441.2(301)
+ 330 67(35)B

# THE ROLE OF EUROPEAN INVESTMENTS IN ASEAN'S ECONOMIC DEVELOPMENT

By: Dilip Mukerjee

*MR. Dilip Mukerjee is editorial adviser to Business Times in Kuala Lumpur and South East Asia correspondent of Times of India. Recently he studied the role of foreign investments in general in the economic development of ASEAN countries and of European industrial investments in particular.*

*Mr. Mukerjee found that the European share as a whole is relatively declining. The European Commission is aware of this trend and has taken the initiative to improve European efforts in this region. Meetings between ASEAN and European business leaders have been organised in Brussels in 1977 and in Jakarta in 1979. In May of this year the ASEAN-EEC Business Council will start its operations. Of course one cannot expect immediate results but anyway these various initiatives will contribute to a better knowledge of the investment possibilities in the ASEAN countries and eventually to an increasing European industrial involvement in the economic development of these countries.*

*Following are Mr. Dilip Mukerjee's articles. The reader will understand that articles for a magazine cannot be exhaustive. He has limited himself to a general impression based on the latest figures made available by the authorities.*

## SINGAPORE: EEC-firms better attuned to long-term goals

**Singapore is an almost incredible success story. Dependent on imports even for its water supply, the city state has managed nevertheless to raise its national income six-fold in the past two decades to bring its "indigenous" per capita income to above US$3,500. These achievements are well known, but few perhaps realise how much of this derives from foreign investment in the economy.**

Consider the manufacturing sector. In 1979, the last year for which figures are available, foreign controlled companies accounted for 77 per cent of the total value added, 58 per cent of employment, 85 per cent of exports and 73 per cent of all capital expenditures.

True, manufacturing is only one part of the Singapore economy — accounting for about 25 per cent of the total. But if figures were available for the other dynamic sector, business and financial services, they would tell much the same story, largely because Singapore has as a matter of deliberate policy kept its doors wide open. Over 100 commercial banks from all over the world are represented in Singapore.

The EEC, considered collectively, is the largest single source of foreign investment in Singapore, the only Asean country where it is at the top of the league. But it is better not to make too much of this because the EEC's relative share has been on the decline. The three largest investors — Britain, The Netherlands and West-Germany — accounted for 39 per cent of the global total in 1979, down from 42 per cent in 1970. Looking further back, the share was 52 per cent in 1965 though West-Germany had yet to enter the scene.

### Headstart

What this brings out is that the EEC had a head start because of the direct historical linkage with Britain and less directly with The Netherlands via neighbouring Indonesia for which Singapore served as an *entrepot*. When Singapore started building up its industrial base in the mid-1960's the EEC share in the flow of direct investments from industrial countries to Third World nations had already started to decline, the gainers being the US and Japan.

The result in Singapore's case is that while US investment has increased 73-fold, and Japan's 38-fold between 1965 and 1979, the EEC total is only 23 times higher. Reckoned on a national basis, the US is now by far the largest investor with a 29 per cent share, Japan second with the 16.5 per cent, followed by Britain 16.2 per cent and The Netherlands 15.9 per cent. Against this, the last two were far and away the biggest in 1965.

If allowance is however made for British and Dutch investments via overseas subsidiaries and tax havens, the picture would change. For example, official data show no EEC investment in tobacco products although companies of British parentage are undoubtedly the largest on the scene. But the point remains valid that the higher growth rate of American and Japanese investments make them increasingly important to the republic. Their lead will lengthen because of their investment in a US$2 billion petrochemicals complex — by far the biggest ever investment



Bangkok

## ASEAN — FOREIGN INVESTMENT BY MAJOR INVESTOR COUNTRY

| Investor country | Indonesia | | Malaysia | | Philippines | | Singapore | | Thailand | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Approved investments June 1967 -Mar. 1980[1] Million US$ | % distribution & (rank) | Investment in approved cos. at end 1977[2] Million M$ | % distri bution & (rank) | Approved investments 1968-1978[3] Million pesos | % distribution & (rank) | Gross fixed assets at end 1979[4] Million S$ | % distribution & (rank) | Registered capital 1960-1978 Million bahts | % distribution & (rank) |
| Total investment | 8,081 | — | n.a. | — | n.a. | — | n a. | — | 18,070 | — |
| Local | 710 | — | n.a. | — | n.a | — | n.a. | — | 13,907 | — |
| Foreign | 7,371 | 100.0 | 2,256 | 100.0 | 4,764 | 100.0 | 6,349 | 100.0 | 4,163 | 100 0 |
| Distribution of major foreign: | | | | | | | | | | |
| EEC | 622 | 8.4 (3) | 455 | 20.2 (3) | 503 | 10.6 (3) | 2,290 | 36.1 (1) | 485 | 11.6 (4) |
| Belgium-Luxemburg | 76 | 1.0 | 0.6 | 0.03 | n.a. | — | 1 | 0.02 | n.a. | — |
| Denmark | 29 | 0.4 | 30 | 1.3 | n.a. | — | 17 | 0.3 | 17 | 0.4 |
| France | 27 | 0.4 | 8 | 0.4 | 20 | 0.4 | 36 | 0.6 | 61 | 1.5 |
| West Germany | 173 | 2.4 | 45 | 2.0 | 64 | 1.3 | 166 | 2.6 | 95 | 2.3 |
| Italy | 4 | 0.05 | 2 | 0.1 | n.a. | — | 28 | 0.4 | n.a. | — |
| Netherlands | 215 | 2.9 | 10 | 0.4 | 13 | 0.3 | 1,011 | 15.9 | 95 | 2.3 |
| United Kingdom | 98 | 1.3 | 354 | 15.7 | 405 | 8.5 | 1,030 | 16.2 | 218 | 5.2 |
| Japan | 2,345 | 31.8 (1) | 603 | 26.7 (1) | 1,162 | 24.4 (2) | 1,049 | 16.5 (3) | 1,423 | 34.2 (1) |
| United States | 352 | 4.8 (4) | 255 | 11.3 (5) | 1,668 | 35.0 (1) | 1,817 | 28.6 (2) | 538 | 12.9 (3) |
| Hong Kong | 838 | 11.3 (2) | 287 | 12.7 (4) | 71 | 1.5 (10) | 321 | 5.1 (4) | 213 | 5.1 (5) |
| Singapore | 138 | 1.9 (7) | 466 | 20.7 (2) | 9 | 0.2 (11) | — | — | 52 | 1.3 (7) |
| Taiwan | 92 | 1.3 (8) | 9 | 0.4 (10) | 186 | 3.9 (6) | 275 | 4.4 (5) | 571 | 13.7 (2) |

**Sources:** (1) Approved investments excluding petroleum & banking sectors, as given by Bank Indonesia, **Indonesian Financial Statistics,** March 1980; (2) Investments in Approved companies in production as at end of year, from Federal Industrial Development Authority, *Annual Report 1978;* (3) Investment approvals by the Board of Investment; (4) Gross fixed assets from Economic Development Board data; (5) Registered capital data from Board of Investment.

— in which the EEC has a minor stake in one of the six plants constituting the complex.

Singapore will no doubt continue to woo the EEC's investors because it is even now — in global terms — twice as large a source of investment for third world countries than Japan. That apart, the EEC firms in Singapore are better attuned to its long term goals than their rivals.

Since 1979, Singapore is embarked on what it calls its second industrial revolution. This involves moving out of labour-intensive and low value-added industries in which comparative advantage is shifting in favour of nations on lower rungs of the growth ladder. Besides, the republic is faced with an increasing labour-shortage because of its remarkable success in bringing population growth down to 1.4 per cent a year. The alternative to upgrading such industries as garments and wood products would be to admit even more guest workers who already account for 15 per cent of the labour force.

### Profile

Hence, Singapore's preference for industries like precision engineering, speciality chemicals, electronic instrumentation, aircraft components and oil-field equipment. Typically, these will require high investments per worker to achieve a high productivity. EEC firms are fairly well represented in these branches, but that apart EEC investment in the aggregate has the kind of profile that upgrading aims at.

The value added per worker in EEC firms was $58,134 in 1979, or almost double the average for all foreign enterprises and three and a half times the figure for Japanese firms. This was largely due to the fact that almost three fourths of all EEC investment was in highly capital-intensive petroleum refining. But as Chia Siow Yue of the National University points out in a recent paper, the EEC average would be higher than others even if the petroleum industry was left out of account. One reason of course is the total absence of EEC firms from fields like garments which might have pulled the average down.

With petroleum refining throughout exceeding a million barrels a day — making it the world's second largest refinery centre — the industry looms large on the industrial scene, accounting for over a third of total output and 18 per cent of value added. With a dominant share in refining, the EEC thus gets a high rating in terms of all the major indicators.

In 1979, the EEC share in Singapore's total manufactured exports was 36 per cent compared with 30 per cent for the US and 10 per cent for Japan. The share in capital expenditures undertaken by all industries was also the highest, the EEC figure of 20 per cent exceeding the US figure of 16 per cent and Japan's 15 per cent.

### Skill development

Another factor which commends EEC firms to Singapore is their role in skill development and transfer to technology. In 1972 when Singapore began its climb up the technology ladder, it invited three firms to lend a hand by setting up an apprentice training programme. The four-year courses trained blue collar workers for such fields as optics, precision machinery and instrumentation. Since 1972 till April 1981, they had trained 1,728 and another 1,240 were under training. Two of the three were EEC firms — Philips from the

Netherlands and Rollei from West Germany, the third being Tata from India.

The collapse of Rollei last year in face of Japan's growing technological edge in optics is a big setback not only for EEC and West-Germany but also for Singapore. But the EEC role in training will not be diminished because two new higher level training institutes are to be set up — one this year in collaboration with West-Germany and another next year with help from France. The first will specialise in production engineering and the second in control engineering through microprocessors and robotics.

Apart from the part played by EEC and its firms in institutional training, the latter get high marks also for their attention to on-the-job training. An index constructed by Ting Wen-Lee to compare the performance of 22 US, Japanese and European firms operating in Singapore shows the Europeans as having achieved the highest skill transfer.

They took second place after Japan, however, in proportion of employees under training, the respective figures being 15 and 13 per cent. This shows that even in this area of skill development Japan is catching up — making it necessary for EEC firms to try harder if they are to maintain their lead.□

# INDONESIA
# EEC well represented in agricultural sector

**Among the five Asean countries, Indonesia has the highest stock of Foreign investment. It amounted to something like US$10 billion at the end of 1980. In a sense, this is not surprising: the country accounts for almost three-fifths of Asean's total population and has a great wealth of natural resources.**

Investment elsewhere in Asean represents the accumulation over many years, including that put in before World War II. Indonesia too started on its independent existence in 1950 with about a billion US dollars of Dutch investment in plantations, mining, banking and manufacturing. But all of this was nationalized in the conflict between the two countries over the future of West Irian in the late 1950's.

Some of these were returned when the present regime took over in 1966, and resumed activities as joint ventures. The bulk, however, remained in Indonesian hands following compensation on mutually agreed terms. This means the present stock of foreign capital consists mainly of what investors have put in since the country adopted a comprehensive investment law in 1967.

*Philips in Singapore.*

### Diversification

All Third World countries prefer to obtain investments from as many different sources as possible to avoid over-dependence on any one. The political compulsion to achieve such diversification is greater in Indonesia than elsewhere in Asean because of the memory of the riots which greeted Japanese prime minister Kakuei Tanaka when he visited Jakarta in 1974. The reasons for the outburst were complex but the broad message was unmistakably that the rapid build up of Japan's stake in manufacturing, forestry and construction had created sharp resentments.

At the Asean-EEC business conference in Jakarta in January 1979, many among Asean spokesmen made the point that EEC was lagging behind the other two investors, the US and Japan, in this part of the world. Indonesian industry minister Mr. A.R. Suhud said the same thing with an added poignancy: he lamented that the EEC lag was "distorting" the foreign investment and trade patterns in the region.

He was referring to the fact that the largest EEC investor, The Netherlands, accounted for less than four per cent of the total US$9 billion pledged between 1967 and 1979. West-Germany accounted for 2.3 per cent and Britain for less than one per cent.

The Jakarta conference was held soon after a sharp devaluation of the Indonesian rupiah, undertaken with the express purpose of giving a boost to the languishing non-oil sector of the economy. The hope was to reverse the dependence on depleting oil resources that had increased very sharply since the mid-1960's. This is reflected in the fact that oil and gas have come to account for 70 per cent of all export earnings, and almost the same proportion of government revenues.

The devaluation decision was clinched by signals from the World Bank which feared that oil output would soon peak, and rising do-

*Unilever [British-Dutch] research developed a tissue culture method to achieve higher yields of oilpalms in Malaysia.....*

mestic demand would sharply reduce the exportable surplus. This fear has receded since, partly because the second oil shock of 1979-80 more than doubled the proceeds from oil and gas exports and partly because the high success rate being maintained in exploration with half the drilled wells striking oil or gas.

**Benefit**

The devaluation brought obvious benefit; non-oil exports increased in the fiscal year ending March 1980 by 50 per cent over the previous year. But they have fallen back since because of a weakening of commodity prices, aggravating the squeeze Indonesia is facing on account of the world oil glut which has obliged all producers to trim prices.

As a result, Indonesia is more anxious than ever before to push the non-oil sectors of the economy forward. Mission after mission has been sent to Europe and the US looking for investments Indonesia needs to expand and rehabilitate plantations, exploit non-oil minerals, and diversify its industries to process available agricultural materials and minerals to give itself some safety from sharp falls in raw material prices.

The missions have not so far been too successful. According to Bank of Indonesia data — quoted by *Financial Times,* London, in a recent survey — actual investment (measured in constant prices) in 1979 and 1980 was half the average for 1971-75 and 20 per cent below the 1976-80 level. A pick-up, however, in recent investment pledges suggests that the outcome may be better in the next few years.

Indonesia has in the past made strong bids to attract EEC firms into investing in non-oil minerals. Shell was invited to develop coal deposits in South Sumatra where resources are thought to exceed 10 billion tonnes. The idea was dropped in 1977 following the company's assessment that poor quality and high development costs made this coal unmarketable until the world energy supply was much tighter than at that time. Likewise, a bid to interest a Dutch-US consortium in developing nickel deposits failed because of world market conditions.

Less than 6 per cent of the EEC investment commitments of US$622 million, the figure as of March 1980, is for mining. Most of it is from The Netherlands in two projects which involved an initial investment of US$7 million. This average of US$3.5 million is small compared with US$110 million for Japan's three ventures, US$50 million for three undertaken by US firms, and US$39 million for Canada's two. This clearly brings out that EEC investors have had until now rather limited objectives.

Investments made in manufacturing which is the main focus of EEC investments, accounted for 59 per cent of the total from The Netherlands, 88 per cent from West-Germany and 55 per cent from Britain. The same concentration is evident in the case of Japanese investments, while the US and Canada have put their stakes mainly in mining.

The average investment made by West-Germany for manufactur-

ing projects was US$5.6 million, The Netherlands 3.5 million and Britain 2.06 million, looks modest compared to Japan's 10.3 million although it was involved in as many as 136 ventures against The Netherlands 34. This suggests that the Japanese are not only the largest investors but also the most determined to build an entrenched position.

Japanese investments have a high capital intensity with investment per worker as high as US$62,200 compared with an average of US$21,500 for foreign investment in the aggregate. This is a cause for complaint by some Indonesian economists. A paper prepared by the University of Indonesia's faculty of economics says that wide gaps between Japanese and other investors suggest "Japan's strong tendency to enter only its big firms into the Indonesian economy, and to insist on the setting up of large-scale tightly controlled projects".

### Agriculture

One area where EEC firms have made a better showing then the Japanese is agriculture — largely because of traditional British links with plantation development in Sumatra. As of March 1980, Britain had a stake in 20 agricultural projects with a total pledged investment of US$28 million, or 26 per cent of its total stake in Indonesia. The Dutch, who pioneered plantations, had a hand in just four projects with a miniscule investment of just US$2 million in them or less than one per cent of the Dutch total. West-Germany was involved in only one but with a respectable initial investment of US$9 million or five per cent of its total stake.

Predictably, The Netherlands investment is the most diversified; it is to be found in agriculture, forestry, mining manufacturing, construction, hotels, transport and services — covering in other words the entire spectrum with the exception of fishery. But the proposed initial investment was in the aggregate about the same as that of overseas Chinese investors operating from Hongkong and Singapore. Taking these two together, they had almost 60 per cent more investment then the whole of the EEC.☐

# MALAYSIA
# Declining share of EEC investments

**With a population of just over 14 million people and a wealth of resources, Malaysia has little difficulty in accumulating the savings it needs to propel its economy forward. The effort put into developing these resources in the 1970's has given it both the will and the capacity to raise its industrial sights — as shown by the building of a liquefied natural gas plant.**

Located in Bintulu, Sarawak, the plant is by far the biggest industrial project undertaken by the country involving a direct capital outlay of M$2,600 million (US$1,040 million). There is in addition an indirect outlay of M$1,600 million on five LNG tankers being acquired from France to ferry LNG to Japan for use by its utilities.

The EEC has a stake in this prestige venture, a three-way partnership between Petronas, the national oil company, holding 65 per cent of the equity and the balance divided equally between Shell Gas BV of the Royal Dutch Shell group and Mitsubishi of Japan. Shell, however, has the responsibility for supervising the plant's construction and its subsequent performance, while another affiliate of the company is in charge of raising, collecting and delivering gas to the plant from its contract area.

For the EEC with a declining share in Malaysia's trade and investments, the association with several aspects of the project puts a feather in its cap. But it has missed out on the other major opportunities — in telecommunications, the

(Photo Klaas Bant)

*...and this is the promising result of the tissue culture method.*

steel-making facility in Trengganu, the sponge iron plant in Sabah, and the bridge that is to join Penang with the mainland. In these cases, the EEC bidders were upstaged by those from Japan in the case of the first two, and from Austria and South Korea in the other two.

**Position of the U.K.**

In 1980, the last year for which figures are available, Britain was the only EEC country to find a place among the top five investors. It ranked fourth after Singapore, Japan and the US. Since Britain accounts for almost four-fifths of all EEC investments in Malaysia, the decline in the British share in total investments from almost 45 per cent in 1970 to less than 15 per cent now is the main reason for the EEC's diminished role.

This is all the more so because the other large EEC investors abroad — West Germany, France and The Netherlands — play a very minor part in Malaysia. This discrepancy between their role in a world-wide context and in Malaysia perplexes its decision makers; they keep asking themselves what they should do to get a more adequate share.

This question has gained added importance in the past few months because of the strains that have surfaced in the relations with Britain.

The British foreign secretary who paid a fence-mending visit in February went back saying that the problems underlying Malaysia's irritations had accumulated over the years, and may therefore take time to restore. Malaysian Prime Minister, Dr. Mahathir Mohamad, took much the same view when asked about Lord Carrington's comment.

The point that is being missed in alarmist reports in the foreign media, is that the quarrel is a limited one concerning a few pre-independence investments in traditional industries like rubber and tin. Malaysia wants them to fall in line with its "30-40-30" guideline calling for a reduction in foreign assets in the corporate sector to 30 per cent by 1990, with the balance being held 30 per cent by Bumiputras, the sons of the soil, and 40 per cent by other Malaysians. In 1980, the respective shares were 47.5, 12.5 and 40 per cent.

A gradual restructuring of ownership is taking place by acquisition of shares through market mechanisms. The end result is to leave the foreign investor with a substantial minority stake but often with a large say in operational management — as in the case of the world's largest tin company. It is only in cases where negotiations have got nowhere that Malaysia has adopted the alternative of buying control in the companies, mainly via the London stock exchange.

It was one such purchase through a lightning raid on the London market last September that sparked the present dispute with Britain. The takeover of the large conglomerate, Guthrie, was in itself a dramatic event but it was made more so by subsequent developments, among them the changes in the Exchange's rule to prevent such sudden acquisitions and the Malaysian government's decision to take reprisals against British business by directing official agencies not to buy British unless there were compelling reasons to do so.

It should be noted however that a US$45 million order for weapons went to Britain nevertheless in January this year, but some long-standing contracts — as for UK-made Dunlop tyres — have not been renewed. British businessmen are understandably worried about the outlook not only for trade but also investment, with the emerging situation being watched with almost equal interest by their counterparts in Europe and the US.

**No nationalism**

But there is no cause for British or any other investors — existing or potential — to think that Malaysia is about to adopt hardline nationalist policies which may prove detrimental to its relations with the West. Incidentally, Dr. Mahathir has said time and again that his directive regarding purchases from Britain does not apply to British joint ventures operating in Malaysia.

The row triggered by the Guthrie episode, or the subsequent Malaysian move to set up a "producers only" club for tin, are specific responses to specific issues. They do not represent any change from the policy of welcome for foreign enterprises or any weakening of the commitment to open up the Malaysian economy by reducing tariff and other barriers. For instance, the budget last October lowered or abolished import duties in a wide range of items with the object of reducing the cost of investment and increasing competition in the domestic market.

As Dr. Mahathir has said unequivocally, "we will continue to stimulate both foreign and local investment. The target for equity ownership is not what we apply to industry or every enterprise. It (the 30-40-30 ratio) is only the overall average. There may be some enterprises with 100 per cent foreign ownership, some with 100 per cent Bumiputra ownership. We can have any combination between the two extremes depending upon our progress towards the (target) ratio".

Taken along with his pledge that "the government will continue to ensure through appropriate policies and programmes a reasonable return on private investment", these statements confirm that Malaysian policies continue to be as pragmatic as under his predecessors. As he has said time and again, he attaches importance to maintaining continuity in economic policies.

The role Malaysia envisages for foreign investment in the economy is made clear by its projections that assets held in the corporate sector by foreign residents will rise from M$12.5 billion in 1980 to M$15.9 billion in 1985 and M$22.3 billion in 1990 even while their share in the total falls to 37 per cent and eventually 30 per cent.

**Inflow**

Bank Negara projections assume that the gross inflow of foreign investment will rise in 1981-85 to M$11.7 billion, or two and a half times more than the M$4.6 billion received during 1976-80.

Given these perspectives, there is no question of Malaysia becoming inward-looking under Dr. Mahathir. The investment promotion activities of the government are in fact being stepped up, with a special effort being made to interest businessmen in countries with considerable potential but little involvement in Malaysia so far. If anything, the tension vis-a-vis Britain has heightened the interest in this diversification.

Although the EEC (largely British) investment in Malaysia has a lop-sided pattern — accounting for 56 per cent of the total in beverages and tobaccos but only 4 per cent in transport equipment and 1.1 per cent in basic metal industries — an endeavour conti-

nues to be made to get greater participation in the priority sectors.

An equally strong endeavour is being made to persuade existing investors to expand and diversify, or bring their affiliates into the country as has been done in the case of the LNG plant. Malaysian policy-makers say that the worldwide shortage of capital makes reinvestment of profits by those already in the country even more important than would otherwise be the case. It is also acknowledged that such ploughing back would be the best advertisement Malaysia could wish for. This policy statement is an added reason for confidence that the climate for investment will remain as favourable as in the past.□

# THE PHILIPPINES
# EEC investments increased in 1981

**Structural adjustment is the new vogue word in the Philippines; it is a catch-all label for changes the regime seeks to make to the economy to regain the momentum lost as a result of the successive oil shocks. The principal plank of the programme now under way is an ambitious scheme covering 11 major industrial projects for which investments and credits are being avidly sought from all over the world.**

Firms from EEC are being wooed as vigorously as those from the US and Japan, the biggest investors in the country. Of the seven projects finalised so far, five involve foreign participation in ownership – Japan in two and the EEC, US and the tiny Pacific island of Nauru in one each. But for the last minute change on the part of a West-German collaborator picked for a project to produce high capacity diesel engines, the EEC might have drawn level with Japan. It may still do so as negotiations are currently taking place with a British firm to fill the slot vacated by the West-German.

As of now, only one German company is in the field; it is expected to find 30 per cent of the $120 million needed for a plant to turn coconut oil into fatty alcohol which will serve as the starting material for downstream industries producing a variety of chemicals. It provides a new outlet for a commodity on which one-third of the 47 million population depends for a livelihood, thus offering some insurance against violent changes in its price.

**Plantation agriculture**

Another area in which an EEC firm was making a pioneering start is plantation agriculture. In January 1980, Guthrie Corporation of London entered into a joint venture with Philippines' National Development Company to set up an oil palm plantation spread over 8,000 hectares (20,000 acres) at a cost of $60 million, the first such venture since the early 1960's. In accordance with national laws relating to land ownership, Guthrie was taking a minority stake but full responsibility for management. However, Guthrie – with its principal operations in Malaysia – has since become a Malaysian-owned company following a successful takeover bid.

The Guthrie deal was followed by another with Dunlop but the British company eventually decided not to go ahead because of local political complexities in the southern province where it was to locate its plantation.

Notwithstanding such abortive starts, there is no mistaking the renewed interest of EEC firms in a country where their stake has been on the decline. It was admittedly never very large; the US was, as it still is, the dominant actor, and Japan came up very fast in the 1970's to take the second place. The shares of the two in 1978, the last year for which figures are available, were 35 and 24 per cent with the EEC collectively ranking next with about 11 per cent.

A UN study notes that among the top 1,000 corporations in the Philippines, as many as 324 had a foreign share in their equity. Among these, there were 49 with EEC connections. By far the largest number, 37, were British; West-Germany was represented by five, the Netherlands by three, Luxembourg and France by two each. Only three EEC firms made it to the list of top 20 investors – two British and one Dutch. Apart from two Canadian and one Australian, all the other 14 were American.

In 29 out of 49 EEC-linked firms, its investors had 100 per cent ownership and a majority in another 13. The minority stake was quite often held by another foreign investor of a different nationality. In other words, EEC firms were characterised by a much higher degree of foreign control than was generally the case. In all 324 foreign affiliated ventures taken together, 20 per cent were wholly owned by foreign investors and they had a majority stake in another 28 per cent.

**Mining**

Foreign-affiliated firms were predominant in the mining industry. Of 17 firms among the top 1,000 engaged in mining, 15 had foreign linkages. This was due to the fact that what first brought foreign investors into the Philippines was its mineral resources, which were identified and developed by them for the benefit of their parent companies, mainly in the US. Among the 461 top firms in the manufacturing sector, 212 or 46 per cent had foreign links – with the US again leading the rest by a large margin.

The US link continued for many years to be as strong as before independence in 1945, first because of the special relationship maintained between the two countries in terms of a 1946 agreement on trade which was superseded in 1954 by the Laurel-Langley agreement. Until its termination in 1974, US citizens – individuals and corporations – were entitled to equality with Philippines nationals in many important respects in return for privileged access for Philippines products in the US market.

Despite this unique position, US investments increased almost as much through reinvestment of earnings as through capital brought into the country. As the UN study shows, US investment increased

rom about US$150 million in 946-49 to US$831 million in 1973-. Of this, 45 per cent came from einvested earnings.

In other words, much of the US share in new investments, recorded by the Board of Investments since its setting up in 1968, has come from income generated by companies entrenched in the country from before. Growth of some EEC investments took place in a similar fashion but to a lesser extent — as was only to be expected because of their relatively small size.

In view of the slender linkages of the EEC business community with the Philippines' with Britain being the sole exception among the ten member nations, it is something of a surprise that Britain and The Netherlands emerged as the third and fourth largest investors in 1981. The first place went as usual to the US and the second to Nauru, the phosphate island for its one-off investment in a fertilizer plant for which it will provide the basic raw material.

**Revival**

The total amount pledged in 1981, US$238 million, is an all-time record as the 1980 figure of US$226 million was until then. This points to a revival of flows which peaked at around US$200 million in 1974 but plunged downwards thereafter as the first oil shock and subsequent world-wide recession led to a pause everywhere.

The Philippines certainly needs increased investments. With its external debts now exceeding US$15 billion and debt service edging up towards the self-imposed 20 per cent ceiling (reckoned in terms of the previous year's export earnings), the country is naturally anxious to promote inflows by way of equity in both export-oriented and import substituting industries.

The free trade zone it set up in Bataan, close to Manila, has paid off. One indicator of success is that electronics assembly plants located in the zone and elsewhere are now earning upwards of US$600 million from exports or six times more than in 1975. All the major names in the US industry are participating in this high-growth area but the Europeans have yet to make their presence felt.

The other fields in which the Philippines hopes to build up significant export capability are garments and textiles, leather and footwear, food processing, handicrafts and overseas contracting. From a level of around US$1 billion in 1978, such non-traditional exports are expected to grow at an average of 18 per cent in real terms to yield US$3 billion by 1983. Most of these industries are unlikely to attract much European or American interest since the size of individual operations is likely to be too small to interest substantial investors. But there should undoubtedly be scope for subcontracting work to them provided local agencies were available to act as intermediaries between bulk buyers and Philippines' producers. This role is expected to be filled by international trading companies the country is setting up by pooling the resources of its 12 leading business groups.

**Warm welcome**

As industry minister Roberto V. Ongpin says, foreign investment has always been given a warm welcome. The government is now determined to make it even more attractive to take a stake in The Philippines' growth by giving new incentives, including majority or even 100 per cent ownership in pioneering projects (such as a diesel engine plant being set up by a Japanese company), guaranteed repatriation of profits, exemption from import duties and other levies, and tax holidays. As a result of these changes, foreign companies are now free to open up new mines.

These concessions underline the importance attached to drawing in investment and to remove procedural and other obstacles which might delay getting it to work. The government stands committed in term of the loans it has obtained from both the International Monetary Fund and the World Bank to put through the economy's structural adjustment as fast as possible. It cannot afford to fail because that will put future credits from these saviours in jeopardy. □

# THAILAND
# EEC firms mostly in joint-ventures

**The burden of rising oil bills, pre-empting over 40 per cent of export earnings, is Thailand's most urgent economic problem. Since economic growth requires in its circumstances large imports of capital goods and industrial materials — accounting for almost half of domestic capital formation — the country has reluctantly decided to lower its sights.**

Thailand's fifth plan, covering the 1982 to 1986 period, shows that it is resigned to a growth rate of around 6 per cent per year, compared with 8 per cent in the five years before the second oil shock hit the country in 1979. This means, on the face of it, fewer opportunities for foreign investment. Since the inflow in the 1976-80 period was marginally lower than in the previous five years, a further decline seems even more plausible.

But Thai economists point out quite correctly that mounting trade deficits make it even more necessary to draw in foreign investments as well as the loans that investors often provide to supplement their equity contribution. As the economists show, the contribution of foreign investment has already gone down precipitately from around 8 per cent of private domestic investment in 1974, the year in which direct foreign investment peaked at US$189 million, to under one per cent in 1980.

**Investment promotion**

The government responded to this trend by revising the investment promotion law in 1977 offering more generous tax benefits and other privileges, and enhancing the powers of the Board of Investments to decide on issues raised by investors. At the same time, an invest-

ment service centre was established to cut through red tape.

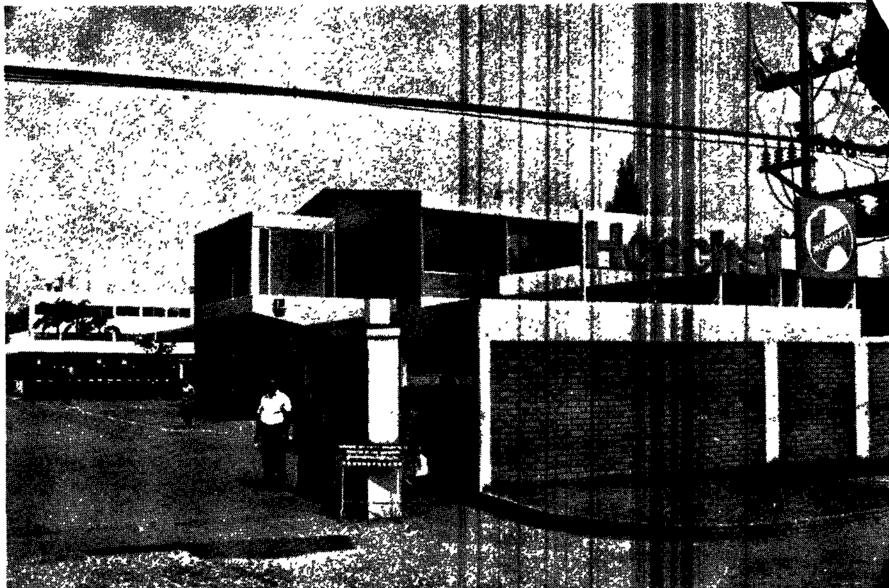
The changes have yielded some results as shown by the response of Japanese firms, the leading investors. Their stake in Thailand increased by US$118 million in 1977-80 compared with US$83 million in 1974-77. But taking inflation into account, the net outcome was probably continued stagnation.

Naturally, Thai policy-makers are now more interested than ever in drawing in investments from other sources which have so far taken a limited share. This is why their thoughts turn to the EEC which had at the end of 1980 a stake of less than 800 million baht (approximately US$39.0 million) in joint or wholly owned ventures. This was about 12 per cent of the total from all sources, putting the EEC way behind Japan and almost on par with the US and, strangely enough, Taiwan.

About half of the EEC investment comes from Britain with a long history of involvement in rubber, tin and timber industries and some share also in finance and public utilities. This connection derived from the fact that Thailand, though independent, stood sandwiched between two former British colonies, Burma and Malaysia, giving London a considerable interest in maintaining a presence in Bangkok and retaining the goodwill of its rulers.

West-Germany and the Netherlands are the next most important investors. The great bulk of EEC investments is in the form of joint-ventures. Out of 99 EEC-associated firms, 90 fell in the joint venture category accounting for nine-tenths of the total EEC investment in the country.

An unusual feature of the links with the EEC is that its firms seem to have preferred taking a minority stake. In 58 out of 99 firms, the foreign stake is below 30 per cent. In another 28, it is below 50 per cent — leaving only 13 cases in which there is controlling stake or total ownership. Considering the 90 joint-ventures separately, the EEC stake in the total investment put into them was 22.4 per cent. Another 8.4 per cent was held by other foreign investors, with local capital supplying the balance of 69.2 per cent. The local stake joint-ventures with Japan is marginally smaller — about 60 per



*Hoechst Chemical plant in Thailand.*

cent on average.

This may however be a misleading indicator of the foreign role. Studies show that since foreign investment was usually concentrated in just one or two hands while Thai shares were dispersed among many holders, the foreign partners had an edge in management decisions. In any case, they supplied the technology and made the operating decisions.

Looking at industry-wise distribution of EEC firms, what stands out is that minerals, metals and ceramics taken together account for about a fifth of their total investment, the highest concentration in any one industry group. Service industries, including banking, rank second (13 per cent) while agricultural products and commodities take third place (11.3 per cent). Chemical and chemical products and engineering are ranked next (7 per cent and 4.4 per cent). The pattern is distinctly different from Japan's: 45 per cent of its investments are in the textile industry and 14 per cent each in chemicals and engineering.

**Import substitution**

Foreign investment in Thailand is heavily oriented towards import substitution; this is why it came into the country in the first place. But as the local market became saturated, growth had to depend on developing exports as in the case of textiles. Currently, about a fifth of the output of cotton fabrics and two-fifths of synthetic fabrics is exported, largely by the Japanese firms. This is a plus factor in their favour in a country desperately anxious to increase export earnings. The EEC firms on the other hand are in industrial fields in which the scope for exports seems more limited. This is a factor that holds their growth down in most cases to the small rate at which the domestic market is growing.

**Financing**

An interesting difference in the behavior of firms of different origins is their differing reliance upon equity and loans. Inflows from the US were mainly in the form of equity, about two-thirds of the total. The Japanese relied on this form of financing for about three-fifths of the total, but it was down to about half in the case of British firms. West-Germany was in the exceptional position of contributing over four-fifths as equity.

This may be due to differing national preferences about gearing. But it may also be an indication, at least in part, of the level of confidence in the country's long-term prospects. This may be related to the fact that one study, though of rather limited coverage, brought out that European investors put "political stability" as the factor of highest concern to them among 17 they were asked to choose from.

With the two largest EEC investors, Britain and West-Germany, accounting for only 6 per cent of the gross investment inflow in Thailand in 1970-80, it is difficult

to envisage EEC firms playing a substantial role in the coming years. This is all the more so because the largest investments will take place in gas or gas-based industries on the country's southern shores — fields in which US and Japanese firms tend to take the lead.

The US and Japan are already involved directly in the exploration and development of gas, with Japanese firms taking 20 per cent of the equity in Union Oil, so far the most successful enterprise. Given Japan's strong interest in developing captive sources of energy, it is reasonable to assume that it will take a significant share in such major projects as gas liquefaction that Thailand has in mind. Involvement of this kind may give Japan an even larger role than it already has, largely because EEC companies have taken little interest in this field.

It is useful, however, to remember that Japan looms so large not because it has given priority to investment in Thailand but because others have been even less forthcoming. As Thai commentators lament, their country accounted for only 5.6 per cent of Japan's total outstanding investment in Asean in 1980, compared with 16 per cent in 1971.□

## A day in Rome

[*Cont'd from page 5*]

*galleries, through drawing rooms and kitchens and pass finally through a secret door into yet another room, where, around a table, the signatories to the Treaties are having their meal. The dessert has been served. The intruders explain their presence and, the Plenipotentiaries, seeing the funny side, agree to finish off what they had started during the afternoon ceremony. But as they prepare to sign, they all hunt through their pockets. Nobody, of course, has got a pen. Except one of the officials who, still in his ordinary suit, has his pen with him. And in the end all the Plenipotentiaries borrow it to sign on the dotted lines.*

*When we look back at all the problems and crises the European Communities have been through in their twenty-five years, it is amusing to recall that even the signing in Rome on 25 March 1957 did not go off without a hitch.*

**J. Ch. Kasel**

# Mr. Piet Dankert new President of European Parliament

*Mr. Piet Dankert, a Dutch Socialist with lengthy experience in European institutions was elected to serve as President of the European Parliament for the next two-and-a-half years.*

*Mr. Dankert, the Socialist party candidate for the Presidency, beat out European Peoples' Party candidate Egon Klepsch 191-175 in the fourth round of balloting to succeed Simone Veil as President of the first elected European Parliament.*

*Mr. Dankert won his election after serving as a Vice President of the Parliament since the election in 1979 and also after gaining distinction as a dynamic rapporteur on the Community budget. He repeatedly fought for more Parliamentary authority in the formulation of the Community budget, a task he said he would continue in the Presidency.*

# THE COMMUNITY'S PROJECT AID IN ASIA

**The European Community is continuously enlarging both the scape and the size of its overall assistance to the developing countries which is additional to the development aid offered to the Third World by each of the ten Member States of the Community individually. The Community's aid package consists today of food aid, project aid, technical assistance, scholarships at universities both inside and outside the Community, vocational training at institutes and in plants in Europe, trade promotion programmes and financial and technical assistance in the energy field.**

Almost all of the developing countries of Asia are beneficiaries to at least some of these measures and most of them benefit from them all. Project aid is the measure that has shown the biggest growth in recent years, both in regard to the 62 countries of Africa, the Caribbean and the Pacific which are signatories to the Lomé Convention with the Community, and which benefit from the European Development Fund, and in regard to developing countries of Asia and Latin America. For them the Community provides funds in its annual budget under the heading: Technical and Financial Assistance to the Non-Associated Developing Countries. This last mentioned assistance programme was introduced in 1976 and from a modest 20 million ECU (the European Currency Unit) in that year, the available annual amount has grown to 200 million ECU in 1982. Up to the end of 1981 not less than 533 million ECU or about US$600 million had been allocated to development projects in Asia and Latin America and of these approximately US$450 million in Asia.

### Guidelines

The programme for the non-associated developing countries is based on policy guidelines laid down in an EEC regulation.

Briefly, these policy guidelines may be summarized as follows:

— the aid shall be directed to the poorest developing countries and to the poorest sections of their populations. This implies that only developing countries with a per capita income of less than US$750 are eligible under the programme;

— it shall be aimed essentially at developing the rural sector, with particular emphasis on the improvement of food supplies;

— a subsidiary part of the funds shall be directed towards regional projects (in which case projects outside the rural sector may be considered);

— a limited proportion of the funds shall be set aside for exceptional measures, particularly post-catastrophe reconstruction projects;

— the aid shall be in grant form, and may be used to cover both foreign and local costs;

— projects may be funded directly (autonomously), or in cofinancement with Member States or international organizations;

— the allocation of funds should help maintain a Community presence in the major regions of the developing world.

Each annual programme has been prepared on the basis of project ideas, gathered by the Commission from the eligible recipient countries, from Member States aid agencies, and from international aid organizations. The selection and preparation of projects has been made in accordance with the basic policy objectives outlined above, while taking account not only of the technical and economic viability of individual projects, but also of the need to construct a balanced overall programme in keeping with the relative needs of the different recipients.

### Cooperation with recipient countries

Full attention is given to the preferences expressed by the governments of the recipient countries, and to the fit between individual projects and the overall development needs and priorities of the countries concerned. An increasing effort has in fact been made to ensure a greater coherence among the actions financed by th[illegible] munity in individual re[illegible] countries over successive years. [illegible] example, particular regions or sectors have on occasion been selected as priority areas for Community funding with certain recipients.

Once a project has been fully appraised, the final financing decision is taken by the Commission after having consulted the Member States. Up till 1980, this consultation was carried out once a year, in the form of a presentation to the Council of Ministers of the annual programme taken as a whole. From the 1981 programme onwards, however, the Commission has been able to seek an opinion on individual projects from the financing committee set up under the new Regulation. This committee, comprising Member State representatives and chaired by the Commission, meets several times a year, and projects can thus be processed as and when they are ready, rather than being delayed until the entire programme has been prepared.

The funds for the programmes are provided under the general budget of the EEC, with separate annual provisions for commitments and payments. The commitment credits are "dissociated," so that under the Community's financial regulations there is a two-year period in which the available credits must be committed (i.e., the relevant budget year plus the following year). If credits are not committed within this period, by financing decisions for specific individual projects, the funds are cancelled.

The Commission's practice is to commit the entire funding required for a particular project at the commencement of that project. Naturally, however, payments arising from that commitment will be spread over the entire execution period of the project concerned. For the kind of rural-development projects financed under this programme, this execution period is generally of the order of 5 years, though it may on occasion be as little as 1 year or as much as 7 years.

### Asia, biggest recipient

When we consider the allocation of the funds Asian countries are by far the biggest recipients. 74% of available programme re-