

THE EUROPEAN UNION AND ASIA



Europe
on the move



Training activities for farmers are a key element of the Southern Mindanao agricultural programme funded by the EU in the Philippines.

Asia matters to Europe today as it did in the days of the spice trade and the silk road. It matters for the obvious economic reasons. Asia accounts for half the world's population and a quarter of its production. The European Union, with its worldwide economic interests, cannot afford to neglect Asia and still maintain a leading role in the world economy.

Asia also matters politically. The growing economic weight of Asia is reinforcing its weight on the international political scene. It is in the EU's interest to help Asia play a more prominent role on the world stage.

But the reverse is also true: Europe matters to Asia. Many Asians want a stronger European presence in Asia, at both the economic and political levels. Acting on an Asian proposal, the 15 EU countries and 10 Asian countries, including China, South Korea and Japan, have agreed to hold their very first summit meeting in Thailand in 1996.

In 1994 the European Commission responded to the dramatic changes in Asia with guidelines for a new Asia strategy, based on a partnership of equals. This was approved by the European Parliament, and endorsed by the European Council, within a matter of months.

The EU is working to strengthen its economic relations with Asia on the basis of mutual interest; to contribute to peace and stability in Asia through a broader and deeper political dialogue and to continue its development assistance to the poorer countries and regions of Asia.

ASIA — AN ECONOMIC PROFILE

Statistics do not tell the whole story, of course. Even so, some idea of Asia's economic strength and diversity can be had from the following table, which includes 14 of the 26 countries and territories which stretch from Afghanistan to Japan. It is in Asia that the gap between the rich North and poor South is fast shrink-

ing. Four Asian countries have PPP¹ per person which is higher than the EU average.

EU-ASIAN TRADE

The two-way trade between the EU and Asia is the most dynamic feature of their relationship. Many developing Asian countries have taken advantage of the EU's liberal trade policies and its measures to promote

	Population (million)	GNP (billion USD)	GNP/person PPP ¹	Growth rate 1985-93 ²
Japan	125	3 924	21 090	3.6
China	1 175	581	2 120	6.5
Hong Kong	6	105	21 670	5.3
Republic of Korea	44	338	9 810	8.1
Indonesia	187	137	3 140	4.8
Malaysia	19	60	8 630	5.7
Philippines	66	55	2 660	1.8
Singapore	3	55	20 470	6.1
Thailand	59	120	6 390	8.4
Vietnam	71	12	1 040	4.8
Bangladesh	117	26	1 290	1.8
India	901	263	1 250	3.0
Pakistan	123	53	2 110	1.5
Sri Lanka	18	11	3 030	2.6

¹ Purchasing power parity (PPP) is defined as the number of units of a country's currency required to buy the same amount of goods and services in the home market as one dollar would buy in the US.

² Average annual rate.

Source: The above data is for 1993, and is taken from the 1995 edition of *The World Bank Atlas*, an annual publication of the World Bank, Washington DC.



Contrasting Bangkok. Many developing Asian countries such as Thailand have benefited from the EU's liberal trade policies.

imports from the Third World, particularly its generalized system of preferences (see box), to increase their export earnings. As these earnings have risen, so have the EU's exports.

A good illustration of the dynamics of EU-Asian trade is provided by the EU's trade with ASEAN. Imports from ASEAN rose by some 80% over the five years from 1990 to 1994. The change in the composition of these imports was equally striking. Manufactures, including not only textiles and clothing but also electronic products, accounted for 80% of the total in 1994 (as compared to 70% in 1990).

But EU exports have shown a similar dynamism, rising by 73% between 1990 and 1994. The EU's exports to ASEAN are roughly equal in value to its exports to the 19 Latin American countries. Over half the EU's exports consist of machinery, telecommunications and transport equipment. But the EU is also helping meet the growing demand for quality consumer products from ASEAN's expanding middle class.

EU trade with Asia, 1984 and 1992-94 (in billion ECU)

Imports from:	1984	1992	1993	1994
Japan	26	52	48	49
East Asia ¹	15	41	44	49
ASEAN ²	10	22	26	30
SAARC ³	5	8	9	11
Total (of above)	56	123	127	139
As % of total				
EU imports	14	25	26	26
Exports to:	1984	1992	1993	1994
Japan	10	21	23	27
East Asia ¹	12	28	38	44
ASEAN ²	10	19	23	28
SAARC ³	7	8	9	11
Total (of above)	39	76	93	110
As % of total				
EU exports	11	17	19	20

¹ East Asia: China, Hong Kong, Taiwan, South Korea.

² Association of South-East Asian Nations: Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand. (EU-Vietnam trade is excluded, as Vietnam joined ASEAN in 1995. EU imports from Vietnam came to ECU 876 million and exports to Vietnam to ECU 616 million in 1994.)

³ South Asian Association for Regional Cooperation: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

ECU 1= about UKL 0.843, IRL 0.82 or USD 1.328 at exchange rates current on 30.11.1995.

Source: Eurostat, Luxembourg.

Tariff preferences

Under the EU's generalized system of preferences (GSP), the exports of developing countries in Asia and Latin America have been entering the European market either duty-free or at preferential (i.e. reduced) rates since 1971. Asian countries accounted for some 80% of all EU imports which received GSP treatment in 1993. China, the most important beneficiary, and ASEAN each accounted for some 30% of the total, SAARC for 12%.

In 1995 the EU revised its GSP scheme for manufactured products, in an attempt to spread its benefits more widely. It does this through a 'graduation' mechanism, under which the more competitive developing countries will start to lose GSP benefits for those product sectors for which they no longer need them. But the effect on their exports will be gradual, and likely to be off-set by their general dynamism.

A view of an irrigation channel constructed under the Buner development project with the financial support of the EU and the participation of a water users' association in Shadug village, Pakistan.



Japan

Relations with Japan are handled in the context of the EU's relations with industrialized countries generally, and are focused on economic and trade issues. The chronic trade deficit is seen by the EU as due to the relatively closed nature of the Japanese market, particularly as compared to the European market. In the absence of a level playing field, Japanese motor vehicle exports, for example, are governed by an agreement concluded in 1991. But there are also industrial cooperation programmes covering computer and car components and office automation equipment.

These trends are sustainable. Most Asian countries are firmly committed to opening up their markets to imports and their economies to foreign investment. This is important, given that the World Bank has estimated that half the growth in the global economy will come from East and South-East Asia alone by the year 2000.

But more open markets also mean more competition. In Asia, European exporters will face increased competition from not only the US and Japan but also the Asian countries themselves. Trade between East and South-East Asia has grown so rapidly it has led to a decline in their dependence on markets in Europe and North America.

PARTNERS IN DEVELOPMENT

The European Union is helping some 32 000 rice farmers in Bangladesh to give up pesticide-intensive farming in favour of environmentally-sound production methods; rural Cambodian families to grow enough food to meet their own needs; the fishing fleet in China's Fujian province to increase its productivity and safety; establish self-sustainable village organizations in India's Gujarat State; to resettle 8 000 farm families in Sri Lanka; to reintegrate Vietnamese boat people who have chosen to return to their homes and to improve basic agricultural education in the Philippines.

These are just some of the 268 development projects funded by the EU since the mid-1970s. Another 36 projects were at the launch stage as of mid-1995. The total expenditure on these projects will amount to ECU 5 200 million, of which ECU 2 100 million had been committed by mid-1995. Since 1976, the EU will have

spent some ECU 2 120 million on these 304 projects, once they have all been completed.

EU development assistance, which is in addition to the assistance provided by individual EU Member States, is a clear signal that the EU wishes to enhance peace and democracy in Asia.

In the early 1990s the EU reviewed its development assistance policy in the light of the changed conditions in much of Asia. During the 1980s dairy development projects in India and China had been among the most important activities undertaken by the EU in Asia. These projects were so successful that by 1993 financial aid, to finance milk collection networks, for example, had largely replaced the earlier deliveries of milk powder and butteroil.

The EU decided in 1992 that its development assistance would be focused on the poorest countries and, within each country, the poorest sections of its population. Proshika, a Bangladesh non-governmental organization, is to receive ECU 92 million over a five-year period to enable it to continue helping the very poor with training and social services. A new Indian government programme for improving primary education in several of the country's deprived areas is to receive ECU 150 million over five years.

The EU also provides development assistance in such specific areas as the environment, tropical forests, AIDS prevention and drug control and rehabilitation. In Indonesia, for example, the EU is helping to safeguard an ecosystem, about half the

size of Belgium, which is increasingly threatened by population pressure.

India is the main beneficiary of the funds provided by the EU for development assistance and economic cooperation. As of 30 June 1995 the total amount of the projects to be funded in India by the EU came to ECU 740 million. The other major beneficiaries were: Bangladesh (ECU 342 million), Philippines (ECU 190 million), Pakistan (ECU 181 million), Indonesia (ECU 170 million), Thailand (ECU 127 million), Vietnam (ECU 88 million), Cambodia (ECU 76 million), China (ECU 65 million) and Sri Lanka (ECU 45 million).

PROMOTING ECONOMIC GROWTH

The EU decided in 1992 to encourage economic cooperation in Asian countries or regions with high growth potential, in order to firstly assist them in

Environmental degradation is a major cause of poverty in many rural areas. In Haryana, northern India, the EU is supporting an environmental rehabilitation project managed and implemented by local communities. Restoration of vegetative cover through tree and fodder plantations forms the basis of the project.





Fishermen in Bangladesh. This country is one of the principal beneficiaries of EU aid for development and economic cooperation in Asia.

creating an environment more favourable to trade and investment and, secondly, establish a climate which stimulates trade, favours cooperation between firms and promotes investment by undertakings, particularly small and medium-sized enterprises, in Europe and Asia.

The fact is that with Asian markets for both capital and consumer goods growing rapidly, European companies — particularly small and medium-sized ones — must be more active in Asia, if they are to seize business opportunities as they arise, become more competitive globally and safeguard jobs in Europe.

Economic cooperation is designed, therefore, to encourage European and Asian companies, both public and private, to work together, to their mutual benefit and that of their respective regions. It is not intended to reduce competition between companies, as economic cooperation pursued by the EU is complementary to the actions of individual EU countries.

A continued rise in EU investments and exports requires legislative and regulatory structures which ensure a level

playing field for all economic operators and define the ground rules for relations between companies and States. The EU in fact has been contributing to the establishment of such structures through a wide range of activities.

The EU is providing, for example, technical assistance in standards, quality control and intellectual property rights. In the Association of South-East Asian Nations (ASEAN) this has resulted in the establishment of an ASEAN Consultative Committee for Standards and Quality, with regional authority. In India the EU is helping to train engineers and instructors in quality control and to upgrade test laboratories. In China the EU launched a programme of cooperation in the field of intellectual property rights in 1993.

Afghan refugees. Refugee relief is an important aspect of European humanitarian aid to Asia.



Finance for business

The **European Community Investment Partners** (ECIP) scheme has been designed to help EU companies, and their counterparts in Asia, Latin America and the Mediterranean region, set up joint ventures. It operates through four 'facilities': 1. identification of projects and partners; 2. investment feasibility studies; 3. financing of capital requirements and 4. development of human resources.

Between 1988 and 1994 ECIP had approved 442 projects, for a total amount of ECU 50 million. Investment and feasibility studies received 60% of the total amount approved over the seven-year period. Capital participation by ECIP accounted for just under 25%.

In 1993 the **European Investment Bank** (EIB), the EU's long-term financing institution, started operations in Asia, where it can commit ECU 100 million a year during its first period of operation (1993 to 1995). Priority is given to projects of 'mutual interest' to both the EU and the Asian country in question. Such projects may involve a joint venture, a high level of technology transfer from Europe, environmental improvement and regional integration or closer EU-Asia links.

The EIB had undertaken to finance six projects by the end of July 1995. The projects include electricity development in India (ECU 55 million) and Pakistan (ECU 36 million); natural gas transmission in Thailand (ECU 58 million) and Indonesia (ECU 54 million) and airport modernization and extension in the Philippines (ECU 48 million).



*A street market in
Ho Chi Minh City.
Vietnam benefits
from the EU's
largest technical
assistance pro-
gramme launched
in Asia in 1995.*

Fotostock

Vietnam is the beneficiary of the largest technical assistance programme the EU set up in Asia in 1995. Aimed at helping the country make the transition to a market economy, the Vietnamese programme includes the global reform of the country's accounting system and advice on how to encourage foreign direct investment.

To alert Asians to the possibilities offered by European technology the EU has set up the Asian EC Energy Management, Training and Research Centre in Indonesia and the China-EC Biotechnology Centre in Beijing. The Regional Institute of Environmental Technology, set up jointly with the Singapore Institute of Standards and Industrial Research, maintains a database containing 160 000 industrial contacts in Asia and 27 000 suppliers of components or services in the EU and Asia.

To facilitate partnerships between European and Asian companies, the EU is setting up a network of European Business Information Centres (EBICs) in Asia. They will provide companies with information on markets, investment opportunities and partnership opportunities. The first of these was opened in the Philippines in 1993. Others are planned for Malaysia, Thailand, India and Indonesia.

As the EU's economic cooperation programme plays a catalytic role, the sums devoted to it are considerably smaller than in the case of development assistance. The EU had earmarked a total of ECU 153 million for 81 projects as of 30 June 1995.



U. Wissenbach

POLITICAL DIALOGUE

The confidence which Asian countries are acquiring in the economic sphere is beginning to spill over into the political sphere also. The ASEAN countries set up the ASEAN regional forum (ARF) in 1994, for the discussion of regional security issues. Although a regional forum, participants included not only most Asian countries but also the EU, the United States and Russia.

The EU is already engaged in a political dialogue with several Asian countries, and is in the process of doing so with a number of others. EU and ASEAN foreign ministers have been meeting at regular intervals since 1978.

The political dialogue with countries such as India and China is of more recent origin. Here it is conducted between the foreign minister of the country in question and the EU 'troika', which is made up of the foreign ministers of the country holding the EU's rotating presidency, his predecessor and successor. These dialogues typically consist of a presentation by each side of its domestic situation and discussions on regional and global problems.

The main shopping street in Shanghai, with more than a million shoppers a day. One of the showpieces of cooperation with China is the China-Europe International Business School (CEIBS), set up by the EU in partnership with the city of Shanghai.



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