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ASEAN-EEC Economic Relations

Proceedings of a Conference on

ASEAN-EEC Economic Relations

organized by the
Institute of Southeast Asian Studies
ASEAN Economic Research Unit
6-8 August 1981
Singapore

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ASEAN ECONOMIC RESEARCH UNIT
INSTITUTE OF SOUTHEAST ASIAN STUDIES

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Published in 1982 by
Institute of Southeast Asian Studies
Heng Mui Keng Terrace, Pasir Panjang
Singapore 0511
©Institute of Southeast Asian Studies

ISBN 9971-902-47-8

Printed by Kim Hup Lee Printing Co. Pte. Ltd. — Singapore

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Foreword

Economic relations between the countries of the Association of Southeast Asian Nations (ASEAN) and the countries of the European Community (EC) have a long history as well as great future potential. Merchant adventurers, colonialists, traders, and foreign investors from Europe have in the last two centuries brought about a continuous exchange of goods, interests and ideas with Southeast Asia. In more recent times, mutual co-operation among the Southeast Asian countries of Indonesia, Malaysia, Philippines, Singapore and Thailand on the one hand and the European countries of Belgium, Denmark, France, Federal Republic of Germany, Ireland, Italy, Luxembourg, Netherlands, and the U.K. on the other have led to the creation of two economic groupings, ASEAN and the EC, dedicated to the idea of mutual benefits through trade. The EC is ASEAN's third most important trading partner, and, although the proportion of ASEAN's trade with the EC is declining slightly, the exchange of goods and services between the two groupings is still increasing rapidly both in terms of volume and value. ASEAN is important for EC investors as the fastest growing area of the Pacific rim. The political stability that has emerged in ASEAN is an important factor contributing to this attraction as well as an important reason why ASEAN as a grouping can expect to achieve more at the economic bargaining table than may be commensurate with the relatively low importance of ASEAN trade for the EC.

Although trade is likely to be beneficial for both sides it does not always develop automatically according to comparative advantage or investment potential. Lack of knowledge about available opportunities, methods of operation and styles of negotiation are frequent causes of missed chances. Dissemination of information, exchange of views and ideas and the analysis of potential opportunities are therefore important factors

for trade expansion and consequent welfare increases. It is for this reason that research and academic exchange and co-operation have an important role to play.

Recognizing this fact, the ASEAN Economic Research Unit of the Institute of Southeast Asian Studies in Singapore is undertaking a research project on ASEAN-EEC Economic Relations. In each phase of this three-year project a number of scholars from the ASEAN region as well as from Europe are asked to prepare studies on specific aspects of these relations and to submit them for discussion at a conference involving academics, businessmen and diplomats from a large number of countries from the two groupings. The first of the three conferences planned was held in Singapore from 6 to 8 August 1981, and the present book is the outcome of the research presented there.

By way of introduction we reproduce the address by the Secretary-General of ASEAN, H.E. Narciso G. Reyes. We would like to express our gratitude for the encouragement provided by his presence at the conference.

The conference papers themselves are arranged in two groups. The first deals with trade and the second with investment. In an overview of ASEAN-EC trade relations, Narongchai Akrasanee presents an ASEAN point of view. His counterpart from the EC, Jean Waelbroeck then takes a closer look at the trends of protection in the EC and the prospects for ASEAN trade in the light of these trends. Hugh Corbet and Rolf Langhammer then deal with the potential for ASEAN's exports of primary products and manufactured goods respectively. Pitou van Dijk and Harmen Verbruggen in their constant market shares analysis of ASEAN manufactured exports to the EC come to the tentative conclusion that the competitiveness of ASEAN manufactured products is gaining ground in the markets of the EC.

In the section on investment, Chia Siow Yue places EC investments in ASEAN in a historical and global perspective. Despite difficulties of quantification, a picture of growing investments of the EC in ASEAN emerges, although Japanese and U.S. investors appear to be increasing their respective shares. While the ASEAN countries follow industrialization policies that are more or less open to foreign direct investment, this

does not necessarily mean that all the potential benefits from such investment are being reaped. Chee Peng Lim analyses this in the case of EC investments in Malaysia while John Tang and Wilson Ho provide an analysis of Thai-European joint-venture undertakings in Thailand. There can, of course, be no question of covering these very complicated matters exhaustively within the covers of a single book. But the contributions on the technology transfer effects of EC investments in Malaysia and Thailand may serve as indications of further research that needs to be done in this field as well as in the other ASEAN countries.

This applies to the book as a whole. We are presenting here interim results of an ongoing research endeavour and anticipate a further publication from each of the two phases of the project that are yet to follow.

A rather surprising result of the 1981 ASEAN-EEC Economic Relations Conference was the fact that the expected dividing line between economists from ASEAN and from the EC did not become manifest in the course of the deliberations. Another dividing line appears to be far more important: that between the economists on the one hand and the political decision-makers on the other. While economists expect the reduction of trade barriers and the opening of economies to investments from abroad to lead to increases of welfare both for the ASEAN countries and the countries of the EC, the pressures on political decision-making of those who are already in positions of power appear to be strengthening protectionist tendencies. While the power of business and trade unions is highly organized, the power of the consumer is highly dispersed and cannot be brought to bear with the same force on those who decide on economic policies. This fact seems to point to a need for more political science research on the factors of economic co-operation and for more public relations efforts on the part of the economists.

The editors would like to thank all those who participated in making this publication possible, in particular the participants and contributors at the August 1981 conference. We would like to extend our

gratitude to the staff of the Institute of Southeast Asian Studies who have assisted in one way or another to bring out this publication.

Bangkok, 12 June 1982

Narongchai Akrasanee

Singapore, 12 June 1982

Hans Christoph Rieger

Building Bridges and Opening Doors

Narcisco G. Reyes

ASEAN (the Association of Southeast Asian Nations) and the EC (the European Community) are two groups of nations, one in Asia, the other halfway across the world in Europe, with a combined population of more than 500 million people;

- both committed to full, voluntary co-operation;
- constituting areas of relative stability at a deeply troubled time in history;
- together representing a tremendous potential for good in the world.

In this context, the convening of this Conference is timely and most welcome.

I feel greatly honoured to have been invited to participate in this important Conference, together with such a distinguished group of scholars and experts from Europe and Asia. Various aspects of ASEAN-EC economic relations will be discussed in depth during the next three days. It may be useful at this opening session, as part of the context of the ensuing exchanges of views, to recall the brief history of what is commonly described as the ASEAN-EC Dialogue in the light of the distinctive concerns and characteristics of the two co-operating communities.

Structurally, ASEAN and the EC present a study in contrast. The European Economic Community was formally established by the Treaty of Rome in 1957 with centralized community institutions and well defined supra-national objectives. It has since become a model for structuring, as well as a reference point for evaluating the performance of other regional organizations. ASEAN, on the other hand, began life as a loose inter-governmental association under the Bangkok Declaration of 1967, and while its institutions have evolved in response to the needs of its expanding activities they have remained highly decentralized, geographically and sectorally.

With its basic aims expressed in general terms in the Bangkok Declaration, ASEAN co-operation in its initial stages was largely

exploratory. Strong centralized institutions were felt to be unnecessary, perhaps even inimical, to the fostering of the substance of co-operation. Organizational flexibility became a hallmark of ASEAN; it followed a cautious approach to institutional change. It took nine years before co-operation was deemed substantial enough to justify the setting up of a central ASEAN Secretariat, and all of ten years before an appropriately articulated committee structure was established.

A fundamental distinction, of course, arises from the fact that the EC is an association of industrialized, economically developed countries, while ASEAN exemplifies the growing trend towards economic co-operation among developing countries. From this standpoint, ASEAN-EC economic relations may be regarded as an aspect of the ongoing, albeit periodically stalemated North-South Dialogue.

ASEAN took a keen interest in the EC at an early stage in its own development. The possibility of forging closer co-operation with the EC was discussed by the ASEAN Foreign Ministers at their Fourth Meeting in Manila in March 1971, and soundings were subsequently made with the EC Commission.

In April the following year the Ministers approved the establishment of a Special Co-ordinating Committee (SCCAN) to conduct an institutionalized joint ASEAN Dialogue with the EC. To facilitate the Committee's work, the ASEAN Brussels Committee (ABC), comprising ASEAN diplomatic representatives accredited to the EC, was also established. A number of meetings with the EEC Commission were subsequently held, culminating in the establishment of a formal Dialogue in 1975 with the creation of the ASEAN-EC Joint Study Group (JSG). The first annual meeting of the Joint Study Group was held in July 1975. While it discussed mainly trade matters, such as market access, commodity price stabilization and related issues, the scope of the dialogue in subsequent meetings was broadened to include industrial and development co-operation. A further step was the initiation in 1977 of a dialogue between the ASEAN Ambassadors in Brussels and the Committee of Permanent Representatives (COREPER) of the EC Council of Ministers. Their discussions laid the groundwork for a ministerial meeting.

The first ASEAN-EC Ministerial Meeting was held in Brussels in November 1978. Besides reaffirming their support for a New International Economic Order and agreeing to co-operate in future international meetings such as the North-South Dialogue, the Ministers agreed on the desirability of placing relations between the two groups on a firmer basis through a formal Co-operation Agreement. As an indication of its growing interest in ASEAN, the EC established a Commission of the European Community for South and Southeast Asia in Bangkok in late 1979. To facilitate consultations, ASEAN designated Thailand as the country co-ordinator for the ASEAN-EC Dialogue.

Finally, after extensive preparatory work, the ASEAN-EC Co-operation Agreement was signed at the Second ASEAN-EC Ministerial Meeting in Kuala Lumpur on 7 March 1980. The main emphasis of the Agreement is on economic co-operation and development. The Meeting also issued two other documents: a Joint Declaration outlining the modalities of economic and technical co-operation, and a Joint Statement on political issues.

The ASEAN-EC Co-operation Agreement provides for the formation of a Joint Co-operation Committee (JCC) to promote and keep under review the various ASEAN-EC co-operation activities. The first Joint Co-operation Committee Meeting was held in Manila in November 1980; the second meeting is scheduled to be held in Brussels in mid-October this year, immediately following the Third ASEAN-EC Ministerial Meeting in London. Between Joint Co-operation Committee Meetings, ongoing consultations are conducted by the Contact Group comprising officials from the ASEAN Brussels Committee and the European Commission. A Joint Working Group on Trade Issues, set up during the First Joint Co-operation Committee Meeting, is also functioning.

Besides the ASEAN Brussels Committee, similar ASEAN Third-Country Committees were established in three EC capitals: the Bonn ASEAN Committee (BAC), the ASEAN Paris Committee (APC) and the ASEAN London Committee (ALC). Like the ASEAN Brussels Committee they are composed of the ASEAN Ambassadors in these capitals. Co-ordination is maintained among these ASEAN Committees in the EC.

Since 1972, the ASEAN-EC Dialogue has acquired substance. ASEAN enjoys the EC's Generalized System of Preferences which has recently been

extended for another ten years. While not all of ASEAN's requests for GSP improvements have been met, the improved market access extended to ASEAN under the EEC Generalized System of Preferences has been a positive factor in ASEAN-EC trade relations.

In the field of trade promotion, ASEAN has received EC financial and technical assistance for trade missions, export promotion and market information seminars, buyers' missions, in-store promotion, and participation in trade fairs and exhibitions. An ASEAN-EC Working Group on Trade Promotion Assistance met in Bangkok last September and approved various ASEAN proposals for EC assistance. ASEAN has also concluded negotiations for the establishment of an EC-assisted ASEAN Trade Promotion Centre in Rotterdam.

To promote industrial co-operation, the EC sponsored two successful ASEAN-EC Industrial Conferences, the first in Brussels in April 1977; the second in Jakarta in February 1979. The first Joint Co-operation Committee Meeting agreed that future conferences should be organized on a sectoral basis, with priorities given to chemical industries, engineering industries, energy industries, electrical and electronic industries, and resource-based industries.

The EC has also extended to ASEAN various forms of technical assistance, such as in-plant training programmes, training in management and technology transfer, and training programmes for teachers.

A Working Group set up by the First Joint Co-operation Committee Meeting agreed on various forms of co-operation in the fields of non-conventional energy, environment, science and technology, and agriculture and natural resources. In March this year, a two-year EC-assisted programme in science and technology consisting of fellowships, experts seminars and studies was approved for implementation in the Autumn, the full cost of the project having been allocated.

To enhance development co-operation, the EC is prepared to assist ASEAN in projects in fields as diverse as agriculture and transport. The EC continues to support ASEAN projects such as the Regional Collaborative Programme on Post-Harvest Technology for Grains, the Regional Study on the

Commercialization of Timber Resources, and Aquaculture Development. It has also indicated its readiness to support such projects as the Study on Land Transportation, a Regional Survey on Transport, a Pest Control Programme, and a Regional Fisheries Project. It is hoped that funding for such development assistance could be rationalized and consolidated into a Development Fund.

ASEAN has been seeking to develop significant financial co-operation with the EC. The EC has responded to the extent of agreeing to arrange for a Seminar on Access to European Capital Markets. It has also indicated that it would consider assisting in securing financing in European capital markets for ASEAN industrial projects.

The role of private enterprise has not been overlooked. In both ASEAN and the EC, the private sector is being encouraged to set up its own framework of co-operation. ASEAN has sought wide participation for its private sector in ASEAN-EC Dialogue activities. The ASEAN-EC Conferences on Industrial Co-operation have provided a forum for the discussion of joint ventures between ASEAN businessmen and their counterparts in the EC. The Second Conference in 1979 was attended by 776 participants, of which 305 were from the EC, representing some of Europe's most important industries and financial institutions.

This rather sketchy résumé recounts what may be described as the preparatory period of ASEAN-EC co-operation, a time for laying down guidelines, formulating a basic agreement, setting up committees, initiating studies and training programmes, conducting seminars, holding meetings, exchanging visits, getting to know one another.

These various steps, actions and decisions denote a sincere intention on both sides to develop mutually beneficial economic relations. They include a lengthening list of projects, mainly of a preparatory nature, hopefully suggestive of more impressive developments to follow. Taken together, they provide a kind of framework and elements of a basis for more meaningful and substantial economic co-operation.

While giving due credit to these useful preliminary steps, however, some observers consider the basis being laid as tenuous, the framework

being fashioned as inadequate and their impact on ASEAN-EC economic relations marginal, considering the urgency of ASEAN's trade and development needs, the complexity of the problem of giving substance to the rhetoric of the Dialogue, and the magnitude of the economic stakes involved.

The professed desire to expand ASEAN-EC trade is a case in point. As a percentage of ASEAN total trade, ASEAN trade with the EC accounted for an average of about 14 per cent in the three-year period from 1977 to 1979. On the other hand, trade with ASEAN accounted for only about 1.14 per cent of the EC total trade. Much of the EC trade is internal. In 1980, for instance, 58.42 per cent of EC total trade was between its own members, fostered by the advantage of a customs union and the additional inducements of proximity and familiarity. To increase its exports to the EC significantly, ASEAN has to cope with this formidable built-in constraint. On top of it, protectionist trends, manifested in tariff and non-tariff barriers, compound the problem for ASEAN. They tend to negate well-meaning projects such as trade fairs, seminars and trade missions, intended to promote ASEAN products which may have little or no real prospect of entering or successfully competing in the EC market.

It is becoming increasingly obvious that in the field of trade, building bridges in the form of additional studies, discussions and increased contacts may not be enough. It will also be necessary to open the doors of the EC market a little wider to ASEAN exports.

This is just one of the crucial issues that challenge the statesmanship, the political will and the capacity of the ASEAN-EC Dialogue partners to realize the full potential of their economic relations in ensuring a better future for their two communities. Other major issues in the fields of industrial co-operation and co-operation for development urgently await the same high order of attention and action. These issues have been deferred or skirted rather than confronted during the preparatory period of ASEAN-EC Dialogue. They should constitute part of the agenda for the next stage of ASEAN-EC co-operation.

I am sure that your learned discussions will help illuminate vital

aspects of that agenda. I congratulate you for your initiative in holding this important Conference and wish you success in your deliberations.