.1 million hectares). But land devoted to agriculture has been decreasing through the years, especially in the 1990s as more and more land are converted to non-agricultural uses, particularly those near Metro Manila and other urban centers.

The character of the agrarian situation in the Philippines has been of landlessness and poverty. In fact, the Department of Agriculture’s land registration program (Lista Saka) in 1988 revealed that 5 per cent of families owned 83 per cent of farm land.<sup>46</sup> Several land reform programs had been implemented, including the Comprehensive Land Reform Law of 1988. They have reduced inequality in rice and corn farms to some extent but have not significantly reduced the unequal distribution of sugar and coconut

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44 Chantal Pohl Nielsen. “Vietnam’s Rice Policy: Recent Reforms and Future Opportunities.” Danish Research Institute of Food Economics, undated.

45 “Kingdom of Cambodia Country Report,” *Shaping the Asian Peasant Agenda: Solidarity Building Towards Sustainable Rural Development in Asian Rural Communities* (Quezon City, Philippines: AsiaDHRR and AFA, 2004), p.169-170.

land.

Recent studies show that the Comprehensive Agrarian Reform Program (CARP) had achieved modest results after 12 years of implementation. At the end of 1999, CARP had distributed about 42 per cent of farmland or 60 per cent of total CARP adjusted scope (from 103 million hectares in 1988 to 7.8 million in 1995 and 8.1 million hectares in 1998) and benefited 2.1 million rural poor households, representing 42 per cent of total agricultural population.<sup>47</sup>

But there are disturbing developments that impact on land reform. One is land reform reversals in the form of land award cancellations or non-installation of beneficiaries. So far, about 90,000 hectares have been affected by reversals affecting some 35,000 households. Leasehold reform (involving farms below 5 hectares, sharing arrangement at 75 -25 in favor of the tiller) especially in coconut farms where the usual arrangement is 2/3 – 1/3 in favor of the landowner need to be fast tracked. Third is the implementation of agrarian reform in deferred commercial farms and joint-venture arrangements (they were given a 10-year deferment supposedly to enable them to recoup their investments, ending in 1998).<sup>48</sup>

The prospects of agrarian reform completion in the coming years is bleak with increasing landowner resistance, limited budgetary support, increasing cost of land processing and acquisition and the continued fragmentation or disunity among farmers' organizations.

- In Malaysia, there has been a shift from agrarian to an industrial economy in the past 30 years. Although there was emphasis on manufacturing and services, agriculture remains an important sector in the Malaysian economy. Its agricultural sector, however, is export-oriented.

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46 James Putzel, *A Captive Land: The Politics of Agrarian Reform in the Philippines* (London: CIIR, 1992), p.27

47 Saturnino M. Borrás Jr., *Agrarian Reform, Rural Development and Democratization in the Philippines: Problems, Prospects and Challenges*, December 2001 (unpublished), p.10; Ricardo Reyes, "CARP past the Deadline: Where's the Beef?" *The Impact of Agrarian Reform and Changing Market on Rural Households*, MODE Research Papers, Vol. 1 No.4, 2000.

48 *Ibid.*, pp.13-15

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Most of Malaysia's agricultural land is devoted to rubber, oil palm and cocoa (76.6 per cent of cultivated land). About 11.6 per cent of cultivated land is allocated for paddy (rice) cultivation. Small landholdings also predominate in Malaysia (about 60 per cent of the land).<sup>49</sup>

While rubber cultivation was dominant up to the mid-1980s, land areas for oil palm cultivation increased while rubber acreage decreased. Higher foreign exchange earnings were generated from oil palm exports compared to rubber. There was also an increase in land use for vegetables and fruits from 1985 to 1995. In terms of land use, priority is given to high value crops such as oil palm, agro-forestry, fruits and vegetables.<sup>50</sup>

- In Thailand, majority of the landholdings (81.5 per cent of 111.7 million hectares) are fully-owned and only 12.2 per cent are rented.<sup>51</sup> Small landholdings predominate in Thailand. They comprise about 67 per cent of total land. Most of the land sizes are in the 1.7 -6.4 hectares-range.

## Major agricultural crops and production

Among the food crops, rice (paddy) is grown in all the SEA countries and is the most dominant crop except in Malaysia. Thailand is the largest exporter of rice. Vietnam is also a major rice exporter. In recent years, Indonesia and the Philippines have become big rice importers.

Oil palm, coconut, sugarcane and maize are the dominant export crops in Malaysia, Philippines, and Indonesia (see Table 14).

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49 Charles Santiago, Country Report – Malaysia, 2004.

50 Ibid.

51 Thailand National Statistics Office, as cited in Supanee Taneewut, Country Report – Thailand, 2004, p.13

**Table 14: Major Crops**

Country	Major crops in terms of production	Major crops in terms of cultivated land
Brunei		
Cambodia	Rice (paddy), logs, fish, maize, rubber	Rice is grown on over 90% of the crop area and accounts for 1/3 of the total values of agricultural production
Indonesia	Rice (paddy), cassava, maize, palm oil, coconut, sugarcane, cocoa	Rice is cultivated in about 10 million hectares and is the most important food crop. Corn (maize) is also a major staple in Jawa Timur and Jawa Tengah. Among the most important estate crops are rubber, oil palm and coffee. Coconuts are largely cultivated by small holders.
Laos	Rice (paddy), maize, sweet potatoes, timber, coffee	Rice is the dominant crop cultivated in about 31%, followed by maize (1.5%) and coffee (1.3%)
Malaysia	Oil palm, palm kernels, saw logs, sawn timber, rice	Oil palm, rubber and cocoa (76.6% of cultivated land)
Myanmar	Rice (paddy), sugarcane, groundnut, maize (seeds), teak and other hardwood	Rice, teak and other hardwood
Philippines	Coconut, sugarcane, rice (paddy), maize, banana	Rice, corn and coconut are the major crops grown in the Philippines in terms of land area and farmers involved.
Thailand	Sugarcane, rice (paddy), tapioca roots, maize, rubber	Rice, cassava, maize and sugarcane are the major crops grown in the Philippines in terms of land area and crop production.
Vietnam	Rice (paddy), sugarcane, cassava, maize, sweet potatoes	Rice is the dominant crop cultivated.

## Trends in agricultural output growth

Until the early 1980s, most ASEAN economies depended on few agricultural exports for their export earnings. For the Philippines, agricultural export revenues were derived from exports of coconut oil and other coconut products, sugar, pineapple and bananas. For Malaysia, rubber and oil palm were the major sources of agricultural export earnings.

Except for Malaysia and Laos, per capita agricultural output for other ASEAN countries grew at less than 1 per cent from 1963 to 1975. Better growth rates were posted in the period 1976-85 in Indonesia, Laos, Myanmar and Vietnam but negative growths in Malaysia and the Philippines. There was a downward trend in growth rates in many ASEAN countries between 1986 and 1999. Vietnam posted a modest growth of 3 per cent over the

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same period (see Table 15).

Factors explaining these trends vary. Booth (2002) says the negative growth in Malaysia in 1976-85 was “due to falling prices for several key staples, which combined with rapid industrial growth, led to a significant labor shift out of agriculture.”<sup>52</sup> In the case of Thailand, it was attributed to lesser land put under cultivation. In the case of the Philippines, the negative output growth can be attributed to the reduction of government support for agriculture and the effects on the social conflicts/unrests (between the New People’s Army/Moro Islamic Liberation Front and the Philippine government) between 1976 and 1985.

**Table 15: Annual Average Growth Rate of Per Capita Agricultural Output, 1963-99**

Country	Annual Average Growth Rate of Per Capita Agricultural Output		
	1963-75	1976-85	1986-99
Indonesia	0.7	3.1	0.8
Laos	1.6	6.3	0.8
Malaysia	2.8*	-0.9	1.1
Myanmar	-0.7	3.4	0.5
Philippines	0.7	-0.4	0.1
Thailand	0.7	1.5	0.9
Vietnam	-0.5	2.6	3.0

**\* *Peninsular Malaysia only***

*Sources of data: FAO Production Yearbook, vol. 30(1976), Table 7; vol. 41 (1987), Table 10; vol.53 (1999), Table 10 as cited by Booth, 2002*

Growing populations, especially in the rural areas led to the expansion of land areas under cultivation over the years. With limited land that could be cultivated, ASEAN governments pushed their farmers to increase farm productivity through the adoption of high yielding varieties and the use of more fertilizer and pesticides to crops like rice and corn.

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52 Anne Booth, “Rethinking the Role of Agriculture in the “East Asian” Model: Why is Southeast Asia Different from Northeast Asia?” *ASEAN Economic Bulletin*, Vol. 19, No.1, April 2002.

To encourage farmers to adopt new technologies, ASEAN governments provided infrastructure support (e.g. construction of irrigation facilities, farm-to-market roads) and subsidies which included price support, fertilizer subsidies and subsidized credit. Over the years, however, state support to the agricultural sector in terms of infrastructure expenditures and input subsidies has declined.

In Indonesia, fertilizer subsidies decreased from Rp.709.6 billion in 1985/86 to Rp.134 billion in 1994/95.<sup>53</sup> In the Philippines, agricultural expenditures had been increasing from P8.49 billion in 1990 to P26.85 billion in 1999 but decreased to P22 billion 2002 (preliminary). While it is increasing, agricultural expenditures to total national expenditures had been decreasing from 3.32 per cent in 1990 to 2.82 per cent in 2002. The reduction of government support to agriculture was attributed to IMF conditions and the low priority given to the sector. In particular, state support for irrigation development and research and technological development was reduced.<sup>54</sup>

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53 Ishaka H. Mustmin, "Indonesia," *Impact of the Changing Economy on Small Farmers in Asia and the Pacific* (Tokyo, Japan: Asian Productivity Organization, 2001), pp.190-91.

54 Carlos Aquino, "The failure of public expenditures," *Farm News and Views*, 2nd and 3rd Quarter 2002, pp.21-23.

## 4. The Socio-Economic Situation of Small Producers in Southeast Asia

### i. Demographic characteristics

ASEAN farmers are an aging population. Farmers aged 51 years and above comprised the majority of respondents in Malaysia (68.7 per cent), Philippines (47 per cent) and Thailand (46 per cent). Many of the young in the rural areas (especially in Malaysia and the Philippines) are not keen on farming. They would rather go to the cities to seek employment. Farmer-respondents in Vietnam and Indonesia are relatively younger (63.8 per cent of respondents in Vietnam and 55.8 per cent in Indonesia belong to the 45 years and below age group). The same trend is observed among fisher folk where 80 per cent of respondents are above 40 years old in the Philippines. The fisher folk in Malaysia are relatively younger compared to that of the Philippines.

ASEAN farmers and fisher folk have low (formal) educational attainment. Given their low incomes, most small farmers in Southeast Asia just completed primary level education (Indonesia – 78.1 per cent; Malaysia – 65.3 per cent; Philippines - 62.1 per cent; Thailand – 82.4 per cent and Vietnam – 32.3 per cent but 61.3 per cent finished the secondary level). Majority of fisher folk-respondents (51 per cent) from the Philippines and 61 per cent in Malaysia also just reached or finished the primary level.

Joint home ownership: Across the five countries, most of the farmer and fisher folk-respondents reported that they owned their dwellings. In general, both husband and wife own their houses. In Malaysia, fisher folk-respondents reported that 21.2 per cent of the homes is owned by the husbands but only 3 per cent in the Philippines.

Majority of the respondents said their houses are of permanent structure (91.8% in Malaysia; 97.2 per cent in Thailand; 56.5 per cent in the Philippines; 66.5 per cent in Indonesia and 50.6 per cent in Vietnam.

However, it should be noted that a significant proportion also reported that their houses are made of light materials (temporary) in the Philippines, Vietnam and Indonesia.

Sources of drinking water vary in the five countries surveyed. In Malaysia, 87 per cent have access to piped water. In the Philippines and Indonesia, farmers get their drinking water from artesian wells/pump wells and open wells in the case of Vietnam. A significant portion of respondents in Thailand and Vietnam rely on rain water.

In terms of toilet facilities, Malaysian and Thai farmers have better toilet facilities (water sealed/flush type) in comparison to their counterparts in other countries. Many use open pits (Vietnam and Indonesia – 45 per cent of respondents).

Generally, the rural electrification program was successful in most countries covered by the research as most houses have electricity, except in the Philippines where 22 per cent do not have electricity. In Indonesia, access to electricity is more common in Java as compared to other states.

## **ii. Ownership of the main means of production (lands and boats)**

Many of the farmers surveyed own the land they till, especially in Vietnam (99.1 per cent), Malaysia (64.8 per cent) and Thailand (52.4 per cent). On the other hand, there is a significant proportion of farmer-respondents in Indonesia, the Philippines and Malaysia who are just renting the land they are cultivating. Thailand reported as well that although many farmer-respondents owned the land, there is a high incidence of land mortgaging. Therefore, effective control is not in the hands of the farmers (Table 16).

In Laos, access to land is relatively high, with almost 90 per cent of rural households owning land.<sup>55</sup> In Cambodia, while all land belong to the state, its people have full right to occupy and use the land. They also have the

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55 Thongdam P., Lao PDR Country report, 2004



right to sell their land.<sup>56</sup>

**Table 16: ASEAN Farmers: Land Tenure Status (in %)**

Tenure	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Owner-cultivators	46.4	60.6	33.6	48.6	98.7
Part-owner	2.6	4.2	3.2	3.8	0.4
Tenant	18.5	33.9	27.3	7.8	0.4
Leaseholder	32.6	1.2	36.0	35.4	
Settler				4.4	0.4
<b>TOTAL</b>	<b>100.1</b>	<b>99.9</b>	<b>100.1</b>	<b>100.0</b>	<b>99.9</b>
<b>Total Responses</b>	<b>233</b>	<b>165</b>	<b>253</b>	<b>319</b>	<b>237</b>

Another characteristics of ASEAN agriculture is the predominance of small farms (1.5 hectares and below) as shown in Table 17.

**Table 17: ASEAN Farmers: Average Farm Sizes by Tenure (in hectares)**

Tenure	Malaysia	Philippines	Thailand	Vietnam
Owner-cultivators	1.25	1.42	1.84	1.48
Part-owner	1.51	1.29	1.70	1.41
Tenant	1.62	1.67	1.53	
Leaseholder	2.15	1.57	2.30	1.6
Settler			1.47	

Among fisher folk-respondents, 95 per cent in the Philippines and 33 per cent in Malaysia do not own their boats. As their boats are very small, they could not go very far into the sea (limited mobility), their catch is small and consequently, their incomes are low. Their fishing gears are simple (pole, fishing nets, hook and line) in comparison to the bigger boats and high technologies (trawl nets and some have even refrigeration and canning facilities) being used by big foreign and local commercial fishing operators.

For farmers not owning the land they cultivate, renting is the most common mode of land acquisition and followed by inheritance (Table 18).

Many respondents reported that their land is irrigated but a considerable

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56 Prak Serayvath, Country Report – Cambodia, 2004.

percentage has un-irrigated/rain-fed farms.

**Table 18. ASEAN Farmers: Mode of land Acquisition (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Bought	21.0	6.1	1.1	12.3	25.5
Inherited	26.6	61	19.8	36.1	27.0
Bought planting rights	0.4	1.2	1.5	6.2	0.4
Squatting	0.9		1.1		
Renting	36.1	31.7	22.9	43.5	1.4
Through mortgage			1.5	1.2	0.4
Stewardship/agrarian reform	2.1		52.3	0.6	25.2
Slash and burn					19.5
Others	12.9				0.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.2</b>	<b>99.9</b>	<b>100.1</b>
<b>Total Responses</b>	<b>233</b>	<b>164</b>	<b>262</b>	<b>324</b>	<b>282</b>

Landownership is generally in the hands of both husband and wife. This is particularly true in Vietnam. However, many (e.g. Philippines – 59 per cent) reported that the husband is the sole owner of the land.

### **iii. Cropping, production and expenses**

The frequency of cropping varies depending on the crop. In the case of rice, most farmers reported that they harvest twice a year and once a year for sugarcane and coffee. In the case of corn, Filipino farmers harvest twice a year but only once a year in Vietnam.

The wide adoption of supposed modern technologies in agricultural production facilitated the common use of inorganic inputs like fertilizer and pesticides in the region. Farmers say there is a big increase in the use and prices of these commodities, which are generally manufactured by subsidiaries of transnational corporations (TNCs). In Vietnam, for instance, the prices of fertilizers and pesticides went up by 100-150 per cent and 150-200 per cent in the Philippines during the implementation of AFTA.<sup>57</sup> The reasons given for the increased usage of inputs include the need to maintain

57 Bui Quang Toan and Nguyen Huu Nhuan, 2004, p.46. Also see Matrix of Farmers and Agricultural Situation in Southeast Asia, SEACON, January 2004, Kuala Lumpur, Malaysia.

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productivity, the soil has become acidic, the pests are becoming more and more resistant and the increase in weed growth.

While the use of high levels of inputs had contributed to increasing farm productivity, it has also caused environmental and health problems. The chemicals applied polluted the rivers, lakes and groundwater. It has also caused land degradation and desertification in some places.

Included in the modern package is the use of so-called modern rice varieties (high yielding varieties) in most farms in Southeast Asia. It is alarming to note that farmers seem to be moving towards the use of hybrid seeds (41% reporting in Vietnam and 27% in the Philippines. Even Thailand where the official policy is not allowing the cultivation of hybrid rice, some farmers are already using it). The use of hybrid rice seeds is being promoted by governments by subsidizing their cost (as in the Philippines).

The traditional way of saving seeds for the next planting season is disappearing because the seeds could only be used once (particularly hybrid rice seeds) or that some farmers feel that it is so much a hassle to save them (given the need for drying and good storage). It is now more convenient to just buy the seeds. With the advent of “one-time use or terminator seeds,” farmers’ seeds exchanges are also endangered.

With the increased usage and prices of inputs, the cost of production has also risen. Farmers who could not finance the increases in production have decided to cut the level of use. With crops’ dependency on inputs for higher productivity, the lessening of use could lead to smaller harvests and incomes from farming.

### **iv. Agricultural prices and markets**

Majority of the farmer-respondents said that the farm-gate prices (nominal) of their crops (e.g. rice, corn, sugarcane) have increased since 1999 (Table 19). The price of coffee (Vietnam), however, went down. The decrease in coffee prices can be attributed to two factors, namely the abundance of

the product and the control of private traders over the coffee market.<sup>58</sup>

**Table 19: ASEAN Farmers: Whether farm-gate prices increased vs. 5 years ago (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Increased	100.0	32.7	97.2	84.8	74.9
Decreased		48.3	2.8	8.0	25.1
No Change		19.0		6.0	
Don't sell/Don't know				1.2	
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Responses</b>	<b>233</b>	<b>147</b>	<b>253</b>	<b>250</b>	<b>235</b>

Why have prices increased? As shown in Table 20, the increase in crop prices is largely attributed to the increased in production costs (all countries). A significant number of respondents in the Philippines (12.4 per cent) and Thailand (28.2 per cent) said that the increase is due to the shortage of that product in the market or that prices increased after natural disasters (Vietnam and Malaysia). It is significant to note that in Malaysia one of the main reasons for the increase cited by farmers is the higher prices set by government (33.3 per cent).

For those who reported decreases in the prices of their crops, most reasons cited were the increased of imports of products that are also locally-produced such as rice (Malaysia and the Philippines), the low prices set by traders (Malaysia, Thailand and Vietnam) and poor government policy on prices (Malaysia and Philippines). In Vietnam, respondents overwhelmingly (82 per cent) said that as many farmers produce and sell the same products, it push down the prices.

Traders and millers dominate the agricultural and fishery markets in Southeast Asia (Table 21). Their control over the agricultural market could be attributed to several factors. Many of them also extend loans and services (e.g. post-harvest facilities), whose conditions may include the selling of the crops to these traders. They also offer better prices than other buyers and they pay in cash. For many cash-strapped farmers, this is an incentive to sell. On the other hand, however, government intervention to regulate

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58 Ibid.

**Table 20: ASEAN Farmers: Reasons for Increase in Farm-gate Prices (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Due to shortage of product in markets	4.3	6.7	12.4	28.2	2.5
After natural disasters	2.1	14.7	3.5	0.9	22.8
Traders withhold products	0.4		8.9		2.1
My production costs increased	75.1	45.3	62.1	29.9	60.8
Government sets higher prices	6.0	33.3	9.6	9.0	1.7
Animal husbandry development	12		3.5	0.9	9.7
Good quality product				19.7	0.4
Don't know				11.5	
<b>TOTAL</b>	<b>99.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.1</b>	<b>100.0</b>
<b>Total Responses</b>	<b>233</b>	<b>147</b>	<b>312</b>	<b>234</b>	<b>237</b>

**Table 21. ASEAN Farmers: Buyers of their Crop (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Traders	34.8	26.0	81.4	71.7	51.4
Money lenders	2.1	0.7	1.8		0.8
Fellow farmers	0.9	8.7	4.3	18.3	19.2
Government buying stations	0.4	10.0	0.7	3.6	26.8
Cooperatives	9.4		0.4	6.4	0.5
Input dealers	4.3		11.5		1.3
Factory/millers		54.7			
Middleman	48.1				
<b>TOTAL</b>	<b>100.0</b>	<b>100.1</b>	<b>100.1</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Responses</b>	<b>233</b>	<b>150</b>	<b>279</b>	<b>251</b>	<b>381</b>

the market is inadequate.

#### v. Low incomes and poverty among small producers

Most recent studies profiling rural incomes and poverty incidence and income distribution in the countries covered by the research reveal disturbing trends.

Poverty and inequality is prevalent in Southeast Asia, particularly in the rural areas (see Table 22). Latest poverty figures show that 40 per cent (1999) of the people in rural areas in Cambodia is below the poverty line; 54 per cent in the Philippines and 45 per cent in Vietnam. The magnitude of poverty among SEA countries especially in Laos, Indonesia, the Philippines, and Vietnam is high. Many are subsisting on less than \$2 a day.

While some countries have made a great headway in reducing the number of people (e.g. Vietnam) below the poverty line, the situation is worsening especially in the rural areas. In Malaysia, a fast developing country, the percentage of the rural population below the national poverty level more than doubled from only 6.1 per cent in 1997 to 13.2 per cent in 1999. In Thailand, the ratio of the rural population below the national poverty level also increased from 13.1 per cent in 1993 to 17.2 per cent in 2000.

Some of the key factors contributing to rural poverty include the lack of access and control to productive assets/resources; lack of capital; inadequate social and physical agricultural infrastructure, adverse impact of globalization, falling commodity prices, agricultural trade liberalization and privatization.

**Table 22: Per cent of Population below the National Poverty Line in Urban and Rural Areas**

Country	1993 (1994)		1997 (1996)		Latest Figure	
	Urban	Rural	Urban	Rural	Urban	Rural
Brunei	-	-	-	-	-	-
Cambodia	-	-	21.1	40.1	25.2 <sup>e</sup>	40.0 <sup>e</sup>
Indonesia	-	-	13.6	19.9 <sup>b</sup>	9.8 <sup>d</sup>	25.0 <sup>a</sup>
Laos	24.1 <sup>a</sup>	53.0	26.9	41.0	-	-
Malaysia	-	-	4.1	6.1	3.8 <sup>c</sup>	13.2 <sup>f</sup>
Myanmar	-	-	23.9	22.4	-	-
The Philippines *	28.0	53.1	21.5	21.5	24.3 <sup>e</sup>	54.0 <sup>e</sup>
Singapore	-	-	-	-	-	-
Thailand	10.2	13.1	-	-	1.5 <sup>c</sup>	17.2 <sup>e</sup>
Vietnam	25.9	57.2	-	-	9.0	45.0 <sup>f</sup>

Sources: Country Yearbook and websites; and ASEAN in Figures 2003 (ASEAN Statistical Yearbook 2003)

Notes: a – 1994 Figure, d – 2001 Figure  
b – 1996 Figure, e – 2000 Figure  
c – 1999 Figure, f – 1998 Figure

\* New Series, based on the newly approved poverty methodology gives the proportion of families under line: 15% both for 1997 and 2000 for urban areas and 39.9% (1999) and 41.4% (2000) for rural areas. NSCB websites, August 2003

The research findings re-affirm the poor conditions among small producers in the region. Low incomes abound among small ASEAN farmers and their households, with majority reporting just earning \$100 and below per month (Table 23).

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The low incomes among small producers can be attributed to tremendous increases in their cost of production. While prices of their products have increased, the rate of increase is outpaced by the increases in production costs. Further, indebtedness and the consequent payment of interests also eat a portion of their gross incomes.

**Table 23. ASEAN Farmers: Respondents' Net Income per Month (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Less than USD 25	18.0		51.0	28.4	43.8
USD 26 - 50	44.6	4.8	21.7	22.0	21.7
USD 51 - 100	21.9	36.7	17.4	20.8	20.9
USD 101 - 150	8.6	27.2	6.7	10.4	9.8
USD 151 - 200	5.2	10.9	2.4	6.0	1.7
USD 201 - 250	1.7	3.4		5.2	1.3
USD 251 -300		7.5		2.4	
USD 301 -350				0.4	
USD 351 - 400		0.7		1.2	0.4
USD 401 - 450		0.7	0.8	1.2	
USD 451 - 500		1.4			
Above USD 501		4.1		2.0	0.4
Refused (to answer)		2.7			
<b>TOTAL</b>	<b>100.0</b>	<b>100.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Responses</b>	<b>233</b>	<b>147</b>	<b>253</b>	<b>250</b>	<b>235</b>

### vi. Rural indebtedness and the credit market

With low incomes, there is a high incidence of indebtedness among ASEAN farmers, particularly in Indonesia (66.1 per cent), the Philippines (77.6 per cent) and Thailand (93.6 per cent). Although the majority (53.1 per cent) of the farmer-respondents in Malaysia said they did not have loans, a considerable number (46.9 per cent) have debts. In Vietnam, 58.3 per cent have debts.

Farm credit is an important factor in agricultural development. With low or no savings, agricultural producers rely on farm credit to finance their farming

operations as well as their consumption needs. Table 24 shows that small producers borrow from various sources. While relatives, friends and fellow farmers are the traditional sources of credit, now the banks, government, input dealers, traders/middlemen are now very active in providing rural credit. In Malaysia, the most dominant credit providers are the traders/middlemen, input dealers and banks. In Vietnam (with 63.2 per cent of respondents) and Thailand (with 33.8 per cent of respondents) banks and financial institutions are the main sources of farm credit. While other sources may have entered the rural credit market in the Philippines, a significant percentage still relies on landowners for their credit needs. Small producers in Indonesia and Thailand are accessing government credit programs.

The most common reasons cited for incurring loans/debts is the increasing need for capital for production as a result of increasing costs, particularly in inputs (e.g. seeds, fertilizer and chemicals). Many farmers borrow not only for production purposes but also for their household needs. These data indicate that their incomes from farming (the main sources of farm incomes) are not sufficient to cover both production and household needs. The data also show that with limited or low incomes, other needs like education, better facilities and even nutritious food will not be adequately met.

**Table 24: ASEAN Farmers: Sources of Credit (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Relatives	6.1	13.7	19.1	8.6	16.5
Banks / financial institution	20.1	20.5	2.1	33.8	63.2
Friends	1.3	2.7	18.3	2.5	2.7
Traders / middlemen	8.3	28.8	16.7	0.6	1.1
Co-operatives	10.2	1.1	0.5	15.2	
Government/Govt-owned enterprise	19.1	1.1	0.5	28.9	
Landowner	7.0	1.4	14.8	0.6	1.1
Fellow farmers	13.4	5.5	7.5	4.1	1.1
Input dealers	10.8	19.2	8.9	2.5	2.7
Private moneylenders		1.1	8.6	1.8	8.2
Micro credit/finance			3.0	1.2	3.3
Rice miller/factory	3.2	4.1		0.2	
<b>TOTAL</b>	<b>100.1</b>	<b>100.1</b>	<b>100.1</b>	<b>100.0</b>	<b>99.9</b>
Total responses	157	73	372	488	182



## vii. Major problems and solutions: Farmers' point of view

From the mini-survey, the five top major problems confronting small producers in Southeast Asia are distinct but very much inter-related (Table 25). These include high costs of production, especially inputs (seeds fertilizers and pesticides), indebtedness and lack of capital, low price of their products/crops, lack of water and effects of natural calamities. In Thailand, the three top problems cited are indebtedness (33.6 per cent of respondents), low price of products (26 per cent) and high cost of inputs (10.8 per cent). The lack of or limited capital for production is seen by Vietnamese farmers as their leading problem while calamities (29.9 per cent) high production costs and lack of water are the major problems faced by small producers in Malaysia. Besides the high cost of inputs and high production expenses, lack of water, landlessness remains a problem for many small Filipino producers.

**Table 25: ASEAN Farmers: Major Problems (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Indebtedness/Owe people money	0.9	8.8	5.5	33.6	3.4
Landlessness/No Land	1.3	4.8	9.5	4.8	
Competition with cheaper imported products	6.9		0.4	0.4	0.4
Limited government support		4.1	5.1	0.8	6.0
High production expenses	39.5	12.9	10.3	7.2	10.6
High Cost of input	17.2	8.8	20.6	10.8	5.1
Low price of products	10.7	4.1	5.5	26.0	5.1
High land rental	2.6	0.7	2.8		
No sources of capital for production	11.2	1.4	9.1	2.0	13.2
Limited sources of capital for production	2.1	1.4	10.7	0.8	53.6
Lack of water	6.9	9.5	19.0	3.6	1.3
Inadequate water for irrigation		8.2		0.8	
Inaccessible post-harvest facilities		0.7			0.9
Calamity/natural disasters	0.9	29.9	0.8	2.8	
Unable to market crop directly to consumers				1.2	0.4
Other problems		4.7	0.7	5.2	
<b>Total</b>	<b>100.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Responses</b>	<b>233</b>	<b>147</b>	<b>253</b>	<b>250</b>	<b>235</b>

Given the major problems cited, the farmers are hoping that their governments would: (a) give more domestic subsidies, particularly inputs' subsidies, (b) guarantee prices of farm products/crops, (c) provide more

public investments (for infrastructure and supporting local agro industries) and (d) provide access to capital and low interest rates of agricultural loans.

### **viii. Status of government support**

*How do farmers perceive their government's role in supporting smallholder production?*

For Indonesian, Filipino and Thai farmers, they are united in saying that their governments have not been responsive to their needs. In Indonesia, 86.3 per cent said government support for small farmers had been inadequate, 89.3 per cent in the Philippines and 95.6 per cent in Thailand. Many farmers in Malaysia and Vietnam believe that their governments' support had been largely adequate (61.9 per cent in Malaysia and 83.8 per cent in Vietnam).

Small farmers said the type of government support they received include fertilizer subsidy (Malaysia and the Philippines); provision of irrigation services (Malaysia and Vietnam); special loans for farmers (Thailand and Vietnam), trainings (Vietnam) and land reform (Philippines).

Producers who said that they did not receive adequate government support cited the following reasons.

Small producers in the region generally have weak political and economic influence in decision-making. While the small producers (farmers and fisher folk) comprise the majority of the population in Southeast Asian countries, they are not an influential sector in SEA societies. This is because they are largely unorganized and under-represented in economic and policy-making processes in their respective countries.

While this is the dominant trend, there are also seeds of hope. More farmers are getting organized within national boundaries and at the regional and international level. There are initiatives towards networking and alliance formation among farmers' groups in the SEA region and also at the

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international level. The formation of VIA Campesina-Asia and the Asian Farmers' Association for Sustainable Development (AFA) shows that more farmers are recognizing the need to get their act together and fight for a common agenda.

Most ASEAN governments also perceive their small producers as inefficient without giving due consideration that they operate on limited land, capital and technology.

In countries like the Philippines, there has always been a bias against agriculture in general and small producers in particular. This can be seen by the limited investments in agriculture. If there is support intended for agriculture like subsidies, the bigger producers (especially the agribusinesses) are able to corner such support because they are influential in government.

Small producers' expectations as to their government's role and support should reflect what they see as their major problems. They expect government to provide subsidies (where none) or continue and increase the farm subsidies. In particular, they are demanding for subsidized inputs such as seeds, fertilizers and chemicals. They are also clamoring for guaranteed prices and price support for their crops. In relation to this, they are also asking for marketing support. With the sorry state of physical infrastructure in many Southeast Asian countries, small producers are pushing for better and long-lasting infrastructure such as better farm-to-market roads and post-harvest facilities.

### **ix. Farmers' view on AFTA**

Twelve years since ASEAN-6 governments have established AFTA (and 10 years since the inclusion of unprocessed agricultural products under the CEPT Scheme), many small farmers have not seen or heard about AFTA (75.1 per cent in Indonesia; 81 per cent in Malaysia; 90.5 per cent in the Philippines; 64 per cent in Thailand and 45.5 per cent in Vietnam). (Table 26). It is interesting to note that there is higher recognizance (at least the word AFTA) in Vietnam. This could mean that the Vietnamese government

has made considerable effort to inform its citizens regarding AFTA.

**Table 26: ASEAN Farmers: AFTA Awareness (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Yes	24.9	19.0	9.5	36.0	54.5
No	75.1	81.0	90.5	64.0	45.5
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total responses</b>	<b>233</b>	<b>147</b>	<b>253</b>	<b>250</b>	<b>235</b>

As for the few respondents who have seen or heard about AFTA, their level or extent of awareness is very low. Many have no idea what AFTA is about. They have only seen the word in newspapers or heard about it in television and radio (Tables 27-28). The data indicate that ASEAN governments have not done a thorough job of informing their people on content and possible impact of major treaties they have committed to.

**Table 27: ASEAN Farmers: Extent of Knowledge re. AFTA (in %)**

	Indonesia	Malaysia	Philippines	Thailand	Vietnam
I just saw the word in the newspapers	20.7		8.1	49.5	33.8
I have no idea what benefits it brings to me	19.0	56.7	29.7	18.6	28.3
It will create more markets to sell our products	1.7	10.0	8.1	3.1	18.7
It will cut down subsidies currently enjoyed by us	6.9	6.7	16.2	9.3	1.1
Wider choices and cheaper goods for consumers	1.7	3.3	5.4	13.4	10.0
Free trade / globalization	46.6	20.0	27.0	1.0	3.2
Will bring investments into the country			5.4	5.2	4.6
Farmers would be victim of free trade	1.7	3.3			
No answer	1.7				
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>99.9</b>	<b>100.1</b>	<b>100.0</b>
<b>Total responses</b>	<b>58</b>	<b>30</b>	<b>28</b>	<b>97</b>	<b>219</b>

**Table 28: ASEAN Farmers: If Aware, Source of Information (in %)**

Category	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Government	15.5	5.4		1.7	2.5
Radio	1.7	18.9		24.8	32.4
Television	34.5	37.8	14.3	59.5	47.5
Fellow farmers	20.7	10.8	7.1	7.4	5.7
My organization	20.7	2.7	10.7	3.3	2.5
NGOs	1.7	8.1	42.9		
Other farmers' organization	3.4	2.7	17.9		
Newspapers		13.5	7.1	3.3	9.1
Family member	1.7				
<b>TOTAL</b>	<b>99.9</b>	<b>99.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total responses</b>	<b>58</b>	<b>37</b>	<b>28</b>	<b>121</b>	<b>244</b>

## x. Gender issues in SEA's agriculture<sup>59</sup>

### Women's productive and reproductive roles

Rural women in Southeast Asia perform productive, reproductive and community work. Their productive work include working in their farms, tending work animals, poultry and livestock raising, working off-farms (as wage workers or washing and ironing clothes for other families) and food provisioning (tending home vegetable gardens). Their reproductive and community work include household chores (cooking, washing and ironing clothes, cleaning the house, fetching water and firewood, taking care of whole family (child rearing, taking care of the elderly), attending meetings and community functions.

The division of labor in agriculture and fisheries among men and women is still along traditional lines. Across the five countries, there maybe some variations in terms of men and women's productive roles. In agriculture, men, in general, do the land clearing and preparation and transporting crops while women generally do the transplanting, weeding and marketing of produce. Both do the harvesting and application of inputs. In Vietnam, women do most of the agricultural work that men do. Labor inputs for crop production are much higher for women than for men. In addition, women

59 Generally culled from the AFTA Reports – Indonesia, Malaysia, Philippines, Thailand and Vietnam

take care of livestock, grow tea and fruit trees, and engage in VWU activities such as family health programs.

With changes in production systems (increasing use of inorganic inputs), more women are engaged in farm work that are dangerous to their health. This includes spraying weed killer, fertilizer application, and spraying pesticide. It is not only hard work but exposure to chemicals is also dangerous to women's fertility. Scientific evidence indicates that constant contact with farm chemicals could lead to respiratory cancer. There is also a high risk of miscarriage.

With the constant increase in prices of food and other goods, farm incomes are not sufficient to cover family needs. Many rural women are taking on additional sources of incomes (off-farms employment) such as vending of products, washing and ironing of clothes of other families and working in factories. These types of employment usually provide low wages and sub-human working conditions.

In the fisheries sector in Malaysia and the Philippines, men do the catching while the women undertake cleaning and sorting of fish, marketing and processing/drying of fish.

Many women farmers and fishers in Indonesia, Malaysia, the Philippines, Thailand and Vietnam are still not recognized as farmers and fishers by their own right. This could be attributed to the fact that many women farmers are not paid as they co-work with their families in the field. In Thailand, women do farm work equally with men while taking care of their households and families.

Reproductive roles are usually the domain of small women producers in Southeast Asia. The Thai AFTA report notes that "before and after hard work in the field, when at home, women still have to spend at least five hours per day to wash clothes, ironing, cooking, cleaning, feeding the children, taking care of family members." In rain-fed farming systems in the Philippines, where households can rarely depend on any one crop, women work 37 hours per week (versus the men's 43 hours), which is much longer than what women in irrigated farms seem to be keeping (8.6 hours). Usual

community work done by women includes undertaking community health and education programs.

*Access to and control of productive resources and assets*

Many small women farmers and fishers have limited access to productive resources and assets. There are, however, improvements. In Thailand, women have the equal right to own land. Land bought after marriage and residential houses are jointly-owned by husband and wife in general. In terms of employment, Thai women and men are also getting equal wages. In the Philippines, women have land rights and conjugal rights. They can also inherit land. However, many small men and women farmers do not own the land they till. Non-ownership of land is a barrier to obtaining cheaper farm credit (Non-collateralized loans have higher interest rates). In Malaysia, both men and women had the right to use land according to customary law. Succession policies are now denying maternal rights after the introduction of British land system. Moreover, Islamic law on inheritance provides that women can succeed only half of men's succession. In Sabah and Sarawak, there were cases of native women losing the land which was protected by customary law, with the introduction of land registration.<sup>60</sup> In Indonesia, both women and men have land rights. Based on the Marital Act of 1970, the property obtained after marriage is recognized as common property, and the dowry belongs to wife or husband.

In the Philippines, bank-managed farming and fishing credit programs are also commonly directed towards men, especially agricultural loans. There are few projects and credit programs which target women beneficiaries.

*Access to capacity building opportunities*

According to the FAO, only about 6 per cent of participants in trainings for women were in day trainings (15%), while the lowest was 3 per cent for on-farm research in the Philippines.<sup>61</sup>

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60 Country Women in Development Profile (Malaysia), Japan International Cooperation Agency: Planning and Evaluation Department. November 2002, pg 14

61 FAO, December 19, 2001

It is encouraging to note the role played by the Malaysian government in providing “training and programs for women farmers at all levels as one of the most effective means to develop their skills and encourage their participation in activities related to agriculture as well as providing monetary assistance to establish small-scale agricultural businesses.”<sup>62</sup> A good case is the Women’s Development Association (KPW). In 2002, 1,364 KPWs have been established nationally as women community center for skill learning and as a location to carry out income generating activities. Income generating activities undertaken are mainly agriculture-based, usually producing value-added products from the agriculture produce in the local community.<sup>63</sup>

### *Women and Decision-making*

Decision-making in production, other economic activities and household matters also follow traditional lines. In Thailand, women will always take part in decision-making in so-called “delicate” activities such as decision to repay debt, or household financial planning. They are viewed as more careful than men and are attentive and sensitive to the feelings of all family members. Thai women usually do the repayment of debts while men do not want to repay debts. In Vietnam, women’s representation in decision-making bodies such as commune and district people’s committees is still limited. Upland women are generally more active in participating and articulating their opinions in meetings than their counterparts in the delta. In the case of the Philippines, the men decides on matters like when to plant, what inputs to use, whom to hire as farm labor. The women generally decide on children’s education, budgeting, health needs of the family.

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62 Op.cit.

63 Ibid. See Malaysia AFTA Report, 2005.



## 5. Twelve Years under AFTA:

### **Is It Good for ASEAN Economies and Small Producers?**

Since the early 1980s, many developing (e.g. SEA) countries have gone through a process of far-reaching economic reforms focusing on trade, financial and capital account liberalization.

Free trade or liberalization as a means of fostering economic growth had been widely promoted. In Southeast Asia, the establishment of the ASEAN Free Trade Area in 1992 was a step towards freer trade and economic integration in the region. Trade liberalization in the region was further entrenched with the conclusion of the GATT-UR in 1994 and the subsequent establishment of the World Trade Organization in 1995. Recently, other regional agreements and bilateral free trade agreements were concluded or being negotiated. These include the ASEAN-China FTA, ASEAN + 3, Singapore-US FTA, Thailand-US FTA and the Japan-Philippines Economic Partnership Agreement. These moves represent an emphasis on economic integration of large areas. The projected economic benefits of these trade agreements are almost the same: increased trade, expanded GDP, greater economic efficiency, lower costs and increased investments.

Many people, especially the small farmers and fishers, were not aware of some trade agreements, especially AFTA. Accession to other trade agreements like the WTO was done with strong opposition from various sectors of the population. After more than two decades of trade liberalization, small producers (farmers and fishers), researchers, some policy-makers, and civil society groups have increasingly questioned the so-called positive effects of trade liberalization as pushed by AFTA and other trade agreements. Some have concluded that trade reforms and agreements like AFTA had resulted in lower economic growth, the death of local industries, bankruptcies and rising inequality and poverty.

It has been 12 years since the implementation of AFTA. Do the promises

made in 1992 match today's realities?

The ASEAN Free Trade Area is oriented towards greater trade liberalization and integration of the regional economy. Towards this end, the six ASEAN member-states are committed to set up a free trade area in the region by 2015 by reducing tariffs on trade to 0-5% within an agreed schedule. In 1995, ASEAN moved the target year by five years to 2003 and advanced it again to 2002.

In 2003, ASEAN signed an ambitious accord, the Bali Concord II, to establish an ASEAN Economic Community by 2020, one similar to that of the EU. It aims to create a community in Southeast Asia based on three pillars: ASEAN Economic Community (AEC), ASEAN Security Community (ASC) and the ASEAN Socio-Cultural Community (ASCC). Underlying the ASEAN Community strategy involves the integration of ASEAN's complementarily and enhancing its economic competitiveness.

The ultimate goal of the ASEAN Economic Community (AEC) is to create a competitive region with a free flow of investment, goods, services, and skilled labor coupled with a freer flow of capital, stable and equitable economic development, and reduced poverty and socio-economic disparities by the year 2020. Central to the idea of the Economic Community is the establishment of ASEAN as a single market and production base providing opportunities for business complementation enhancing ASEAN into a stronger segment of the global supply chain.

## **Modest increase in intra-ASEAN Trade and investments**

**Intra-ASEAN Trade:** The further opening and integration of ASEAN markets is nearly achieved through AFTA. With about 94.3 per cent of all products in the Inclusion List (IL) of ASEAN-10 (Table 2) and 88.8 per cent of products have tariffs of 0-5%, the ASEAN market is relatively open. Likewise, there has been a significant reduction of tariff levels, from an average tariff for ASEAN-6 under the CEPT Scheme of 12.76 per cent in 1993 to 2.39 per cent in 2003.<sup>64</sup>

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64 Trade – The ASEAN Free Trade Area. <http://www.aseansec.org/12022.htm>

Indeed, AFTA has resulted in increased trade and investments in the region. But the level of intra-trade creation is not as significant as projected. AFTA does not cover a large percentage of traded goods of ASEAN economies. The majority of goods are not destined to ASEAN countries but shipped to other markets, usually the United States and Japan. The ASEAN Secretariat claims that intra-ASEAN trade makes up 20-22 per cent of the total trade of the ASEAN countries. In a survey of imports in 2000, McKinsey (2003) reports that less than 5 per cent of intra-ASEAN trade entered under CEPT preferential rates. Then Singapore Prime Minister Goh Chok Tong shared the same observation that traders have made limited use of the preferential treatment under AFTA. He said that “it is too costly to apply for preferential tariffs in some ASEAN countries. Companies would rather pay more than put up with red tape and delays they would encounter for preferential treatment under AFTA.”<sup>65</sup> In the Philippines, the low utilization of CEPT Scheme can be attributed to the (almost) same tariff rates under AFTA and under its MFN applied on unilateral liberalization rates.<sup>66</sup>

AFTA’s impact on ASEAN members is varied. Thailand and Malaysia have been able to take advantage of the trade opportunities brought by AFTA. Their intra-ASEAN trade increased significantly in comparison to levels of trade posted in 1993.

Thailand has played a key role in the development of a free trade area in ASEAN. Its former Prime Minister, Anand Panyarachun, proposed the creation of AFTA, which was endorsed by the ASEAN Heads of States at the 4<sup>th</sup> ASEAN Summit in Singapore in 1992. Thailand had reduced its average tariff from 10.6 per cent in 1998 to 4.64 per cent in 2003.<sup>67</sup> Its trade relationship with ASEAN had increased, which led to a re-direction of trade from outside ASEAN to inside the region. ASEAN is now one of the country’s major trading partners.

Suntharalingam and Santiago (2005) reported that “ASEAN is Malaysia’s

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65 Keynote Address by Singapore Prime Minister Goh Chok Tong, ASEAN Business and Investment Summit, Bali, Indonesia, 6 October 2003

66 Department of Trade and Industry (Philippines) PowerPoint Presentation on AFTA, August 2005.

67 Ministry of Commerce.

largest export market. Exports to ASEAN expanded by almost 2.3 times to RM99.0 billion in 2003 from RM42.9 billion in 1994. Intra-regional trade had increased over 1.5 times from US\$105.5 billion in 1994 to US\$159.5 billion in 2002 since the implementation of AFTA in 1993, pointing towards a significant increase in trade within the region.”<sup>68</sup>

Although the trade impact of AFTA in the Philippines is not as impressive as that of Thailand and Malaysia, trade with ASEAN increased notably from 7.2 per cent in 1990 to 17.9 per cent in 2003. Electronics (73% of exports) dominated Philippine exports to ASEAN, followed by petroleum products (4%) and metal components (3%). Philippine trade with China is quite impressive. Its share in the Philippine exports went up from 6 per cent in 1998 to 15 per cent in 2003. Mainly agricultural products (e.g., banana, coco oil, etc.) and minerals are sold in the Chinese market, which reflect the booming China economy’s hunger for raw materials.<sup>69</sup>

In Indonesia, its exports to ASEAN grew from 14.3 per cent in 1995 to 19.1 per cent in 1998 but fell to 16.9 per cent in 2001. Over the same period, Indonesia’s imports from ASEAN increased from 10.4 per cent (1995) to 16.7 per cent (1998) and grew further to 18.5 per cent in 2001.<sup>70</sup> The data show that the trade balance with ASEAN changed from a surplus to a deficit.

In the case of Vietnam, the growth rate of trade with ASEAN has been high, averaging 20-25 per cent per year. However, Vietnam imports more than it exports. As such, it has a negative trade balance with ASEAN.

For Cambodia, trade with ASEAN seems to have positive effects. Before joining ASEAN, Cambodia had negative trade balances with ASEAN from 1995 to 2000. In 2001-2002, however, trade with ASEAN yielded positive incomes for Cambodia. Cambodia’s trade balance was about US\$403 million in 2001.

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68 Chubashini Suntharalingam and Charles Santiago, *The Impact of AFTA on Small Producers in Malaysia*, 2005.

69 Ofreneo, 2004

70 ASEAN, 2003

Lao trade with ASEAN is mainly with Thailand and Vietnam. Thailand accounts for more than 80 per cent of Lao-ASEAN trade.

**Impact on Investments:** FDI inflows to ASEAN-10 averaged US\$6 billion in 1985-1990 and US\$25.3 billion in 1993-1998 (less than China and Latin America-Caribbean). It peaked to US\$34.1 billion in 1997 and declined steadily due to the Asian financial crisis in 1997-98 and consequent economic and political crisis in several ASEAN countries. Investments dipped to US\$14.5 billion but rose to \$25.7 billion in 2004 (Appendix 3).<sup>71</sup> ASEAN's share of FDI inflows to the developing world declined from 24.4% in 1985-1990 to 8.79 per cent in 2002<sup>72</sup>.

FDI inflows to ASEAN pale in comparison to China, Latin America and the Caribbean. In 1985-1990, FDI inflows to China amounted to US\$2.6 billion, and averaged US\$38.5 billion in 1993-1998 while Latin America-Caribbean averaged US\$47.9 billion. By 2004, FDI flows to China rose from US\$45 billion to US\$60.6 billion, making it the third largest investment destination in the world after the United States (US\$95.9 billion) and the United Kingdom (US\$78 billion).<sup>73</sup>

Among ASEAN members, Singapore, Malaysia and Thailand received the bulk of FDI inflows. The Philippines continued to trail behind most of its Southeast Asian counterparts. It was only able to generate US\$469 million compared to US\$16,059 million for Singapore and US\$4,624 million for Malaysia in 2004. Top investors in ASEAN are the European Union, the United States, Japan and Singapore. The Philippines fared a little bit better than Indonesia. Since the Asian financial crisis, Indonesia generally had negative FDI inflows from 1998 to 2003 (except 2002).<sup>74</sup> Both countries are losing their appeal as investment sites. Top investment weaknesses include bureaucratic red tape, economic instability, poor transport infrastructure, currency volatility and political instability. Malaysia and

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71 UNCTAD, World Investment Report 2005: Transnational Corporations and the Internalization of R&D, p.2

72 Chia, 2004

73 Ibid. "FDI in Asia rises to \$148bn," *Financial Times*, September 30, 2005, p.1

74 ASEAN FDI Database

Vietnam are the preferred investment destination for multinational corporations in Southeast Asia.<sup>75</sup>

The growth of intra-ASEAN investments in Thailand was amazing. FDI inflows from ASEAN grew from only eight per cent in 1995 to 42.5 per cent in 2001 while in Malaysia, it increased from 30 per cent to 41 per cent over the same period. For the other countries, they still rely heavily on FDI inflows from the rest of the world.

The bulk of FDIs into ASEAN went into manufacturing, mining and quarrying, trade/commerce and services. FDIs in agriculture, fishery and forestry remain very small.

**Loss in tariff revenues:** Tariff revenues (import taxes) remain an important source of government incomes. Tariff reductions due to AFTA-CEPT commitments resulted in lower tariff collections. In 1996, import tariffs accounted for 23 per cent of Lao government's revenues, 25 per cent for Vietnam and 46 per cent in Cambodia.<sup>76</sup> The Philippine AFTA Report estimated that revenue losses from 1994-2001 amounted to US\$27,274 million because of tariff reductions.

## **The development gap in ASEAN and capacity to maximize market openings and expansion through AFTA**

There are huge development gaps between ASEAN's wealthier members and its poorer ones. There are big gaps too even among older ASEAN members. As shown in Figure 9, an average Singaporean makes more than 45 times the average Vietnamese, 122 times the average Myanmar and 71 times the average Cambodian.

Among older ASEAN members, a Singaporean earns five times the average Malaysian, 22 times the average Filipino or Indonesian.

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75 "Survey of Multinational Firms: RP losing appeal as investment site," *Philippine Daily Inquirer*, December 9, 2004

76 Fukase and Winters, 1999

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Table 29 shows the disparity in terms of total human development, with Singapore and Brunei belonging to the high human development (HD) category. The rest of ASEAN members are under the medium HD category. Poverty incidence is still high in Cambodia and Laos, with about three-fourths of their population subsisting on \$2 a day.

**Table 29. Population below income poverty line (%)**

HDI Rank	Country	\$1 a day	\$2 a day	National poverty line
		1990-2003	1990-2003	1990-2002 c
25	Singapore	-	-	-
33	Brunei	-	-	-
61	Malaysia	<2	9.3	15.5
73	Thailand	<2	32.5	13.1
84	Philippines	14.6	46.4	36.8
108	Viet Nam	-	-	50.9
110	Indonesia	7.5	52.4	27.1
129	Myanmar	-	-	-
130	Cambodia	34.1	77.7	36.1
133	Lao PDR	26.3	73.2	38.6

*Source: UN Human Development Report 2005*

- no data

It is in this context that the new and poorer ASEAN members have to face various challenges in adjusting to the requirements of AFTA. Cambodia, for instance, identified key problem areas in implementing AFTA, namely loss of tariff revenues, legal infrastructure, shortage of English speaking officials and technical experts, both of which are required for effective participation in ASEAN and AFTA and shortage of information and data about AFTA and anticipated effect on Cambodia.<sup>77</sup> Laos and Myanmar most likely face these problems as well.

Most ASEAN member countries have similarities in resource and factor

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<sup>77</sup> Sereyvath, 2005.

endowments, production structures and productivities. These similarities led to greater competition in ASEAN domestic markets and other markets (especially the United States., the European Union and Japan, the destination of most ASEAN exports). Increased imports of cheap and competitively-priced goods from fellow ASEAN members, while benefiting well-off consumers and some producers, may cut into the market share of domestic producers.

**Table 30: Rice Yield and Unit Cost of Rice Production, Selected Countries**

Country	Ecosystem	Year	Rice Yield (t/ha)	Unit Cost (US\$/t)
Thailand	Irrigated	2000	4.20	70
	Rainfed	2000	2.24	103
India	Irrigated	1995-96	5.16	88
	Rainfed	1995-97	2.26	115
Vietnam	Irrigated	2000	4.18	79
Burkina Faso	Rainfed	1980-90	2.50	288
Guyana	Irrigated	1998-2000	4.00	405
USA	Irrigated	2001	7.04	331
Japan	Irrigated	1999	6.41	2,290
Bangladesh	All Ecosystems	2000	3.64	133
Philippines	All Ecosystems	1999-2000	3.08	170
South Korea	Irrigated	1999	6.60	868

*Source: IRRI, World Rice Statistics database and farm household survey. For USA, USDA on line. For South Korea, Burkina Faso, Guyana and Japan, by country statistics online. As cited in Long-term Prospects for the Global Rice Economy by Hossain and Narciso (2004)*

Although rice is still highly protected in ASEAN, competitively-priced rice can compete with locally-produced rice. Among Southeast Asian countries (Table 30), the Philippines posted the highest expenses at \$170/ton compared



to Thailand (\$70-103) and Vietnam (\$79). Japan and South Korea had the highest production costs at \$2,290 and \$868 respectively on a per ton basis.

In the case of sugar, Thailand has a comparative advantage in producing sugar vis-à-vis the Philippines (Figure 11) and Indonesia. With the lowering of tariffs under the AFTA-CEPT, Thai sugar has cut into the domestic market share of Philippine and Indonesian sugar producers. In Indonesia, thousands of Javanese sugarcane farmers have demonstrated to demand protection from the glut of cheap imported sugar that has threatened their very existence. The country is a net importer of sugar since the 1960s and one of the world's biggest sugar importers. Indonesia's annual consumption of sugar is about 3.3 million tons and produces about 1.7 million tons annually. Thailand is the main supplier of sugar imports, followed by Brazil and Pakistan. Farmers with small-to-medium-sized holdings cultivate about 70 per cent of the sugarcane areas. The remainder is grown on the sugar-factory plantations, where the dominant form of sugarcane cultivation is plantation-style. Cheap sugar imports definitely affected small Indonesian sugar farmers.<sup>78</sup>

## **Small producers are uncompetitive in a liberalized ASEAN market**

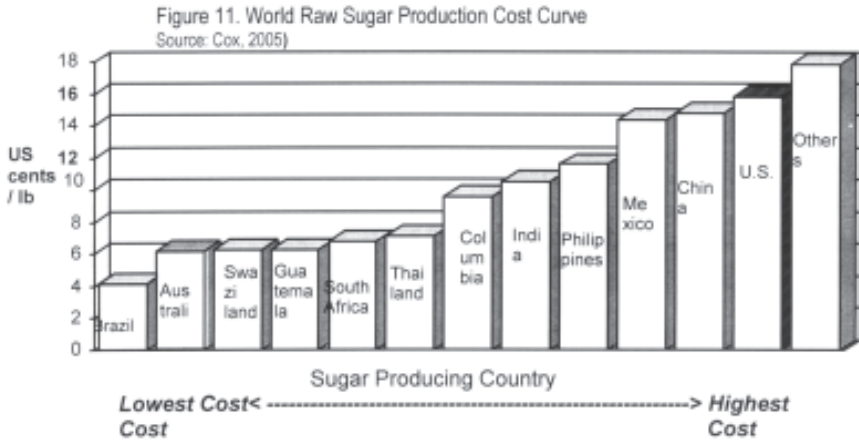
While AFTA may have brought benefits at the macro level, some sectors of the economy are losing out in the trade liberalization process.

The small farmers and fisher folk were largely unprepared for the further opening up of markets brought about by AFTA and other trade liberalization initiatives (e.g. WTO).

Southeast Asian agriculture is characterized by the co-existence of small-scale production and big agribusinesses. Small producers cultivate traditional crops such as rice, maize (corn), and coconuts. Plantation crops include oil

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78 Bill Guerin, "How the mighty Indonesian sugar industry fell, Asia Times Online, September 26,2002. <http://www.atimes.com> ; Also see USDA, Indonesia Sugar Annual 2000 (GAIN Report, ID#0021, April 18,2000)



palm, banana, sugarcane, and pineapple.

The local elite, sometimes in joint ventures with multinational corporations, own large-scale plantations/agribusinesses. On the other hand, the majority of agricultural and fishery producers are small-scale (farmers tilling less than three hectares and below and fisher folk with boats of three gross tons and below in the Philippines and ten gross tons in Malaysia). They are an ageing group, have low educational attainment, have few other skills, are indebted and largely unorganized, and politically and economically un-influential. They receive minimal state support for their farming and fishing operations. Under such a scenario, they have a hard time improving their productivity and income positions.

With the opening of domestic markets, local producers contend with competition posed by imports of the same agricultural products or their substitutes. For example, fertilizers and chemicals were included under the fast tract program of the CEPT. Fertilizers and chemicals are key inputs in farming. Farmers in the region use and spend a lot for inputs (Table 30). There is a wide disparity in terms of the retail prices of fertilizers (Table 31). In terms of prices of urea, the cheapest price was in Indonesia (\$327.74/mt) while the highest price was registered in Malaysia (\$580.94/mt) in 1997. Over the years, the prices (in dollar terms) of urea have gone down in the Philippines and Thailand because of currency devaluation.

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In most high-performing Asian economies, governments had supported their export sectors by providing a policy environment conducive to growth and development of the export sectors, providing physical and social infrastructure through government investments in roads, port facilities, post harvest facilities, training, and R&D as well as export market assistance and financial assistance.

**Table 31: Fertilizer NPK use by rice in major agro-economics of SE Asia 2001 (PPI-PPIC ESEAP estimates, 2002)**

Country	N		P <sub>2</sub> O <sub>5</sub>		K <sub>2</sub> O		Consumption			Ratio		
	Area Fertilized	Rate	Fertilized	Rate	Fertilized	Rate	N	P <sub>2</sub> O <sub>5</sub>	K <sub>2</sub> O			
	'000 ha	%	kg/ha	%	kg/ha	%	kg/ha	000 t	-----	Total	Ratio	
Cambodia	1,873	30	15	20	14	5	3	8.4	5.2	0.3	13.9	28.6:17.3:1
Indonesia	11,523	90	105	70	22	40	14	1,192.60	177.5	64.5	1434.6	18.4:2.8:1
Laos	690	30	55	20	15	2	5	11.4	3.1	0.2	14.7	15:05:5
Malaysia	692	90	95	90	40	70	35	59.2	24.9	17	101.1	3.5:1.5:1
Myanmar	6,000	60	35	50	12	10	4	126	36	2.4	164.4	52.5:15:1
Philippines	4,037	85	51	85	15	75	11	175	51.5	33.3	259.8	5.3:1.5:1
Thailand	10,048	90	63	90	33	60	17	560.7	298.4	102.5	961.6	5.5:2.9:1
Vietnam	7,655	90	108	80	45	50	40	744.1	275.6	153.1	1172.8	4.9:1.8:1
Total	42,518							2877.4	872.2	373.3	4122.9	
								Ratio	8:	2:	1	

**Table 32: Urea**

Prices Paid (U.S\$/Mt)	1997	1998	1999	2000	2001	2002
Cambodia	533.53	398.44	406.05	353.97	0	383.21
Indonesia	327.74	100.11	310.32	310.52	213.00	0
Malaysia	580.94	0	407.37	450.79	434.74	0
Myanmar	362.32	374.81	366.91	333.17	189.45	404.45
Philippines	512.41	389.08	348.50	359.40	374.88	356.24
Thailand	538.16	412.84	335.49	345.80	284.91	281.98
Vietnam	364.99	289.12	257.20	359.86	338.75	0

Source of data: FAO Database, 2004: Exchange rates used if from ASEAN Statistical Yearbook

## 6. Concluding Remarks and Recommendations

ASEAN has been in existence since 1967. However, it was only over the last 12 years that Southeast Asian (SEA) markets have been increasingly integrated with the dismantling of trade barriers through regional (e.g. ASEAN Free Trade Area), multilateral (General Agreement on Trade and Tariffs –World Trade Organization) and bilateral trade agreements.

The process of economic integration and globalization started much earlier for countries in Southeast Asia. In the 1980s and early 1990s, countries such as Indonesia and the Philippines were pressured to adopt market-led economic policies (or neo-liberal policies) by the International Monetary Fund-World Bank (IMF-WB). As a pre-condition for new loans, governments had to undertake structural adjustment programs (SAPs).

The centerpiece of ASEAN economic cooperation and integration is the ASEAN Free Trade Area (AFTA), which calls for the reduction and elimination of trade and non-trade barriers among Southeast Asian countries. To date, the ASEAN Free Trade Area is nearly achieved (in terms of tariff reduction coverage) with about 94.3 per cent of all products in the Inclusion List (IL) of ASEAN-10 whose tariffs have been removed or reduced to 0-5 per cent. About 88.84 per cent of all products have tariffs of 0-5 per cent and only about 11 per cent of these products have tariffs above 5 per cent.

In spite of these achievements, however, a truly unified ASEAN market has not been realized since intra-ASEAN trade accounts for 22.8 per cent in 2003 and most FDIs are sourced from outside Southeast Asia. With less than 5 per cent of intra-ASEAN trade entered under CEPT preferential rates, the achievements become less significant.

The amount of investments generated pales in comparison to those being invested in China, Latin America and the Caribbean. Several factors detracted FDI inflows. These include poor governance, political and

## SEACON

economic instabilities, and poor infrastructure.

The various country experiences on regional integration under AFTA show that regional integration has both positive and negative impacts, winners and losers. Trade liberalization through AFTA and other trade agreements has created trade openings and expanded the market of goods and services. However, economic globalization did not automatically result in benefits as promised by the advocates of free trade. In many cases, positive developments in macro-economic indicators (e.g. higher foreign exchange earnings, expanded markets, more product choices) hide a parallel trend towards the social and economic dislocation and exclusion of millions of small farmers and rural workers and their families.

The capacity to maximize the opportunities of expanded trade and investments brought about by AFTA and other trade liberalization measures depends on the level of development of ASEAN member countries. The reality is, among ASEAN, there is a huge development gap. Benefits of trade will accrue more to economies in the region (Singapore, Malaysia and Thailand) with higher levels of industrialization and technological development. They already have widespread production and export linkages. For the poorer members (Laos, Cambodia and Myanmar), they have to undergo a process of adjustments that could be painful and long drawn out.

The results of the survey of small producers in Southeast Asia show how vulnerable they are with stiffer competition with bigger sized farmers or agribusinesses located in or outside their countries. They are an ageing group, have low educational attainment, have few other skills, they have meager assets (small lands, few savings), are indebted and largely unorganized, and politically and economically un-influential.

The liberalization process in Southeast Asia has worsened the situation of many. Many small producers in SEA are losing their land, jobs, and other means of production or their control over meagre resources. Many small producers become more indebted. Many workers were forced to take on jobs under inhuman conditions and iniquitous terms (contractualization).

The liberalization process is still ongoing. With the deadlock of trade negotiations under the World Trade Organization, the focus has shifted towards greater regional integration and bilateral trade agreements. ASEAN is no exception. ASEAN has Framework Agreement with China, Japan, and India. It has started talks with South Korea, Australia and New Zealand. The effects of these liberalization efforts need close monitoring and scrutiny as they may further worsen the sorry situation of small producers in the region.

## **Recommendations**

Trade can be, as Oxfam International aptly put, “a powerful motor for the reduction of poverty as well as for economic growth.”<sup>79</sup> But trade alone cannot fully address the need for sustainable development. The development of both trade and agriculture that is beneficial to all and not just a few would go a long way in creating a prosperous and most dynamic rural sector. A prosperous and more dynamic rural sector provides bigger domestic markets for industrial goods and jobs for the teeming number of unemployed in the countryside. A convergence of efforts among the private sector, civil society and government is necessary to bring about sustainable human development especially for the small producers in Southeast Asia.

Enhancing small producers’ welfare necessitates the support of governments. Governments play a vital role in ensuring a proper policy environment for development initiatives to flourish, in providing public goods (government investments in roads, bridges, port facilities, education, training, health facilities, research and development) and providing other services like market assistance and access to financial resources.

## **ASEAN GOVERNMENTS**

As such, the Southeast Asian Council and its partner-organizations strongly urge ASEAN governments to:

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79 Oxfam, *Rigged Rules and Double Standards: trade globalization and the fight against poverty* (London: Oxfam, 2002), p.3

1. Provide a more equitable access to resources and sustainable rural livelihoods

The inability of the rural people to produce sufficient quantities to meet their subsistence needs and the market is a reflection of their limited access to land, water, technology, credit and markets and the failure of agricultural research and extension to provide affordable and appropriate technology, knowledge and technical assistance. Key policies and reforms that should be undertaken immediately include the following:

- Land tenure reforms and the redistribution of other productive assets are crucial policy instruments not only in ensuring food security but more importantly, in the reduction of rural poverty and in ensuring social injustice. Equal access to land and establishing tenurial rights and security of farmers over their land was a key factor in the success of Vietnam's and China's economic success, especially in agriculture.<sup>80</sup>
- Institute measures to improve access to affordable credit and provide incentives to motivate savings mobilization. Previous literature and from the country studies show that farmers and other rural poor do not have sufficient savings to finance their production and consumption. They usually resort to borrowing from the informal sources of credit (e.g. traders, moneylenders) usually at a high cost (higher interest rates or with arrangement to sell their produce to the lender). Formal credit institutions (e.g. banks) are reluctant to lend to them because of high transaction costs to process small loans and higher risks of no-payment of loans (defaults). Innovative ways of reducing risks and cost of loan transactions (e.g. group lending, guarantee schemes) should be encouraged. Public money should be channeled via appropriately regulated and competitive intermediaries. Small farmers, fishers and other rural poor should have access to loans for the acquisition and productive management of productive assets and for

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80 Jessica Reyes-Cantos, "Public Sector Intervention in Vietnam's Rice Economy," *State Intervention in the Rice Sector in Selected Countries: Implications for the Philippines* (Quezon City, Philippines: SEARICE and Rice Watch and Action Network, 2005).

production purposes.

- The government (including its agencies) has the vital role to play in upgrading rural infrastructure to facilitate access to markets (especially in far-flung areas). The government should monitor and publish market information and statistics, establish and enforce laws to regulate trade, take strong actions (sanctions) against monopolistic or discriminatory practices, intervene where private sector fails to achieve certain public objectives such as maintaining buffer stocks and stabilizing prices.
  - Extension services should not only provide farmers with the technical advice and knowledge (e.g. improving crop productivity, better agricultural practices) but also other services such as project planning and development, information management, monitoring and evaluating programs or projects.
  - Agricultural research should be focused on areas that are relevant to farmers and local needs.
2. Ensure that small producers (farmers and fisher folk) get fair and adequate incomes from farming.
  3. Effectively regulate both the input and output/product markets.
  4. Put in place a system of social protection for small producers.
  5. Must adopt and implement a sustainable food and agriculture system at the local and national levels. This system must be able to:
    - i. provide sufficient, safe and nutritious food at a reasonable cost to the whole population while respectful of cultural preferences; provide sufficient income to small producers and their families so that they could have decent and healthy lives;
    - ii. provide sufficient quantities to ensure national self-sufficiency as a guarantee against outside pressures or manipulation, and
    - iii. put in place a system which is ecologically sustainable and



environment-enhancing.

6. Regulate effectively the market (and not the protector of the market) to ensure that ownership and access to resources are not concentrated in a few.
7. Institutionalize democratic participation of both men and women small producers and consumers in policy and decision-making processes. ASEAN governments ensure that there is ample representation of small producers in government bodies that tackle/oversee AFTA commitments and implementation.
8. ASEAN governments must be more transparent and accountable to its citizens. Put in place procedures and mechanisms for maximum participation of affected people before, during and after negotiations and implementation of policies (e.g. trade policies and agreements). To ensure the quality of people's participation, ASEAN governments should:
  - disclose the terms of the trade negotiations early enough for meaningful discussions;
  - hold public hearings and consultations, especially with small-scale farmers, fishers and civil society groups; and
  - translate the proposed terms of trade agreements into non-technical language and in local languages.
9. Re-think seriously their free-market oriented strategy as the engine of economic development. Economic liberalization may have brought prosperity to a few but not to the millions of small producers in the region. As an immediate step, a thorough joint government-people's organizations-civil society groups' (GO-PO-CSO) assessment on the impact (actual and potential) of AFTA and other trade liberalization efforts should be undertaken.

10. A strategic policy for agriculture that integrates trade and development must begin to focus on the linkages between the agricultural and food-processing industries. Across the region, local farmers often find themselves pitted against end-users like big hog raisers and poultry operators, who prefer cheaper imports to local products. The interests of both can converge through the use of trade and price management that ensures that the price spread between imports and local commodities is not too big. Direct R&D efforts to raise the quality of local commodities, so they can compete on quality though disadvantaged in price; massive infrastructure investments so as to reduce transportation costs for small farmers. The development of tighter domestic forward-backward linkages can lead to significant progress.
11. Promote mutually beneficial south-south trade.
12. Strengthen regional cooperation that is focused on poverty and inequality reduction.
13. Enhance capabilities and competitiveness of the farming and industrial sector. Towards this end, it is important and urgent that governments, business, farming sector, donor agencies, civil society groups to survey and assess (in a systematic and objective manner) the competitive potential and needs for capacity enhancement of enterprises and priority sectors in ASEAN.

### **CIVIL SOCIETY GROUPS (POs and NGOs)**

1. Push for a regular and joint GO-PO-NGO-Business assessment of the impact of AFTA, AFTA+ and other trade liberalization measures.
2. Undertake a united and concerted plan of action to advocate for the adoption of policy recommendations forwarded by this study.

3. Popularize the findings and recommendations to reach out more small men and women producers in Southeast Asia and beyond.
4. Push for the adoption of an ASEAN Food and Water Charter.
5. Monitor negotiations on FTAs and demand transparency in trade negotiations.
6. Encourage and facilitate sharing of information and analysis on AFTA, AFTA+ and other trade liberalization measures.
7. Study and promote alternative fair and equitable trade systems, nationally and regionally.

# Appendix 1:

## ASEAN Free Trade Agreements and Regional Trade Agreements

ASEAN Country	WTO Member	FTA/RTA Concluded	FTA/RTA Under Negotiation	Future FTA/RTA Planned
Brunei	Yes	ASEAN Free Trade Agreement (AFTA)	ASEAN-China FTA ASEAN-India FTA ASEAN-South Korea ASEAN-Australia-New Zealand	
Cambodia	Yes	ASEAN Free Trade Agreement (AFTA)	ASEAN-China FTA ASEAN-India FTA ASEAN-South Korea ASEAN-Australia-New Zealand	
Indonesia	Yes	ASEAN Free Trade Agreement (AFTA)	ASEAN-China FTA ASEAN-India FTA ASEAN-South Korea ASEAN-Australia-New Zealand Japan	
Laos	No	ASEAN Free Trade Agreement (AFTA)	ASEAN-China FTA ASEAN-India FTA ASEAN-South Korea ASEAN-Australia-New Zealand	
Malaysia	Yes	ASEAN Free Trade Agreement (AFTA)	ASEAN-China FTA ASEAN-India FTA ASEAN-South Korea ASEAN-Australia-New Zealand	Japan (Closer Economic Partnership)
Myanmar	Yes	ASEAN Free Trade Agreement (AFTA)	ASEAN-China FTA ASEAN-India FTA ASEAN-South Korea ASEAN-Australia-New Zealand	
Philippines	Yes	ASEAN Free Trade Agreement (AFTA)	ASEAN-China FTA ASEAN-India FTA Japan (Japan-Philippines Economic Partnership Agreement) USA	
Singapore	Yes	ASEAN Free Trade Agreement (AFTA) Australia Free Trade Association European Free Trade Association Japan New Zealand USA (Jan. 2004)	ASEAN-China FTA ASEAN-India FTA Pacific Three (Singapore/New Zealand/Chile – 2 rounds) India (5 rounds) Jordan (negotiations just began) South Korea (completed feasibility study) Mexico (5 rounds) Sri Lanka (1 round) ASEAN-Korea ASEAN-Australia-New Zealand	
Thailand	Yes		ASEAN-China FTA ASEAN-India FTA USA (announced in Oct. 2003; 3 rounds) Chile New Zealand Papua New Guinea Negotiations to begin in Jan. '04) ASEAN-Korea	

Sources: [www.u-asean.org/ASEAN/ASEAN\\_FTA.doc](http://www.u-asean.org/ASEAN/ASEAN_FTA.doc), various newspaper articles

## Appendix 2:

### Total Imports and Exports (imports CIF, exports FOB and balance million US\$)

or Area	Type of Data	2000	2001	2002	2003	2004
World	Imports	6,229,504	5,994,607	6,206,114	7,212,107	8,765,608
	Exports	6,056,105	5,823,930	6,089,853	7,047,979	8,492,873
	<b>Trade Balance</b>	<b>(173,399)</b>	<b>(170,677)</b>	<b>(116,261)</b>	<b>(164,128)</b>	<b>(272,735)</b>
ASEAN	Imports	377,216	343,543	358,279	395,167	492,569
	Exports	428,917	384,491	405,684	451,252	545,154
	<b>Trade Balance</b>	<b>51,701</b>	<b>40,946</b>	<b>47,405</b>	<b>56,085</b>	<b>52,585</b>
Cambodia	Imports	1,424	1,436	1,675	1,732	-
	Exports	1,123	1,296	1,489	1,771	-
	<b>Trade Balance</b>	<b>(301)</b>	<b>(160)</b>	<b>(186)</b>	<b>39</b>	<b>-</b>
Indonesia	Imports	43,595	37,534	38,310	42,243	52,076
	Exports	65,403	57,361	60,164	64,107	71,261
	<b>Trade Balance</b>	<b>21,808</b>	<b>19,827</b>	<b>21,854</b>	<b>21,864</b>	<b>19,185</b>
Laos	Imports	535	528	431	524	506
	Exports	330	331	298	378	361
	<b>Trade Balance</b>	<b>(205)</b>	<b>(197)</b>	<b>(133)</b>	<b>(146)</b>	<b>(145)</b>
Malaysia	Imports	81,963	73,867	79,868	81,949	105,299
	Exports	98,230	88,006	93,264	99,370	125,745
	<b>Trade Balance</b>	<b>16,267</b>	<b>14,139</b>	<b>13,396</b>	<b>17,421</b>	<b>20,446</b>
Myanmar	Imports	2,401	2,877	2,348	2,092	-
	Exports	1,647	2,382	3,046	2,485	-
	<b>Trade Balance</b>	<b>(754)</b>	<b>(495)</b>	<b>698</b>	<b>393</b>	<b>-</b>
Philippines	Imports	36,887	34,944	37,202	39,502	42,345
	Exports	39,794	32,664	36,510	37,028	39,689
	<b>Trade Balance</b>	<b>2,907</b>	<b>(2,280)</b>	<b>(692)</b>	<b>(2,474)</b>	<b>(2,656)</b>
Thailand	Imports	61,924	61,962	64,645	75,805	95,353
	Exports	69,057	64,968	68,108	80,333	97,413
	<b>Trade Balance</b>	<b>7,133</b>	<b>3,006</b>	<b>3,463</b>	<b>4,528</b>	<b>2,060</b>
Vietnam	Imports	15,638	15,999	19,000	24,863	31,091
	Exports	14,449	15,100	16,530	20,176	25,625
	<b>Trade Balance</b>	<b>(1,189)</b>	<b>(899)</b>	<b>(2,470)</b>	<b>(4,687)</b>	<b>(5,466)</b>

Source: UN, Monthly Bulletin of Statistics, 2005

Source: UN, Monthly Bulletin of Statistics, 2005

# Appendix 3:

## FDI flows, by region and selected countries, 1993-2004

(Billions of dollars and percent)

FDI inflows	1993-1998	1999	2000	2001	2002	2003	2004
Region/ Country	(Annual averages)						
Developed economies	250.2	849.1	1,130.3	596.3	547.8	442.2	380.0
Europe	147.3	520.4	722.8	393.9	427.6	359.4	223.4
European Union	140.3	501.5	696.3	382.6	420.4	338.7	216.4
United States	86.1	283.4	314	159.5	71.3	56.8	95.9
Japan	1.3	12.7	8.3	0.2	9.2	6.3	7.8
Other developed countries	21.5	32.5	89.2	36.7	39.6	19.6	52.9
Developing economies	138.9	232.9	253.2	217.8	155.5	166.3	233.2
Africa	7.1	11.9	9.0	20.0	13.0	18.0	18.1
Latin America and the Caribbean	47.9	108.0	97.5	89.1	50.5	46.9	67.5
Asia and Oceania	83.9	112.0	146.0	108.7	92.0	101.4	147.6
Asia	83.4	111.6	145.7	108.6	92.0	101.3	147.5
West Asia	3.5	1.9	3.8	7.1	5.7	6.5	9.8
East Asia	51.6	77.3	116.2	78.7	67.3	72.1	105
China	38.5	40.3	40.7	46.9	52.7	53.5	60.6
South Asia	2.9	3.1	3.1	4.1	4.5	5.3	7.0
South-East Asia	25.3	29.3	22.6	18.8	14.5	17.4	25.7
Oceania	0.4	0.4	0.3	0.1	0.0	0.1	0.1
South-East Europe and the CIS	6.6	10.5	9.1	11.8	12.8	24.1	34.9
South-East Europe	1.6	3.7	3.0	4.5	3.8	8.4	10.8
CIS	5.0	6.8	5.5	7.3	9	15.7	24.1
World	401.7	1,092.1	1,396.5	825.9	716.1	632.6	648.1
<i>Investment share in world FDI flows</i>							
Developed economies	63.8	77.7	81.2	72.2	76.5	69.9	58.6
Developing economies	34.6	21.3	18.1	26.4	21.7	26.3	36.0
South-East Europe and the CIS	1.6	1.0	0.6	1.4	1.8	3.8	5.4

Source: UNCTAD, *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D*, annex table B.1.

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## About SEACON

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The Southeast Asian Council for Food Security and Fair Trade (SEACON) provides a coordinated approach to food security, agriculture and trade issues. We integrate local initiatives of agrarian reform and agricultural development with trade concerns at the Southeast Asian level. In each of our member countries, we support people centred national based food security councils that enable government, private sector and civil society representatives to meet and dialogue on agriculture and trade issues.

The establishment of the national food council is to ensure that whatever analysis / positions taken on at the regional level, would have the secure backing from the grassroots and vice versa.

Our role is thus to:

- Monitor and keep in check the adverse effects of free trade on peasant farmers
- Monitor the development of relevant economic and social domestic policies in the region ecologically that promote economically and sustainable production
- Offer alternative agro-trade strategies based on the principles of fair trade and food sovereignty
- Improve and lobby for policies related to food, agriculture and trade at regional and international levels

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