

# ASEAN and Germany — Natural Partners

## Address by H. E. Rodolfo C. Severino, Secretary-General of the Association of Southeast Asian Nations, before the Deutsches Forum Jakarta

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I wish to thank you for inviting me to speak at this forum. I take this as a chance to exchange views on how the ASEAN and German economies can reinforce each other for the good of all. More specifically, we can, on this occasion, discuss the opportunities that German businesses can take in ASEAN.

We in ASEAN have, for a long time, valued our relationship with Germans and Germany. The German Government, aside from its own national contributions, has been most supportive of the European Union's cooperation with ASEAN. Some of the German foundations, particularly the Hanns Seidel Foundation, have been most active and generous in their support for ASEAN activities. And some German companies have been in the region for a long time; ASEAN has benefited from their financial resources, their technology, their industrial experience, and their management abilities.

Indeed, in the world that we live in today, in the global economy that we inhabit together, Germany and ASEAN should be natural partners — Germany with its industrial might, financial resources, and technological power; ASEAN with its record of high growth, now resuming, its large population, its productive and largely inexpensive labour force, its immense natural resources, its market-oriented policies, its integrating economy.

The United States and Japan, for decades, and, increasingly, China and Korea, have recognized this. ASEAN is the United States' third largest export market outside of NAFTA, behind only the European Union and Japan; it is also Japan's third, after only the United States and the European Union. The U.S.'s exports to ASEAN are three times its exports to China. According to the US-ASEAN Business Council, American investment in ASEAN is larger than in Mexico or Brazil. It is more than twice the U.S. investment in Hong Kong, six times that in Korea, and seven times that in China and Taiwan.

In contrast, for the period 1995–2000, Germany accounted for only three per cent of all foreign direct investment in ASEAN, as compared to Japan's 16 per cent, the United States' 15 per cent, and the 13 per cent from other ASEAN countries. German investments in ASEAN are even less than those of Hong Kong and Taiwan. Among members of the European Union, Germany's share of investments in ASEAN in the period 1995–2000 was smaller than that of the Netherlands or the United Kingdom. It was smaller even than

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Switzerland's. German investments made up only 10 per cent of net foreign investments in Malaysia, 7 per cent of those in Indonesia, 2.5 per cent of those in Thailand, 2 per cent of those in the Philippines, 1.5 per cent of those in Singapore, and less than 1 per cent in the rest of ASEAN.

German exports to the ASEAN market have not been doing better. German exports to Indonesia in 2000 were less than Australia's, less than a quarter of Japan's, a little more than a third of the United States', and 60 per cent of Korea's. In the same year, Germany's exports to Singapore were less than Korea's, 40 per cent of China's, 21 per cent of the United States', and 18 per cent of Japan's. From January to September 2001, Malaysian imports from Germany were less than those from Korea or Australia, just over half those from China, 23 per cent of those from the United States, and 20.5 per cent of those from Japan. In that same period, German exports to the Philippines were only 40 per cent of Korea's, 36 per cent of China's, 15 per cent of the United States', and 13 per cent of Japan's.

Among EU members, from 1995 to 1997, Germany was by far the biggest exporter to ASEAN until it was surpassed again by the United Kingdom in 1998, when German exports to ASEAN dropped to just a bit more than a third of the 1997 level.

### **Opportunities in ASEAN**

The German record clearly reflects less than the potential of ASEAN for German trade and investment. ASEAN has a population of half a billion, almost half that of China or India. It has a gross domestic product about the size of China's. Its economy is now growing again, at the rate of 5.5 per cent in 2000. Although the region's GDP growth slowed to 2.8 per cent in 2001 largely because of the slowdown in the global economy, ASEAN's finance ministers have projected growth to accelerate by 3.5 to 4 per cent this year. Individual ASEAN economies give the investor a wide range of choices — from the high-tech, efficient service economy of Singapore to the low-wage and abundant manpower of Indonesia and Viet Nam to the rich natural resources of most of the ASEAN countries.

Wherever an investment is located in ASEAN, it has all of Southeast Asia as a market because of the increasing integration of that market. This is why it is becoming possible to speak of an ASEAN market, even of an ASEAN economy. As of the beginning of this year, pursuant to the ASEAN Free Trade Area, the goods traded among ASEAN's six leading trading nations, with some exceptions, have tariffs of no more than five per cent or none at all. This accounts for more than 90 per cent of intra-ASEAN trade.

The creation of a regional market in Southeast Asia was long anticipated by many important multinational companies. There may not be much promise in setting up a manufacturing plant in a single country, particularly when the plant is cost-effective only with large production volumes. But when tariff barriers are eliminated, economies of scale are created, making large investments economically sensible.

Let me illustrate this point with an example, the car industry. In ASEAN, tariffs on completely built-up and completely knocked-down units have historically been set very high, as many countries in the region sought to develop or encourage a domestic car industry. Under AFTA, ASEAN countries are required to bring down their intra-regional tariffs on cars to within 0–5 per cent by 2002 or 2003. The ASEAN auto market is substantial. Auto sales in Indonesia, Malaysia, the Philippines, Thailand and Viet Nam for the year 2001 are estimated to have been more than 970,000 units, with the volume projected to reach 1,440,000 by the middle of this decade. Although Japanese companies have historically dominated ASEAN markets, the creation of AFTA opens up opportunities for other vehicle manufacturers. This is why AFTA has drawn the interest of the major U.S. and European automotive companies. Ford and GM have already made substantial investments in the Philippines and Thailand.

ASEAN has an industrial cooperation scheme called AICO, in which companies with related operations in two or more ASEAN countries ship their products to one another at the minimal AFTA tariff rate of 0–5 per cent. Such companies have been enjoying for several years the benefits of an integrated ASEAN

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market. Right now, they are mostly Japanese companies, mostly in the automotive and electronic sectors. The only European firms in the AICO scheme are Volvo and Nestlé. None are German.

### **Infrastructure Linkages**

The ASEAN economy is being integrated not only by the removal of trade barriers but also by infrastructure linkages — transport, energy, telecommunications. A feasibility study has been completed for the Singapore-Kunming Rail Link, a project that envisions the linking of mainland Southeast Asia's railways to one another and to Kunming in southern China. That rail network will extend the existing Singapore-to-Thailand railway to Cambodia, and thence through Viet Nam to Kunming, with spur lines into Laos and Myanmar.

Southeast Asia has substantial sources of energy of various types — oil, gas, coal and hydro. The ASEAN power grid being developed aims to make the delivery of energy more reliable, ensure a market for ASEAN suppliers of power, and provide energy security to the energy-deficit members. The trans-ASEAN gas pipeline network, parts of which are already in place, supports the same objectives by tapping the great natural gas deposits of Indonesia and Myanmar.

Work is being done to ensure telecommunications inter-connectivity in ASEAN and the compatibility of telecommunications equipment. Related to this is the e-ASEAN initiative, which is meant to pull ASEAN into the information age, into cyberspace. The e-ASEAN framework agreement, signed by ASEAN's leaders in November 2000, commits ASEAN to this goal. The agreement covers the establishment of the ASEAN Information Infrastructure and the legal and policy environment for electronic commerce. It commits ASEAN to the liberalization of trade in information and communications technology products and services and of investments in the ICT sector. It calls for the development and use of ICT for the delivery of government services and for social purposes. For all this, institutions will have to be developed and the people of ASEAN trained. The e-ASEAN initiative also envisions this.

The infrastructure linkages and the development of ICT will not only make trade easier and encourage investments; they also represent enormous investment opportunities — the railway project, roads and highways, the power grid, the gas pipelines, telecommunications, information and communications technology. Their development requires consultants, financing, materials, equipment and technology.

### **The Promise of Information Technology**

Information and communications technology has particularly great promise. In 2001, ASEAN had 37 million mobile phone subscribers and 13.7 million personal computers. These represent great leaps from only two years before, in 1999, when the region had only 14.5 million mobile phone subscribers and 10 million PCs. With a population of half a billion, the 2001 figures translate into 74 mobile phone subscribers and 27.4 PCs per one thousand people. In 1999, ASEAN had 6.2 Internet subscribers per one thousand people, as against two in 1997. In contrast, Germany in 2001 had 686 mobile phone subscribers and 336 PCs for every thousand people. In that same year, 38.4 per cent of German households were connected to the Internet. The point is not so much that ASEAN is far behind Germany in information and communications technology; it is that, with the e-ASEAN initiative, ASEAN has enormous potential for growth, as current growth rates already show, and tremendous opportunities for German suppliers of ICT products and technology.

ASEAN economic integration is being strengthened not only by the unification of the ASEAN market but also by intensified cooperation in areas like finance. ASEAN's finance ministers have been undertaking frequent consultations in order to keep a collective eye on the economic situation in the region and help avert a recurrence of the financial crisis. In a system of surveillance and peer review, they

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keep track of financial and economic movements in the region and encourage one another as they take national measures to strengthen their financial systems and other sectors of their economies. ASEAN has expanded the currency swap arrangement under which the ASEAN countries make financial resources available to a member that may find itself in financial trouble. ASEAN has engaged China, Japan and Korea in a network of bilateral currency swap and repurchase agreements meant to strengthen the financial safeguards.

Even as it deepens the integration of its market, ASEAN remains open to the world. We are now working on ways to strengthen our economic linkages with our neighbours to the North — China, Japan and Korea — in what is called the ASEAN Plus Three process, a process that is gathering surprising momentum. We are devising ways to link the ASEAN economy more strongly with those of our neighbors to the South, Australia and New Zealand. As trade barriers go down between ASEAN and its neighbors, German and other European investors in ASEAN will see their markets considerably enlarged.

The message from ASEAN is this. ASEAN and Germany are natural partners. ASEAN with its population that is larger than the European Union's, its GDP that is equal to China's, its resurgent growth, its integrating economy, its openness to the world, the strategic importance of foreign trade and foreign investment in its economy, its confidence in market forces, its hard-working people, its rich natural resources, the projected expansion of its infrastructure, its embrace of the information age. And Germany with its economic size, its industrial might, its financial resources, its scientific and technological power, the superb quality of its products and services, its central and leading place in the European Union.

The German community in Indonesia, here in ASEAN's largest member, knows this more than anybody else. This is a message that I would like to see the German community here convey, forcefully and as frequently as possible, to the German public and the German business sector. It would be good for both ASEAN and Germany.

SOURCE: ASEAN Secretariat <<http://www.aseansec.org>>