

ASEAN-European Union Relationship: The Study of International Relations on Issues and Trends of Foreign Direct Investment

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Introduction

The Association of Southeast Asian Nations (ASEAN) and the European Union (EU) and relations between the two regions are increasingly attracting the attention of policy-makers, scholars and analysts, and the business community. ASEAN is the most successful regional grouping in the developing countries. The ASEAN member states have been able to collectively achieve regional peace and security, as well as individually achieve domestic political stability and social cohesion. On the economic front, ASEAN is characterized by the economic dynamism of the member states, and its increasingly important role on the world stage.

The EU is the most successful regional grouping in the developed countries. The political and economic objectives of the European Community were laid down by the 1957 Treaty of Rome. Since then, the EC and its successor, the EU, has grown from the strength to strength, both in the enlargement of its membership and in the deepening of economic integration.

The ASEAN and EU countries have been linked historically through colonial ties. In the post-colonial era, the ASEAN region's ties with Europe have grown much slower than its ties with other economic powers of the United States and Japan, reflecting in part the rapid growth of the American and Japanese economies and in part the European preoccupation with economic integration.

Recent ASEAN-EU economic relations may be illustrated by bilateral trade and investment flows.

Regional alliances to promote liberalization of international business are an important feature of the postwar international landscape. The past decade in particular has seen a rise in the number and strengthening of trading blocs, as countries seek to integrate their economies more closely in order to open new markets for their firms and lower prices for their consumers.

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The most important regional business bloc in the world today is **the European Union (EU)**. The European Union's beginnings stem from the 1952 creation of the European Coal and Steel Community, which has designed to restore those two industries to profitability after World War II. **The European Economic Community (EEC)** was established in 1957 when the **Treaty of Rome** was signed.¹

While countries in all other regions embarked on experiments in free trade areas, customs unions, and common market, those in Asia remained largely aloof. An in-

¹ The Treaty of Rome was signed by six countries: Belgium, France, Luxembourg, Germany, Italy, and Netherlands. *International Business*, Griffin and Pustay, 1996, p. 246.

creased degree of regionalization of trade and investment has occurred under the stimulus of market-led foreign direct investment (FDI) undertaken by Japan and the newly industrializing countries of the region as certain sectors lost their competitiveness at home, but it has been brought about largely through the internal operations of transnational companies and without the support of institutionalized regionalism resting on discriminatory trade arrangements. The ASEAN member states agreed in 1992 to establish gradually an ASEAN free trade area (AFTA). Its objective to bring about a reduction in intra-ASEAN tariffs on manufactures to 0-5 per cent within fifteen years from January 1993. It was also proposed to eliminate non-tariff barriers, but the procedure for doing so was not specified.

When a cooperation agreement between the European Community (EC) and ASEAN was signed in 1980, the relationship between the two regional groupings was asymmetrical in nature. The EC was positioned as a donor at one end, while ASEAN was positioned as a recipient at the other end. Both regions have witnessed dramatic change in the subsequent years. The EC, which in the meantime had been transformed into The European Union (EU), today is hardly recognizable compared to what it was in the early 1980s. Southeast Asia of the 1990s has also experienced changes such as the creation of the ASEAN Free Trade Area (AFTA). Of no less important are changes in the global political and economic environment which interact in favor of worldwide integration in contrast to the disintegration of the early 1980s.

Forms of Economic Integration

Several forms of economic integration are possible in theory. The characteristic of most importance to international businesses is the extent of economic integration among a bloc's members, because this affects exporting and investment opportunities available to firms from member and nonmember countries. From least integrated to most integrated, they are a free trade area, a custom union, a common market, an economic union, and a full political union (Hill, 1997).

Free trade area. A free trade area encourages trade among its members by eliminating trade barriers among them. In the theoretically ideal free trade area, no discriminatory tariffs, quotas, subsidies, or administrative impediments are allowed to distort trade between member-countries. Each country, however, is allowed to determine its own trade policies with regard to nonmembers.

Customs union. The customs union is one step further along the road to full economic and political integration. A customs union eliminates trade barriers between member-countries and adopts a common external trade policy.

Common market. The theoretically ideal common market has no barriers to trade between member-countries and a common external trade policy. Unlike in a customs union, in a common market factors of production also are allowed to move more freely between member-countries.

Economic union. An economic union involves the free flow of products and factors of production between member-countries and the adoption of a common external trade policy. A full economic union also requires a common currency, harmonization of the member-countries tax rates, and a common monetary and fiscal policy. Such high degree of integration demands a coordinating bureaucracy and that member-countries sacrifice significant amounts of their national sovereignties to that bureaucracy.

Political union. The move toward economic union raises the issue of how to make a coordinating bureaucracy accountable to the citizens of member-nations. The answer is through political union.

Review of ASEAN Economic Integration

A good way to understand the ASEAN experience in regional integration is to review major changes and the outcomes since its beginning (Soesastro, 1994). Almost three decades of ASEAN have helped to shape the nature and style of working and thinking of this regional organization. As a whole, ASEAN has evolved over the years to become an important example of integration which is different from its modest original goal of cooperation. The ASEAN Declaration of 1967, signed in Bangkok, had three main objectives at its core, but did not state views or ideas related to the details of regional integrating efforts. The aspiration of ASEAN leaders in the past was mainly limited to economic and political cooperation (Sopiee, 1994). The first major aim of the ASEAN group was then to bring peace and prosperity to the region. Political cooperation has been so productive that the dialogue has been developed into the ASEAN Regional Forum (ARF). It is encouraging for ASEAN to see the development of a political and security dialogue covering the whole region.

Compared to its success in regional political cooperation, ASEAN's success in economic cooperation has been less apparent. This is the impression of most observers from outside the group. The formative years of ASEAN were characterized by concern for national rather than regional cooperation. Gains from cooperation were not seen as being particularly important, and consequently, ASEAN economic cooperation did not advance with a total spirit of approval and confidence. The word "integration" remained a taboo, and was not even mentioned in terms of economic cooperation. But over the years, the concern was to build an Association of Southeast Asia and, with the diplomatic machinery it had created, ASEAN was able to provide a multilateral framework for the pursuit of unilateral national interests (Akrasanee and Stifel, 1992).

Gradually, the mechanism of getting together among the ASEAN member countries becomes conducive to cre-

ASEAN Economic Integration Reconsidered

To begin with, defining the term "regional integration" has never been easy in the academic sense. In fact, integration is an ambiguous concept referring to both a product and a process, as J. Dosch and M. Mols (Dosch and Mols, 1994) have observed:

Integration as a process means tight ramified and multiple interactions between involved actors on a broad span of policy issues and concerns. Integration as a product or condition refers to the existence of a new center of decision-making with all its legal and institutional consequences, including a new focus of political loyalty and identification beyond the original non-states. Taking both aspects into account, integration means continued, intensified, and hardly reversible cooperation which leads finally to a noticeable transfer of national sovereignty to a new power center, respectively to an appropriate institutional structure.

Some would see ASEAN as already integrated with the world, with the present liberalization of trade and investment, without necessitating ASEAN's own integration efforts. The concern of these people is that regionalism is the second-best policy and can bring out ill effects if trade diversion, for example, is far greater than trade creation gained from the exercises. On the other hand, recognize the second best choice of regional integration, but they see the integration grouping as typing a common in process together before reaching higher goals. Of course, they are aware that the danger of trade diversion, if unchecked, could be costly to member countries.³

In principle, regional integration is also based on the process of "a point of no return" (Dosch and Mols, 1994). The important question is whether ASEAN is ready to leave a sort of reversible cooperation and go for deeper integration among its members. It has never been easy for ASEAN to answer this central question related to its present and future. The Fourth ASEAN Summit in Singapore in 1992 cleared these doubts about ASEAN's stand on regional integration. The leader made it clear that AFTA is not so much integrating among members, but it is the way in which ASEAN members can get together to increase their competitiveness in the world (Chirathivat, 1993). ASEAN's integration efforts are responses to both internal and external forces.

ASEAN can not allow itself to stand still in the area of regional cooperation. In a rapidly changing global environment, the grouping need to renew its vision. Its achievements in diplomacy and politics have strengthened its cohesion and increased its confidence in its ability to play

ating some kinds of permanent dialogue among officials and decision-makers. This favorable environment enabled ASEAN members to see gains from cooperation increasing. With cooperation, opportunities to be gained from one another became increasingly attractive. ASEAN tends to be very pragmatic in its approach. Although each country still pursues its own interests, the member countries have begun to perceive the importance of greater cooperation among themselves.

In fact, the benefits of economic cooperation began to be obvious following the adjustment policies as a result of external factors of the 1980's.² Some ASEAN countries such as Malaysia, Indonesia, and Thailand began to take an outward-looking strategy with a market driven principle as the key to their development. The process of reform and economic development that occurred in the ASEAN economies has markedly eased the integration of their economies with those in the rest of the world. The actual economic policies that have brought about these changes are almost entirely unilateral in nature, but these changes have caused ASEAN's attention to form in a more systematic way on regionally coordinated economic policy development. Regional economic coordination and harmonization have encouraged ASEAN leaders to move a step further to create the ASEAN Free Trade Areas (AFTA) at the Fourth ASEAN Summit in Singapore in 1992 (Chirathivat, 1996).

Several reasons have been advanced as to why ASEAN needed to create AFTA (Chirathivat, 1996). The success of the ASEAN economies as a result of adopting an outward-looking growth strategy based on foreign direct investment and the emergence of regionalism, especially in Europe and America after the end of the Cold War, are primarily cited as important factors leading to the creation of AFTA. In fact, the major achievements of ASEAN have been in the process of reform, including economic development, economic policies with sound macroeconomic stability, and smooth transition in economic structure. All of these have helped to explain why AFTA would enable ASEAN to become an attractive region for trade and investment. As the process of ASEAN market integration continues more rapidly, the grouping need to maintain the region's competitiveness in the world. This has led ASEAN policy-makers to embark on institutionalized integration in order to facilitate ASEAN's economic integration with the world.

² Especially the volatilities of exchange rates and interest rates in the first half of the 1980s.

³ For example, the AFTA recommendation of 0-5 percent tariff is far greater than unilateral tariff practices to outsiders, and therefore trade diversion caused by AFTA can be high.

a key role in regional and global affairs. The end of the Cold War has helped to advance the primacy of economics to center stage. Hence, all these factors have led to new reflections on regional economic harmonization and integration. The major elements required to foster a new dimension in economic integration in ASEAN include the following:

1. To promote ASEAN further as trade and investment areas in an increasingly competitive world environment
2. To extend and combine ASEAN resources to realize their full potentials, as these need not be limited to national barriers
3. To help ASEAN prepare for further regional and global liberalization of trade and investment
4. To prepare ASEAN to face issues related to trade and investment through more cohesive efforts
5. To understand ASEAN as a regional core for each member country.

ASEAN can not allow itself to stand still in the area of regional cooperation. In a rapidly changing global environment, the grouping need to renew its vision. Its achievements in diplomacy and politics have strengthened its cohesion and increased its confidence in its ability to play a key role in regional and global affairs. The end of the Cold War has helped to advance the primacy of economics to center stage.

ASEAN's Foreign Direct Investment Policies

ASEAN has relatively small share of the foreign direct investment (FDI) from the EU because during the 1980s European companies focused mainly on opportunities within the EU, offered by the European integration process. More recently, European attention has primarily concentrated on the nearby markets in Central and East-

ern Europe. In addition, European companies have underestimated the growth potential in ASEAN. They have preferred to rely more on direct exports to ASEAN than on building up extensive sales networks there.

ASEAN, like most other developing countries, welcome foreign investment but experience shows that foreign investment to play a positive role, governments must have the right and power to regulate their entry, and terms and conditions of operations. Many developing countries such as ASEAN also have policies that favor the growth of local companies. Such policies are justified on the grounds of sovereignty (that a country's population has to have control over at least a minimal but significant part of its own economy), or national development (that local firms need to be given a special treatment at least for some time so that they can be in a position to compete with more powerful and better endowed foreign companies).

The EU's ASEAN Policy

Political dialogue between the EU and ASEAN remains difficult in some respects and, as a consequence, is often highly general. The EU's greater desire to develop the foreign policy side of every relationship is not matched by ASEAN. Different styles and interest make this harder still.

ASEAN-EU economic relation is booming. European business has discovered ASEAN at long last. Further easing of market access for products, services, and direct investment will undoubtedly be better exploited as European business circles, more effective private/public EU-ASEAN partnership, and even other structures, may flourish more easily. This may assist in facilitating investment, possibly even trade, and propel other areas such as standards, certification and mutual recognition.

The Obstacles on Investments Links

A. An EU Perspective

Trade has always been driving force in shaping relationships between Europe and Asia. Today, the world has entered a stage where the different countries and regions are trying to trade and compete on equal terms. The spectacular increase in Asia production and exports from countries at different levels of economic development can be attributed to several common factors. Such factors are high rates of saving and investment, growth-promoting policies in education, infrastructure and taxation, efficient absorption of foreign technology, a trained work-force with moderate wages, competitive exchange rates, and an export-oriented growth strategy aimed at market in North

America and Europe. Most Asian countries now actively seek industrial investment from Europe.

However, some countries are not content to trust market, and try to force the pace by stimulating investment at the expense of trade. They do so by protecting themselves against imports through various means, such as import licensing, extra taxes on imports, certification requirements, and so on. Unfortunately, infant industry protection is becoming increasingly irrelevant a tool for economic development (Corden, 1974; Kenen, 1994; Sodersten and Reed, 1994).

Even if protection combined with an export-oriented export strategy and an undervalued currency is successful in creating substantial development, it may in the end produce a distorted industrial structure which will generate large permanent trade surpluses, especially if the currency is not allowed to appreciate to offset export growth. It is no coincidence that some of these practices are forbidden as anti-competitive in the United States and in the EU at national and regional levels (Bhagwati and Hudec, 1996; Uesugi, 1986).

ASEAN and EU have a mutual interest to work together from the economic, political and cultural viewpoints. Asia had in the past given invaluable contributions to Europe's cultural and economic development and Europe in turn will be able to reciprocate by contributing its heritage to today's Asia.

B. An ASEAN Viewpoint

The EU has been one of the leading investors in ASEAN but the latter countries have minimal investments in the EU. There is therefore asymmetry in trade and investment relations. Although ASEAN's population is big, its regional income is very much less than the EU's combined income and its income per capita is therefore very much less than that of the EU.

ASEAN's trading and investment partners are the same: the UK, Germany, Netherlands and France. As ASEAN's export-oriented industrialization policy depends heavily on massive inflows of foreign direct investment, this will only continue if ASEAN remains internationally competitive by way of deepening investment liberalization measures.

The reliance of FDI has continued and even strengthened as the ASEAN countries realize the tremendous contribution of foreign investment to their national economic development. These benefits include providing finance, management, technology and marketing expertise for industrialization. Over the years, foreign investment policies have been further liberalized, including fiscal incentives, foreign equity, rules of origin, and others. The

ASEAN countries have provided generally similar investment incentives but have received different types of investments. Investment policies towards resource development are the most restrictive and those towards export-oriented manufacturing investment the most liberal, with manufacturing investments in the local market falling in between (Chia, 1982).

The rising levels of savings in ASEAN need to be complemented with continued dependence on foreign direct investments. Due to the differences in the pace industrialization, the factor intensity of these investment also differ. Trade and investment will be further stimulated if the ASEAN countries allow multinational corporations, including those from the EU, to access ASEAN's domestic markets for additional financing, either through loans or equity, or both. The ASEAN countries thus need to further liberalize their financial systems in order to increase ASEAN-EU trade and investments.

New Geography of Foreign Direct Investment

Foreign investment has always been an important part of the external economic policy of the ASEAN countries. The appetite of ASEAN for foreign investment is practically insatiable. Accordingly, individually and collectively, ASEAN countries have engaged in a continuous improvement of policies that are relevant to foreign investment. As a result, the ASEAN countries were included in the list of ten largest recipients of foreign direct investment in 1993.

The EU itself is a major player in foreign investment. It is the world's investment hub in that it plays a dominant role as origin and destination of foreign investment, though question may be raised as to the "transnationality" of intra-EU investment. One also needs to bear in mind that a large portion of foreign investment in the EU occurs through acquisition rather than through new establishments. Yet, these qualifications do not change much the centrality of the EU in the world of foreign investment. Investors from the EU themselves have tended to pay more attention to EU market than to the rest of the world in spite of an inferior profitability there when compared, for instance, with East Asia.

A number steps have been taken in the context of EU-ASEAN cooperation to facilitate the inflow of EU investment to ASEAN. Governments also send investment mission back and forth with the same objectives. The geographical picture of foreign investment in ASEAN has changed in the last fifteen years or so because of rising investment from the fast-growing economies of South-

east and East Asia, including those of ASEAN.

Considering the enlargement of the EU, the deepening of its integration, and the rapid growth in Southeast and East Asia, the decline in EU's share in foreign investment in ASEAN is hardly a surprise. Yet, allowing such a decline to continue would mean accepting a trend of declining overall relationship between the EU and ASEAN.

Transborder trade is increasingly dependent on foreign direct investment (FDI). The decision on the origin and destination of a growing proportion of trade in both merchandise and services is now subordinated to a global production strategy adhered to by a growing number of multinationals in a growing number of industries (Francois, 1994). Furthermore, the importance of FDI to trade is not fully reflected in transborder transactions. In fact, multinationals buy and sell much more inside borders than they do across borders.

Given the current trends of governments asking the private sector to engage in more and more economic activities, including infrastructure, and the reduction of border protection as agreed to in the Uruguay Round, multinational corporations are likely to gain in importance in the conduct of world economic affairs. It is also going to be company-to-company relationship rather than inter-governmental relationship that will determine the extent to which transfer of technology occurs at a desired speed between economies. In other words, the future of EU-ASEAN relationship is bound to depend more and more on the flows of direct investment between the two regions.

The Influence of Globalization and Regionalization in FDI in the EU and ASEAN

The perspectives on business in Europe and Asia are conditioned by trends in globalization and regionalization in those regions, and elsewhere. In the current context of globalization, interregional investment increasingly aims to serve markets in the region hosting the investment. "Globalization" can be defined as the growth, or more precisely the accelerated growth, of economic activity that spans politically defined national and regional boundaries. "Regionalization" can be defined as the movement of two or more economies – two or more societies – towards greater integration with one another; it can involve *de jure*

agreements between governments to enhance the process, or it can be a *de facto* process (Oman, 1997).

De jure regionalization can thus be response to globalization and, at the same time, it can help to strengthen the microeconomic force that drive globalization in the region by stimulating internal competition, as well as by significantly enlarging the domestic market. At the national level, *de jure* regionalization can give impetus to much needed reform legislation that otherwise might not overcome domestic opposition, and in doing so help open the economy to globalization. It can enhance member states' policy stability and credibility, because it can lead to needed reform legislation, and because an international agreement is more difficult to change than domestic legislation, which can in turn be good for macroeconomic stability and to attract foreign investment. Indeed, the principal motivation behind many of the recent regional agreements, certainly in developing countries, has precisely been to attract FDI, more than to promote trade *per se*.⁴

When *de jure* regionalization becomes a tool for regional protection and loses its internal competition-enhancing effects – by failing adequately to disrupt or dilute the rent-seeking powers of domestic oligopolies and special-interest groups – regional integration loses its value as a policy tool for strengthening regional growth and competitiveness in the global market. Indeed, whatever limited benefits it may still bring are not likely to justify their cost to member states in terms of the reduced national policy autonomy that comes with increased *de jure* regional integration.

On the other hand, insofar as *de jure* regionalization strengthens internal competition, by enhancing deep policy integration among member governments and/or by weakening the rigidifying powers and growth-retarding effects of entrenched distributional cartels, it can enhance member states' collective policy sovereignty *vis-a-vis* the market – hence the potential effectiveness of their policy measures – while strengthening the region's competitiveness *vis-a-vis* the rest of the world.

In short, globalization and regionalization tend today to be mutually reinforcing, insofar as policies to promote regionalization seek above all to stimulate competition within the region, and to weaken, rather than

⁴ Free flows of FDI between regions should in turn offset whatever small trade-diversion effects the regional agreements may have. This also shows the potential importance for non-OECD as well as for OECD countries of current OECD negotiations toward a Multilateral Agreement on Investment.

protect, the rent-seeking powers of domestically entrenched oligopolies.

International Politics and Relations Issues: FDI Opportunities from ASEAN and European Integration

The frame major business policies and strategies on a global basis has always been set by changes and anticipated shifts in international relations and security. An underlying trend in international relations has been a blurring of ideological lines, especially with the termination of the Cold War. But the global scene began to see the emergence of new forms of alliances, often in the name of economic cooperation or *regional trading arrangements (RTA)*. The tendency towards protectionism within trade blocks, to the relief of the world, was somewhat curtailed by the success of the Uruguay Round of the multilateral GATT (General Agreement on Tariffs and Trade) talks and formation of the World Trade Organization (WTO). Nevertheless, there are reportedly close to hundred of such regional groups. This phenomenon has apparently caused some concern about possible disadvantages when compared with the expected benefits of multilateralism. This is because such economic arrangements often go well beyond their declared intentions. Among the key RTA's at the corners of the world triangle where the major part of the world's businesses take place are the European Union (EU) which evolved from the European Economic Community (EEC) and EC (European Community), NAFTA (North American Free Trade Area), APEC (Asia-Pacific Economic Cooperation) and ASEAN.

Closer linkages between ASEAN and the EU will mean that the latter will be able to participate in the growing prosperity of the ASEAN and the Greater ASEAN region. Theoretically, business opportunities are plentiful whenever needs, demands or shortfalls can be fulfilled at mutually acceptable terms and conditions. The most obvious strategy of exploiting EU-ASEAN integration is to match the relative strengths and surpluses of one region against the relative weaknesses and inadequacies of the other in terms of markets and production. Clearly, EU firms are well positioned to fulfill ASEAN's need for new technology, skill and innovations in virtually all sectors of the ASEAN economy. The conditioned growth of ASEAN is highly dependent on the region's ability to meet technology deficiencies. Gaps between the two regions mean potential opportunities, and they exist in several areas. As long as ASEAN is struggling with research and development, the region will need rely on foreign technology to keep abreast with the demand for speedy, reliable and efficient services.

Constraints to EU-ASEAN Economic Relation

The shortcomings or risks in closer EU-ASEAN integration for businesses need to be mentioned. Despite the fact that Europe remains an established traditional market for ASEAN, trade between the two regions has been hampered by the EU's multi-layered network associations and preferential arrangements. While a substantial share of ASEAN's trade with the EU is conducted within this network, ASEAN is not part of it.

On investment, FDI from the EU headed for ASEAN will understandably be threatened by the risk of economic overheating that accompanies strong growth. Investment in the new members of the Greater ASEAN region will also need to take into account the inadequate legal infrastructure and other constraints in those countries. Time will be needed to put into place investment guarantee agreements, provision for repatriation of profits, guarantee against nationalization, and entry requirements for expatriates. These changes will require commitment to economic and political reforms. Bureaucracy and wayward business practices must also be contended with.

As for ASEAN investments destined for Europe, it is recognized that business will be confined to relatively low technology consumer products, probably for niche markets. The limitations include the general apathy of ASEAN businesses to invest abroad. Recent demands from their domestic markets have either kept them too busy to thin beyond their home markets or have brought prosperity that does not require them to seek opportunities overseas in an unfamiliar environment. Venturing abroad is also difficult because of the shortage of managerial manpower from ASEAN and time is needed to build trust and mutual understanding in order to engage managers from the host country. Cooperation with EU business will alleviate these shortcomings while bringing gains to the various parties.

Strategic Alliances Between the EU and ASEAN

Given the growth in the region, European firms should seek to raise Asia in general, and ASEAN in particular, to a greater level of strategic priority. This because while cost motivations may not be as strong as they once were, expanding market access and a burgeoning middle class offer significant opportunities.

The bonds which the ASEAN governments have been able to forge with one another have also extended to the government-linked as well as private sectors in ASEAN. Strategic alliances have already been forged by private sector firms in the region. These have been maintained as

a network of contacts to exploit cross-border opportunities in ASEAN and in the rest of Asia.

The sectors which could benefit most from ASEAN-EU alliances are likely to be chemicals, transportation, environmental technologies, and forestry. In each of these areas, several leading European companies have developed distinctive competitive strengths. Given the desire of the ASEAN nations to progress in these areas, the potential for technology transfers is high. Rapid dissemination of new technology can give rise to opportunities to explore new markets in Asia rapidly as the ASEAN companies are more familiar with the new political-business elite in Asia.

In managing the alliance and developing a sequence for an Asian strategy. European firms who are new to Asia should develop high-level networks with Asian businessmen as soon as possible. In that regard, board representation to raise the profile of Asia is critical. Thereafter, European firms should be actively screening potential alliance partners. In expanding in Asia, it may be more important to identify the specific relationships that the firm should develop first. It is these relationships that will provide strategic flexibility to the European firm. Many Asian firms are not wedded to concepts such as core competencies, and are, as a result, extremely opportunistic. Identifying partners with the drive and the network of contacts to expand further in Asia may be critical resource.

ASEAN governments should discuss, in the context of collaborating within ASEAN to compete in the global economy, avenues of cooperation and incentives for alliances to develop. Thus, governments can do more to promote the formation of alliances which will allow European and ASEAN businesses to share the risks of the new market development and to forge new bonds which would replace the frayed linkages of past colonial ties (Gibbon and Ser, 1997).

Conclusion: What Can Indonesia Learn from the Relationship Between the EU-ASEAN?

The end of the Cold War turned ASEAN's attention to economic issues. This has given rise to ASEAN regionalism of a common internal and the new dynamics in its integration. The grouping is definitely moving towards the deepening and broadening process of its integration

and this gives rise to much speculation about what ASEAN's future integration would be like.

If ASEAN moves in this direction towards more institutionalized integration, the EU is a case in point where ASEAN can gain insight that ASEAN should duplicate the European model. On the other hand, there are some common elements related to institutionalized integration which ASEAN can learn from the EU, for example, the economic and social cohesion among members, the guiding principles, flexibility and strength in practice, the handling of national and regional issues, the shape of different facets of integration, the role of particular institutions, and so forth.

The new dynamics in ASEAN also raises the issue of the creation of an ASEAN Economic Community, one AFTA is completed, together with the harmonization of ASEAN's common external tariff structure. ASEAN must also take into consideration the negative consequences arising from the spillover effects of the integration process. Finally, the broadening of ASEAN is a useful and important to exploring new opportunities for trade, growth and development open to them at the regional and global level.

After assessing the vices and virtues of European and ASEAN integration, including differences in political setting and historical starting conditions, it can be concluded that ASEAN has very little to learn from European integration if the learning means following the European way of implementing and enforcing integration.⁵ This way of highly institutionalized self-binding national policies was singular from the very beginning and was driven by war experiences and charismatic will of reconciliation of the political leaders. For different reasons, this way will remain singular after further deepening and enlargement of integration to include Central and Eastern Europe. This uniqueness is exemplified by the fact that the EU hosts the only customs union in which is a member of the WTO in its own right, in conjunction with its member states. Such uniqueness carries the risk of misleadingly applying the experiences of implementing European integration to conventional free trade areas such as AFTA, which represent shallow integration.

Yet, there is something to learn from EU achievements, whether or not they can be enforced rapidly enough. Economically, the most important achievement has been par-

⁵ This seems to hold in particular for integration widening. EU integration widening implies that new member states meet the basic economic and political requirements of the EU. Checking compliance with these prerequisites follows a precise timetable. An ASEAN enlargement by including the Indochinese states seems to be more influenced by private sector criteria of market prospects as well as by general political targets of making the "Southeast Asian Family" complete (Langhammer, 254).

allelism in integration deepening and widening, on one hand, and liberalizing trade with non-member states, on the other hand. The EU is also recognized for being a laboratory in liberalizing trade in services. Enforcing free factor movement, which is indispensable for free trade in services, ranges next on the list of important achievements. Mutual recognition in particular warrants stricter implementation before ASEAN can learn from the EU in this respect. Technically, AFTA (not ASEAN) may perhaps learn more from EFTA than from EEC, given that the latter operated early enough as a customs union after 1968.

Beyond learning from the second-best alternatives, ASEAN countries should not become diverted from their successful track of liberalizing unilaterally on the basis of the MFN, but not to cooperate regionally where national solution are economically ineffective, and to strengthen the multilateral framework and discipline as the overriding principle. This is in compliance with the EU principle of subsidiarity, to see national rather than regional policies as primarily responsible for the well-being of the citizens, and to stress the responsibility of countries rather than groupings as the contracting parties of the multilateral system.

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