
DOCUMENTATION

Report of the ASEAN-EEC High-Level Working Party on Investment

Executive Summary

At its final meeting in Jakarta on 18 July 1986, the ASEAN-EEC High Level Working Party (HLWP) adopted the attached report. The report is divided into three sections. The first defines the background against which any policy recommendations must be made by establishing what is known about trends and patterns in EEC investment in ASEAN during the last two decades. The second examines impediments to direct investment in ASEAN and measures that might be taken to overcome them, while the third discussed steps which the European Community might contemplate to encourage greater European investment in the region.

1. *The Setting: Recent Trends and Patterns in EEC Investment in the ASEAN Region*

The principal conclusions to emerge from a review of the evidence concerning recent trends in European investment in ASEAN can be summarised as follows:

- that there are marked differences between member states. The UK, the Netherlands and the Federal Republic are relatively important investors in the region: the other member states of the EEC are not.
- that despite the unevenness in terms of countries of origin, the European stake in ASEAN would appear to have grown substantially during the past decade and that the growth rate is faster than elsewhere amongst the LDCs.
- that even so, Asia generally and ASEAN in particular are still given relatively low priority as investment areas by European countries except the British. The Federal Republic's investment in Latin America, for example, is ten times more important than its investment in ASEAN. In the case of France and Italy, the difference is even greater.
- that a significant part of the growth of European investment has been concentrated in banking and finance and not in manufacturing industries.
- that European investments in the region are considerably lower than those of Japan and the United States and that in the case of Japan at least, the gap would seem to be widening rather than narrowing.

These facts are important when it comes to formulating practical recommendations. In the first place, they confirm the timeliness of the joint ministerial decision to examine the investment problem. In the second case, they suggest that the reasons for the comparative weakness of European investment performance in the region are deep-seated and that there is therefore a need for all concerned to take strong action to increase investment flows from the EEC to ASEAN.

2. *Impediments to Investment*

Discussions between EEC members of the HLWP and European bankers and industrialists who are already familiar with the ASEAN region suggest that the following factors inhibit European companies from entering into direct investments: the current limitations of the ASEAN internal market; the content, complexity and diversity of investment regulations and incentives; the wide margin of discretion in applying regulations; the lack of adequate protection of intellectual property rights; and inadequate information about investment opportunities.

Against this background the HLWP:

- stressed the positive advantages that would accrue if the ASEAN states could further remove the barriers to internal trade. This would transform the appeal of the ASEAN area to foreign investors, who look for economies of scale, leading to production at world market price levels, and consequently to increased exports. They endorsed the ASEAN Industrial Joint Ventures (AIJV) scheme and similar measures as positive steps toward this end.
- emphasised the scope for ASEAN-EEC cooperation on this sphere and recommended that ASEAN governments should consider suitable arrangements for ASEAN and the EEC to exchange views about the EEC's experience of creating a common market. They would attach particular importance to further joint work aimed at promoting and applying internationally recognised industrial standards.
- welcomed the increasing evidence of the seriousness with which ASEAN member states are taking measures to improve the investment climate and recommended that further efforts should be made to meet the concern of European businessmen about restrictions on foreign investments in certain sectors and regions; the rules governing local participation in capital and management; and the difficulties imposed on capital transfers or repatriation of profits in some ASEAN countries. In this connection, they called for a continuing dialogue between the European Community and individual ASEAN governments to identify the rules that needed modification.
- urged that the margin of discretion in applying regulations concerning both investments and customs and taxation should be reduced and that the process by which decisions are arrived at be more transparent.
- recommended that the ASEAN authorities should consider taking the necessary steps to improve the content and enforcement of domestic legislation concerning the protection of patents, trade marks and copyrights within the context of established international practices.
- suggested that the ASEAN governments might consider reinforcing central enquiry points in each national administration to which European investors can turn, and undertaking more active investment and trade promotion in Europe itself, involving Europeans based in ASEAN.

Despite the above perceived impediments, the HLWP believes that ASEAN remains to be one of the most dynamic of the world's developing regions and offers impressive long-term opportunities for economic cooperation.

3. *Possible European Initiatives*

The recommendations of the HLWP can be considered under three headings: improvement of information channels, financial issues, and training schemes.

a. *The Improvement of Information about Investment Opportunities*

The European members of the HLWP decided not to recommend the creation of a new organization that would extend the above services to European investors, but instead to call on the Community authorities to authorize a comprehensive review of national and Community level agencies involved in trade and investment promotion, with a view to achieving a more effective

European presence in the region and providing to European businessmen support comparable to that available to their counterparts in the United States and Japan.

In the meantime, the HLWP recommends that the European Community should strengthen existing channels for the provision of pre-investment advice and information to firms considering investing in the ASEAN countries. In particular it is recommended that:

- greater cooperation between European chambers of commerce which has been a feature of recent years should be increased. The role of Eurochambers should also be expanded. The Community authorities are urged to facilitate the process by giving sympathetic consideration to applications from the Chambers for help with projects designed to enhance their joint efforts and by providing funds for the appointment of at least one special investment consultant linked with Eurochambers.
- the establishment of an ASEAN Investment Data Bank, i.e. a computerized data base containing details of firms in ASEAN seeking foreign partners. The management body responsible for the ASEAN Investment Data Bank should also become the ASEAN correspondent for the Community's new computerized Business Cooperation Network which could provide access to European firms willing to cooperate with firms in ASEAN.
- the establishment of joint investment committees bringing together representatives of the Community and the host country in each of the ASEAN capitals along the lines of the recently created Indonesian-US Joint Investment Committee.
- cooperation between representatives of the European aid institutions including EIB should be encouraged in the ASEAN region, with a view to increasing the volume of intelligence about investment opportunities, improving the exchange of information on markets and aid financing techniques and helping to improve the quality of feasibility studies and project evaluation.
- the Commission should be encouraged to seek ways of improving the access of ASEAN firms and chambers of commerce to data bases in the Community.
- Community funds under the industrial and regional cooperation section of the budget should be made available to increase the number and quality of trade and investment promotion efforts by the ASEAN countries in the European Community.

In most cases, the initiatives suggested above could become in due course self financing. The cost to the public purse should, in principle, be linked with the start up phase.

b. *Financial Issues*

The possibility of creating new financial instruments to promote investment in ASEAN by European companies has been extensively discussed by the HLWP.

ASEAN representatives advocated the provision of risk capital for smaller European firms intending to establish joint ventures with ASEAN partners. The fund, to be provided by the Community, could be managed by a suitable EEC institution in cooperation with the appropriate ASEAN counterpart.

The ASEAN representatives felt strongly the need for official financial assistance to counteract the relative weakness of European investment.

European members of the Working Party argued that lack of finance was not an important deterrent to direct investments. Good projects will always attract good finance.

The High Level Working Party agreed:

- to note the proposal to include a new article (935) in the draft Community budget for 1987, "to promote Community investment in Latin America and Asian developing countries in the context of economic and trade agreements".
- to call on the officially financed bilateral and public development financial institutions active in the region to give a higher priority to ASEAN.

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- to remind member states of both regions that adherence to the Conventions establishing the International Centre for the Settlement of Investment Disputes and Multilateral Investment Guarantee Agency has a positive influence on investment decisions.
 - that bilateral investment protection agreements should respect the principle of non-discrimination and fair and equitable treatment.

Training Schemes

Most European Community member states lack a pool of expertise, particularly in the private sector, on which they can call for advice, project evaluation and, in due course, management skills in connection with possible investment projects. It seems to be agreed that ASEAN businessmen too lack in many cases adequate knowledge of Europe. Improvement in the information channels will help. This effort needs to be supplemented, however, by an expansion of training schemes sponsored by both the public and private sectors.

The importance of these issues have already been recognized by both regions, and within the last few years a number of important initiatives have been launched or are being prepared. As the process develops, the following possibilities should be kept under review:

- an increase in the number of students from the ASEAN region at European universities.
- the expansion of existing opportunities at European business schools, technical colleges and training schemes offered by banks, if necessary through the provision of public funds.
- the extension of the recently established Community-ASEAN two way business executive training schemes to include ASEAN officials working in investment boards, Central banks and departmental ministries.
- the sponsorship by the Commission and national governments, of experts who would provide training and education in the region itself, thus reaching a much larger number of students.

Conclusion

In conclusion, the HLWP emphasized that the effectiveness of the measures outlined above will be greatly enhanced by the fact that ASEAN remains one of the most dynamic of the world's development regions, and offers impressive long term opportunities for economic cooperation.

SOURCE: Delegation of the Commission of the European Communities, Bangkok.