

## World Agriculture & Trade

# Ag Trade Opportunities in Southeast Asia

The economies of Southeast Asia are among the fastest growing in the world in the 1990's, emerging as key markets for a wide range of U.S. agricultural commodities. Imports from the U.S. totaled a record of almost \$3.3 billion in 1996.

Together the Philippines, Indonesia, Thailand, and Malaysia—the largest markets in the region—increased imports of U.S. agricultural products at an annual rate of 17 percent from 1990 to 1996, and this growth accounted for 10 percent of the expansion of U.S. agricultural exports over this period. The Philippines and Indonesia are the largest U.S. markets among the four countries, but Malaysia has been growing the fastest.

Southeast Asia emerged in the 1990's as a market for U.S. agricultural exports, despite its substantial agricultural sector. The region remains a strong producer and exporter of tropical products, but has become an importer of commodities grown in temperate climates, such as wheat, corn, soybeans, and apples. A variety of factors—principally rapid economic growth—have driven the demand for U.S. agricultural products. However, the recent currency devaluations in the region, which sharply boost import prices, are likely to curtail import growth in the short run.

### **Export Markets Expand With Rising Incomes**

Long-term economic forces have led to a sharp increase in U.S. agricultural exports to Southeast Asia. Underlying the increase are the effects of economic growth and urbanization on consumption patterns; climatic and land resource constraints on the region's agricultural sectors; expansion of textile and leather product manufacturing drawing on the region's low-cost labor; and import policy changes.

Since 1990, income growth as measured by gross domestic product rose 6.8 percent annually in Southeast Asia, and most of this growth was concentrated in urban centers. Rising incomes and urbanization explain much of the import consumption increases occurring in Southeast Asia. Higher incomes allow for consumption of more expensive foods such as meat and fruit products.

From 1984 to 1994, meat consumption increased more than 4 percent annually, compared with an annual increase of less than 1 percent in cereal consumption. Also, wealthier households purchase more processed foods, such as instant noodles and bread made from wheat, to save time spent in food preparation. Finally, urban residents have easier access than rural residents to a wider variety of food choices, including imported items.

Changes in the population's consumption patterns are outpacing the capacity of

domestic agricultural producers. Land resources of the region are best suited for tropical crops. Thailand is a significant producer and exporter of rice, cassava, sugar, poultry meat, and rubber. Malaysia and Indonesia are large producers and exporters of palm oil. The Philippines produces and exports coconut oil and sugar.

To meet the demands of rising meat consumption, more corn and soybean imports are needed to supply the feed requirements for expanding livestock sectors. Although corn and soybeans are grown in Southeast Asia, yields are low compared with temperate climate standards because suitable varieties have not been developed for tropical environments. Consequently, output expansion tied to rising yields will be limited.

Converting forest land to agricultural use is one possibility for output expansion. Land conversion in the 1980's was an

## Regional Agricultural Profile

Agriculture is still a key sector in the economies of Southeast Asia. In Indonesia, the Philippines, and Thailand, rice and corn account for 50-60 percent of the area harvested. Malaysia's crop production is dominated by two tropical tree crops—oil palm and rubber. Tropical tree crops are also important in Indonesia (coconut, rubber, oil palm), Thailand (rubber), and the Philippines (coconut). Rice is the principal staple food in all the countries, with corn, cassava, and soybeans having minor roles, except in the Philippines and Indonesia where these three crops have been important foodstuffs since colonial times.

Corn has been grown primarily as livestock feed in Thailand, and now increasingly for feed in the Philippines and Indonesia. Corn supplies livestock sectors dominated by poultry and swine. Poultry is the largest livestock sector everywhere, except for the Philippines where swine are dominant. Livestock in the region is produced to supply domestic demand, except in Thailand, which is a major exporter of poultry meat. For the region as a whole, the expansion of poultry and pork production occurred within a structure of large-scale commercial farms and intensive livestock operations. Pork production is limited in the predominantly Muslim countries of Indonesia and Malaysia.

Cattle feeding is limited, as the region lacks extensive grasslands for cow-calf herds. The Philippines and Indonesia import range cattle from Australia (more than 500,000 head in 1996) for short-term intensive feeding. Dairy production is also limited.

The two major feedstuffs in Southeast Asia are soybean meal and corn. Soybean meal is crucial in the region despite the production of large amounts of palm kernel meal and copra meal. Because of their high fiber and low protein content, these tree-crop meals are unsuitable for nonruminants such as poultry and swine which predominate in the region. As poultry and swine production expands, demand for imported corn and soybean meal will rise, providing increased opportunities for U.S. trade.

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important factor in the expansion of agricultural output as more than 12 million hectares (about 30 million acres) was converted to agricultural production. But environmental constraints and the rising cost of new land development have slowed expansion. In Thailand, in particular, extensive clearing of upland areas for growing corn for export has led to severe erosion and flooding problems.

The largest country in the region, Indonesia, still has extensive areas in tropical forests, and large-scale projects are planned to convert more forest land to field crop and tree crop production. One particularly large project involves converting 1 million hectares of forests to crop production on the island of Kalimantan. The peat soils of the area, however, will slow the conversion process because these soils are not very fertile, cannot hold moisture easily, and tend to subside.

Besides constraints on expanding production, domestic supplies of several key agricultural inputs for manufacturing are also limited, thereby heightening the role of imports. As high wages in East Asia reduced the competitiveness of their clothing and leather goods industries, these labor-intensive manufacturing operations shifted to lower wage Southeast Asia and China. With this shift, Southeast Asian imports of U.S. cotton and cattle hides increased sharply over the last decade, especially for Thailand and Indonesia. Cotton is not a competitive crop in tropical climates, and domestic supplies of cattle hides are generally of low quality, from old draft animals whose hides have been damaged over a long life or through inappropriate slaughtering practices.

The region's policy regimes affecting imports vary, but generalizations can be made across three broad categories of imported items; staple foods, intermediate inputs for manufacturing, and consumer products. Southeast Asian governments have typically protected their domestic producers of staple foods—particularly rice and soybeans—and have sometimes controlled the import of wheat, an increasingly important foodstuff. The import of intermediate inputs—feedstuffs, cotton, and cattle hides—is generally less regulated than staple foods. The import of

consumer products, particularly livestock products, is highly regulated and/or taxed to protect domestic production.

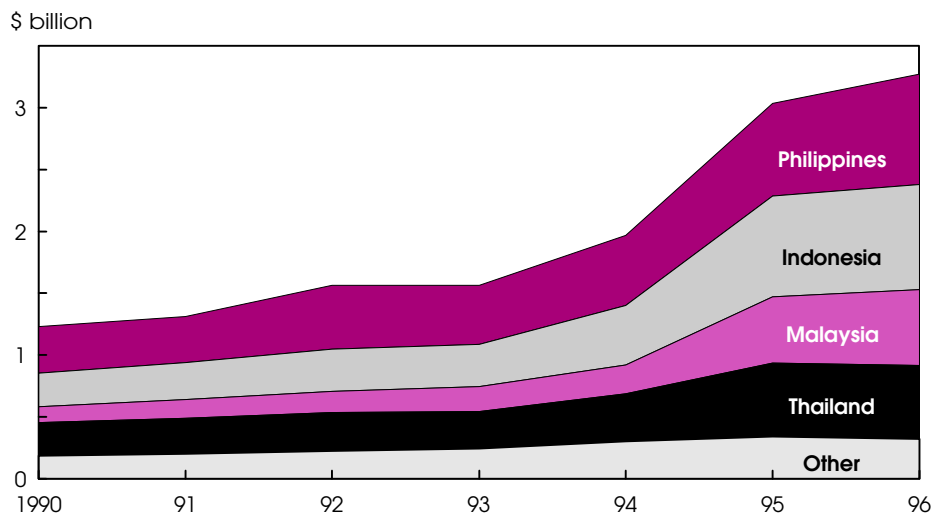
**Trade & Consumption Begin to Shift**

Rice is the region's traditional staple food. But with diet diversification, the substitution of other foodstuffs for rice is leading to changes in import patterns. Wheat imports are rising as bread and noodle consumption increases. Feedstuff imports are expanding to produce the needed live-

stock products for increased consumption of meats. Horticultural imports are up as higher incomes—and sometimes lower import tariffs—make these consumer items affordable to a wider range of the population.

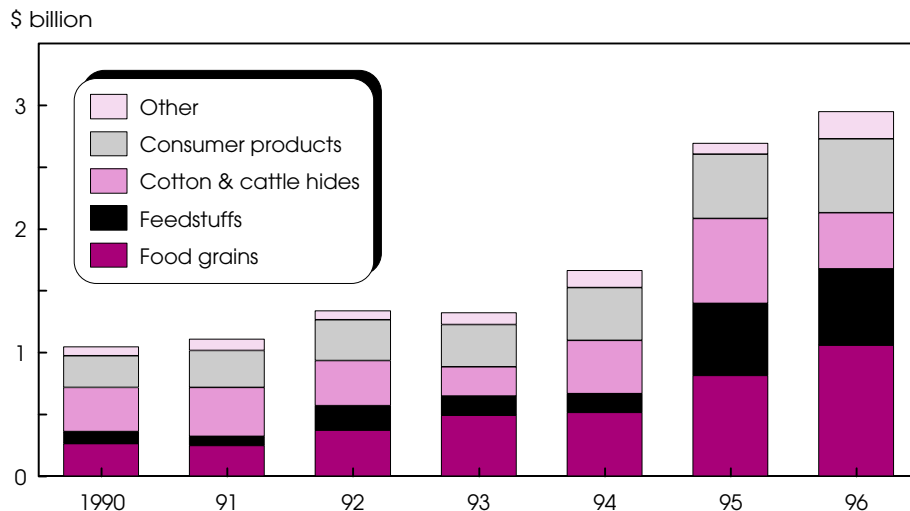
**Staple foods.** Most Southeast Asian countries have traditionally placed a high value on self-sufficiency in rice. However, these countries have been significant importers during periods of unexpected production shortfalls. For example, poor

**U.S. Exports to Southeast Asia Are Concentrated in Four Markets**



Economic Research Service, USDA

**Food Grains and Feed Are Largest U.S. Ag Exports to Southeast Asia**



Economic Research Service, USDA

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weather conditions forced Indonesia to import 3 million tons of rice in 1995, more than three times the level of imports in 1994. While these imports made the country the world's largest rice importer, they were still only 9 percent of its total rice consumption. Droughts caused by the current El Niño may result in larger-than-normal rice imports by both Indonesia and the Philippines. When rice imports are needed, these countries use their government-controlled state trading enterprises to limit imports to target levels.

Wheat-based products are an increasing part of Southeast Asian diets. In the Philippines, Indonesia, Thailand, and Malaysia, wheat's share of total wheat and rice consumption has increased from 12 to 19 percent over the past decade. The region's consumption pattern of wheat has also changed. Demand for wheat-based oriental noodles has rapidly increased. For example, in Indonesia, the largest wheat importer in Southeast Asia, consumption of noodles as a share of wheat consumption has doubled to 55 percent in the past decade.

For the region as a whole, oriental noodles now account for about 42 percent of wheat use. The increasing consumption of oriental noodles is noteworthy because Australia's white wheat is often favored over U.S. hard red wheat for certain popular types of oriental noodles—particularly in Thailand and Malaysia, where the U.S. share of the wheat market is relatively small.

Soybean products are an important source of protein for people in Southeast Asia, particularly in Indonesia. The tendency has been for governments to protect their domestic soybean producers from lower cost producers outside the region by restricting imports and assessing import duties. But as the region's livestock sector expands, these policies are coming under increasing challenges from local feed manufacturers and livestock producers looking for cheaper feedstuffs to fuel rapid development.

**Feedstuffs.** Corn is important as both foodstuff and feedstuff in Southeast Asia. However, the region's trade in corn is related primarily to feed use. Across the region, food use is becoming a smaller

### Southeast Asia's Currency Crisis

Since July of this year, the countries of Southeast Asia have been the focus of the world's financial markets. Country after country in the region has been forced to devalue its currency, lowering estimates of economic growth in the near term. The disarray in the financial markets has also dimmed U.S. export prospects to the region for the near term.

Economic growth in Thailand, Indonesia, Malaysia, and the Philippines has been fueled by export expansion, largely of processed agricultural products and non-agricultural products. The principal markets for these exports have been the U.S., Japan, and Western Europe. Many of these export products are from facilities financed by foreign investors taking advantage of low-cost labor. Malaysia, Indonesia, and Thailand have been among the top 12 recipients of foreign direct investment among developing countries since the 1970's.

Most Southeast Asian countries had pegged their currencies to the U.S. dollar. When the dollar dropped relative to the yen in the 1980's, Japanese investments, in particular, flowed in and cheap exports flowed out. Southeast Asian countries' policies of linking their currencies to the U.S. dollar partially underlies the financial crisis that has swept through the region since July of this year. As the dollar gained in exchange value against the yen and European currencies, Southeast Asia lost export competitiveness over the past year.

The exchange rates of these countries are now floating after large devaluations against the U.S. dollar. The currencies of Thailand, Indonesia, Malaysia, and the Philippines (as of mid-October) had dropped 31, 33, 23, and 22 percent since early July. This crisis is still unfolding, and its consequences for Southeast Asian national economies are uncertain.

proportion of use as livestock industries expand rapidly.

The value of livestock amounted to only 15 percent of total agricultural output in Southeast Asia in the late 1970's and 1980's. Growth in livestock output began outpacing crops in 1990, achieving a 20-percent share by 1995. Although the region's domestic corn production will increase, it is not expected to keep pace with the rapidly expanding livestock sector, a trend sharply reinforced when Thailand—the region's only major corn exporter—recently switched from exporter to importer of corn.

To ensure adequate feedstuff supplies, these countries are expected to give their feed manufacturers easier access to low-cost imported corn and soybean meal. For example, to reduce feedstuff costs, Indonesia deregulated soybean meal imports in 1996. BULOG, the country's state trading enterprise, no longer controls the import of meal, and feed manufacturers can directly import soybean meal as

needed. Thailand replaced its system of approving corn and soybean meal imports on a case-by-case basis with a tariff-rate quota system in early 1997.

U.S. exporters are sometimes at a disadvantage in supplying feedstuffs in the region because U.S. exporters use larger ships than some of the region's ports can handle. Chinese corn exports, for example, are transported in smaller ships more suitable for such ports.

**Consumer products.** The leading horticultural exports to the region are apples, grapes, frozen potatoes (french fries), and citrus. Markets for these temperate climate products have grown rapidly as trade barriers and tariffs have been reduced. For example, fruit imports by Indonesia, with the lowest average income of the four countries, have grown rapidly since limits on fruit imports ended in 1991. Tariffs have been cut twice and U.S. fresh fruit exports to Indonesia have increased more than twenty-fold from 1990 to 1996.

Temperate-climate product imports by these tropical countries are likely to continue to expand as incomes rise. Imports of frozen french fries should continue to grow with the expansion of western-style fast-food restaurants. Although potatoes are an important crop in Southeast Asia, many Asian consumers prefer the characteristics of U.S. french fries.


U.S. meat exports to Asia have expanded rapidly, but not to Southeast Asia. Import markets for U.S. meats in Southeast Asia are limited mostly to hotel and restaurant sectors, partly because of government policies that restrict meat imports for other domestic uses. Indonesia, the

Philippines, and Thailand regulate meat imports through trade restrictions and licensing, and Malaysia licenses importers.

In addition to these policy barriers to trade, the lack of refrigeration infrastructure often limits the import of perishable products, such as fresh fruit and meats. Without refrigeration, it is difficult to transport perishable products inland from ports without excessive spoilage.

Long-term agricultural import patterns in Southeast Asia have provided a wide range of opportunities for U.S. exporters of products made from temperate-climate

crops. The currency crisis in Southeast Asia will slow import growth in these countries for the near term, particularly for consumer products. But the devalued currencies could boost the competitiveness of Southeast Asian textile and leather exports, resulting in increased demand for cotton and cattle hides. Once the region's economies stabilize, more trade opportunities will develop as consumption patterns continue to evolve with rising incomes, increasing urbanization, and changing trade policies.

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