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Europe and Asia - A New Approach

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Horst G. Krenzler
Director General, Directorate General I, European Commission

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Speaking note

The ASEM Summit

The first Asia-Europe Meeting (ASEM) will be held in Bangkok, 1-2 March 1996, bringing together 25 Heads of State or Government from Asia and Europe plus the European Commission. It will be a visible sign to the two regions, and the rest of the world, of the new priority that Europe is according to Asia and of the new partnership we are trying to build between the two regions. For the first time in history, leaders from Asia and Europe will meet to discuss issues of mutual interest. Aside from the political impulse that this will give to our relations, we can use the meeting to send a clear signal to our societies at large, and to business leaders in particular, of our commitment to giving our relations a higher priority.

What are the reasons behind this new initiative?

1. The Rise of Asia

The rise of Asia is dramatically changing the world balance of economic power. Asia has emerged as the world's fastest-growing region. The European Union (EU) and its Single Market is the world's largest trading bloc. As the next century approaches, the EU recognizes the need for European business to build an even stronger presence in Asia, the emerging giant of the world economy, to the mutual benefit of both regions.

Asia's¹ emergence has been underpinned by striking levels of growth - its share in value of global production rose from 4% in 1960 to 25% in 1991. If this trend continues, Asia could account for 33% of global production on the threshold of the 21st century.

¹Asia consists of 25 countries and territories divided into 4 geographical regions:

* South Asia: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka

* South-East Asia: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam

* East Asia: China, Hong Kong, Macao and Taiwan

* Japan: The EU makes separate instruments available for those doing business with Japan and has a specific, comprehensive bilateral accord.

In the last 20 years, Asia has attracted large amounts of capital, becoming a leading beneficiary of foreign direct investment (FDI).

The region received 55% of the total FDI channelled to developing countries in 1993, compared to 21% in 1976. China alone absorbed one-quarter of all FDI - ECU 17 billion - directed to developing countries in 1993.

The prospects for further development in the next few years are staggering. By the year 2000, Asia - excluding Japan - will:

- account for half of world economic growth,
- account for half of world trade,
- represent one third of world production,
- dedicate ECU 740 billion to its infrastructure.

Trends indicative for the Asian region are equally impressive:

- one billion Asians will possess significant purchasing power,
- 400 million Asians will possess a purchasing power equivalent to that of Europeans today.

A euphoric vision of Asia has currently tended to replace the "Asia pessimism" which prevailed in the 1960s. But the region's dynamism should not obscure the deep differences that prevail between Asian economics, their different state of development, heterogeneous societies, cultures and political systems. To ensure that its development is of a lasting nature, Asia will have to face a number of challenges:

- To ensure political stability and harmonious development.
- To bridge the gap between the rich and the poor. Indications are that by the year 2000, South Asia will still contain the greatest concentration of the world's poorest population.
- To reconcile Asia's economic growth with the protection of its environment.
- To respond to the growing needs of a qualified work force by improving the education system. The Association of South East Asian Nations (ASEAN) countries have for some years experienced a lack of professional administrative cadre.

2. Europe risks occupying a marginal position in Asia

Europe risks occupying a marginal position in Asia. Trading and investment relations between Europe and Asia are limited when the relative size and potential of the two markets are taken into account and, even worse, they were decreasing over the years.

- Europe accounted for nearly 25% in value of imports into Asia in 1970 but only 15% in 1992.
- Between 1986 and 1992 a mere 10% of FDI into Asia originated from the European Union Member States.
- Asia remains a marginal destination for European investors: in 1990, it represented a mere 2.6% of their investment stocks, as opposed to 6% in 1980.
- For each Asian student educated in Europe, four are educated in the USA.

Asia represents an opportunity for Europe but it is too often perceived as a threat. A widespread belief remains that European companies present in Asia are involved in those industries which have a high manual labour content. This is not borne out by the facts. They are mainly active in the fields of energy, chemicals and petrochemicals.

European companies have based themselves in Asia to benefit from proximity to the local markets.

The genuine "relocations" - where companies move to exploit the benefits of cheaper labour and other costs - have been undertaken by East Asian companies who have transferred on a massive scale industries with a high level of manual labour from Japan, Korea, Taiwan and Hong Kong to the developing countries in Asia.

The growth of Asian markets, with a rapidly expanding middle class, calls for an increased presence of European companies in this part of the world. this will have at least three major benefits for the companies and economies of Europe, by :

- securing strategic openings for business opportunities,
- ensuring companies' competitiveness on a global scale,
- safeguarding jobs in Europe.

With its advanced technological base, Europe is well placed to meet the region's rising demand for sophisticated consumer goods and services. The World Bank estimates that East Asia² alone will absorb up to \$150 billion (120 billion Ecus) worth of capital equipment each year for the next 10 years. Asia as a whole will take up nearly half of all global orders for power generation equipment and will be the largest single market for telecommunications infrastructure. Both are expanding sectors in which European goods, services and expertise excel.

Demand will soar, too, in other sectors where EU companies have a comparative advantage such as banking, energy, environmental technologies and transport equipment. Thus, there is enormous potential growth for European trade and investment in Asia.

3. There is a need within Europe for a new strategic approach towards Asia

This new strategic approach must reflect the increased economic and political significance of the rapidly growing Asian economies in a changing world. Asia's increasing economic and political weight has led the European Commission to look again at the EU's relations with the region. In response to the need for a new policy a document, entitled "Towards a New Strategy for Asia" was drawn up by the Commission last year. It has two main orientations: to raise the EU's profile in Asia and encourage mutual understanding; and to strengthen Europe's economic presence in the region.

a) Raising the EU's profile in Asia.

Close relations between Europe and Asia have existed for centuries. The voyages of Marco Polo and Magellan established early links. These were consolidated by the visits to Europe of Asian sovereigns such as King Rama V of Siam, who attended the eighth Venice Biennale in 1909. Europe's colonial powers established outposts throughout the region. Underpinning the relationship were commercial contacts established all along the Silk Route, which were continued and intensified thanks to the sea routes opened up by the European explorers.

²"The East Asia Miracle". World Bank, 1993. East Asia comprises Japan, the Four Tigers (Hong Kong, South Korea, Singapore and Taiwan), China and the three newly industrialized economies of South East Asia (Indonesia, Malaysia and Thailand).

This historical association between Europe and Asia has not, however, removed cultural barriers and misunderstandings. Ultimately, the sheer distance between the two regions helps to explain that even today:

- A deficit in relations between the two regions has to be remedied.
- The EU suffers from a lack of visibility in Asia, where it is either disregarded or confused with the myth of a protectionist commercial block.

b) **Strengthening Europe's Economic Presence.**

Owing to a lack of adequate visibility, and a clear and positive profile, the European Union has not yet been able to fully exploit the new opportunities offered by Asia.

The EU's economic co-operation with Asian countries is based on four basic principles:

- Economic co-operation is based on the mutual interest of European and Asian partners, both public and private. It is a non-hegemonic relationship.
- It is complementary to the actions undertaken by EU Member States.
- It should be adapted to the cultural, economic, social and political characteristics of each of the EU's partners in Asia; to the differences in their level of development, and to the degree of liberalization of their economies.
- It sets up a direct dialogue with the private sector, establishing its needs and priorities to encourage partnership between European and Asian companies. The climate of partnership will facilitate European investment in Asia.

4. **The first Asia-Europe Meeting (ASEM)**

The idea of an Asia-Europe Meeting was first expressed and endorsed by the World Economic Forum in Singapore in September 1994. Mr Goh Chok Tong, Prime Minister of Singapore, then proceeded to make an official proposal in this regard to the French Prime Minister during a State

visit in October 1994. The purpose behind this proposal was to establish a clear and open channel of dialogue between Europe and East Asia, complementing what East Asia had already established with America within the APEC framework. Consequently, Mr Go Chok Tong and ASEAN wished to see the dialogue evolve around economic and commercial matters, along APEC lines.

Singapore and ASEAN recognized the great potential for synergy between Asia and Europe on account of the economic diversity of the two regions. Asia's emergence as an immense market has spawned great demand for consumer goods, capital equipment, financing and infrastructure. Europe, on the other hand, is the biggest market in the world for goods, investments and services, even more so since the completion of the Single Market. Opportunities thus exist for both regions to expand their trade and investment exchanges, and to increase the flows of capital, expertise and technology.

From the EU point of view, the proposed Meeting was considered to be of great interest from the perspective of implementation of the New Asia Strategy, adopted by the Commission in 1994. In line with the said Strategy, it was considered that the Meeting discussions should not be restricted to merely economic and commercial ones, and that geographically participation should not a priori exclude Asian countries from this Strategy.

The Commission has been actively participating with the Council in the preparation of the first ASEM in Bangkok. The Commission has adopted a Communication on this subject which was a basis for the European Position Paper adopted by the Madrid European Summit of 15/16 December 1995. The Communication was intended to outline some of the practical measures and follow-up actions which should be considered in Bangkok.

The new partnership between Europe and Asia should be based on the promotion of political dialogue, the deepening of economic relations and the reinforcement of co-operation in various fields, and should contribute to the global development of societies in both Asia and Europe.

Even though this Europe-Asia meeting is a first, the meeting will, in fact, be building on a long-standing dialogue between Europe and Asian countries, which over the years has already matured into a substantive process of individual dialogues linking the European Union with ASEAN, with China, Japan and Korea, and with the major countries of South Asia.

Our dialogue with ASEAN dates back to the late 1970s, with a first Ministerial Meeting in 1978 (plus contacts between the European Parliament and Asian Interparliamentary Organisation [AIPO]), and with the signature of the EC-ASEAN Framework Co-operation Agreement in 1980, foreseeing regular meetings at various levels. The Community and its Member States have likewise taken part in the ASEAN Post Ministerial Conference meetings since their inception, and since 1994 in the newly-established ASEAN Regional Forum. The dialogue with the countries of South Asia likewise dates back to the early 1980s, and has also been strengthened in recent years with the inclusion of a political element in the dialogue process, for example with India and Sri Lanka. A high-level dialogue process has likewise been established with Japan (with regular ministerial meetings dating back to the late 1970s) as well as with China and Korea; most recently, EU relations with Japan and China were the subject of Commission Communication in May 1995 and December 1995 respectively, while a Framework Agreement with Korea will be initiated by the two sides in the coming weeks.

These various dialogues have tended to be dominated by economic concerns. The rapid and sustained growth of the Asian economies, and their increasing weight in world trade and investment flows, made it essential however for our political dialogue to also reflect this economic relationship. This process is already underway in our dialogue with individual countries and regional groups in Asia, but must be further strengthened, and given a full impetus towards an effective partnership, through the opportunities offered by the first ASEM meeting.

The ASEM meeting should also be seen in its broader geographical context. For the European side, our intensifying relationship with Asia will provide an important and timely complement to our existing inter-regional relations with other important partners. For Asia likewise, a stronger European partnership will provide a welcome complement to the Asia-Pacific partnership strengthened in particular with the establishment of APEC in 1989.

This first ASEM meeting will have a limited participation, though both sides have agreed that it could be evolutionary in character, and that this meeting will be the first in a series.

The first ASEM will therefore form part of a process. It has already been agreed that UK, during its presidency in the first semester of 1998, will host the second ASEM, and Korea has already made a request to host the third in Seoul in the year 2000. Between Bangkok and the second ASEM,

follow-up is foreseen in the three main areas of the Bangkok meeting agenda: political dialogue, economic relations and wider co-operation in various fields. Ministers and Senior Officials will be in charge of different follow-up actions in these three fields and the Senior Officials' Meeting (SOM) will be responsible for the co-ordination of all follow-up activities. ASEM participants could instruct Senior Officials to explore the possibilities of concertation and co-operation by identifying common interests on various political issues in international organizations and fora, as peacekeeping, promotion of non-proliferation regimes and the problem of antipersonnel mines. ASEM should also encourage an open and frank dialogue on the values and codes that govern societies on both continents, bearing in mind the different cultural and social backgrounds. The two sides should likewise be attentive to possibilities of enhancing positive co-operation in favour of respect of democracy, human rights and the rule of law as requested by the Council in the European Union Position Paper.

Concerning human rights, the development and consolidation of democracy and the rule of law and fundamental freedoms together form a major objective of the external policy of the European Union. The general approach of the EU regarding human rights is the endorsement of existing international standards, as set down in the relevant international instruments to which most or all Asian countries are signatories. The Union's policy is to encourage all countries to become signatories of and to fully implement all relevant international instruments.

In the economic field, a very wide range of questions could be discussed at ASEM and could result in substantial follow-up. An Informal Senior Officials' meeting on trade and investment facilitation is already planned for this summer in Brussels to initiate a dialogue on WTO issues, in preparation for the Singapore Ministerial in December, but also on bilateral obstacles to trade and investment. The Senior Officials should try to reach a convergence of views on the future work programme of the WTO and suggest additional measures that could facilitate trade and investment among participants.

It would be desirable if the Senior Officials could, in their work, draw upon the advice and support of business sectors. A privately organized Euro-Asian Business Conference will take place in 1997 as a first step towards the creation, in due course, of an Asia-Europe Business Forum.

The promotion of co-operation in various fields may also have an important follow-up agenda, in the areas of environment, human

resources, science and technology cross-flows, industrial co-operation, cultural contacts and co-operation in development.

5. Conclusion

Asia and Europe have shared interests in terms of politics and security, both globally and regionally; intensified co-operation and sharing of experience between the two regions will serve the common interests of both. Asia and Europe likewise have shared interests in the effective functioning of the global economy, and of the new multilateral trade order established in Marrakech; the support of like-minded regional groups as well as of individual countries is essential for the WTO to realize its full potential.

The Commission is convinced of the historical importance of the forthcoming ASEM Meeting, which should be seen as the formal and mutual recognition by all participants that Europe and Asia must meet on an equal footing of partnership and of genuine dialogue.

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