

## **Development strategies in Asia: Opportunities and challenges for European business**

by John Quigley

Mr Rodolfo Severino, the former Secretary General of the Association of South-East Asian Nations (ASEAN) addressed a joint meeting of the European Institute for Asian Studies (EIAS), the Hanns Seidel Stiftung and the Office of the Representation of Baden-Württemberg in Brussels, on 17th October. Mr Severino said ASEAN is the hub of a growing range of political and economic arrangements in South-East Asia and that a potential ASEAN-EU Free Trade Agreement (FTA) could have enormous value for both regions.

Addressing the theme of integration in East and South-East Asia, Mr Severino suggested that many European countries tended to view the entire region not as a whole but, rather, as a mixture of individual countries. This was previously understandable, he said, as the East Asia region had been fragmented and the Western tendency had been to concentrate on larger and rising markets such as China or India. Of course, in the background, Japan, as the world's second largest economy was always looming large. However, European business should instead look at the South-East and North-East Asian region as one unit.

East Asia is integrating for trade and commercial reasons into a regional economy although perhaps not precisely along the model outlined by the European Union. The ASEAN model is expressed in terms of intra-regional trade and investment and personal and financial networks that cover the entire region. This would have implications for supply chain management and location strategies for international business. Figures for the share of intra-regional trade in East Asia highlight substantial changes in East Asia compared to either NAFTA or the EU, where the figures have remained fairly constant over time. It also indicates that East Asian barriers to trade are falling.

There are efforts underway to conclude FTA's and Closer Economic Partnership Agreements (CEP's) to encourage integration and the liberalisation of trade in goods and services. ASEAN reached an Agreement in 1992 to steadily reduce tariffs on trade to 5% and hence towards 0%. Implementation of the Agreement is on track, Mr Severino said, and is paralleled with agreements on services, goods, customs, standards, transport, tourism, communications, investment and on institutional strengthening. Equally, the countries in the region have established the ASEAN Industrial Co-operation (AICO) facility to help facilitate trade without tariffs and this has had some success.

Across South-East Asia there are extensive commercial and industrial networks including the Japanese, Chinese, South Koreans, Taiwanese and Hong Kong businessmen. These countries share some cultural affinities and are geographically close that should help enable companies to take advantage of lower wage rates, for example in Vietnam from China and Indonesia-Australia of the Philippines-Taiwan. The integration of the region is closer than is perhaps thought. Thus, the countries do not have to wait for formal integration, similar to the EU, but can take advantage of synergies already now in place.

The investment of EU firms in East Asia is at substantial levels, although the share of EU trade in percentage terms is actually declining. Also, the evidence highlights that the investment is taking place at the national level rather than trying to take advantage of cross-border synergies. This trend of market driven integration is underpinned by deliberate political decisions to bring the region closer. ASEAN, it should be noted, has served as a hub for broader regional arrangements including the ASEAN Regional Forum (ARF), ASEAN+3 (South Korea, China and Japan), the Asia-Europe Meeting (ASEM), the East Asia Summit and through FTA's.

These broader arrangements represent the political level schemes that underpin the trend towards integration. Nevertheless, there are some political obstacles to further integration. While ASEAN and China have a good economic relationship, the political dimension is still under construction. The Taiwan Strait issue and the relationship between China-Japan-USA can be a source of tension.

For ASEAN-EU, there are significant links, reflecting ASEAN's role as the hub of expanding political and economic ties in East Asia. This means that ASEAN can be a gateway for companies to engage in the region. However, within the ACIO facility, only one EU company has been involved - Volvo! Nestle, the Swiss company, was also involved. As the nature of the EU-ASEAN relationship evolved, to include political and security issues, both groups created new structures to reflect the more complex nature of links. The EU has been an important source of ODA, not just for the least developed countries but also for Indonesia.

Recently, the EU has indicated that it might be interested in signing up to the Treaty of Amity and Co-operation. This could help pave the way for EU participation in the East Asia Summit, reflecting the EU's long history of providing support to the region through financial and technical assistance. The EU could be more active commercially in developing integration and could push for further governance reforms. The value of the EU model should be explored further for East Asian integration and a role for interaction with ASEAN economic policy makers.

Thus, the potential for an ASEAN-EU FTA should perhaps be examined. It might have enormous value helping to identify further opportunities for trade and investment and would clarify where the constraints to further links might lie. Clearly, East and South-East Asia are integrating and, yet, at the same time remain open to global trade. This is a dynamic process where business networks exist which EU firms could take advantage of. Indeed, while ASEAN continues to integrate, it can learn much from the EU model and should continue to receive EU help to do so.

#### Panel Discussion

Following the presentation of Mr Severino, Dr Willem van der Geest, Director, EIAS, opened the panel discussion noting that there was a need to link the development strategies of countries in the region to the business strategies of companies operating in East and South-East Asia. However, these strategies seem to be running in parallel, without ever converging. One example could be the role played by the Grameen bank system in Bangladesh which replaced the system of money lenders with the social innovation of small-scale lending without the need for collateral. This allowed every

villager to explore the potential of becoming an entrepreneur thus requiring a link between development and economic strategies.

Dr Sebastian Bersick, Senior Research Fellow, EIAS, remarked that EU-East co-operation should be brought more clearly into focus, moving beyond the current fascination with China and India towards the ASEAN regional grouping, of which the EU was its first dialogue partner. The influence of the EU on regional co-operation mechanisms in East Asia has been extensive. The future of co-operation in East Asia will depend on ASEAN's ability to build institutions in order to manage the dependencies arising through links with India and China. While new leaderships may bring about some measure of change, the linking of economies alone will not resolve the danger that interdependencies might create conflict. Giving itself a legal entity and enforcing political co-operation will be important developments in the evolution of ASEAN.

Wolfgang Niedermark, Director, Asia-Pacific Affairs, BASF, said business already sees Asia as one whole region, rather than as fragmented individual countries. If ASEAN is in the background of the media's perception the same is not true of business. For example, BASF has four production sites in India, thirteen in ASEAN and others in China, Japan and South Korea. This is part of an integrated strategy.

There seems to have been a recovery in EU foreign direct investment in 2005, when it reached US\$38bn. BASF is part of the intra- and inter-regional processes in Asia helping to deliver integration - 50% of production in South Korea is exported to other Asian countries. BASF Germany will receive a delegation of Ambassadors from ASEAN countries to discuss corporate social responsibility issues. Regarding FTA's, there is a feeling in business that for sector-wide agreements there may not be any reason to wait if companies can decide on appropriate tariff levels. Although the WTO process might be preferable, business can not wait indefinitely. Bilateral agreements could be a stepping stone to the multilateral level.

#### Questions and Comments

Ralph Kamphöner, EuroCommerce, noted that a reference to the WTO seemed to be missing from Mr Severino's presentation. Would any prospective ASEAN-EU FTA have an added value under the WTO, or would this be too optimistic. Bo Jonsson, EIAS, questioned the strong emphasis given to FTA's when one study had shown, for Thailand, that domestic development strategies had been hampered. What could be done to ensure this would not happen elsewhere.

George Antonio, European Commission, wondered whether the initiative of Japan for a 16-nation FTA in Asia was considered realistic. Sylvain Plasschaert, University of Leuven, suggested that the AICO facility had some added-value to try and reduce tariffs but this must be seen against the protection offered to agriculture. Hanns Glatz, Daimler-Chrysler, asked whether ASEAN should first develop fully its internal market before proceeding to FTA's or just let the top four nations do their own thing.

## The Speakers in Reply

Mr Severino said negotiations for the Doha Round are stuck. A global multilateral trade regime would be the preferable option but it is unlikely to happen in the short term. The next best option would be regional trade agreements as these can have positive political implications. Such agreements should help make the Doha Round move forward and not conflict with WTO rules. A Vision Group Report suggested that East Asia should conclude a region-wide FTA but the time for such an Agreement may not be right. In respect of FTA effects on the development strategies, negotiations are a give and take, however, such Agreements are not always made between equal partners.

Dr van der Geest said that in contrast to ASEAN there was a problem of balance in trading within SAARC. However, by enlarging and building external links with China, Japan and South Korea the grouping may be able to make progress. Dr Bersick said market-led integration has occurred because governments were not leading the process. The EU must commit itself strongly to assisting Asia to integrate further. Mr Niedermark said the Asia-Europe Business Forum existed to help companies but this could not take the place of a proper Asia-Pacific-wide strategy. The last ASEM Summit, in Helsinki in October, was unable to deliver a strong business message to governments. As long as the WTO stands still, sector-specific agreements will be necessary. ■

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