

EC-ASEAN<sup>1</sup>

Introduction

The signing of the EC-ASEAN Cooperation Agreement in Kuala Lumpur on 7 March 1980 marked the climax of eight years increasingly close relations between the two regions. It was the first agreement between the Community and a group of countries engaged in the process of regional integration. The ASEAN countries have sought an increased European interest not only for the economic advantages but also as a factor of balance within South-East Asia. On the Community side there has been a growing awareness of the value of promoting trade with, and investment in a region which is not only a major source of raw materials, but which also happens to have one of the fastest growing economies in the world.

The cooperation between the Community and ASEAN has a political as well as an economic dimension, as was demonstrated by the two meetings of the foreign ministers of the two regions in Brussels in November 1978 and in Kuala Lumpur in March 1980. The Nine have explicitly recognized ASEAN as a factor of peace and stability in South-East Asia (see joint statement of November 1978). At the Kuala Lumpur meeting the two groups issued a joint statement deploring the continuing Vietnamese intervention in Kampuchea and the Soviet military intervention in Afghanistan.

Institutional relations between the two groupings now exist at several levels. In addition to the meetings of Foreign Ministers, the Cooperation Agreement provides for the establishment of a Joint Cooperation Council to promote and supervise cooperation between the two sides which meets once a year. ASEAN Ambassadors in Brussels maintain regular contacts with the Community institutions, while the Commission opened a delegation for South and South-East Asia in Bangkok in September 1979. There have also been contacts between ASEAN parliamentarians and members of the European Parliament.

ASEAN - historical origins and development

The Association of South-East Asian Nations (ASEAN) was established at Bangkok on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. According to the ASEAN declaration, the aim of the Association is to promote regional solidarity and cooperation and self-reliance in order to ensure not only the economic and social progress and stability of the ASEAN countries but also regional peace and stability.

During its first decade of existence ASEAN initiated regional cooperation in a wide variety of fields. However, the Bali Summit of February 1976 - the first summit meeting of heads of government in the history of ASEAN - really marked a breakthrough in the development of the Association with the signature of the Declaration of ASEAN Concord and the Treaty of Amity and Cooperation. Politically, the Association is committed to preserving the stability of each member state and of the region, particularly against the threat of subversion, to the peaceful settlement of intra-regional disputes and to the creation of a Zone of Peace, Freedom and Neutrality.

As regards economic affairs, the Declaration of ASEAN Concord spelled out the aims of the Association: intensified cooperation in the production and preferential supply of basic commodities, particularly food and energy; the establishment of large-scale ASEAN industrial plants; the expansion of trade

---

<sup>1</sup>Indonesia, Malaysia, the Philippines, Singapore and Thailand.

particularly through the establishment of preferential trading arrangements; and joint approaches not only to international commodity problems and other world economic problems but also in dealing with other regional groupings and individual economic powers, for example in seeking improved access to their markets. It was also decided to set up a permanent secretariat in Jakarta.

Since Bali, there have been follow-up meetings of Economic Ministers and Foreign Ministers, as well as a second summit in Kuala Lumpur in August 1977. Five regional industrial projects have been identified - urea (Indonesia and Malaysia), phosphates (the Philippines), diesel engines (Singapore) and soda ash (Thailand), while rice and crude oil have been marked out for preferential supply in the event of shortage, and preferential trading arrangements are being introduced for an increasing range of products (2 400). The ASEAN countries have also intensified contacts, including ministerial-level meetings with Japan, the United States, Canada, Australia and New Zealand as well as with the European Community. The growing cohesion of the ASEAN group has been demonstrated by their collective reaction to the Vietnamese invasion of Kampuchea and to the problems posed by the mass exodus of refugees.

#### The development of ASEAN-EC relations

The first move to bring about closer relations between the two organizations came from the ASEAN side and was the result of fears about the effect on some of their countries' export trade of the loss of Commonwealth preference on the UK market following British accession to the Community. In June 1972 the ASEAN countries set up a Special Coordinating Committee of ASEAN Nations (SCCAN) consisting of the ministers of trade, and the ASEAN Brussels Committee (ABC) composed of the ASEAN Ambassadors to the Community. An ASEAN delegation under the Indonesian Trade Minister visited Brussels to establish contact with the Commission which welcomed this approach.

Since 1972 a regular dialogue has been maintained between the Commission and the ASEAN countries. Sir Christopher Soames, Commission Vice-President responsible for external relations, twice visited the ASEAN region and took part in SCCAN meetings in Bangkok in September 1973 and in Jakarta in September 1974, when it was agreed to set up a Joint Study Group (JSG) composed of representatives of the Commission and of the five ASEAN Governments. The agreement was formalized by an exchange of Letters in May 1975 which specified that the aim of the JSG was to develop the continuing dialogue between ASEAN and the Commission and to provide a forum for exploring all possible areas where cooperation could be broadened and intensified.

The JSG met for the first time in Brussels in June 1975, and subsequently in Manila (December 1976), in Brussels (October 1977), Bangkok (May 1978) and Brussels (April 1979). Besides acting as a forum for discussing EEC-ASEAN trade relations and international commodity problems, it has encouraged and supervised practical cooperation in such fields as trade promotion, the transfer of technology and industrial cooperation and investment, e.g. the conferences on industrial cooperation held in Brussels in April 1977 and in Jakarta in March 1979.

Following the conclusion of the Community's Commercial Cooperation Agreement with India in December 1973, and the decision to offer similar agreements to the other countries of the Indian sub-continent, the Commission sounded out the ASEAN countries as to whether they were interested in concluding similar agreements with the Community. They all replied that they preferred to develop their relations with the Community on a regional basis, which meant waiting till ASEAN's institutional development made it possible to envisage a cooperation agreement between the Community and ASEAN as a group.

Following the 1976 Bali Summit the ASEAN countries sought to broaden their contacts with the Community institutions in general and with representatives of the Member States in particular. It was accordingly decided to institute a dialogue at ambassadorial level between the ASEAN Brussels Committee on the one hand and the Committee of Permanent Representatives (COREPER) and representatives of the Commission on the other. The first such meeting took place in November 1977, when the ASEAN side took the opportunity to press for a meeting at ministerial level to complement the meeting which had taken place during 1977 with the Japanese, Australian and New Zealand Prime Ministers and with ministers from the United States. The idea of a joint ministerial meeting had already been put forward by the German Foreign Minister, Mr. Genscher, who visited the ASEAN region in Spring 1977, and was taken up again by Vice-President Haferkamp when he visited the five ASEAN countries in December 1977.

The first EC-ASEAN ministerial meeting took place in Brussels in November 1978 and resulted in a Joint Declaration in which the Community recognized ASEAN as a factor of peace and stability in South-East Asia and promised its support for ASEAN's programme of regional cooperation. In order to place relations between the two groupings on a more formal footing, the two sides agreed to start exploratory talks with a view to concluding a cooperation agreement. The negotiations were completed in November 1979 and the agreement was signed in Kuala Lumpur on 7 March 1980 on the occasion of the second EC-ASEAN ministerial meeting. The ministers adopted two declarations, one dealing with the future development of cooperation between the two regions, the other with international problems such as Afghanistan and Kampuchea.

The cooperation agreement, which came into force on 1 October 1980, is the first such agreement concluded with a group of developing countries. It is flexible in scope and covers the following areas:

- most-favoured nation treatment according to GATT;
- commercial cooperation (the parties undertake to study how to remove trade barriers, to take into account their respective needs for improved access, create new trade patterns by bringing together economic operators, recommend trade promotion measures and consult on measures likely to affect trade);
- economic cooperation (e.g. encouraging closer contacts and industrial and technological cooperation between economic operators in the two regions).
- Development cooperation (support for ASEAN development and regional cooperation through the Community's programmes for non-associated LDC's in coordination with member states, promotion of cooperation between sources of finance in the two regions).

The agreement provided for the establishment of a Joint Cooperation Committee to promote and keep under review the various cooperation activities and to provide a forum for consultations between the parties. The first JCC meeting took place in Manila in November 1980 with the participation of Vice-President Haferkamp.

#### Trade relations

Trade relations between the EEC and ASEAN are conducted on an MFN, i.e. non-preferential basis. However, the ASEAN countries all benefit from the Community's generalised system of preferences for developing countries. All five are now among the top twelve beneficiaries and account for over 20% of total Community imports under the GSP.

Trade

Under the Joint Declaration of Intent attached to the Treaty of Accession with the United Kingdom, the enlarged Community undertook to seek appropriate solutions, essentially through the GSP, to the trade problems resulting from enlargement for the Asian Commonwealth countries and other developing countries in the region. Although the GSP is applied autonomously and hence not subject to negotiation, the Community has gone a long way to meet ASEAN preoccupations since the GSP was extended to the UK in 1974, particularly through additions to the list of processed agricultural produce (e.g. various crustacea, coconut oil, tinned pineapples, palm oil, pepper and spices) as well as tobacco and plywood. Further improvements benefitting ASEAN were incorporated in the Community's tropical products offer under the Tokyo Round MTN negotiations, which were implemented in 1977. In order to encourage intra-regional trade within ASEAN, the Community introduced in 1974 a special regime allowing certain products to be imported under the GSP from Singapore, which has an important entrepot trade accompanied by origin certificates from ASEAN countries. Since 1975 the Community has applied the principle of cumulative origin of imports from regional groupings such as ASEAN. In order to improve knowledge of the scheme among exporters and government officials in ASEAN, the Commission organises a regional seminar every year on the operation of the GSP.

As regards trade in textiles, bilateral agreements were negotiated by the Community with the five ASEAN countries at the end of 1977 in the framework of the Multifibres Arrangement (MFA). These agreements, which cover the period 1978-1982, set out self-restraint levels for a number of sensitive products as well as providing machinery for establishing limitations where necessary on all other products covered by the MFA.

ASEAN exports of textiles and clothing to the EEC have developed reasonably well compared to the 1976 base level used for the negotiation of the agreements and have considerably exceeded the 6% annual growth rate laid down by the MFA, as the following table shows:

EEC imports of MFA textiles and clothing (in tonnes)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980 (6 months)</u>
ASEAN	50 777	55 348	54 557	64 539	35 318
<u>of which</u>					
Thailand	18 040	19 901	22 195	24 010	13 727
Singapore	13 364	13 513	11 021	13 773	7 096
Malaysia	13 668	13 589	13 979	13 768	6 967
Philippines	5 382	5 760	5 428	9 795	5 221
Indonesia	323	585	1 934	3 193	2 317

EEC imports of textiles and clothing from ASEAN increased from 43 million EUA or 2.4% of total imports from that region in 1973, the year the MFA was negotiated, to 10 467 million EUA or 8.6% of total imports from ASEAN in 1979.

EEC imports of all textiles and clothing (in millions of EUA)

	<u>1973</u>			<u>1979</u>		
	<u>Textiles</u>	<u>Clothing</u>	<u>Total</u>	<u>Textiles</u>	<u>Clothing</u>	<u>Total</u>
ASEAN	13.1	29.6	42.7	138.8	328.2	467.0
<u>of which</u>						
Thailand	4.3	2.2	6.5	83.4	59.3	142.7
Singapore	5.6	20.8	26.4	15.3	100.8	116.1
Malaysia	2.0	5.7	7.7	32.0	51.6	83.6
Philippines	1.0	0.8	1.8	4.2	98.2	102.4
Indonesia	0.2	0.2	0.4	3.9	18.2	22.1

Development cooperation

Under the aegis of the JSG a wide range of cooperation activities have been initiated: funds for technical assistance to regional integration between developing countries have been used to study the harmonization of ASEAN trade statistics and to finance visits by senior ASEAN officials to study the functioning of the Community. The fund for export promotion has been used by the Commission to finance participation by the ASEAN countries in numerous trade missions, trade fairs and exhibitions in Europe as well as European buying missions to ASEAN. The Commission has also provided expert assistance on a number of marketing problems and published a basic trade information guide to the ASEAN countries. The Commission has also financed a training course for the managers of small and medium-sized enterprises and a training programme for upgrading the skills of technicians from the ASEAN countries. Indonesia, the Philippines and Thailand have benefitted from the Community's food aid programme. Since 1976 rural development projects in Indonesia, the Philippines and Thailand have been financed from resources available under the Community's programme of financial and technical assistance to the non-associated developing countries.

The following table indicates the volume of Community financial assistance to the ASEAN countries, which has amounted to over \$100 million since 1976:

	<u>Community financial aid (in million US\$)</u>				
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
EEC project financing	2.07	3.43	11.44	27.8	37.2
EEC food aid (direct + indirect)	2.97	4.00	2.12	1.40	4.7 <sup>1</sup>
EEC trade promotion	n.a.	1.20	1.17	2.17	2.0
Total EEC aid (commitments)	5.04	8.63	14.73	31.37	43.9

<sup>1</sup> At world market prices

It is in the area of investment and industrial cooperation that the most significant cooperation has taken place. In April 1977 the Commission organized, with the help of a group of European banks, a first conference on industrial co-operation between the two regions which brought together 500 European and ASEAN senior businessmen and government officials. This allowed ASEAN for the first time to present the investment potential of the ASEAN region as a whole to a top-level audience of European industrialists and bankers.

A second conference was organized by the Commission and the ASEAN Governments in Jakarta in February 1979 with the cooperation of four major European banking groups. It concentrated on the detailed discussion of specific ASEAN projects in eight sectors (chemical industries, electrical and electronics industries, industrial transformation of agricultural products, machinery and metal engineering industries, timber and timber-based industries, precision engineering industries, transport and communications equipment - manufacturing industries, export crops plantations).

In addition to the conference on industrial cooperation which it is hoped will stimulate European investment in the ASEAN region, links have been established between the Commission's Business Cooperation Centre and the ASEAN investment boards, while it is also planned to set up an EEC-ASEAN Business Council with representatives of the Chambers of Commerce and Industry on both sides. The Commission has also organized a series of seminars on the management of the transfer of technology for ASEAN businessmen and officials.

### The economic background

The five ASEAN countries have a total population of 250 million (1978), slightly less than the European Community. This compares with just over 300 million for both the 20 countries of Latin America and the 60 ACP countries. South-East Asia is the fastest growing region in the world. Within ASEAN itself the annual rate of growth of GDP in real terms between 1973 and 1978 varied from 6.8% to 7.9%, implying a doubling every 8 to 12 years. In 1978 GNP per capita was already \$1 055 (Singapore \$3 166, Malaysia \$958, the Philippines \$450, Thailand \$403 and Indonesia \$301).

In addition to its rapidly expanding domestic market, the region is exceptionally rich in natural resources. It is the principal supplier of natural rubber (80%), abaca fibres (80%), tropical hardwoods (75%), palmoil (60%) and coconut (50%), as well as being a significant producer of oil, tin, copper, sugar, coffee, tobacco and rice. The ASEAN countries are also actively seeking to attract foreign investment not only in basic commodities but also in manufacturing, which represents a growing percentage of GNP and exports.

The EEC's main traditional imports from the ASEAN region are Lumber (11.6% of total imports in 1979) and rubber (10.8%), manioc (9.7%), tin (6.6%), palm-oil (5.3%) and plywood (2.9%). Apart from the special case of manioc imports which increased four-fold between 1973 and 1979, the fastest growing import categories are clothing and textiles (8.6%) and electrical machinery and appliances (8.5%). The share of manufactured goods in EEC imports from ASEAN was 36% in 1979 as opposed to 25% in 1973.

EEC exports to ASEAN rose from 1 656 million EUA in 1973 to 4 344 million EUA in 1979 (+ 162%), while EEC imports from that region increased from 1 777 to 5 424 million EUA (+ 205%). Although the Community recorded a modest surplus in 1974 and 1975, it has since had a deficit on its trade with ASEAN which reached 1 080 million EUA in 1979. The ASEAN share of the Community's export trade has risen slightly from 2% in 1972 to 2.2% in 1979, when ASEAN provided 2.4% of EEC imports. ASEAN thus remains a less important market for the Community than the ACP countries (5.6% of total exports in 1976) or Latin America (6.9%). On the other hand, the Community's share in ASEAN's external trade has dropped from over 20% in 1960 to about 16% in 1973 and 14% in 1979. Japan has become ASEAN's principal partner with about 25% of the region's external trade, followed by the United States (17%).

7.

Much the same trend can be distinguished in the investment field. Japanese investments in ASEAN have grown rapidly and at the end of 1977 were estimated to represent just over 32% of total foreign investment in the region as against about 26% for the US and about 14% for the EC. In 1977 the Community accounted for approximately 9% of new foreign investment in Indonesia, 18% in Malaysia, 11% in the Philippines, 32% in Singapore and 13% in Thailand. Japanese investment was particularly significant in Indonesia, the Philippines and Thailand.

Brussels, 26 November 1980