Regional Trade Cooperation Among Asian Countries

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TRENDS TOWARDS REGIONAL TRADE COOPERATION

The group of Asian countries which are discussed in this paper covers a region which is generally known as South, Southeast and East Asia, and may be conveniently referred to as the ECAFE region, since it falls within the area covered by the Economic Commission for Asia and the Far East. The developments in Southeast Asian countries are discussed in more detail than those in the rest of the region.

Recent trends towards trade cooperation among the Southeast Asian group of countries are a striking contrast to the autarkic policies pursued, during the greater part of the 'fifties' by most of the newly independent countries of the region. A consequence of such policies is the fragmentation of trading areas, and this has tended to reduce the scope and volume of intra-regional trade and to restrict the size of markets for each country's exports.

The protectionist policies of most of the newly independent governments of Asia spring from their interest in the industrialization of their respective national economies.[1] The Federation of Malaya, after it became independent in 1957, embarked on a policy of protectionism to foster the development of its industries. The raising of tariff barriers against imports affected adversely the trade between Singapore and the Federation, and split up the pan-Malayan market into two fragments since Singapore was regarded as a foreign territory. Indeed, the political separation of Singa-

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1. The theoretical justification of protective measures for the promotion of economic development in underdeveloped countries is found in the writings of some contemporary economists, *e.g.*, *see*, G. Myrdal, *An International Economy*, (London: Routledge and Kegan Paul, 1956); G. Myrdal, *Economic Theory and Underdeveloped Regions*, (London: Gerald Duckworth, 1957); R. Prebisch, "Commercial Policy in Underdeveloped Countries," *American Economic Review*, May 1959. *See also*, S.J. Patel, "Export Prospects and Economic Growth: India," *Economic Journal*, September 1959 (also comments by A. Kreuger and P. T. Baur and rejoinder by S. J. Patel in June-1961 issue), for arguments for a development policy supported by import restrictions.

pore from the Federation until recently threatened to give rise to serious conflicts of policies affecting the trade and development of both territories.

Again, the substantial volume of entrepot trade which Singapore used to have with Indonesia was seriously reduced during the last few years, partly by the unsettled conditions of the Indonesian economy and partly by the Indonesian policy of eliminating the middlemen and of trading direct with buying or selling countries rather than through the entrepot port of Singapore.

Similar fragmentation of markets occurred in other parts of the region where the transfer of political power was accompanied by territorial divisions of countries into separate political and economic units.

Since 1959, however, initiative has been taken by countries in Southeast Asia to achieve consultation and cooperation in economic matters, especially in respect of the maintenance and expansion of intra-regional trade. The Federation of Malaya and Singapore, after an initial period in which there was danger of conflicting economic policies and disintegration of trade relations, are now moving towards closer economic and trade cooperation and coordination, which will be further strengthened by the restoration of the pan-Malayan common market, through the achievement of the political union of the Federation of Malaya and Singapore. At the same time, action is being taken to pave the way for the widening of the common market area by the creation of a Federation of Greater Malaysia which will include the Federation of Malaya, Singapore, Sarawak, Brunei and North Borneo.

Another significant development is the conclusion of a trade agreement in 1960 between Singapore and Indonesia for the establishing of a joint trade commission to promote and regulate trade between the two countries. This is an important step forward, because Indonesian foreign trade policy has, since independence, tended to be restrictive of intra-regional trade because of its emphasis on direct trading and the elimination of middlemen's services.

Further trade links are being forged by Malaya with other countries of South and Southeast Asia. The newly formed Association of Southeast Asia (ASA) by Malaya, Thailand and the Philippines has as its objective the promotion of economic and cultural cooperation among the member countries, and provides for the admission of other Southeast Asian countries which may wish to be a member.

There are, thus, clear indications of a trend towards the liberalization of trade and the widening of markets in Southeast Asia. In other parts of

the region also, considerable interest is being shown in the possibilities of creating common market or free-trade areas.

SCOPE OF EXPANSION OF INTRA-REGIONAL TRADE

Two questions which arise in this connection are :

a) whether there is any scope for expanding intra-regional trade ;
b) whether the expansion of intra-regional trade will have any significant impact on the rapid development of agriculture and manufacturing industries in the region.

The expansion of trade among the ECAFE countries may be examined under the following subheadings :

i) the quantitative importance and structure of intra-regional trade;
ii) the scope for expanding intra-regional trade in foodstuffs, raw materials and manufactured goods produced by countries in the region.

i) Importance and Structure of Intra-regional Trade

Intra-regional trade in South, Southeast, and East Asia has been estimated at 33.7 per cent of the region's total trade. Although this is less than that of Western Europe (53.7 per cent of Western Europe's total trade), it is very much higher than that of Latin America (8.9 per cent).[2]

The trading countries of the region may be grouped into four sub-regions.

1. *South Asia*—India, Nepal, Ceylon, Pakistan, Afghanistan and Iran.
2. *Southeast Asia*—Burma, Thailand, Cambodia, Laos, South Vietnam and the Philippines.
3. *The Federation of Malaya, Singapore, Sarawak, Brunei, North Borneo and Indonesia.*
4. *East Asia*—Japan, South Korea, Taiwan and Hong Kong.

2. The statistical data in this subsection are extracted from statistics presented in, ECAFE, "Regional Trade Cooperation: An Exploratory Study with Special Reference to Asia and the Far East," *Economic Bulletin for Asia and the Far East*, June 1961.

The four groups of countries are shown in the following diagram as four subregional blocks linked together by trade.

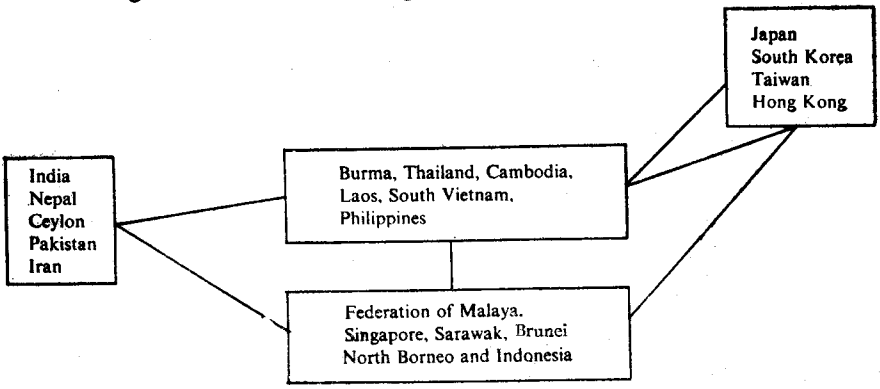

Table 1 shows the countries whose intra-regional exports and/or imports were more than 50 per cent of their respective total exports or imports during the period 1957-59. These countries have a relatively high degree of dependence on intra-regional trade in respect of their exports and/or imports.

TABLE 1

ECAFE COUNTRIES WITH A HIGHER DEGREE OF DEPENDENCE ON INTRA-REGIONAL TRADE.[a]

Average 1957-1959

Countries	Intra-regional exports as percentage of total exports of country concerned	Intra-regional imports as percentage of total exports of country concerned
Burma	*73.7*	*50.5*
China (Taiwan)	*78.0*	43.2
Korea (South)	*71.3*	13.7
Laos	*63.9*	*52.4*
North Borneo	*63.4*	*54.9*
Sarawak	*60.6*	*86.1*
Thailand	*60.7*	48.8
Singapore	40.4	*65.7*
Federation of Malaya	25.3	*49.6*
Cambodia	37.7	*52.3*
Hong Kong	48.3	*54.3*

Source: ECAFE, "Regional Trade Cooperation: An Exploratory Study with Special Reference to Asia and the Far East," *op. cit.*, Table 4, p. 22.

a. Intra-regional trade as shown by the statistics in this subsection includes trade of the countries concerned with countries in the region including Mainland China. Trade between the Federation of Malaya and Singapore is not included. Trade of Afghanistan, Brunei and Nepal is not included because of the lack of data.

Of the seven countries with high percentages of intra-regional exports, five are in Southeast Asia, while seven of the eight countries with high percentages of intra-regional imports are also in Southeast Asia. Four of the Southeast Asian countries—Burma, Laos, Sarawak and North Borneo—have high percentages of intra-regional exports and imports.

Table 2 shows the intra-regional trade of countries in the Malaysian subregion of Southeast Asia.

TABLE 2

INTRA-REGIONAL TRADE: MALAYSIAN SUBREGION

Countries	Exports as percentage of total exports of country concerned	Imports as percentage of total imports of country concerned
Federation of Malaya	25.3	*49.6*
Singapore	40.4	*65.7*
Sarawak	*60.6*	*86.1*
North Borneo	*63.4*	*54.9*
Indonesia	43.9	*ȝȣ.χ*

Source: ECAFE, "Regional Trade Cooperation : An Exploratory Study with Special Reference to Asia and the Far East," *op. cit.*, Table 4, p. 22.

The countries in this group have, on the whole, a high degree of dependence on intra-regional trade. With the exception of Singapore, they are primary-producing countries and export a substantial proportion of raw materials to markets within the region. The raw materials, which occupy an important place in intra-regional exports, are natural rubber, copra and tin. Petroleum and petroleum products, another major item of intra-regional exports, are exported from Indonesia, Sarawak and North Borneo.

A considerable proportion of the exports of these primary-producing countries of Malaysia passes through Singapore, which occupies a significant position in the intra-regional trade of Southeast Asia. As an entre-

pot port for the whole of Southeast Asia, its imports (chiefly of raw materials and foodstuffs) from neighbouring countries and its re-exports (chiefly of manufactured goods) to countries within the region account for its leading position in the intra-regional trade of Southeast Asia and, indeed, of the whole ECAFE region.

Like the other entrepot ports in the ECAFE region—Hong Kong and Penang—Singapore plays an important role in facilitating trade among countries of the region by virtue of its geographical position, its banking, financial and shipping facilities and its processing services.

Together with Japan, Indonesia and Hong Kong, it accounted for more than half of the total intra-regional trade of the ECAFE countries in 1957-59.

The degree of dependence of the other group of countries in Southeast Asia is shown in Table 4.

TABLE 3

INTRA-REGIONAL TRADE IN RELATION TO TOTAL TRADE OF OTHER COUNTRIES IN SOUTHEAST ASIA

Countries	Exports as percentage of total exports of country concerned	Imports as percentage of total imports of country concerned
Burma	73.7	50.5
Thailand	60.7	48.8
Cambodia	37.7	52.3
Laos	63.9	52.4
South Vietnam	23.3	32.7
Philippines	23.1	26.6

Source : ECAFE, "Regional Trade Cooperation : An Exploratory Study with Special Reference to Asia and the Far East," *op. cit.*, Table 4, p. 22.

Burma and Thailand are heavily dependent on intra-regional markets for their exports of food and raw materials. Rice is the most important item of exports of these countries, as well as of Laos, Cambodia and South

Vietnam. Most of the rice exported goes to the countries of the region. About three-fourths of Burma's rice export are intra-regional; the corresponding ratio for South Vietnam is two-thirds, for Thailand three-fifths and for Cambodia three-fifths. Over three-fourths of these countries' total export of rice are intra-regional.

This brief examination of the intra-regional trade of countries in Southeast Asia shows clearly that:

a) for most of the primary-producing countries, the intra-regional market absorbs a substantial proportion of their staple exports of food, raw materials, or fuel; and,

b) the intra-regional markets for raw materials are, nevertheless, much less important than those outside the region.

This latter conclusion is supported by the following statistics of the relative importance of intra- and extra-regional markets for important raw materials produced within the region.

Raw materials	*Ratio of intra-regional export of total exports*
Natural rubber	1/5
Copra	1/4
Tin concentrates	1/8
Raw cotton	1/2
Coconut oil	1/6

Source : ECAFE, "Regional Trade Cooperation: An Exploratory Study with Special Reference to Asia and the Far East," *op. cit.*, Table 5, p. 23.

Only three countries in the ECAFE region are major manufacturing countries and export manufactured goods within the region—Japan, Hong Kong and India. The most important country is Japan which exports manufactured goods and imports raw materials. India is still predominantly an agricultural country, although its manufacturing industries are sufficiently developed to enable it to export manufactured goods to countries within and outside the region.

In respect of manufactured goods produced within the region, the intra-regional market is much less important than the extra-regional mar-

kets. The two most important items of manufactures exported are ; *a*) textiles, and, *b*) machinery and transport equipment. Intra-regional markets absorb only one-third of the former, and one-fourth of the latter.

ii) **Scope for Trade Expansion**

The relatively low level of intra-regional trade in the ECAFE region, compared with that in Western Europe, shows that there are possibilities of expanding trade among the countries of the region, which has a potential market of about 900 million consumers. In assessing the potentiality for intra-trade expansion, we should bear in mind the fact that the countries of the region sell a much larger percentage of their exports (except rice) outside the region than within the region.

The market for the raw materials exported from the region is, of course, much larger in the industrial countries of Western Europe and the United States than in the predominantly agricultural countries of Asia. Within the ECAFE region, the exports of raw materials go mainly to the few countries with manufacturing industries.

Most of these raw materials are not subject to serious competition from commodities originating outside the region. There is no scope for increasing the region's consumption of raw materials originating within the region by displacing the import of raw materials from outside the region.

It is, however, true that the regional market for the exports of countries within the region could be substantially widened by the liberalization of intra-regional trade through the removal of trade restrictions and other obstacles to trade. Regional cooperation in the reciprocal expansion of each country's intra-regional exports is, therefore, an essential factor in increasing the level of trade within the region.

The expansion of the intra-regional market cannot, however, be fully achieved by the removal of trade obstacles alone. The removal of trade obstacles and the creation of a common market or free-trade area for the whole region will provide a larger market for the foodstuffs, raw materials and manufactured goods exported by the countries of the region. But regional cooperation at the liberalization of trade alone will not be sufficient to exploit the potentialities of intra-regional trade without a vigorous policy of regional cooperation in spreading industrial knowhow and promoting investment in a wide range of diversified production. For the relatively low per capita incomes of the countries of the region have been one of the main obstacles to the expansion of intra-regional trade. What is needed in the region is not only more trade but more rapid industrial growth.

With the exception of Japan, Hong Kong and India, industrialization

in other countries of the region is relatively insignificant. Given the existing structure of production in the region, concentration on the liberalization of trade alone will tend to perpetuate the specialization of the majority of the countries in the production of foodstuffs and raw materials for export. Without a vigorous policy of industrialization of the primary-producing countries, there is a danger that the demand for raw materials will be confined to only the small number of industrialized countries. The expansion of market for raw materials is not likely to be rapid and substantial in the absence of widespread industrial growth throughout the region. Nor will the gains of trade likely to be more equally distributed between the highly industrialized countries and the primary-producing countries.[3]

INTRA-REGIONAL TRADE AND INDUSTRIAL GROWTH

Indeed, it is doubtful whether intra-regional trade among the few industrial countries or countries exporting manufactured goods and the primary-producing countries will ensure that the demand for primary products will grow as rapidly as the growth of industries in the industrial countries. Nurkse has shown clearly why there is a current long-term tendency for the demand of industrial countries in Western Europe and the United States for a wide range of primary commodities to lag behind the vigorous growth of industries in these countries. Trade between the industrial countries and the primary-producing countries has not succeeded in transmitting the rapid rate of growth of the former to the latter through a proportional increase of demand for primary products.[4]

The scope for expansion of intra-regional demand for primary products is likely to be much greater if industrialization is widespread in the region rather than confined to a few countries. The more even spread of industrialization in the different countries of the region will inevitably increase the intra-regional trade in manufactured goods.

There is evidence to show that this growth will probably be very substantial. The volume of trade among the industrial countries of the world is almost five times that of trade among the primary-producing countries. This can easily be explained in terms of two effects of widely diffused industrialization:

a) the increase of productivity and purchasing power of each industrial country; and,

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[3] *See*, H. W. Singer, "The Distribution of Gains between Investing and Borrowing Countries," *American Economic Review*, May 1950 (Proceedings).

[4] *See*, R. Nurkse, *Patterns of Trade and Development*, (Stockholm: Almqvist and Wiksell, 1959), pp. 19-27.

b) the availability of a wide range of diversified products not only for the home markets but also for exchange with the products of other industrial countries.

The need for a regional industrial development policy does not, however, mean that the existing primary-producing countries of the region should not continue to produce and expand their output of staple exports or encourage investment in the improvement of productivity of their traditional export industries. Indeed, production of primary commodities for export outside or inside the region should be maintained and expanded so long as there is a demand.

It seems clear from the above discussion that regional cooperation among Asian countries must aim at not only the creation of a common market for the expansion of intra-regional trade, but also at the rapid development of industries and the diversification of production throughout the region.

An Asian Common Market As An Aid to Industrialization

A regional common market has, of course, the great advantage of providing in a much larger market than that offered by the domestic market of a single country. Economies of scale, both internal and external, become possible with the enlargement of the market. For this reason, the size of the market is a specially important factor in the industrial development of the small countries of the ECAFE region. For them, the establishment of a regional common market would substantially increase the expected level of industrial production.

A further advantage of a regional common market, as a factor in industrial development, arises from the degree of specialization which a large market permits. The possibility of specialization for regional trade encourages the flow of investment into industries which have a comparative cost advantage.

Lastly, the increased possibilities of competition in a regional common market will ensure that all benefits accruing to the producer from the existence of a large market will be passed on to the consumer.

As a factor in the development of Asian countries, a regional common market is economically far superior to the relatively small national market sheltered behind a protectionist tariff wall. The policies of many of the newly independent countries of Asia, of developing industries for their small domestic markets by imposing restrictions on imports completely

ignores the considerable advantages associated with production for export markets, *e.g.*, the benefits from trade in the form of new products, and from improved technology and technical assistance from abroad.

What is needed for the industrial development of Asian countries is the encouragement of a pattern of investment which not only ensures the sustained growth of industries producing for their domestic markets, but also takes advantage of favourable opportunities of producing for export markets.[5] The conditions favourable to such an investment pattern are more likely to be associated with mutual cooperation, on a regional basis, in promoting trade and development, than with a policy of narrow economic nationalism.

In this connection, the significant contribution which the more industrialized countries of the region can make to the increase of industrial investment in the primary-producing countries lies in the transmission of industrial experience, and improved technology as well as in the supply of investment finance and capital equipment.

One promising approach towards the increase of industrial investment is the establishment in primary-producing countries of subsidiaries or associated companies of well-established industrial enterprises in the more highly developed countries of the region. Such new industrial establishments may be jointly financed by share capital from both the parent company and local shareholders.

We may sum up the effects of regional cooperation on the member countries' trade and development as follows :

a) The effects on the primary-producing countries should be beneficial. Very few primary-producing countries in the region produce commodities which compete with one another. Those which are strongly competitive are more dependent on markets outside the region. On the other hand, the expansionary effects of industrial development and the growth of population should increase the demand for foodstuffs and raw materials.

b) The rapid expansion of demand for primary commodities to a large extent depends on the development of manufacturing industries, which will absorb an increasing volume of industrial raw

5. For a discussion of development policy-formulation which aims at securing the development of the domestic sector of a country's economy without sacrificing the potential gains from trade, *see*, H. B. Chenery, "Comparative Advantage and Development Policy," *American Economic Review*, March 1961.

materials. On the other hand, the success of industrialization throughout the region depends in turn on the increase of productivity in the primary-producing industries, to meet the demand of the rapidly developing manufacturing industries for increased supply of raw materials.

c) For the industrial countries of the region, the benefits lie in the availability of a large and growing market for their manufactured products. The scope for replacing imported manufactured goods from outside the region is greater. At the same time, the increase of productivity and growth of income should increase the demand for manufactured goods.

d) The pattern of intra-regional trade will be more diversified with exchange not only for food and raw materials from the primary-producing countries against manufactured goods from the industrial countries but also of different types of domestically produced manufactured goods from a larger number of countries of the region.

TRADE LIBERALIZATION AND THE COMMON MARKET

In the conditions of South, Southeast and East Asia, a regional common market may be achieved in two ways :

a) by the liberalization of trade among the countries of the region, through reciprocal and preferential trade agreements; and,

b) by the establishment of a customs union accompanied by integration of the economies of member countries.

i) Trade Liberalization

The first method is more practicable in the near future.

The progressive removal of tariffs and quotas through the conclusion of trade agreements would serve to widen the scope for intra-regional trade and strengthen the existing regional trade links.

The categories of preferential arrangements which are applied by countries in the region include tariffs, quantitative restrictions and bilateral agreements.

The largest bloc of countries with preferential tariff arrangements are countries which are members of the British Commonwealth. These are Brunei, Ceylon, Federation of Malaya, Hong Kong, India, Pakistan, North Borneo, Sarawak and Singapore.

The countries outside this bloc have their respective tariffs and quota arrangements and include Burma, which abolished Commonwealth preference in 1954, Indonesia, Japan, the Philippines and South Vietnam.

Burma has entered into bilateral contracts in respect of export of rice to rice-importing countries, which agree to make preferential purchase of rice from her. Thailand's rice contracts with other countries give special price concessions to purchasers through the reduction in the rates of export tax.

Cambodia and South Vietnam apply a lower tariff to countries which have trade agreements with them.

Japan also accords special preferential rates to imports from countries having GATT relations or agreements with the most-favoured-nation clause in respect of customs duty. Quantitative preferential agreements are applied by both Japan and the Philippines in their relations to the United States and by sterling-area countries in their trade with hard-currency areas.

These preferential trade arrangements have been made by the Asian countries in relation to trade outside the region. There is a case for strengthening the association of countries within the region by increasing the scope of their intra-regional trade through the extension of mutual preferential agreements between themselves.

One possibility is for Commonwealth countries in the region to extend preference to the countries outside the arrangement in return for reciprocal preference on an agreed range of commodities. This could be effected between individual countries or between groups of countries.

ii) Common Market with Customs Union and Economic Integration

Such a method of promoting intra-regional trade is more realistic than that of the immediate creation of customs union accompanied by economic integration. That the formation of such a union on a widescale among Asian countries should be the ultimate objective is not disputed, since it will serve as an effective mechanism for promoting Asian regional trade and development. The achievement of the European Common Market and the realization of its potentiality for the less developed countries of the world have led to positive measures being taken for the formation of the Latin American common market.

It must, however, be emphasized that for the countries of South, Southeast, and East Asia, the immediate achievement of a common market on the European model is impracticable. The countries of the region stretch over

an extensive area, and this together with their numerous political divisions, their different political and cultural history and varying stages of economic development, renders the achievement of a customs union accompanied by the adoption of common or coordinated economic and social policies an impractical task for the near future.

Some degree of economic integration is more immediately practical between smaller groups of countries located close to one another. We have already noted the geographical proximity of countries in four subregions of the ECAFE area. The exploration of possibilities of common-market arrangements among the countries of each subregion, with a view to gradually linking them together in a customs union for the whole region is a more realistic approach to the problem of achieving a wider regional common market in Southeast Asia.

PROSPECTS OF A COMMON MARKET IN MALAYSIA AND OTHER COUNTRIES OF SOUTHEAST ASIA

In the two subregions of Southeast Asia, the first steps have been taken towards the promotion of closer regional trade cooperation and towards the establishment of free-trade areas. In the Malaysian subregion, events are moving rapidly and are likely to lead to a Federation of Greater Malaysia embracing the Federation of Malaya, Singapore, Sarawak, Brunei and North Borneo. The political union of these territories is now the subject of discussions at the highest governmental level and, in spite of opposition, is likely to be achieved in some form or other by 1963. There is no doubt that if political union through a Malaysian federation is achieved, the task of setting up a Malaysian common market with or without a customs union will be much easier.

Sarawak and North Borneo have already published a white paper on the establishment of a free-trade area to allow for free movements of goods within the two territories. With the exception of a few items, all goods entering into the interterritorial trade of the two countries are exempted from import duties. The "Borneo Free Trade Area Agreement" also provides for exemption from export duties of all goods transferred from one territory to another. Dutiable goods, which are transferred to another territory and then re-exported outside the area, will be taxed by the original territory. No export duty, however, will be levied when a commodity like rubber or timber is moved to the second territory for processing or use in manufactures consumed in the area.

The immediate effect of "The Borneo Free Trade Area Agreement" is the opening of a wider market through the removal of tariff obstacles, but the favourable effects on the development of both territories are likely to be long-term.

Its implementation will foster habits of cooperation and consultation in matters affecting the trade of the two territories.

Common Market Negotiations of the Federation of Malaya and Singapore

Negotiations for the establishment of a common market between the Federation and Singapore governments have been going on since 1960 and the problems which have yet to be solved have been narrowed down to the technical aspects of reconciling the policy of the Federation to promote its industries through its protective tariff with Singapore's interest in preserving its entrepot trade. The proposal of selective commodity protection appears to point the way to a solution. But the practical problems of selection of commodities to be protected under a common tariff, together with the administrative problems involved, require careful study. The two governments have requested the services of a United Nations expert to study these and related problems.

In the meantime, the principle of a political merger between the Federation of Malaya and Singapore has been approved by the Legislative Assemblies of both territories. Disagreement between the representatives of the various political parties in the Singapore Legislative Assembly arises in respect of the form in which the merger should take, although there is, on the whole, agreement in principle. Whatever the form of political union which is ultimately accepted in 1963, there is no doubt that it will facilitate considerably the detailed arrangements for a pan-Malayan common market.

The political union of the Federation of Malaya and Singapore is linked with consultations and discussions with the governments and political leaders of Sarawak, Brunei and North Borneo for the creation of a Federation of Greater Malaysia. The achievement of such a Federation will pave the way to the creation of a wider common market or free-trading area. It will embrace a group of territories which have a substantial volume of intra-regional trade and which are not only situated in close proximity to one another, but also have a tradition of close political, social and economic association. They form an area of active intra-regional trade, which extends to the Indonesian territories to the South, but also to the other countries of Southeast Asia in the North, *i.e.*, Burma, Thailand, Cambodia, Laos, Vietnam and the Philippines. The trade links with Indonesia have been recently strengthened by the conclusion of a trade agreement between Singapore and Indonesia. At the same time, the Federation has already forged a further link of regional trade cooperation with Thailand and the Philippines through the formation of the Association of Southeast Asia.

These, however, must be regarded only as the beginnings of regional trade cooperation. They are valuable in promoting the practice of frequent

consultation for the coordination of trade and development policies and for the expansion of intra-regional trade.

Thus, there appears, in practice, to be two directions in which the countries of the region could proceed in their attempt to create a common market or free-trade area:

a) The countries of the region could extend the system of mutual preferences in trade. The conclusion of mutual preferential trade agreements between two or more countries will have the effect of liberalizing trade and enlarging the free-trade area.

b) Groups of countries, which by reason of their geographical position, commercial and political links form a subregion, could seek closer trading association by the formation of a common market with or without a common uniform tariff. These subregional common markets could be linked to other groups in the wider region with a view to ultimately bringing all the countries in the region into a fully regional common market.

There is no reason why both possibilities should not be explored at the same time.