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International Trade and Industrial Cooperation Between ASEAN and the EC

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1. Introduction

The EC is one of ASEAN's major trade partners. ASEAN recognizes that the EC is an important and influential economic bloc that would be in a position to contribute significantly to the world economic order.[1] ASEAN exports to the EC have been increasing over the past year. They are encouraged by a generally open trading environment and by policies designed to facilitate imports such as special tariff preferences and trade promotion schemes, and indirectly by development aid and technical assistance programmes aimed to improve production and to expand exports.[2]

For instance, it is well known that the EC is ASEAN's third major trading partner after Japan and the U.S. Since the signing of the Cooperation Agreement, trade between the ASEAN countries and the EC has increased by 34 percent from U.S.$ 16.8 billion in 1981 to U.S.$ 22.5 billion in 1987. In 1986, ASEAN's exports to the EC amounted to U.S.$ 8.2 billion and they further increased by 37 percent, registering U.S.$ 11.2 billion in 1987, whereas ASEAN's imports from the EC amounted to U.S.$ 8.5 billion and augmented by 32 percent to U.S.$ 11.2 billion, respectively.[3]

As for the EC, it has economic power that can hold a balance with other economic powers, notably Japan and the U.S. At the same time, the EC is also the largest investor in the developing world. Besides, it is a significant importer of both manufactured and primary commodity products from the developing countries.

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ASEAN represents a middle-income, market economy and Western-oriented group of developing countries. Both groups hold a common view in many areas of international economic issues. Hence, close co-operation, consultation, and collaboration between the two groups is desirable.[1]

In this context, this article focuses on international trade and industrial co-operation between ASEAN and the EC: obstacles, options and opportunities. It consists of six sections. Section one is an introduction. Section two outlines the situation of EC industry. Section three concentrates on EC industrial policies. Section four illustrates EC and ASEAN economic co-operation. Section five considers the EC Single Market in 1992: its protectionism and its impact upon ASEAN. Section six is a summary.

Before going into the details of EC industrial policy, it may be useful to consider the situation of EC industry.

2. The Situation of EC Industry

In order to understand the situation of European industry, we must consider two factors: first, the trends in technological change, and secondly the major aspects of industrial evolution at the worldwide level.

2.1 Trends in Technological Change

The great technological advances which are reshaping the future of EC industry are well known.

First, the electronic revolution is in the process of reorganizing almost all the industrial activities of the twentieth century. It is developing production processes, modifying existing products and relative cost, saving labor, and giving birth to a variety of new equipment for firms and households. The rapid decrease in hardware cost opens huge technical possibilities, the adoption of which will depend on software expense and on information value for users. Although its long-term impact on the level of unemployment is disputed, it alters the professional content of many jobs and changes the relative scarcities of many professional abilities.

Second, a major aspect of industry is new developments in energy production and conversion, for example, the production of nuclear electricity, the increasing share of electricity in industrial energy consumption, the necessity for energy saving, the replacement of fuel oils by coal, the search for off-shore oil, and the take-off (all only at the research level) of future renewable energy sources, like solar energy, biomass, breeder reactors and fusion power.

Third, as regards biotechnology, main industrial groups have to take positions now in order to be competitive within ten or twenty years.

Finally, new materials (ceramics, plastics, etc.) are being created. According to specialists, these will be designed to meet a priori requirements, creating a revolution that will change the total industrial process with respect to materials.[5]

Looking now at international specialization, significant differences appear between countries. The EC is seen to be in competition in the ASEAN region with Japan and the U.S. Japan is characterized by her great number of sectors having external surpluses. The major exporting industries (measuring instruments, transport equipment, watch making, machinery, electric and electronic appliances) constantly improve their positions. The steel and chemical industries remain with a surplus, although their balance is decreasing. In contrast, textiles and other deficit industries (e.g. basic chemicals, agro-food and paper) see their deficits increasing.

The same divergence between sectors can also be seen in the U.S. Her balance is becoming more positive for exporting industries such as aeronautics, computers, office machinery, and precision instruments. The position is depreciating for a second group (machinery, chemical products, and electrical equipment), which succeeds however in maintaining a surplus. As for a third group (including steel and metal products, textiles, clothing, leather, transport equipment, optical equipment, watches, cameras, and electronic products - excluding computers), the deficit increases more and more.

In other words, Japanese and American industrial structures tend to be organized around competitive poles, within which the complementarity between activities reinforces external competition.[6]

2.2 The Uncertain Prospects of EC Industrial Evolution

At the beginning of the 1980s, the EC industrial scene was observably characterized by the simultaneous existence of strong solidarities and intense internal tensions.

In this regard, in 1980, intra-EC trade in manufactures represented 21 percent of world trade in manufactures. Besides, for the EC countries as a whole, intra-EC exports reached nearly 50 percent of their total manufactured exports.

Another aspect of this solidarity is the fact that the EC nations are all faced with the same industrial problems. All members are confronted with difficulties in traditional sectors (shipbuilding, steel, and textiles, etc.) in the context of low growth and high unemployment. In addition, all countries have problems with the insufficient take-off of high-technology sectors like electronics. Moreover, all members must meet Japanese competition in several sectors, such as automobiles, electronics, and mechanical equipment.

But the existence of such solidarities ought not to hide the progressive development of internal tensions since the mid-1970s. These tensions appear as follows:

In 1980, Germany and Belgium had a strong industrial surplus with the rest of the EC. Otherwise, Italy was in equilibrium. But France and the U.K. had strong deficits, which they had to compensate for by their surpluses with the rest of the world. Moreover, the Netherlands' situation was still more difficult since the surplus with the rest of the world was lower than the deficit within the Community.

Because of her strength, German industry structures her industrial relations within Europe. Therefore, French industry, which is more competitive with German industry than complementary, must look for surpluses outside Europe. On the contrary, Italian and German, or Italian and French competition poles are more complementary. In sum, the reinforcement of extra-European competition and the decline in absorption capacities of the Third World have intensified competition within the EC itself.

Another cause of tension is that there is insufficient cooperation between European firms or between governments with respect to industry. There also exist socio-cultural barriers and practices of national authorities that sometimes make it more difficult for a European firm to take advantage of the Common Market than for an American corporation.[7]

Obviously, industrial problems in today's world are a common concern of all advanced and developing economics. Hence, it is important to study in detail EC industrial policies.

3. European Community Industrial Policies

EC industrial policies are themselves a most complex concept, because of wide differences among the different nations, even within Western Europe, and a certain division of powers between the EC and its members.[8]

3.1 Examples of EC Industrial Policies

In order to promote a European strategy, the EC has evolved an approach to negotiating with various governments and industry to work out constructive alternatives. The following are some examples:

a. Steel: The EC has pushed through a comprehensive, integrated policy that concentrates on the progressive restructuring of the industry, applying its power under the European Coal and Steel Community (ECSC) Treaty. The measures are as follows:

- Internal market organization: a system of production quotas and guidance prices in a still highly fluid European market,
- External trade: voluntary export restraints by third countries,
- State aids: a code authorizing national aid in return for cutbacks in overcapacity, and a return to profitability,
- Steel investment loans,
- Low-interest loans for the redevelopment of steel-producing areas, and
- Tide-over and retraining assistance for superfluous steelworkers.

b. Oil-refining: As a result of overcapacity in this sector, the EC has recommended that firms ought to organize themselves in such a way as to reduce their capacities. Also, governments should not grant any further aid for the creation of new capacity.

c. Textiles: Protection under the MFA is now coupled with a strict policy on national aid, which is only authorized if structural reorganization, and profitability are the result.

d. Machine tools: Japan has made her home market impenetrable for foreign competitors and simultaneously launched a ferocious offensive focusing on the numerically-controlled machine sector. In the face of this mounting Japanese competition, the EC machine tool industry has turned to the EC for help with its attempts to strengthen its industrial base.

The EC has decided to support the industry's efforts through measures designed:

- First, on the demand side: to provide support in connection with market exploration, to help replace the balance of trade with Japan, and to support productive investment and the harmonization of user demand, and
- In contrast, on the supply side to encourage structural adjustment, and the extension of advanced technology in this sector, to support finance of innovation through the European Investment Bank.

e. Information technology: an understanding on growth strategy exists between governments and companies. The following are in operatation:

- "technology-push" policies: ESPRIT for "pre-competitive" technology has been set up by the twelve largest European companies, but it is also open to small- and medium-sized enterprises, research institutes, and universities,
- "demand-pull" policies: encouraging European standards; deregulating and progressively opening-up public-sector telecommunications buying; installing prototype integrated digital networks for European Institutions; as well as supporting data banks and on-line networks,
- Community funding: the NCI, along with the EIB, will fund main infrastructure and energy projects, make loans to small- and medium-size firms, as well as to innovative projects,
- Compact audio-discs: when a European producer brings out a whole new product, perfected using its own technology, the EC should give it adequate protection during the launching period (as it has done for Philips, etc.).[9]

In some fields, Europe may be seen to be the industrial aggressor, remarkably, in civil aircraft and other new sectors of high technology.[10]

3.2 Competition and Industrial Policy in the European Community

In addition, European industrial policies have also originated in the endeavour to save the old basic industries that were the first to suffer from new competition from other parts of the world and from wage and cost driving. Typical developments in European industrial policy were the encouragement, subsidizing, or stimulation of industrial research.[11]

Notably, Europe has a long tradition of activist industrial policies for identifying and stimulating industrial sectors and enterprises which are deemed by policy-makers to be important. Several instruments are used in order to create and sustain "national champions", such as credit policies, subsidies of all kinds, protection from outside competitors, and procurement policies.[12]

In the sixties, trade performance and competitiveness became the critical motive for some industrial policies. Hence, technological independence was thought to be important for long-term competitiveness. The combination of trade and independent goals led to the creation of "national champions": large enterprises favoured by national procurement policies, capital sources, etc., and able to negotiate with American companies on the terms under which U.S. technology was applied. As long as the primary trade competitors of such firms were other European champions, and as long as U.S. technology was critical to success, the natural partners of such champions were American companies.

Later, in the seventies, with the technological gap having narrowed, and world-market rather than intra-European competition the primary concern, the logic that led to the creation of national champions was starting to operate in favour of creating European champions. Airbus Industry is the prime example. During this period, all European countries began active regional policies. As for Europe, the period of protection came to an end in the early seventies. The dynamic competition is in the speed at which capital equipment is modernized and hence the latest technological opportunities are utilized. Another key factor is the willingness of labour to allow the resultant productivity gains to be realized at all, and the resistance of labour and public authorities to the job loss implications of more efficient plants.[13]

During the early 1980s, the EC industrial strategy decisively shifted away from worrying too much about maintenance of aid to traditional or declining industries, to extensive documentation of the EC industries' declining competition in the world market, especially for advanced industries. The majority of advanced industries are characterized by high risk and uncertainty in product development, large economies of scale, and high financial entry barriers. This is true in telecommunications, aircraft, larger computers, semiconductors and most advanced weaponry, and advanced specialized machinery (off-shore drilling, and large compressors, etc.).[14]

During 1982 and 1983, the EC slowly realized that competition in the "newer" industries was not satisfactory and worsening. It meanwhile agreed upon a number of R & D programmes in advanced industries. There are also advanced programmes in biotechnology, metal engineering and basic technology. There is also an insistence on arriving at EC standards and norms in biotechnology before indeed production processes have become mature. Moreover, there is world-wide competition in tenders for computerized, electronic telephone switching systems that need both technological leadership, and an existing capacity to supply on a very large scale.[15]

In the Common Market, the role of Brussels in industrial policy depends principally on a prior decision on trade policy.[16] It was realized, at the beginning, that the alternative to large European enterprises were small national champions, protected from competition by national procurement markets and subsidies. True competition, and the capacity to compete on world markets, could therefore be augmented by reducing the number of what are non-competing firms.

Agreements between enterprises which limit competition could be allowed where they contribute to the improvement of the production or distribution of products or to the promotion of technical or economic progress.

As to the development of a common policy, the higher stage to accomplishing "communality" of policy is coordination: several governments discuss together their plans for transport, energy, and science policy, etc. with the aim of achieving consistency, or as in the case of transport and technology, to prepare the ground for multinational cooperation in common projects.

In this regard, an active industrial policy can accelerate the creation of viable activities to replace uncompetitive ones, thereby enabling some of the existing protection to be relaxed or removed. But the Community and its members are not as yet skilled enough in conducting such an industrial policy to avoid the use of a substantial degree of protection.[17]

Hence, EC industrial policies are a case of European rather than national industrial policies. They rest on the following grounds:

- Eliminating the inefficiencies of more or less completely national policies,
- Reducing unfairness that arises from the fact that few members own both the resources and the national market to support the appearance of a successful national industrial policy. In practice, Germany is probably alone in this context. These differences contribute to the growing divergencies in the performance of the national economies within the EC,
- Keeping the domestic market as open and competitive as possible and encouraging new activities.
- The EC industrial strategy is both an economic and a political idea. Because there exist conflicts between one member's policies and what is happening in another economy, the suitable political level for conception, implementation, and control of industrial policies is the Community itself.[18]

In this perspective, EC industrial policies ought to be sectorally neutral in creating a framework within which there is mutually beneficial intra- and inter-industry specialization. The major areas for action will be:

- Harmonization of company law and fiscal administration,
- Expedited development of European standards,
- Review of the impact of competition policy on specialization agreements between enterprises,
- Tighter supervising of national industrial policies (subsidies, and public buying)

to avoid distortions to trade, and,

- Adjustment of the public infrastructure for firms via programmes of education, research, training, energy use, transport, and technology transfer.[19]

3.3 New Aspects of EC Industrial Policies

The EC Treaty has identified pre-conditions for successful national policy measures. Three such pre-conditions are as follows:

a) Main restructuring and stimulation schemes must progress via the Community, since they necessarily involve commercial policy, national aid, and emphasis on co-operation at least with the relevant EC market,

b) Co-operation between government and private enterprises is essentially at the EC level, and

c) There ought to be a threat of domination for the partner to be in a position to call on the backing of the public authorities and funds from the national budget. In this regard, the EC framework, provides guarantees (free movement, public contracts and rules on aid).

In consequence, the EC can meet these pre-conditions though the following channels:

- First, unification of the Common Market by doing away with non-tariff barriers (NTBs) between its members in the sector in question,
- Second, definition of new ground rules for mixed economies in the Community, and
- Finally, Community preference for European industry (the EC NTBs, R&D, export credit, coordinated public-sector procurement, and access to the EC financial instruments) as well as, where appropriate, "topping-up" of trade protection (quantitative arrangements and unbinding Common Customs Tariff [CCT]).[20]

After considering the European Community industrial policies, this study moves in more detail to EC and ASEAN economic co-operation.

4. EC and ASEAN Economic Co-operation

Southeast Asia is the world's fastest-growing region.[21] The ASEAN region is generally seen as one of the most dynamic in the world today.[22] It is one of the rare regions of the world where incomes are increasing.[23] In ASEAN, the attitude toward foreign investment is generally favourable. It accepts that private foreign direct investment, especially by transnational corporations (TNCs), brings in a package form the necessary finance, management and entrepreneurship, marketing and technology expertise required for industrialization, though there is an increasing attempt to depackage the direct investment components, and develop alternative forms of foreign participation in the resource sector.

The overall investment climate of the ASEAN nations, their investment promotion programmes and foreign investors' motives for overseas ventures provide some explanation of private direct investment flows.[24] For instance, trade and investment are equally important to ASEAN in its relations with the EC. For the realization of their industrialization programme, the ASEAN members need foreign direct investment, which would bring capital, knowhow and transfer of technology from the industrialized states.[25] But, EC investors have been slow in grasping these opportunities for reinforcing economic links with ASEAN.[26]

Obviously, in the trilateral competition on the ASEAN market between the "Great Trilaterals" - Japan, the U.S., and the EC - in the most recent period, the EC lost a lot of its importance as a trade partner of ASEAN.[27]

As for ASEAN, it will seek greater co-operation with the EC.[28]

However, EC-ASEAN co-operation is much closer now. Areas of co-operation have enlarged to cover energy, mining, industry, shipping and science, as well as technology.

ASEAN feels that the EC ought to have a stronger presence in the region. This may partly come from ASEAN's desire to reduce its reliance on the U.S. and Japan.[29]

But ASEAN officals note that European businessmen still prefer to put their money in Europe and North America.

What also worries ASEAN is the question of whether the EC will apply the principal of "reciprocity" in return for opening up its markets to ASEAN after 1992. Reciprocity will entitle ASEAN firms operating in Europe to the same treatment and privileges given to EC companies, provided these companies doing business in ASEAN receive the same treatment in return. In this regard, the EC dropped hints about its desire for reciprocity, when it responded to ASEAN's call for better market access and a more open trade policy for textiles, clothing, tropical and agricultural products. The EC also called for improved access to the ASEAN market for motorcars, computers, pharmaceutical and chemical products through cutbacks in tariff and other barriers.

Another area of contention between ASEAN and the EC concerns the Uruguay Round of trade talks. ASEAN ministers complained that progress in the various negotiating groups had favoured only the developed countries.[30]

In 1991, the EC and the six ASEAN nations agreed to widen their trade and economic co-operation through more collaboration in science, industrial joint ventures and investments.

As for ASEAN, its members insisted on concentrating on economic issues and trade, at the same time as the EC wanted to extract from them concessions on human rights.

But ASEAN wishes to strengthen scientific technical, industrial, investment, research and cultural contacts.

The EC agreed to encourage trade promotion, new investments in ASEAN countries and joint ventures between businessmen in the two regions.

Finally, ASEAN feared that the EC would turn protectionist when it became a single market in 1993.[31]

For the purpose of study in detail, it is instructive to consider ASEAN trade with the European Economic Community, the GSP quota as a threat to ASEAN, and EC-ASEAN investment co-operation.

4.1 ASEAN Trade with the European Economic Community

Nowadays, ASEAN sees the Community as a future trading partner that could help lessen its heavy economic dependence on Japan and the U.S..[32]

As mentioned in sections three and four, ASEAN's external trading partnership with Japan and the U.S. expanded rapidly. This has remarkably promoted export-led growth for Singapore and Malaysia, while inducing shifts towards export-oriented industrialization in Thailand, Indonesia and the Philippines.

ASEAN trade with the EC is smaller than its external trade with Japan and the U.S. In 1986, sales to Japan and the U.S. gradually augmented as proportions of the total (21 percent and 16 percent), while those to the EC (12 percent) are tending to decline. ASEAN imports from Japan and the U.S. are 26 percent and 19 percent of the total. This is obviously a higher level of trade dependence on these two countries. This is reflected besides, in a low EC share of total ASEAN imports (10 percent). Contrariwise, it is attributable primarily to higher levels of activity in Southeast Asia by Japanese and U.S. enterprises engaged in trade, manufacturing and extractive operations.[33]

Table 1 shows EC-ASEAN trade (1982-1986). In 1986 imports into the EC (which has since included Spain and Portugal) from ASEAN increased by 19 percent to U.S.$ 9.0 billion while EC exports rose by only 12 percent to U.S.$ 8.3 billion. As a result, the EC recorded a trade deficit with ASEAN of U.S.$ 700 million in 1986, up from a shortfall of only U.S.$ 135 million in 1985.[34]

However, in spite of ASEAN's rapid economic development and its historical links with Europe, ASEAN's share in global Community trade remains low, as shown in Table 2.

While ASEAN exports to the EC have generally been primary products, manufactured exports have grown in relative importance.[35]

ASEAN's main exports to the EC are timber, electrical machinery, manioc, natural rubber, clothing, textiles and coffee. These seven products account for almost two-thirds of ASEAN exports to the EC. ASEAN is an important supplier of raw materials for the Community, being a principal supplier of natural rubber, tropical hardwood, Manila hemp, palm oil and coconut oil. On the other hand, Community exports to ASEAN consist of machinery, chemicals and transport equipment.[36]

Table 3 illustrates the changing composition of ASEAN exports to the EC over large categories of raw materials, agricultural products and manufactured commodities.[37]

Table 1 EC-ASEAN Trade, 1982-1986 (US$ mill)

	1982			1983			1984			1985			1986**		
	M	**X**	**B**	**M**	**X**	**B**	**M**	**X**	**B**	**M**	**X**	**B**	**M**	**X**	**B**
Thailand	1,707	859	-848	1,396	1,128	-268	1,511	1,021	-490	1,662	1,212	-450	2,127	1,464	-663
Brunei	25	110	85	41	195	154	25	199	174	31	123	92	102	274	172
Indonesia	1,167	2,819	1,652	1,228	2,020	792	1,213	1,841	628	1,386	1,635	249	1,603	1,833	230
Malaysia	1,731	1,272	-459	1,834	1,463	-371	2,163	1,539	-624	2,035	1,171	-864	2,127	1,292	-835
Philippines	979	762	-217	971	982	11	1,034	507	-527	899	467	-432	1,093	638	-455
Singapore	1,355	2,482	1,127	1,575	2,458	883	1,676	2,686	1,010	1,574	2,844	1,270	1,979	2,825	846
ASEAN*	6,939	8,194	1,255	7,004	8,051	1,047	7,622	7,793	171	7,587	7,452	-135	9,030	8,327	-703

Note: M = EC imports

X = EC exports

B = EC balance

* As Brunei joined ASEAN in 1984, the ASEAN figures include Brunei thenceforth.

** EC includes new members i.e., Spain and Portugal

Source: EUROSTAT.

Delegation of the Commission of the European Communities for Southeast Asia, *The European Community and ASEAN* (Bangkok: Allied Printers, 1987), p.12.

Table 2 Shares of Developing Countries in EC Trade (in percent)

	1979		1982		1984	
	Exports	**Imports**	**Exports**	**Imports**	**Exports**	**Imports**
ASEAN	2.2	2.5	2.9	2.2	2.8	2.5
L America	5.4	5.4	4.6	5.7	3.8	6.3
ACP	6.1	6.8	6.4	5.5	4.7	6.5

Source : Commission of the European Communities, Directorate General for Information, *Europe Information, External Relations: The European Community and ASEAN.* Tilak Doshi, "ASEAN-EC Economic Relationships: Trade", in *Forum on ASEAN-EC Economic Relations jointly organized by Center for Research and Communication, Manila and Institute of Southeast Asian Studies, Singapore,* 4 November 1988, p.5.

Among the members of the EC, within the group of twelve, West Germany is the most significant trade partner of ASEAN, followed by the U.K., which has traditional political and economic relations with the ASEAN region.[38]

In this regard, Singapore, Malaysia and the Philippines are the major ASEAN host countries for European direct investment.[39]

Concerning Singapore, among the products that the mission members hope to sell to Singapore are energy-saving revolving doors for public buildings, bathroom accessories and sanitary fittings, solar-energy and hot-water systems for domestic and industrial uses and electrical switches.[40]

As for Indonesia, the only service where she can hope to show a rapidly growing surplus is tourism, where Western Europeans are expected to contribute a great deal.

According to Malaysia, she has a relatively big deficit in her trade in services, partly because of the large number of Malaysians studying abroad.

Regarding the Philippines, she possesses a rough balance in her trade in services, thanks to personal income from abroad which amounted to 809 million dollars in 1987. However, her deficit in investment income amounted to 2.4 billion dollars in 1987.

But Singapore's balance of trade in services is positive. She has practically no external debt and her export in transportation services amounted to 959 million dollars in 1987. Her trade in transport is also positive. But her service export comes from tourism and travel which amounted to 1.9 billion dollars in 1987 against imports of only 385 million dollars. Thailand is similar to other ASEAN members outside Singapore, as regards investment income.[41]

Hence, it is obvious that service exports to the EC have increased tremendously over the last 20 years, in special categories such as tourism and air transport. All ASEAN members have improved the international competition of their airlines and captured substantial market shares in EC-ASEAN air traffic with both passengers and cargo. Some states such as Indonesia, Thailand, and Singapore have furthermore become attractive destinations for tourists from EC countries. Besides such activities, Singapore has developed into an international financial center with increasing importance also for consumers in the EC.

Future perspectives for ASEAN exports to the EC hinge on three principal determinants: institutional barriers to market access, the attitude of EC enterprises toward the ASEAN region, and the result of present GATT negotiations.[42]

In this context, market access is the major area of issue in the frequent interaction between the EC, its members and the ASEAN countries.[43] ASEAN's small share of the EC market reflects the continuing problem of market access.[43]

However, by 1993 the EC members were supposed to have eliminated the remaining barriers that hindered the exchange between them not only of products and services but also of capital and labor.[44]

Table 3 Breakdown of ASEAN Exports to the EC (in percent)

	1973	1980	1984
Raw materials	39.6	24.1	175
Agricultural products	34.3	28.7	331
Subtotal	73.9	52.8	506
Manufactured products	25.5	35.7	460

Source : Commission of the European Communities, Directorate General for External Relations, Information Note, *EEC/ASEAN Relations 1980-1984*. Tilak Doshi, op. cit., p.7.

4.2 GSP Quota a Threat to ASEAN

Primarily, the Community has made a substantial effort in the framework of its GSP, to provide easier access to the Community market for products of special interest to the ASEAN countries. It has done this both by improvements in the scheme and by a modification of the rules of origin to encourage intra-ASEAN co-operation. These efforts have borne fruit as ASEAN is now one of the largest beneficiaries of the Community's GSP. In 1986, about U.S.$ 2.5 billion worth of exports from ASEAN benefitted from the GSP of the EC. So far about 25 percent of total ASEAN exports to the EC has annually enjoyed GSP privileges from the EC.[45]

As for ASEAN, it is very interested in the EC GSP. This scheme is intended to improve access to the Community market for semi-finished and finished goods of developing countries such as the ASEAN nations. ASEAN has consistently acknowledged and recognized the role of the EC GSP as an effective instrument in expanding ASEAN-EC trade relations. The five ASEAN members taken together have been among the leading beneficiaries of the system, accounting for 42 percent of all Community imports under the GSP in 1983.[46]

The GSP is especially important to ASEAN as it constitutes the only form of preferential access to the EC market. Therefore, one of the significant issues discussed between ASEAN and the EC Commission is that of improvement of the system. Such improvement as requested by ASEAN, ought to include wider product coverage, higher tariff concessions, increase of import quotas and ceilings, and acceptance of the ASEAN rules of origin.[47]

Indeed, ASEAN exports of products covered by the GSP more than doubled between 1978 and 1985, as indicated in Table 4. However, only 42 percent of these exports actually entered the EC market duty-free or, in the case of some processed agricultural goods, duty-reduced. Between 1978 and 1985 the preference-receiving share in total GSP-covered exports to the EC rose, but there were some difference among the EC members. Some states, especially France, the U.K. and Ireland, seem either to have applied the sophisticated GSP rules in a rather restrictive manner, or overproportionately to have imported products from ASEAN which are subject to strict tariff quotas. But other members, West Germany and Denmark, appear to have been more liberal though even in these cases the preference-receiving share did not exceed 50 percent.

As a whole, the GSP has been of only limited relevance for ASEAN as an export-stimulating instrument. Many important agricultural products of export interest to ASEAN are excluded from it. Other ASEAN exports (textiles and especially consumer electronics) confront limiting tariff quotas, because states such as Singapore and Malaysia were classified as "very successful suppliers" in the GSP reform of 1981, which increased country-specific selectivity in the system.[48]

We can note that the increment in the quota restriction of the GSP threatened to affect the long-term development and industrialization efforts of ASEAN. Besides, ASEAN's small share of the EC market reflected the continuing problem of market access.[49]

In 1990, ASEAN urged the EC to have a more open trade policy for its textiles, clothing, tropical and other primarly products.

On its part, the EC called for better access to its products such as cars, computers, and chemical products. It also asked that its access to supplies of raw materials be maintained. In calling for greater market access, both sides agreed that the EC GSP was an "important tool" to diversify and increase ASEAN exports to the EC.[50]

Besides, the EC expressed its willingness to change its trading pattern with the ASEAN countries from one of importing raw materials to importing finished products. The target can be achieved in 1991, provided the EC:

- Practices an open market policy,
- Provides industrial assistance, and
- Helps ASEAN countries overcome national debt problems.[51]

Furthermore, there are other aspects where the EC could contribute to relaxing ASEAN difficulties, as follows:

a. The EC ought to relax its Common Agricultural Policy (CAP), which has limited the import of ASEAN commodities. The commodity in point is sugar, for which ASEAN presses the EC to essentially reduce its sugar subsidies and allow access to its market, and

b. The EC with its advanced technology can collaborate with ASEAN on research and development in developing resource-based industries, through technology transfer and marketing in the domains of rubber and tin, as well as forestry, and also in augmenting productivity and ensuring security of future supply in as efficient a manner as possible.

In this regard, the EC has all the potential to collaborate with ASEAN on research and development and transfer of technology in the area of primary commodities.[52]

c. The EC union's support for freer trade should strengthen the ASEAN governments' case for removing restrictions on ASEAN exports to the EC market.[53]

As for ASEAN, it ought to respond in return for market access to the EC by reducing some tariffs.[54]

A liberal world trading system is vital to the interest of both ASEAN and the EC. ASEAN hopes that as the EC takes steps to redress its economic difference with Japan and the U.S., it will not forget the interests of the developing countries.

Besides, ASEAN also hopes that the EC will actively consider ASEAN's concern regarding agricultural subsidies. The minimum that ASEAN can have a right to ask is that ASEAN be given fair access to markets in agricultural products where ASEAN does enjoy a comparative advantage.[55]

For trade promotion, the ASEAN countries have been urged to set up a trade centre in Luxembourg to penetrate the markets of the EC.[56]

In addition, the EC has urged ASEAN to strengthen its structure as a regional economic block so that it could deal better with Europe as an "equally advanced" partner.[57]

Table 4 ASEAN Exports to the EC Under the GSP Between 1978 and 1985 (Ecu million)

	1978		1985	
Exports to:	A	B	A	B
West Germany	38.1	657	48.1	1732
United Kingdom	45.1	506	35.1	1489
France	22.2	234	36.8	761
Italy	17.5	217	40.7	615
Benelux	31.4	442	44.8	819
Ireland	29.4	13	39.6	64
Denmark	54.5	56	44.7	125
Greece	-	-	45.9	14
EEC	34.8	2125	41.6	5619

Note: A = Share of goods actually receiving preferences.
B = Total exports of goods for which preferences can be claimed.

Source: Eurostat, SPG 2441, *Microfiche Statistics*, 1978, 1985.

4.3 EC-ASEAN Investment Co-operation

Among EC member states, Britain, the Netherlands and West Germany are relatively big investors in the region.[58] As for ASEAN, it also needs an accelerated inflow of EC investments to offset the growing dominance of Japanese and American investments. ASEAN wants a better balance between the U.S., Japan and the EC.[59] In this regard, ASEAN officials urged Europe to shift some of their labour intensive industries to the six ASEAN countries where production costs are lower.[60] In economic terms, investment in ASEAN was assured of a higher return than anywhere else. So the potential is there for expanded investment and now is the time to explore possibilities.[61]

The EC Commission looks to the promotion of European investment in the ASEAN region as the prime target in EC-ASEAN co-operation.[62] ASEAN is a region of special interest to European investors.[63] Thus, an ASEAN-EC Joint Investment Committee has been established in each ASEAN member country. Besides, the EC has appointed a European Investment Consultant for promoting European investment in ASEAN. Recently, the EC has worked to identify industrial sectors, product groups, and potential partner firms suitable for closer ASEAN-EC co-operation. Finally, the EC has set up a scheme to finance feasibility studies for prospective investment from EC medium-size enterprises in ASEAN.

In spite of this official concentration, ASEAN is definitely not the principal target of European investors, and is apparently not a region of special interest to them either. This situation may arise for various reasons, such as differences in risk consideration among foreign investors, in investment incentives in host and home country, as well as dissimilar motives for foreign investment. The effects of special European circumstances on European foreign investment may have an important role as well.[64]

European investment in the ASEAN region seems to have increased in recent years. Table 5 indicates that, only recently, the EC Commission graded European investment in 1986/1987 second to that of Japan in Thailand, Indonesia, and Malaysia, as well as third after the U.S. and Japan in Singapore and the Philippines.[65]

We can note that EC investment in Malaysia in 1986 is surpassed by Japanese investment, and accounts for more than twice the amount of U.S. investment. Remarkably, Japanese investments amounted to more than twice the number of European, with the latter still well ahead of the corresponding U.S. investment.[66]

Regional European investment compared to that of Japan and the U.S. will next be examined.

4.3.1 Regional European Investment Compared to Japanese and U.S. Investment

EC direct investment in ASEAN has experienced a substantial rate of growth in recent years. German direct investment in ASEAN rose by 50 percent between 1980 and 1986 to reach DM 1,457 million. The U.K. invested a sum of £ 2,792 million at the end of 1984, showing an even more rapid growth of 150 percent within only three years. Japan's investment doubled from March 1981 to March 1987 when it amounted to U.S.$ 14,324 million. U.S. direct investment in ASEAN increased between 1980 and 1987 by more than 110 percent, totalling U.S.$ 10,054 million. In spite of rising direct investment by Britain and Germany, EC investment in the ASEAN region as a whole is far behind Japan and the U.S.

Table 6 illustrates that the shares of German and British direct investments in ASEAN (in total investment abroad) decreased slightly as compared with the level at the beginning of the decade, from 1.2 percent in 1980 to 1 percent in 1986 for Germany, and from 3.9 percent in 1981 to 3.7 percent in 1984 for the U.K. More interestingly, Japanese investment in ASEAN has lost ground compared with other host countries or regions (19.6 percent in 1980 to 13.5 percent in 1986). As for the U.S., she shows a relative increase in foreign investment in the region (2.2 percent in 1980 to 3.3 percent in 1987).

Regarding foreign investment allocated to each member of ASEAN, British investment in Indonesia and Singapore increased over-proportionately, but remained stable in Thailand and the Philippines, and declined considerably in Malaysia. A similar pattern emerges for German investment in the ASEAN nations, the attraction remained stable in Indonesia and Singapore, but dropped for Thailand, Malaysia, and the Philippines. Investors from Japan and the U.S. seem to have distinctly different perceptions of the investment opportunities offered by each member of ASEAN. Thailand and Indonesia have more than doubled their shares in total U.S. direct investment abroad between 1980 and 1987. Singapore improved by one-third, Malaysia by one-fourth, with the Philippines being, by contrast, the only country which lost ground. Obviously, all ASEAN members have suffered a loss of their share in total Japanese investment abroad, that of most concern being the share of investment in Indonesia, which dropped from 12.1 percent in 1980 to 8.2 percent in 1986.

From Table 6, we can note that European investment is heavily concentrated in industrial countries. Then, 82.2 percent of German investment (end of 1986), 81.6 percent of British, and 83.3 percent of Dutch foreign investment (end of 1984) were distributed to industrial states. For instance, European investors increased their preferences for allocating their direct investment to the U.S. and other EC countries. Apparently, American direct investors prefer the EC, and Canada, whereas Japan is rapidly increasing her investment in the U.S.

However, ASEAN has managed to maintain its overall attractiveness for foreign investors, particularly from the American and European perspective.

After considering regional European investment compared to that of Japan and the U.S. this study moves to a more detailed sectoral composition of German direct investment in ASEAN.

4.3.2 Sectoral Composition of German Direct Investment in ASEAN

The sectoral structure of European investment in ASEAN cannot be discussed, because it is not available.

From Table 7, the banking sector ranks first among the German investment sectors in ASEAN (almost 40 percent of total investment). Certainly, the bulk of this investment is dominated by Singapore. The second investment sector is the manufacturing sector (32 percent of German investment in ASEAN), of which chemicals are the single most significant industry. The trade sector ranks third (17 percent), whereas mining is almost negligible, with only minor investments in Thailand and Indonesia.[67]

Then, before turning to consider ASEAN's foreign investment policies, the investment climate in the ASEAN regions should be noted briefly.

Table 5 Foreign Direct Investment by Country of Origin

	Thailand (Baht m.)		Brunei (US$ m.)	Indonesia (Rupiah m.)		Malaysia (M.$ m.)		Philippines (Thousand Pesos)		Singapore (S$ m.)	
	1986	1987	1984/1985	1986	1967/ Nov 1987 (cumulative)	1986	1987	1987	1968/ 1987/ (cumulative)	1986	1987
TOTAL EEC	6,900.6	6,900.6		161.6	2,242.4	223.8	63.1	481,604	4,416,728	204.8	241.0
F.R. Germany				17.3	707.1	1.4	10.1	14,443	627,455	16.7	90.3
France				24.7	237.6	8.5	15.1	46,496	110,145	27.8	15.2
U.K.				46.1	370.5	19.1	24.6	210,374	1,800,609	93.4	42.4
(not specified)				-	-	-	-	-	-	4.7	0.2
Belgium				63	159.5	3.1	4.1	767	31,404	-	-
Denmark				-	74.1	-	3.6	23,113	186,424	-	-
Greece				-	-	-	-	31	1,620	-	-
Ireland				-	-	-	-	-	10,143	-	-
Italy				-	23.2	5.2	5.6	2,414	121,908	5.1	22.0
Luxemburg				-	-	6.2	-	4,696	16,343	-	-
Netherlands				10.5	645.4	180.3	-	164,856	1,399,500	57.1	70.9
Portugal				-	-	-	-	12,801	13,366	-	-
Spain				-	25	-	-	1,613	97,813	-	-
Japan	14,421.0	23,548		324.6	5,458.9	58.1	230.1	591,345	4,141,515	492.8	601.1
U.S.A.	904.3	5,025		128.4	1,021.9	17.1	61.3	739,975	9,724,261	443.4	543.5
EEC SHARES (%)	27.4	12.67		20.2	12.71	-	-	14.04	17.12	17.15	16.67
TOTAL FDI	25,211.2	54,400	565.5 524.6	800.7	17,640.6	-	-	3,427,342	25,775,344	1,189.6	1,448.0

Source: National Investment Promotion Bodies. For Brunei, EEC-Brunei Joint Investment Committee, cited in Commission of the EC, 1988.
Norbert Wagner, "European Investment in ASEAN", in *Foreign Direct Investment in ASEAN*, edited by Soon Lee Ying (Kuala Lumpur: Malaysian Economic Association, 1990), p.185.

Table 6 Regional Distribution of Foreign Direct Investment of Major Home Countries

	Japan		U.S.		Germany		United Kingdom		Netherlands	
	FY1980	FY1986	1980	1987	1980	1986	1981	1984	1980	1984
	US$ million		US$ million		DM million		£ million		Hfl million	
TOTAL	36,498	105,970	215,578	308,793	84,485	149,379	28,545	75,715	84,459	143,736
	percent		percent		percent		percent		percent	
Industrial countries	45.4	53.5	73.5	75.6	77.2	82.2	78.2	81.6	80.4	83.3
EC	13.5	12.1a	35.9	39.6	37.9	34.2a	20.7	21.1	44.8	38.1
U.S.	24.3	30.2a	-	-	21.6	30.3a	28.0	34.8	20.0	30.8
Japan	-	-	2.9	4.6	1.2	1.5(a)	0.7	0.8	-	0.8
ASEAN	19.6	13.5	2.2	3.3	1.2	1.0	3.9	3.7		
Thailand	1.1	0.8	0.2	0.4	0.1	0.0	0.1	0.1		
Indonesia	12.1	8.2	0.6	1.3	0.1	0.2a	0.3	0.4		
Malaysia	2.1	1.2	0.3	0.4	0.2	0.1	2.0	1.3		
Philippines	1.7	0.9	0.6	0.4	0.1	0.0a	0.1	0.1		
Singapore	2.5	2.4	0.6	0.8	0.7	0.7	1.5	1.7		

Note: a = 1985

Source: Department of Trade and Industry, Book Value of UK Net Investment Overseas at End of 1984, in *British Business*, 22 May 1987, Tab. 2, pp.28.

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United States Department of Commerce, Survey of Current Business, Vol. 62, No. 8, 1982, and Vol. 68, No. 6, 1988.

Table 7 Sectoral Composition of German Direct Investment in ASEAN, 1976 and 1986

Host Country	All Industries		Manufacturing(*)		Trade	Banking	Mining
Thailand	1976	44	17	(12)	25	-	-
	1986	20	-29	(19)	24	(**)	(**)
Indonesia	1976	76	58	(30)	11	(**)	-
	1986	(**)	80	(52)	9	(**)	49
Malaysia	1976	75	56	(**)	15	(**)	-
	1986	222	143	(50)	37	(**)	-
Philippines	1976	22	12	(5)	(**)	-	(**)
	1986	(**)	29	(15)	15	(**)	-
Singapore	1976	240	81	(**)	34	70	-
	1986	982	236	(**)	160	555	-

Note: (*) Figures in parentheses refer to the chemical industry.
(**) Not published to prevent revelation of individual company data.

Source: Norbert Wagner, *op. cit.*, p. 164.
Unpublished data from Deutsche Bundesbank.

4.3.3 The Investment Climate in The ASEAN Region

ASEAN hopes that the increment of European investment in the ASEAN area will be a key element in the long-term strategy to promote mutually beneficial trade, the transfer of technology and in strengthening economic links between ASEAN and the EC. ASEAN feels that up to 1989, the level of investment from the EC into the ASEAN regions had increased at a very slow pace and at a considerably lower level as compared with that of Japan and the U.S., even with an attractive investment climate which offers large opportunities for EC businessmen, such as abundant and varied resources, raw materials supplies, a plentiful supply of trainable and highly productive labor, appropriate infrastructure, and a growing market of some 300 million people.[68]

According to Allen's assessment of the comparative investment climate of the ASEAN nations, Singapore emerges with the most favorable and Indonesia the least favorable investment climate. The other three countries, ranked in descending order, are Malaysia, Thailand, and the Philippines.

The relative attractiveness of the five regions to prospective foreign investors depends also on the opportunities in specific sectors and activities. Hence, investments which are resource-oriented would find few attractions in Singapore, but more scope in the other countries.

For domestic market-oriented investments, the larger economies of Indonesia, Thailand and the Philippines would seem to offer many attractions. Singapore, has emerged as the most attractive investment location for such operations among the ASEAN countries, though she loses comparative advantage in labor-intensive export manufacturing.[69]

In order to convince EC investors in the ASEAN region, it is important to display ASEAN's foreign investment policies.

4.3.4 ASEAN's Foreign Investment Policies

In order to promote industrialization, the ASEAN nations have progressively adopted liberal investment policies to encourage foreign investments in manufacturing activities. The liberal incentives combined with favorable economic conditions, led to large-scale inflows of investment. Indonesia established the Investment Co-ordinating Board to promote prospective investors, with a central coordinating body for investments outside mining, oil, banking, insurance, and forestry. During the liberal phase of foreign investment policy, some restrictive measures were introduced prohibiting foreign enterprises from trading or having allocation operations in Indonesia. From 1971 onward, foreign investors were prohibited from operating in certain light industries where adequate local investments were forthcoming, or where the market was imbued.

As for the Philippines, incentives were offered in the late 1950s to encourage investment in import substituting industries. The Investment Incentives Act of 1967 supplied incentives for various aspects of promoted enterprises, while the Foreign Business Regulation Act regulated the entry of foreign investment in areas of business activity not otherwise registered with the Investment Incentive Act. In 1970, the Export Incentives Act was enacted to offer incentives for the new orientation toward industrialization. Later amendments to the Investment and Export Incentives Acts further liberalized the incentives given earlier.[70] The Board of Investment also promotes foreign investment in raw materials processing, labor-intensive manufacturing, industries applying domestic raw materials and the manufacture of components for agricultural, industrial and transport equipment.

In Malaysia, the investment incentives are directed toward food processing, chemical and rubber products industries, machinery, transport equipment and electronics industries, and also toward enterprises that produce products with a major proportion of local raw materials, those located in designated development areas and those engaged in labor-intensive operations. For import-substituting industries, no foreign ownership is allowed except where domestic technology is insufficiently developed, in which case foreign equity participation is permitted up to 30 percent. For export-oriented industries, majority foreign ownership is allowed even up to 100 percent in special cases.[71]

In Singapore, there are no specific laws governing foreign investment, but the state has maintained highly liberal and consistent foreign investment policies since the early 1960s, in her efforts to industrialize and later to develop as a center for finance and for a wide range of skill-intensive services.[72] Investment incentives are directed at firms that manufacture for the world market and promote higher productivity through skill, technology, and capital-intensive industries. The priority industries for the 1980s include chemical process industries, electrical and electronics industries, as well as machinery and metal engineering. In the services sector, promotional attempts are directed at the development of Singapore as a regional headquarters of transnational corporations, a financial center, a warehousing center for international trading companies, and a center for marine activities. Notably, Singapore is the only country in ASEAN with no legal restraints on foreign equity participation. In consequence, there are great numbers of wholly foreign-owned firms in the country.[73]

As for Thailand, foreign investment is important in the manufacturing sector. In 1969, it was decided that investment projects with foreign majority holding would not be approved, except for those in "nationally significant industries". Increased foreign investment inflow and the problem of resident aliens evoked a fear of foreign control and led to the adoption of the Alien Business Law and Alien Occupation Law of 1972. The former restricts the participation of foreigners in certain economic sectors, while the latter keeps certain occupations for Thai nationals only and does not permit aliens to work without a licence.[74]

Besides, the Board of Investment declares both the type of activity and the size of investment that qualify for promotional incentives. Promoted activities are generally of several types as follows: export-oriented, labor-intensive, local raw material-intensive, or import-substituting. While the preference is for joint ventures in promoted activities, wholly foreign equity participation is allowed in certain types of industries.[75]

Remarkably, the five ASEAN nations differ in the elaboration of foreign investment laws and regulations, in the priority industries and activities to be promoted and in the limitations on the entry and operation of foreign firms. First, the ASEAN members have different incentives and disincentives for resource-oriented, domestic market-oriented, and export-oriented investments. Second, the relative significance of individual incentive instruments varies with countries. Third, the variety and the level of import tariffs and level of non-concessional tax rates differ among states. Finally, there is a high degree of administrative discretion in the dispensing of incentives and regulations. Generally, the policy toward investments in resource development is the most limited, and that toward export-oriented manufacturing the most liberal, among the ASEAN regions.[76]

After understanding ASEAN's foreign investment policies, it is important to elaborate investment conditions in the ASEAN region.

4.3.5 Investment Conditions in the ASEAN Region

Table 8 shows investment conditions in the ASEAN region. This Table may be useful to help European investors better understand investment rules and regulations in Thailand, Brunei, Indonesia, Malaysia, the Philippines and Singapore.

Table 8 Investment Conditions in the ASEAN Region

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
Foreign Investment	Under the Investment Promotion Act of 1977 the Board of Investment may accept the promotion of investment projects in certain sectors - this is not necessary. To encourage more investment in SMEs, the BOI has decreased the minimum requirement of capital investment from 5 m. to 1 m. baht.	The Economic Development Board, set up in 1976, is the official Government unit for assisting investors to begin new industries in the State and to supply advice on loan applications, tax exemptions and applications for land. The EDB works in coordination with the Economic Planning Unit.	The BKPM (Investment Coordinating Board) is the Government unit responsible for supporting investment and has simplified investment rules. It permits investment of foreign capital for not more than 30 years with a further 30 year permit given if the company should enlarge (only granted once).	The Malaysian Industrial Development Authority is responsible for promoting investments.	The Board of Investments and the Industrial Estate and Export Processing Zone authority manages foreign investment laws and various incentive schemes.	The Economic Development Board includes tax incentives under the Economic Expansion Incentives Act.
Legal Framework	The Investment Promotion Act, legislated in 1977, offers guarantees, tax exemptions protection and provisions for projects in privileged sectors and areas. Other laws comprise the Industrial Estate Au-	Companies and businesses in Brunei are covered by the Companies Enactment 1956. Investments are screened by the Investment Incentives Enactment 1975.	Foreign investments in Indonesia are regulated by the Foreign Capital Investment Law of 1967, as amended in 1970, with simplification of investment regulations since April 1985.	The Industrial Coordinating Act of 1975 (ICA), revised 1979, requires persons engaging in any manufacturing activity to receive a license from the Ministry for Trade and Industry.	The Foreign Business Regulations Act (RA 5455) controls the entry of foreign equity of more than 30%. The Omnibus Investment Code 1987 was passed in June 1987 and substituted for the Code P.D. 1789 B' . 391.	The Economic Expansion Incentives (Relief from Income Tax) Act 1967 revised 1970, 1975, 1979, 1980, 1982, 1984. Also the Income Tax Act and its revision through 1986.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	thority of Thailand Act B.E. 2522 (1979), the Alien Business Law (1972) (NEC Announcement no. 281), the Alien Occupation Law 1978 (NEC Announcement no. 322).		Also the Domestic Investment Law (Act no.6, 1968, revised by Act no. 12, 1970 and Act no. 7, 1983), Batam Island Industrial Processing Zone (Presidential Decree no.22, 1978). Bonded Zones (Government Regulation no. 22, 1986).	The Investment Act also offers a number of tax and other incentives. Also Promotion of Investment Acts, 1986, and Investment Incentives Act, 1968 (as revised).		
Restricted Investment Areas: Requirement of Business Licences	All firms must receive various licences and permits from Government agencies and ministries. The BOI aids firms to obtain licences via the One Stop Services Centre. Special privileges are given to projects in Investment Promotion Zones. In March 1987 operating licences issued to foreign enter-	Regulations are planned to monitor and not restrict utilities, transport, finance companies, retailers of liquor and certain controlled goods where public interest may be affected.	The Government decides which areas are available to foreign investment. Most are related to these, especially technology related utilities. Transport and mass media are closed, as being protected. The BKPM reveals an indicative Investment Priority List (DSP) from time to time.	No foreign investment in utilities, transport, media, national defence, or atomic power sectors. Manufacturing enterprises receive special licence from the Ministry of Trade and Industry. License is needed under the Industrial Coordination Act 1975 (ICA) from the Licensing Officer	Areas excluded to foreign investment are noted in the Philippines Constitution. Stimulus for growth is agriculture for the near future although investors will be welcome to create factories for export ventures. Preferred areas are listed in Investment Priorities Plan, otherwise apply	Sectors of direct national interest e.g. defence, transport etc. are not allowed to foreign investment. Banks, finance companies, insurance as well as stock-broking firms are obliged to have special licenses. Similarly businesses which intend to manufacture certain goods, e.g., deter-

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	prises were extended from 2 to 5 years. Each enterprises has to bring at least 2 m. baht of capital investment in the first year and 1 m. baht in each following year until it totals 5 m. baht.		The allowance for a foreign investment company is valid for 30 years from the date of legal incorporation. This can be expanded by 30 years upon request.	(Secretary General of the Ministry of Trade and Industry). Only manufacturing companies with shareholders' portions of M$ 2.5 m. or above, or engaging 75 or more full time employees, are obliged to apply for a license under ICA.	for registration with EPZA (Export Processing Zone Authority).	gents, motor vehicles, etc. must receive special licenses from the Registrar of Manufacturers. Conditions under which a license is issued are governed by the Control of Manufacture Act (Cap. 241).
Acquisitions, Mergers and Takeovers	There are basic limitations on foreign equity with minimum Thai participation necessary depending on sector. These criteria may be foregone if necessary and justified.	Not much is known about obtaining mergers and takeovers.	Regulations for new foreign investment used here.	A takeover code has been developed and is to be executed by the Foreign Investment Committee.	Subject to the same rules governing new investments and expansion. BOI approval is needed.	The Securities Industrial Council (SIC) has the authority to scan all takeovers and merger proposals: transactions for these are in the Singapore Code on Takeovers and Mergers. Effective control is 20% of the other's voting rights and forces the acquiring company to make an offer for the balance of the outstanding shares.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
						No competition laws, nor market dominance. These regulations are used for both private and public companies.
Ownership + Local Participation	Limitation on foreign equity depends on the sector, in various investment areas this is limited to minority participation. It may be foregone by the BOI. Foreign investors may hold up to 100% equity if ventures are designed to export all of their goods.	There are no legal requirements for local participation. However, the Government promotes at least 30% Bumiputra participation. At present the Chinese dominate the private sector, owning most construction and service industries.	Foreign Investment is allowed only in the form of a joint venture between a foreign company and an Indonesian national company or an Indonesian national, whereby the Indonesian equity ownership is at least 20% equity. 51% national participation is necessary after 10 years. 100% foreign investment may be considered where all production is exported (domestic marketing being impossible) and with great employment creation. Exceptions appear to be possible now.	Foreign investors are allowed to hold any level of equity up to 100% if the company exports 80% or more of its production, even if products are being manufactured for the local market. Contrariwise, the distribution of Malaysian equity in respect of new investments must comply with the New Economic Policy This involves policy equity goals of 30% Bumiputras, 40% others and 70% Malaysians by 1990. Exceptions seem to be possible now.	Full foreign ownership is permitted in areas considered pioneering. However, disinvestment is obligated within 30-40 years. 60%-70% of voting equity must be Filipino except with 100% export. Finance companies need at least 60% Filipino ownership; commercial and private development banks generally require 70% Filipino equity. Rural banks and mass media corporations or associations must be 100% Filipino owned.	The Singapore economy is based on free enterprise with no limitation on foreign ownership of businesses and employment of foreign expertise.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	**Thailand**	**Brunei**	**Indonesia**	**Malaysia**	**Philippines**	**Singapore**
Registration Requirements	No basic approval process for new investments or expansion.	Registration of foreign companies is obligated under the Companies Enactment with the Registrar of Companies. EDB official guide on correct approaches for foreigners.	Investment proposals only must be filed with BKPM (Investment Co-ordinating Board) and upon completion of construction and before testing runs of the project. Before commencing commercial production, the investor ought to apply for a permanent operating license (IUT).	Registration is obligated with the Ministry of Trade and Industry. MIDA aids investors through the approval process. Proposed name of the prospective company is available and if available, action should be taken to reserve the name. The certificate of incorporation is then correctly delivered.	All investments with more than 30% of foreign equity must be registered and approved by the Board of Investments or the Export Processing Zone Authority (EPZA). All foreign investments have to be registered with the Central Bank of the Philippines primarily for purposes of capital repatriation and profit remittance.	All companies must register with the Registry of Companies but no general approval process for manufacturing enterprises.
General Incentive Rules	The Investment Incentive Act of 1977 governs incentives, which consist of guarantees against nationalization, state competition or monopolization, duty free government support of competing goods and unjustified	The Investment Incentives Act 1975 covers incentives: pioneer status is determined by public benefit level and includes the following industries: cement, steel, pharmaceuticals, chemicals and equipment.	Investment projects given high priority are those that best encourage Indonesian national development objectives. The BKPM announces an Investment Priority List for both foreign (FMA) and domestic (PMDN)	Application for incentives ought to be simultaneously made to the Action Committee on Incentives. The Promotion of Investments Act 1986 covers incentives for manufacturing, tourism and agriculture. Benefits are in the form	The Omnibus Investment Code 1987 unifies former legislation on incentives. All registered producer enterprises, whether pioneer or non-pioneer except exporters of goods and services engaged in a preferred	Most important incentives are given to pioneer or export oriented industries. Eligibility for incentives is based on an equal footing with local enterprises.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	price controls. Prompt assistance will be provided by any government agency in order to overcome difficulties.		investors. In order to receive certain investment facilities, investors who intend to export all or part of their goods may choose a location in a bonded zone.	of allowances given. The new Investment Fund is also to support finance new fixed investment in the manufacturing, agriculture and tourism sectors at modest rates of interest.	non-pioneer area of investment are under this legislation.	
Fiscal Incentives	Eligibility: the most generous incentive packages are awarded to projects that, among other things, create many jobs, are located outside Bangkok, and produce foreign exchange savings, or earnings. Key guarantees: projects encouraged by the Board of Investment are guaranteed against nationalisation, competition from new state firms, state mono-	There is tax relief for pioneer status for 2-5 years and benefits for a similar period for industrial enlargement. There is a company tax and limited companies are taxed at a rate of 30% on income accruing from or received in the country. Exemptions for businesses may be given by the Sultan-in-Council if deemed necessary for the growth of the State. There is no	Tax incentives have been decreased since 1984. Formerly held incentives can last until they expire. Contrariwise, a resident tax payer is taxable on his worldwide income whether originating from within or outside Indonesia. Since Dec. 31, 1983, three tax laws have been issued: Law concerning	A resident company engaged in a promoted activity or producing a product may be eligible for pioneer status. A promoted activity means manufacturing, agricultural, hotel, tourism or other industrial or commercial activities which are listed as such by the Minister of Trade and Industry. The initial tax holiday is for 5 years from the production date. Extension	Listed hereunder are major characteristics of the Omnibus Investments Code 1987, ratified June 1987: Tax allowances: early bird investors are permitted to deduct their actual investment in cash or property up to 30% of taxable income. For investments created after 1988, the limit is 20% for enterprises in less developed areas and 10% for	Tax incentives are included in the Economic Incentives (Relief from Income Tax) Act Cap 135. No capital gains tax, general sales tax, VAT, defence surcharges. Tax incentives are managed by the EDB. Property tax relief: a concessionary 12% instead of the full property tax rate for a period of 20 years applies to premises in areas designated for

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	polies for the sale of similar products, and price controls. Promoted enterprises will also be permitted to remit foreign currency abroad as well as hire foreign skilled workers. Corporate tax holiday: promoted firms may be exempted from paying corporate taxes from 3 to 8 years with permission to carry forward losses and deduct them as expenses for up to five years. Existing corporate tax rates are 30% on net profits of enterprises listed on the Securities Exchange of Thailand and 35% on other firms. Other tax breaks: Waiver or a 50% cut on import duties and	capital gains tax. Losses may be carried forwards and are available for setting off against future income within 6 years from the year of assessment in which the losses were incurred. There is also no personal income tax.	general tax provisions and procedures Law on income tax Law on VAT on goods and services and sales tax on luxury goods (effective as of January 1, 1986). Capital gains are included as taxable income in Indonesia. Dividend income is released if it comes from a related company (25% or more ownership). Losses incurred may be carried forwards and deducted from taxable income for up to 5 years after the year of loss or for certain types of losses	for pioneer status may be given for a further 5 years period. Regarding income tax, dividends paid or distributed out of the following are exempt from tax in the hands of the recipient. Also are the following: 1) Tax exempt profits of a pioneer company 2) Investment tax grant or investment tax allowance. 3) Abatement of adjusted income under the Promotion of Investment Act. 4) Reinvestment allowance. 5) Net amount of taxable income from offshore insurance or inward reinsurance. 6) Exempt shipping	projects located elsewhere. Regional or area headquarters: multinationals operating in the Asia-Pacific region can found regional or area headquarters and other financial incentives. Income tax holiday: available for 8 years for pioneer enterprises and 5 years for non-pioneer new enterprises. Exemptions and credits: no tax and duty on imported capital equipment, machinery and accompanying spare parts for up to 5 years. Tax credit on ocally made capital equipment for the	urban development provided the properties are "approved development projects". Besides, an owner may on completion of an approved project apply for a refund of property tax paid for the period of 6 months from the date of approval of the project plus one month for every storey erected. Losses may be carried forward indefinitely, provided that the beneficial ownership of the company remains essentially unaltered. Other incentives include: Pioneer status: a manufacturing or service company granted pioneer status may be exempt from

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	business taxes on imported machinery. Up to 90% cut in duties and taxes on imported raw materials and components. There is an up to five-year exemption on withholding tax, royalties or fees remitted abroad. Export companies and firms, set up in the country's 4 investment promotion zones receive many other tax breaks (e.g., corporate income tax will be reduced by 50% of the normal rate for five years following any tax exemption period). Protection measures: these comprize surcharges on foreign goods and bans on the import of competing goods.		up to 8 years if otherwise allowed by the Minister of Finance. However, since 1984 various measures have been introduced which can be taken as incentives: Toward equal treatment: foreign investment enterprises that are Indonesian-controlled can now be treated as domestic companies. This allows those enterprises to receive state bank loans, market their products themselves and operate in sectors previously reserved for locals. High risk or hitech ventures (which need large capital out-	profits. 7) Profits of a cooperative society or petroleum company. The rate of customs duty on a wide range of imported raw materials and components for the manufacturing industry is decreased to 2%. Royalties are fully or partially released from 15% withholding tax for industrial royalties paid to non-resident countries under the double taxation agreement with certain states, with special approval by the Minister of Finance.	same period. Exemptions from income tax, contractor's tax, and all kinds of local licences, fees and dues. No tax and duty on imported breeding stocks and genetic materials for 10 years. A 10-year tax credit on domestic equivalents. Tax credit for taxes and duties paid on certain schemes used in making products for export. Exemption from export tax, duty, import and fees for certain exports. Other fiscal incentives: accelerated depreciation at twice the normal rate for machinery and equip-	23% tax for between 5 and 10 years. Another scheme, applicable on a case-by-case basis, may also permit such a company to enjoy a post-pioneer tax rate as low as 10%. Expansion incentive: a firm which intends to buy new productive equipment and machines, usually at least $10 m. can ask for approval as an "expanding firm". Its adjusted profits attributable to the new capital spending may then be granted tax relief for up to 5 years. Investment allowances of up to 50% may be given on fixed capital spending for a factory (exclud-

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	Foreign ownership: enterprises that export 100% of their output can be 100% foreign-owned. For investments in agriculture, fisheries, animal husbandry, mineral exploration, mining and services, Thais must hold at least 60% of the registered capital. But this may be waived. Capital gains are included as taxable income. Dividends remitted abroad by a firm incorporated in Thailand are subject to a 20% withholding tax. Exceptions to this law will be made if the recipients are residents of countries that have double taxation agreements with Thailand. Branch		lays and are export-oriented) can now be set up with up to 95% foreign equity, instead of the usual 80%. After 15 years however, majority ownership must be in Indonesian hands. More reinvestment avenues: Each foreign investment must be worth at least US$ 1 m (S$ 2.13 m). Foreign investors, however, can now reinvest their profits in new or existing enterprises outside their own groups. Import duties on several products have been lifted and non-tariff barriers on imports reduced. Duties on equipment, mac-		ment required for a company expansion. Additional deduction for additional labour expenses for 5 years. 50% for incremental labor expenses of projects within Metro Manila and 100% for projects located elsewhere. Guaranteed repatriation: cash investments, including profits and earnings, of early bird firms can be repatriated immediately.	ing land) and any new equipment to be used in Singapore. The investment must be made within 5 years. Operational head quarters (OHQ): approved OHQs, which ought to provide headquaters support for a regional network of overseas firms, will be taxed a concessionary 10% on their service income for up to 10 years (with provision for renewal). Other income obtained by the OHQ from its overseas subsidiaries and associated companies may also be eligible for tax concessions. Singapore-owned firms can also qualify for this incentive.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	profits to the foreign parent are subject, after normal income tax has been paid, to a 20% remittance fee. Interest payments remitted abroad are subject to a 25% withholding tax. Losses created during the tax holiday may be carried forward over a period of 5 years, following the end of the tax holiday. The promoted company may choose to deduct such losses as expenses from the net profits over a single or several years.		hinery, spare parts and basic raw materials for making export products may also be waived or reduced. Export-oriented enterprises may import materials for production if local suppliers cannot offer competitive prices. Special bonded areas or export processing zones are available. Other concessions include: deferred payment, up to 5 years, of value added tax on most capital products, subsidized export credits of up to 85% of a foreign firm's working capital, unlimited use of swap facilities offered by the central bank.			Venture capital: losses created from the sale of shares of an approved technology firm, up to 100% of the equity invested, can be set off against the investor's other taxable income. Warehousing and servicing: 1/2 of the export income of a warehousing operation will be exempt from tax for 10 years if the qualifying firm incurs approved fixed capital spending of not less than $2 m. International consultancy services: 1/2 of the qualifying income of an approved consultancy firm will be exempt from tax for 5 years.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
						Approved foreign loan scheme: interest on certain loans payable to non-residents may be given tax exemption.
						Approved royalties: for approved manufacturing and services activities, there is a 50% or 100% exemption of withholding tax on royalites.
Double Taxation Agreements with EC Countries	UK-B-FRG-FR-NL-IT-DK	UK	UK-FRG-NL-B	UK-B-IT-FRG	UK-FR-DK-FRG	UK-B-FRG-FR-NL-IT-DK
Export Incentives	Export incentives include export sales which may be completely exempted from business tax and from export duties. Firms		Duties on items applied in export production have been completely removed.	Export tax incentives: a special deduction may be claimed of 5% of export sales, and a double deduction can be claimed for certain	There is exemption from export tax, duty, import and fees on exports by a registered firm of its non-traditional export goods.	A double deduction may be permitted for export promotion expenses incurred in connection with the export of goods manu-

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	that export more than 20% of their total sales will be given promotional privileges without being subject to any restriction.			export promotion expenses.		factured in Singapore.
Priority Sectors	Export-oriented investment. Agrobased industries and technology intensive industries.	Silica based/pharmaceuticals, chemicals, cement, aluminium, steel and equipment. Investment on a joint venture basis is particularly welcome.	Each year BKPM publishes an Investment Priority List (DSP) for both foreign and domestic investors, e.g., agriculture, chemicals, manufacturing, metals, machinery, mining and energy.	Export oriented industries especially manufacturing, agriculture and tourist industry.	Export, employment oriented, with concentration on natural resources, technical skills in industry, mining and agriculture.	Export oriented industries especially services, manufacturing, banking and financial services, trade and high technology.
Investment Protection Agreements	FRG-NL-UK-B	No information available as deemed unnecessary	Bilateral agreements with several EC member states, i.e., UK-FRG-NL-B-FR-DK.	Bilateral agreements with several EC member states. The Ministry for Taxes and Industry issues letter of coverage under	Basic guarantees in the Constitution. Investment guarantees in Constitution Section 74 of R.A. 265.	Bilateral agreements in force. UK-B-FRG-LUX-NL-FR

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
				the respective Investment Guarantee Agreements to permit projects in Malaysia. UK-B-LUX-FRG-FR-NL.		
Work Permits	The Alien Employment Act 1978 requires all aliens working in Thailand to receive a work permit from the Labour Department of the Ministry of Interior.	All non-Brunei citizens require a work permit and an identity card issued by the Department of Immigration, and normally valid for a year.	Work permits given by the Immigration Department. Taking up or continuing employment in Indonesia requires a work permit. These are given by the Government. Foreign and domestic investors must submit a manpower employment plan to BKPM to receive approval for expatriate employee work permits. Key posts are allotted at the start of a joint	Application for expatriate posts must be presented to MIDA at the same time as the company's application for approval for its industrial project. For new investments applications obtained between 1.10.86 and 31.12.86 where foreign capital is US$2 m. and above may have 5 expatriate posts. Where investment is less than US$ 2 m. and for	Non-pioneer enterprises can employ foreigners in supervisory, technical or advisory positions up to only 5% of their total personnel in each of the respective categories. This does not apply to pioneer enterprises.	Foreigners (excluding permanent residents) taking up employment in Singapore are required to receive employment passes under Regulation 9 of the Immigration Regulation 1972. Foreigners not earning more than US$1,500 per month are required to apply for work permits.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
			venture and are untouchable. Discussions had already begun concerning the situation after 1990.	companies licensed before 1 October 1986, the number of key posts is restricted. Executive posts are restricted to 40 years. Non-executive for 5 years with Malaysians trained to take over.		
Intellectual Property Rights Protection	The Patent Act BE 2522 (1979) came into effect as of September 1979 and grants protection to inventions and product designs. Thailand is not a member of the Paris Convention. The Trademark Act BE 2476 (1931) as amended by the Trademark Act BE 2476 (1961) governs registration of and offers	Information is not available.	Member of International Convention for the Protection of Industrial Property (Paris Convention). Also the Law on Trademarks of 1961 stipulates the process for registration of trademarks and the rights of trademark holders.	Protection is for local and foreign investors for the field of industrial property. Patent protection in Malaysia has been imposed by the Patents Act 1983 and the Patents Regulations 1986, which came into force on 1.10.86. Trademark protection in Malaysia is levied by the Trade Marks Act	Protection of other property rights and patents are included as incentives to preferred enterprises. The government gives protection on duly registered patents, trademarks, copyrights, etc. where they are registered with the appropriate Government agencies.	Trademarks can be protected through registration under the Trade Marks Act. There is copyright and patent protection. The Consumer Protection (Trade Descriptions and Safety Requirements) Act of 1975 makes provision against the application of false trade descriptions.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	protection for trade-marks. A revised law on trademarks is expected soon. Certain provisions of the Penal Code of Thailand also grant protection to owners of trademarks and enforce criminal liabilities on infringers. The Copyright Act BE 2521 (1978): protection is granted only to signatories to the Berne Convention. Amend-ment to the Act has been prepared.			1976 and the Trade Marks Regulations 1983. A copyright bill has just been passed.		
Remittance Limits	Permission for repatria-tion of capital and remittance of profits must be received, from the Bank of Thailand.	No limitation on remittances or foreign exchange controls.	Profits received by foreign firms resulting from cooperation between foreign capital and national	No limitation on remittances, but nominal approval of Controller of Foreign Exchange must be	Full repatriation, full remittance of profits, capital gains and dividends. Right to repatriate the entire	None - all exchange control regulations have been dismantled since 1 June 1978. Repatriation and

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	Original investment capital repatriation is guaranteed under the Investment Promotion Law 1977. Though repatriation may be delayed temporarily if the country confronts a balance of payments difficulties, total remittance can never be limited to less than 20% a year if the payments are made at least 2 years after the date that original capital was brought into Thailand and the annual dividends amount to no more than 15% of the paid-up capital.		capital after subtraction of taxes and other obligations payable in Indonesia are allowed to be transferred in the original currency of the foreign capital concerned, in proportion to the share of foreign capital invested. Regarding repatriation of the original investment sum this cannot be done in national currency whilst the investor is still enjoying national motives.	given. No limitation on capital repatriation. Original investment sum may be repatriated without any limiting rules. This also applies to reinvested profits.	proceeds of the investment and also right to remit earnings from the investment in the currency in which the investment was first made and at the exchange rate prevailing at the time of remittance.	remittance of initial investment sum is possible without undue complication.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
Land Rights	Permission for ownership is given under Investment Incentive Act 1977, subject to conditions specified by BOI. The Council of Ministers may also at its discretion allow an alien to acquire more than the normal maximum 10 rai of land for industrial purposes. Aliens may freely lease lands, construct own buildings, and may acquire superficies and usufructs. Otherwise ownership of land by foreigners depends on the decision of the Minister of the Interior.	Transfer of ownership of land either by outright purchase or by long lease to non-citizens requires the approval of the Sultan in Council. Lease of up to 7 years may be registered with the Land Department. No information is available on industrial land.	Government policy is to afford foreign investor those rights on land that are relevant to the nature of the firms concerned. Where state-owned lands are available, rights may be obtained by presenting an application to the Chairman of BKPM on behalf of the Ministry for Home Affairs after consulting the local authorities concerned. In short, the land laws in Indonesia distinguish among the following rights: freehold, exploitation for agricultural estates, building for industries and other objectives. Of the foregoing rights, only	Malaysia is a federation and applications for land rights ought to be submitted to the individual State Economic Development Corporation. Foreign investors are permitted to own land whether for industry or for agriculture, but not without the approval of the State Authority. A change in the application of land requires the approval of the Government. Land and industrial estates are for lease for a regular period of 60 to 99 years.	The Constitution of the Philippines restricts the ownership of land, exploitation of natural resources and operation of public utilities to Philippines citizens, or to associations at least 60% of whose capital is owned by Philippines citizens.	No limitations on the ownership of industrial or commercial land and property.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
			the right of building for industrial, commercial and residential properties can be received by foreign investment companies.			
			A Foreign Investment Company founded for agriculture, fish/shrimp farming and cattle ranching may use land of which the right of exploitation is held by an Indonesian partner for the duration of the joint venture under the provisions of the Joint Venture Agreement.			
Labour	Labour matters are generally governed by N. E. C. Announcement No.103 issued on	Brunei's working population is 70,000, including 24,500 expatriates, mostly employed in the	Under Foreign Investment Law, the foreign investor has full authority to appoint his own	The Employment Act 1955 has provisions relating to employment, contracts for	Labour laws are consolidated in the Labour Code of the Philippines. Wages	The Employment Act of 1968 as amended in 1984 fixes working conditions in Singapore.

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	16.3.72. It sets up a framework for comprehensive labour regulations, including the creation of a compulsory employees compensation fund. The Ministry of the Interior has the power to issue notifications under the law which is managed by the Labour Department of that ministry. For social security the Labour Law proposes the establishment of a Compensation Fund to which certain employers in designated areas are required to pay if the employee suffers injury, sickness or death. The employer also must offer welfare and	petroleum and construction sectors. The Government is by far the greatest employer, counting for 31,000 workers, a further 4,000-5,000 are employed in the gas and oil industry, about 28,500 in private services or construction, while fewer than 3,000 are farmers or fishermen. There is a shortage of skilled and unskilled labor, specially in the transport and utilities sectors. This has necessitated the application of foreign workers and the situation is likely to stay this way.	administration, but must use Indonesian manpower except in positions that cannot be filled by them. The Department of Manpower in Jakarta revises conditions of employment continually. Social insurance is organized through a scheme and is necessary. This is designed to help employees in paying costs resulting from accidents, old age or death. Union membership is voluntary and there are no closed shops.	services and their termination by notice or otherwise. The Act also establishes minimum conditions of employment. The Employees Provident Fund Act 1951 sets out a compulsory contributory fund which is paid to employees in full on reaching the age of 55 years. All employees and employers are required to contribute to the fund at the rates of 11% and 9% of the employee's monthly wage. The Employees Social Security Act apples to all. The Trade Union Act	may be approved by the government to secure the maintenance of a minimum standard of living. The Employees Compensation Programme is compulsory and grants medical rehabilitation and burial services, disability and death benefits. Private employees are also covered by the Social Security System, which is financed by both employees and employer through monthly payments. All employees have the right to form, join or assist labor organizations.	Employers and employees contribute to the Central Provident Fund to cover savings for the employee - this is part of an employee's "wages". The Industrial Relations Act excludes from negotiation the managerial function of the employer in relation to promotion, transfer, recruitment, termination by reasons of reorganization or redundancy, dismissal and reinstatement, the assignment or allocation of duties. The National Wages Council was established by the government in 1972 to control

Table 8 Investment Conditions in the ASEAN Region (continued)

Investment Rules	Thailand	Brunei	Indonesia	Malaysia	Philippines	Singapore
	hygiene control at his own expense.		The Government has set up training centres throughout the country in the technological, manufacturing, and agricultural sectors.	of 1959 states that trade unions be permitted to exist, with limitation of their employees to one sector, that they be registered and that there be no militancy or unlawful activities.		increases in wages in the light of reasonable production costs. The NWC has high level representation from employers' organizations, the National Trade Union Congress and relevant government departments.
	The Labor Relations Act 1975 provides for the establishment of employers' associations and labour unions.			The Industrial Relations Act 1967 proposes the regulation of relations between employers and employees and their trade unions as well as the prevention and settlement of trade disputes.		Training: the Vocational and Industrial Training Board (VITB) is the national authority for the provision, development and regulation of vocational and industrial training with a responsibility for continuing education.

Source: K.F.Klaje, "Investments from Europe to ASEAN Incentives", in *ASEAN/EEC Business Council 3rd Plenary Meeting (Brussels: EUROCHAMBRES, 21 October 1987).*

We will next consider factors affecting European investment in ASEAN countries before identifying various reasons for the low presence of the EC in ASEAN countries.

4.3.5.1 Factors Affecting European Investment in ASEAN Countries

Generally, European investors will base their investment decision on their expectation of a satisfactory rate of return on the capital invested. Their expectations may depend on several factors such as types of industry, mode of production, company size, and location of production. In the case of foreign investment, these expectations are affected by the investor's assessment of various elements, as follows:

- Potential growth and investment climate in the host country,
- Economic and political risks involved and protection against these risks in the host country,
- Requirements of easy access to raw materials,
- Advantages of nearby markets,
- Effects of host and home state incentives on liquidity and profitability, and
- Possibilities of reducing production costs.

For European investors, potential growth, investment climate, nearby markets as well as economic and political risks may be the key factors in foreign investment attractiveness.[77]

a. Investment Climate

Obviously risk and investment climate have a major role in explaining the apparent and growing preference of European investors for investment in industrial regions.

Moreover, the application of investment regulations, taxation and customs, and the low level of patent, copyright and intellectual property rights protection are viewed as main factors negatively affecting the investment climate in ASEAN. However, there seems to be no indication that these factors discriminate especially against European investors.[78]

Furthermore, the lack of information on potential in the ASEAN countries affects the slow investment flow from the European countries to the region.[79]

In addition, small- and medium-sized European enterprises are hesitant about investing in Southeast Asia because they do not know much about investment conditions and risks.[80]

b. Investment Incentives in Home and Host Nations

Foreign investors may well accept various incentives offered by both host and home countries (such as supply of information, tax holidays, subsidies, investment insurance programmes, investment guarantee treaties and double taxation agreements) to offset the risk and investment climate of host countries. But, their primary concern in investment decisions will be focused, apart from risk perception, especially upon access to raw materials, access and nearby markets, as well as low cost of production, particularly cheap labor.

ASEAN grants a variety of investment incentives to foreign investors (for example, export incentives to investment, protection agreements and double taxation agreements).[81]

c. ASEAN Internal Market

The current limitation of the ASEAN internal market - since ASEAN is not a single market, but six separate national markets,[82] is the most important impediment to European investment in the region.[83] ASEAN has not been moving fast enough towards the goal of regional economic integration.[84]

The lack of a "common market" implies that investment in one country does not automatically guarantee a larger market in other ASEAN nations. The presence of non-tariff barriers, and tariffs to a lesser extent, will not encourage EC enterprises to launch the investment. Moreover, the access to each market is not fully open. Thus, ASEAN markets must remove barriers against one another.[85]

4.3.5.2 Various Other Reasons for the Low Presence of the EC in the ASEAN Region

There are various reasons why ASEAN as a group of rapidly growing middle-income countries has not been more essentially attractive for EC producers, investors and traders.

During 1970 and 1982, the EC lost trade shares to Japan in industrial goods. Japanese gains in ASEAN already held a strong position in 1970.[86] Therefore, losses in ASEAN markets seem a symptom of declining competitiveness.

Besides, less developed countries have become less attractive relative to industrialized states as investment hosts for major EC countries. In addition, producers in major EC nations have traditionally given priority to direct exports over foreign investment, unlike Japan, which very early on decided upon capital exports as a strategy for penetrating export markets.

Moreover, a general reason is EC protectionism, which is not explicitly directed against ASEAN but hits all successful suppliers in less developed countries (LDCs) in roughly the same way. Though ASEAN exporters have been relatively disfavored in EC tariff policy compared to the most preferred LDCs, this has not had a major effect on trade flows in practice.

A final reason could be the effect of EC regional subsidies, that grant investment locations in backward Community areas a comparative advantage over competing locations in LDCs.[88]

However, there are other factors that tend to work against the interests of ASEAN. These include the strong preferential relations between the EC and Mediterranean states, which may lead traders and producers to focus on the European-Mediterranean area-the "fortress Europe" mentality.[89]

Among market-specific reasons for the weak trade and capital flow between ASEAN and the EC, Japanese dominance is obvious. The EC is a late comer in the region, where Japanese goods, norms and standards are firmly established and bind local producers as well as Japanese subsidiaries to Japanese inputs. Inputs from the EC are therefore difficult to incorporate into the Japanese style. However, it is important not to underrate the fast structural changes in ASEAN economies as an opportunity for allowing the EC to penetrate into new markets with new products rather than to maintain old markets with old goods from Japan. Furthermore, Japanese marketing seems to be clearly superior to that of European and U.S. companies in terms both of product adjustment to local needs and of market research.[90] European products are often higher priced than Japanese, substituted in small market segments, and are therefore inappropriate for mass consumption. Quality advantages of European products are not great enough to collect quality rents.

In addition, geographical transport cost disadvantages can be dismissed as a relevant EC-specific constraint *vis-a-vis* Japan.

Finally, there are also EC market factors inhibiting ASEAN exports. Market access changes widely among EC members and depends on income levels, consumer preferences, administrative procedures, governmental attitudes toward imports, pre-independence affiliations, and the structure of the national trading sectors, etc.[91]

Finally, it is instructive to present proposals for assisting the flow of investments to ASEAN.

4.3.6 Proposals for Assisting The Flow of Investments to ASEAN

The following are recommendations for assisting the flow of investment to the ASEAN region:

- First, the EC should play a bigger role in ASEAN, if it does not want to lose more trade and business to the Americans and Japanese,[92]
- Second, concerning finance for development, the EC governments ought to increase investments in ASEAN and look into new ways of giving low interest and long-term loans for ASEAN,[93]
- Third, ASEAN must improve the information and services available to European businessmen interested in investing in the ASEAN region, and urge representatives of financial institutions in Europe including the EIB to co-operate together for encouraging a more effective European investment effort.[94] The EIB might be inst. mental in promoting European investment, thereby building up a highe. 'EC profile in ASEAN's immense

region,

- Fourth, concurrent with the call for more emphasis on EC investments in the region, ASEAN also urges a rolling back of protectionist barriers which would spur ASEAN exports to the Community and other markets,
- Fifth, the EC and ASEAN, which share a commitment to the principles of free trade and to market economies, should work together to facilitate market access and to ensure the unhindered flow of commerce between nations,[95] and
- Finally, if ASEAN wants to broaden the intra-regional market, it should adopt the EC model. This, in turn, would encourage more European investment in ASEAN.[96]

After making proposals for assisting the flow of investment into ASEAN, this study moves to a more detailed consideration of the EC Single Market in 1992: its protectionism and its impact upon ASEAN.

5. The EC Single Market in 1992: Its Protectionism and Its Impact Upon ASEAN

The single European market without national borders, a market which allows the free movement of goods, persons, capital and services, is increasingly being seen for what it actually is - an opportunity for world trade.[97] The 12 European Community countries comprized a single market of 340 million consumers after 1992.[98]

It is essential to the European Community to use its internal market to help in expanding free world trade, to integrate it through the most liberal regulations possible into the system of world trade, and hence to strengthen multilateralism.[99]

Before discussing various aspects of the EC Single Market in 1992: its protectionism and its impact upon ASEAN, it is instructive to understand the common commercial policy of the EC and EC economic integration in 1992.

5.1 Common Commercial Policy of the EC

The Common Commercial Policy (CCP) of the EC exemplifies its members "readiness to contribute to the development of international trade and the lowering of trade barriers". The commission must work under the following guidelines:

- First, the need to promote trade between member countries and third nations,
- Second, the possible amelioration in "competitive capacity of undertakings",
- Third, the avoidance of competitive distortions in finished products markets related to supplies of raw materials and semi-finished products, and

- Finally, the avoidance of "serious disturbance" in the economies of its members, while assuring the growth of production and consumption within the Community.[100]

EC Economic Integration in 1992 will now be explained.

5.2 EC Economic Integration in 1992

The objectives of an international association may be the national interests of the members, including economic integration.[101] Since the mid-1980s, the EC has been using its efforts at a complete integration of its internal market to make it more competitive and dynamic. Later, the EC established for itself a deadline of the end of 1992 to attain a single market. It was expected that there would be in place all the necessary and appropriate measures for a thoroughly free market in the EC for goods, services, labour and capital by 1 January 1993. All types of physical and technical barriers to this goal of the EC Single Market would have come down; and, in the process, stimulated more growth and development throughout the EC.[102]

Then the European challenge would increase, when the Single European Market came into being.[103] The Single Market, involving the removal of trade barriers between EC countries, needed to be enhanced by strict maintenance of free competition.[104] Europe should not depend on the "outside" for any products that are essential for its technological future or defence.

Among proposals of French Prime Minister Edith Cresson were: doubling the number of engineers in France by 1993, enhancing co-ordination between government and private enterprises, and forming a European electronics consortium to enable Western European products to complete more strongly with those from Japan and the U.S.[105]

The success of the EC is an example of the possible benefits of regional economic integration, and the planned expansion of the EC in 1992 received considerable attention. In 1992, the full customs union, that incorporates Spain, Portugal and Greece, was appointed to be completed. The addition of these three nations into the EC, the addition to the Pacific, African, and Caribbean countries already receiving preferences under the Lome Convention, is seen to affect the benefits and market access of other developing countries to Europe. Trade and investment of the EC countries will tend to be even more concentrated among themselves in the future. The fear of "European strength" has incited others to increasingly look towards bilateral and regional trading arrangements.[106]

Now we arrive at the presentation of European protectionism and its impact upon ASEAN.

5.3 European Protectionism and Its Impact Upon ASEAN

The EC has increasingly moved toward several forms of non-tariff protection both at its internal and external frontiers. Non-tariff border protection has largely taken the form of quantitative restraint on imports. Non-tariff border protection is largely directed against certain relatively unskilled labor-intensive products from semi-industrialized nations (increasingly also NICs), that combine efficiency in production with low wages. Since production technology is relatively accessible in many of these goods, comparable goods produced in the EC face sharp price competition from these imports.[107]

However, in 1988, the EC pledged that the single union of West European countries it hoped to become by 1992 would not be a fortress of protectionist measures and trade barriers against outside nations. The Community would continue to operate a liberal and open common market system, because it was in Europe's interest to do so. The EC needs open borders and liberalized trade. The EC Commissioner Claude Cheysson pointed out that 25 percent of the Community's gross national product was derived from international, non-European trade. This was against 7 percent for the U.S. and 15 percent for Japan.[108]

ASEAN is now suffering from the rising threat of protectionism, which adversely affects its exports. The EC always claims that it is the most open trading area in the world. To a certain extent this is relatively true, with the exception of a few "sensitive" manufacturing items and agricultural goods, in comparison with Japan and the U.S.[109] For example, intra-EC differences in employment losses are caused by worsening trade balances with ASEAN in import-competing goods such as textiles.[110] In this regard, France, the UK, and Ireland are the three outstanding nations which debar ASEAN textile fabrics and clothing exports, especially those from Thailand.[111]

In response, the ASEAN Trade Union Council has asked the European Trade Union Confederation to reduce the tax ceiling on textile products.

The ASEAN representative said their countries were now faced with the problem of a surplus of textile products on the market.

Moreover, the EC representatives are being urged to fulfil their promise to import more tapioca products from ASEAN nations. They state that they are now facing high unemployment and trade deficits, while the European confederation is under constant pressure from its members.[112]

Otherwise, the reimposition of tariffs more often than not has been on Multi-Fibre Arrangement (MFA) goods; but the ASEAN nations have also found tariffs regularly reimposed on wood and articles made from wood. Particularly Singapore has often had tariffs reintroduced on umbrellas, image projectors and capacitors, Thailand on glutamic acid, glazed tiles and certain types of shoes, Malaysia and the Philippines on shoes.[113]

In addition, quotas against goods shipped from other member states are obviously inconsistent with the principles of an integrated single market.[114] The increment in quota restriction of the GSP has threatened to affect the long-term development and industrialization efforts of ASEAN.[115]

It is understood that although the EC had not recommended the "phasing out" of countries from the GSP scheme, a number of products considered "competitive" would be affected. At least two of these products - one of them television and radio receivers - would hurt Singapore manufacturers.[116]

Then, to some extent, quantitative limitations on the amount of exports eligible for GSP treatment might have had a depressive effect on exports in certain categories, though withdrawal of the GSP scheme is quite a different penalty from the refusal to allow further imports, which is what applies to MFA products once their quotas are reached.[117]

As for ASEAN, it views the growing protectionist threat from the West with great anxiety. There is a constant sense of uncertainty about access to markets in the West, including those of the European Community.[118]

On the other hand, the EC is concerned at the lack of adequate protection for patents, trade marks and copyright in certain sectors and in certain countries in ASEAN which it considers as an important obstacle to further expansion of European investment and trade in the region.[119]

Hence, ASEAN countries will lobby for greater market access to the EC for finished products.

Plagued by increased protectionist policies adopted by the EC countries, ASEAN will endeavour to impress upon the Europeans that they would prefer to bank their economies on finished products rather than keeping to the age-old tradition of exporting primary commodities. And to accommodate these goods, the EC has a vital role not only in opening up her market, but also in increasing her investment in this region.

The Director-General for ASEAN at the Ministry of Foreign Affairs, Encik Abdullah Zawawi bin Haji Mohamed, said to this end, that what ASEAN countries would like to see is increased investment by European countries especially in the commodity sector. With their advanced technology and inroads made in research and development, European joint ventures can facilitate the transfer of technology in this area, thus leading to the production of better quality processed goods catering for the EC market.

Encik Abdullah Zawawi said that the setting up of joint ventures can ease the trade policies of the EC. Such joint ventures can eventually pave the way for increased market accessibility as European firms involved in the joint ventures would want to see their goods sold in a wider market.[120]

In 1988, the concern of some ASEAN countries stems from an uncertainty over whether the union would lead to greater protectionist measures and a tightening of market access for products from countries like the ASEAN six.

As a market of 320 million people or more, it would provide far greater opportunities for trade. There would also be simplification in some areas such as licenses for getting goods into the union, as well as a uniform standard applied to products. Besides, the EC's desire is to open greater two-way trade and investment opportunities with ASEAN.

A team of EC experts have identified no less than 70 product groups in which there is scope for economic co-operation between firms. These include developing cutting machines, compressors, generators, medical equipment and chemical products.

The EC saw opportunities for small European manufacturing and industrial firms to get involved through the ASEAN industrial joint venture scheme and sell finished products back to the EC. Alternatively, they and their ASEAN joint-venture partners could sell the products in the ASEAN countries themselves or export them to the rest of the world under the scheme.[121]

As for ASEAN, it welcomed the prospect of the EC becoming a unified internal market by 1992, but is worried that it may receive less investment from the Community as a result.[122]

However, the ASEAN nations are in a strong position to take a lead among the developing countries in future Multilateral Tariff Negotiations (MTNs), and other international trade negotiations.[123]

After understanding European protectionism and its impact upon ASEAN, it is interesting to observe EC integration in 1992: its implications for the ASEAN countries.

5.4 EC Integration in 1992: Its Implications for the ASEAN Countries

5.4.1 The Situation of ASEAN Trade and Investment with the EC: Problems and Prospects for 1992

Firstly, we will illustrate ASEAN-EC relationships before 1992. Then, we will present the issues and prospects for these relationships. From 1985 to 1988, except for Singapore and Brunei, ASEAN economics were net debtors. Hence, it is hard for the ASEAN countries to invest their means of production in the EC Single Market, as American, Japanese and the EC businesses are currently doing in the form of mergers and acquisitions.

However, the ASEAN traders, just like their fellow traders in Japan, the U.S. and the EC, could have a chance in sharing the opportunities for incremental trade when the EC Single Market is successfully off the ground. It is a market that was worth U.S.$ 4.6 trillion by 1992.

During the period 1981-1984, the commodity imports of Singapore, Brunei, Indonesia, Malaysia, the Philippines and Thailand from the EC were machinery and transport equipment, chemicals, and basic manufactures.

ASEAN exports to the EC market are tropical foods, crude materials, mineral fuels, vegetable oils and fats, as well as such natural resource-based basic manufactures as wood products and such labor-intensive manufactures as electronic components and textiles and clothing, as well as production for which the ASEAN nations have clearly demonstrated a comparative advantage.

In the same period, Brunei's exports to the EC market have been only mineral fuels; Singapore's raw materials, basic manufactures in wood, textiles and clothing, electronic components, and other manufactured goods not classified by kind. Indonesia exported mostly tropical foods, raw materials, mineral fuels, basic manufactures in wood, vegetable oils and fats and more recently, such labor-intensive miscellaneous manufactures as textiles and clothing. Malaysia exported tropical foods, raw materials, vegetable oils and fats, basic manufactures in wood, and labour-intensive manufactures like electronics components, as well as textiles and clothing. The Philippines exported the same products as Malaysia, but included other manufactures not classified by kind. Finally, Thailand has predominantly exported tropical foods, basic manufactures in wood, as well as textiles and clothing. The potential of these ASEAN exports to the EC market, as a Single Market after 1993, is rather positive both in the short and long run.[124]

Accordingly long range prospects to continue exports to the EC Single Market, will remain bright in overall terms. This is because overall consumption throughout the EC Single Market increases in response to the positive income effect among its 324 million consumers.

As overall EC-wide investment in additional and technologically more efficient plants and facilities increases among EC firms, they will need to correspondingly increase their imports of natural resource-based mineral fuels, raw materials, basic manufactures in wood, vegetable oils and fats, and labor-intensive electronic components, the sort of products which the ASEAN nations had been exporting to the EC market well before the formation of the EC Single Market. In consequence, the increment of income out of this expansion in overall domestic investment in the EC Single Market as it generates additional jobs provides the basis for an increment of imports by the EC consumers of such natural resource-based products as tropical foods and such labor-intensive ASEAN exports as textiles and clothing.

In this regard, the long-term question that ASEAN states should ask themselves in the face of this emerging EC Single Market is whether even as early as today they have positioned themselves as exporters in such a way as to effectively compete with other non-ASEAN exporters to the EC market in precisely those industries which produce natural-based and labour-intensive importables for the EC Single Market.[125]

As already mentioned previously, most of the ASEAN exports to the EC are foods, raw materials, mineral fuels, vegetable oils and fats, basic manufactures especially of wood, as well as labour-intensive miscellaneous manufactures like textiles and clothing. The current EC trading regime for these imports from the ASEAN regions comprises both tariff and non-tariff protective measures.[126]

In reponse, in 1987, ASEAN had to sustain a lobby against a proposed European Community (EC) levy on vegetable and marine oils and fats until the plan was finally dropped.[127] However, the promoters of the proposed levy on vegetable fats and oils failed to win enough support to ensure its implementation under the Community's budget proposals for

1988. In effect, the proposed levy could not be imposed until further notice.[128]

In addition to these high tariff barriers imposed on ASEAN exports of tropical agriculture, the EC external trade regime also enforced such such non-tariff barriers as quantitative restrictions (QRs) and technical standards or regulations on tropical beverages; QRs, antidumping and countervailing actions, technical standards and taxes or charges on spices, flowers and plants, vegetable oils - which were additionally subject to variable duties - tobacco, rice and manioc; QRs, variable duties, charges or taxes and technical standards on nuts and fruit; QRs, antidumping and countervailing actions, and technical standards on wood and its products; as well as QRs, antidumping and countervailing actions, and technical standards on hard fibres.

All these tariff and non-tariff barriers to ASEAN exports to the EC market constitute the internal protection accorded EC farmers under the EC Common Agricultural Policy (CAP). The CAP works on the basis of a target price, an intervention price and a threshold price. The target price is the support price which the EC requires to maintain at its main population or consuming centers. Since, it does not support a fixed level, the EC permits a range of variations around the target price itself, which variations indicate the intervention price or the minimum price at which the EC stocks up on the farm goods to defend its floor price and the maximum price at which it unloads some of its stock to hold the line on the ceiling price. To prevent the CAP from subsidizing imports of farm goods, the cost of transporting the goods from their port of entry to the consuming centres is deducted from the minimum price, which results in the threshold price or the minimum import price tolerated by the EC. To keep this threshold price in line, the EC uses the variable levy, which amounts to a spread between the C.I.F. import price of the farm goods and its threshold price.

As for ASEAN, its exports of labour-intensive manufactures like textiles and clothing are subject to import quotas negotiated with the Commission at Brussels, though they are implemented individually by the EC members on the basis of their native national customs formalities, which even EC firms themselves have admitted as the most costly barrier to the completion of the EC internal market.[129]

Like other developed countries, the EC faces pressures to protect its declining industries and to aid the take-off of growth industries through protection. It has both set up protective schemes of its own and attempted to influence the protection established by its members.

Textiles and clothing, one of the groups of labor-intensive goods of interest to such nations as Thailand, Indonesia, and the Philippines, is one where the EC has veered from a liberal to a sharply protectionist attitude.[130]

In these circumstances, the European unions said that their members lost jobs as a result of competition from ASEAN, especially in the textile industry.

As a result of restrictive economic policies in most European countries, many workers in the EC are facing the prospect of declining living standards, job insecurity and unemployment.[131]

Concerning trade in agricultural products, the matter of phytosanitary and sanitary standards figures in both the Uruguay Round and the EC Single Market Program. In December 1989, according to a proposal at the Uruguay Round, the EC strengthened Article XX(b) on agricultural standards, including in addition to scientific evidence such other considerations as technological feasibility, cost efficiency of measures and actual conditions of production, as well as national inspection systems and the environment.[132]

As for ASEAN's negotiation power, ASEAN and the EC have populations of 300 and 320 million people respectively, and GNPs of U.S.$ 216 billion and U.S.$ 2,560 billion.

ASEAN ministers can be expected to ask for greater market access for their exports into the EC. The EC absorbed only U.S.$ 68 billion or 13 percent of ASEAN's global exports in 1986, way behind Japan and the U.S., which accounted for more than 20 percent each.

As a source of supply, the EC only accounted for U.S.$ 62 billion or 14 percent of ASEAN's global imports compared to Japan and the U.S., which supply about 40 percent of its needs.

On the other hand, ASEAN was an even less significant trade partner to the EC. In 1986, it accounted for a mere 1 percent of EC's global trade.

Trade between the two groupings needs to be encouraged further. More than half of EC's trade is between its own members because of their traditional ties and the customs union.

ASEAN is likely to impress on the EC that as the EC moves towards full integration from the advent of 1992, doors should nonetheless be kept open to ASEAN exports.

ASEAN ministers are also keen to campaign for greater European investment in the region especially since the EC is also lagging behind the U.S. and Japan, with only about 13 percent of foreign investments here.

ASEAN, especially the agricultural produce-exporting members, is likely to take issue with the EC's protectionism in agricultural trade, which seems to be holding back the progress of the Uruguay Round of trade negotiations under the General Agreement on Trade and Tariffs.[133]

However, the EC reassured ASEAN countries that the EC would remain open as a trading bloc even after its integration into a single market in 1992.

The EC and ASEAN nations share a belief in competition, the market economy and free trade in the multilateral trade system under the General Agreement on Tariffs and Trade.

ASEAN nations have recognized that they cannot survive in today's world economy merely as suppliers of raw materials, and now nearly 50 percent of ASEAN exports to the EC are finished products.[134]

To ASEAN, the emergence of a large, powerful and unified block in the EC will create a new dynamic in the competitive environment of trade and investment in the world. Almost immediately, this represents a challenge to enterprises in the ASEAN regions.[135]

In reponse, ASEAN should remain united and be prepared to accept the genuine welding together of a single European market from 1992.[136]

As the EC gave priority to creating a single market by 1992, ASEAN has always stressed the need for free trade and the EC's adherence to GATT rules would be helpful.

Both ASEAN and the EC must continue to play a major role in negotiating for fuller liberalization of global trade. ASEAN and the EC should continue to work towards liberalizing the world agricultural trade system.

The positive aspect of a single European market programme for ASEAN and other developing countries was a fast-track package of 279 pieces of legislation to be enacted by 31 December 1992 to allow goods, services, people and capital to circulate freely between the 12 member states of the Community. The programme enforces deregulation and contributes towards liberalizing world trade.[137]

As for ASEAN, it will be able to achieve closer economic co-operation and working together like the European Community nations.[138]

The ASEAN six had already taken a major step forward in recognizing that the way to economic success was to be export-competitive. To accomplish this, they were welcoming foreign investment, lowering tariff barriers and exposing their industries to competition. The EC had shown the way by standardizing industrial requirements and by co-operating in certain industries, such as aerospace. They have shown that if you have continental-size regions, economies of scale entitle you to a better chance in the big league against America.[139]

Another interesting point of study is the effect of the new Europe on ASEAN.

5.4.2 Effects of the New Europe on ASEAN

A faster developing Eastern Europe, and the possible impetus given to Western Europe will provide new markets for their export-led economies (unless a greater Fortress Europe arises). At the same time, there are grounds for some concern with regard to the economic consequences. The economic downside for the Western Pacific arises out of at least three diversion effects:

- The investment diversion effect,
- The trade diversion effect, and
- The official development assistance (ODA) diversion effect.

To be sure, the expectation that investors from Western Europe, the United States and Japan will be flocking in droves to invest in Eastern Europe is not founded on realism. Unlike the large majority of investments in ASEAN, which make very good profits, most that go into Eastern Europe will have the China experience: immense difficulties, generally low profits or long periods of loss. Labour may be cheap but overall productivity will seldom be the match of the productivity achieved in the Western Pacific. Productivity-seeking foreign investments will therefore be less than is too easily assumed.

According to available statistics in 1990 and contrary to popular wisdom, Western Europe as a whole accounted for no less than 29 percent of all approved foreign direct investment in the ASEAN Five (with Japan accounting for 24 percent and the U.S. accounting for 23 percent).

The investment diversion effect will of course be accentuated, depending on the extent to which American and Japanese companies which would otherwise have been attracted to the Western Pacific are diverted to the two-sided Europe 1992-Eastern Europe magnet. A few hundred million dollars here and there may not be very much in global terms but they are significant to ASEAN economies.

As for the trade diversion effect, it seems clear enough that Western Europe, and even the U.S. and a reluctant Japan, will make special provision for and establish special packages to assist the economies of Eastern Europe.

With regard to ODA, deliberate assurances have been given that the sums that are being allocated for Eastern Europe are over and above the resources that have been earmarked for other parts of the world. This might be so in the short term. It cannot be so in the longer run unless one makes the preposterous assumption that the aid budgets of Europe, the U.S. and Japan are capable of easy upward revision in the years to come. In the longer term, more for Eastern Europe must mean less available for everyone else.

It is fortunate that the Western Pacific as a whole is not reliant on ODA. But some countries are and the whole of Indochina will of course be deeply concerned. Already there has been an impact on aid to the Philippines. Even in the short term, it is clear that the revolution of 1989 will deprive the Philippines of billions in the years to come.[140]

As for ASEAN, its foreign ministers call to the European Community to ensure that the EC's commitment to help resurgent East European countries switch to free-market economies will not be at the expense of the Asian region, and to ensure that its economic union in 1992 will not adversely affect ASEAN's interests. They further called on the EC to provide improved markets for ASEAN exports.

Despite repeated assertions from Europe that a single market will resist protectionism and remain outward looking, the ASEAN countries remained fearful of a "Fortress Europe" after 1992. They urged the EC to continue to accord high priority to ASEAN-EC industrial co-operation. In particular, they emphasized that ASEAN should also strengthen itself and intensify intra-ASEAN co-operation.[141] More than anything else, ASEAN members will have to convince the EC nations why it is in their interest to stay in the region, that EC should not lose out to the Americans and Japanese, who are already here in substantial numbers.

The ASEAN ministers are likely to point out to the EC that it will take many more years before Eastern Europe can become a viable economic partner. The ASEAN countries, on the other hand, are market-oriented economies poised to take off quickly in a region of dynamic growth.

ASEAN worries that a unified European Common Market will mean more protectionism and diversion of trade away from non-EC countries. ASEAN expects that intra-EC trade will rise above the current level of 58.50 percent of total EC trade after 1992. This trend could further insulate the EC from international trade and make it more inward-looking as a bloc. Despite assurance from EC officials and the optimism of U.S. and Japan about the single European market, ASEAN members remain unconvinced that free access to the EC market will be maintained. Fears of protectionism after 1992, have already led many American and Japanese companies to invest in EC countries. This development obviously has adverse implications for ASEAN because it reduces U.S. and Janpanese investments in the region.

The EC is now the third largest trading partner of ASEAN, after Japan and the U.S.[142] Again, in 1991, the six ASEAN countries sought guarantees that their growing trade with the EC would not suffer as the EC tightened links with its neighbours. The 12-nation community accounts for 15 percent of exports from ASEAN countries and is one of their fastest-growing markets. But ASEAN fears this growth could be stunted by moves to set up a common market between the EC and its seven European Free Trade Association neighbours - Austria, Switzerland, Sweden, Norway, Finland, Iceland and Liechtenstein. The ASEAN organization is also concerned that the EC will give priority to cementing its links with the countries of the former East European bloc, to its disadvantage.[143]

6. SUMMARY

The European market as a whole has adopted a coordinated approach and integrated its operations across borders instead of competing country by country. Such integration may help maintain the international competitiveness of European enterprises in critical industries. The growth of the EC Market, the rescission of trade barriers within the EC, and the expansion of the EC created the potential for more international competition. GATT negotiations which lowered the EC's common external tariff, and the emergence of main new export-oriented overseas competitors (led by Japan and followed by a number of newly industrializing countries) exposed European industries to renovated international competition.[144]

As for ASEAN, most national governments alone do not have the power or flexibility to deal with such corporations on equal terms. Neither can individual member countries with relatively small domestic markets hope to compete in the global competition to attract investments. Really, in a recent EC-sponsored report on investments in the ASEAN regions, one of the major conclusions was that if there were fewer trading barriers between the ASEAN states, the region would become a much more attractive area for investment from Europe because enterprises could start to manufacture for the region as a whole.

To survive in today's global economic conditions, national governments and private companies must be able to pool their resources and co-operate at the regional or sub-regional level.[145]

Access to foreign markets and capital is the major basic need for the ASEAN region's future economic development.[146]

ASEAN has been for over a decade one of the world's fastest growing regions. The European Community, both as a political and as a trade partner, has been happy to help contribute to the success of the ASEAN governments' efforts through various policies and programmes, and to confirm and build upon the strong as well as mutually beneficial partnership which has grown up between the two regions.[147] Besides, the EC has recognized ASEAN as a developing region, and agreed that co-operation between them should be expanded in such a manner as to contribute to ASEAN's efforts in enhancing its self-reliance and economic resilience.[148]

ASEAN looks to the EC, a major consumer of primary commodities, to play a positive role.[150] ASEAN has always regarded the EC as an important trading partner.[149]

Today Europe, like ASEAN, consist of nations of different sizes but with broadly similar levels of development. Their political leaders share the conviction that at key moments there is the ability to seek accomplishment of national ambitions jointly with other members of the group in a continuous process of give and take.

The formation of the Common Market was largely assisted by the fact that there were many characteristics in each of the member states which could benefit from a unified market. Both intra-industry and complementary trade were there to benefit from tariff reductions. With the recent rapid strides in manufacturing industry in many of the ASEAN nations, these features are gaining strength here too.[151]

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