EU-ASEAN Trade Relations between Political Rhetoric and Economic Reality

Tobias Schumacher und Michael Hampe[1]

Nach Meinung der Autoren leidet die Handelskooperation der Europäischen Union (EU) mit der Association of Southeast Asian Nations (ASEAN) unter einem eklatanten "Legitimationsdefizit", welches durch das Spannungsverhältnis zwischen deklaratorischer Bereitschaft zur Kooperation und einer rigorosen Politik der Marktabschottung gekennzeichnet ist. Zur Untermauerung ihrer These stützen sich die Autoren auf die bislang zugänglichen Daten von Eurostat, Internationalem Währungsfond (IMF) und dem Statistischem Bundesamt im Zeitraum von 1980 bis 1996.

I. Development and legal base of EU-ASEAN relations

The states of the EU recognised the political and economic importance of the Southeast Asian region relatively late. Whereas the EU has already concluded several association agreements with numerous third countries of the Mediterranean region and with the ACP-states in the 1960s and 1970s,[2] it took almost 13 years until the then EC reacted to the Bangkok declaration of 1967. Only in March 1980 did both actors institutionalise their relations by the signing of the EC-ASEAN-Co-operation Agreement that still provides the legal framework. While Mols argues that the establishment of the treaty-based dialogue could be seen as an attempt to support a stable peace in Indochina as well as a tool to serve European economic interests in the Southeast Asian region,[3] Pilgaard additionally points out two other interconnected factors. On the one hand he regards the request of the ASEAN countries for closer inter-regional cooperation as a major driving force whereas on the other hand he considers this pressure as an outside catalyst that enabled the EC to assert itself

1 The authors wish to thank Jörn Dosch, Paul Lim, Eberhard Sandschneider and Bernhard Stahl for their critical comments on an earlier draft of this paper.

2 After the EC has concluded a first set of trade agreements with various countries of the Southern Mediterranean region (Turkey, Morocco, Tunisia, Yugoslavia, Malta, Israel, Egypt, Lebanon, Cyprus) in the period between 1963 and 1972, it has institutionalised and extended this dialogue network in the mid-1970's with the formulation of a Global Mediterranean Policy, thereby including Algeria, Jordan and Syria. With the approval of the EC-Council of Ministers in December 1990 the "global approach" was replaced by the New Mediterranean Policy which excludes former Yugoslavia but includes the Palestinian Autonomy Authority. Under the meanwhile four Lomé-conventions, of which the first was signed in 1975, the EC manages a highly institutionalised dialogue with nowadays 70 ACP-countries. The forerunners of Lomé were Yaounde I and II.

3 See Mols 1990, pp. 70-72.

on a global scale.[4] Given the fact that, as Michael Smith has ably pointed out, "by the early 1980s there was only a patchy and partial basis for the development of the EC's international role"[5] this situation opened a "window of opportunity" for the Community to promote its presence and impact on the international scene.

However, the Treaty of Rome, at that time the legal framework for EC international action, did not provide for a constitutional base in the field of what some analysts regard as real foreign policy, i.e. diplomacy, defence and security matters. Due to this lack the EC, in its agreement with ASEAN, only refers to articles 110, 113, 210, 228 and 238 in connection with Article 3 of the EEC-treaty.[6] The last three articles can thereby be seen as a kind of bracket through which the first two obtain their shape and can be applied: Article 110 and 113 give the EC the responsibility for conducting trade relations with third countries not belonging to the Community. Against the background of this ambivalent dualism, sole competence in trade affairs and lack of legal foreign policy-instruments,[7] it is not surprising that the main emphasis of the various chapters of the agreement rests on commercial, economic and technical (i.e. development) cooperation. Furthermore, it is important to keep in mind that the EC-ASEAN accord is a second-generation agreement[8] that excludes the principle of conditionality.[9] This means that the EU (apart from its relations with Vietnam, with which such an agreement exists) *had* and still *has* no possibility to suspend the granted trade preferences when human rights violations occur in ASEAN countries.

II. The development of bilateral trade

It cannot be denied that the two regional groupings have been able to achieve quite considerable progress in all of the three sectors in the years since 1980. In this context it is very often referred to as a dynamic development of the bilateral trade exchange.[10]

Table 1 demonstrates that the trade volume between the EU and the ASEAN in the period 1980-1996 increased by more than 470% (EU-exports increased by 546% whereas ASEAN-exports increased by 412%) starting out from a relatively low level in 1980. This development almost corresponds to the positive trend respective to the dynamic development of the bilateral trade volume with the US as well as

4 See Pilgaard 1993, p. 108.

5 Smith 1996, p. 249.

6 For a detailed analysis of the constitutional basis of the EU's foreign policy activities, see Schumacher 1998, pp. 16-23.

7 With the adoption of the Single European Act, concluded on the 17th of February 1986 and the Treaty on the European Union ("Maastricht Treaty"), which entered into force on the 1st of November 1993, the EU with its Common and Foreign Security Policy (CFSP) now has at least an international law-based framework for its foreign policy actions.

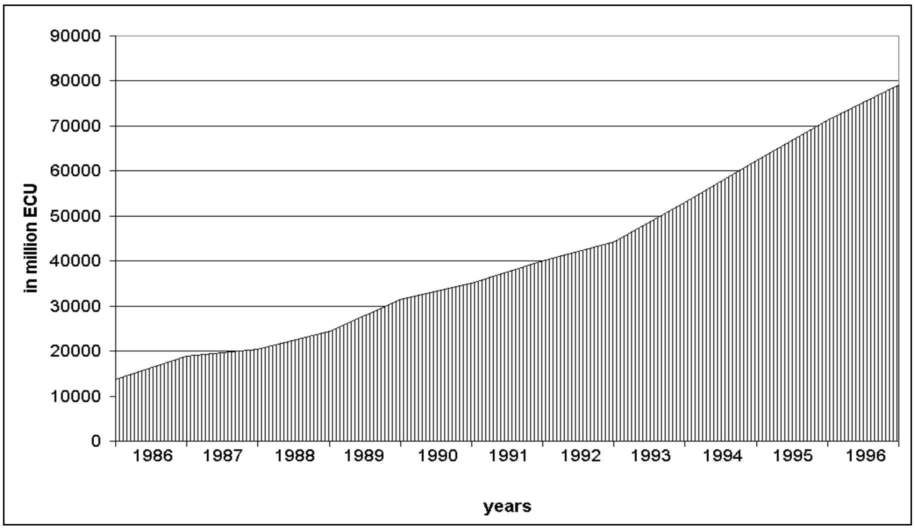
8 "First generation" agreements are pure trade accords, "second generation" agreements cover various cooperation areas whereas "third-generation" agreements are based on suspensory provisions.

9 For a detailed analysis on the use of political and economic conditionality in the EU's relations with third countries, see Weber 1995 and Smith 1997.

10 See EU-ASEAN Joint Declaration of 13/14th February 1997 adopted in Singapore.

with Japan and must be seen as an important step towards the envisaged "closer economic links"[11] between the EU and ASEAN.[12]

Table 1: EU-ASEAN Trade Volume



Source: Eurostat (Ed.): *Statistical Yearbook 1958 – 1996.*

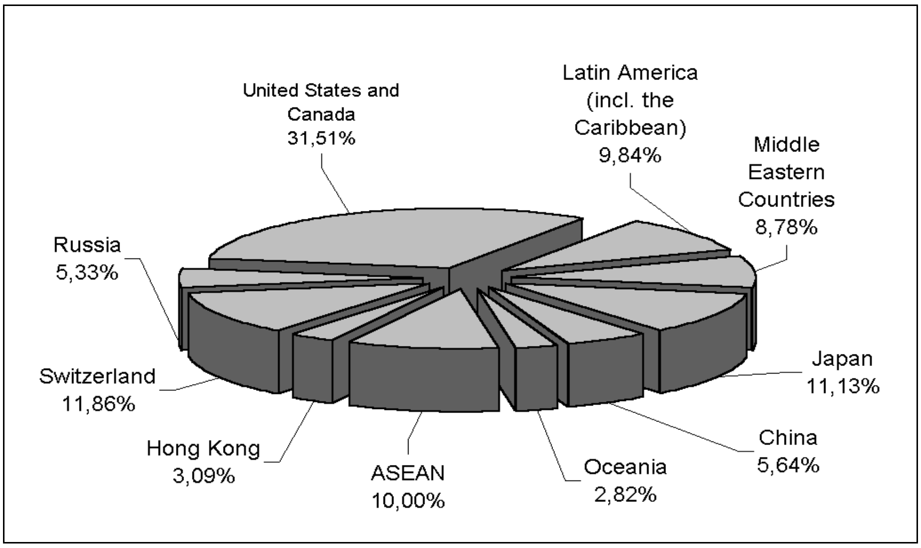
In this context Table 2 furthermore indicates that ASEAN also developed into one of the main trading partners of the EU. Focussing on the ten most important trading partners of the EU shows clearly that ASEAN ranks fourth after the US and Canada, Switzerland and Japan.

Nevertheless, a closer view of the development of the real balance of trade between the EU and ASEAN reveals a different picture, especially from the European perspective. Against the background of the economic success and the growing self-confidence of the Asian states (at least until the outbreak of the Asian Crisis in 1997) Table 3 points out that the EU consistently had to suffer from its own Generalised System of Preferences (GSP) through which it has granted the ASEAN-6 a better and more preferential access for their exports on the European market: The EU only shortly after the signing of the cooperation agreement had to face an ever worsening trade balance with ASEAN. Although the trade balance improved slightly at the end of the 1980's the EU was confronted with a permanent trade deficit that reached its absolute (negative) peak in the first half of the 1990's.

11 Article 3 I of the Co-operation Agreement between member countries of ASEAN and EC.

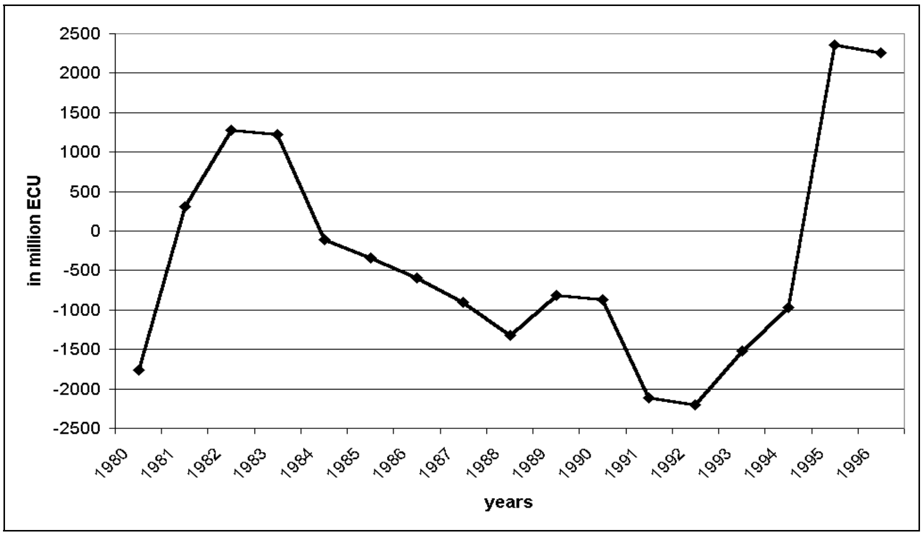
12 According to Eurostat the trade volume of the EU with the US and Japan in 1980 amounted to 71,4 billion ECU respectively 17,9 billion ECU. In 1997 the trade volume with the US reached 277,6 billion ECU and with the latter 95,4 billion ECU.

Table 2: Main Trading Partners of the EU, 1996 (Trade Volume)



Source: Eurostat (Ed.): *Statistical Yearbook 1958 – 1996*.

Table 3: Balance of Trade: EU-ASEAN



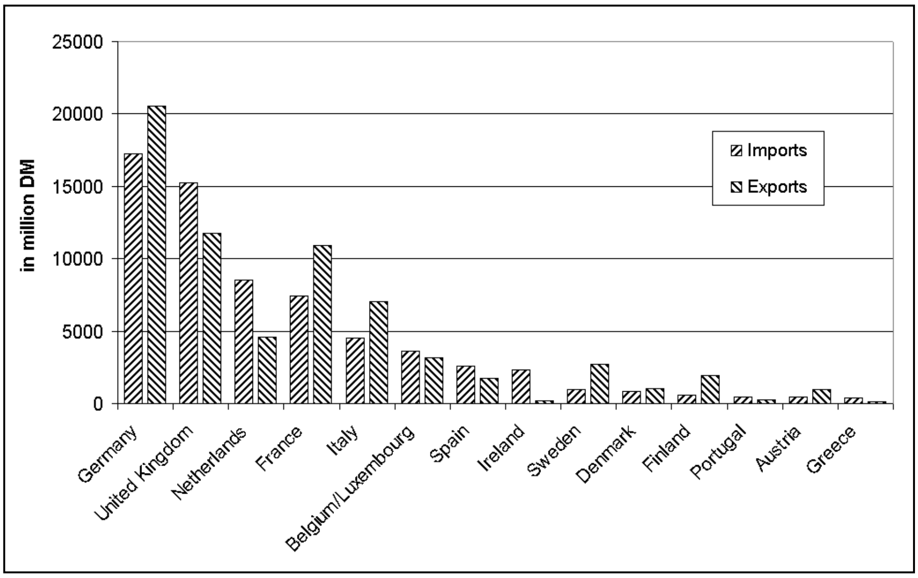
Source: Eurostat (Ed.): *Statistical Yearbook 1958 - 1996*.

As seen in Table 3, a look at the period from 1995 onwards, however, reveals a fundamental change in the development of the bilateral balance of trade between the EU and ASEAN. Whereas the EC was able to achieve a record trade surplus amounting up to ECU 1277 million in 1982, it had to experience a record low ten years later.[13] With a deficit in their balance of trade with the ASEAN of ECU 2200 million in 1992 the Twelve suddenly, but inexorably became aware that their original positive trade performance no longer corresponded to reality.

Since the EU finally managed to reverse its year-long negative trade record in 1995 for the first time since 1983, the question must now be raised how this development can best be explained.

At first glance, two facts have often attracted scholarly attention although they are only partly responsible for this impressive swing:

Table 4: EU-Countries Trade with ASEAN, 1995



Source: Statistisches Bundesamt (Ed.): *Statistisches Jahrbuch 1997 für das Ausland*.

1. The Northern enlargement of the EU by Sweden, Finland and Austria in 1995. Due to the fact that all three countries, as shown in Table 4, have a positive trade balance with the ASEAN, it could be argued that the Northern enlargement should have an almost natural effect on the EU's new trade surplus. However, Table 4 reveals that this argument cannot be made on its own responsible for the new upswing: The reason must be seen in the fact that although Austria and the Nordic countries with their positive trade balance contribute to the EU-

13 Since Brunei joined ASEAN in 1984 Table 3 only refers to the ASEAN-5 for the period 1980-1984. Table 3 reflects the data of Vietnam since its accession to the ASEAN in 1995.

surplus their total trade share with the ASEAN is relatively low compared to the other EU member-states. It is therefore inevitable that their accession to the EU respective to their bilateral trade performance has neither a major impact on the general development nor can explain it since 1995 in any satisfactory manner.

2. The accession of Vietnam to ASEAN in July 1995, often mentioned in this context, also provides for no reasonable explanation of the change of the EU's trade balance with ASEAN for, as shown in Table 5, Vietnam is also one of those ASEAN-countries with which a negative trade balance exists.

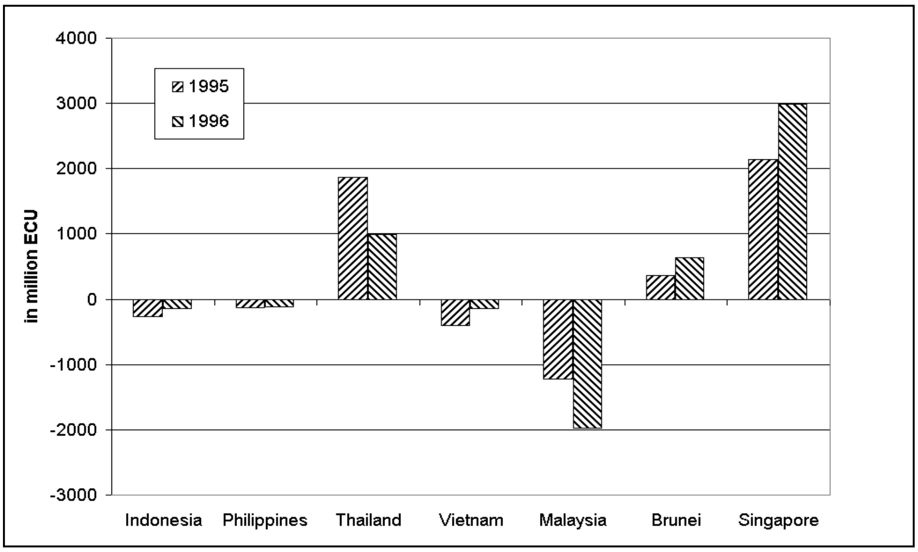


Table 5: EU-Balance of Trade with ASEAN-7, 1995/96

Source: Eurostat (Ed.): *Statistical Yearbook 1958 – 1996*.

In contrast to these two points, another development can be regarded as principally responsible. On the background of its year-long negative trade balance, on the 1st of January 1995 the EU introduced a changed GSP. On one hand this modified GSP has the advantage that it covers a period (of validity) of four years and leaves the preferential tariffs constant during this time. On the other hand these positive aspects cannot cover up the fact that the EU has transformed the original system into a highly restrictive and protectionist trade regime to the disadvantage of the ASEAN countries exports.[14] Let us take a closer look at this point.

For most of those export products in which the ASEAN countries have comparative cost and competition advantages, respective to their producers the EU has only granted modest tariff-concessions. According to the vulnerability or rather the con-

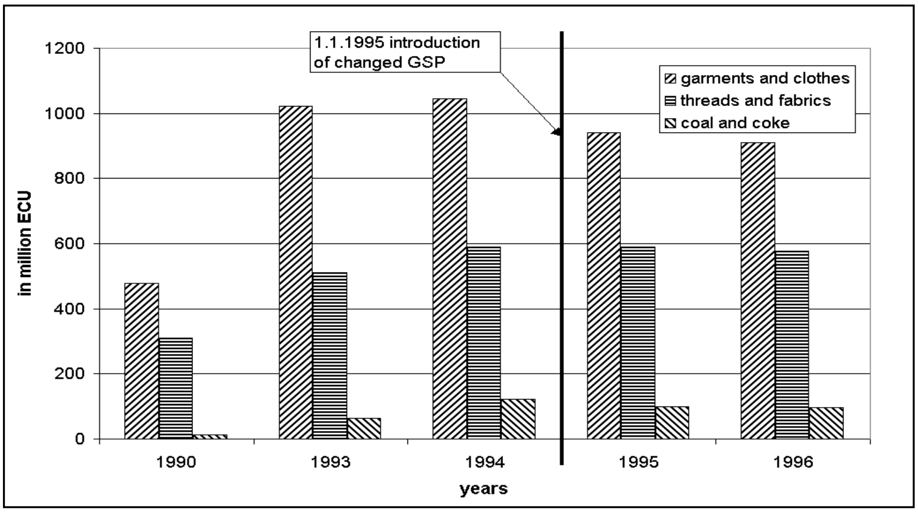
14 See Daquila 1997, p. 124.

dition of the European market the EU therefore distinguishes between *highly sensitive, sensitive*, *semi-sensitive* and *non-sensitive* ASEAN-export products.

The preference margin for highly sensitive products like textiles and clothes is only 15%;[15] for sensitive products like chemicals, cars and electronic goods it is 30% and for semi-sensitive goods like mechanical machines and photographic materials it is 65%. Only for non-sensitive products, for example toys and pharmaceuticals, does the EU grant a duty-free entrance on the European market.

In consideration of the economic development of the ASEAN-countries and the current economic crisis in the Asia-Pacific region this measure has as a consequence that important industrial sectors like the garment and wood industry in Thailand and Malaysia, the electrical industry in Singapore as well as the garment, clothing, footwear and wood industries in Indonesia have been severely put under pressure.

Table 6: EU-Imports from Indonesia by sectors



Source: Eurostat (Ed.): *Statistical Yearbook 1958 – 1996*.

The example of Indonesia, as can be seen in Table 6, demonstrates that exports in the above mentioned sectors increased constantly until the end of 1994 but came to a halt after the introduction of the changed GSP. Either many ASEAN-countries' export flows decline or they remain at the same level.

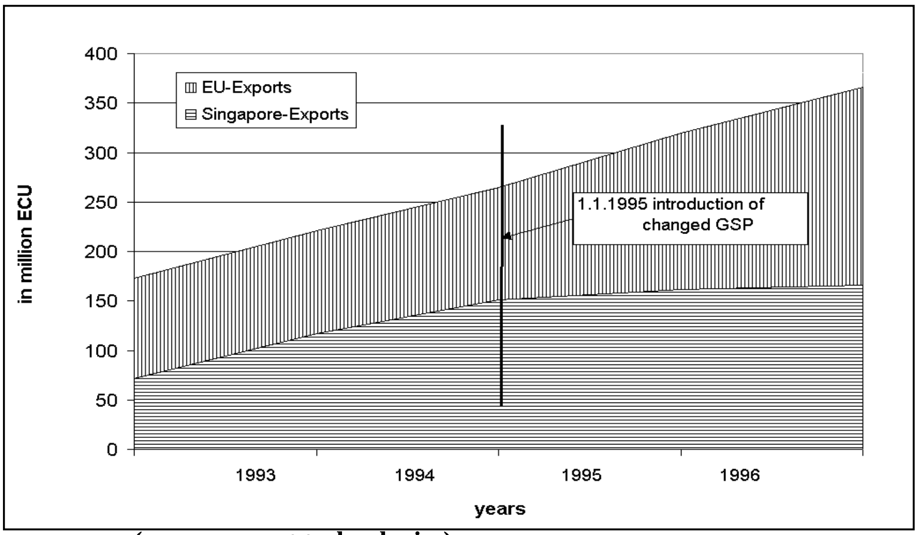
This development is representative of many more export sectors in other ASEAN-countries and is largely a result of the new trade barriers imposed by the EU in 1995. A detailed examination of the development in the export of various sensitive products of Malaysia, Brunei and Singapore to Europe undermines this point and

15 The main share of ASEAN textile- and clothes-exports were subject to a bilateral agreement between the EU and ASEAN under the Multi-Fibre-Agreement, which in the meantime was replaced by a new accord that was in turn decided during the Uruguay Round and that is in force since the 1st of January 1995.

provides for greater clarity. For instance, Malaysia's wood and cork exports to the EU declined by more than 43% after the 1st of January 1995; Brunei had to face an 8%-decline in its photographic material exports whereas the EU in turn was able to increase its export rate by 34,3% at the same time; finally Singapore's telecommunications exports to the EU decreased by about 3% from 1995 onwards.

The fact that even after 1995 sectors exist in which the ASEAN countries *were* and still *are* able to increase their export rates does not however contradict the inherent logic of the modified GSP. As the example of Singapore on Table 7 indicates, ASEAN countries might still have the chance to moderately increase their exports in certain sectors even after 1995, nevertheless the total difference in the export volume of both actors mostly has developed in favour of the EU.

Table 7: EU-Exports to Singapore and Singapore-Exports to the EU



(measurement technologies)

Source: Eurostat (Ed.): *Statistical Yearbook 1958 – 1996*.

Additionally, EU-Malaysian trade in the electric machines sector underlines this increasing gap. Whereas the EU has managed to increase its exports in this sector by more than 60% since January 1995. Over the same period Malaysia has only achieved a 3,4% growth rate.

Due to the changed GSP most of the ASEAN states are faced either with a sharp decline in their exports into the EU or the absolute value of their exports destined for the EU remains constant thereby respectively losing ground compared to the EU-exports. Instead of being an export-stimulating instrument for third countries it must be seen that the EU's GSP after 1995 has been of limited positive relevance for ASEAN-members as many of the core products of export interest to the Southeast-

Asian countries were excluded from it. Therefore the main problem of trade cooperation between the two regional entities at least until 1996 was the blatant and often criticised EU-attempt at practising a policy of market-closure against cheap market competitors in sensitive sectors – a fact that is already well-known from the EU's relations to the ACP- or the Maghreb-countries.[16]

On this point we have to be aware again both of the provisions of the Co-operation Agreement between the EU and ASEAN and the numerous declarations of European politicians within the last two decades. In both cases we must notice that fair as well as free trade have always been at the core of numerous European statements dealing with commercial issues. To undermine this last assertion let us begin with a closer inspection of the content of the association accord and the EC-ASEAN Joint Declaration both dating back to March 1980. While in Article 2 II of the agreement both parties only agree to a future study of "ways and means of overcoming trade barriers, and in particular existing non-tariff and quasi-tariff barriers"[17] paragraph 12 of the Joint Declaration goes much further and defines it more precisely. Accordingly and as platform for the bilateral relationship it states that the two actors have explicitly agreed "on the need to maintain free and open trading conditions in order to avoid protectionism and to promote the recovery and restructuring of the world economy".[18] In their Joint Statement adopted on the 17/18th of October 1985 in Bangkok EC- and ASEAN-Ministers once more stressed "that a free international trade system is vital to [their] interests"[19] what in turn necessarily leads to "the need to resist protectionism".[20] The Joint Declaration of the 12th EU-ASEAN Joint Co-operation Committee adopted in Singapore extrapolates this "tradition" and is just the latest example of the EU's official position to strive for the promotion and facilitation of the free flow of goods and services.[21]

If we now relate these aims to current EU-trade practise towards the ASEAN-countries, thereby leaving other external factors aside for the moment, then it must be concluded that the developments shown above provide convincing arguments in support of the thesis that the cooperation policy of the EU towards the ASEAN suffers from an open "legitimacy deficit". The basis and starting point then is the strained relationship between a declaration of willingness to co-operate and a definite policy of market closure. This opens up a gap between practise and capability respectively produce an imbalance between words and implemented deeds.

III. Future perspectives of EU-ASEAN trade relations

Once more the Asian Crisis has impressively demonstrated that in a world of complex interdependence, politics is too often played on the chessboard of economics

16 For a detailed analysis on the EU's protectionist external trade policies, see Schumacher 1998.
17 Article 2 II of the Co-operation agreement between member countries of ASEAN and EC.
18 Paragraph 12 of the EC-ASEAN Joint Declaration adopted on the 7th of March 1980 in Kuala Lumpur.
19 Paragraph 5 of the EC-ASEAN Joint Statement adopted on the 17/18th of October 1985 in Bangkok.
20 Ibid.
21 See Joint Declaration of the 12th EU-ASEAN Ministerial Meeting adopted on the 13/14th of February 1997 in Singapore.

and fragile growth expectations. In order not to end up in the dustbin of history thorough remarks about the future of EU-ASEAN trade relations must take this insight into account and avoid one-sided predictions. However, it must be said that, given the unpredictability of further development of the Southeast-Asian economies at the moment, it is highly difficult to draw a complete picture of the future trade structure between the two regional groupings. In the following points we therefore have no intention of forecasting any concrete future development. The aim is rather to highlight certain influencing aspects which must be taken into account and which again may ultimately contribute to a better understanding of tomorrows trade dimension between the two regional entities. At least four points should be mentioned.

- Although the existing GSP had run out by the end of 1998 Southeast Asian hopes of a relaxation of the trade barriers imposed by the EU are likely to be disappointed. The GSP introduced in 1995 and today already labelled the "old model"[22] will be superseded by new protectionist trade instruments comprising anti-dumping procedures, voluntary export restraints and tight regulations on skilled labour.
- Although all Southeast Asian Stock Exchange indicators by the end of 1998 had brought in considerable profits when compared with the average low of Summer 1997, they are only of limited significance. While a few branches of industry will quickly recover during the reconstitution phase, others will still have to suffer from over-capacities and a loss of public demand.[23] In relation to their European counterparts this has recently led to a defective market position and a weakened competitiveness which European export-oriented industries have been partly able to use to their advantage.[24] This last point, however, can not be contradicted by the argument that Southeast Asian export products will, due to devaluations of the currencies, inevitably profit from the drop in prices. We are quite aware that this fact has principally a macroeconomic potential which theoretically could enhance greater external, i.e. EU demand of Southeast Asian goods and products and that could result in a possible expansion of EU-wide imports from ASEAN, especially in non-competitive product spectrums. But, and this is why we do not expect this to happen in the mid-term, the lack of liquidity of Southeast Asian companies must be rated much more highly than has previously been the case. Due to the debt structure and the critical relationship between sales and returns, deflationary price developments are likely to bring the vast majority of businesses into severe survival and therefore have a strong impact on export sales of the region.

---

22 Daquila 1997, p. 123.

23 It must be furthermore mentioned that until the end of 1998 in most Southeast Asian countries only an insufficient resolving of the debts has been carried out. Further bankruptcies and negative enterprise results are still to be expected. For instance, in Indonesia where the December riots could harm neither the Stock exchange nor the currency for very long, escalating political unrest can render all calculations and predictions invalid.

24 To attract foreign investment and capital as well as to rebuild the necessary trust in the Southeast Asian economies, ASEAN countries were and still are almost naturally forced to open up their markets for foreign competitors.

- The drop in purchasing power in most Southeast Asian countries has not only had a serious effect on the development of domestic consumption and production, it has and probably will continue to also inexorably exert its influence on export products from the EU. A major surge in demand for European products will, according to many analysts, mainly depend on the uncertain middle classes and their willingness to spend their accumulated capital.[25] As long as they find no internally or externally motivated incentive to redistribute their resources EU-products will have dim sales potentials in Southeast Asian markets in the near future. The example of Germany, France and Spain which are, due to the Asian Crisis, confronted with export losses between 3% and 8% in October 1998 compared to the same time in 1997 underline this rather dark outlook.
- Since many Southeast Asian governments in the wake of the crisis-management have liberalised their foreign direct investment (FDI) conditions to attract foreign capital and due to the fact that the situation on the originally tight labour-market has visibly improved in favour of the employers there are also positive signs for the European side. Against the background of these two important aspects and on the assumption of a recovery of the Southeast Asian currencies which also depend on the stability of the Yen towards the US-$, the possibility must be considered that companies from the EU now and in the mid- as well as in the long-term have good prospects of taking advantage from the newly created conditions for FDI in this part of the world.

IV. Conclusion

Substance and success of the EU's future cooperation policy towards the ASEAN mainly depend on overcoming the existing lack of credibility. Especially against the background of the Asian Crisis, the EU will in future have to avoid being regarded as an unreliable trading partner by its ASEAN-partners. To achieve this the EU must abolish its protectionist policy of market-closure and must be prepared to open up its markets even if this would lead to a stronger competition and would put numerous European businesses under intense pressure. Due to the high unemployment rates Europe is confronted with at the moment, the perspective for such a step, however, seems to be rather bleak.

As long as the EU tries to convince the European public that official declarations, the Maastricht and in future the Amsterdam Treaty are the sole basis of its actions, it must accept that it will always be compared with its own standards.

V. Bibliography

Chia Siow Yue/Tan, Joseph L.H. (Eds.), 1997: *ASEAN & EU*, Singapore

Daquila, Teofilo C., 1997: "Obstacles to closer Trade and Investment Links: An ASEAN Viewpoint", in: Chia/Tan 1997, pp. 103-135

Eccleston, Bernard/Dawson, Michael/McNamara, Deborah (Eds.), 1998: *The Asia-Pacific Profile*, London/New York

Eurostat (Ed.), 1998: *Statistical Yearbook 1958-1996*, Luxembourg

ISEAS (Ed.), 1997: *Southeast Asian Affairs 1997*, Singapore

25 See *Neue Zürcher Zeitung* 1/12/1998, p. 24.

Low, Linda, 1993: "Current economic issues and future prospects between the EC and ASEAN", in: Kim, Bak-Soo (Ed.): *The Asian Dimension of EC integration*, Seoul, pp. 199-228

Maull, Hanns W./Segal, Gerald/Wanandi, Jusuf (Eds.), 1998: *Europe and the Asia Pacific*, London/New York

Mols, Manfred, 1990: "Cooperation with ASEAN: A Success Story", in: Edwards, Geoffrey/Regelsberger, Elfriede (Eds.): *Europe's Global Links: The European Community and Inter-Regional Cooperation*, London, pp. 66-83

OAV/FAZ-Informationsdienste (Ed.), 1998: *Singapur/ASEAN Hauptbericht August 1998*, Frankfurt

Pilgaard, Peter M., 1993: "The Twelve's Relations with Third Countries: An Overview", in: *Cooperation and Conflict*, 28 (1), pp. 101-112

Schumacher, Tobias, 1998: *Die Maghreb-Politik der Europäischen Union. Gemeinschaftliche Assoziierungspraxis gegenüber Algerien, Marokko und Tunesien*, Wiesbaden

Statistisches Bundesamt (Ed.), 1998: *Statistisches Jahrbuch 1997 für das Ausland*, Wiesbaden

Smith, Michael, 1996: "The EU as an international actor", in: Richardson, Jeremy (Ed.): *European Union. Power and Policy-Making*, London/New York, pp. 247-262

Smith, Karen Elizabeth, 1997: *The Use of Political Conditionality in the EU's Relations with Third Countries: How effective?*, Badia Fiesolana, San Domenico (EUI Working Paper SPS No. 97/7)

Weber, Steven, 1995: "European Union Conditionality", in: Eichengreen, Barry/Hagen von, Jürgen/ Frieden, Jeffry (Eds.): *Politics and Institutions in an integrated Europe*, Berlin/New York, pp. 193-221