

ASEAN as a Partner for Europe

Address by H. E. Rodolfo C. Severino, Secretary-General of the Association of Southeast Asian Nations, at the ASEAN-EU Conference

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I consider this conference to be part of the process of dialogue between ASEAN and the EU. That dialogue is anchored on the annual meeting between the ASEAN Foreign Ministers and the EU Presidency and the European Commission and on the ASEAN-EU Ministerial Meeting, which, most recently, convened in Vientiane last December. Regular meetings between senior officials of ASEAN and EU member-states and between ASEAN officials and those of the European Commission are part of the dialogue. Encounters between officials on specific sectors of co-operation — trade, the environment, energy, science and technology — between the business communities, and between academics — these are all elements of the dialogue process. I consider my own visit to Brussels last March to be part of it. So is this conference. This time, we focus on the very specific, very concrete, and very substantive issues that concern the European business community — the circumstances and the conditions that weigh on business decisions as to where to trade and where to invest and where to locate outside of Europe.

I thought that I might best contribute to this dialogue by sketching out the latest developments in Southeast Asia and ASEAN, as I see them. I begin with the obvious. ASEAN, like the EU, has maintained its unbroken record of peace among its members. In a world of turmoil and conflict within regions, this is a remarkable record. The Treaty of Amity and Co-operation in Southeast Asia has been in place for twenty-five years as a code of behaviour for the region and a mechanism for the peaceful settlement of disputes. Southeast Asia is now a nuclear weapons-free zone. ASEAN is consulting with the five nuclear-weapon states, including the two in Europe, on their accession to the protocol to the nuclear weapons-free zone treaty. ASEAN is negotiating with China on a code of conduct for the South China Sea, pending the resolution of the disputes in that vital area.

The ASEAN Regional Forum is now a going concern as a venue for countries in East Asia and others with interest in it, including the European Union, to discuss issues of regional security. In Hanoi last month, exchanges among senior officials of ARF reflected a remarkable consensus on an extraordinarily wide range of issues — the urgency of resuming the dialogues on Korea, support for the territorial integrity of Indonesia, assistance for East Timor and the probable necessity of a continued United Nations

presence there beyond independence, and the absolute need for good and stable relations among the major powers in Asia and the Pacific. The situations in Cambodia, Indonesia, Myanmar and Papua New Guinea were openly discussed, including subjects normally considered as internal to those countries. Contentious issues like the South China Sea and the United States' ideas on missile defence were touched upon without rancour or confrontation. The participating officials charted directions for extending the ARF process from the present stage of confidence-building to the area of preventive diplomacy and for expanding the role of the ARF chair.

The ASEAN-Plus-Three process, which links China, Japan and the Republic of Korea to ASEAN, is gaining momentum. Although focused primarily on economic and financial co-operation, the deepening linkages in East Asia contribute, too, to the peace and stability of the region.

A Sense of Regional Security

I think that it is right to begin a discussion of the business opportunities in ASEAN by scanning the security environment in the region. That environment, after all, plays a major role in trading, investment and financial decisions. The current environment tells us that the prospects for peace and stability are bright. The momentum for dialogue on the Korean peninsula — between North and South Korea and between North Korea and the United States — seems to have resumed. The disputes in the South China Sea are being contained and managed through consultations. Despite the excitement occasioned by recent events in Hainan and the continuing contention over Taiwan, China and the United States seem pragmatically to give primacy to their common interest in a stable relationship.

A general sense of regional security has no doubt helped in Southeast Asia's recovery from the 1997–98 financial crisis. The regional economy grew by 3.4 per cent in 1999 and 5.3 per cent in 2000, a remarkable turnaround from the *contraction* of 4.4 per cent in 1998. The ASEAN finance ministers, however, expect growth to slow down in 2001 to anywhere between 3 and 5 per cent largely on account of the drop in the expansion rate of the U. S. economy, the continuing stagnation of that of Japan, and the slower-than-expected growth of Europe.

The ASEAN economies are responding by stimulating consumer demand and government spending. There is scope for this. Budget deficits are manageable. Other than Brunei Darussalam and Singapore, which had surpluses, the ASEAN countries had deficits in 2000 ranging from 2 to 5.8 per cent of gross domestic product, or an average of 3.5 per cent. Inflation has been kept low, with the average inflation rate dropping to 2.5 per cent in 2000 from 9.7 per cent in 1999. External debt has declined considerably since 1997, but remains substantial, with US\$334 billion outstanding. Bank re-structuring is making progress, and ratios of non-performing loans are going down, although still fairly high.

The ASEAN finance ministers now meet frequently in a process of surveillance and peer review to keep a collective eye on the movements of the regional and national economies and to encourage one another in their economic and financial reforms.

Internal reforms are continuing not only in the form of the financial and corporate re-structuring forced upon the ASEAN economies by the financial crisis but also in terms of the new attention being given to rural development, the upgrading of human resources, and other measures to diffuse the distribution of incomes and strengthen ASEAN's capacity to plug itself into the knowledge economy.

Integrating the Regional Economy

Not least, ASEAN is moving forward on integrating the regional economy. The ASEAN Free Trade Area is on track, contrary to widespread, misinformed speculation about AFTA's demise at the height of the financial crisis. Already covered by the AFTA treaty are 98 per cent of the products of the six original signatories to the treaty, which are the region's leading trading nations. By the beginning of 2002, or a

little over six months from now, these products will have intra-ASEAN tariffs of no more than 5 per cent or none at all. Even today, 85 per cent of the products in the inclusion list are in the 0-to-5 per cent range. In 2000, the average intra-ASEAN tariff on these products was 3.74 per cent, down considerably from the 12.8 per cent in 1993, when the AFTA process started.

ASEAN is also seeking to bring down non-tariff barriers to intra-regional trade. We are seeking to harmonize product standards. Here, we are getting the EU's valued support. We are seeking to streamline transportation and communications networks. ASEAN is also integrating the regional economy through infrastructure linkages, particularly in the Mekong Basin, where ASEAN's newer members are located. A feasibility study for the Singapore-Kunming Rail Link has been completed. China has offered to finance part of the proposed highway from Bangkok to Kunming through Laos, a component of the ASEAN highway system. Master plans are being developed for an ASEAN power grid and a trans-ASEAN gas pipeline network. Here are opportunities for European investment.

ASEAN's leaders have recognized the importance of information and communications technology for their nations' development. They realize that if their countries do not develop and use ICT they will fall further behind the nations that do. The ASEAN countries also know that they have to work together in this — as ASEAN and within ASEAN first of all, but also with China, Japan and Korea, and with the essential participation of the private sector.

ASEAN has decided to use ICT as a principal instrument for narrowing the development gap within ASEAN, as well as between ASEAN and the developed world. It is with this in mind that ASEAN's leaders initiated the concept of e-ASEAN. Institutionally, this work is being done through an e-ASEAN Working Group of officials and a combined public sector and private sector e-ASEAN Task Force.

Basically, what they are doing is assessing the state of the ICT infrastructure in ASEAN, with a view to filling the gaps, which, for most of ASEAN, are considerable. They are working on laws and policies, in a co-ordinated way, to make clear what rules are to govern the conduct of e-commerce, questions of privacy and taxation, and so on, and to facilitate the use of ICT for business.

ASEAN aims to liberalize trade in ICT goods and services in the context of AFTA and the current series of negotiations on trade in services. It is seeking to promote the use of ICT for more efficient government services and greater transparency in government transactions and for social purposes like education and public health. We are developing partnerships with the private sector for the use of ICT for agricultural trade.

An assessment is being undertaken of the needs of ASEAN countries in terms of human resources for ICT. They are co-operating in the training of their human resources, which is the key to ICT and the knowledge economy, the economy of the twenty-first century. Information and communications technology is thus another critical element in the integration of the ASEAN economy and of the region as a whole. ASEAN's drive in this area presents yet another opportunity for European participation.

Competing for Investments

By integrating the regional economy, ASEAN seeks to attract investments into the region, knowing that, in a globalized economy, investments look for sizeable, efficient domestic markets and platforms for producing for the global marketplace. We must keep in mind that the population of ASEAN is almost half that of China, and its combined gross domestic product is about the same magnitude as China's.

Commentators have been pointing in ominous tones to the surging Chinese economy as a damaging competitive challenge to ASEAN, particularly after China's entry into the World Trade Organization. Investments are lured into China — to some extent away from ASEAN — by China's large domestic market and inexpensive land and labour. ASEAN and China look to the same export markets — the United States, Japan and Europe. They export similar manufactured products — electronics, electrical

appliances and machinery, textile and apparel, and toys. And yet, ASEAN looks at China's admission into WTO positively and, indeed, has supported it from the very beginning. Like many other countries, ASEAN finds it extremely important for China to grow and operate within the rules of the global trading system through WTO. More than this, ASEAN views the Chinese economy as an opportunity. China's economy represents a growing — and, in many cases, new — market for ASEAN exports, provided it continues to grow and open up. It offers an opportunity for ASEAN investors, assuming that the investments are protected by international rules and possibly by bilateral investment-protection agreements. As the Chinese market opens further to ASEAN exports, ASEAN becomes more attractive to investments. As China's economy grows, it could eventually be a source of investments for ASEAN. The challenge of China has served to help prod ASEAN into undertaking internal reforms, more rapidly integrating the regional economy, and taking other measures to strengthen its competitiveness.

Indeed, ASEAN more than welcomes China's growth and participation in the global trading system. ASEAN seeks to link its economy more closely with that of China. An experts group formed upon the initiative of Chinese Premier Zhu Rongji held its inaugural meeting recently. Its mandate is to recommend ways of deepening the economic relationship between ASEAN and China, including a possible free trade area between them. As I said in Guangzhou earlier this month, "With sufficiently close links between the ASEAN and Chinese economies, investors in China or ASEAN could, in effect, have the economies of ASEAN and China as a potential market, a market of 1.7 billion people." A similar process is taking place between ASEAN and Japan.

ASEAN Plus Three

The ASEAN-Plus-Three process, to which I referred earlier, is gaining momentum. The finance ministers and central banks of the thirteen countries of East Asia have been meeting at every opportunity. They are co-operating in the monitoring of the regional economy, training and research. Above all, on top of the multilateral currency swap arrangement within ASEAN, ASEAN-Plus-Three is putting together a network of bilateral currency swap and re-purchase agreements, several of which have already been concluded. Such a network is intended to make available financial resources to participating countries that find themselves in impending trouble and thus help avert a future financial crisis. Other forms of ASEAN-Plus-Three co-operation are focusing on the development of the Mekong Basin and on information and communications technology. Parallel groups of officials and eminent private individuals are working out recommendations for ASEAN-Plus-Three co-operation and an East Asian community, including a possible free trade area in this larger region.

Southeast Asia's strengthening linkage with Northeast Asia is a prime example of ASEAN's determination to expand its economic horizons beyond the region's integrating economy. But it is not the only one. ASEAN is also deepening its economic ties with Australia and New Zealand. American business continues to be strongly engaged in the Southeast Asian economy, and the new administration in Washington has signaled a renewed readiness to relate more closely to ASEAN as a group.

Recent developments in Southeast Asia, as filtered through the mass media, have evoked a certain wariness in some members of the European business community about engaging in the region. The 1997–98 financial crisis exposed weaknesses in the financial and corporate structures and practices of East Asia, as well as in the international financial system. This has led to the institution of measures for reform in those structures and practices. However, many have expressed their impatience over the pace of those reforms. Political turmoil in a number of Southeast Asia's major economies has injected a degree of uncertainty in the region as a whole. If one takes a broader and longer range view of these developments, one can see that the reforms, although extremely difficult and uneven by virtue of political and social factors, are irreversible and making significant progress. Popular pressures and intra-regional

and external competitive forces impel those reforms. The commotions that are roiling the political scene in some countries are, to my mind, part of the transitions in these countries to more open, freer, more pluralistic, more competitive, more rules-based — in sum, more democratic — and ultimately more stable societies.

What we see in ASEAN, therefore, is a region that is stable and secure. An economy that is regionally integrating, with good prospects for stable growth because of its deepening integration and the internal reforms that are taking place. An expanding market with growing links with China, Japan and Korea and with Australia and New Zealand. A region that, for the most part, maintains close ties with the United States. It is a region that has benefited from a broad range of historical, cultural and commercial links with Europe. The European Union has been for a long time been ASEAN's second largest export market and a leading source of investments and technology, and there is potential for much more. In ASEAN, we see countries that are evolving into more open and more stable societies. Such a region obviously presents larger opportunities for European business — for trade, for investments, for services, for technological exchanges.

It is a region that is a strong and worthy partner for Europe.

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