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To conclude, I wish to quote a poem by Apachart Thongyou:

While philosophers
are investigating the answers of life,
economists, are thinking
and searching for economic systems,
politicians, are struggling for power,
specialists, are arguing over theories,
barristers, are drafting laws,
social workers, are speaking of freedom,
humanitarians, are speaking of human rights,
monks, are delivering sermons to the people,
rice farmers in the village are harvesting.

Those rice kernels
shall feed the people.

Helsinki, October 2004

Erja Kettunen-Matilainen

ABSTRACT

This study addresses trade relations between the EU and the ASEAN countries during a period of intensified regionalism from 1990-2003. While earlier research has dealt with regional economic integration in both the EU and ASEAN, studies on trade policies between the two have been limited. The lack of empirical studies on various types of non-quantifiable trade policies appears to be connected also with methodological limitations. In addition, the parallel trends of regionalism and multilateralism have raised contradicting hypotheses on whether global trade is becoming more restricted or more liberal.

The theoretical and empirical focus of the study is to assess the impact of regionalism on trade policies between the EU and the ASEAN countries, given the changing patterns of trade flows between the two regions. This is addressed by posing two sub-questions: (1) How have trade policies evolved in the EU and the ASEAN countries during a period of intensified regionalism? (2) What kind of policy stances can be identified based on the competitive structure of industries in EU-ASEAN trade? Elaborating from earlier theorizing on regional economic integration, trade policies and the geography of international trade, a cross-disciplinary framework is built for the empirical study. The framework comprises the geographical levels of trade policy negotiation and decision-making (national, regional and multilateral), the extent of trade preferences, and the incidence of trade policies with regard to trade flows between the EU and the ASEAN countries. Methodologically, the study is designed to apply multiple types of data, both qualitative and quantitative. In a longitudinal and comparative approach, an institutional analysis of the two trade groupings is combined with an investigation into the various types of trade policies towards exports and imports in various sectors in EU-ASEAN trade.

As a result, the study elaborates on a new concept, the geography of trade policies. The evolving geography of EU-ASEAN trade policies is built up from three arguments: (a) the geographical scale of negotiation and decision-making is shifting from the national towards the regional and multilateral levels; (b) the hierarchy of regional trade preferences and networks is becoming more extensive and complex in both the EU and ASEAN; and (c) industry requirements are linked with trade policies in a way which combines industrial strategies with sensitivity to changes in global production in both the EU and the ASEAN countries. The findings illustrate the changing EU-ASEAN trade policies in light of regionalism and multilateral liberalization, as well as the changing pattern of trade between the two regions. Answering the two questions, the study concludes that: (1) Trade policies in both the EU and ASEAN have liberalized because of multilateral commitments and despite the alleged restrictive effects of regionalism, but the Asian financial crisis had a somewhat restrictive impact on some ASEAN countries' trade policies in specific sectors; (2) Four types of policy stances were identified in the EU-ASEAN trade relation that combined liberal vs. restrictive policies with global vs. local industries, where global industries have predominated. Consequently, the overall EU-ASEAN trade has become more liberal because of recent multilateralism, but also because machinery and electronics, the two major sectors that constitute almost 60 % of the total trade, include global industries with trade in intermediate products in global commodity chains, and have been largely liberalized already.

KEY WORDS: Regionalism, trade policy, EU, ASEAN, geography, trade.

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ACRONYMS

ACP	African, Caribbean and Pacific countries
AEM	ASEAN Economic Ministers Meeting
AEMM	ASEAN-EC Ministerial Meeting
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AMM	ASEAN Ministerial Meeting
APEC	Asia Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus three (China, Japan, South Korea)
ASEF	Asia-Europe Foundation
ASEM	Asia-Europe Meeting
ATC	Agreement on Textiles and Clothing
BOI	Board of Investment
CAP	Common Agricultural Policy
CEPT	Common Effective Preferential Tariff
cif	value of imports, including ‘cost, insurance and freight’
CN	Combined Nomenclature, the EU classification of goods in exportation
DG	Directorate General
DPS	Dialogue Partners System
EAEC	East Asian Economic Caucus
EALAF	East Asia – Latin America Forum
EC	European Community
ECSC	European Coal and Steel Community
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Area
EOI	Export oriented industrialization
EPZ	Export Processing Zone
EU	European Union
fob	‘free on board’ value of exports
FDI	Foreign direct investment
FTA	Free trade area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GSP	Generalized Systems of Preference
HS	Harmonized System
IGO	Inter-governmental organization
IMS-GT	Indonesia-Malaysia-Singapore Growth Triangle
ISI	Import substitution industrialization
ITA	International Textile Agreement
LCR	Local content requirement
Mercosur	Mercado Común del Sur (Southern Cone Common Market)
MFA	Multi-Fibre Agreement
MFN	Most-favoured-nation principle
MRA	Mutual Recognition Agreements
MTN	Multilateral trade negotiations
NTB	Non-tariff barrier
OCT	Overseas countries and territories
OPT	Outward processing traffic

PECA	Protocols to the Europe Agreements on Conformity Assessment
PMC	Post-Ministerial Conference
RTA	Regional trade agreement
SEOM	Senior Economic Officials Meeting
SIJORI	Singapore-Johor-Riau Growth Triangle
SITC	Standard International Trade Classification
SOM	Senior Officials Meeting
TARIC	Tariff of the Communities
TBT	Technical barriers to trade
TREATI	Trans-Regional EU-ASEAN Trade Initiative
TRIMs	Agreement on Trade-Related Investment Measures
TRIPs	Agreement on Trade-Related Intellectual Property Rights
VER	Voluntary export restraint
WTO	World Trade Organization

1. Introduction

This study deals with trade relations between the EU and the ASEAN countries. The dissertation reports findings on the changing geography of EU-ASEAN trade policies during a period of intensified regionalism from 1990-2003, in light of the multilateral trade governance and the pattern of trade among the two regions.

1.1 Background of the study

In 2000, the annual 'International trade statistics' report of the World Trade Organisation asserted:

> "What are the main factors that explain the international trade landscape for 1999? Besides overall economic growth, capital flows and trade policy are the major determinants of international trade flows. The impact of trade policy changes on regional trade patterns is generally seen only over the medium term, while changes in capital flows often have immediate repercussions on year-to-year trade developments. Other factors, such as commodity prices and exchange rate variations also had a notable impact on nominal trade values." (WTO 2000)

At the turn of the 21st century, the multilateral trading system has been undergoing considerable reorganization. This has implied changes in two major spheres, namely in the governance of trade between nations, and in the underlying restructuring of global production systems. The global governance of trade has been subject to multilateralism and regionalism. On the one hand, multilateralism has been manifest in arranging the trade environment on an international level. The structure of the multilateral trading system had for several decades been governed within the General Agreement of Tariffs and Trade (GATT), and was reinforced by the establishment the World Trade Organization (WTO) as its successor in 1995.[1] On the other hand, regionalism was intensified at the same time by the deepening of regional[2] economic integration, especially in the form of regional trading arrangements or 'trade blocs' (Gibb & Michalak (eds.) 1994, Bhagwati & Panagariya (eds.) 1996, Gibb &

[1] The WTO was established as a result of the GATT's eighth multilateral trade negotiations (MTN VIII) i.e. the so-called Uruguay Round, and it basically monitors the national trade policies implemented by its member countries and oversees the trade policies of regional free trade areas formed by its member countries.

[2] In this study, the term 'regional' refers to 'continental' or 'bloc', contrary to the common usage of the term in most geographical literature (referring to sub-national). The terminological choice was based on the literature on the EU and ASEAN and the common usage of the term therein.

Michalak 1996, Frankel 1997, Michalak & Gibb 1997, Yeung *et al* 1999, World Bank 2000). Regional trading systems were intensified during the 1990s within some of the established regional organizations, such as the European Union (EU), the North American Free Trade Agreement (NAFTA), the Southern Common Market (Mercosur), and the Association of Southeast Asian Nations (ASEAN).

These developments have raised discussions on whether regionalism or multilateralism is the dominant trend in the world economy, and whether international trade has become more liberalized or more protected in this process. In economic literature, there are various perspectives to the issue of global trade governance (Lahiri 1998). Regionalism can be understood either as accelerated multilateralism or as a second best option to multilateralism. The latter is based on the free trade argument rooted in the neoclassical theorizing of international economics where regional trading blocs are seen as obstacles to global liberalizing of trade (Bhagwati 1993; Bhagwati & Panagariya 1996). However, according to counter arguments, regional trade agreements may provide the steps to more speedy liberalization within the region than that which can be achieved multilaterally (Bergsten 1994; WTO 1995; Bergsten 1997; Milner 1997; Desker 2004). Regional arrangements especially among developing countries can also have a favourable impact on the economies by preserving regional peace and stability (Blomqvist 1993).

The phenomenon of regionalism has also led to intensified inter-regional relations. A new issue has been the growing significance of inter-regionalism in trade negotiations, that is, cooperation between regional organisations, such as the transatlantic EU and NAFTA, or between NAFTA and Mercosur (WTO 2000). Thus to an increasing extent, economic and political relations have been negotiated among regional groupings. This has implied a partial shift of political and economic power in trade negotiations from the nation states to the regional institutions. A related phenomenon has been the establishment of new inter-regional institutions between continents, notably the Asia-Pacific Economic Cooperation (APEC) and the Asia-Europe Meeting (ASEM). However, alongside these multilateral and regional trade agreements, a myriad of new bilateral trade negotiations have been initiated and conducted from the late 1990s onwards. Examples of this 'new bilateralism' include free trade agreements made by Singapore with some of its major trade partners, such as the United States and China. It has been argued that bilateral agreements are a threat to the multilateral system, particularly when one party is a major trade power, such as the United States (Bhagwati & Panagariya 2003). In contrast, it has also been stated that while bilateral and regional trade agreements may be second-best options to multilateral agreements, they are a politically attainable solution to governments, given the complicated and prolonged negotiations at the WTO (Desker 2004).

Simultaneously with multilateralism, regionalism and bilateralism, the global production systems have been substantially restructured. One of the major changes since the 1980s has been the increasing foreign direct investments (FDI) on a global scale, mainly within the industrialized countries, but also from the industrialized countries to developing countries. This has implied a shift whereby some manufacturing industries have relocated from North America, Western Europe and Japan to other parts of the world. The sectors that have been affected by these FDI have included, for example, textiles and clothing, automobiles, and electronics (Carr 1997; Dicken 2003). Some of these industries were shifted to newly industrializing economies (NIE) and developing countries, especially in Asia. Subsequently, international trade patterns changed as these relocated firms started to export from their production bases in host countries back to their home countries and to third markets. One implication was the emerging interrelation between investments and trade in the host countries (Alvstam 1990; 1993; 2001a, Urata 2001). This also had repercussions on trade policies of both the home and the host countries. Those developing countries that were major recipients of investments also became actors in new sectors at the multilateral trade negotiations. Often, new exports were promoted by the host state through various incentives that have a role in shaping the geography of trade (Grant 1994; 2000).

Regarding the above developments, this study has specific interest in the trade policies of the EU and the ASEAN countries[3] and in the inter-regional trade relations between the two groupings. Regionalism is currently manifested in both the EU and ASEAN, both being in the process of internal economic liberalization and regional enlargement.[4] The significance of the EU in this context relies on the very nature of the European Union as the world's largest trade grouping and its role as one of the leading actors in the multilateral setting (Wise 1993; Michalak & Gibb 1997; Charrié 1998; Gibb 1998; Yeung *et al* 1998, El-Agraa 2004). Also, European industries have been among the major investors in other parts of the world. While customs tariffs within the EU have been harmonized already by the completion of the customs

[3] ASEAN (est. 1967) includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei (since 1984), Vietnam (1995), Laos and Myanmar (1997), and Cambodia (1999). See Figure A1. (Appendix).

[4] Original members of the EEC in 1958 were Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands. Denmark, Ireland, and the United Kingdom joined in 1973, Greece in 1981, Portugal and Spain in 1986, and Austria, Finland and Sweden in 1995. Furthermore, eastern Germany was integrated into the customs union in 1992 after the unification of Germany in 1990.

union in 1968, its gradual enlargement implies changes in the entrant countries' trade policies as well as in the institutional framework of the EU-wide setting of trade policy.

In contrast, ASEAN with 10 member states is smaller by both economic size (see Table A1. in the Appendix) and as an organisation, and has only partially integrated trade policies among the member states within the ASEAN free trade area (AFTA) framework. The ASEAN countries have been major recipients of foreign direct investments, a phenomenon that has been linked with the process of establishment of the free trade area (Ariff 1994; Goeltom 1997; Lee 1997; Sandrey 1997; Kettunen 1998a). It has been argued that in the early 1990s, the aim of establishing the AFTA was to attract investments in the region to face growing global competition for FDI and regionalism in other parts of the world, particularly in Europe and in North America. Similarly, the cross-border cooperation between three neighbouring ASEAN states[5] in the so-called Singapore-Johor-Riau (Sijori) growth triangle involved both increased foreign investments and trade within the 'triangle' (Kumar & Siddique 1994; Milne 1994; Low 1996; Weatherbee 1997), as well as political and security aspects (Acharya 1995; Weatherbee 1995).

In the absence of fully integrated, common trade policies in ASEAN (Menon 1998; Plummer 1998; Harris 2000; Menon 2000; Stubbs 2000; Anderson 2001), the geographical and sectoral extent of trade policy coordination among the member countries becomes an interesting issue. Also, the coverage of their trade policies agreed at the GATT/WTO level, and differences among the ASEAN countries in this regard, call for further examination. Within ASEAN, bilateral relations and the role of the state in combining trade policies with investment policies are of crucial importance. This has been especially the case in the sub-regional Sijori where Singaporean and Indonesian investment policies have been central in implementing the 'Asian integration model' (Kettunen 1998b).

Based on a framework of bargaining power between Singapore as host state and investing MNEs, the Sijori growth triangle can be seen as one phase in the active economic policy of the state of Singapore (Kettunen 1999), and one that involves the 'regionalization' approach in its changing policies (Low 2003). These policies coincided with the outreach of MNEs in relocating production into Southeast Asia. Furthermore, Singaporean industrialization policies coincided in the early 1990s with the aims of the Indonesian state in developing the Riau islands. Both the Sijori and the AFTA cases stimulate an interest to further explore economic

[5] Indonesia, Malaysia, and Singapore.

policies and regionalism in the context of the Southeast Asian economies. A comparison of ASEAN with the EU in the sphere of trade policies advances the theoretical and empirical understanding of regionalism in the current world economy. The particularities of different regions should add to theories in economic geography, and in this vein, there have been calls for more comparative studies of regions (Yeung & Lin 2003).

In addition to abundant literature on either the EU or ASEAN, the economic relations *between* the two have been the focus of a collection of studies recently, including Cuyvers (1997) and Andreosso-O'Callaghan & Bassino (2001), and a number of volumes and essay collections: Slater & Strange (1997), Ljungkvist (1998), Niemi (1998), Yeung *et al* (1999), Strange *et al* (2000), Alexandre & Petchiri (2000), Chirathivat *et al* (2001) and Niemi (2003). These studies have touched on various aspects of EU-ASEAN economic relations, such as foreign direct investments, foreign trade, financial markets, competition law, political linkages, international cooperation, and economic integration. Niemi (1998; 2003) studied agricultural trade between ASEAN and the EU, focusing on the trade pattern and the multiple agricultural policies affecting trade flows between the two regions. Literature on overall EU-ASEAN trade policies, however, has remained in relatively short supply. Hine (2000) discussed the EU trade policies towards ASEAN, measuring comparative advantages of the EU trade in various sectors, but did not combine the analysis of trade policies with the actual trade flows. Langhammer (2001) debated the relevance of ASEAN-EU economic cooperation during and after the Asian crisis, and proposed that the two should focus on trade policy issues as one option in future cooperation.

1.2 Research problem and objectives of the study

Based on the above, the broad background interest of this study is the governance of trade in general, and trade policies in the EU and ASEAN in particular. The theoretical and empirical focus will lie in whether the geographical scope of trade policies is changing between the EU and ASEAN, given the parallel trends of regionalism, multilateralism and bilateralism in the world economy, as well as the changing patterns of trade flows. Accordingly, the research problem of this study is *how regional economic integration in the EU and in ASEAN affects trade policies between the two regions*.

Regional economic integration here refers to the effect of the European internal market and other regional initiatives on its trade policies, and the effect of AFTA and other regional initiatives on trade policies of the ASEAN countries. The assumed effects are manifold, due to the complexity of existing trade policies beyond mere tariffs, thus going further than that which the basic theory on customs unions asserts with empirical analyses on tariffs.[6] It is acknowledged that the coverage of trade policies on actual exports and imports is related to, and partly determined by, the changing pattern of international trade itself. This is especially due to the relocation of export industries from country to country and the interrelated changes in trade policies by the respective states. Some of the high technology industries have already been liberalized globally, while other sectors such as agriculture remain more protected. Also, the changing trade policies and trade patterns of other major trading partners, such as the United States and Japan, have an effect on trade policies of the EU and the ASEAN countries, which must be distinguished from the regional initiatives. In this connection, the research question of the study was formulated as:

> *In the multilateral setting, what has been the impact of regionalism on trade policies between mature industrialized European economies and emergent growing economies of Southeast Asia, given the pattern of trade between them?*

The multilateral setting refers to the evolvement of the GATT/WTO during the last decade, and the commitment of its member countries[7] to the various agreements on merchandise trade, such as the Agreement on Textiles and Clothing (ATC) by which signatories have agreed on trade policies for these sectors. Furthermore, the multilateral setting comprises the big trade partners, such as the US and Japan. Related to this is the variety of trade policy instruments. With the overall decline in average tariffs in global trade in recent decades, the significance of non-tariff barriers (NTB) has increased, including safeguard measures, anti-dumping actions, countervailing actions, as well as the more traditional quotas or licensing requirements. The variety and extent of trade policies is partly shaped by the nature of the economies in question. In the EU and ASEAN, differences in industrial structures and the level of industrialization might affect the policies adopted. The European economies represent the ‘old industrial countries’, in contrast to the emergent and rapidly industrializing Southeast Asian economies, where policy needs are different.

[6] The quantitative empirical application of the customs union analysis deals with the comparative static effects of a change in tariffs on the pattern of trade.

[7] In October 2003, the WTO had 148 member countries, including all 15 EU member states, as well as the European Union as a member in its own right. Of the ASEAN countries, all except Laos and Vietnam are members of the GATT/WTO. The accession of Cambodia was agreed in 2003, and full membership is expected after national ratification.

Based on the above, the objective of the study is to answer the research question, which has been operationalized and broken into specified sub-questions for the empirical analysis:

1. How have trade policies evolved in the EU and the ASEAN countries during a period of intensified regionalism?
    a. What has been the impact of regional economic integration in the EU and in ASEAN on the geographical scope of their trade policies?
    b. How have the two groupings advanced their trade objectives at inter-regional trade negotiations?

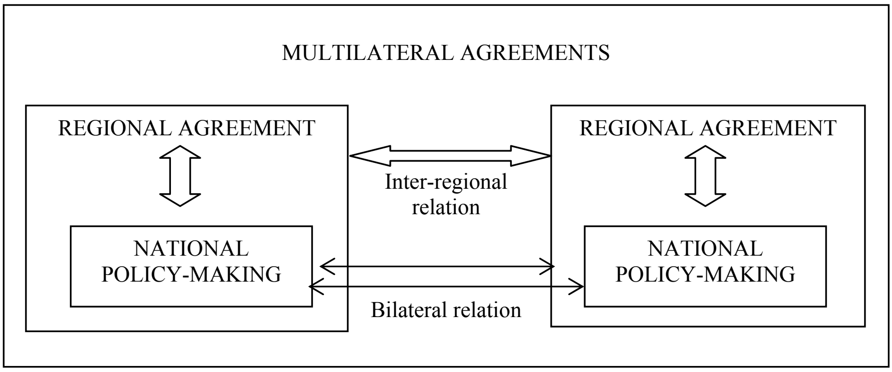
2. What kind of policy stances can be identified based on the competitive structure of industries in EU-ASEAN trade?
    a. Which sectors in EU-ASEAN trade have been affected by regionalism and multilateralism in trade policies?
    b. How have Finland's trade policies changed after joining the EU, and which sectors have been affected by regionalism?

The study addresses the impact of regional trade policy on a national level. As an entrant to the EU in 1995, Finland stands as a case country in an analysis of changes in trade policies due to joining a customs union. The focus is on the changes pertaining to the institutional framework of policy-making, and the new types of trade policies implemented. Since Finland's economy has been strongly based on foreign trade, the country serves as an interesting case in a study on trade regionalism. A study on a bilateral trade was deemed necessary in order to empirically analyse the effect of regional trade policies on Finland's trade regime and against the actual trade flows between the two countries. Malaysia was chosen from the ASEAN group for this study, largely because of the quality of data available, and because of Malaysia's role as one of the biggest exporters among the ASEAN countries.

Trade policies and geographical scale

Trade relations between any two regions are coordinated and governed on various levels extending from bilateral trade negotiations and country-to-country trade on the one hand, to the multilateral level at the WTO, on the other hand (Figure 1.). Earlier, nation-states had been the main actors in international trade governance and multilateral trade negotiations. With the institutionalization of regional integration, trade groupings are also increasingly functioning as actors of trade negotiations. An example of this is the ASEAN-EU cooperation framework with ministerial meetings held regularly. An interesting question then is the extent to which the negotiation and governance of trade policies has been shifted to the regional level, and whether trade policies have become more restrictive or liberal during this process.

Figure 1. Trade policy at various geographical scales.



Source: Author.

Trade policies and the changing role of the state

In this context, a brief overview of the current state of world trade and the array of trade policies is in place. World exports and imports have grown significantly since the late 1940s, and the value of international trade has increased at a faster rate than the value of production. Together with foreign direct investments, this has indicated an internationalizing of the economy particularly in the industrialized world.[8] Increasing international trade and direct investments have also changed the role of governments in several respects. Although trade policies in the first place originate from the needs of domestic businesses, the growing internationalization of companies has made the national economy a more complex web of company-state relationships (Strange 1988, Stopford *et al* 1991, Grant 1994), and has changed the contents of the traditional 'national interest'. In the changed international environment, states have increasingly acted as counterweights to firms, particularly to multinational companies which have gained substantial power in the global economy. This has implied a new role for states in governing foreign trade and investments by trade policies, industrial policies, investment policies, as well as competition policies. States have also cooperated internationally in trade and FDI governance, both at the regional level among trade blocs, and at the multilateral level within the GATT and the WTO.

[8] Taken together, Europe, North America, and East Asia account for 80 % of current international trade. The leading exporters and importers in 2001 were the United States, Germany, Japan, France, and the United Kingdom; growth was fastest in the newly industrializing Asian economies. Services accounted for 20 % of all trade, while goods (merchandise) added up to 80 %. Manufactured products accounted for the bulk of merchandise trade, mainly consisting of machinery and transport equipment, office and telecommunications equipment, and automotive products. Agricultural products comprised about 10 % and mining products about 10 % of merchandise trade by value (WTO 2002).

States have implemented an array of trade policies, of which import tariffs have been the type most commonly used. Although declining in the industrialized countries, tariffs are still the predominant form of trade policy in most developing countries.[9] However, tariffs tend to increase with the stage of processing, being lowest for raw materials and highest for finished goods with high value added. This 'tariff escalation' allows for the protection of domestic manufacturing, and, at the same time, supports the imports of raw materials for the industry. Along with the decline of tariffs, the use of non-tariff barriers, such as quotas or technical restrictions, has increased markedly. Large variations exist as to the characteristics and extent of usage of NTBs from country to country. One type of trade regulation has been the bilaterally negotiated 'voluntary export restrictions' to restrict exports of developing countries to the markets of industrialized countries, especially in the case of textiles.

Characteristics of EU-ASEAN trade relations

Comparing the EU and ASEAN as trade groupings, there are substantial differences in terms of internal trade volume and integration. Table 1. presents the total exports and imports of the world's major trading blocs: the EU, NAFTA, ASEAN, and Mercosur. The figures (percentages of world trade) include both internal and external trade, i.e. exports and imports among the member countries of the grouping, and trade with third parties.

Table 1. Trade of major regional trade organisations as a percentage of world trade, 1990 and 2002.

	EXPORTS		IMPORTS	
	1990	**2002**	**1990**	**2002**
EU (15)	44.5	37.8	44.7	34.8
NAFTA (3)	16.6	17.3	19.5	23.9
ASEAN (10)	4.3	6.5	4.7	5.5
Mercosur (4)	1.4	1.5	0.8	1.1

Note: ( ) = number of countries

Sources: WTO (2000) International trade statistics; IMF (2003) DOTS Quarterly/Sep.

The EU's dominant size in this respect is clear. In 2002, the total trade of the EU countries amounted to about 38 % of world trade, while the total trade of the ASEAN countries remained at about 7 %, respectively. In 1990, the difference had been even larger (Table 1.). In addition, trade integration within the European Union is on a very advanced level, and the

[9] In the 1940s, the average tariff on manufactured products was about 40 % (Dicken 1998, 92), while nowadays it is 4 %. The substantial decline in the level of tariffs has largely been a result of the multilateral trade negotiations within the GATT / WTO.

volume of intra-EU trade and investments clearly exceeds that of any other regional trade organisation in the world. In contrast, ASEAN's foreign trade is mainly directed to and from outside the region.

Trade relations between the EU and ASEAN countries are an example of a trade relationship which is relatively important but where none of the actors are dependent on each other. This is based on historical, geographical and economic facts. Relations between Europe and Southeast Asia have a long history, owing to the favourable location of Southeast Asia at the main trading routes.[10] Trade was the initial reason for European contacts in Asia, developing into colonial relations.[11] Trade has remained the cornerstone of relations. However, neither the EU nor ASEAN as a whole regard each other as the highest priority in trade matters.

From the European perspective, unquestionably the two most important trade partners are the United States and Japan. This is due to their large economies and the volume of trade with them. Based on proximity and political factors, the next priorities include the European Free Trade Agreement (EFTA) countries Switzerland and Norway (besides the new EU member countries in Eastern Europe). Russia is also important for political and economic reasons. The African, Caribbean and Pacific (ACP) countries of the Lomé/Cotonou convention are predominant in EU development policy. Together with Southeast Asia, the Latin American countries and China would follow in this respect. From the ASEAN countries' perspective, in contrast, the single highest trade priority is Japan. This is based on the volume of trade, the extent of investment flows, and development aid. Other priorities include the neighbouring East Asian countries, especially China. This is because of proximity and economic relations that have intensified in recent decades. The United States, Australia, and the EU follow accordingly, based on trade volumes, investments, and historical connections.

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[10] For centuries, Southeast Asia has been a crossing point of migrations, cultural exchange and long-distance trade between South and East Asia. The region provided a lively setting for interactions between the migrating Indians from the west and the Chinese from the north (Frank 1998). Many of the region's coastal kingdoms were dynamic merchant spots, bringing together Indian, Arabic and Persian traders who were on their way to China (Pannell 1985). In North Sumatra, Aceh grew to be the first Southeast Asian Islamic sultanate by the 13th century (Heikkilä-Horn 1991, 48). Consequently, the Sultanate of Malacca in the Malayan peninsula developed from a small fishing village to a brisk trade locale for the Muslim traders during the 15th century (ibid., 183).

[11] From the 16th century onwards, adventurers and merchants from Europe travelled to Southeast Asia to obtain goods that were regarded as luxurious, such as spices and silk. Trade was often unfavourable for the Europeans as the goods had to be paid for in gold and silver (Frank 1998). Later, the trading relations developed into a continued colonial presence of Europeans in Southeast Asia. Most parts of the region were colonised by European powers – Spain, Portugal, Great Britain, France, and the Netherlands. The colonial era broke the endogenous pattern of regional interactions in Southeast Asia. Due to these historical links and despite their burdens, trade and cultural contacts between the two regions remained relatively strong after the independence of the Southeast Asian countries following the second world war and until the 1960s.

Similarly, the bilateral trade linkage between Finland and Malaysia that this study addresses is an example of a trade relationship which is not of the highest priority. From Finland's perspective, the most important trade partners are EU members, followed by the United States, Russia, and non-EU European countries. Southeast Asia is a growing, though still marginal, export destination, preceded by Japan and China, for example. Likewise, from Malaysia's perspective, the most important trade partners are within the region, i.e. Singapore and Japan, due to proximity, economic complementarities, and business links. The next priorities include the United States and the EU, among which particularly the United Kingdom, because of its economic size and historical connections, and Germany, because of economic links. These countries are followed by France, Italy, Benelux, and the Nordic countries.

1.3 Basic concepts and definitions

Regionalism is defined generally as a tendency towards some form of preferential trading arrangement between a number of countries belonging to a particular region (Lahiri 1998). Accordingly, Yeung et al (1999) accept the definition of regionalism as "the political movement towards the creation or expansion of regional trade organizations or associations". Regionalism is thus a political process.[12] It is distinguished from 'regional economic integration' that includes both economic and political factors, and is defined as the deepening of intra-regional economic interdependence in a given region, through intra-regional trade, foreign direct investment and harmonization of commercial regulations, standards and practices. *Economic integration*[13] means the combination of the economies of several sovereign states in one entity. Integration can be understood as a process or a static affair of things (Molle 1990). Nye (1987, 27) defines economic integration as "formation of a transnational economy".[14]

[12] The concept of regionalization is close to, and often used interchangeably with, regionalism. In this study, regionalization is understood as the outcome of states-led regionalism and/or market forces towards regional concentration of economic activity (cf. Schulz *et al* 2001, 6), while the focus of the study is in the states-led regionalism itself.

[13] A basic dictionary definition asserts that integration is 'combining parts into a whole' or 'an act or instance of incorporating or combining into a whole'. In a similar vein, the verb 'to integrate' is defined as: 'to bring together or incorporate into a unified, harmonious, or interrelated whole or system'. Because of its general nature, the term 'integration' is used for a variety of phenomena. In political geography, *countries* are seen as the 'parts' that may be 'combined into a whole', an international organisation.

[14] As Nye (1987) has pointed out, the term integration is confusing, and often used interchangeably with the term cooperation. Often there is an unnecessarily implicit assumption that integration is a "good thing" in itself (ibid, 24). Furthermore, depending on the focus towards either political or economic integration, the usage and constituents of the term may differ.

Trade policies are a form of government economic policy towards exports and imports. They are imposed for competitive reasons: to protect and promote the national economy. Their principal aim is to restrict imports and to encourage exports. *Import policies* include tariffs and the so-called non-tariff barriers. A *tariff*, or a customs duty, is a tax levied on importing a good or a service into a country. *Ad valorem* is a tax, duty or fee that varies based on the value of the products, services, or property on which it is levied. *Specific rates* are based on the quantity of the products. *Non-tariff barriers (NTB)* are all other types of import restrictions. A *quota* is a quantitative restriction on imports. *Anti-dumping measures* are actions against imports of a product at an export price below its 'normal value' (the price of the product in the domestic market of the exporting country) if such dumped imports cause injury to a domestic industry in the territory of the importing party. *Safeguard measures* are temporary restrictions on imports of a product to protect a specific domestic industry from an increase in imports of any product which is causing, or threatening to cause, serious injury to the industry. *Countervailing measures* are imposed to offset injury caused by imports that are subsidized by the exporting country. Other NTBs include import licensing, state monopolies, legal regulations, currency restrictions, administrative costs and technical barriers to trade (TBT), such as technical regulations and industrial standards, that vary from country to country. Standards may be set arbitrarily in order to restrict imports. *Export policies* mainly take the form of incentives or other types of stimulation to exports (guarantees, credits, or fiscal incentives) though restrictive export policies also exist, such as 'voluntary export restrictions' (VER), agreements where an exporting country accepts to restrict exports to another country.

Trade regime comprises the administrative framework of a state for national trade policy setting, formulation and implementation, including the tariff and non-tariff systems. Related to this, an *international regime* is an institutionalised set of rules that allow for durable and goal-oriented forms of inter-state cooperation (Otto 2000, 40).

1.4 Scope and limitations of the study

The study approaches the EU and ASEAN as regional trade organisations although they possess many other functions as well. The focus will be on trade policies within, and trade negotiations between, the two trade groupings, as well as multilateral agreements at the

GATT/WTO. This enables an analysis of regionalism and trade policies on three geographical scales: global, regional and national. Specifically, the study examines the institutional setting, forms and the sectoral incidence of trade policies. In contrast, specific processes of policy formulation and negotiation that lead to particular policies are not addressed. The analysis of changes in the EU's trade policies are related to intra-regional decisions and agreements on common trade policies. Similarly, changes in trade policies of the ASEAN countries are related to intra-regional agreements to harmonize the trade environment, distinguished from multilateral agreements and national decision-making on particular trade policies. However, the study excludes bilateral trade agreements between individual countries of the EU and ASEAN, as well as the processes of informal lobbying or bargaining by business interests or trade unions.

Regarding trade flows, the study portrays a description of merchandise trade between the EU and ASEAN countries based on data from international, regional and national statistics. The study is limited to trade in goods, thus excluding trade in services, mainly due to the availability of data. As to methodology, bilateral trade flows are scrutinized comparing data from both the importing and the exporting countries. The study does not apply quantitative methods typically used in mainstream economics studies on international trade, due to their limitations in applying multiple types of data.

The timeframe of this longitudinal study extends from 1978, when political and economic relations between the EC and five ASEAN countries were established, to the most recent data available for 2003. Aggregate trade flows and inter-regional negotiations are studied accordingly for the period 1978-2003. In addition, an analysis of the structure of trade and trade policies between the two regions is conducted for 1993-2001. This period was chosen because of the availability of aggregate data on the structure of exports and imports between the two regions. Similarly, comparable data on trade policies documented by the GATT/WTO Trade Policy Reviews is available from 1990 onwards. The timeframe for the analysis thus depends on the issue under investigation. Based on these data, the study analyses the EU's common trade policies towards imports from the ASEAN countries, and the trade policies of the six ASEAN countries towards imports from the EU countries, on a cross-sectional basis for selected years.

The study thus combines analyses of both trade policies and actual trade flows. The two are strongly interrelated, however, in a complex and often indirect manner. Hence, no attempt has been made to portray direct causal relations between trade policies and trade flows. It is acknowledged, however, that trade policies are partly determined by actual imports and exports, and vice versa. The study illustrates how particular sectors were affected, either by liberalization or restrictions in trade policies between the two regions.

As to country coverage in the trade analysis, the study involves the whole EC/EU (i.e. nine, ten, twelve, or fifteen countries depending on the year under consideration), and five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand). The newer members of ASEAN (Cambodia, Laos, Myanmar, and Vietnam) are excluded due to the limited availability of data on their trade policies, and to the small volumes of their trade with the EU countries. As for the EU, the study is limited to the common trade policy and its effect on Finland's trade practices following accession. It is understood that the EU's harmonized trade policy is the result of a long historical process during which policies have been gradually formed, and, in the process, national interests and characteristics have been combined.

1.5 Outline of the study

Chapter 1 introduces the background of the study, the research problem and the ensuing research questions, as well as the scope and delimitations of the study.

Chapter 2 theorizes on regional economic integration, trade policies, and the geography of international trade. In a cross-disciplinary approach, the theoretical framework of the study is built from previous literature within economic geography, economics, the international political economy, and business studies. The literature review focuses on the main approaches to regionalism, trade policies, and trade and location, which are discussed in relation to the research problem of the current study. As a synthesis, a conceptual framework is constructed for the empirical investigation.

Chapter 3 describes the research design, methods and empirical data used in the study. Data sources, as well as data collection and compilation are illustrated, in connection with an evaluation of the quality of data employed. Methodological considerations of trade research are emphasized since the study employs methods that are different from those used in conventional trade studies in economics. Finally, the methods and research design of the study are assessed considering the limitations of the chosen data and methodology.

Chapters 4 and 5 present the empirical findings of the study. In Chapter 4, the changing trade policies of the EU and ASEAN countries are portrayed against the institutional setting of policy coordination in both groupings. Differences between the EU and ASEAN in trade policy formulation and coordination are considered in relation to the stage of regional economic integration. The analysis focuses on the impact of regionalism on the extent, types, and level of protection of trade policies. Furthermore, trade policies expressed at EU-ASEAN meetings are illustrated, including the major issues of bargaining, requests, and cooperation in inter-regional trade negotiations from 1978-2003. The long-standing trade negotiations are divided into four distinct phases according to the changes in the intensity of cooperation and/or conflict in trade interests between the two regions. The findings form the platform for the analysis of EU-ASEAN trade flows and trade policies in the next chapter.

Chapter 5 introduces the results on the incidence of trade policies as to trade flows based on the longitudinal and cross-sectional analysis for the period 1990-2003. The changing trade policies of the EU towards imports from ASEAN, as well as those of the ASEAN countries towards imports from the EU, are depicted against the backdrop of the structure of trade between the regions. As a result, the analysis presents the sectors that have primarily been influenced by changes in trade policies. In conjunction, this reasoning is combined with findings from a bilateral trade relationship between Finland and Malaysia. Based on an analysis of the changing institutions and practices of Finland's trade policies after joining the EU customs union, the case illustrates a subsequent switch from a national trade policy to a regional one. Furthermore, an examination of trade flows in electronics uncovers a product category that was mainly affected by the changing trade policies.

Finally, Chapter 6 presents the results and conclusions of the study. The empirical findings are summarized, and the theoretical implications of the research project are drawn together based on discussion of previous literature, methodological questions, and the empirical outcomes of the current study. Implications both for policy-makers and businesses are presented. In conclusion, the chapter raises suggestions for further research.

2. Theoretical framework

The research question of the present study, as formulated in chapter 1, inquires into the impact of regionalism on trade policies between the EU and the ASEAN countries, given the pattern of trade flows between the regions. Accordingly, the following sections will scrutinize earlier theorizing on regionalism, trade policies and the geography of international trade. Classical economic theorizing on trade will be briefly presented first, as trade literature forms the basis for studies of both economic regionalism and trade policies. Overall, the focus will be on a review of research that discusses the relationship between regionalism and trade, particularly the impact of regional economic integration on trade policies.

Previous literature on regionalism and international trade includes research in the fields of international economics and political economy, as well as spatially oriented and geographical studies and theorizing of the geography of international trade. In this chapter, the basic concepts and theories of classical and neo-classical economics,[15] international political economy, and geographical literature on international trade are discussed. The explanatory power and limitations of the theories are evaluated considering current trends in regional integration, trade policies, and international trade flows.

2.1 Regionalism and trade blocs

Beginning with the theorizing of economic regionalism, this section will review the central concepts of regional economic integration both from the perspectives of economics and international relations. Literature on regional economic integration has to a large extent evolved from trade theory. From this perspective, regional trade agreements represent one form of integrating distinct economies, and they have been theorized with the concept of integration in international economics and in political science, particularly international relations.

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[15] Since classical and neo-classical theories on trade and economic integration are presented in most textbooks of international economics, the aim here is not to provide a detailed account, but rather to review the basic concepts and major strands of literature (in sections 2.1.1 and 2.2.1) for the benefit of further elaboration and analysis of the subject.

2.1.1 Economic theorizing on trade

The classical trade theory, which forms the basis for economic integration theory, has its origins in the literature on political economy from over two centuries ago.[16] The basic idea was that free trade and exchange of goods based on specialization was more beneficial to trade partners than protectionism. The line of thinking was further developed[17] to encompass the concept of comparative advantage[18] as a basis for specialized production. It is noteworthy that the classical theory explicitly dealt with protection, i.e. tariffs, and hence presented a link between trade policy and trade patterns. This formed the basis for later analyses, especially for the thinking behind the free market paradigm and welfare analysis. Central to trade theory was the concept of opportunity cost, that is, the loss of alternative returns if resources had been used in some other way.[19] This theorizing constituted the supply side explanation of trade and, to a greater degree, represented actual trade patterns of the early 19th century. Currently, while resources still explain trade in agricultural and other primary products, the bulk of trade in industrial and manufactured products cannot easily be traced back to local natural endowments of the trading partners. Particularly, the emergence of multinational companies and intra-industry trade after the second world war quickly weakened the relevance of the neo-classical theory. The movement of capital, especially direct investments, was not included in trade theories.

In effect, the neo-classical trade theory had predicted in the 1950s and 1960s that specialization would increase in the world economy, leading to more inter-industry trade based on comparative advantage. However, this was later contradicted by empirical evidence as trade data showed no increase in inter-industry trade but rather in intra-industry trade (IIT). The theory could not foresee the rapid internationalization of the world economy, increasing foreign direct investments and the increasing transfer of production across national borders that resulted in trade of intermediate goods and among branches of corporations. From the

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[16] At the time of mercantilism and protectionism in foreign trade, free trade among nations was advocated by Adam Smith in *The Wealth of Nations* from 1776. Implicitly, trade was explained by supply side factors – resources of the trading partners – since the reasoning of free trade was based on differences in resource endowments.

[17] by David Ricardo in *On The Principles of Political Economy and Taxation* of 1817

[18] A country has a comparative advantage in the production of the good for which it needs a relatively lower amount of production factors compared to another country. As the countries open trade after an initial autarky situation, each country will specialize in the production of the good for which it has the comparative advantage. According to the trade theory there will be an increase in welfare in both countries.

[19] Foreign trade literature further evolved into a neo-classical analysis, an expanded formulation of the classical trade theory. The neo-classical Heckscher-Ohlin model recognized that opportunity costs increase when the degree of specialization increases, and that specialization reflects each country's mix of resources. The model was applied to an analysis based on the prices of labour and capital as determinants to trade.

1960s onwards, the neo-classical trade theory has elaborated on explaining intra-industry trade. Supply side analyses have applied the concept of 'revealed comparative advantage' as a modified version of the original one. In the other approach based on demand factors, some theories attempt to explain trade in slightly differentiated goods by variations in consumer tastes, drawing on Linder's (1961) essay on product differentiation and interrelationships among similar markets. Applying both classical and neo-classical approaches to analyse Sweden's foreign trade over a 110 year period, Petersson (1984) found intra-industry trade to have grown especially during 1871-1913 and 1951-1970, based on large-scale manufacture (vertical specialization) in the former time period, and on standardization (horizontal specialization) in the latter period.

New approaches in trade theory have elaborated on economies of scale and imperfect competition, as well as on economic growth and international trade (Salvatore 2001). In the 'new international economics', Helpman & Krugman (1985) introduced concepts such as increasing returns as explanations to sustained growth. Trade policy research in economics has focused on equilibrium analyses of tariffs and quotas that are seen as distorting the equilibrium state of free trade. Newer approaches include theorizing on strategic trade policy and strategic industrial policy, according to which nations can create comparative advantage in such fields as semi-conductors, computers, and telecommunications. As to the state of economic literature in general, Storper (1997) points out the theoretical controversies of the 20th century neo-classical economics where two strands of research have evolved, one based on the equilibrium analysis, and the other based on an analysis of market imperfections. These two paradigms fundamentally reflect the ideological differences between two distinct world views in economics: the 'free market' view, and the statist or interventionist view. What is notable is that the resulting analyses are in turn used as a basis for economic policies, thus leading to two different lines of economic policy.

As the patterns of world trade have changed, the neoclassical trade theory has been reconsidered, especially within research fields other than economics. Trade evidence has shown that intermediate goods account for an increasing share of trade, and thus there is a need for explanations other than comparative advantage or consumer tastes. Rather, an understanding of international networks of production would seem to benefit the theory. As to limitations of the trade theory, Frankel (1997, 37) observes that for the most part, the mainstream economic research did not attempt to explain the geography of trade, that is, trade *between* countries, or the quantities or composition of bilateral trade. Instead, literature focused on the total trade of a country, and sought to explain the quantities and composition of the country's exports and imports, regardless of the destination or source countries. An exception was the analysis of regional liberalization and its effects on the countries involved.

2.1.2 Theorizing of regional economic integration

Based on trade theory, literature on economic integration has evolved since the 1950s along with the European case. Economic integration is basically seen as the integration of markets (Molle 1990, 10) which is reflected in the economic interchange – foreign trade and direct investments – between countries. This may take place despite the possible barriers to exchange. Barriers to trade and investments are lowered through agreements and the establishment of regional organizations to coordinate economic policies. Economic integration can apply to product markets (merchandise trade), or if deepened, also to markets of production factors (labour and capital). Eventually, economic policies, too, can be integrated.

According to the theory, countries aim towards economic integration because of the welfare benefits it brings them through increased trade. The basic objective is to enhance trade among the member countries by reducing barriers to trade (tariffs and non-tariff barriers) within the region. However, there are more incisive considerations in economic integration than trade alone. Molle (1990) delineates the assumed political aims of economic integration thus: "Economic integration is not an objective in itself, but serves higher objectives. The immediate, economic, objective is to raise the prosperity of all cooperating units. [...] The farther-reaching objective is one of peace policy; namely, to lessen the chance of armed conflicts among partners." The mainstream economics analysis on economic integration, however, simply accepts the 'economic benefit' approach (based on the utility function of the actors) as the explanation to economic integration, and thus deals less explicitly with the initial reasons of integration. For example, the cultural dimension is not included in the economic theorizing of integration.

In contrast, political economy literature suggests that economic integration may have different kinds of origins in a world of hegemonic power (Gilpin 1987) or interdependence (Keohane & Nye 1987; Nye 1987), or state-market relationships (Strange 1988). These include commitments, common cultures and social institutions, not to mention ideological, contiguous, and political reasoning (Garnaut & Drysdale 1994, 36). Along similar lines, Hill

(1987, 82) asserted that from the viewpoint of a single country, there are several arguments for regional cooperation. These include regional peace and stability, trade creation, regional liberalization being politically easier than multilateral liberalization, and regional organization being more effective in international negotiations that an individual state. Also, according to the World Bank (2000), trade blocs especially among developing countries have at least four political objectives, namely: security, bargaining power, project cooperation, and pursuit for reform. Countries may thus have multiple objectives in joining a regional trade organization.

The geographical perspective to territorial integration builds on cultural and political elements such as ethnic or linguistic similarities, traditional affinities, and formal political links and commitments (Muir 1987; Muir & Paddison 1981). More specifically, territorial integration is enhanced by spatial proximity, social homogeneity, transactions and interactions, mutual knowledge, common functional interests, the presence of common culture, previous integrative experience, political structure, sovereignty-dependence, and government effectiveness. From a political science perspective, Huntington (1996) draws on cultural identities, the history of civilizations and relations among peoples, and argues that these are the bases for today's world politics. He suggests that in the post-Cold War world, the essential distinctions between people are not mainly ideological or economic, but cultural. As to ASEAN which comprises Buddhist, Islamic, Sinic (Chinese), Hindu, and at least partly Western cultures, the main challenge is thus to maintain the coherence of the 'multi-civilizational' regional organization (ibid., 128).

Hence, regional economic integration implies a spatial dimension, geographical contiguity, between the integrating units. It has been suggested that regional liberalization is more straightforward than multilateral trade liberalization, as it involves fewer negotiators or potential conflicts. From the perspective of a single country, membership in a regional trade organization means shifting some sovereignty over trade policies from the national government to the regional organization.

Theorizing on customs unions

As noted above, economists mainly deal with the proposed outcomes and effects of economic integration. Viner (1950) elaborated the theory in his classic *The Customs Union Issue* where the standard concepts of trade creation and trade diversion were established. Trade creation was defined as the replacement of higher-cost domestic production by lower-cost imports from partner countries of the customs union. This would result in better resource allocation and efficiency, and lower prices would accrue benefits for consumers. By trade diversion, on the other hand, Viner (1950, 42-45) referred to the replacement of lower-cost imports from third countries by higher-cost imports from member countries. Welfare losses would ensue, especially if intra-regional production were protected heavily against extra-regional competition. In economic terms, trade diversion would imply replacing more efficient, with less efficient, production. The net welfare impact of a customs union would depend on which of the effects dominated in the new situation. In a similar vein, Meade (1955) argued that the higher the initial import tariffs, the greater the likelihood of the customs union increasing economic welfare. The customs union analysis was further developed, by Tinbergen (1965), for example, and built into an econometric model that became the standard for the study of the comparative static effects of a customs union on trade flows, resource allocation and welfare. At this stage, economic modelling implicitly considered economic integration a matter of eliminating customs duties since this was the quantifiable side of integration.

Theorizing on customs unions arose in parallel with the actual process of economic integration in Europe. In the trade environment of the 1950s, the customs union analysis was apparently a relevant method for an examination of the quantitative economic effects of tariff elimination within the emerging EEC. In the current reality of international trade, the customs union analysis has lost some of its relevance along with the decreasing importance of tariffs as trade barriers. This is particularly true for the industrialized countries where the overall level of tariffs has substantially decreased, leading to their minor impact in international trade compared to non-tariff barriers.[20] Furthermore, the customs union analysis assumed "other factors as constant", that is, the model did not take into consideration changes in other explanatory factors, such as non-tariff barriers, thereby limiting its applicability.

2.1.3 Stages of economic integration

Theorizing on regional economic integration was further expanded in the 1960s. In *Theory of Economic Integration*, Balassa (1961) distinguished between stages of economic integration that represent the deepening of regional integration. The first stage is a preferential trade area where tariffs are lowered selectively on an item-by-item basis (Table 3.), such as the ASEAN Preferential Tariffs Arrangements from 1977. The second stage is a free trade area (FTA) where tariffs and quotas are removed among partners, but each country can apply its own

[20] However, as the average rate of tariffs has declined and the use of NTBs has increased, attempts have been made within economics to quantify non-tariff-barriers, such as quotas, for model formulation.

customs tariff with respect to third countries. Examples include EFTA and NAFTA, as well as the future AFTA after tariff cuts are fully realized. A free trade area requires 'certificates of origin' for internationally traded goods to avoid trade deflection, that is, goods entering the FTA through a low-tariff country. The third stage is a customs union such as the original EEC where, in addition to the FTA, one common external tariff is agreed upon and thus the certificates of origin at internal borders are no longer needed. In the fourth stage, the common market, also production factors (labour and capital) can move freely. The European Single Market established in 1993 represents this stage; also the ASEAN countries have, in a recent Summit, decided to establish an ASEAN Community by the year 2020.[21] The fifth stage is an economic union that implies a unification of economic policy, market regulation, macro-economic and monetary policies and income redistribution policies. In monetary union, one common currency is created for all member states, such as in the European Monetary Union, which led to the introduction of the euro in 2002. The eventual stage is political union where political institutions, too, are unified. In the current world economy, the most typical forms of regional trade agreements (RTA) are customs unions, free trade agreements, and other preferential trade arrangements. Most countries of the world are members of some type of RTA, and with these agreements, countries are committed to preferential trade with their partner countries.

Table 2. Stages of economic integration.[22]

	Selective tariff reductions	*No internal tariffs or quotas*	*Common external tariff*	*Free flow of factors*	*Harmonized economic policies*	*Unification of political institutions*
Preferential trade area	X					
Free trade area	X	X				
Customs union	X	X	X			
Common market	X	X	X	X		
Economic union	X	X	X	X	X	
Political union	X	X	X	X	X	X

Source: Modified from Balassa (1961).

[21] The Declaration of ASEAN Concord II (Bali Concord II), 7 October 2003. [Online.] Available at: http://www.aseansec.org/15159.htm.

[22] These categories represent ideal formulations of economic integration, while in practice, large variations exist as to the implementation or coverage of the arrangements. The existing 10 customs unions and over 100 free trade agreements are remarkably varied regarding coverage, number of parties, and geographical scope. There also exist several common market arrangements that differ as to the scope of the 'free flow of factors', that is, the movement of capital and labour among the member countries.

Regional integration also entails a 'new centre', a central institution which is created by agreement between the member countries for the administration of e.g. economic affairs or external trade. Inter-governmental organizations can be distinguished between different levels of coordination or according to the degree of power of a possible central institution[23] over the member parties. The main type of central institution is a Secretariat that manages the practical everyday administration of the trade agreements but usually does not possess decision-making power over the member governments. In contrast, a Ministerial Meeting is typically the highest decision making forum in regional trade associations. The arrangement may also surround a Summit, a regular meeting among the heads of state. In the case of Asia-Pacific Economic Cooperation (APEC), for example, the Summit is a forum of political importance for discussing bilateral and regional issues, but the actual decision-making is carried out at the ministerial level (Leino 1996, 19). With intensified integration, the central institutions (such as in the European Commission, the Council of Ministers and the Parliament) obtain decision-making and executive power over the member countries.

To summarize, while ASEAN represents Balassa's first stage of economic integration, a preferential trade area (being in the process of forming a free trade area), the EU has proceeded to the fifth stage, a monetary union. Due to the loose nature of FTAs, ASEAN can be characterized by the term 'cooperation' which means any joint action between two or more parties in a single event or a continued process. Cooperation among developing countries, however, may contribute to national economies merely through the increased political stability in the region (Blomqvist 1993). In comparison, the EU represents 'integration', i.e. an intensified form of cooperation, a process where smaller political territories are subsumed into larger ones.

2.1.4 'Open regionalism', 'growth triangles' and multilateralism

During the early 1990s, a body of literature emerged concerning economic regionalism in the Asia-Pacific region and presenting the idea of 'open regionalism' (Bergsten 1994; Drysdale & Garnaut 1994; Garnaut 1994; Bergsten 1997). Open regionalism was seen as an alternative to the proposed 'old' type of regionalism of free trade areas and customs unions promoted by the EU and NAFTA. The problem of the old regionalism, it was argued, was the protectionist

[23] Institutions are defined in this study narrowly as the coordinating or administrative units, or forums of cooperation within and between regional trade groupings. Thus the approach is different from the broader definition of institutions as the rules, norms, conventions and social routines (Martin 2000).

thinking which challenged the global free market view. In contrast, open regionalism would take the form of a non-discriminatory regional economic cooperation. It was seen to endorse an unbiased alternative that would better maintain the free trade idea on the global scale. The school was predominantly interested in the possibilities and domains of the Asia-Pacific Economic Cooperation scheme with a focus on Australia in particular, and it developed to assess the advantages of the premises of non-discriminatory economic integration. True, as the ‘old regionalism’ is somewhat inward-oriented, external trade and cooperation could be expected to diminish in relative terms. In contrast, the open regionalism approach does not purport to build a ‘fortress’ of a protective import policy for a region. While ASEAN might be categorized under open regionalism within APEC, the EU is more of a bloc with a high degree of internal integration combined with a high level of coordination and cooperation in policies towards third countries. This would suggest that ASEAN, being more outward-oriented, is more open in seeking to enhance trade relations with the EU.

In East and Southeast Asia, the emergence of sub-regional schemes also represented a new type of regional integration. The so-called ‘growth triangles’ were established in border areas of three or more countries to enhance trade and investments within the sub-region (Lee 1993; Kumar & Siddique 1994; Low 1996; Lee 1997; Parsonage 1997; Weatherbee 1997; Perry 1998). The two most notable of these were the Indonesia-Malaysia-Singapore growth triangle (IMS-GT) comprising Southern parts of the Malaysian peninsula, Singapore and the Riau province of Indonesia, and the Southern China growth triangle comprising Hong Kong, Guangdong and Shenzhen. The growth triangles emerged largely due to the increased cross-border operations of firms enhanced by deregulation in trade and investments. This ‘Asian integration model’ thus denoted the specific sub-regional integration schemes in East and Southeast Asia, the IMS-GT case being a result of the member states’ active regional policies (Kettunen 1998b; 1999).

Regionalism and multilateralism

An issue of continuous debate within the field of economics has been the impact of regionalism on multilateral liberalization and the success of multilateral trade negotiations. The main hypothesis, based on the free market paradigm, has asserted that regionalism is a major obstacle to the process of global liberalization of trade. The ‘first wave’ of regionalism in the 1950s already raised the issue, and the debate arose again alongside the ‘second wave’ of regionalism in the 1990s, as the further deepening of European integration and the signing of a multitude of free trade agreements all over the world contributed to the debate.[24] Several economists have put forward arguments against regional trade blocs. Bhagwati (1993; 2002) argued that unequal environmental and labour standards create unfair trade, thus relating the protectionism of global trade to the poverty of developing nations. Similarly, Bhagwati & Panagariya (1996) considered the economics of free trade areas and customs unions (that they call 'preferential trade areas' instead of 'free trade areas' to indicate the perceived external protectionism of the latter), and asserted that PTAs that are hegemon-centred such as NAFTA, are not desirable due to the challenges that they posed to multilateral trade liberalization. Instead, non-hegemon-centred PTAs among developing countries, such as Mercosur, are more favourable to the global system.

However, regionalism can also be understood as accelerated multilateralism. In this perspective, trade blocs may provide the steps to liberalize more swiftly within the region than through a multilateral approach (Bergsten 1994; WTO 1995; Bergsten 1997; Milner 1997; Desker 2004). While the discussion on the advantages of global free trade often draws on the abstract world-view of perfect markets, the perspective of an individual state is quite different. Referring to the globalization debate, Michalak and Gibb (1997) argued that one strategy for states in dealing with multinationals – and globalization in general – was to choose regionalism. In this view, nation-states responded to globalization in the 1990s by watering down their commitment to the principles of multilateral trade, and engaging instead in the process of regional integration. This was apparent in the slow process of the Uruguay round of the GATT negotiations and the concurrent signing of several regional trade agreements. Even though this trend had led to the debate among economists over the contradictions between regionalism and multilateralism, not all researchers approached the issue as a controversial one. Michalak and Gibb (ibid.) concluded that the two are not mutually exclusive, yet they may be competing principles in the current world economy. It has been argued that while bilateral and regional trade agreements are secondary, they seem to be a politically manageable solution to governments, given the complicated and prolonged negotiations at the WTO that often stretch beyond the life-span of a government (Desker 2004).[25] As regards Singapore's trade agreements, Low (2003) pointed out that broader regionalism and multilateralism are still superior to bilateral arrangements, basically because

[24] However, Lahiri (1998) also pointed to the reverse developments, of the breaking down of regionalism in the 1990s, when the East European economic bloc CMEA fell apart.

[25] However, Anderson (2001) signalled the GATT/WTO's contribution to globalization and its implications for development strategies of the ASEAN countries, arguing that the multilateral system helps developing countries to practice good economic governance and provides a forum to negotiate and monitor trade policies.

of the various rules of origin or 'spaghetti bowl' effects for Singapore. The trend towards bilateral agreements, as well as cooperation between ASEAN and China, Japan and South Korea in the 'ASEAN+3' framework has been seen as a reaction to the Asian financial crisis (Alatas 2001; Webber 2003). However, on broader forums cooperation has been more complicated (Kraft 2003), referring to the enlargement of ASEAN to include Burma/Myanmar, Laos and Cambodia which has put strains on the relationship with ASEAN's dialogue partners.

To summarize, the theories of regionalism evaluated above discuss the different types and stages of regionalism, the impacts of regional economic integration in harmonizing trade policies of the member countries, and the various reasons for countries to engage in regional trade blocs. However, the theories do not deal with *how* states use regional organizations for their trade policy aims or, more broadly, how states negotiate and cooperate within regional or multilateral organizations, which are discussed in the following sections.

2.1.5 Roles and functions of regional trade organizations

The predominantly economic theorizing of regional economic integration has treated the issue either from a purely market perspective or from the viewpoint of a member state, and has not considered the organizational characteristics of RTAs. Yet regional trade arrangements may affect the global trading system in other ways than solely through the market; for example, by their institutional capacities which are related to the stages of economic integration. Thus the different qualities of regional trade agreements and their supposed impact on the multilateral system call for a consideration of RTAs as international organizations. The organizational characteristics of inter-governmental organizations (IGO) can be elaborated by classifying them according to their geography, tasks, roles and functions. Generally, IGOs are classified into two broad categories that include sub-categories based on geographical dimensions and tasks.[26] In addition, Archer (1983, 126; 2001, 68) distinguishes between the roles and functions of inter-governmental organizations, be they regional or multilateral. An IGO may

[26] According to *geographical coverage*, inter-governmental organizations may be distinguished as: (1) Global organizations, such as the United Nations (UN) or the World Trade Organization (WTO); (2) International organizations which comprise three or more countries regardless of geographical proximity and are political, strategic or cultural in nature, such as the North Atlantic Treaty Organization (NATO) or the British Commonwealth; or (3) Regional organizations which restrict their membership on the basis of geographical contiguity, such as the EU or ASEAN. According to *tasks*, a distinction can be made between: (1) Strategic organizations, such as NATO; (2) Political organizations, such as the Council of Europe; (3) Organizations of historical legacy, such as the British Commonwealth; and (4) Economic organizations, such as the European Economic Community (EEC).

have the role of an 1) instrument, 2) arena, or 3) actor. Firstly, when characterized as an instrument, the organization is being used by its member countries for specific objectives such as foreign policy, international trade or diplomacy. This refers to the power of the individual member states over the IGO in decision-making, and to the role left for the organization as an administrative unit only. Secondly, when the organization is considered an arena, it is a forum within which action takes place. The member countries come together within the organization to discuss, argue, cooperate or disagree over common issues or policies. Finally, the third possible role of an IGO is as an independent actor. This requires stable and coherent decision-making machinery, the organization being an entity that is distinguishable from its member states. In many cases, the organization is stronger than the sum of its membership.

Furthermore, Archer (2001, 94-108) distinguishes between possible functions of inter-governmental organizations, i.e. how they affect the international system: 1) articulation and aggregation, 2) norms, 3) recruitment, 4) socialization, 5) rule making, 6) rule application, 7) rule adjudication, 8) information, and 9) operations. First, IGOs may perform the task of interest articulation and aggregation in international affairs, for example articulating a common position in multilateral trade negotiations like those of the EU's common trade policy. Second, they can affect the normative activities of the international system by establishing certain values worldwide such as the rejection of slavery, or control of the effects of war. Third, IGOs have an important function in the recruitment of participant countries in the system; and, fourth, in the socialization of individuals through various interest groups or institutions, such as in the case of the EU, the Commission, Parliament, or the Committee of Regions. Fifth, IGOs affect the rule-making of international relations; as well as, sixth, the rule-application by supervising the use of agreed rules. Seventh, IGOs may carry out rule adjudication and law enforcement, such as the International Court of Justice. Eighth, they perform activities in sharing and communicating information; and, finally, IGOs undertake a number of various operational functions, for example, banking or providing aid. All of these possible functions of inter-governmental organizations affect the international system by e.g. creating new forms of global governance.

The above classifications are a useful tool for distinguishing between the different roles and functions of the EU and ASEAN in coordinating their trade policies, which is of primary interest in this study. It is assumed that the EU is an actor with aims and activities of its own; in contrast, ASEAN is more an instrument or an arena of the member countries to advance their aims. It is worth asking, however, what actor-like characteristics ASEAN, as a grouping, has in trade policy – and whether or not it even has such characteristics – since the level of harmonization in trade policies is related to the degree of regional economic integration and the role of central institutions within the grouping.

These categories notwithstanding, the above theorizing on regionalism does not discuss how trade policies are set internationally. While it provides answers on the impacts and types of regionalism – the EU being a deeply integrated trade bloc and ASEAN a loose cooperation forum – the literature reviewed has not discussed why specific trade policies are set in the first place, nor how the setting of trade policy is changing because of the globalizing economy and the operations of multinational companies. As they are relevant to this study, these questions call for more elaboration.

2.2 Trade policies

While the preceding literature review focused on regionalism, this section discusses theorizing on trade policies from the countries' point of view, highlighting the national and international contexts where policies are negotiated and decided upon. Since trade policies are part of the economic policies of states to manage exports and imports, they are basically meant either to protect a domestic industry by restricting imports, or to support a domestic industry in its export operations. There is a myriad of different types of trade policies affecting imports and exports, including tariffs, specific duties and taxes, quantitative restrictions, prohibitions, licensing, state trading, standards and technical requirements, safeguarding measures, anti-dumping measures, export promotion, export guarantees, and subsidies. These are applied in each country to varying degrees and on various sectors.

Trade protection has typically sheltered two types of industries: the so-called 'infant' industries which are recently established, often in developing countries; and, the 'sunset' industries which are older, already declining industries, typically in the industrialized countries (Hanink 1997, 367).[27] Both types of industries are regarded by the state as in need of protection from foreign competition. In this vein, trade policies reflect the industrial characteristics of a country. In developing countries, such as in the ASEAN countries, the

[27] The effective rate of protection measures the percentage increase in value added resulting from protection in an activity, taking into account the tariff and non-tariff measures affecting outputs and inputs. Due to the use of simplifying assumptions it is not a precise figure. However, it is a useful tool for ranking industries according to the extent that government assistance policies affect production.

infant industry argument has been widely used in conjunction with an import substitution industrialization (ISI) strategy to protect young industries from imports in the same sector. When the industries have reached a competitive stage, an export oriented industrialization (EOI) strategy has been implemented instead, promoting exports of the particular industry. In contrast, the sunset industry argument has been used in the textiles and clothing sector, or in steel industries of the industrialized countries, for example in the EU, Japan, and the US.

2.2.1 Economic theorizing on trade policy

The classical trade theory discussed trade policy in relation to the advantages of free trade over mercantilism. The concept of comparative advantage was linked to the idea of free trade, and this was later formalized into mathematical models of equilibrium analysis. Economic literature on trade policies has mainly dealt with tariffs, since tariff duties are the main quantifiable type of trade policy. As discussed above, Viner's (1950) customs unions analysis was the first framework to determine the impact of tariffs on trade flows. Later, there have been attempts to quantify the impact of other types of trade policies, i.e. non-tariff barriers (Deardorff 1998). However, as Panagariya & Findlay (1996, 265) indicate, the purely economic analysis has mainly treated trade policy as exogenous in evaluating the welfare effects of preferential trading arrangements.[28] The approach has been widely used, however, in quantitative analyses of tariffs and other types of quantifiable trade policies, mainly quotas (Salvatore 1998). The economic perspective to multilateralism has been based on the 'efficiency' factor: whether and to what degree the GATT and WTO have promoted economic efficiency, growth and stability.[29] Other approaches in economics have attempted to model and assess the trade policy behaviour of a country. Based on a framework of the public choice theory, Baldwin (1988) depicted a model of voting over a commercial policy where voters, as consumers of the product, choose either to protect a domestic industry or not. In the model, the rationale behind the decision-making was the multiplicity of consumption choices with free imports, compared to more limited choices with restricted imports. The model, however, suffers due to the unreal nature of the choice, since the bulk of foreign trade nowadays is intermediate goods (directed to other firms) and not finished goods (directed to consumers).

[28] The method has been to model a tariff-distorting equilibrium after Vinerian thinking, and to examine whether tariff reductions between union partners improve welfare for each country, the union, and the world (ibid.). Being model-oriented, the approach has furthermore typically employed a fictional case of two countries and two products; a limitation considering the real-world array of countries, traded goods, and trade policies.

[29] However, as Baldwin (1988) has pointed out, the scale of analysis in economic assessments has often been ambivalent, and as a result, the accounts of efficiency have differed between the national and the global scale.

Furthermore, in reality the voters would rather make their decision as employees in the industry in question, not as consumers of the imported product.

The neoclassical theorizing thus focuses on modelling specific quantifiable trade policies and, as such, does not provide an adequate framework for this study on the multitude of trade policies and the changes in the global trade environment. As regards the aims of this study, a broader understanding of the relations between states and industries would benefit the building of the framework.

2.2.2 International political economy perspective to trade

At an international level, trade policies are a result of multilevel relations between governments and industries. Reflecting on Strange (1986) on the problems of managing and stabilizing the international financial system since the 1970s, Strange (1988) delineated the changing relationship between states and markets in shaping the increasingly globalizing international political economy. She argued that it was power that determined the relationship between authority and market, and that power influenced the four primary structures of the world economy: security, production, finance, and knowledge. Similarly, power relations between states and firms determine the four secondary structures - transport, trade, energy, and welfare. As to foreign trade, Strange (ibid., 161) argued that exports and imports are not merely the outcome of market forces of supply and demand, rather, they are the outcome of complex and interlocking networks of both economic and political bargains. These bargains involve several elements:

- trade-off for states of their commercial and security interests;
- unequal access of trade partners to finance and technology;
- domestic political bargaining over the access granted to domestic markets; and
- corporate decision-making on safe and profitable sources of supply.

Although Strange (1988, 229) explicitly maintained that the aim had been more to raise questions than to provide answers, the contribution was essentially to combine an insight from both international relations and economic literature into one framework. Following these lines on bargaining relationships over trade policies, Stopford *et al* (1991) further discussed the competitive relations among firms and states and suggested that a new kind of triangular diplomacy had been established in the world economy, including bargaining relations between governments, between companies, and between governments and companies. This was based on the immense changes, i.e. the globalization of businesses and the increasing competition among states. Regarding the new international political economy, Stopford *et al* (ibid., 1-2) put forward six general propositions: 1) the states now compete more for the means to create wealth within their territory than for power over more territory, 2) the emergence of new forms of global competition among firms also affects how states compete for wealth, 3) small, poor countries face increased barriers to entry in industries most subject to global forces of competition, 4) two new dimensions of diplomacy have emerged, one between states and foreign firms, and one among firms forming corporate alliances, 5) the number of possible policy options for governments and firms has multiplied, thus complicating the management of multiple agendas, 6) the volatility of change and the divergence of outcomes of the new diplomacy have increased. These propositions are valid in the current world economy where governments seek to join forces regionally and multilaterally to counterbalance the power of large corporations. Especially, as indicated in (2), states find themselves in a new environment in setting trade policy because of the globalization of many industries.

States and territoriality

While Stopford *et al* (1991) touched the issue of territoriality, the increased power of international companies led to a discussion of the 'hollowing out', the relative decline of states in the 'borderless' world economy (Ohmae 1990; 1995). Other accounts referred to the changing, rather than the weakening, role of the state. Hirst & Thompson (1996) argued that instead of diminishing, the state's role is changing relative to supra-national and sub-national actors. Similarly, Swyngedouw (1997, 158) maintained that the interventionism of the state in the economy is rescaled either downward to the city or province level, or upward to international cooperation in regional or multilateral institutions. Governance is thus possible at various geographical levels through agreements, such as in the WTO, EU or NAFTA. Reflecting Ohmae on the hollowing out of the state, Yeung (1998) elaborated on the changing relationship between capital and state, and concluded that the state continues to function in capital accumulation and in the global political economy. However, one dilemma for states is that while multinational companies are extending their powers across national borders, the state's direct territorial governance has basically remained the same. Kobrin (1997, 156) pointed out that whilst politics is still organized in terms of geography – by territory and borders – economic activity is increasingly organized in terms of electronic networks. The impact of globalization on states means that there is a trade-off between efficiency and a loss of autonomy.[30]

[30] An extreme example is trade in software for computers, i.e. 'trade in atoms and bits' where software can be imported either on physical discs or as a digital transmission (denoting trade in goods, or trade in services).

2.2.3 The state as the regulator of trade

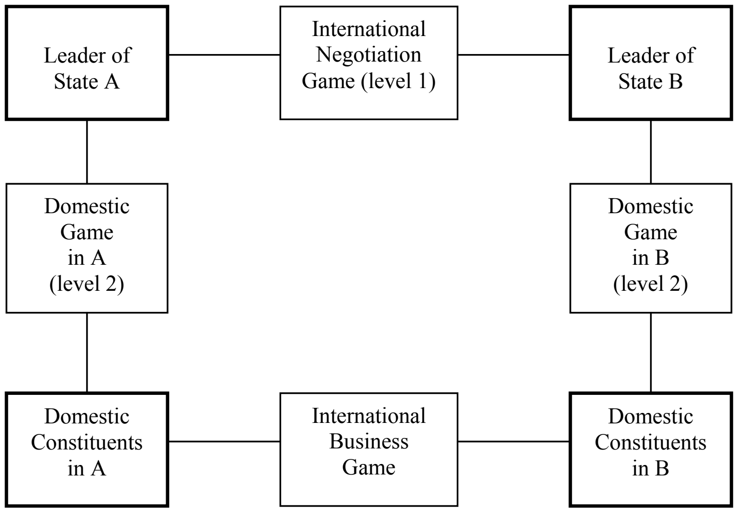
As has already been discussed, theorizing on trade policies is based on the central role of the state as the main authority of trade policy. By imposing a national trade policy, the state acts as a restrictor and/or promoter of a nation's foreign trade. The state does not act alone in policy formulation, however; the interests of domestic firms and foreign actors affect its policy-making. The objectives of firms and the state are brought together into a 'national interest', and the national policy stance is then negotiated internationally with other states. Baldwin (1996) integrated the perspectives of economists and political scientists in a framework for the international political economy of trade policy. He identified four major sets of actors whose interactions produce a country's international economic policies: individual citizens, common interest groups, the domestic government, and foreign governments and international organizations. While citizens act through voting, common interest groups act by means of lobbying. The interrelation between decision-makers affects the trade policy outcomes. Governments not only make the final decisions about national economic policies but also attempt to influence the economic policies of other countries. A country's size in terms of national income, population, and geography relative to other countries is the major structural variable influencing its international position (ibid., 163).

Based on similar reasoning and game theory literature, Carlson (2000) presented a model of a dual-level trade policy game. She pointed out that while most game theory models presuppose that the state is the trading entity, reality shows this to be a gross oversimplification. In the words of Dacey (1999): "firms and corporations engage in trade, while states do not; states determine the terms of trade, firms and corporations do not". The model distinguished between the state and other domestic constituents, and presented a dual-level formulation of trade policies (Figure 2.). The negotiations take place, on one hand, between the government and domestic business interests, and, on the other hand, between two states. In this way, domestic trade policies are determined by bargaining between the state and various interest groups. The stances of domestic interests are affected by the circumstances of the international business 'game', that is, the competitive environment between corporations in the international economy. The model is applicable in considering the institutional

When software is imported on discs, it is controlled by the customs as all merchandise trade. However, when software is imported as a digital transmission by electric mail, the customs authorities can do little to control the imports (ibid.).

environment of trade policy-making in a bilateral trade relationship, but it can be also extended to reflect negotiations on a regional or a multilateral level, such as in the EU, ASEAN, or the WTO. States present their agendas and requests to the counterparts at these negotiation forums, and final agreements are largely compromises of the numerous objectives and interests.

Figure 2. Dual-level trade policy game.



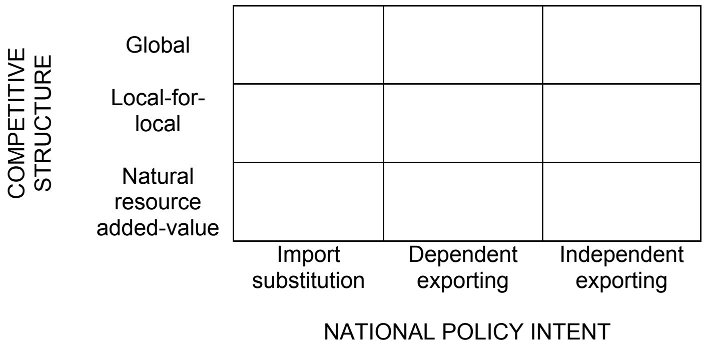
Source: Carlson (2000, 127)

Regarding the various policy stances of states especially in developing countries, Stopford *et al* (1991) presented a matrix of agendas for states in trade policy (Figure 3.). The matrix considered the bargaining relation between a developing country and a multinational firm over inward foreign direct investments, and focused on trade policies since export creation is one of the main policy needs for developing countries. The model was built on two dimensions, i.e. the competitive structure of a firm, and the national policy intent of a state, each with three categories. On the vertical axis, the firm may either compete in the global markets or operate locally to serve local markets, or production may be based on added value of a natural resource. On the horizontal axis, the national trade policy objectives may be built either on an import substitution strategy, on dependent exporting, or on independent exporting strategy.[31] These categories produce nine possible bargaining sites between firms and states

[31] In the first option, the government regards inward FDI as a means of replacing imports and offers the multinational firm protection from outside competition by tariffs or other barriers to imports. Related to the traditional view of development economics, this was the typical choice in the 1950s and 1960s. In dependent

which can be applied in assessing the trade policy stances of various countries. The authors (ibid., 111-120) also give examples of the evolving trade policies in three developing countries – Malaysia, Brazil and Kenya – and point towards changes in import controls and export promotion, as well as the creation of export potential by the setting up of export processing zones especially in Malaysia.

Figure 3. Nine possible bargaining sites.



Source: Stopford *et al* (1991, 25)

The matrix helps to distinguish between policy stances based on the characteristics of various industries. Reflecting on the game theory, Stopford *et al* (ibid., 135) also argued that since states have multiple and often conflicting objectives which are furthermore continuously shifting, states cannot be rational actors in the game-theory sense of having a fixed order of priorities in their policies. States aim both at an efficient economy and at preserving social peace and the cohesion of society, and because of the partnership with multinationals, policy-making dilemmas have increased in both number and complexity. One of the dilemmas that states must address is the choice between diversification and specialization in their industrial strategies.

To summarize, theories of trade policies have dealt with why countries set trade policies, how they negotiate trade policies, and how the changing world economy has affected the policy-making of states vis-à-vis globalizing multinationals. A framework has been provided for

exporting, the government seeks export-creating foreign investments where control over foreign distribution is left for the investing multinational. Examples include some contract farming, consumer electronics and textiles industries. In independent exporting, the government chooses to promote exports from indigenous producers. For example, Malaysia bought the parent companies of politically important subsidiaries, such as Sime Darby, and recognizing the costs and risks of international distribution, it supported the domestic firms to determine their position in the world market. (ibid., 26).

analysing the relationship between the competitive structures of industries and the relevant trade policy stances, which could be applied to both the EU and the ASEAN countries. In relation, the changes in industrial dynamics and international trade which affect and are affected by trade policies, need to be addressed and are further elaborated in the following.

2.3 The geography of international trade

While the above discussion focused on the role of the state in international trade, this section turns to the geography of exports and imports that affect and are, in turn, affected by the various trade policies applied by governments. Theorizing of international trade can be divided into three approaches: the macro-oriented research in economics, the micro level business studies, and studies of the geography of international trade (cf. Alvstam 1995; 2001a). The neoclassical trade theory, as discussed in section 2.1.1, is one of the oldest and most conventional of all economic theories, and is thus firmly established in practically all economic analyses of trade. The micro level analysis in business studies focuses on the firm or the industry level and complements the understanding of the dynamics of international trade. Studies in economic geography are concerned with the spatial or regional determinants of trade, as well as its regional impact. Related to the changing trade patterns, trade theories must be put in the context of the main trends in world trade which requires a framework that contains both the multitude of international trade policies and an understanding of states as trade regulators, and that is sensitive to the multinational operations of the firms (Grant 1994). The framework necessarily combines elements from various strands of literature and from a myriad of empirical analyses. The purpose here is to give an evaluation of the established understanding of international trade and its relation to industrial dynamics; yet, due to the vast amount of literature especially in economics, the intention here is not to cover all trade research.

2.3.1 Trade and location

Basically, geographical analysis on international trade has been concerned with three issues: distance; trade as spatial interaction; and trade as resulting from regional differences in industrial dynamics. Ever since the emergence of the first volumes on 'commercial geography' after European industrialization[32] and the evolving large-scale trade at the turn of the 20th century, research on the geography of trade has, to varying degrees, followed the thinking of either economics or business studies and has developed into its own, albeit somewhat scattered, strand of research. The subsequent periods of regional geography and the 'quantitative revolution' have guided the theorizing and literature in the field. Since geographical research often aims to explain the location of economic activity, trade research has highlighted sensitivity to regional differences and variation in economic activities, and has adopted both the micro and macro scales.

2.3.1.1 Spatial interaction models

The early theorizing in regional economics aimed to test comparative advantages of trading partners, and, from the 1950s onwards, geographical research was strongly influenced by the progress in quantitative methods. Trade was essentially seen as a flow (movement) between two nodes (the exporting and importing locales), and two types of spatial interaction model were formulated as an application to study international trade flows. Isard (1954) had initially considered the applicability of the gravity model to trade analysis. The gravity model incorporated distance and mass in trade analysis which purported to explain the movement of goods between two countries. Tinbergen (1962), Pöyhönen (1963) and Linneman (1966) made extended early applications of the gravity model. The other type of interaction model considered 'intervening opportunities', that is, the existence of potential trading partners between the two trading countries. Thus the model related the movement of goods to the existence of competitors between the source country and the destination country.[33] The intervening opportunities model was argued to be better suited to test comparative advantage since the friction of distance was built in; however, the gravity model remained more widely used (Johnston 1989).

[32] In 1889, Geo. G. Chisholm described the patterns of world trade in the *Handbook of Commercial Geography*. He was followed in 1913 by J. Russell Smith who published the volume *Industrial and Commercial Geography*.
[33] Several extensions and studies employing the gravity model were made by geographers (e.g. Johnston 1976). More recent applications included studies by Hanink (1988) who analysed the demand side explanation of international trade, incorporating a hierarchical flow in trade within a region. His model followed the notion that, because of the patterns of intra-industry trade, trade should not be explained from the supply side. Gaile and Grant (1989) examined the spatial dynamics of international trade and political-economic strength for the post-war period, using a spatial interaction model with gravity formulations. In a similar vein, O'Loughlin (1993) applied the model to explore the political geography of Japanese and US exports, and incorporated prices, distance, size of importing countries, and political relations of the Pacific Rim countries as determinants to trade.

As Johnston (ibid.) pointed out, geographical work on trade during the 'quantitative revolution' leaned strongly towards the positivist approach in economics.[34] The objective of geographical research on international trade patterns "was to identify order in the spatial system of the world economy, with the critical ordering variable being the influence of distance" (ibid., 338). Work on the distance variable, however, also led to the recognition of statistical definition problems (that is, the choice of location for distance measurement) in testing the gravity model.[35] The gravity model approach was explicitly criticized by McConnell (1986) and Johnston (1989) because of the lack of explanation on how comparative advantages are created. Essentially, the model could not explain what causes some regions to grow and some regions to decline – despite the abundance of natural resources, labour or capital, the determinants of comparative advantage. A major problem of the Ricardian comparative advantage theory was related to its ahistorical and apolitical nature.[36] Lately, gravity analysis has not been extensively used in geographical analyses of trade; however, it has been continuously applied in economics.[37]

Another type of spatial analysis has incorporated trade intensities within functional regions, where high levels of regional trade can be identified as trade clusters. Drawing on the analysis of trade intensities in East Asia, Poon (2003) found two distinct trade clusters centred in Southeast Asia in the mid-1990s. One was centred on Malaysia, Singapore, Thailand and Myanmar (with increasing trade with India, Bangladesh and Pakistan), and the other was centred on Indonesia, the Philippines and Vietnam (with high levels of trade with Japan, South Korea and Taiwan). It was notable that Indonesia and the Philippines remained more connected to Northeast Asia than to other ASEAN members.

2.3.1.2 Regional theory of world trade

While the gravity model was based on the economic size of trade partners, Grotewold (1979) suggested a regional theory of world trade based on the theory of industrial location. Related

[34] Hanink (1989) argued that to theorize trade, the point of departure for geographers must be trade's spatial expression, and thus, it is necessary to understand trade as a system of nodes and flows.
[35] Geographical research contributed to the recognition and debate of statistical problems in the usage of the model (Cliff *et al* 1975; Curry *et al* 1975; Johnston 1975).
[36] According to Johnston (1989), this critique could be extended to the concept of 'friction of distance' included in the geographical applications of the neoclassical theory. He referred to the argument of Sack (1974; 1980) that distance should not be treated as a causal factor, but instead a human creation: while distances do exist, frictions of distance are created.
[37] Blomqvist (2004) pointed out that in economics, more theoretical work on the gravity model was done in the 1980s and 1990s (by e.g. Helpman & Krugman 1985; Deardorff 1998) that, together with the changing international trade policies and new integration schemes, contributed to a revival of an interest in the model among economists.

to the notion of intra-industry trade, he distinguished between the core and periphery regions of the world, based on the differences between core industries and periphery industries. Core industries were characterized by vertical links which were apparent in the United States, Europe, the Soviet Union, and Japan. While the peripheral areas, too, had industrial activities, they lacked vertical links. Grotewold (ibid.) formulated this pattern into a quantitative model where world trade was dominated by core industries, that is, trade between the core regions. The difference from the gravity type of models was that regional dynamics of industrial agglomeration were considered an explanation to trade. Grotewold (1990) further illustrated the growth of new core areas in Asia and South America based on core-periphery trade. He argued that core industries form agglomerations because their dominant location factor is proximity to other manufacturing industries.[38] In this framework, four types of trade exist between the world's cores and peripheries: intra-core trade, core-periphery trade, intra-periphery trade, and inter-core trade. Intra-core trade and inter-core trade are the most extensive by value, while intra-periphery trade represents a minor share of world trade. This adds to the understanding of trade flows created by industrial dynamics in specific locations, which are often hidden behind the national-level aggregate data.

In a somewhat different approach, Johnston (1989) argued that the earlier geographical work on international trade had merely been a descriptive theory of comparative advantage combined with the notion of the friction of distance. To formulate an explanatory theory instead, he suggested a framework that included elements from the theories of combined and uneven development (Harvey 1982) and of the state, and attempted to extend a theory for the geography of international trade by sketching the links between four issues: trade, the process of uneven development, the state, and the major economic actors. In retrospect, Johnston's framework incorporating the state both as a military and an economic power, soon faced a contradiction in the evolving international political relations as major military and trade links changed. After the collapse of the Soviet bloc, and the concurrent shift of international relations from 'geopolitics to geo-economics', trade patterns changed especially in Eastern Europe and in Asia. Although Johnston noted the exception of Japan being an economic power yet not a military one, opposite examples soon also abounded. Thus a trade model with a military-state orientation was no longer valid for the 1990s.

[38] In contrast, peripheral industries belong to five types classified by their dominant location factors: (1) raw-material oriented industries, such as fruit canneries; (2) low-cost energy-oriented industries, such as aluminium refineries; (3) low-wage labour-oriented industries, such as textile mills or assembly lines of mass-produced electronic equipment; (4) industries tied to their market in the primary sector, such as assembly plants of agricultural machinery; and (5) industries tied to their market in the service sector, such as bakeries or newspaper printers (ibid., 400).

2.3.1.3 'New economic geography'

The impact of location to trade was considered in international economics from the 1980s onwards, and a large volume of literature relating to the 'new trade theory' (Krugman 1990; 1991; 1993b) explicitly discussed and quantitatively modelled a link between location and trade. This 'new economic geography' was based on agglomeration and argued that in a world of imperfect competition, international trade is explained by increasing returns and external economies, as well as by comparative advantage.[39] Turning to the issue of trade between developing and developed economies, especially the threat of competitive exports from emerging markets, Krugman (1996a; 1996b) debated import competition and the loss of high-wage manufacturing jobs to the expanding services sector. The importance of geography in international economics was also discussed by Brakman *et al* (2001) drawing on the understanding of returns to scale and imperfect competition.

Since the above analysis focuses on uneven regional development and local concentration of production, it is close to geographical thinking and theorizing of the economic development of regions. However, what at first sight seemed an inspiring concurrence and a shared interest among economics and geography did not develop into vigorous scientific cross-communication between the two, for various reasons. Martin and Sunley (1996) asserted the quantitative method of the "geographical economics" as a fundamental difference since most contemporary economic geography has abandoned the use of formal modelling.[40] Also, the patterns of concentration formulated by Krugman represented only some industries under certain conditions. Thus for geographers, the models may have had an inadequate sense of geographical and historical context (ibid.). More specifically, Martin (1999) argued that the approach was merely an application of advances in mathematical modelling in economics, extended into the old German location theory.

[39] As an example, Krugman (1993a) worked on a theory of industrial specialization based on agglomeration and transportation "hubs", with the idea that transportation costs differ across pairs of countries and regions. He argued that some locations have advantages over others in servicing many other regions, and, as a result, they attract industries with economies of scale in manufacturing.

[40] At the turn of the 1990s, the line of thinking in geographical trade research had, to a certain degree, turned away from the reasoning in economics, and moved more towards either a political-economy perspective or business-oriented explanations. At the same time, the usage of quantitative methods decreased. The perceived deficiencies of the neo-classical paradigm – especially the unrealistic assumptions of perfect competition and immobile capital – led to the abandoning of the method.

Krugman (2000) reflected on the divergences of the two fields, however providing examples of more 'realistic' approaches in economics, and those that were analytically related to the classical works in economic geography and spatial economics. Similarly, Brakman & Garretsen (2003) noted that while economists and geographers analyse similar issues, their approaches are rather dissimilar and little communication exists between the two branches. In a constructive approach to the issue, Sjöberg & Sjöholm (2002) discussed the complementarities of economics and economic geography, and identified potential points of convergence and divergence between the two. Even though finding opportunities for interaction and common ground, they (ibid., 482) ended with considering the discrepancies and problems in the methodologies of both the 'cultural turn' in economic geography and the abstract modelling in economics.

In summary, while economics-oriented research on trade and location deals with the macro-level dynamics of agglomeration, it does not discuss how industries relocate and how this affects trade flows. Since relocation also has an impact on the evolving trade policies (as in the case of 'sunset' industries) and vice versa, it is essential to combine the above with business oriented research on industrial dynamics.

2.3.2 Business studies on trade and investment

Literature on international trade and industrialization focuses on firm-specific and industry-specific processes. The product cycle theory, presented by Vernon (1966), gave an industry-specific perspective on the international division of labour and trade in manufactured goods. According to the model, trade in industrial products was explained by locational shifts of four different phases of production: product innovation, early production, standardization and mass production. When production relocates from one country to another based on different combinations of factors of production, trade patterns between the countries change accordingly. The approach is similar to Akamatsu's (1962)[41] 'flying geese' model that was related to Japan and its East Asian neighbours and depicted the industrial upgrading of a country in an evolutionary process of hegemon-led industrial development (Ozawa 2002). In comparison, Porter (1990) elaborated on the competitive advantages of nations, drawing on factors that improve the competitiveness of firms, such as innovation, industrial clustering, domestic competition and networks. The higher the level of innovation, clustering, and domestic competition, the more competitive the firm is also internationally.

[41] The original work by Akamatsu (1932) [in Japanese] was further developed by Kojima (1958) [in Japanese].

In its internationalization process, the company faces different types of distances42 that affect exports and imports, as well as overall foreign operations (Luostarinen 1980). These include physical distance, cultural distance and business distance (including tariffs and other barriers), and all these distance factors increase the costs of trade. Companies can, however, pursue trade management policies to affect and alter trade flows according to their interests. One solution for a corporation to ease the costs of trade is to establish a special trading company to handle the exports and imports of the manufacturing company (Hanink 1997, 364). The best-known of these are the Japanese sogo shoshas. Another form of managed trade is intra-corporate trade which is based on either the economic advantages of producing components in different countries, or on taxation benefits with transfer pricing (ibid.). Intra-corporate trade is estimated to account for 40 % of the US trade, for example.

2.3.2.1 Industrial dynamics and territoriality

Research on industrial dynamics has helped to assess the relation between location and trade on the industry level. Storper (1992) combined the reasoning of international trade with literature of industrial districts in France, Italy and the US, and argued that instead of comparative advantage or economics of scale, a significant explanatory factor of international trade was technological advantage which is product-based and renewed through learning. He concluded that the "unlocking of the organizational secrets" of technological learning in these districts was the means to understanding the dynamics of both the localities and of international trade. Storper (1997) further elaborated on globalization and territorial development based on the dynamics of production systems and international flows. In international trade, and particularly in intra-industry trade, large companies who dominate these supply chains benefit from entry barriers due to scale and the firm-specific assets they arrange on a global level (ibid., 172). By their mere existence, large companies create barriers to trade for smaller companies who are not able to compete against them.

Referring to neoclassical trade theory, Storper (2000) pointed that while the standard version of trade theory was able to explain trade induced from natural resources – and to some extent, trade induced from labour-intensive production in the developing countries – it could not explain the intricately organized production systems and their location in industrial countries. He portrayed a model based on the dynamics of the product markets (downstream) and the

[42] The issue of cultural distance was originally discussed by Vahlne & Wiedersheim-Paul (1977).

different parts of the production system (upstream) to further theorize on the link between location and trade. According to this theory based on ‘moderate complexity’, there are several factors behind the location of industries that induce trade, such as spatial interdependence and proximity relations, economies of scale, localized technological evolution, and international knowledge flows. The isolation or concentration of the product markets and the production systems can be portrayed in a two-dimensional sphere (ibid., 151). As a result, the model distinguishes between four categories of economic activities that have distinctive types of globalization: 1) the world-serving industries; 2) the local industries serving non-tradable goods; 3) the import-sensitive manufacturing (global commodity chains); and 4) industries in the globally contestable markets (ibid., 160-161). The model is highly relevant in combining the understanding of both economics and business studies in one framework, as well as in providing industry examples of how and why trade patterns are changing because of globalization. However, it is notable that, considering the question of trade and industrial policies, the model does not discuss the role of the state in affecting the trade environment of the industries involved in exports and imports.

2.3.2.2 Trade – FDI linkage

Industrial dynamics was further discussed by Alvstam (1990) as to the changing geography of foreign trade in Pacific Asia and with a focus on the networks of production of Japanese companies in the region. Empirical evidence showed a locational specialization between different stages of production chains, where East Asian countries appeared as ‘production platforms’ for Japanese manufacturers. Changes in trade were an outcome of new exports and imports induced from this new division of labour. Alvstam (ibid.) sketched a model of two options for a regional production system where intermediate goods were imported for processing in e.g. Malaysia. Processing would involve either one or several stages of production (depending on the degree of integrated production systems in the country), and intermediate goods would be exported for further processing to other countries, or to Japan. The argument thus implicitly presented a link between foreign direct investment and trade in East Asia.

Building on the work of Vernon (1966) and Kojima (1978) on interconnections between capital and commodities, Alvstam (1993) further elaborated the notion of FDI’s impact on trade patterns in Pacific Asia. Earlier research had suggested two hypotheses explaining the link between FDI and trade: substitution or complement. In East Asia, trade-oriented foreign direct investment had largely been a complement to international trade – rather than a substitute for trade, as had been the case for most Western economies earlier. The basic difference was that the 'traditional' internationalization of firms in Europe, the US, and Japan had followed the pattern of exports extending into foreign production.[43] In contrast, some of the rapidly growing East Asian economies experienced, first, an increase in inward foreign direct investment, and subsequently, growth in exports and imports. This was portrayed into a model depicting three types of FDI impact on the geographical patterns of foreign trade, with special reference to Taiwan (Alvstam 1993). According to the model, the impact of FDI emanates from the investing firm's strategy for the investment, whether it is to produce for the host market, for exports back to the home country, or for exports to third markets.

Similarly, Bernard & Ravenhill (1995) argued that networks of hierarchical production systems explained the dynamics of economic regionalization in East Asia. Drawing on a rich review of literature and data, as well as a case study from the electronics industry, they criticized the 'flying geese' model and the product cycle theory. Instead of Japan's development model being replicated in country after country, industrial diffusion in East Asia was characterized by shifting networks of production. Signalling the case of multinational audio production, van Grunsven (1998) illustrated the regionalization of the production system in Singapore with links to Malaysia and patterns of extra-regional imports and exports. Drawing on a macro level analysis, Urata (2001) elaborated on the FDI-trade nexus in East Asia. Likewise, Pantulu & Poon (2003) found evidence of FDI's trade creation impact from Japan and the US, and Min (2003) from Malaysia.

This business-oriented understanding of hierarchical production networks helped to outline a model for the changing geography of trade in East and Southeast Asia.[44] In comparison, literature in mainstream international economics had been slow to acknowledge the link between FDI and trade, and had, until lately, examined foreign direct investments within the framework of international capital formation and financial flows (referring to portfolio investments, rather than direct investments). Only recently was it acknowledged that the explanation for FDI is more at the microeconomic level (Markusen & Maskus 2001). This has been a major deficiency in the analysis of the relation between FDI and trade within mainstream economics.

[43] This has been the case for Finnish exports and outward foreign investments (Luostarinen 1980).
[44] The same development has been evident in the East European countries.

To sum up, the perspectives discussed above are highly relevant in explaining the dynamic changes in global trade in recent decades, especially in the case of Southeast Asian economies that have gone through major industrial restructuring. However, while business-oriented studies on trade explicitly focus on the role of industrial dynamics in shaping international trade patterns, they do not discuss the role of the states in creating barriers or incentives to trade. Regarding this study, it is essential to combine the above reasoning with the role of the state in the geography of international trade.

2.3.3 Towards an eclectic geographical approach to international trade

Relating to the above discussion, this section draws together and presents further insights on geographical perspectives on trade. The strands of literature in the geography of trade that have been reviewed for this study are summarized in Table 3. below and are further discussed henceforth.

Table 3. Geographical literature on international trade.

Author	Topic / Explanation to trade
Johnston 1989	uneven development, the state
Alvstam 1990	regional production networks
Grotewold 1990	industrial dynamics and core regions
Storper 1992	industrial districts
Alvstam 1993	foreign direct investments
Grant 1993a	trade policies
Grant 1993b	agricultural trade policies
O'Loughlin 1993	political relations
Grant 1994	trade policies, intra-industry trade, intra-corporate trade
Alvstam 1995	intra-regional trade in East Asia
Martin et al 1996	Krugman's "geographical economics"
Michalak et al 1997	regionalism and multilateralism
Storper 1997	international flows and territorial development
Martin 1999	Krugman's "new economic geography"
Grant 2000	trade, states and firms
Storper 2000	location and trade
Alvstam 2001a	trade and investments
Alvstam 2001b	regionalization and East Asian trade
Yeung 2001	regional production networks, trade, and rules of origin
Poon 2003	trade clusters in East Asia
Poon & Pantulu 2003	investments and trade

Source: Author.

2.3.3.1 The research agenda

As discussed above, the turn away from economic modelling (e.g. the gravity analysis) by geographers was accompanied by an explicit pursuit for a new research agenda (Johnston 1989) for the geography of international trade. Serious attempts were made to bring together the existing strands of research in the early 1990s.[45] While, in retrospect, the field remained scattered (cf. Grant 1994), important aspects were raised regarding the link between trade policies, regionalism and the geography of international trade. To combine the insights of earlier literature on the geography of international trade (Table 3.), the framework for this study builds from an understanding of states as actors of trade policies being influenced by pressures from domestic and foreign industries and foreign governments. Two recent pieces of literature on the geography of trade in major collections – the *Oxford Handbook of Economic Geography* and the *Companion to Economic Geography* – could be regarded as points of reference for the issue. The articles by Storper (2000) and Grant (2000) approach the topic from very different perspectives, reflecting the eclectic nature of the field. Whereas Storper's (2000) model has already been discussed in relation to theorizing on industrial dynamics and trade, the contribution of Grant (2000) links ideas about the state and the geography of international trade, and is considered next.

2.3.3.2 States and the geography of trade

Discussing the roles of states and firms in contemporary global trade, Grant (2000) highlighted trade barriers, as well as regional emphases in trade policy whereby governments are able to create new industrial and export locations, such as those in East and Southeast Asia. The approach echoed the ideas of Grant (1994) to build a framework for the geography of international trade. Since an unmodified theory of comparative advantage is incomplete regarding the multi-faceted reality of international trade, a multidimensional approach is deemed essential. The suggested building blocks for the theory of the geography of trade include connections among governments and firms. The role of governments refers to the active trade-promoting policies, the establishment of economic zones and the political environments shaping multilateral trade negotiations, and, the role of firms refers to intra-

[45] As Grant (1994) pointed out, three special issues of geographical journals were published during 1989-1993 to elaborate on the geography of international trade: Economic Geography in 1989, Environment and Planning A in 1992, and Political Geography in 1993.

industry trade and to the growing intra-corporate trade.[46] The approach was argued to be particularly relevant for high-technology trade, where the emphasis is on the links between governments and firms. In other words, a country's competitive position is less determined by its national factor endowments, and more by strategic interactions between its government and firms (ibid., 308).

This view was supported by Alvstam (1995) who accepted the notion of the emerging complex relationship between states and multinational firms as suggested by Stopford *et al* (1991) indicating that the new competition required states to build a connection with multinational companies who own the means to create wealth. With an empirical account of trade and FDI patterns in Asia Pacific, Alvstam (1995) concluded that the investment patterns had an impact of integrating the region also in terms of trade flows. Alvstam (2001a) further elaborated on the issue of state-firm relationships in the context of East Asian economies, and suggested that the understanding of East Asian market-level economic integration requires a comprehensive analysis of Japan's role in both the regional and the global context. This refers to the impact of Japanese FDI and trade in the region. Of particular importance is an insight of the micro level where the dynamic operations of numerous independent firms constitute the aggregate of international trade (ibid., 235).

Building on ideas from international political economy, Grant (1993a) analysed the specific trade policies of the US and Japan within an institutional framework. He considered the different characteristics of the state in the US and Japan and the subsequent impact on the formulation of trade policies in the two countries. Despite the free-trade rhetoric in the US, the actual trade policies became protective during the 1980s and 1990s, while at the same time the opposite was apparent in Japan. This provides an interesting reference to the current study, especially to the empirical assessment of trade policies between the EU and ASEAN countries.[47]

Regionalism and the geography of trade

In comparison, and as has already been pointed out, Michalak and Gibb (1997) suggested that regionalism was a result of the states responding to globalization by choosing regional cooperation. This was a strategy for the states to overcome the problems of both the global operations of firms and multilateralism, and consequently, regional links among states were

[46] In contrast, the argument explicitly lacks direct references to the classical production factors and to purely spatial dimensions such as distance as determinants to international trade.
[47] Similarly, Grant (1993b) examined the differences in agricultural trade policies of the US, Japan and the EU.

intensified. This was observed both in the EU and ASEAN although with different emphases due to the dissimilar types of regional cooperation and integration in the two regions. In his discussion on trade and regionalization in East Asia, Alvstam (2001b) indicated the historical obstacles of regional economic integration among the East Asian countries. These obstacles included, for example, the Japanese isolation from the early 17th century to the mid-19th century and the European colonial impact in the region up to the Second World War. As a result, there are no major regional institutions in East Asia and regionalization is more or less a sum of bilateral trade relations among each of the countries (ibid., 186).

As to the EU, Amin (2000) discussed the controversy of perceiving the EU as a trade bloc protecting the national interests of the member countries, since the recent increase in foreign direct investments on a global as well as regional level has made the 'national' interest in trade policy debatable. In other words, while trade policies are meant to protect or promote domestic industries, the existing foreign multinationals within the 'domestic' territory are subject to the same trade barriers and incentives as the domestic ones. This is a relevant notion as regards the changing business environment where states (or trade blocs) decide on trade policies: how to relate the operations of foreign multinationals, i.e. inward FDI, to the realities of exports and imports that are induced by both domestic and foreign companies operating in the country/region.

Regarding regionalism and the issue of regional production networks in Southeast Asia, Yeung (2001) stressed the challenges posed by the rules of origin that have been developed into strategic trade policy instruments by major importing countries in North America and Europe. Measures such as the Generalized Systems of Preferences (GSP) are a positive discriminatory policy favouring imports from developing countries. However, when parts of an imported product have been produced in several production bases in distinct countries, it becomes necessary to determine whether particular products originate from a country that is granted trade preferences (ibid., 313). The rules of origin are significant because of regional cumulation preferences when extended into a specific region, such as ASEAN.

To sum up, theories in the geography of trade that have been evaluated for this study have elaborated on three major issues: firstly, the relationship between trade and location from the macro perspective; secondly, the link between industrial dynamics and trade at the micro level, including the impact of FDI on trade in Southeast Asia; and thirdly, the role of states in shaping the patterns of international trade. This theorizing provides insight on the dynamics of the international economy and complements the earlier discussion on regionalism and trade policies. Henceforth, the theoretical discussion of the study will be summarized to clarify the most important aspects for building a framework and a methodological approach for the empirical study.

2.4 Summary of the theoretical discussion

This chapter has reviewed earlier literature on economic integration, trade policies and the geography of international trade. The review has included a variety of research fields and perspectives that elaborate on regionalism and trade. Summarizing the theories discussed, it can be argued that they comprise several important aspects regarding the topic at hand:

- regional economic integration evolves in stages which are defined by the depth of economic integration (Balassa 1961), and regional trade organizations have various roles and functions (Archer 1983; 2001) in coordinating trade policies of their member states
- states regulate trade by bargaining on two levels: with domestic industries at the national level and with other states at the international level (Carlson 2000)
- based on the national policy intent and the competitive structure of industries, the state has several possible bargaining 'sites' in setting trade policies for various types of industries, i.e. global, local-for-local and natural resource value-added (Stopford *et al* 1991)
- in addition to restricting trade (mainly imports), states can create new trade by actively promoting exports, establishing export zones and promoting multilateral trade negotiations (Grant 1994; 2000)
- states have responded to the problems of globalization and multilateralism by choosing regionalism (Michalak & Gibb 1997), and from a member country perspective, regionalism implies increased power in multilateral negotiations
- the free-trade perspective asserts that regionalism lessens the propensity to multilateralism
- a link between new trade and inward foreign direct investments exists in the emerging East Asian economies (Alvstam 1993; 2001a)

Hence, a fruitful approach to the study of regionalism and trade policies combines the perspectives of political economy and economic geography. Regarding the geography of international trade, it has been shown that patterns of global trade are influenced by capital goods, intermediate goods, high-technology goods and intra-firm trade (Grant 1994; 2000). Trade is induced by location factors, such as proximity relations, economies of scale, localized technological evolution and international knowledge flows (Storper 2000), and trade and inward investments are interlinked especially in the East Asian economies (Alvstam 1993; 2001a).

Research gap

Regarding the objectives of this study, previous literature on regionalism and trade policies, however, suffers from certain limitations. One is the Europe-centred base of the theorizing. Literature on economic integration was largely developed alongside the process of European economic integration from the 1950s onwards. As such, the theory may not be relevant to explaining integration in other parts of the world and at the turn of the 21st century. The 'Asian integration model' also encompasses sub-regional integration schemes such as the East Asian 'growth triangles' (Kettunen 1998b). A second limitation is the neglect of foreign investments in the discussion on trade blocs (cf. Amin 2000). Given that much of world trade originates from the exports and imports of foreign branches of multinational companies, the theory of economic integration is obsolete to the current trade environment. Related to the connection between trade flows and foreign direct investments in the Asian economies (Alvstam 1993; 2001a), studies must also address the link between trade policies and investment policies.

Third, the mainly quantitative methodology of customs union analyses (equilibrium analyses of two hypothetical countries with two export products restricted by tariffs) includes narrow assumptions that limit its applicability to the variety of existing trade policies and traded products in the real world. As trade policies are constantly changing with more non-tariff measures used as policy instruments, the issue requires empirical work on all trade policies, especially with qualitative approaches, to complement the conventional tariff-centred quantitative analyses. Fourth, the geographical scope of international trade preferences is in a constant flux, influenced by multilateral, inter-regional and bilateral trade agreements with various degrees of liberalizing. International trade policy is essentially a web of agreements at all geographical scales that calls for further elaboration. In particular, trade negotiations between regional trade organizations are an understudied field, while inter-regional trade agreements are, however, one of the most important new trends in the international trade regime (WTO 2000).

Being sensitive to various geographical scales, perspectives in economic geography add to the research on trade policies in economics and political economy. Regarding European common trade policy, for example, Gibb (1998, 47) pointed out that while the common trade policy is one of the core integrating policies of the EU, it is, however, less well known than some other policies, such as the Common Agricultural Policy or the European Regional Development Fund. This calls for an empirical account of the evolving policies, their types, geographical extent, and the current state of implementation as regards the actual patterns of trade. Similarly, the types of trade policies in the ASEAN countries need to be dealt with, especially regarding the regional integration initiatives of the 1990s.

2.5 Framework for the empirical study

The framework for the study combines theorizing of regionalism and trade policies with literature on the geography of international trade. As such, regionalism and multilateralism are two main concepts employed in the study. The research question is addressed by an empirical examination of the various types of trade policies applied by the EU and ASEAN countries. Particular emphasis is placed on the geographical levels of trade policy decision-making and the hierarchies of trade preferences (cf. Balassa 1961), and the inter-relation between trade policies and the competitive structures of industries involved in trade (Stopford *et al* 1991). These are combined to discuss a new concept, the geography of trade policies.

The geography of trade policies

The study seeks to elaborate on the concept of the geography of trade policies. While Grant (1993a) had used the phrase "macroeconomic geography of trade policies" in the title of the article, he did not explicitly introduce the concept or elaborate on its contents; yet implicitly, it was related to an institutional analysis of trade policies. Here it is understood that the concept refers to the scales of negotiation, hierarchies of trade preferences and the industry pressures for trade policies. Building on earlier theorizing on regionalism and trade policies and the geography of international trade, it is suggested that the concept includes the following elements:

1. scales of negotiation, decision-making and agreements: national, regional, inter-regional and multilateral
2. hierarchies of trade preferences: preferential trade area, free trade area, customs union and common market
3. industry pressures for protected and promoted sectors: the link between industrial policy and trade policy

Operationally, these elements of the geography of trade policies can be assessed by analysing:

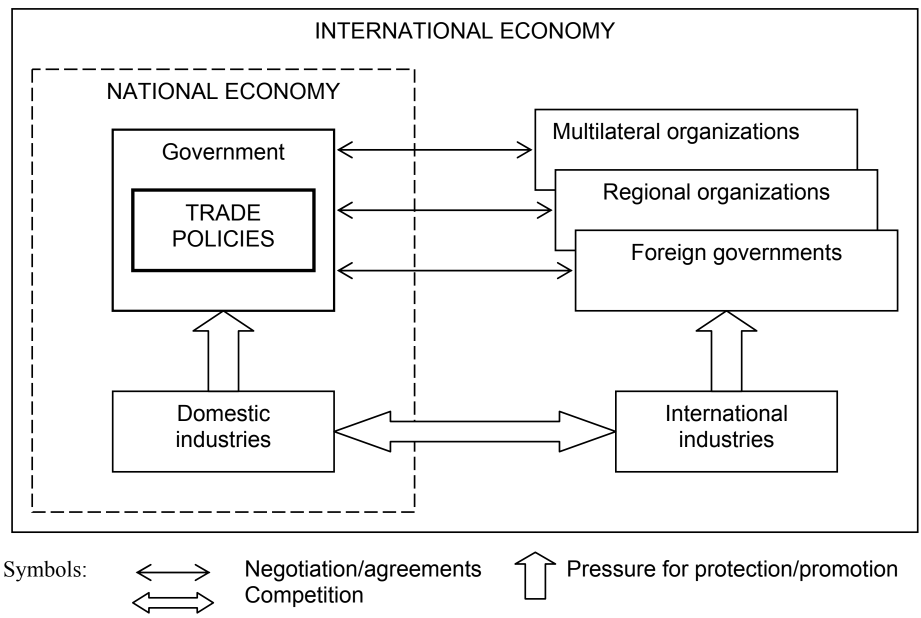
1. the level of decision-making on trade policies (e.g. national or regional) that refers to trade policies at various geographical scales
2. the various trade agreements of a country/grouping that refers to the hierarchy of preferences granted to various trade partners
3. the industrial policies related to trade policies of the restricted and supported sectors, referring to the competitive structure of industries involved in trade

Accordingly, the empirical part of this study focuses on the above elements of the geography of trade policies. The reporting will be organized into two major themes: (1) trade policies at various geographical scales, and (2) trade policies related to trade flows.

(1) Trade policies at various geographical scales

Since trade policy making of a state, to a growing extent, reflects and is dependent on the actions of other states, trade blocs, and the multilateral setting, an understanding of the changing trade policies must take into account these various scales of negotiation (Stopford *et al* 1991; Carlson 2000). Building on the theoretical discussion of this study, Figure 4. illustrates the interaction of various actors, both domestic and international in shaping multilateral trade policies. Trade policies are formulated by the government which is affected by pressure from domestic industries that demand protection. The government then negotiates with other governments either in a bilateral, regional or multilateral setting. Regarding the aims of the study and the issue of trade policies at various geographical scales, it will be essential to examine (a) the institutional basis of trade policy making, and (b) the types and geographical extent of the changing trade policies, against the backdrop of the actual trade patterns.

Figure 4. Interaction between domestic and international actors in shaping trade policies.



Source: Author.

(a) Regionalism and the institutional basis of trade policy making

Relating to the theory of regional economic integration (Balassa 1961) and the ensuing harmonizing of trade policies, it is essential to address the institutional setting of trade policy coordination in the EU and in ASEAN in an empirical investigation. The two groupings are different as to their degree of integration and openness: while the EU is a firmly established institution, ASEAN is a rather loose consultation forum. These differences have an impact on how the two groupings make decisions in external economic relations, and how they negotiate the decisions with counterparts. The degree of internal integration affects the external interests and priorities of a regional trade organization, where a 'loose' organization can be assumed to be more outwardly oriented, however lacking the necessary institutional tools to coordinate a common policy. The issue is particularly topical since negotiations of trade agreements *between* regional groupings have been conducted lately (WTO Secretariat 2002). The present study will examine the coordination of trade policies within the EU and ASEAN, adhering to the decision-making and organizational structure of the groupings. In order to analyse the characteristics of the EU and ASEAN in trade policy coordination and inter-regional negotiations, it is useful to build a theoretically informed typology that contains the variety of roles and functions of inter-governmental organizations related to their member countries (Archer 1983; 2001). Regarding the roles of the EU and ASEAN, it will be assessed as to whether they are instruments, arenas or actors in inter-regional and multilateral regional trade policy formulation and negotiation. These qualifications will unquestionably have an impact on inter-regional trade negotiations between the two groupings.

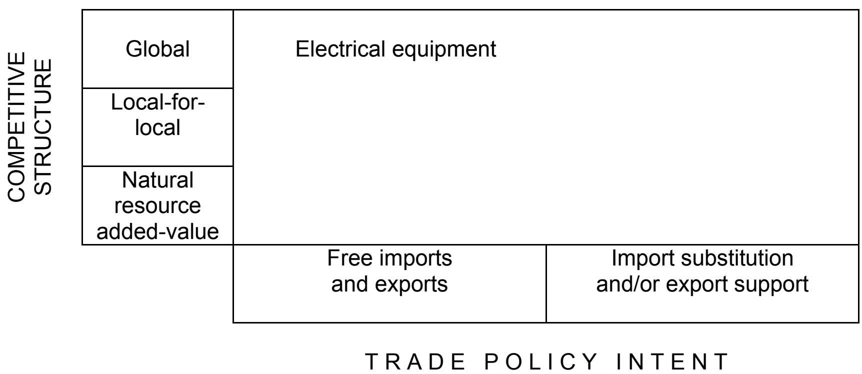
(b) Types and the geographical extent of trade policies

In the review of literature, it was noted that the various types of trade policies have largely not been addressed, mainly for methodological reasons. To fill this research gap, this study examines the various forms of trade policies affecting imports and exports between the EU and ASEAN countries. The longitudinal perspective illustrates the dynamics and changes in trade policies due to the deepening of economic integration in both regions in the 1990s. In the case of the ASEAN countries, particular emphasis is placed on the similarities and differences in national trade policies in order to analyse whether there is real potential for harmonizing the policies as indicated by the decision to form an ASEAN common market by the year 2020. As regards both groupings, an examination is made on the geographical extent of trade policies, that is, preferences given to external regions or countries. Regarding inter-regional trade negotiations, the study also addresses the specific trade issues negotiated at the EU-ASEAN meetings, and the dynamics of relations between the two groupings.

(2) Trade policies related to trade flows

Literature on the geography of international trade has primarily focused on agglomeration and location (Storper 1997; 2000), and trade and FDI (Alvstam 1993; 2001a), and less on trade policies, even though these are inter-related with the patterns of international trade by changing the conditions of exporting and importing (cf. Grant 1994; 2000). Studies also acknowledge the fact that most trade is generated from the inter-firm and intra-firm trade of multinational companies which are not only nationally or regionally based, but essentially global (cf. Amin 2000). This study examines the pattern of trade between the two regions on two levels: inter-regional and bilateral. Emphasis is placed on the structure of trade, with a description of the composition of inter-regional trade in order to uncover the incidence of trade policies with regard to the actual trade flows. The aim is also to reveal the sensitive sectors, typically highly protected because of domestic interests, as well as the already global industries with a low degree of protection. As to the ASEAN case, the study elaborates on the links between trade policies and investment policies as suggested regarding the East Asian economies (Alvstam 1993; 2001a).

Figure 5. The spheres of possible bargaining sites; an example of electronics.



Source: Modified by author from Stopford *et al* (1991).

Building on Stopford *et al* (1991), the study employs a framework of trade policies and the competitive structure of industries in order to assess the inter-relation between EU-ASEAN trade policies and trade flows. Figure 5. portrays the spheres of possible bargaining sites modified from Stopford *et al* (ibid.) as a space between the various national policy intents, i.e. 'free imports and exports', and 'import substitution/export support' (on the horizontal axis) and the three industry types based on their competitive structures, i.e. global, local-for-local, or natural resource added-value (on the vertical axis). Various industries can be located within this scheme based on the policy type and the competitive structure of the industry. For example, a global industry with liberal imports and exports, such as electrical equipment, would be located in the upper-left part of the scheme. The changing trade policies are manifest in the bargaining relationship between the state, domestic industries, and other states. This allows for an elaboration on the industry-specific trade policies applied between the EU and ASEAN countries. The framework will be applied in the empirical analysis of this study, and various industries in EU-ASEAN trade will be positioned in the scheme based on their competitive structure and trade policy.

3. Research design and methods

This chapter describes the methodology of the study and discusses the choices made regarding the methods and types of data selected for the study. The data and methods selected have been derived from the research question of the study, which focuses on the impact of regionalism on trade policies between the EU and the ASEAN countries, given the pattern of trade between the two regions.

3.1 Main concepts

In order to examine the research question empirically, two steps must be taken; firstly, the main concepts discussed in, and adopted for, the study have to be operationalized for empirical treatment, and secondly, suitable empirical data has to be selected to study the phenomenon. As to the main concept, regionalism has been defined for this study as the tendency towards preferential trading arrangements. More precisely, the concept of regionalism in this context includes specific aspects in trade policies to be studied empirically: regional decisions on trade policies; regional institutions to coordinate trade policies; and regional coordination of negotiations on trade policies in an inter-regional or a multilateral setting (Table 4.).

Table 4. Operationalization of the main concept used in the study.

Concept	***Operationalization***	***Data on EU***	***Data on ASEAN***
Regionalism in trade policy	1) Regional decision-making on trade policy	EU decision-making on common trade policy	Trade Cooperation among ASEAN
	2) Regional institutions for trade policy	European Commission, DG Trade, DG External Relations	AFTA, Ministerial Meetings
	3) Regional coordination of external trade negotiations	European Commission, ASEAN-EU Ministerial Meetings	Dialogue Partners System; ASEAN-EU Ministerial Meetings
	4) Harmonization of national trade policy with a regional one	Finland’s trade policy before 1995; EU trade policy after 1995	

Source: Author.

In comparison, multilateralism is understood as a tendency towards multilateral negotiations and arrangements to liberalize international trade, which in this study is related with the parallel process of regionalism. As has been argued earlier, the topic of a regional trade organization as a regulator of trade was chosen because the role of the state is changing in the globalizing economy, and states form alliances to manage the challenges of international trade. This study is thus both about trade groupings (formed by states) and about states. While trade policy has traditionally been in the sphere of the state's economic policy, it has increasingly shifted to the governance of regional trade groupings. The institutional mechanism to coordinate trade policies within a regional trade organisation is an important aspect to its external trade relations. This will be elaborated on with regard to the following issues:

- harmonization of trade policies, i.e. import restrictions and export promotion
- establishment of common institutions to coordinate cooperation in trade policies
- coordination of a regional agenda for external trade relations: joint policy in trade negotiations with third parties

Methodologically, the study thus deviates from 'mainstream' economics research on trade policies. A major part of trade policy research is quantifying and model oriented with the aim of estimating the impact of certain trade policies on 'national welfare'. In addition, there are studies with a case analysis approach focusing on one type of trade policy in one industry, in the context of a bilateral trade relationship. Few studies exist to investigate the myriad of trade policies applied to exports and imports, as well as their geographical extent and changes over time. This study, for its part, attempts to fill this research gap with a research design presented below.

3.2 Research design

According to Patton (2002, 254), the research design includes several aspects regarding the focus of the study, sampling strategies, an analytical approach and the practical arrangements of the study project. First, the focus of a study involves the breadth versus depth trade-offs, which, in this study, are related to the analyses of EU-ASEAN trade policies and trade flows. Here, the choice is to attain breadth in the overall trade policy description for the EU and ASEAN, while an in-depth analysis of the ensuing trade policies on various sectors will be conducted by focusing on the specific trade relationship between the two blocs. The incidence of trade policies as to actual trade flows is studied on a general level for the inter-regional EU-

ASEAN trade relationship, and the analysis is deepened to a detailed level in the case of trade relations between Finland and the ASEAN countries. Thus the units of analysis include both regional trade organizations and countries (states).

Second, the sampling strategy of this study is based on a longitudinal and comparative analysis, with two cases of trade groupings, the EU and ASEAN, under study for the period 1978-2003. The investigation of national trade policies in ASEAN includes six country cases for which comparable data is available: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Brunei. Similarly, the examination of the EU's trade policies includes one case of an 'entrant' country, Finland. This two-tier approach is based on the fact that trade policies may be fully harmonized among member countries, such as in the EU; or they may be national, such as in ASEAN, where the study focuses on the extent of cooperation in trade policies. Thus the population of the study, i.e. the set of entities from which the sample is selected, comprises major regional trade organizations and their member countries. The examination employs different kinds of data, both qualitative and quantitative.

Third, it can be argued that the analytical approach is abductive, i.e. partly deductive and partly inductive, since earlier literature that builds the theoretical framework for the study is only partially able to construct hypotheses on the research questions that are addressed. The deductive approach includes the examination of stages of regional integration (Balassa's categories) as regards the EU and ASEAN, and their effect on trade policies. In contrast, the investigation into the various forms and types of trade policies, including inter-regional trade negotiations and their incidence as to the actual trade flows between the trade partners, represents an inductive approach. Here, findings are generated from the pool of empirical data rather than from a pre-hypothesized theoretical setting. Data on trade policies and trade flows are compiled from national, regional and international sources, in order to enable comparison between different sets of data. This refers to the triangulation approach where multiple sources of data are used (Patton 2002, 247) which is further discussed in 3.3.

Fourth, the research design includes a specified time span as to the phases of the actual study project. In this case, the empirical study has been sequenced and phased according to the following:

- data compilation and analysis of EU-ASEAN trade negotiations and trade cooperation;
- data gathering on trade policies of the EU and ASEAN countries;
- data gathering from EU-ASEAN trade statistics, and analysis of the incidence of EU-ASEAN trade policies as to inter-regional trade flows;

- data compilation of Finland-Malaysia trade statistics; and
- data gathering and analysis of Finland's changing trade policies and of the incidence of trade policies with regard to Finland-Malaysia trade flows.

Practical arrangements of the research project included data gathering from various sources such as GATT/WTO, IMF, EU, ASEAN and the Finnish Board of Customs. The main data sources were official publications of these organizations, and, without exception, these publications were available in University library collections, Statistical libraries and the Internet. Complementary data was acquired from interviews of trade policy officials at the Finnish Ministry of Foreign Affairs, the Finnish Ministry of Trade and Industry, the Malaysian Industrial Development Authority, and Finpro (previously, the Finnish Foreign Trade Association).

3.3 Data gathering and methods of the study

Particularly in qualitative research, a study may include multiple types of data, and it may employ more than one sampling strategy. Combining methods or different types of data in one study is called triangulation,[48] which refers to multiple angles in solving a research problem. According to Patton (2002, 248), triangulation strengthens a study by combining methods. Different data sources or inquiry approaches offer potential for deeper insight into the relationship between the method and the phenomenon under study. In contrast, studies that use only one method or one type of data are more vulnerable to errors related to the particular methodology. It has been suggested that triangulation in economic geography refers to a process-based methodological framework which deploys different methodological practices in a research process that is sensitive to specific research questions and contexts (Yeung 2003). Based on the research design illustrated above, this study employs several types of evidence, including qualitative and quantitative data. Qualitative data contains information on various non-tariff trade measures, such as licensing and anti-dumping actions, trade negotiations and institutions that coordinate trade policies. Quantitative data includes data on exports and imports, as well as on import tariffs. The data employed in the study is treated with various qualitative analyses, the major reason for this being the nature of the research problem (Strauss & Corbin 1998, 11). Overall, a mixed method is applied, including institutional and comparative analyses.

[48] The term triangulation has originated from land surveying where knowing a single landmark only locates a person along a line in one direction from the landmark, whereas with two landmarks a person can take bearings in two directions and locate themselves at their intersection (Patton 2002, 247).

3.3.1 Data sources and compilation

The major data sources for the study are official documents, statistics, reviews, press releases, and interviews. It was only partly pre-determined that the data gathering process would include certain trade statistics and trade policy information. In addition, data compilation was open to the collection of additional information based on preliminary findings and emerging insights as the study proceeded. Based on the research questions under study, data was collected for various time spans ranging from 1978-2003 in the overall trade flow and trade negotiations analysis to 1990-2003 in the in-depth analysis on trade policies.

3.3.1.1 Data on regional and national trade policies

Data on trade policies of the EC/EU, the ASEAN countries and Finland was acquired from Trade Policy Reviews (TPRs) published by the GATT (up to 1995) and the WTO (from 1995 onwards), and from the EU documents such as the Official Journal of the EU, and documents published by ASEAN. As regards the types of trade policies of the countries under study, the GATT/WTO were the main data source. The TPRs have been published since 1990, focusing on developments in trade policies of a country under study. Each report is about 200-250 pages in length, and includes a review of the country's trade policies both by type and by industry for the period under examination, with primary data received from the country under review. In total, 20 reviews were employed in this study. The TPRs were available as data sources on the EU and the ASEAN countries according to the following:

- European Communities 1991; 1993
- European Union 1995; 1997; 2000; 2002
- Finland 1992
- Indonesia 1995; 1998; 2003
- Malaysia 1993; 1997; 2001
- Philippines 1993; 1999
- Singapore 1992; 1996; 2000
- Thailand 1991; 1995; 1999
- Brunei 2001

The reviews on large countries or trading entities such as the EC/EU are published approximately once every two years, and for smaller countries such as the ASEAN members, approximately once every four years. In this study, the GATT/WTO reviews were used to obtain comparable data on trade policies, that is, from one international source where data has been collected and reported along similar guidelines for each country under study. Trade policy data reported in the reviews include information on tariff rates at 2-digit HS level (including the MFN tariffs, the GSP tariffs, and other preferential treatment), quantitative restrictions, import licensing, countervailing measures, anti-dumping actions, and other types of non-tariff trade policies. In addition, institutional data on the coordination of trade policies in the EU and in ASEAN were gathered from these reviews, as well as from formal agreements of the trade groupings, and from the sources of the EU Commission and the ASEAN Secretariat. Data on Finland's changing trade policies were acquired from several sources: the GATT/WTO, the Finnish Board of Customs, and the Finnish Ministry of Trade and Industry.

The availability of comparable data from the GATT/WTO restricted the analysis of trade policies to the time frame 1990-2003. This was regarded as ideal since the purpose of the study is to focus on the period of intensified regionalism in the world economy since the early 1990s. As to the frequency of data, the longitudinal and cross sectional data on trade policies were available at longer intervals than trade data (which were collected on an annual basis). However, data on trade policies was regarded as adequate for the study since the TPRs included information on developments for the whole period under review, and because it was possible to complement this data when necessary with additional information from the EU documents, ASEAN documents, and other GATT/WTO sources. Systematic gathering of additional data on trade policies for the intermediate years was thus deemed unnecessary.

3.3.1.2 Data on trade policies at inter-regional negotiations

Data on trade cooperation and trade policies presented at the inter-regional negotiations among the two groupings were acquired from four main sources: 1) Joint Declarations of the ASEAN-EU Ministerial Meetings, 2) Press Releases of the Joint Cooperation Committee (JCC) meetings, 3) ASEAN documents, and 4) EU documents. For the most part, these publications were available in either library collections or on the Internet sites of the EU and the ASEAN Secretariat, and, in many cases, data was available from both the ASEAN and the EU sources. Since most documents were available from the ASEAN side, they were systematically compiled from there.[49] Joint Declarations of the ASEAN-EU Ministerial Meetings for the period 1978-2003 were the main source of evidence on trade policies negotiated in the inter-regional setting. These documents were available for all the 14

[49] However, documents from JCC meetings were available only for selected years, with several years missing. The missing documents were requested from the ASEAN Secretariat for this study but were not available, and were thus excluded from the systematic investigation.

meetings that have been held up until 2003. Each declaration is about 5-9 pages in length, totalling approximately 100 pages, and principally reports on the major discussions and decisions taken on inter-regional relations at the meeting. Data includes information on requests for market access by either side, joint decisions on trade cooperation by the means of various programmes and schemes, and general discussions and statements on the global trade environment. This data was complemented with information acquired regarding the Asia-Europe Meeting (ASEM) process on trade promotion.

Documented data was complemented by interviews of specialists and officers at the Finnish Ministry of Foreign Affairs, the Ministry of Trade and Industry, the Finnish Foreign Trade Association, Finpro, and the Malaysian Industrial Development Authority in Stockholm to provide necessary details on the subject. Interviews were thematic and individually designed as to the specific questions in the interviewee's field. In addition, e-mail and telephone discussions with informants at the Finnish Board of Customs were conducted to check details in the empirical data.

3.3.1.3 Data on exports and imports

Merchandise trade data was acquired from foreign trade statistics published by international, regional, and national organizations. The main international source was the IMF Direction of Trade Statistics (DOTS). Data from the IMF was complemented with data from regional EU/ASEAN sources. Data on the commodity composition of the aggregate EU-ASEAN trade was available from the ASEAN Secretariat (2002) in USD for the years 1993-2001 by HS chapters and HS sections. These data were used for the analysis on the inter-regional trade, instead of compiling raw data from five ASEAN member countries in national currencies and adding these together. In order to check the accuracy of data, comparisons were made with the IMF Direction of Trade data on the aggregate level. Additionally, national trade statistics of Finland were used in the bilateral trade analysis for 1990-2000. Data sources and compilation are further illustrated in Table A2. in the Appendix.

3.3.2 Choice of methods

Drawing on the literature review of this study, and especially the recent research in economic geography and political economy, the study employs a mixed method of basically qualitative analyses. Qualitative analysis has been defined by Strauss & Corbin (1998, 11) as a "nonmathematical process of interpretation that is carried out to discover concepts and relationships in raw data and to organize these into a theoretical explanatory scheme". In addition, the procedures to interpret and organize information involve conceptualising and reducing data, and elaborating categories in terms of their properties and dimensions (ibid., 12). This applies to the investigation into the various trade policies and their link to the regionally agreed and institutionalised practices in the EU-ASEAN case.

The organizing of information in this study is based on the longitudinal approach, focusing on issues rather than processes (cf. Patton 2002, 439). A longitudinal study often has the characteristics of a historical study, however the difference being that the focus of a historical study does not stretch to contemporary events (Yin 1994). Given the research questions of this study, the methods of analysis are tailor-made for the issues under investigation. Also, given the diverse types of data involved, each research question is studied individually, although information from the findings contributes to the next step in the investigation. The study proceeds as follows:

(1) Institutional and comparative analysis of trade policy integration and coordination in the EU and in ASEAN, based on categories of economic integration distinguished by Balassa (1961) and the roles and functions of inter-governmental organizations identified by Archer (1983; 2001). The analysis employs empirical data on the EU's and ASEAN's regional agreements and institutional arrangements to coordinate regional policies.

(2) Investigation into the various types of trade policies applied in the EU and in the ASEAN countries and those expressed in inter-regional EU-ASEAN negotiations. This is based on an understanding of the role of state as the regulator of trade in the varied web of relationships, bargaining between governments, and the interests of domestic constituents (Stopford *et al* 1991; Carlson 2000). The approach is largely inductive due to the scarcity of earlier research on the entire variety of trade policies applied by the EU and/or the ASEAN countries. The longitudinal investigation draws on a relatively large pool of empirical data, and summarizes the impact of regional agreements on trade policies, distinguished from the impact of multilateral agreements on trade policies of the EU and the ASEAN countries.

(3) Analysis of the incidence of trade policies as to the structure of the actual trade flows between the two regions. The impacts of regionalism and multilateralism on EU-ASEAN trade policies are explained. This requires an account of trade patterns between the two regions, based on an insight of the changing Asian trade pattern due to the inflow of FDI (Alvstam 1990; 1993), the role of state in regulating exports and imports (Grant 1994; 2000) and the link between location and trade (Storper 2000). To analyse the change from national to regional trade policies, a case of bilateral trade between Finland and Malaysia is employed. In the examination of trade flows, the 'mirroring' technique is used, that is, trade data is collected from and compared between both trading partners' statistics where import figures are typically more reliable (Alvstam 1993). The findings show which sectors were liberalized and which sectors became more protected by the new regional trade policies.

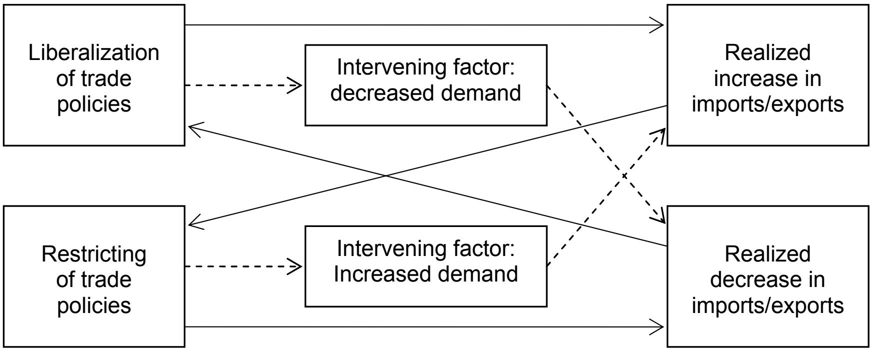
Being cross-disciplinary, this study does not follow a strictly pre-defined or established paradigm or research approach. Guba & Lincoln (1988, quoted in Patton 2000, 252) have pointed out that the internal consistency and logic of each distinctive approach or paradigm lessens the propensity to mix different methods and data collection strategies since it becomes a matter of philosophical and methodological controversy. Yet, according to Patton, gathering the most relevant information possible for the investigation outweighs concerns about methodological purity based on epistemological and philosophical arguments. Figure A2. (in the Appendix) illustrates the sets of data collected for the study and their inter-relations.

It has been acknowledged that qualitative inquiry is likely to produce a large pool of non-numerical data representing words rather than numbers, and that each qualitative analysis requires the researcher to devise his/her own method for presenting the results (Rudestam & Newton 1992, 113). In this study, the strategy is similar to that of case analysis, especially regarding the multiple types of data and the flexible data gathering process employed. The difference from case analysis, however, is the procedure of conducting the analysis itself, which in a case study strategy proceeds with writing individual case reports, and feeding these into the cross-case analysis (Yin 1994). Furthermore, case studies typically draw on interviews as the main evidence, while this study employs documents and statistics as the main data. These distinctions basically emanate from the different objects of study, which in case analyses are usually firms or business organizations that are studied from the perspective of business or management studies. The objects of the present study, regional trade organizations and the evolving trade policies, involve a large amount of published data, and are, by and large, studied within research traditions in other social sciences, such as international relations or political economy.

Also, a distinction must be made between methods used in this study and those of 'conventional' trade research in economics which typically endeavours to reveal comparative advantages of the trade partners based on the structure of exports and imports, or attempts to estimate the impact of trade policies on the actual trade flows. As regards an impact analysis, it was decided in this study not to attempt to build a direct causal link between trade policies and firm-level exports and imports.[50] Instead, it is understood that the inter-relation between trade policies and trade flows is dependent on potential intervening factors (Figure 5.).

[50] The reason for this is the fact that the question is empirically complicated since it is difficult to assess the direct impact of changing trade policies on the actions of exporting and importing firms. The actor of trade, the firm, has many reasons (besides trade policies) behind the decision to export or to import. The linkage between

Figure 6. Causal relations between changes in trade policies, intervening factors and the realized trade flows.



Source: Author.

Hence, liberalization may result in increasing or decreasing trade, depending on the potential intervening factors. Liberalization typically brings about increasing exports/imports. However, when accompanied by intervening factors that decrease demand (such as technological change or economic recession), declining trade flows may ensue. In a similar fashion, restrictions in trade policies usually result in decreasing exports/imports. Yet, when restrictions are simultaneous with intervening factors that increase demand (such as changes in comparative advantages), increasing trade may result (in Figure 5., dotted lines stand for the indirect impacts through intervening factors). It must be noted that the inter-relation between trade and trade policies also includes feedback, i.e., changes in the realized imports/exports may have an impact on trade policies.

3.3.3 Evaluation of the quality of data used in the study

Related to data selection is the concept of validity that refers to whether the chosen variables really 'measure' the phenomenon under study (Kalela 1978, 78). In this study, an attempt is made to ensure the validity of findings by using multiple data sources, such as various trade statistics from national, regional and international sources on particular trade flows. The same applies to data on trade policies from the GATT/WTO sources, which have been

trade policies and trade flows is thus indirect and weak. To assess whether there existed such a link, it would be necessary to conduct a firm level study to inquire about the impact of trade policy changes on the firm's exports and imports.

complemented with data from the EU and ASEAN. However, data on trade policies acquired from the GATT/WTO Trade Policy Reviews has two strengths regarding the objectives of this study: 1) data are comparable between countries and across time, due to the specific principles of the publisher (the GATT/WTO) in collecting and reviewing the primary data compiled from original sources; and 2) data are specific enough to answer the questions of this study, and are, at the same time, sufficiently compressed (compared to raw data on national trade policies), to allow for an overall analysis of trade policies of a large group of countries and a relatively long time period. A possible weakness of the GATT/WTO data is the relatively long interval (four years) between the reviews on most countries, thus inducing a potential gap in information between consecutive publications.

Data on trade negotiations between the EU and ASEAN were compiled from public documents, such as Joint Declarations and Press Statements of the formal EU-ASEAN meetings. These documents summarize the discussions held at the meetings, and basically include the issues of convergence between the counterparts. Since the final document is a result of the original topics from the agenda of the meeting, the discussions held, and the statements and requests presented, the final text is necessarily a compromise between the counterparts of the issues taken up at the meeting. Thus, sensitive issues, or topics of possible divergence, might not be included in the final declaration or press statement. This may result in some potentially important issues in negotiations being concealed behind the documented text. Regarding this study, however, the documents are treated as data that includes jointly agreed issues over the question of inter-regional trade negotiations between the EU and ASEAN, which is regarded as sufficient for answering the specific questions posed in the study.

The empirical investigation into trade flows was based on statistical data which allows an aggregate, regional or national level description of exports and imports by sector with a longitudinal approach. As in all types of data, there are certain limitations associated with merchandise trade. The inaccuracies of trade statistics are typically related to the registering and documentation of national border crossings. At a national border, the holder of the merchandise is obliged to provide a customs declaration document with data on the product, its volume, price, and category number for the product classification according to the tariff lines in order to specify the possible tariffs, duties, or other types of policies involved with the traded item. All these registered data on exports and imports are gathered into national monthly and annual statistics of foreign trade by the national statistical units of the respective countries. In the statistics, merchandise trade and services trade are distinguished. Due to differences between the 'cif' and 'fob' values of trade data, the value of the same product is registered differently in the country of departure and in the country of destination. The various data recording practices in trade between two countries as well as in the specific case of the EU are illustrated in Figure A4. in the Appendix.[51]

Export statistics are a less reliable data source since the final destination of the exported goods may not be known at the time of the shipment (Alvstam 1993, 72). In order to get more accurate information of the bilateral trade flows, information from both sides should be analysed by 'mirroring', that is, comparing between different sources of data on the same trade flow. Accordingly, it has been claimed that there is a need for more primary data in trade studies (Grant 2000). Furthermore, trade statistics do not distinguish between intra-corporate and extra-corporate trade. Hence the bulk of international trade that is actually conducted between different branches of the same corporation located in different countries is not discernible from the foreign trade statistics.

Regarding foreign trade data, it must be noted that international statistics are derived from national sources, and thus the possible inaccuracies in national statistics are transferred in a straightforward manner to international statistics. However, periodical statistics, such as the IMF Direction of Trade, typically correct earlier data later on in their more recent issues, as revisions are acquired from the national sources. It is also well known that trade statistics incorporate many other deficiencies, such as the inaccuracy of data in most developing countries, differences in 'source country' and 'destination' definitions in trade statistics, transfer pricing in intra-corporate trade, and the impact of exchange rate fluctuations on the value of trade. There are thus significant variations in data accuracy from country to country, even among the EU countries' statistics where definitions of import sources are diverse.[52] One way to overcome the potential flaws is to compare between (i.e. to 'mirror') different sources for the same trade flow, thus increasing the reliability of the data.

[51] The illustration follows the logic presented by Alvstam (1993, 66) on different measures of FDI.
[52] Related to this, a major shortcoming in 'mainstream' economic trade research is the lack of data critique. In international economics, while effort has been made to elaborate the techniques of quantitative analysis and methods, the quality of data has received relatively little attention.

4. Trade policies at various geographical scales

This chapter presents findings on trade policies of the EU and the ASEAN countries, answering the first set of questions posed in the introduction of the study, namely:

> How have trade policies evolved in the EU and the ASEAN countries during a period of intensified regionalism?
>
> a. What has been the impact of regional economic integration in the EU and in ASEAN on the geographical scope of their trade policies?
>
> b. How have the two groupings advanced their trade objectives at inter-regional trade negotiations?

The findings illustrate the major changes in trade policies and trade negotiations due to the regionalism processes in both Europe and Southeast Asia. This enables an analysis of the changing trade policies vis-à-vis the actual trade patterns between the EU and the ASEAN countries, later in the study. The presentation is organized according to the various types of trade policies that regulate imports and exports, including import tariffs, various non-tariff barriers, and export incentives. Data on trade policies and their evolvement from the early 1990s to 2003 is based on the WTO's trade policy reviews, as well as on EU and ASEAN documents. The chapter proceeds as follows: The international context of trade regulations within the GATT and WTO is presented, since the multilateral framework forms the legal basis of international trade (section 4.1.). Trade policies of the EU are presented in section 4.2., and of ASEAN in section 4.3. Finally, findings on trade negotiations between the EU and ASEAN are presented in section 4.4.

4.1 Multilateral trade policies: GATT and WTO

Multilateral trade liberalization had been attempted after WW1 by Britain and the Commonwealth, however with difficulties in the recession of the 1930s. After WW2, the United States and the other victorious Allies started to work together on the world economic system with the original aim of establishing, in addition to the Bretton Woods (the World Bank and the International Monetary Fund) a third institution, an International Trade Organization (ITO), to deal with trade, employment, commodity agreements, international investment, and services. However, the ITO was not realized because of opposition to ratification in national governments, especially in the US Congress[53] (Frankel 1997, 2). The

[53] This was despite the US having been one of the original forces behind the plan to establish the ITO.

participating countries decided instead to deal solely with tariffs through the so-called Havana Charter, and started to negotiate to reduce and bind customs tariffs.

4.1.1 The General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) was signed in 1947 by 23 countries as an outcome of multilateral trade negotiations (MTN). The result of the initial round in Geneva (MTN I) was 45,000 tariff concessions that affected about 20 % of international trade. In addition, the principle of the most-favoured-nation (MFN) treatment was originated to ensure reciprocity and unconditionality, meaning that a tariff reduction could not be offered to only one or a limited number of trading partners but had to be offered unilaterally.[54] The first rounds of negotiations were mainly concerned with tariffs (Table A3. in the Appendix), and the number of 'contracting parties', countries participating in the GATT, remained modest and was dominated by developed economies up until the late 1950s. However, the early membership included Burma (since 1948), Indonesia (1950), and Malaya/Malaysia (1957) from the present ASEAN, as well as the core European nations. Developing countries began to join the agreement more numerously from the early 1960s onwards, and among these, Singapore joined the GATT in 1973, the Philippines in 1979, Thailand in 1982, and Brunei in 1993. On another front, the United Nations Conference on Trade and Development (UNCTAD) had been established in 1964 to promote the trade interests of the third world. One issue of concern had been the restricted access of developing country exports into developed markets, and to overcome this, the Generalized Systems of Preferences (GSP) was adopted within the GATT in 1971.[55] The GSP granted preferential access of manufactured and semi-manufactured exports from developing countries to developed country markets (WTO 1999, 15). There were specific exclusions to the preferences, however, particularly in the textiles and clothing sectors.

The GATT also began to deal with anti-dumping measures and reached an agreement on anti-dumping and customs valuation in the Kennedy Round (MTN VI) in 1967. Other non-tariff barriers were included in negotiations during the Tokyo Round (MTN VII) in the 1970s. During these two rounds, negotiations resulted in major tariff reductions (35 % and 33 %, respectively) by the world's nine major industrial countries. The average tariff for industrial

[54] The rules, however, permitted the formation of trade groupings that were based on free trade among the member countries. This will be further discussed in chapter 4.1.3.

[55] Already in 1965, Australia had introduced preferential rates of duty on certain imports from developing countries. According to a decision at UNCTAD II in 1968, the European Community implemented its own GSP in 1971 (EU 2002).

products in international trade declined to about 4.7 % by 1979. However, the negotiations failed to reach agreement on agricultural trade or on the so-called safeguards or 'emergency' import measures. Also, while non-tariff barriers were dealt with in a number of agreements, these were only signed by some of the GATT members.[56] The total number of participants in the GATT had grown to about one hundred by the late 1970s. Textile trade was one of the contentious issues. International trade in textiles and clothing was increasing rapidly, as apparel industries started to relocate from industrial countries to developing countries, especially to Asia. In the face of new and cheaper imports, producers in the industrial countries demanded protection in order to remain competitive. Consequently, the so-called Multi-Fibre Arrangements (MFA) were established in the GATT in 1974 as a framework for bilateral agreements or unilateral actions to limit textile trade into countries whose domestic industries faced the threat of rapidly increasing new imports. Textile trade was governed by the MFA mainly through quotas, where the exporter agreed to limit the volume of textile exports through a bilateral agreement with the destination country, or the importer country posed unilateral import restrictions.

The last series of negotiations under the GATT, the Uruguay Round (MTN VIII) from 1986-94, was the longest but also the most extensive with regard to the issues covered.[57] After the eight-year process, several new multilateral commitments were accepted, including those on textiles and clothing, agriculture, services, intellectual property and trade-related investments. Thus, the agreements also included two 'sensitive' sectors, textiles and agriculture. Regarding textiles and clothing, the Multi-fibre Arrangements, that had been in operation for 20 years, were replaced by the Agreement on Textiles and Clothing (ATC) in 1995 to remove all quotas, and to integrate textile trade into the 'GATT 1994', i.e. into the tariff system, in ten years. The Agriculture agreement aimed at trade reform by reducing import tariffs, domestic support for production, and export subsidies in both developed and developing countries. At the same time, the multilateral agreement on trade-related investment measures, TRIMs, was negotiated with the aim of preventing restrictive trade policies in host countries towards the imports of goods related to the establishment of new production by the foreign investor. Overall, however, the Uruguay Round negotiations faced many conflicts and a series of delays due to significant disagreements among the participants on major issues. Differences

[56] Agreements that are not signed by all GATT/WTO members are called 'plurilateral', whereas 'multilateral' agreements refer to the whole membership.

[57] As one of the mid-term results, the GATT members established the Trade Policy Review mechanism in 1989. The objective was to improve the transparency in, and understanding of, trade policies and practices of the member countries. Periodic reviews were conducted by the GATT Council, and the function of the mechanism was to examine the impact of trade policies on the multilateral trading system (GATT 1991).

emerged especially between the EU countries and the US on agriculture, services, and anti-dumping rules that prevented the conclusion of an agreement within the original three-year schedule. In the end, the issues on market access for goods and services were however resolved, and the Uruguay agreement was signed in 1993 by 125 countries, and ratified in 1994. The arrangement covered almost all of international trade, and as a major organizational change, the ratification of the agreement also resulted in the formation of the WTO.

4.1.2 The World Trade Organization

While the GATT had been a forum based on 'rounds' of negotiations and provisional agreements, the WTO emerged as a permanent organization with a legal basis and binding agreements. The trade regulations of the World Trade Organization rest on three 'pillars': 1) the revised and extended GATT, 2) the General Agreement on Trade in Services (GATS), and 3) the agreement on Trade Related Intellectual Property Rights (TRIPs). The extent of trade issues covered in the WTO is larger, including services and intellectual property and a faster dispute settlement system. All decisions and agreements are negotiated and signed by the member countries and ratified in their parliaments. As such, the WTO is a member-driven organization of 147 countries[58] whose agreements are the legal ground rules for international commerce. Institutionally, it has the same status as the International Monetary Fund and the World Bank, and it is the only global organization that deals with the regulations of global trade with the aim of helping exporters, importers, and producers of goods and services to conduct their businesses. The WTO is thus an international regime that draws on an institutionalised set of rules that allow for durable and goal oriented forms of inter-state cooperation (Otto 2000, 40).

The main functions of the World Trade Organization include administering the trade agreements made at the WTO, providing a forum for trade negotiations, handling trade disputes, monitoring national trade policies, providing technical assistance and training for developing countries, and cooperating with other international organizations. These functions are carried out in an organization that comprises Ministerial Conferences every two years (the highest decision making body), the General Council (for more routine work), and various other councils, committees, working parties, and negotiating groups. The Secretariat, located

[58] As of the end of 2003. The membership includes the European Communities (represented by the Commission) since 1995, and seven ASEAN countries that were contractors to the GATT by 1994 (in order of accession): Burma, Indonesia, Malaysia, Singapore, the Philippines, Thailand, and Brunei. The accession of Cambodia was agreed at the WTO Ministerial Meeting in Cancun in September 2003. The other ASEAN members have obtained observer status in the WTO; Vietnam since 1995, and Laos since 1998 (WTO 2003b).

in Geneva, is responsible for administering the work; however, the central bureaucracy has no decision-making power over the member countries.

For most industrial goods and for services, the GATT Uruguay Round agreements had already provided reductions in tariffs as well as an increase in the number of bound tariffs, that is, maximum tariff levels that a country is committed to in its imports.[59] Further tariff reductions and trade liberalization were agreed in the WTO after 1995. The Singapore ministerial conference of 1996 negotiated on information technology products, and the Information Technology Agreement (ITA) was signed in 1997 (Table 5.). The agreement eliminated import duties on the information technology products (by the year 2000), among the 40 countries that account for over 90 % of trade in the sector. Electronic commerce was discussed in the 1998 ministerial conference in Geneva; however, no major agreements were made. The Seattle conference of 1999 faced difficulties from disagreement among member countries on issues concerning the plan to launch new multilateral negotiations at the start of 2000, as well as from activist demonstrations opposing the meeting, and no ministerial declarations were made. In the meantime, new members were approved, especially from transitional Eastern Europe and the ex-Soviet Union region.[60]

In 2001, the Doha meeting resulted in three major declarations: 1) to launch new multilateral trade negotiations (MTN IX) on an extensive range of issues to be concluded in 2005, 2) on trade related intellectual property rights (TRIPs) and public health, regarding patent rules on pharmaceutical products,[61] and 3) on extensions to transition periods provided for developing countries to implement earlier WTO agreements (Table 5.). Additionally, the accession of China and Taiwan (Chinese Taipei) to the WTO were approved. The so-called Doha Development Agenda was adopted regarding the new MTN, listing ongoing negotiations on agriculture, services, market access, and trade-related aspects of intellectual property rights within the WTO. The EU's role was deemed important in preparing and supporting the launch of the agenda (WTO 2002a).

[59] In the GATT / WTO multilateral framework, tariff bindings by the member countries have been one of the main functions in tariff negotiations.
[60] However, Russia is not a member of the WTO.
[61] The declaration on TRIPs and public health was the result of concern about the capabilities of developing countries to fight severe epidemics in the face of their difficulties to acquire medicines produced and protected by the TRIPs in the industrial countries. The declaration called for flexibility in applying the agreement which should not prevent developing countries from taking measures against epidemics such as HIV/AIDS, tuberculosis, and malaria.

Table 5. Ministerial conferences of the WTO, 1996-2003.

Place year	*Major issues*	*Major agreements and declarations*	*New members (in addition to GATT signatories)*
Singapore 1996	Information technology products	Information Technology Agreement (1997)	1995-96: Bahrain, Bulgaria, Ecuador, European Communities, Ghana, Jamaica, Sierra Leone
Geneva 1998	Electronic commerce	Declaration on Global Electronic Commerce	1997-98: Dem.Republic of Congo, Kyrgyz Republic, Mongolia, Panama
Seattle 1999	Launch of new MTN (failed)	(No agreements)	1999-2000: Albania, Croatia, Estonia, Georgia, Jordan, Latvia, Oman
Doha 2001	Patents; Developing countries; Agriculture; Launch of new MTN	Launch of new MTN; TRIPS and public health; Extensions for developing countries	2001-02: People's Republic of China, Chinese Taipei, Lithuania, Moldova
Cancun 2003	Doha Development Agenda; Agriculture	(No agreements)	2003: Armenia, Former Yugoslav Rep. of Macedonia; Cambodia; Nepal

Source: Compiled from WTO (2003c).

In addition, the Doha agenda included preparations for negotiations on the issues of trade and investments, trade and competition policy, and government procurement. Negotiations are ongoing on WTO rules related to anti-dumping, subsidies, and regional trade agreements. Other fields under negotiation are dispute settlement, and trade and the environment. Furthermore, the General Council is working on the issues of electronic commerce and small economies, and new working groups are being established to tackle the issues of trade, debt and finance, and the issues of trade and transfer of technology. The Cancun Ministerial meeting of 2003 attempted mainly to take stock of progress in negotiations and other work under the Doha Development Agenda (WTO 2003c). The negotiations, however, ended without accord, mostly due to disagreements in agricultural trade policies. Considering the topics discussed in Cancun, it is notable that the issue of trade and investments, one of the topics negotiated at the Singapore meeting, remained an unresolved question for the multilateral negotiations. The evolving patterns of international trade do, however, call for a new analytical approach to the issue, as they show an increasing link between trade and foreign direct investments.

4.1.3 Regionalism and the GATT / WTO

Specific rules on trade preferences granted on a regional basis had already been agreed by the contracting countries from the inception of the GATT. This exception to the basic MFN rule had been written into Article XXIV of the GATT which allowed for preferences within regional trading arrangements with certain provisions. These provisions asserted that “substantially all” trade barriers among members are removed; that trade barriers against non-members are not made more restrictive than before; and that integration is realized ‘within a reasonable length of time’, usually 10 years. However, there were no provisions on geographical proximity or contiguity (Frankel 1997, 3-4). It is noteworthy that while the major share of previous or existing regional trade agreements include countries that are geographically proximate, also several free trade agreements have been established among countries that are located far from each other.

Altogether 125 regional trade agreements were notified to the GATT during its history (1948-1994). Most of these were bilateral free trade agreements between geographically proximate countries.[62] After the establishment of the WTO in 1995, the number of regional trade agreements doubled, and in early 2004, over 170 agreements were in force, with an additional 70 estimated to be operational although not yet notified. Taking into account the number of agreements that are reportedly being planned or already under negotiation, the WTO (2004) estimates that by the end of 2005, the total number of regional trade agreements will be close to 300. These agreements have a bearing on matters such as free trade areas, customs unions, and partial scope agreements, and over half are of the simplest type, that is, bilateral agreements between two parties, such as the New Zealand – Singapore free trade agreement. Plurilateral agreements and those that include a party that is a regional organization itself are, obviously, more complex. The scope of regional trade agreements varies significantly, extending from a limited range of products between two or more countries, to various trade-related provisions beyond mere tariff reductions. Such provisions may include rules on investment, competition and standards, or specifications on environment and labour (WTO Secretariat 2002, 4-5). Some of them contain commitments on trade in services, in addition to the traditional trade in merchandise goods.

According to the WTO Secretariat (2002), the most significant development currently is the emergence of a new category of agreements: regional trade agreements in which each party is a distinct regional organization in itself. Several rounds of inter-regional trade negotiations have been ongoing, for example, between the EU and Mercosur, or between the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). This implies that a regional trade association has been institutionalised in order to ‘speak for itself’. For the EU, the community-wide negotiating mandate has already been

[62] A large number of these had been terminated or expired, but 51 were still in force in 2002 (WTO Secretariat 2002, 3).

institutionalised, and the Union is represented by the Commission in the multilateral negotiations, in addition to the representation and membership of each EU member country in the WTO. This will be further discussed in the following sections that illustrate both the EU and ASEAN as trade organizations and the interregional negotiations between the two. The focus will be on integration in trade policies within and cooperation between the two groupings during the last decade, in order to extend the analysis into the incidence of trade policies as to the actual trade flows in Chapter 5.

Reflecting the theoretical debate over multilateralism and regionalism, and the actual evolvement of the two during the last decade, there seems not to be any major contradiction between the two trends. The multilateral framework has both expanded and deepened during the 1990s, while the number of regional trade agreements has also increased substantially. Rather, the two phenomena appear to be mutually evolving, being dependent on the strategies of states in the changing world trade environment (cf. Michalak & Gibb 1997). While the multilateral setting provides the eventual negotiating ground for global trade policy, regional integration endows states with more bargaining power to advance their trade interests at the multilateral level. Considering the multitude of issues dealt with at the GATT/WTO and the growing number of member countries and regional trade agreements, the task is, however, most challenging.

4.2 Regionalism and the EU's common trade policy

Considering the case of the EU as a trade organization, this section highlights the EU trade regime, notably the institutional setting of the EU's trade policy making, and the changes in the extent and types of trade policies during the period of intensified regionalism in the 1990s. The findings illustrate how economic integration in the EU has affected the institutions of its trade policy making, how external trade relations are administered on a pan-EU level, and how trade policies have been integrated in practice from 1990-2002. The EU has been characterized as becoming an actor in the multilateral setting (cf. Archer 1983; 2001) while it has evolved from a customs union to a monetary union (cf. Balassa 1961) during the period under investigation.

4.2.1 Customs union and Common market

Together with monetary and development policy, trade policy forms a central pillar of the EU's external relations. The Community has exclusive competence over the common trade policy of the member countries, and, as a customs union, it holds no tariffs in internal trade and it levies a common external tariff and trade policy vis-à-vis third countries. The purpose of the EU's trade policy is to promote the economic and political interests of the Community, and with its large membership, the decision-making involves a complex institutional setting among the EU institutions and the member countries. The European common trade policy has its origins in the European Coal and Steel Community (ECSC) established in 1952 and in the subsequent European Economic Community (EEC) that was established by the Rome Treaty ('the EEC Treaty') in 1958 to form a customs union among six countries (Belgium, France, Germany, Italy, Luxembourg, and Netherlands).[63] The harmonized trade policy has been vested in the European Commission since 1968 when intra-tariffs were removed and common external tariffs were introduced.[64] Regarding the original EEC, Widgrén (2003, 11) pointed out that the initial decision of countries to establish a customs union rather than a looser free trade area was essential for the EEC's institution-building, thus creating the institutions for regional decision-making.[65]

[63] Despite the declared economic aims of the European integration process, the underlying objective was to maintain peace since the continent had been the scene of two world wars.
[64] In 1974, Balassa estimated that the EEC's trade creation in manufactures was 18 billion USD, while trade diversion was -3.1 billion USD (El-Agraa 2004, 134).
[65] A free trade area does not require joint decision-making over extra-regional tariffs, while a customs union does.

The common foreign trade policy in relation to third countries is based on Article 133 of the Rome Treaty and covers changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalization, export policies, and measures to protect trade – such as those in the case of dumping or subsidies. Embracing both exports and imports, its aim is to ensure an equal competitive edge for European industries vis-à-vis the world market. The operation of domestic industries in the home market is guaranteed by common import regulations which are based on principles agreed at the GATT. The most protected sectors have been agriculture and textiles. Agricultural products are strongly protected by high tariffs, by quotas, and by the budgetary spending under the Common Agricultural Policy (CAP). Textiles and clothing are subject to higher-than-average tariffs and quotas. The union also restricts imports of many other commodities, such as steel, industrial imports from China, and imports on dual-use goods.

The commercial policy framework based on the Rome Treaty of 1958 has undergone only one major reform, under the Single European Act (SEA) of 1987. The SEA set the target of forming a common market by the end of 1992, implying that border controls were removed in European internal trade, and that all national trade restrictions against third countries were abolished. The internal market was based on four 'freedoms': the free movement of goods, services, capital and people. These form the core of the European competition policy, the central objective of which is to improve the efficiency of the European economy by removing economic barriers among the member countries. The removed barriers to trade included physical barriers, such as border controls and customs procedures, and technical barriers, such as differences in trade regulations.

Following the SEA, the European Single Market was established by the Maastricht Treaty in 1992. The resulting Treaty on European Union (the 'EU Treaty') came into force on 1 November 1993, basing the Union's activities on three 'Pillars': (1) The European Communities, comprising the European Coal and Steel Community, the European Economic Community, the European Atomic Energy Community, and the subsequent Treaties and Acts modifying or supplementing them, notably the Single European Act of 1987, (2) Common foreign and security policy; (3) Home affairs and justice. The treaty embraced the objectives of an economic and monetary union, including the introduction of a single currency in 1999 and the launch of euro banknotes and coins in 2002 in line with European Monetary Union

(EMU), and a common policy on development cooperation.[66] The integration process has thus followed the stages distinguished by Balassa (1961), evolving from a customs union (EEC) to a common market (the European Single Market), and to a monetary union (EMU). In the meantime, the enlargement of the community had brought new members into the customs union and the common market from the 1970s onwards.

4.2.2 Institutional basis of trade policy coordination

During the early 1990s, changes in the EC's trade regime were inspired or required by four major developments: the Internal Market Programme, changing relations with the transitional Central and Eastern European countries, the signing of new preferential trading agreements, and developments in multilateral trade negotiations within the Uruguay Round (GATT 1993a, 64). In the late 1990s, major changes related to the institutional developments of the EU itself: the movement towards economic and monetary union, further enlargement, and reforms in key sectors such as agriculture and services. The latest phase also witnessed the growing role of the EU in the multilateral setting, as the Union played a central role in the launch of a new round of trade negotiations within the WTO in 2002. At the same time, the EU's own trade regime concerning tariffs and quotas became further liberalized, due to the commitments made at the WTO.

Executive and decision-making bodies

During the 1990s, there were no major changes in the organizational basis of trade policy formulation.[67] The common trade policy is prepared in the main EU institutions: the Commission is responsible for the initiation, negotiation and implementation of trade policy, the Council of Ministers makes the final decisions by voting (to approve or disapprove the proposals by majority), and the Parliament is involved in the co-decision procedure in cases specified in the Treaty, or is kept informed of the negotiations. The Commission is advised by the 'Article 133' Committee which is composed of trade policy officials from member countries and from the Commission. The Presidency chairs the Committee proceedings, where the agenda typically includes Commission proposals or documents relating to international trade negotiations, reports on negotiations, disputes, and specific trade problems

[66] The EU treaty did not directly change the trade policy framework, but the share of member countries' trade in manufactured items with other member countries was estimated to have increased by 3 % after the Single Market (based on an ex-ante simulation by the CEPR and the EU Commission in 1997). The impact included both internal and external trade creation based on the effect of reductions in trade costs and the indirect effects of increased competition and reductions in price-cost margins on the internal market (El-Agraa 2004, 130-132).
[67] The enlargement of the EU to incorporate Austria, Finland and Sweden in 1995 resulted in mainly technical adjustments to EU institutions (WTO 1995a, 11).

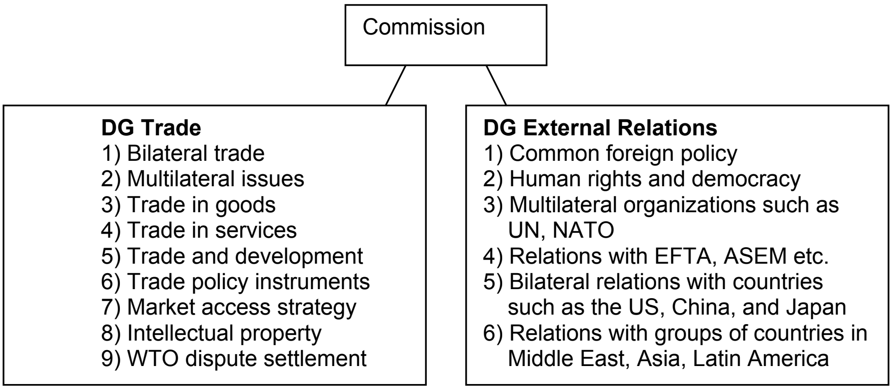
encountered by member states. The member countries negotiate common trade policy within an extensive committee system. In practice, member countries form groups that strive for particular policies. It has been argued that over the years, authority over foreign economic policy of the EU has shifted from member states to the Union, where treaty reforms concerning foreign economic policy have been very modest (Young 2000). On the multilateral level, the European Commission represents the entire EU in trade negotiations e.g. at the World Trade Organization. The negotiating mandate was provided to the Commission by the Council of Ministers in 1999 (WTO 2000a). Hence the EU itself clearly has the role of an actor in multilateral trade forums (cf. Archer 1983; 2001), since it negotiates as a single unit and in its own right for the whole membership, in addition to each member country also being represented in the WTO. The EU fulfils the criteria of an actor, as it comprises stable and coherent decision-making machinery, the central institution being an entity that is distinguishable from its member states (ibid.).

Practical organization

The coordination of the EU's foreign trade and foreign policy is separated within the EU institutions (Figure 7.). The practical organization of external trade policy is coordinated within the Commission, in the Directorate General (DG) Trade, which is responsible for defining the trade interests of the European Community in both defensive and offensive terms. DG Trade administers the various policy instruments relating to exports and imports, in addition to negotiating bilateral, regional and multilateral agreements and monitoring the implementation of international trade agreements using the WTO dispute settlement system.

The other side of foreign relations, common foreign policy and diplomacy, are coordinated at the Directorate General (DG) External Relations which administers the EU's political and security relations, coordinates relations with organizations such as EFTA and ASEM and with groups of countries in the Middle East, Asia (including ASEAN) and Latin America, as well as the North-South Cooperation. Reflecting the size of the EU institutions, the organization of the tasks relating to external trade overlaps somewhat, which is mirrored in the division of the departments and the respective commissioners responsible for them. Furthermore, Commissioners of trade and external relations report to the Commission and the European Parliament, while the 'High Representative' in charge of Foreign and Security Policy answers to the Council of Ministers. Ostensibly, this is a challenging organisational structure for managing the multitude of tasks within external relations of the EU, and could generate confusion over responsibilities.[68]

Figure 7. Organization of DG Trade and DG External relations within the EU.



Sources: http://europa.eu.int/comm/trade; http://europa.eu.int/comm/external_relations.

From a trade policy perspective, the EU has been referred to as '*sui generis*', the only one of its kind. The specific features of its political structure and decision-making make it different from any other actor in the international economy: the EU is more binding than any other international organization, but less binding than a state. In terms of economic structure, the EU is characterised by strong cartels and interest groups of businesses and firms. The Union does not have a common political opinion in the sense that a state does, based on collectivity, a sense of community, and democratic institutions. Thus the EU lacks a political counterweight vis-à-vis large companies in the planning and implementation of its trade policy. In these circumstances, the EU trade policy becomes a series of *ad hoc* decisions, where large established companies have a powerful role (Mäkelä 1999, 87).

Compared to the other major actors in international trade, the United States and Japan, the relative status of the EU has however increased. This was a result of the EU integration, as the member countries (in the Council of Ministers) agreed on granting the Commission a community-wide mandate and representation in the WTO in 1999. However, the decision-making in EU trade policy is a complex process within a large system of member states and national interests, compared with the US or Japan, for example, where decision-making in

[68] For example, the Economist (January 22, 2000) has questioned whether the 'external relations' commissioner should be responsible for both trade and foreign policy. This is also one of the issues in the Convention debate.

trade policy is centralized on the president and the Ministry of Industry and Trade (MITI), respectively (cf. Grant 1993a).

Overall, the EU operates a multitude of trade policies based both on industrial interests and development policy preferences. Tariffs are mainly levied on imports of raw materials and components which are available in the EU region. In addition, the EU implements a variety of non-tariff barriers, including quantitative restrictions (quotas), trade controls, surveillance measures, trade sanctions, and trade defence instruments. The major changes in the extent and types of the EU's trade policies have been related both to internal integration and external commitments, notably the Internal Market Programme and agreements made at the GATT/WTO.[69] The latest phase of EU trade policies could be entitled the 'new multilateral liberalization', resulting from the GATT Uruguay round trade negotiations.

4.2.3 The tariff system

Largely due to multilateral agreements, the level of the EU's import tariffs[70] declined gradually during the 1990s. At customs clearance, goods are classified either under the Tariff of the Communities (TARIC) for importation, or under the Combined Nomenclature (CN) for exportation. Since 1994 the EU has applied a Community Customs Code to all trade in goods between the Community and third countries, administered by the customs authorities of the member countries. There were 10,399 tariff lines at eight-digit CN level in 2002, all bound at the WTO, and, in 2004, the TARIC contained a nomenclature with about 15,000 tariff lines, showing all third country and preferential duty rates applicable (EU 2004b). The Commission had announced a new strategy for the customs union in 2001, in response to the growing volume of trade and the need for faster customs services and aimed at upgrading the EU's fully computerized system of customs declarations (WTO 2002a).

The EU's simple average tariff for industrial products fell from 6.4 % in 1988 to 4.1 % in 2002.[71] At the same time, tariffs for agriculture were high, averaging 25 % in 1995, and 16 % in 2002, due to the fact that they were only included in the tariff system in 1995 from an originally high level to compensate for the gradual elimination of non-tariff restrictions on agriculture. Tariff peaks (triple the average) were in place for meat, dairy products, processed

[69] Up until the late 1980s, trade policies of the EU had been dominated by 'old' policies such as the Multi-Fibre Agreements, and the 'new protectionism' based on non-tariff barriers such as anti-dumping actions and voluntary exports restraints.
[70] The EU annually publishes the basic MFN tariffs for the next calendar year in the Official Journal.
[71] The figures for 1995 and 1999 were 6 % and 4.2 %, respectively (WTO 1995a; WTO 2000a).

and unprocessed cereal products, and processed fruit and vegetables (WTO 1995a; WTO 2002a). In connection with the accession of Austria, Finland, and Sweden in 1995, the EU negotiated in the GATT to compensate its trading partners for the changes in access conditions, i.e. the differences in tariffs and non-tariff measures between the three accession countries and the EU. As a result, tariffs were substantially reduced or eliminated on a large number of items, especially on chemicals and electrical components (WTO 1997a, 30).

As to indirect taxes, a value-added tax (VAT) is applied to all imports in the EU countries; however, VAT regimes and rates vary from country to country. All imported products are subject to VAT according to national treatment and must be declared by the buyer. The standard rate has been highest in Denmark and Sweden (25 %) and lowest in Luxembourg (15 %) in 1999. Since 1993, trade between the member countries is called 'intra-Community supplies of goods', being exempt from VAT in the member state of origin, but taxable in the member state of destination. In addition, all EU members collect excise duties on 'luxury products' such as cigarettes, alcohol, fuels, and motor vehicles. National rates are applied and major variations exist, especially for wine.[72]

Due to the EU's numerous preferential trade agreements and arrangements, trade relations with only nine countries are based solely on the most-favoured-nation principle, i.e. Australia, Canada, Hong Kong, China, Japan, Republic of Korea, New Zealand, Singapore, Taiwan (Chinese Taipei), and the United States. These countries are, however, the largest trading partners for the EU, accounting for 45 % of the Union's extra-EU imports in 2002.

4.2.4 Quantitative restrictions on textiles and clothing

Quotas on textiles and clothing have been one of the major EU trade policies, which were, however, subject to multilateral restructuring during the 1990s. As discussed earlier, the Multi-Fibre Arrangement had been the main policy concerning international trade in textiles and clothing up to 1994. Import quotas had been negotiated for the EC as a whole and subsequently allocated to the member states. The EC had bilateral restraint agreements under the MFA with 20 countries, including six ASEAN members (GATT 1993, 209). As a result of the GATT 1994 negotiations, all quotas on textile and clothing were carried over from the longstanding MFA into the new Agreement of Textiles and Clothing arrangements. The EU

[72] For wine, seven member states apply a zero duty, while the highest duties amount to over 200 euros per hectolitre (in Sweden, Ireland, Finland, and Great Britain).

started to eliminate textile quotas with the aim of integrating all textiles and clothing products into the 'GATT 1994' by the end of 2004. Some quotas were eliminated in 1994 and in 1998; however, only about 18 % of textile imports were integrated into the tariff system by 2002.[73] Despite quotas being liberalized or lifted on 12 of the 52 product categories under the ATC between 1997 and 2000, this represented only 5.4 % of the restricted imports, and only benefited a small number of developing countries (WTO 2000a). Thus liberalization on textiles was modest, and a major part of the commitments made by the EU have to be accomplished by the end of 2004.

In 2000, the EU still maintained quotas under the ATC on imports from 15 countries, including Indonesia, Malaysia, the Philippines, Singapore, and Thailand. In addition, the EU maintained quotas under bilateral agreements with five countries, including Vietnam, and surveillance of textile imports was applied under agreements with 22 countries, including Cambodia, Laos, and Vietnam. The EU also continued to sustain quotas especially with Eastern European countries under the Outward Processing Traffic (OPT) arrangements where a product is exported from the EU to a third country for processing and is imported back to the Union.[74] The OPT can be implemented when the union restricts textile and clothing imports from a certain country by either bilateral agreements or unilateral action. The OPT imports are regulated by specific regulations, and restrictions are levied on certain product categories.

4.2.5 Policies affected by regionalism

While the EU tariffs and textile quotas were affected by multilateral liberalization, other EU trade policies were subject to regionalism that had impacts on the geographical scope of the policies. The major impacts of regional economic integration in the EU's trade policies were: the new preferential trading agreements both in Europe and on the global level; the harmonization of import quotas on the EU-wide level through the fulfilment of the EU common market; the initiation of numerous anti-dumping measures especially against Asian countries; new regulations in the EU standards on safety and environmental issues from 2000-

[73] In addition, the so-called voluntary export restraints (VER) were eliminated, together with all 'grey-area' measures which were to be phased out in fixed timetables, by the end of 1998 (WTO 1995a, 64).
[74] The OPT arrangements are only available to established producers who manufacture in the EU region; by prior authorization, they are allowed to shift part of the processing to third countries, involving exports and imports. The OPT quotas have been allocated notably to Central and Eastern Europe (up to 1998) and to Belarus and the Ukraine (from 1999 onwards) (WTO 2000a, 55).

2002; and the initiation of the Market Access Strategy in 1996 to scan restrictions in export markets. These are presented in more detail below.

4.2.5.1 Preferential schemes and arrangements

From 1990-2003, the framework of the EU's preferential trade schemes became more complex (Table A4. in the Appendix). Since the EU's trade policy varies on a country-to-country basis, it represents a complex collection of preferential arrangements and schemes.[75] The multi-layered network of agreements covers the majority of the EU's trade partners and includes customs unions, free trade areas, and non-reciprocal preferential trading arrangements. The agreements have evolved both from commercial interests and wider geopolitical objectives, including the preparation of neighbouring East European countries for integration into the Union, and the provision of assistance to former territories (WTO 1997a, 20). In this vein, trade preferences have been based either on proximity (as in the case of the Eastern European countries) or on development policy (the African, Pacific and Caribbean countries of the Lomé and Cotonou conventions).

The European Economic Area came into force in 1994, providing total free trade for both goods and services (with exceptions in agriculture and fisheries) and the free movement of persons and capital, as well as the deepening of other economic links and the integration of legislation between the EU and Norway, Iceland, and Liechtenstein.[76] Also, the so-called Europe Agreements were signed with the transitional East European countries with the aim of eventually integrating them into the Union.

With less developed countries, existing arrangements such as the Lomé convention were extended. New commercial strategies for relations with Asia and Latin America were launched in 1994 (WTO 1995a) and closer ties were established with the United States under the New Transatlantic Agenda, as well as with Mexico, South Africa, Mercosur, and Chile under specific arrangements (WTO 1997a). In connection with the multiple preferential arrangements and their conformity with the WTO, the EU also requested clarification of WTO regulations in the field of preferential arrangements (WTO 1997a). Based on development policy, the most beneficial treatment was granted to, firstly, the least developed countries and the Overseas Countries and Territories (OCT); secondly, the ACP countries and

[75] In principle, the variation according to the receiver country is in opposition with the GATT's standard MFN policy of non-discrimination.
[76] The EEA also included Austria, Finland, and Sweden, who became members of the EU in 1995.

free trade area partners; and thirdly, countries enjoying the GSP tariff reductions (WTO 2002). In this 'pyramid of privileges' (the hierarchy of EU preferences towards developing countries) the ASEAN members were located at the lowest level, basically benefiting either from the GSP or from the basic MFN treatment in their exports to the EU.

The Generalized Systems of Preferences

Like all industrial countries, the EU runs the Generalized System of Preferences which allows exports of developing countries into EU either duty-free or on reduced tariff rates. The EU's GSP has been applied in three to four year periods with schemes for industrial and agricultural products. In 1995, the EU's GSP was applied to 145 countries or territories and regional accumulation was applied for groups of developing countries, such as ASEAN.[77] Along with the end of the GATT Uruguay Round negotiations, the EU launched a revision of its GSP and a modulation system based on categorizing import products according to their sensitivity: the more 'sensitive' the product was for the EU's industries, the smaller the tariff reduction permitted.[78] Furthermore, the graduation mechanism was set up both in industrial products[79] and in agricultural products,[80] implying that GSP preferences were eliminated in those sectors that had become competitive in the world markets.

In 2002, the number of the EU's GSP beneficiaries had increased to 179 countries and territories, many of which also benefited from preferences under other agreements (WTO 2002a). The scheme was revised and the 'preference modulation' was simplified to include two categories of products: those denominated 'sensitive' that include many agricultural products, textiles and textile articles, and iron and steel; and those denominated 'non-sensitive' that include all other products.[81] The new regime also incorporated the EU's

[77] Since the GSP is subject to 'rules of origin' to ensure that the added value of the final product has, to a sufficient degree, originated in the exporter country, regional accumulation allows the added value to cumulate from intermediate production in other ASEAN countries for the exports of the final producer to be eligible for GSP treatment.

[78] From 1995-2001, the GSP tariff was 85 % of the common MFN tariff for "very sensitive products", 70 % for "sensitive products", 35 % for "semi-sensitive products", and 0 % for "non-sensitive products".

[79] Council Regulation (EC) No 3281/94 of 19 December 1994 applying a four-year scheme of generalized tariff preferences (1995 to 1998) in respect of certain industrial products originating in developing countries. Official Journal L 348, 31/12/1994. [Online.] Available at: http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=31994R3281&model=guichett (Visited 14.6.2002)

[80] Council Regulation (EC) No 1256/96 of 20 June 1996 applying multiannual schemes of generalized tariff preferences from 1 July 1996 to 30 June 1999 in respect of certain agricultural products originating in developing countries. Official Journal L 160 , 29/06/1996. [Online.] Available at: http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=31996R1256&model=guichett (Visited 14.6.2002)

[81] For sensitive products, the MFN ad valorem duties are either reduced by a flat 3.5 percentage points (with certain exceptions, notably textiles and clothing) or specific duties are reduced by 30 %. Non-sensitive products are duty free (WTO 2002a, 25).

"Everything-but-arms" (EBA) initiative that took effect in 2001 and granted duty free treatment for least developed countries for all products except arms, however with temporary exceptions in rice, bananas, and sugar (WTO 1995a; WTO 2002a).

Preferential arrangements and ASEAN

As the framework of the EU's preferential arrangements became more complex during the 1990s, the relative status of the ASEAN countries as beneficiaries further declined. According to Ljungkvist (1998), the revision of the GSP in 1995 brought some advantages for the ASEAN countries, including better transparency, stability, ease of implementation, and reduced administrative costs. Furthermore, the rules of origin were made more generous, which was important for the ASEAN members. However, the more developed members have encountered the 'graduation' from the GSP in specific industries.[82] Based on the graduation argument, the EU excluded Singapore's exports from the electronic and electrochemical sectors of the GSP in 1996. Two years later, the EU excluded all of Singapore's exports from the GSP, given the advanced stage of development of the country's industries. However, regional accumulation for products manufactured in Singapore, but processed and exported from other ASEAN states, was still applied. In 1999, the graduation mechanism was applied to specific export sectors of Thailand, Malaysia, Indonesia, the Philippines, and Brunei. The goods coverage varied from country to country according to the stage of development in the industry in question.

4.2.5.2 Quantitative restrictions

The harmonizing of quotas and other NTBs was a direct outcome of the EC's integration process related to the Internal Market Programme. Up until the early 1990s, the member countries had applied national quota systems on imports, with the largest numbers of quotas implemented by France, with 71 cases and Italy, with 48 cases (GATT 1993a). Many import restrictions on industrial products were remnants of the member states' regimes before the founding of the Community. When the Europe Agreements entered into force in 1992, most restrictions to imports from the former 'State-trading countries', i.e. centrally planned economies of the transitional Central and Eastern Europe, were abolished. The total number of quotas decreased to less than half (GATT 1993a, 67) and the remaining measures focused on fruit and vegetables, and consumer electronics. Also, negotiations were ongoing within the

[82] The GSP treatment and the graduation issue were at the forefront of EU-ASEAN trade negotiations during the 1990s; this will be further discussed in section 4.4.

EC on establishing a common import regime for a number of sensitive products. By 1995, all restrictions previously maintained by the member states had disappeared without substitutes; instead, Community-wide quotas were applied on a number of products. Agricultural and fishery products subject to Community quotas or surveillance systems included certain varieties of canned sardines and tuna, bananas and apples. In addition, the EC restricted the imports of textiles and clothing, specified imports from China (certain types of footwear, tableware, car-radios etc.), and specified steel, iron, and aluminium products (WTO 1995a, 57-59). According to the Commission, the general principle of the EU's import regime was to remove all quotas except those on textiles and clothing in 2000 (WTO 2000a, 52).

4.2.5.3 Other policies towards imports

Besides quotas, other NTBs applied by the EU were affected by regionalism. Import prohibitions have been based on protection of the consumer or environment or on animal welfare, and have been applied to dangerous substances, such as asbestos or certain chemicals, or to specific species, such as whales (WTO 2000a, 51). Licensing has been required where products are subject to quotas, safeguard measures or import surveillance, typically in agricultural products.[83] Prior surveillance has been applied to certain iron and steel products. In addition, particularly anti-dumping measures, trade defence and standards have been affected by regionalism, and are discussed in more detail below.

Anti-dumping actions

For two decades, the EU has actively implemented actions against dumping,[84] and is one of the most active users of this measure together with the United States. The EU's detailed legislation on dumping concerns trade in both agricultural and industrial goods (except products covered by the ECSC Treaty up to the end of 2002)[85] and was amended in 1995 in the light of the GATT 1994 Anti-Dumping Agreement. From 1990-2002, the EU initiated 20-66 new investigations every year, and had about 150-200 measures in force annually (Table 6.). Approximately half of these were towards imports from Asia, mainly China. Along with

[83] Cereals, rice, beef, veal, sheep-meat, goat-meat, milk and products, sugar, processed fruit and vegetables, bananas, olive oil, seeds, and wine (WTO 2000a, 53).

[84] Between 1980 and 1990, the EC conducted a total of 904 anti-dumping investigations, which involved 94 countries. Almost half of the cases were against developed countries while a quarter concerned developing countries; the rest were against transitional East European countries. In the peak year of 1986, the EC had 207 anti-dumping measures in force.

[85] Since "dumping" means exports of a product at a lower price than the general price in the exporter's domestic market, anti-dumping actions aim at studying whether an alleged case of dumping has occurred and whether additional duties should be imposed on these imports.

the European Economic Area agreement, the EC had suspended all anti-dumping actions towards the participating EFTA members in 1994, since these countries had implemented the EC competition law by entering the EEA (WTO 1995, 63). In 1999, the number of initiated measures rose threefold to 66, which subsequently increased the number of measures in force for the following years. The product categories included iron and steel products, consumer electronics, and chemicals (WTO 2000a). The latest data indicates that the EU had the second largest number of measures in force, after the United States. The most affected countries were China, Taiwan, and Thailand (WTO 2002a).

Table 6. Anti dumping actions by the EU towards all imports from 1990-2002 (number of cases).

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Initiations	43	20	39	21	43	33	24	23	21	66	31	27	20
Measures taken	27	22	16	19	21	13	26	32	31	40	41	15	37
Measures in force	139	142	158	150	151	147	163	153	162	192	175	175	174

Note: Measures in force since 1.1.1980.
Sources: GATT (1993a); WTO (1995a; 1997a; 2000a; 2002a); EU (2003).

An example illustrates the country and product coverage of the measures. According to the Commission's annual report, measures in force in 1997 covered 63 products and 33 countries, of which 41% concerned ‘non-market economy’ countries, including China, with 32 measures and Russia, with 14 measures. The other countries most concerned were South Korea and Thailand, with eight measures each; Poland, with seven; Japan and Malaysia, with six measures each; and Brazil, Taiwan and Indonesia, with five measures each.[86] Typically, about 40 % of investigations are terminated without measures being taken. In some cases, industry-to-industry understandings may mitigate import pressure and terminate anti-dumping proceedings (GATT 1993a, 75). Also, the number of anti-dumping actions taken does not directly reflect the competitive environment of a given sector but the mere existence of the procedure may act as an impediment to dumping in other sectors. Thus the indirect effect prevails, while the direct impact remains relatively small. Although actions against dumping are rather visible and radical, the share of imports affected by the dumping regulation has been marginal, only about 0.5 % of the overall annual import value of the EU (Jalava 1999, 27).

[86] The Official Journal of the EC, various issues.

Trade defence and safeguard measures

Emergency trade measures, including safeguard, surveillance, and countervailing measures, have been used relatively infrequently by the EU. The EU's safeguard legislation was subject to a major review in 1994 to incorporate the WTO Agreement on Safeguards, and several restrictions were abolished during the latter part of the decade. The agreement required, for instance, the elimination of all grey area measures, such as voluntary export restraints (WTO 1997a, 56-57).[87] In the early 1990s, there had been some cases of safeguard measures in agricultural products and fish, and the EC had negotiated new VERs on sheep-meat and textiles. The earlier voluntary export restraints on steel products had expired and the surveillance measures on machine tools from Japan had been discontinued in 1992; however, new VERs on motor vehicles had been initiated with Japan in 1991, and these 'consensus' arrangements limited Japanese car exports to the EU up until 1999. In industry, the Commission initiated a safeguard investigation on 21 steel products in response to the US safeguard action on imports of steel in 2002, anddispute settlement proceedings were also initiated (WTO 2002, 37). Countervailing measures have rarely been used in the EU, although in 2000 there was an increase in the number of measures in force (17 cases in 2000, compared to six cases in 1999). In almost all cases, the products were also under anti-dumping investigation; among exporters, India was most affected.

Standards and technical requirements

The EU has pursued a policy on technical rules and standards that is consistent with the WTO's Technical Barriers to Trade (TBT) agreement. Product regulations of the EU are of two main types: 'old approach' product-specific regulations with detailed and specific technical requirements, applying especially to motor vehicles, chemicals, food products, and pharmaceutical products; and 'new approach' regulations to meet health, safety, labour, and environmental objectives. Regulatory legislation relates to chemical products, pharmaceutical products, food, industrial products, labelling, and waste. By 2000, the EU had negotiated and/or concluded agreements[88] with seven candidate countries to ensure full conformity with the EU's technical regulations and European standards procedures. In the field of conformity assessment, Mutual Recognition Agreements (MRAs)[89] were in force with Australia, Canada,

[87] In contrast, the WTO Agreement on Agriculture permitted the imposition of "snap-back" tariffs for too low import prices or too high import volumes on certain agricultural products, notably some meat and sugar products.

[88] "Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products", PECAs.

[89] The agreement facilitates trade by authorizing both parties to test and certify products against the regulatory requirements of the other party in its own territory and prior to export. The MRA agreement does not imply or require the harmonization of regulations or standards (WTO 2000a, 37).

Israel, New Zealand, and the United States in 2000, and an MRA with Japan entered into force in 2002. Since such agreements have not been concluded with the ASEAN countries, differences in standards may act as barriers to trade between the two regions.

4.2.6 Policies towards exports

In the early 1990s, the EU as a trade bloc was not an active export-promoting actor; however, after 1996 it took a more proactive stance to advance its trade interests in the multilateral setting. Overall, the EU had relatively few policies to promote or restrict exports. Duties or charges were not applied on exports; however, the Community Customs Code also applies to exports (WTO 2000a, 69). Some EU-wide measures existed to promote exports, such as maintaining export offices overseas, organizing trade campaigns, or state aid to exports, but these were typically of lesser importance than national efforts. However, with the aim of helping exporters, the EU initiated a Market Access Strategy in 1996 to scan trade barriers in third country markets (WTO 2000a, 26).

Export promotion

Policies on export promotion were not generally harmonized in the EU. Community-wide export promotion activities were limited and mainly directed to participation in European trade fairs, contracting of market studies, and organization of seminars and conferences. In 1991, some 2.6 million ECU were spent on these; in contrast, Belgium alone disbursed over 9 million ECU in its export promotion activities (GATT 1993a, 101). The trend appeared to continue over the decade. In 1997, most export promotion activities at the EU level had been phased out, except for a trade promotion programme targeted on Japan (the "Gateway to Japan" campaign). No detailed information was available for national export promotion schemes at that time. However, there were indications of budgetary constraints and redirection of activities to fast-growing export markets in Asia (WTO 1997a, 68).

Similarly, the EU did not have a common policy on export assistance, which remained variably within the competence of the member states. The share of export assistance of the total state assistance to industry varied strongly from country to country, being the highest in Finland (55 %) and lowest in Portugal (0 %) for the year 1995 (WTO 2000a, 71; WTO 2002a). The general state aid to various sectors in the EC countries also varied strongly. From 1988-1990, the largest state aid to agriculture was provided by Denmark, while Spain spent most on specific industrial sectors, such as transport (GATT 1993a, 120). On a community-wide level, export subsidies were granted under the Common Agricultural Policy on alcohol and agricultural products, such as milk, meat, eggs, sugar, cereals, fruit and vegetables (WTO 2000a, 71; WTO 2002a, 51),[90] most of which are also exported to the ASEAN countries. Regarding state-trading enterprises, only one exists in the EU region (Gaz de France) that has had an impact on exports of gases. However, according to the Commission, the export monopoly was eliminated in 2000 (WTO 2002a, 51).

Export restrictions

In the early 1990s, export restrictions were rarely used by the EC and were mainly applied on the grounds of safety, environmental arguments, or cultural values. Controls on trade in dangerous chemicals also applied to exports and export licensing was required for goods of cultural heritage (WTO 2000a, 70). Export controls for dual-use goods (military and civilian), previously based on national policies, were harmonized in 1995. The Council of Ministers initiated a common framework on the issue, and, in 2000, the EU established a Community policy on the control of dual-use goods to replace the earlier framework. In 1996, exports of meat from the UK were banned to help ensure consumer protection from BSE (WTO 1997a, 68). Implementing the Common Foreign and Security Policy, the EU embargoed the export of arms and military equipment to several politically unstable countries, including Myanmar/Burma, in late 1999 (WTO 2000a, 71). Some of these embargos were continued in late 2001; however, the embargo on equipment to Indonesia expired in early 2000. The export embargo continued for Myanmar/Burma in 2002 (WTO 2002a, 50), and was in force in 2004.

4.2.7 Summary: The geography of EU trade policies

This section has discussed the institutional basis of the EU's regional trade integration, as well as the extent and forms of trade policies applied by the EU (that will be analysed with regard to the EU-ASEAN trade flows in Chapter 5). The aim has been to illustrate how the institutional setting has changed during the period of intensified regionalism and how this has affected the actual trade measures and practices of the EU. As to Balassa's (1961) categories of economic integration, the EEC was formed as a customs union in 1968, and was developed into a common market in 1993 and a monetary union in 2002. It is worth noting that on the global level, the EU is a unique trading entity with a harmonized trade policy among its member countries (cf. Gibb 1998). In addition, with the negotiating mandate of the Commission in international trade negotiations since 1999, the EU is clearly an actor in the

[90] A historical peak of CAP expenditure to assist these industries was registered during 1998-99 (ibid.).

multilateral setting (Archer 1983; 2001). Reflecting Archer's (ibid.) classification of the functions of inter-governmental organizations (i.e. regarding how they affect the international system) the EU's functions as a regional trade organization include articulation of common positions in multilateral negotiations, recruitment of participant countries in trade coordination, socialization of individuals through various institutions of administration, communication and information-sharing among member countries over various policies and various operational functions such as providing aid as part of trade and development cooperation. During the period 1990-2003, the major developments in (1) the EU trade policy framework, and (2) the extent and forms of trade policies were:

1) The EU's institutional framework and trade regime

- establishment of a common market in 1993 after the Internal Market Programme;
- enlargement of the EU after the accession of Austria, Finland, and Sweden in 1995;
- reform of the EU institutions in view of the single currency and future enlargement, after the entry into force of the Treaty of Amsterdam in May 1999;
- extended network of preferential trading arrangements in Europe as a result of the new Association Agreements (Europe Agreements); the European Economic Area in 1994; and 'Agenda 2000' to integrate the Central and Eastern European countries into the EU; Free trade agreement with 'Euro-Med' in 2000;
- more complex network of preferential trading arrangements globally, including Preferential trade agreement signed with Mexico in 1999, the ACP-EC Partnership Agreement signed in Cotonou in 2000; Preferential trade agreement with Chile signed in 2002; Free trade agreement with South Africa in 2000; and trade agreement negotiated with Mercosur since 2000;
- mandate of the Commission to represent the whole EU in multilateral negotiations since 1999; and
- active role in multilateral trade negotiations in the 'GATT 1994', in the establishment of the WTO, and the launch of the MTN IX (the 'Doha round').

2) Major changes in the extent and forms of trade policy instruments

- tariff reductions, especially in agriculture, in accordance with WTO commitments;
- common policies in many areas such as harmonization in quotas, from national systems to community-wide quotas, as a result of the single market in 1993;
- initiation of Market Access Strategy to scan restrictions in export markets in 1996;
- more anti-dumping measures against Asian countries; triple number of new investigations initiated for anti-dumping measures in 1999;
- ending of the export restraint arrangement on Japanese car exports in 1999;
- decrease in community-wide export promotion; however, historical high CAP spending on agriculture (45 % of the budget) from 1998-99;
- new regulations in the EU and member states in standards concerning the safety of products and the disposal of waste during 2000-2002
- further tariffication of textiles and clothing products, eliminating quotas of over 50 % of these products in accordance with the 'GATT 1994' agreement in 2002; and
- safeguard action on steel products in response to the US safeguard action on steel imports in 2002.

To summarize, and to answer sub-question 1.a. of this study, the major impacts of regional economic integration in the EU's trade policies were: (a) the extended network of preferential trading agreements both in Europe and on the global level; (b) the harmonizing of import quotas on the pan-EU level through the fulfilment of the EU common market; (c) the initiation of the Market Access Strategy in 1996 to scan restrictions in export markets; (d) the initiation of more anti-dumping measures, especially against Asian countries; and (e) new regulations in EU standards regarding safety and environmental issues from 2000-2002. Of these, three were essentially liberalizing. Firstly, the extended network of EU trade agreements widened the scope of trade preferences given to other countries and regions, and worked towards eliminating barriers to trade. Secondly, the harmonizing of quotas among EU member states decreased the total number of quotas to less than half (GATT 1993a).[91] Thirdly, the strategy for market access aimed at identifying trade barriers in export markets, thus striving to liberalize trade. The two other impacts of regionalism, i.e. the initiation of new anti-dumping measures and the setting of new standards, were more protective. Regarding the ASEAN countries, the number of anti-dumping investigations remained relatively moderate. Other major changes in the EU's trade policies, such as the overall decrease in tariffs and the further elimination of import quotas on textiles and clothing products, were a result of multilateral agreements at the WTO.

Hence regionalism had an impact on the geographical scope of EU trade policies, and, based on the above, the geography of EU trade policies (as elaborated in 2.5) evolved as follows:

- the scale of decision-making over trade policies at the EU-level was strengthened; in addition, the negotiating mandate and representation in multilateral negotiation was transferred to the EU-level in addition to the member countries
- the hierarchy of trade preferences provided to external trade partners became more extensive and complex, both regionally and globally
- the requirements for protection decreased considerably in both agriculture and industry due to multilateral agreements

Major liberalizing measures were thus taken in the EU based on agreements made at the WTO. Hence the accounts that regionalism would work against multilateralism (Bhagwati 1993; 2002, Bhagwati & Panagariya 1996) are not supported by the data from the EU's trade policies. Instead, the multilateral system has significantly liberalized international trade, especially concerning import tariffs and quotas. Regarding theories of trade policy, a purely quantitative approach such as the customs union analysis (Viner 1950) is not applied because

[91] It is notable, however, that import quotas were harmonized as late as 1993 while external import tariffs had been harmonized in 1968, considering that quotas also represent effective trade barriers.

of the stage of EU integration, as well as the various non-quantifiable types of trade policies.[92] Models that treat trade policy as an outcome of public choice, i.e. consumers' voting (Baldwin 1996), do not represent the reality of the EU's trade policy-making. Rather, trade policies are essentially a result of bargaining at various levels (Carlson 2000) where firstly, the domestic firms and interest groups bargain over the 'national' policy with the state in the domestic context, and secondly, the state bargains with other states in the international context (cf. Stopford *et al* 1991). In the case of the EU, the member states' agendas are brought into one regional position which is negotiated by the EU in the multilateral setting. The trade policies adopted by the EU mainly restrict imports by tariffs and quotas in certain 'sunset' sectors, such as textiles and clothing that face intense competition from foreign imports. Anti-dumping actions are the other major type of policy to fight 'unfair' prices of foreign exporters.

[92] The EU has been a customs union since 1968, and the recent deepening of economic integration has principally affected the movement of capital and labour (the common market since 1993) and the introduction of a common currency (the monetary union since 2002).

4.3 Regionalism and trade policies in the ASEAN countries

Turning to Southeast Asia, this section presents findings on the impact of regionalism on trade policies and regional trade cooperation within the ASEAN grouping. The focus is on the degree of cooperation, institutionalisation, and harmonizing of policies, as well as on differences and similarities in the forms and types of trade policies in the ASEAN countries.[93] Contrary to the EU, which has a harmonized trade policy towards third countries, the ASEAN members exercise national trade practices against external trading partners. The member countries have retained their sovereignty, basically maintaining ASEAN as a forum for cooperation and consultation in different fields ranging from political to economic and cultural issues, but without any supranational objective. Hence ASEAN can be identified as an instrument and an arena for cooperation (cf. Archer 1983; 2001) that is in the process of evolving into a free trade area (cf. Balassa 1961).

4.3.1 ASEAN and AFTA

Cooperation among Southeast Asian countries dates back to the 1960s when, due to Cold War, there had been disunity in the region between the West-oriented block comprising the original ASEAN-to-be, and the Eastern block comprising of Indochina (Vietnam, Laos and Cambodia). The Association of Southeast Asian Nations (ASEAN) was established by Indonesia, Malaysia, the Philippines, Singapore, and Thailand by the Bangkok Declaration in 1967, with security issues at the forefront.[94] The countries sought regional cooperation because of the perceived threat of communist revolutions in the region but their formal objective was economic and cultural cooperation. However, the agreement did not lay down any scheme or timetable for cooperation and, in the early years, a major achievement was represented by a common policy on some external issues, such as towards Vietnam. In connection with the changing geopolitical environment of Southeast Asia in the 1980s and

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[93] The analysis focuses on six ASEAN members; Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Brunei, whose trade policies have been reviewed and documented by the GATT/WTO. In contrast, Myanmar/Burma, although a WTO member, is excluded since its trade policies have not been documented accordingly.

[94] Also, regional tensions had eased between Indonesia and Malaysia after 1965 when Suharto became the president of Indonesia and relaxed the earlier *konfrontasi* policy towards neighbouring countries. The confrontation had been a result of president Sukarno's policies in the early 1960s because of territorial disputes over the regions of Sabah and Sarawak that had been joined to Malaysia. The evolving regionalization has been discussed by e.g. Charrier (2001).

early 1990s, new members joined the Association,[95] thus making ASEAN a group of ten countries in 1999. The accession of the Indochinese countries was possible after the collapse of the Soviet Union and the end of the Cold War. Mutual consultation on external relations remained one of the core functions of ASEAN, and the member countries largely perceive ASEAN cooperation as a cornerstone of their foreign policies. In the field of international diplomacy, the grouping's achievements have been well regarded (Rigg 1991), as ASEAN has been able to forge a cohesive image and advance the interests of its members on the international stage. A major objective has been to sustain political stability in the region; this, in part, has contributed to the inflow of foreign investments, especially in the manufacturing sector, that have been crucial in the industrialisation process and economic development of the member countries (Chia 1993).

Trade preferences under the ASEAN Preferential Tariffs Arrangements (PTA)[96] were initiated in 1977 as the first scheme to liberalize intra-regional trade. In the PTA, limited tariff preferences were granted to imports from other participants. Each country offered a list of items for tariff preferences (an 'inclusion list') on a product-by-product basis, with preferential tariffs being either decreased or stabilized for five years.[97] From 1978-86, the number of items included in the PTA increased from about 70 to almost 19,000 (Rigg 1991, 214), but due to national exclusion lists, the concrete impact on trade turned out to be negligible. Only about 2-5 % of trade among the ASEAN members was subject to preferential tariff reductions (Awanohara 1987, 106; Crone 1988, 34).

From the 1970s onwards, regional cooperation was also attempted in manufacturing; however, no significant progress was made.[98] Tariff preferences were provided to imports for projects established under these schemes, notably the ASEAN Industrial Projects, ASEAN Industrial Complementation Schemes, and ASEAN Industrial Joint Ventures (GATT 1991, 93). In 1987, ASEAN adopted new initiatives to be implemented by 1992, including a

[95] Brunei joined ASEAN in 1984 after obtaining independence from Britain. Vietnam joined in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. The easing of global political tensions together with the regionalism trend in the world economy allowed for ASEAN's enlargement.

[96] In some sources, the PTA is referred to as the 'Preferential Trading Arrangements'.

[97] The agreement also provided for long-term contracts, financial purchase support at favourable interest rates, preferences in Government procurement, extension of tariff preferences, preferential liberalization of non-tariff measures, and other measures. It included an emergency clause and established a mechanism for trade consultations among members, however it did not have a dispute settlement mechanism (GATT 1993b, 41).

[98] These included the ASEAN Industrial Projects (AIP) in 1976, ASEAN Industrial Complementation (AIC) in 1980, and ASEAN Industrial Joint Ventures (AIJV) in 1983, aimed at regional cooperation and the allocation of manufacturing industries through regulation (Balasubramanyam 1989, 172). The schemes were discussed in Kettunen (1998b).

reduction in the coverage of the exclusion list to a maximum 10 % of trade items, and a maximum 50 % of intra-ASEAN trade. It has been argued that in the early 1990s, ASEAN's achievements in economic cooperation were related to the pooling of resources and not to the sharing of markets; however, the Association could be seen as a model of cooperation among developing countries (Blomqvist 1993).[99]

The idea of a FTA was initiated among ASEAN as a reflection of the regionalization trends in Europe and North America. After relatively short preparations, the ASEAN Free Trade Area was established by the agreement on the Common Effective Preferential Tariff Scheme (CEPT) and signed at the Singapore Summit in 1992. Tariffs on locally produced manufactured goods in intra-ASEAN trade were to be gradually reduced to 0-5 % within fifteen years, and the timeframe was tightened to ten years in 1995 (AFTA Reader 1993; 1995a; 1995b; 1996). Following national schedules of tariff reductions, the 0-5 % tariff levels were mostly attained for specified product groups by 2003.[100] The member countries also cooperated to enhance trade and investments in adjacent border areas, and the so-called growth triangles came up with specific trade preferences related to investment incentives provided by the participating countries. Additionally, the Framework Agreement for the ASEAN Investment Area (AIA) was signed in 1998, with the aim of extending national treatment in investment to investors from all ASEAN countries by 2010, and subsequently to all investors by 2020 (WTO 2000b).

Considering the various stages of economic integration (Balassa 1961), the ASEAN grouping initiated a preferential trade area in 1977 and a free trade area in 1993, the realization of the latter still being incomplete, however. As an indication of entering a new stage of economic integration, the ASEAN countries agreed at the Bali Summit in October 2003 to establish a common market, an ASEAN Community, by the year 2020. The aim is to create a region with a "free flow of goods, services, investment, and a freer flow of capital".[101] However, the declaration text does not refer to creating a common external tariff through establishing a customs union, which in Balassa's categories precedes the common market.

[99] Also, Bende-Nabende *et al* (2001) investigated whether the PTA had an effect in attracting investments in the region and whether the FDI had spill over effects in the ASEAN economies. It was concluded that the PTA only had a delayed influence on FDI inflows, and that FDI stimulated economic growth mainly through human factors, knowledge and technological learning.

[100] Tariff reductions under AFTA will be further discussed in section 4.3.3.2.

[101] Declaration of ASEAN Concord II. [Online.] Available at: http://www.aseansec.org/15159.htm (Visited 9.10.2003).

4.3.2 Institutional basis of trade cooperation

The decision-making institutions on ASEAN trade cooperation remained largely unchanged during the 1990s (Figure 8.). The highest decision-making organ is the ASEAN Summit, the Meeting of the Heads of State and Government where all final decisions on major proposals are made based on a consensus principle.[102] The main organ of work, however, is the meeting of foreign ministers, the annual ASEAN Ministerial Meeting (AMM) where member countries negotiate on issues concerning both mutual relations and joint policies towards third parties. Similarly, economic cooperation is negotiated at the ASEAN Economic Ministers meeting (AEM), established in 1976 and represented by trade and industry ministers of the member countries. Ministerial meetings are also held on other sectors such as finance, agriculture, energy, the environment, science and technology, transportation, and tourism. Supporting these ministerial bodies are 29 committees of senior officials and 122 technical working groups (ASEAN Secretariat 2003). A major part of the work is accomplished in the so-called Post-Ministerial Conferences (PMC) held after the meetings of the ASEAN foreign ministers. Located in Jakarta, the ASEAN Secretariat was established in 1976 as the coordinating body of the Association. The Secretariat is rather loosely organised, and does not have an independent decision-making authority of its own.[103] Various Committees are responsible for ASEAN's functional cooperation, and National Secretariats prepare issues for negotiation in each of the member countries. The Standing Committee, founded in 1967, carries out the work in between all ministerial meetings. It is connected to the National Secretariats of the member countries, to the different Committees, and to the Dialogue Partners System (Figure 8.).

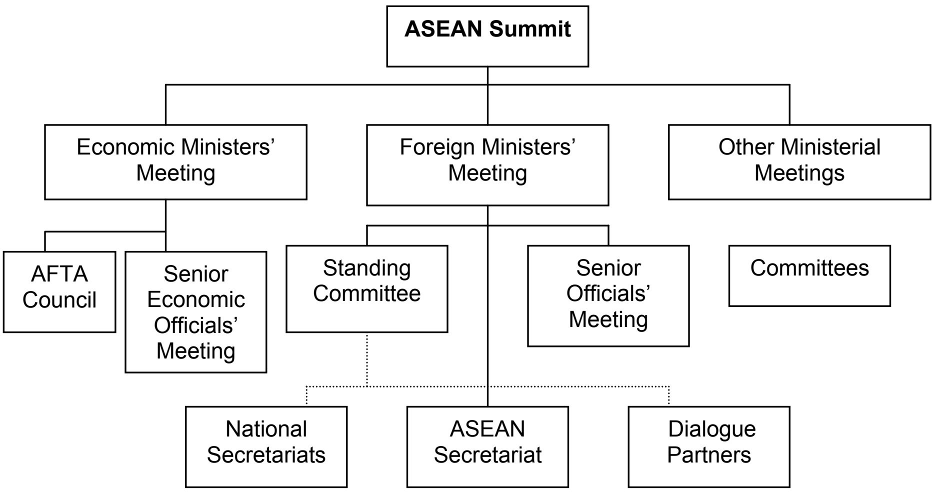
The implementation of the AFTA, in line with the CEPT agreement, is supervised, coordinated and reviewed by the AFTA Council, a ministerial body composed of representatives from each member country and the Secretary-General of ASEAN. The Council meets at least once a year, and reports to the ASEAN Economic Ministers. The Senior Economic Officials Meeting (SEOM) supports the Council by meeting quarterly to

[102] Originally, Summits were held only when needed; this was changed in 1992 to three-yearly meetings, and in 2001 to annual meetings. Up until October 2003, nine Summits had been held: in Bali 1976, Kuala Lumpur 1977, Manila 1987, Singapore 1992, Bangkok 1995, Hanoi 1998, Bandar Seri Begawan 2001, Phnom Penh 2002, and Bali 2003.

[103] The Secretary-General is appointed for a five-year term and is mandated to initiate, advise, coordinate, and implement ASEAN activities.

coordinate the implementation of the trade agreement in each member country.[104] According to critics, however, AFTA is a weak regional trade agreement, as it makes no provisions for dispute resolution and does not include services within its scope of operations (Means 1995 quoted in Yeung *et al* 1999, 57).

Figure 8. Organizational structure of ASEAN.



Source: Compiled from ASEAN Secretariat (2003) at http://www.aseansec.org

Reflecting Archer's (1983; 2001) classification of the roles of inter-governmental organizations, the roles of ASEAN in trade cooperation include being both an instrument and an arena. ASEAN is used by the member countries as an instrument for specific objectives such as advancing their trade objectives through regional cooperation. The institutional structure of ASEAN is loose, as its functions are based on consultation and cooperation rather than on effective decision-making and joint policies. As an arena, ASEAN is used for action among the member countries in their negotiations on intra-regional and external trade issues. The member countries come together to discuss, argue, cooperate or disagree over common issues or policies. In contrast, ASEAN is not an actor since it does not have a central decision-making institution and is not distinguishable from its member countries. Individual countries maintain power over the central organization in decision-making, and the organization is left with the role of an administrative unit only. All decisions are made by consensus, which can

[104] The SEOM, in turn, is assisted by a technical working group consisting of officers from the customs departments, as well as from trade ministries of the member countries (AFTA Reader 1995a).

be regarded as an impediment to efficient cooperation, formulation, and implementation of common policies. This together with the loosely-organized central body and the generally loose structure of the Association, makes overall cooperation slow and subject to fluctuation.

External relations: Dialogue partners

Relations with external powers are coordinated in annual meetings within the so-called Dialogue Partners System (DPS), established in 1977. The consultations are held annually at the Foreign Ministers' level with 11 dialogue partners.[105] The original objective of the DPS was market access, as the ASEAN countries were seeking new export markets in the western industrialized countries. During the process, the consultations have extended from trade to other sectors, such as science and technology, social and cultural development, human resource development, and narcotics control. The discussions also concern trade and investment promotion, tourism, industrial development, transfer of technology, agriculture, energy and transport and communications.[106] On ASEAN's part, the Dialogue Partners System is organized by assigning each member country one major trade partner, with this member coordinating the views of all ASEAN countries. The dialogue system has been regarded as a unique procedure by a Third world grouping, as ASEAN has managed to institutionalise and sustain yearly negotiations with the Western industrialized countries within an established system (Kurus 1993b, 824). To support the conduct of external relations, ASEAN has established committees with heads of diplomatic missions in 15 capitals. Four missions are located in the EU region: in Berlin, Brussels, London and Paris.

4.3.3 Trade regimes, national policy-making and tariff systems

The ASEAN countries do not have a common trade policy; instead, the decision-making and implementation of trade measures occur within the national administration of the member states. National approaches to trade policies are rather varied, due to differences in resources, levels of industrialization, and economic strategies; yet, some similarities exist. Trade policies of the ASEAN countries have been directly connected to their industrial policies, and since the 1960s, the shift from import substitution industrialization to an export-oriented industrialization strategy has affected trade policies accordingly. For historical and economic reasons, the major trading partners are outside of the region. Strong links have been kept and

[105] Australia, Japan, New Zealand, and the United States (since 1977), the European Union, Canada, South Korea, the People's Republic of China, India, the Russian Federation, and the United Nations Development Programme (from 1980 onwards).

[106] However, bilateral agreements with third parties are also negotiated on a national basis.

developed with the United States, Japan, and the EU countries. Differences between the ASEAN economies are reflected in the characteristics of their trade regimes. The objectives of trade policies in each member country (Table 7.) are related to the economic characteristics.[107] While all six economies are export-oriented, differences exist as to the degree of openness and the trade policy objectives (Kettunen 2004).

Table 7. Trade regimes of six ASEAN countries.

	Indonesia	***Malaysia***	***Philippines***	***Singapore***	***Thailand***	***Brunei***
Declared objectives of trade policies	Diversification of economy, agricultural self-sufficiency	Export-led growth based on manufacturing	Opening of economy, export-orientation	Free global trading system	Export-orientation, opening of economy, regional cooperation	Regional liberalization
Policy regime	President & Ministries	PM & Ministries	President & Congress	PM & Ministries	PM & Ministries	Sultan & Ministries
Accession to GATT	1950	1957	1979	1973	1982	1993
Principal trade policy instruments	Tariffs, import licensing, export controls	Tariffs, import licensing	Tariffs	Tariffs, import prohibitions	Tariffs	Tariffs, quotas
Tariff system	HS 100 % *ad valorem*	HS (1996) 99 % *ad valorem*	HS (1996) 100 % *ad valorem*	HS (1989)	HS (1988)	HS (1992) 99 % *ad valorem*
Number of tariff lines	9,400 (9-digit)	10,000+ (9-digit)	5,600+	5,800+	6,400+ (8-digit)	6,500+ (9-digit)

Sources: WTO (1999b; 1999c; 2000b; 2001a; 2001b; 2003).

According to the declared trade policy objectives, Indonesia's policy aims at further diversification of the economy and agricultural self-sufficiency, while Malaysia's policy focuses on export-led growth in manufacturing. The governments of the Philippines and Thailand intend to further open their economies to international competition, and the latter also stresses regional cooperation in trade. With their trade-oriented economies, the states of Singapore and Brunei are working towards global and regional liberalization in trade. The

[107] Indonesia's earlier reliance on the oil sector was reduced in the latter part of the 1980s, and the country moved to labour-intensive manufacturing with infant-industry protection, while agriculture and forestry remained essential for the domestic economy and for exports. In the 1990s, Malaysia's main exports continued to be palm oil and the largely foreign-owned electronics sectors supported by active industrial policy, whereas the traditional tin mining diminished. The Philippines still had a large agriculture sector but also a growing manufacturing sector especially in electronics, activated by industrial incentives after the political regime somewhat stabilized during the last decade. Singapore continued to be an open and dynamic economy relying on the activities of international companies located in the island-state operating in trade, financial services, and high technology manufacturing. Thailand remained the world's largest rice exporter, but also had a labour-intensive manufacturing sector, especially in textiles. The small Brunei owed its wealth to the oil and natural gas that make for most of the economy.

decision-making procedures over formulation and implementation of trade policies are based on the work of the parliament, the relevant ministries and departments of the state. Usually the Ministry of Trade and Industry, the Ministry of Finance and the Head of State are involved in policy setting. In Indonesia and the Philippines, the president has a central role in policy formulation, and in Brunei, the sultan; in the three other countries, the prime minister has a central role in decision-making over trade policies (WTO 1999b; 1999c; 2000b; 2001a; 2001b; 2002b; 2003). As to international trade agreements and cooperation, all six ASEAN countries were contractors to the GATT; the first to accede were Indonesia and Malaysia after their independence in 1950 and 1957 respectively. All six are also members of the WTO, AFTA, APEC, and ASEM, and have bilateral agreements with various trade partners.[108]

Tariffs are the principal instruments of trade policy and, as in developing countries in general, tariffs also have an important function in fiscal policy, i.e. they are one type of tax income for the state. Other significant trade policy instruments include licensing and state-trading which are widely applied in Indonesia and Malaysia, and import prohibitions, commonly practiced in Singapore and Malaysia. During the 1990s, all six ASEAN members adopted the Harmonized System (HS) in tariff categorization; however, tariff systems and structures are varied. In Indonesia and the Philippines, all tariffs are based on *ad valorem* rates; in other countries, specific rates also apply. The number of tariff lines varies from about 5,600 in the Philippines to over 10,000 in Malaysia (Table 7.).

Tariff levels

As a result of the liberalization measures and commitments of the GATT, tariffs declined in all six countries. In the early 1990s, average tariffs varied between 0 % in Singapore to about 44 % in Thailand (Table 8.), and as Ariff (1992) has pointed out, the levels were rather low by developing country standards. By 2000, average tariffs had declined to between 0 % and 18 %. Although the general trend was towards lower averages, actual tariffs fluctuated within shorter time periods, especially during the Asian financial crisis from 1997-98. There were some differences in the pace of tariff decline from country to country which are discussed in more detail henceforth.

Indonesia had started to deregulate its economy in the 1980s and continued to do so during the 1990s, however in a highly selective way which excluded some major sectors from

[108] In addition, Indonesia, Malaysia, the Philippines, and Thailand are members of the Cairns Group of producers and exporters of agricultural products within the WTO negotiations.

reforms. Indonesia's average tariffs declined gradually from about 22 % in 1990 to an unweighted average of 20 % in 1994. With the further lowering of tariff rates well beyond its WTO commitments, the applied MFN tariffs were reduced to 10 % in 1998 and then down to 7 % in 2002. However, after the onset of the financial crisis, Indonesia extended reforms to even the most protected sectors of its economy. Further unilateral tariff cuts were scheduled up until 2003 when the maximum tariff applied for nearly all products should not have exceeded 10 %. Already in 1998, tariffs on food items were reduced to a maximum of 5 %; however, high tariffs continued to protect a few products, such as alcoholic beverages, motor vehicles, certain basic chemicals, and leather and textiles products (WTO 1998). By 2002, around 93 % of tariff rates were bound in the WTO (WTO 2003a).

In Malaysia, the average applied MFN tariff rate declined from 15 % in 1993 to 8 % in 1997, with more than half of tariff lines becoming duty-free. However, some rates remained very high to protect domestic production, especially in the automobile sector. Tariffs were also dispersed more widely as duties on certain raw materials and intermediate imports fell faster than those on fully processed products (WTO 1997b, 36). The Asian financial crisis in 1997 led to higher protection in Malaysia, with the average tariff increasing back to 9 % in 2001. This was mainly because tariffs were raised on items such as automobiles, construction equipment, certain appliances, alcoholic beverages and tobacco products (WTO 2001b). As part of Malaysia's WTO commitments, the coverage of tariff bindings increased from less than 1 % to almost two thirds of tariff lines by 1997.

Table 8. Average applied MFN tariff rates (%) in six ASEAN countries from 1990-2002.[109]

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Indonesia	22				20				10				7
Malaysia				15				8				9	
Philippines			26							10			
Singapore			0				0				0		
Thailand		44				23				18			
Brunei											3		

Sources: GATT (1991; 1992b; 1993b; 1995), WTO (1995c; 1996; 1997b; 1998; 1999b, 1999c; 2000b; 2001a; 2001b; 2003a).

In the Philippines, policy reform, which had started in the early 1990s, continued with the aim of opening up the economy. Tariff protection was sharply reduced, with applied MFN duties

[109] Data presented by Ariff (1992) on the average nominal tariffs of the ASEAN countries in 1992 is largely similar: 22 % for Indonesia, 16 % for Malaysia, 26 % for the Philippines, and 44 % for Thailand.

averaging just over 10 % in 1999 compared with almost 26 % in 1992. In the late 1990s, the Philippines also began to reform their customs procedures. Related to the Uruguay Round commitments, almost all tariffs of agricultural products (except rice) and approximately half of tariffs in manufacturing were bound in the WTO by 1997, compared to the previous figure of 7 % (WTO 1999b).

In comparison, the Singapore city-state remained a very open trading country where import duties were levied on very few items; only on 1.4 % of all tariff lines. The applied tariff was 0 % for most products, and Singapore did not raise tariffs in the wake of the financial crisis, despite the considerable scope permissible within its existing bindings.[110] On the contrary, tariffs were removed on some items, such as high-speed diesel in 1998. The rate of tariff bindings in 2000 was 70 %, a low figure by developing-country standards (WTO 2000b).

Thailand's average tariff rate was 44 % in 1991 (GATT 1991), with one of the most protected categories being completely-built-up (CBU) passenger cars that faced a 600 % tariff. Three years later, Thailand announced a tariff reform that was to result in deep cuts for several items such as coal, certain textiles and garments, shoes, processed food and other goods. The simple average of applied tariffs declined to 23 % [111] in 1995 with agriculture being the most protected at 38 %, since tariffs remained the main government support mechanism for agriculture. The average tariff for manufacturing was 23 %, and for mining and quarrying 8 %. During the late 1990s, the trend was still downwards, although rates fluctuated due to the instability caused by the financial crisis. Applied MFN tariffs averaged 18 % in 1999; however, tariff peaks for agri-food products, clothing and motor vehicles could be as high as 80 %, although down from 100 % in 1995 (WTO 1999c). Only about 3 % of tariff lines were bound in 1991; however, tariff bindings rose from approximately 5 % to 98 % in agriculture, and from 1 % to 68 % in manufacturing during the first half of the 1990s (GATT 1991; WTO 1995c).

For Brunei, the first available data in 2000 showed an applied MFN tariff of 3 %. The average tariff for agriculture was zero and for non-agricultural products, less than 4 %; however, there were peaks of up to 200 %, notably for motor vehicles. In 2001, Brunei applied specific tariffs for tobacco, alcohol, and petroleum; however, these were to be converted into *ad valorem*

[110] Singapore's bound rates exceed the applied rates significantly, ostensibly for future negotiation purposes in the World Trade Organization (WTO 2000b).
[111] The figure does not include the extensive use of tariff concessions relating to investment incentives (WTO 1999c).

rates during the same year. Brunei had bound nearly 95 % of its tariff lines at the WTO negotiations (WTO 2001a).

Comparing the six ASEAN countries, Malaysia had started liberalization already in the early 1990s, but tariffs declined faster in Indonesia and the Philippines due to their higher original rates, and more slowly in Malaysia and Thailand due to the Asian financial crisis. Reductions in the MFN tariffs were mainly due to internal reforms to open up the economy, and to the commitments made in the GATT and WTO. The ASEAN countries applied MFN tariffs to imports from most of their major trading partners, such as Japan, the United States, and the European Union countries.

4.3.4 Preferences under investment incentives

During the 1990s, all six ASEAN countries gave various tax preferences to companies that export, or to those that are located in specific areas (cf. Yeung 1996). These preferences were related to promoting inward foreign direct investments in conjunction with export orientation and industrialization strategies. Tax privileges included direct taxes and indirect taxes such as excise and import duties, and other types of incentives, and were implemented particularly in Malaysia, Thailand, Indonesia, and more recently, in the Philippines. In comparison, since imports to Singapore and Brunei were mostly duty-free, preferences were made up of other types of taxes. In Brunei, companies that were granted ‘pioneer status’ were exempt from customs duties on plants, machinery, and equipment for installation, and on raw materials that are not available in Brunei (WTO 2001a).

Indonesia’s incentives were related to bonded zones and export-processing zones where eligible exporters were granted tariff exemptions for all capital equipment, machinery and raw materials needed for initial investments and production. The scope of these exemptions (the number of tariff lines) was increased in 1996. However, producers operating both in bonded areas and export processing zones (largely specializing in assembly operations in consumer electronics, semiconductors, and textiles and garments) were severely affected by the depreciation of the rupiah and the subsequent rise in import prices due to the financial crisis (WTO 1998, 79). The collapse of FDI was extensive, and investments had not recovered by 2002 due to economic, political, and security-related uncertainties that had affected investor confidence (WTO 2003a, 27).

Malaysia granted exemption from import duties on machinery and equipment used directly in the manufacturing process and for components and materials used in the manufacture of goods for export (WTO 1997a, 71). Similarly, a drawback has been provided for import duty paid on raw materials and packaging of finished goods, as well as on waste or refuse resulting from the manufacture of such goods which are subsequently exported. The amounts refunded had increased from RM 91 million in 1991 to RM 157 million in 1996 (ibid., 60). Malaysia also maintained two types of facilities for export processing with minimum customs formalities; the licensed manufacturing warehouses, and free zones. In the free zones, goods may be brought in or produced without paying a customs duty, excise duty, or sales tax, except in the case of selected items such as forklifts and motor vehicles (WTO 2001b, 50).

The Philippines sought to encourage investment in selected economic activities and regions, offering investors a comprehensive but complex multi-layered package of tax and non-tax incentives. These included exemptions from advance payments of customs duties for companies that earned at least 50 % of their total revenue from exports, regardless of ownership (WTO 1999b, 59). Similarly, Thailand's policy to encourage inward foreign investments, supervised by the Board of Investment (BOI), granted both foreign and local firms in industry non-tax and tax incentives such as waivers on duties on imported capital goods. Since 1993, the BOI shifted its emphasis from mere export promotion to industrial decentralization, and new measures were initiated to encourage companies to relocate in more remote areas (WTO 1995c, 25). Exemptions or reductions of import duties on machinery and materials used for production were also granted for industrial projects that export at least 80 % of total sales (WTO 1999c, 59).

4.3.5 Policies affected by regionalism

In addition to liberalization of trade policies based on multilateral agreements, the ASEAN countries achieved regional liberalization through specific schemes. The major impacts of regionalism on trade policies of the ASEAN countries included: the reduction of intra-regional tariffs to the 0-5 % range according to the AFTA agreement; the limited tariff preferences under the Indonesia-Malaysia-Singapore growth triangle scheme; and the extended network of trade cooperation both regionally and globally, including FTAs with China, India and Japan. These are further discussed below.

4.3.5.1 Preferential schemes under AFTA and Growth Triangle

The regional AFTA scheme is the major framework of preferential tariffs for the ASEAN countries. According to the Common Effective Preferential Tariffs scheme for the free trade agreement, the original six members of AFTA have given trade preferences to other ASEAN countries by gradually removing tariffs in intra-regional merchandise trade to the level of 0-5 % from 1993-2003. The scheme will be extended to the new member countries according to specific timetables: Vietnam in 2006, Laos and Myanmar in 2008, and Cambodia in 2010 (ASEAN Secretariat 2003).

In the CEPT agreement, fifteen product groups were identified for accelerated tariff reductions including textiles, pharmaceuticals, electronics, cement, and plastics.[112] The two schedules for tariff cuts were defined as the 'fast track' and the 'normal track' in 1995.[113] The agreement comprised a local content requirement (LCR): at least 40 % of a product's content must originate from an ASEAN member country to be eligible for tariff reductions. Products were selected on a sectoral basis at the 6-digit HS level, and countries were free to determine the annual rate of tariff reductions. This decision, however, gave rise to disputes regarding certain countries' strategic delay in implementing the agreed reductions. The scheme covered all manufactured products and processed agricultural products. However, many important products in intra-trade were excluded from the scheme, such as electrical products, transport equipment, paper products, iron and steel products, and petroleum (GATT 1995, 55). Non-processed agricultural goods, being generally highly protected, were excluded from the scheme (GATT 1995, 30). Many important farm products were left out, such as livestock, rice, coffee, and natural rubber.

In light of the theory of economic integration, AFTA was the first move towards more systematic economic integration among ASEAN countries. However, as intra-ASEAN trade was relatively modest in the early 1990s – only about 15-20 % of the total trade of the member countries – the relevance of a free trade agreement and further economic cooperation was debated (Antolik 1992, Ariff 1992, Blomqvist 1993, Kurus 1993a, Kurus 1993b, Garnaut 1994). The agreement was largely seen as a response to regionalism trends in other parts of the world, instead of being an indigenous process. The reasons underlying the AFTA

[112] Other product groups were vegetable oils, fertilizers, rubber products, leather products, pulp, ceramic and glass products, gems and jewellery, copper cathodes, and wooden and rattan furniture.
[113] Under the 'fast track', tariffs above 20 % on specified product groups were to be reduced to 0-5 % by 2003, and those below 20 % were to be reduced to 0-5 % by the year 2000.

decision, however, were based on something other than an expectation that trade would be created within the region. As other parts of the developing world were increasingly integrated into regional trade blocs in the early 1990s, the ASEAN members became concerned about maintaining their competitive edge on a worldwide level. A major reason for establishing a free trade area was thus to continuously attract inward FDI into the region (Ariff 1992, AFTA Reader 1993), and this was intended by creating an image of a 'trade bloc' through the free trade area scheme (Kettunen 1998b). According to the ASEAN Secretariat, the "ultimate objective of AFTA" was to increase the competitiveness of the ASEAN region as a production base geared to the world market (AFTA Reader 1993, 1).

The establishment of AFTA was a result of changes both in external and internal circumstances. External factors, especially the end of the Cold War and intensified regionalism in Europe and North America, had an impact as the ASEAN countries perceived there to be increased competition for FDI from the transitional Eastern European countries and Mexico. Additionally, the failure of the GATT Uruguay Round to reach a conclusion within the original timetable caused concern that the multilateral trading system was becoming more restrictive (Ariff 1992, 3). There were also internal changes that had paved the way for intra-regional trade liberalisation initiatives since the mid-1980s. Most importantly, structural transformation and policy reforms in the ASEAN economies, ranging from deregulation to privatisation, helped the efforts for regional liberalisation.

Tariff reductions under AFTA

National schemes to implement tariff reductions in the 'Inclusion lists' were launched in 1994. As discussed above, there were considerable differences in the original CEPT rates among the ASEAN members. In 1992, the average un-weighted tariff rates for CEPT products were 14 % for Indonesia, 11 % for Malaysia, 0 % for Singapore and Brunei, and 19 % for the Philippines and Thailand (Table 9.).[114] The most protected sectors were furniture, cement, electronics, and textiles, while the major categories in actual intra-ASEAN trade were textiles and electronics. Due to the differences in original tariffs, each member applied a national scheme and timetable to gradually lower their CEPT tariff rates offered to other ASEAN members. In 1998, Indonesia's tariff reductions had led to a simple average CEPT tariff of 8 %, and, in 2002, this was further lowered to 4 %. Sensitive products were no longer excluded from the scheme, and about 99 % of Indonesia's CEPT tariff lines were covered in

[114] Table A5. in the Appendix shows the average unweighted tariffs for various CEPT products in four ASEAN countries in 1992.

the 0-5 % range by 2002 (WTO 1998; WTO 2003a). Similarly, Malaysia's average AFTA rate was lowered to 7 % in 1997 and further reduced to 4 % in 2001 (WTO 2001b, 34). There was some fluctuation, however, and the automobile sector was excluded from the reductions in order to protect the national car industry of Malaysia. In the Philippines, the simple average CEPT tariff was lowered, reaching 7 % in 1999, and over half of the tariff lines had reached the final range of 0-5 %. Reductions were ongoing for 95 % of the tariff lines in the scheme (WTO 1999b, 24). Thailand's average AFTA rate had been about 19 % in 1995, and 183 items were temporarily excluded from the CEPT scheme, including vegetable oils, electrical equipment, and machinery and transport equipment. However, the AFTA rate was to decline to 7 % in 2000 (WTO 1999c). Since Singapore already applied zero-tariffs in almost all trade, the CEPT did not include any actual preferences towards other ASEAN members. In Brunei, the average CEPT tariff was 1.9 % in 2000, due to a decline to 1.6 % by 2002. Brunei had excluded tea, coffee, tobacco, alcohol, and motor vehicles from the CEPT (WTO 2001a).

Table 9. Average applied CEPT tariff rates (%) in six ASEAN countries from 1992-2002, selected years.

	1992	**…**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Indonesia	14					8				4
Malaysia	11				7				4	
Philippines	19						7			
Singapore	0			0				0		
Thailand	19		19					7		
Brunei	n.a.							1,9		1,6

Sources: GATT (1995), WTO (1995c; 1996; 1997b; 1998; 1999b; 1999c; 2000b; 2001a; 2001b; 2003).

For the six countries as a whole, the average CEPT tariff in mid-2003 was 2.4 % (ASEAN Secretariat 2003), and about 48 percent of products in the 'Inclusion List' had zero tariffs. According to the ASEAN Secretariat (ibid.), tariffs on 99.6 % of products in the 2003 'Inclusion List' had been reduced to the range of 0-5 %. Seemingly as a result of AFTA, intra-ASEAN trade grew during the mid-1990s. However, in 1998, the Asian crisis had a direct negative impact on ASEAN trade. The uncertain pace of recovery from the economic recession also posed a challenge to the implementation of AFTA within the proposed schedule (Menon 1998, Menon 2000, Stubbs 2000). The economies started to recover in 1999, and trade improved somewhat in the aftermath of the crisis.

Preferences in the Indonesia-Malaysia-Singapore growth triangle

Tariff preferences were also offered under the so-called growth triangle, which linked adjacent areas of Indonesia, Malaysia and Singapore and was initiated as a sub-regional scheme for economic cooperation in the early 1990s (Lee 1993; 1997, Low 1996).[115] Originally, cooperation was initiated between Indonesia and Singapore in the industrial development of the Indonesian island of Batam. With already strong economic links between Singapore and the Malaysian state of Johor, the concept was extended into a trilateral scheme to facilitate cross-border trade and investments.[116] While Singaporean companies were increasingly investing in both Johor and Batam, the growth triangle was intended to capitalize on the proximity and the complementary strengths of the sub-region. The three countries signed a Memorandum of Understanding in 1994 to formalize the bilateral and trilateral cooperation in various sectors including trade, transport, tourism, industrial infrastructure and manufacturing (WTO 1997b, 30). The role of the states was however left to supporting and facilitating the private-sector led collaboration efforts (WTO 1996, 25), and no trilateral agreements on trade preferences were made. Besides economic motivations, the concept has been argued to include political and security concerns as well (Acharya 1995; Kumar & Siddique 1994, Weatherbee 1995).

As to unilateral measures, however, there were specific trade preferences under the concept. In the early 1990s, the Indonesian government had introduced a series of special trade privileges, incentives and deregulations to attract investors to Batam, in connection with its status as a bonded zone (Yeoh *et al* 1992, 27). Consisting mainly of tax and tariff privileges, the incentives included duty free trade under certain conditions. Imports to the island were subject to zero tariffs when goods entered Batam for the purpose of processing for re-exports, or goods were imported for the purpose of re-export. Similarly, exports that were 100 % manufactured from materials sourced from outside Indonesia were duty-free, while exports or export components that were sourced from within Indonesia were subject either to VAT of 10 %, or to a luxury sales tax of either 10 %, 20 % or 30 %. Additionally, import and export procedures had been simplified (Wong 1993). In Johor, as in all of Malaysia, specific investment incentives with export orientation and liberalized regulations were applied. Special trade preferences included an exemption from customs duty on direct raw materials or

[115] The origins of the the growth triangle were discussed in Kettunen (1998b).

[116] Originally, the Singapore-Johor-Riau (SIJORI) growth triangle comprised Singapore, the Johor state of Malaysia, and the Riau province of Indonesia. When the scheme was extended to other states in Malaysia and Indonesia, the name of the triangle was changed accordingly to the Indonesia-Malaysia-Singapore growth triangle (IMS-GT).

components, an exemption from excise duty on machinery and equipment, and the drawback of customs duties and excise duty for goods used as parts, ingredients, or packaging material in the manufacture of goods which were subsequently exported (MIDA 1992). Also, certain areas in Malaysia had been designated as free trade zones, including Pasir Gudang in Johor. Companies located in these areas were allowed to import capital goods, raw materials and components without paying taxes or duties (Yeoh *et al* 1992, 53).

The IMS growth triangle became a trading hub of the ASEAN region; indeed, the growth of trade in Batam and Johor was one of the apparent outcomes of the scheme.[117] Reflecting the growth of manufacturing in Batam, most of the exports were in industrial products. Trade between Johor and Singapore had also increased steadily from the 1980s onwards.[118] In particular, large firms in the electronics sector had strong intra-firm links between the production units within the IMS area, reflecting a regional mode of operation. Despite the sub-regional initiative among the neighbouring countries, however, there is open competition in export volumes between the Singapore Port Authority and the new ports on the Malaysian side in Johor.

4.3.5.2 The extended network of trade cooperation

In 1992, the Singapore Summit mandated that ASEAN should intensify cooperative relationships with its Dialogue Partners. The ASEAN Regional Forum (ARF) was established two years later as a consultation forum for political and security issues with major global powers such as the United States, Japan, and the EU.[119] During the 1990s, the ASEAN countries also took part in several larger cooperation schemes.[120] The Asia-Pacific Economic Cooperation (APEC), initiated in 1989, aims at freeing trade throughout the Asia-Pacific region by the year 2020 (e.g. Bergsten 1994; 1997, Rudner 1995, Sandrey 1997, Urata 1998, Aggarwal 2000, Otto 2000). If successful, APEC will strengthen ASEAN's opportunities to internal liberalization and integration. Individual ASEAN countries have also participated in the activities of the East Asia – Latin America Forum (EALAF), and, since 1996, the Asia-

[117] The Batam case was particularly outstanding, as the export earnings of Batam increased 27-fold during the six years from 1986-1991. In absolute terms, exports increased from USD 11 million to USD 238 million (Chia 1994). In the next two years, the figure again quadrupled and reached USD 926 million.

[118] As a result of the bilateral agreements between Singapore and Malaysia, Johor was the major source of items such as water and fresh produce for Singapore (Burton 1994, 25). Also, the bulk of goods manufactured in Batam and Johor were exported to third countries via Singapore as an entrepôt.

[119] Furthermore, ASEAN maintains contact with other regional and inter-governmental organizations, especially with other developing regions, such as the Gulf Cooperation Council and the South Pacific Forum.

[120] These have been discussed in e.g. Kettunen (1994a; 1994b).

Europe Meeting (ASEM) that was initiated as an inter-regional cooperation forum. Thus, the network of regional cooperation has been extended during the 1990s.

The 'ASEAN Vision 2020' was adopted in 1997, emphasizing an outward-looking and pivotal role for ASEAN in the international community. Already in the early 1990s, there had been suggestions to enhance relations with the regional neighbours, such as the idea of the East Asian Economic Caucus (EAEC) by PM Mahathir of Malaysia. Since relations were intensifying especially with the East Asian neighbours, an annual dialogue was established with the leaders of China, Japan, and South Korea within the so-called ASEAN+3 framework in 1997. Bilateral negotiations with China resulted in 2002 in an agreement to establish an ASEAN-China free trade area within ten years. In addition, FTA agreements were made with India and Japan in 2003.

4.3.6 Other policies towards imports

While tariffs were an important trade measure in the ASEAN countries, various other policies towards imports were also implemented, most notably licensing and state-trading. Import prohibitions were widely applied in Malaysia and Singapore, while licensing was most common in Indonesia and Malaysia. The arguments for various import restrictions varied from health and safety to cultural and moral justifications, and the sectors affected varied from country to country. Most of the policies were liberalized as a result of multilateral agreements; however, some were restricted due to the Asian financial crisis.

Import surcharges, special duties, and excise taxes

Five ASEAN countries have applied some form of tax or duty other than tariffs on imports (Table 10.), but the trend has been declining due to the multilateral commitments. For example, Indonesia applied import surcharges widely before the mid-1990s, largely to offset the elimination of restrictive licensing or import bans. Based on the Uruguay round commitments, Indonesia eliminated surcharges on all imports in 1996 (WTO 1998, 55). Thailand had applied special duties for certain agricultural products and specific iron and steel products in the mid-1990s. In addition, a 10 % surcharge was applied to all imports bearing tariffs of 5 % or more (except on motor vehicles and sundry other items) but this was removed in 1999. Surcharges continued to apply for certain corn and soybean items (WTO 1999c). Excise taxes have been applied in Indonesia, the Philippines, Singapore, Thailand and

Brunei on various 'luxury products', such as tobacco, alcoholic beverages, petroleum products, jewellery and motor vehicles.

Import prohibitions

The ASEAN members have basically applied import prohibitions on the grounds of health, safety and security, and for cultural and moral reasons, the latter being related to religions, traditions and languages, which are deeply rooted in national policies. However, import bans have also been implemented purely for economic protection reasons. Indonesia had, up until 1993, applied import bans on completely-built-up motor vehicles and foreign printed materials, based on the infant-industry argument. After that, prohibitions still remained for certain chemicals and plastic scrap (GATT 1995). By 1998, the number of products affected by import bans had been gradually reduced to about 40 tariff lines which were maintained largely for health, environmental and cultural reasons and applied to chemical products, including waste and pesticides (WTO 1998, 56). The system of import prohibitions in Indonesia remained somewhat unclear; in 2002, information on the product coverage of import bans was not available (WTO 2003a).

Table 10. Major non-tariff policies on imports to six ASEAN countries; sectors affected.

	Indonesia	***Malaysia***	***Philippines***	***Singapore***	***Thailand***	***Brunei***
Special duties	Several but diminishing	-	Some	Some (excise tax)	Some, but diminishing	Some (excise tax)
Excise taxes	Alcohol, tobacco	-	Alcohol, tobacco, jewellery	Alcohol, tobacco	Alcohol, tobacco, petroleum	Specific liquor
Import prohibitions	Extensive; diminishing	Extensive, e.g. notes	Moderate, e.g. arms	Moderate	Extensive	Moderate
Import licensing	Extensive (10 % of imports in 1995); Increasing	Extensive (17 % of tariff lines in 1997); Increasing	Moderate; diminishing	Moderate (6 % of imports in 1996)	Moderate (8 % of tariff lines in 1991); diminishing	Moderate
Quotas	Sensitive items	Some, e.g. cars, raw sugar (-97)	Rice (-99), most other abolished	Ozone-depleting substances	Only garlic (-95); None (-99)	None
State trading	Extensive for rice and other foods	In paddy and rice, 1 company	For rice	None	22 organ-izations	Monopoly in rice imports
Anti-dumping actions	27 cases initiated (1998-02)	Five (1990-96), Few (1997-01)	Five with defin.duties (1994-98)	None	One (1990-95) against India	None

Sources: GATT (1995), WTO (1995c; 1996; 1997b; 1998; 1999b; 1999c; 2000b; 2001a; 2001b; 2003).

In comparison, Malaysia had prohibited imports of an array of products for safety and moral reasons. In the mid-1990s, prohibited imports included specific items such as imprints of currency notes or coins, indecent articles, and cloth incorporating imprints of any verses taken from the Koran (WTO 1997b). The Philippines had import prohibitions on an array of items such as arms and ammunition (WTO 1999b, 46). Most of the bans were based on justifications relating to security, public health and the environment. Similarly, Singapore prohibited imports of a range of products, mainly for safety and environmental reasons (WTO 1996, 39), the famous example being chewing gum. However, the percentage of tariff lines subject to import prohibitions in Singapore had been reduced from 0.7 % to 0.5 % between 1995 and 1998.

Thailand had reduced the number of items subject to import prohibitions by the early 1990s, and the prohibition of some items such as unfinished garments had been turned into licensing. The arguments for import bans included economic stability and public interest. Absolute bans had been in place for items such as counterfeit products and for all imports from South Africa (GATT 1991, 107), the latter, however, being overturned in 1992. In conformity with a UN resolution, Thailand banned imports from Yugoslavia in the mid-1990s. Also, goods such as second-hand motorcycles and electrical games were prohibited for reasons relating to health or public morals, and a number of products were subject to conditional prohibitions (WTO 1995b, 45). In 1999, prohibitions were in place for imports of refrigerators using CFC for public health reasons, gaming machines for reasons relating to public morals, and diamonds from Angola in conformity with the UN resolution (WTO 1999c, 47). In comparison, Brunei had imposed a temporary ban on imports of cement to protect local producers in 2000. At the same time however, a similar ban on roofing materials was lifted (WTO 2001a). Also, imports of items such as opium, fire crackers, vaccines from Taiwan, and arms and ammunition were prohibited.

Import licensing

Licensing has been a policy widely employed for imports in the ASEAN countries, compared to some other trade measures, such as quotas. Licensing often appears to be linked to state trading, and overall, it has been related either to food security or to the protection of domestic infant industries. The system is most extensive in Indonesia and Malaysia, and the extent of licensing has even increased in both countries following the financial crisis. By contrast, the Philippines and especially Thailand have significantly reduced the coverage of their licensing systems. (Table 10.)

Indonesia somewhat reduced its relatively extensive system of import licensing during the early 1990s. In 1995, approximately 10 % of imports were subject to licensing, compared to 40 % ten years previously. Licensing remained in force for certain agricultural products, food and beverage products, paper products, engineering products, certain basic metals and chemicals (GATT 1995). The system has been complex and non-transparent, having been the major non-tariff barrier in Indonesia and often combined with other forms of assistance such as restrictions on domestic trade, price fixing and subsidies, all aimed at providing implicit or explicit protection on various grounds[121] (WTO 1998). In 2002 licensing appeared to have increased, and there were new special licensing systems for sensitive products such as rice, sugar, and footwear and textiles. Information on the product coverage of import restrictions remained unclear, however (WTO 2003a). Thus, as tariff levels were reduced, other types of trade restrictions were applied. Similarly, Malaysia's system of import licensing has continued to be the predominant non-tariff measure, affecting approximately 17 % of all tariff lines. It is principally used in forestry and logging (where it applies to almost 100 % of tariff lines); for agricultural and mineral items, food, and the automobile sector. Most licences seem to have been granted either automatically or, predictably, upon fulfilment of certain criteria. As import licensing in Malaysia has been subject to administrative judgment, it has not remained fully transparent (WTO 1997b). In 2001, licensing appeared to have increased for some agricultural products as well as for some industrial products.

In contrast, the Philippines abolished most licensing requirements from 1992-1999, but 'regulated imports' still included several items such as rice, drugs, and dangerous chemicals such as cyanide (WTO 1999b, 45). The array of import bans for health and security reasons had generally remained the same as during the early 1990s except for some agricultural products. By contrast, import licences and controls were at a minimum in Singapore, and would be only applied were there a need to follow international obligations for public health, environmental and security reasons. Only about 6 % of imports were under the licensing system; for example, imports of rice were licensed for food security reasons and a ban was maintained for safety and environmental reasons on imports of motor vehicles which are three or more years old. The number of tariff lines where automatic and non-automatic import licensing applies was slightly reduced (WTO 2000b). Also, Thailand had applied import

[121] The arguments were the protection of infant industry, the security of the food supply, the management of natural resources, or favouritism. As a result, the list of products benefiting from some form of protection or assistance was still extensive when the crisis broke late in 1997, covering most strategic food commodities, mining and wood resources, and key intermediate industrial goods (fertilizers, cement, iron and steel) and transport equipment.

licensing for reasons relating to public health or the environment, or for other reasons such as financial security. The system had been extensive, but substantially reduced since the early 1990s when licensing had affected about 8 % of HS categories at the 4-digit level (GATT 1991, 108). Licensing was applied to certain agricultural products: gold, coins, antiques, and silk yarn (WTO 1999c, 48). Similarly, Brunei had applied the licensing system on imports of telecommunications equipment, medical products, chemicals, and live plants and animals (WTO 2001a). Other restrictions affected the imports of rice, sugar, salt, alcohol, plants, animals, timber, and vehicles.

Import quotas

Quantitative restrictions on imports have been varied in the ASEAN countries. Indonesia's quotas on batik and trucks had been removed by 1995. Imports of sensitive items were still restricted, but no information was available on these in 1995, or in 1998 (GATT 1995; WTO 1998). The lack of data has been a reflection of the non-transparent nature of Indonesia's import regime and policies. In Malaysia, import quotas have been applied to completely-built-up motor vehicles, as well as to imports of coffee beans and round cabbages. In 1997, Malaysia also applied quantitative restrictions on imports of raw sugar (WTO 1997b). In the Philippines, rice remained the only item subject to quantitative restrictions, as most quotas had been abolished by 1999. Similarly, Singapore only applied import quotas on ozone-depleting substances (WTO 1996). Thailand applied quantitative restrictions exclusively on imports of garlic; however, in 1999, there were no quotas on agriculture. In Brunei, no formal quotas are applied, but imports of meat and poultry are monitored and subject to an annual ceiling to prevent excess supply (WTO 2001a). (Table 10.)

State trading

Indonesia had an extensive system of state-trading organizations. Two major state-trading agencies were granted the trade of rice and other major agro-food items, and cloves, respectively (GATT 1995; WTO 1998, 65). State participation seemed particularly pronounced in agri-industry and consumer goods, and despite the efforts to privatise state-trading entities largely in connection with the IMF requirements, widespread state involvement continued in the Indonesian economy. In 2002, exclusive import rights were maintained or broadened for certain firms or certain goods such as sugar, cloves, and textile cloth (WTO 2003a, 44). Similarly, Thailand had an extensive system of state participation with the 22 state-trading organizations involved in importation of mainly food products (WTO 1995c). By contrast, Malaysia had only one state-trading enterprise with a monopoly, in importing paddy and rice (WTO 1997b). This was also the case for the Philippines that employs state-trading for rice (WTO 1999b). In Singapore, there were no state-trading companies (WTO 1996); in Brunei, there was a monopoly for imports of rice.

Anti-dumping and countervailing measures

Indonesia has had no regulations on anti-dumping, and it had not initiated actions against dumping by 1995. However, Indonesia resorted actively to anti-dumping actions in the latter half of 1990s, and initiated a total of 27 cases between 1998 and 2002. These mainly affected base metals and chemicals imported from regional suppliers in Asia (WTO 2003a). Malaysia revised its anti-dumping regulations in 1993 from the original 1959 regulation, and initiated five measures during 1990-1996 against Thailand, South Korea, Singapore, the EU, and Indonesia, and imposed duties against Thailand and South Korea. In contrast, Singapore did not carry out price surveillance in imports, nor did it apply the anti-dumping system until 1994-1997 when it initiated four anti-dumping cases with definitive duties against Malaysia and Turkey on steel bars (WTO 2000b, 52). In the Philippines, new anti-dumping legislation was proposed but the old regulation persisted until 1994, after which provisions were amended by an anti-dumping act. From 1994-98, the Philippines initiated 16 cases against 11 countries; five cases resulted in definitive duties. In contrast, Thailand initiated only one anti-dumping action between 1990 and 1995, which was against imports of hydrogen peroxide from India in 1994 (WTO 1995c). Between 1995 and 1998, five cases were initiated resulting in definitive duties. The cases were against Russia, the Ukraine, Poland, Indonesia, and South Korea, and covered items such as steel sheets and glass (WTO 1999c). (Table 10.)

4.3.7 Policies towards exports

Exports of the ASEAN countries are subject to a variety of policies, both in terms of restrictions and support. Indonesia is the most restrictive while Singaporean exports are basically unrestricted, except for the same justifications applied to imports. In Indonesia, export bans, taxes, and regulations have been extensive (GATT 1995, 73), as have export controls which continued to affect up to 40 % of non-oil exports and 30 % of production (Ljungkvist 1998). Malaysia has applied export duties on forest products, crude oil, and selected palm oil products (WTO 2001b). In contrast, various forms of export promotion are also widely applied in the ASEAN countries. These policies have been, and continue to be, connected to the national industrialization strategies. One form of export promotion has been the creation of Export Processing Zones (EPZs) where firms enjoy favoured treatment with regard to import and export policies. Malaysia in particular has established numerous EPZs, in conjunction with giving the most generous incentives (e.g. pioneer status, labour utilization relief, and investment tax credit), and, as a result, the EPZs have accounted for 25 % of Malaysia's exports (WTO 1997b). Additionally, various systems of export guarantees and financing have been used. The ASEAN countries also maintain overseas trade offices to promote national export and import potential.

Exports under the GSP

According to the limited data on benefits under the Generalized Systems of Preferences, the EU has been a major provider of tariff reductions to ASEAN countries, especially to Singapore and Thailand. For Singapore, the EU provided about 70 % of all GSP benefits, Japan being the second largest provider with approximately 15-20 %, and Canada a distant third, from 1990-1995 (WTO 1996). Similarly, the EU granted almost 50 % of all GSP preferences to Thailand, while the US provided about 20 % and Japan about 10-15 % from 1991-1994 (WTO 1995c, 60). This has been based on the EU's development policies; however, the GSP privileges for the ASEAN countries were narrowed by the graduation mechanism during the 1990s.

4.3.8 Summary: The geography of trade policies in ASEAN

This chapter has presented findings on regionalism in ASEAN and its impact on the institutional basis of cooperation in trade, as well as the forms and extent of trade policies applied in the ASEAN countries. The purpose has been to illustrate how the institutional setting of trade cooperation has changed during the period of intensified regionalism, and how this has affected the actual trade measures and practices of the ASEAN countries. During the 1990s, the ASEAN countries moved forward in the stages of economic integration identified by Balassa (1961) by establishing a free trade area, and, in 2003, they agreed on forming a common market by the year 2020. Reflecting Archer's (1983; 2001) classification, the roles of ASEAN include instrument and arena, and in terms of how the Association affects the international system, its functions include: limited aggregation and articulation of interests vis-à-vis the international setting; recruitment of participant countries in regional cooperation; socialization of individuals through various institutions of trade cooperation, although to a substantially lesser extent than in the EU; and the sharing of communication and information among members. During the period 1990-2003, the major developments in (1) the ASEAN trade cooperation framework, and (2) the extent and forms of trade policies of the member countries were:

1) The institutional framework of ASEAN trade cooperation

- establishment of the ASEAN Free Trade Area and its timetable by the AFTA and the CEPT agreements in 1992;
- establishment of AFTA Council to review the implementation of the AFTA;
- enlargement of the Association, following the accession of Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999;
- extended network of trade cooperation regionally and globally; in APEC with the Asian and American countries since 1989, in ASEM with the EU countries since 1996, and in the ASEAN+3 framework with China, Japan, and Korea since 1997;
- free trade agreement with China in 2002; with India in 2003 and with Japan in 2003;
- agreement in 2003 to establish an ASEAN common market by the year 2020.

2) Major changes in the extent and forms of trade policies

- harmonization of tariff systems by adopting the HS tariff line classification;
- gradual decline in average MFN tariffs in accordance with WTO commitments;
- decrease in the average CEPT tariffs to the 0-5 % range following AFTA agreement;
- limited tariff preferences under the growth triangle concept;
- generally, a decrease in special and other duties charged on imports;
- increase in the scope of import licensing in some member countries after the financial crisis, with a concurrent decrease in licensing in some other member countries;
- general decrease in the extent of import quotas;
- extensive systems of state trading in some member countries, often connected to licensing;
- adoption of anti-dumping actions as a new trade policy instrument, and increase in anti-dumping measures especially in the late 1990s; and
- a variety of policies affecting exports, both restrictive and supportive.

Answering sub-question 1.a. of this study, the major impacts of regionalism on trade policies of the ASEAN countries included: (a) the decrease of intra-regional CEPT tariffs according to the AFTA agreement, i.e. tariffs in intra-ASEAN trade declining to the 0-5 % range; (b) the limited tariff preferences under the Indonesia-Malaysia-Singapore growth triangle scheme; and (c) the extended network of trade cooperation both regionally and globally, including FTAs with China, India and Japan. All these had an essentially liberalizing effect on regional trade. Tariff reductions under AFTA were almost completely realized by 2003. In comparison, the FTAs with other Asian countries are set to liberalize trade on a broader regional basis. Since ASEAN does not have a common trade policy, the impact of regionalism on external trade was limited.

Major changes in external trade policies included those that were based on multilateral agreements at the WTO, where the ASEAN members acted on a national basis. The overall decline in the external tariffs of the ASEAN countries was a result of the multilateral trade negotiations. An exception was the temporary fluctuation in tariffs in several member countries after the Asian financial crisis in 1997. Other policies either became more protective or more liberalizing. Some of the protectionist policies, such as the increase in import licensing and state-trading and the fluctuation of tariffs in some member countries, were a response to the financial crisis. New protectionist policies included the adoption of anti-dumping actions especially during the latter part of the 1990s. The liberalizing policies included a reduction in special and other duties on imports, and a reduction both in the extent of import licensing in some member countries, and in the amount of import quotas. All non-tariff measures applied in the ASEAN countries remained essentially national, as had been the case with the quota systems of the members of the European Communities until 1993 when the Single Market was established and the remaining national import quotas were abolished. Based on the above, the geography of trade policies in ASEAN (as elaborated in section 2.5) has evolved as follows:

- the scale of decision-making over trade policies remained at the national level
- the hierarchy of trade preferences towards external trade partners became slightly more extensive, mainly in Asia
- the industry requirements for protection remained in some industries, especially after the Asian financial crisis

As to the theories of trade policy, the ASEAN countries typically promote trade through various policies such as investment incentives, depending on the competitive structure of their industries (Stopford *et al* 1991). The policies have been applied both on regional, sub-regional and national levels, creating new industrial and export locales (cf. Grant 2000). Imports have been restricted based on either the ‘infant’ industry argument, or due to environmental or cultural factors. Import prohibitions and licensing have been widely used to protect the domestic economy.

Given the substantial variety of non-tariff measures applied in the ASEAN members, as well as their effectiveness as trade barriers, the aim of forming an ASEAN common market with a free flow of goods, services and investments by 2020 is a major challenge. The major obstacles to intra-regional trade include a myriad of quotas, import licensing, import prohibitions, and state-trading. In addition, the establishment of a common market will require a regional decision-making system with extensive upgrading of the ASEAN institutions. Being a “club based on consensus” (Yeung *et al* 1999), ASEAN is basically a loose consultation forum with relatively weak institutional capacities in terms of achieving common decisions and negotiating them fully. At the same time, the EU is a well-established institution, and it already has a 'grand design' of organizational mechanisms in common trade policy.[122] These differences between ASEAN and the EU have an impact on how the groupings make decisions in external economic relations, and how they negotiate decisions with their counterpart.

[122] The two regions also differ in terms of internal political diversity and cultural heterogeneity. In Huntington's (1996) classification, the entire EU is situated within Western civilization, while the ASEAN region comprises of Buddhist, Islamic, Sinic, and partly Western civilizations.

4.4 Inter-regional EU-ASEAN cooperation and trade negotiations

Considering the trade regimes and trade policies of the EU and ASEAN presented above, this section presents findings on how the two groupings have advanced their trade objectives at the inter-regional trade negotiations. The purpose is to identify the role of EU-ASEAN cooperation in promoting the trade interests of the counterparts, and to assess the substance of the region-to-region framework regarding the multilateral and regional trade policies. First, the institutional basis of EU-ASEAN relations is briefly presented together with discussion on the challenges of the relations identified in earlier literature. Secondly, EU-ASEAN negotiations on trade from 1978-2003 are examined with an emphasis on changes in policy stances and the sectors concerned which results in the identification of four distinctive phases in EU-ASEAN trade negotiations. Thirdly, the role of the Asia-Europe Meeting (ASEM) is examined. To conclude, the institutional bases of external trade policy coordination within the EU and ASEAN are considered, and the impacts of economic regionalism in the two groupings are evaluated.

4.4.1 Institutional basis of EU-ASEAN relations

Presently, the relationship between the EU and ASEAN is that between a common market (with a monetary union) and a preferential trade area. Relations originally began in quite a different setting, however. The European Economic Community was the first dialogue partner to establish informal relations with ASEAN in 1972. Britain's joining the EEC acted as a catalyst in formal ASEAN – EEC relations,[123] and in order to prevent a drop in trade, Joint Declarations of Intent were attached to Britain's Accession Treaty. This safeguarded trade relations of all five ASEAN member countries with Britain and the EEC (Harris & Bridges 1983; Niemi 1998). An ASEAN - EEC Joint Study Group was formed in order to enhance cooperation between the two groupings in 1975. The ASEAN countries reacted to the growing protectionism of the EEC countries, and a Special Meeting of ASEAN Ministers proposed that ASEAN should establish ties with the Council of Ministers of the EEC in 1977, and subsequently, ASEAN – EEC relations were formalised. Germany proposed that regular contacts between the two groupings be raised to the Ministerial level, and the first ASEAN – EEC Ministerial Meeting was held in 1978 in Brussels (Table 11.).

[123] As Britain adopted the common external tariffs and the GSP scheme, the British Commonwealth's trade preferences for Malaysia and Singapore were phased out.

EU - ASEAN cooperation

The links were institutionalised in 1980 when the ASEAN – EEC Cooperation Agreement was signed as the first formal agreement between the two.[124] The agreement noted the MFN principle in trade, and established objectives for commercial, economic and development cooperation. The treaty mainly contained expressions of principle and intent concerning cooperation and provided a formal framework for consultations between the partners (Harris & Bridges 1983). Furthermore, a Joint Cooperation Committee (JCC) was formed.

Table 11. Chronology of the institutionalization of EU-ASEAN relations.

Year	*New institution / form of consultation*
1972	Informal relations between EEC and ASEAN
1975	ASEAN-EEC Joint Study Group
1977	Formal ASEAN – EEC relations
1978	1st ASEAN – EEC Ministerial Meeting
1980	ASEAN – EEC Cooperation Agreement
1980	Joint Cooperation Committee
1985	1st Economic Ministers Meeting
1994	The Eminent Persons Group
1995	1st Senior Officials Meeting
2000	1st Consultation between the ASEAN Economic Ministers and the EU Trade Commissioner

Source: Compiled from http://www.aseansec.org

The institutional framework of the inter-regional relations is based on a series of consultative meetings, the most important of which is the ASEAN - EC Ministerial Meeting (AEMM) held once every 18-24 months. Other forums include the Economic Ministers Meeting, the Senior Officials Meeting, the Post Ministerial Conferences, and the Joint Cooperation Committee Meeting. The Eminent Persons Group was formed in 1994, and the first Senior Officials Meeting was held in 1995. To enhance trade matters, the first consultation between ASEAN Economic Ministers and the EU Trade Commissioner was held in 2000, and the second in 2001. Since then there have been no major changes in the institutional setting of the relations. Cooperation is based on consultative discussions in meetings that rotate among the participant countries, and there is no permanent central organization. Hence EU-ASEAN trade cooperation is an instrument for advancing the interests of the participating countries (cf. Archer 1983; 2000).

[124] Cooperation Agreement between the European Economic Community and Indonesia, Malaysia, Philippines, Singapore and Thailand – Member Countries of the Association of South-East Asian Nations. Kuala Lumpur, 7 March 1980.

Trade and investments are the two main pillars of mutual consultations between the EU and ASEAN, and according to Langhammer (2001), a major function of cooperation is the sharing of information between the two groupings. Since the AEMM's aim is to consult, negotiate and cooperate, it is largely a trade promoting forum between the EU and ASEAN. As noted earlier, the inter-regional trade relations are relatively more important to the ASEAN countries than to the EU countries. ASEAN's interests in its relations with the EU have been primarily focused on market access, while the EU has been more interested in FDI opportunities and development cooperation. This might refer to the strong intra-EU trade and to the already established common trade policy of the union. According to Lehman (1985, quoted in Yeung *et al* 1999) major problems in EU-ASEAN economic relations up until the 1980s were related to the following factors:

- since decolonization, Europe had been withdrawing from Southeast Asia
- until the 1980s, the EC perceived ASEAN as an American political sphere of influence, and a Japanese economic sphere of influence
- the ASEAN region was considered 'too stable' in terms of EC development policy which has traditionally focused on more unstable regions such as Africa, the Middle East, and Latin America
- EC foreign policy makers were "fairly illiterate in international economic affairs."[125]

On the one hand, these problems were rooted in complex historical relations, i.e. the burden of the European colonial legacy in Southeast Asia. On the other hand, they reflected the priorities of the EC in external relations, where ASEAN was more or less a peripheral issue. This was one of Southeast Asia's main concerns in its relations with the EC. As noted earlier, ASEAN is at the lowest level in the EU's hierarchy of preferential trading with developing countries. This together with the perceived competition from Central and Eastern Europe and the 'graduation' issue was a major problem for the ASEAN countries. However, the graduation issue was handled within the GATT Uruguay round, and was subsequently removed from the central focus of EU-ASEAN trade negotiations (Yeung *et al* 1999). Furthermore, the protection of European industries – if not by trade tariffs then by NTBs – created the sense of a 'Fortress Europe' among ASEAN, and was a central concern in its dealings with the EU during the 1990s.

At the same time, the EU's concerns in economic relations with ASEAN have centred on two topics, only one of which is essentially economic: the regulation of foreign direct investments

[125] Lehman (ibid.) further stated that this "illiteracy" was manifested in e.g. the EU's external economic policy where more emphasis had been given to China, despite the fact that China actually was a smaller market in terms of purchasing power than ASEAN. Also, China was far less developed, had fewer resources to offer, and was far less interesting in terms of foreign investment.

in the Southeast Asian countries. The EU has sought the liberalization of investments, especially the removal of restrictions governing repatriation of capital (ibid.). Other EU concerns have focused on social and political issues, including questions on the environment, human rights, labour rights, and political freedoms. The question of human rights issues in Myanmar, and the dispute between Portugal and Indonesia over the East Timor area have, for their part, challenged the success of these meetings. Ostensibly, these disputes have impeded efforts to deepen cooperation between ASEAN and the EU.

4.4.2 Inter-regional trade negotiations

The ASEAN–EC Ministerial Meeting plays a central role in policy formulation and coordination of cooperation between the two groupings. It is where EU and ASEAN counterparts discuss and exchange views on political and economic relations, and hold consultations on inter-regional issues. A total of 14 ministerial meetings have been held between 1978 and 2003 (Table 12.), and besides trade topics, the consultations have generally touched on several international and inter-regional issues: the overall international political situation; particular problem areas in the world (e.g. Middle East, South Africa); regional issues (e.g. Indochinese refugees); and various aspects regarding EU–ASEAN relations (e.g. industrial and development cooperation).

Trade discussions have typically dealt with market access, and have included requests to the other side to decrease tariffs or to eliminate non-tariff barriers on particular products (Kettunen 2003). Also, there have been various initiatives to cooperate in trade-enhancing programmes, or in business training and education. Thus AEMMs essentially deal with export promotion and market access requests. Discussions in the AEMM have been influenced by developments in the GATT/WTO, the EU and ASEAN, and thus multilateral and regional issues are considered below in relation to the inter-regional negotiations. The findings are based on the documented data, answering whether and to what extent the two groupings have used the inter-regional forum to forward their trade interests. Firstly, market access requests presented by ASEAN and the EU are presented, and secondly, the phases of trade negotiations are illustrated to portray the profile of inter-regional trade relations between the two organizations.

Table 12. Trade topics and other issues discussed at ASEAN – EC Ministerial meetings; issues related to developments in the multilateral and regional setting, 1978-2003.

Meeting no., year and location	***Trade topics***	***Other issues discussed***	***Developments in GATT/WTO, EU and ASEAN***
1st 1978 Brussels	EEC restrictions; ASEAN's request for market access; Commodities	Framework of cooperation	ASEAN PTA introduced in 1977
2nd 1980 Kuala Lumpur	Raw materials and mining; Trade promotion	Development cooperation	GATT Tokyo round ended in 1979
3rd 1981 London	Commitment to open international trade system	Instability in Asia; ASEAN's role	
4th 1983 Bangkok	Worsening international trade; Commodities agreements	Crisis in Kampuchea	
5th 1984 Dublin	Tariffs and NTBs; EEC's GSP	Kampuchea; Narcotics	
Econ. 1985 Bangkok	MFA and textiles; EC's cumulative rules of origin	Science, energy, tourism	
6th 1986 Jakarta	GATT and tropical products; EC's GSP	Energy, timber, technology cooper.	GATT Uruguay round began in 1986
7th 1988 Dusseldorf	GATT; ASEAN request for market access for tropical products; Private sector participation; EC's GSP	Management cooperation	Single European Act in 1987
8th 1990 Kuching	EC request for market access for various manufactures; ASEAN request for market access for manufactures and tropical products; Bilateral trade issues shifted to JCC; Tariffs and NTBs	International rapprochement, disarmament	
9th 1991 Luxembourg	ASEAN request on EC's GSP; Trade promotion	Cambodia, refugees; Middle East	
10th 1992 Manila	AFTA; Cooperation at JCC; SOM dialogue	Vietnam and Laos into TAC	AFTA agreement in 1992
11th 1994 Karlsruhe	JCC's subcommittee in trade; EC's New Asia Strategy; European Single Market, AFTA; GATT; ASEAN concern about EC's GSP	Business conference; ARF; Vietnam to ASEAN; Myanmar	EU common market formed in 1993 GATT Uruguay round ended in 1994
12th 1997 Singapore	ASEM; WTO; Cooperation in customs matters; Patents and trademarks; Standards and quality assurance	New members; Development; Technology transfer; HRD	WTO formed in 1995 1st ASEM in 1996 2nd ASEM in 1998
13th 2000 Vientiane	The euro; WTO; NTBs; oil price; e-ASEAN – e-Europe link	New members; Myanmar	3rd ASEM in 2000 WTO Doha round began in 2001
14th 2003 Brussels	ASEAN-EU trade facilitation; Multilateral trading system; Doha Development Agenda	Threat of terrorism; ARF	4th ASEM in 2002 EMU in 2002

Sources: Joint Declarations of the AEMM, 1978-2003.

4.4.2.1 Market access requests

The ASEAN representatives have actively used the AEMM to promote the trade interests of the Southeast Asian countries to their European counterparts. In the first meeting in 1978, ASEAN advocated that the EEC should remove or relax tariffs and non-tariff barriers and improve its Generalized Systems of Preferences (GSP).[127] Tropical products were the focus of special attention in 1988, as the ASEAN ministers emphasized the importance of vegetable oil and fat products for their economies, and stressed the need for further expansion of their exports to the world market, including the EEC. Similarly, ASEAN called for the expansion of market opportunities in the EEC for tropical timber[128] (Table 12.). The critical export products were emphasized again in 1990 when the ASEAN countries requested better market access and a more open EC trade policy for textiles and clothing, tropical vegetable oils, cocoa products, canned pineapple, timber products, tapioca products, pulp, and fuel wood. It was intended that the proposed liberalization should include the reduction of tariffs, the elimination of non-tariff barriers and the elimination of tariff escalation. In 1990, ASEAN ministers also requested that the EC take into account ASEAN exports of agricultural products in its implementation and review of the Common Agricultural Policy.[129] In 1991, the EC was in the process of revising the GSP, and ASEAN negotiators urged the EC to take Southeast Asian interests (e.g. the donor country content) into account in its revision. Similarly in 1994, ASEAN ministers expressed their concern about the 'Social Incentives' in the EU Commission's proposal to review the GSP.[130]

Whereas ASEAN has frequently called for better market access for its exports at the Ministerial meetings, according to available data the EU has rarely done so. Instead, the EU has repeatedly referred to the multilateral trade negotiations to discuss market access and trade policy issues. The only exception to this was in 1990 when the EC requested that ASEAN countries sign the Multilateral Trade Negotiations agreements regarding technical barriers to trade and government procurement. The EC also called for improved market access for motor cars, personal computers, paper, textiles and clothing, fertilizers, pharmaceuticals and chemical products. It was suggested that this be provided through the reduction of tariffs and the elimination of non-tariff barriers.[131]

Joint decisions on trade cooperation have included reorganizing cooperation, and forming and upgrading institutions to initiate and discuss trade issues. In order to settle trade issues more effectively, the EC and ASEAN agreed in 1990 that bilateral trade issues would be handled at the Joint Cooperation Committee (JCC) meetings. The decision was also made in 1992 to

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[127] Joint Declaration of the 1st ASEAN – EC Ministerial Meeting, Brussels, 21 November 1978
[128] Joint Declaration of the 7th ASEAN – EC Ministerial Meeting, Dusseldorf, 2-3 May 1988
[129] Joint Declaration of the 8th ASEAN – EC Ministerial Meeting, Kuching, 16-17 February 1990
[130] Joint Declaration of the 9th ASEAN – EC Ministerial Meeting, Luxembourg, 30-31 May 1991
[131] Joint Declaration of the 8th ASEAN – EC Ministerial Meeting, Kuching, 16-17 February 1990

conduct dialogue at the level of both the Ministerial and Senior Officials Meetings (SOM).[132] Concrete measures to enhance trade relations included the initiation of cooperation in customs matters, and the EU – ASEAN Patents and Trademarks Programme in 1997.[133] In line with the work programme adopted by the JCC in 1999 relating to issues of market access,[134] it was decided in 2000 that the ASEAN-EC Informal Coordinating Meeting would be held regularly to ensure the implementation of the programme.[135]

4.4.2.2 Four phases of trade negotiations

The consultations on trade issues between ASEAN and the EU are situated within the context of developments in the multilateral and regional environment (Table 15.). Trends in the multilateral GATT/WTO negotiations and regional trade policies in the EU and ASEAN have had an impact on how cooperation has evolved over the 25 years of inter-regional relations. As a result, trade cooperation between ASEAN and the EU can be separated into distinct periods that are based on major trends and issues discussed between the two groupings. In the following, four phases are illustrated, namely: (1) General discussions, (2) Active bargaining, (3) Enthusiasm for cooperation, and (4) Political and structural challenges.

(1) 1978 – 1986 General discussions

The early years of cooperation were characterized by general discussions on international trade, the GATT, and commodities agreements. In the first meeting, ASEAN requested better market access for manufactured, semi-manufactured and primary products[136] in general. Apart from consultations on the international agreements on commodities such as natural rubber, tin, and coffee, no requests for market access for particular products were made by either side in the five meetings held between 1980 and 1986. Besides trade, other issues discussed included the overall framework for cooperation; instability in Asia, in particular Cambodia and cooperation in energy and other fields (Table 12.). At another front, the first ASEAN-EC Economic Ministers Meeting was held in 1985 with the specific intention of strengthening economic ties. The meeting resulted in an Economic Agreement with the aim of developing transfer of technology, joint ventures and cooperation between financial institutions (Yeung *et al* 1999, 81). ASEAN's objective was to enhance trade and industrial links, especially to provide the capacity for self-improvement via transfer of technology, increased direct supplier

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[132] Joint Declaration of the 10th ASEAN – EC Ministerial Meeting, Manila, 29-30 October 1992
[133] Joint Declaration of the 12th ASEAN – EC Ministerial Meeting, Singapore, 13-13 February 1997
[134] Joint Press Release of the 13th ASEAN – EC JCC Meeting, Bangkok, 24-27 May 1999
[135] Joint Declaration of the 13th ASEAN – EU Ministerial Meeting, Vientiane, 11-12 December 2000
[136] Joint Declaration of the 1st ASEAN – EC Ministerial Meeting, Brussels, 21 November 1978

involvement and investment, long-term manufacturing opportunities, marketing assistance and foreign direct investment. The EC hoped to encourage small and medium sized enterprises to invest in the ASEAN countries, with an attempt to facilitate this by arranging investment seminars on industrial collaboration and transfer of technology and by offering to provide cooperation in science and technology.

Hence the first phase in EC-ASEAN trade negotiations coincided with a relatively inactive period in the multilateral and regional contexts. In 1979, the GATT Tokyo round ended and was followed by a period of seven years before the Uruguay round began in 1986. Regional economic integration within both the EC and ASEAN was also in a phase of relative stability. The ASEAN countries had introduced the preferential trade arrangements as an initial form of regional integration in trade, while the EC was preparing for the agreement on the Single European Act signed in 1987 to form a common market in the next five years.

(2) 1988 – 1992 Active bargaining

In the second phase, ASEAN actively used the forum to call for better market access for various products in the EC market. As was noted above, in 1990 the ASEAN representatives requested a more open trade policy for exports in textiles and clothing, as well as for tropical crops and tropical forest products. The EC responded by emphasizing that questions of market access were an element of trade liberalization within the GATT Uruguay Round process. At the same time, however, the EC requested that ASEAN provide improved market access for an array of manufactured products. The decision was made to shift bilateral trade issues to the JCC. In 1991, trade and investment issues were discussed at the EC-ASEAN Trade Experts Meeting, and the AEMM turned its focus to areas such as forest management and environmental protection.[137] Regional economic integration of both the ASEAN countries (the ASEAN Free Trade Area) and the European Communities (the Single European Market) were also discussed, and cooperation in this field was anticipated. Throughout this period, trade issues were at the forefront (Table 12.). Active bargaining coincided with the process of regionalism in both regions.

At the time, the Uruguay Round negotiations within the GATT were proceeding slowly and faced a multitude of difficulties. This was because of more complex negotiations due to the increased number of participants, as well as the number of new questions, such as services

[137] Joint Declaration of the 8th ASEAN-EC Ministerial Meeting, Malaysia, 16-17 February 1990; Joint Declaration of the 9th ASEAN-EC Ministerial Meeting, Luxembourg, 30-31 May 1991.

and trade related investment issues, under negotiation. Ostensibly, the ASEAN countries were concerned over the outcome of the GATT negotiations. They had also faced the EC's protective policies towards agricultural and manufactured products at the turn of the 1990s. The EC had reacted to the increased competitiveness of the Asian industries, especially in textiles and electronics, in order to protect its industries within the Community. The EC was also in the process of establishing the common market to be realized in 1993, and was perceived by others as a 'fortress Europe', giving reasons for the ASEAN representatives to push their trade priorities. Politically, too, the 1990s had started with problems in the relations, as the EC had introduced a policy of 'conditionalities' linking trade and aid to the issues of human rights,[138] democratisation, and the environment. However, the declarations of the subsequent ASEAN–EC ministerial meetings did not touch on the questions concerning Burma, China or Indonesia, though they did discuss international political issues in, for example, Cambodia, Vietnam, Laos and the Middle East. Sensitive political relations were thus accompanied with active bargaining on trade.

(3) 1994 - mid-1997 Enthusiasm for cooperation

Relations between the EC and ASEAN improved again towards the mid-1990s, for predominantly economic reasons. Globally, the focus of trade and investments had shifted to the Asia-Pacific, and the EC subsequently 'found' Asia again and started to seek stronger relations with the region. This noticeably renewed interest was reflected in the ASEAN-EC ministerial meeting in 1994 in Karlsruhe, often denominated as a 'landmark' meeting between the two. The Eminent Persons Group was created, consisting of members from both regions, to develop a comprehensive approach to relations towards the year 2000 and beyond. Additionally, the 'spirit of Karlsruhe' provided the impetus in 1995 for the first meeting of the ASEAN – EC Senior Officials Meeting, followed by the second one next year, "[..]where frank discussions were held on a wide range of issues, including sensitive topics. These meetings indicated that the EU recognised the political and economic importance of ASEAN and the wider Asia-Pacific[..]"[139] Also, the ASEAN Secretariat recognized the ASEM meeting as an important forum where ASEAN could take an active role:

> "The launch of the New Asia Strategy in 1994 and the declaration that ASEAN would remain the cornerstone of the EU's dialogue with countries in Asia at the Karlsruhe meeting set the stage for the convening of the first Asia-Europe Meeting (ASEM) which held its inaugural Summit in Bangkok in March 1996 as

[138] Violations to human rights in Asia referred to by the EC included the rise of the Burmese military junta, the Chinese actions towards demonstrators in Tiananmen Square, and the Indonesian hostilities in Dili (Antikainen-Kokko 2000; 2003).

[139] ASEAN Secretariat (2000). [Online.] Available at http://www.aseansec.org.

> well as the 1st ASEM Foreign Ministers Meeting in Singapore in February 1997 where ASEAN played a pivotal role."

In 1994, the European Commission had published its "Towards a New Asia Strategy", emphasizing the idea of "partnership with equals" (Strange 1997). The launch of the Asia-Europe Meeting (ASEM) in 1996 with representatives from ten Asian countries and 15 EU countries was the most visible implication of the new approach (further discussed in 4.4.3). The EU had already set up various institutions and programmes to promote economic and cultural cooperation between Europe and Asia in the early 1990s.[140] The European Investment Bank (EIB) had started in Asia in 1993, and the European Business Information Centre (EBIC) was set up in the Philippines in 1993.

In line with the New Asia Strategy, the EU was preparing to formally expand relations with ASEAN and to upgrade the Cooperation Agreement.[141] In 1996, the European Commission released the Communication "Creating a New Dynamic in ASEAN - EU Relations" which emphasized the New Asia Strategy, seeing ASEAN as an engine of the new Asia-Europe dialogue and as one of the key elements of the EU's Asia policy. Drawing on the idea of the 'new dynamic', the DG Trade of the European Commission subsequently published "EU-ASEAN Relations – A Growing Partnership". The publication presented four main issues for economic and industrial cooperation: 1) People-to-people relations encouraging mutual understanding, 2) Scientific and technological issues, 3) The legal and regulatory environment, and 4) Programmes encouraging investment and business contacts. Cooperation in education included the Junior Managers Exchange Programme, the ASEAN-EC Management Centre, and the ASEAN-EC University Network. Scientific and technological topics embraced energy, transport, information and communication technology, and environment cooperation.[142] The mutual interest to broaden links especially on the economic front was evident also in the 12th ASEAN–EU Ministerial Meeting in Singapore in February 1997. The meeting noted the swift economic growth in Southeast Asia and the mutual interest in collaboration, and launched the idea of the "new dynamic in ASEAN–EU relations". The AEMM summarized the two main issues in inter-regional economic cooperation:

- Trade: Customs cooperation; sharing of information; EU – ASEAN Patents and Trademarks Programme; industrial standards and quality issues.

140 Regarding developing countries in general, the EU has initiated various programs since the 1980s, e.g. the European Community Investment Partners (ECIP) that was established to help EU companies set up joint ventures with companies from Asia, Latin America and the Mediterranean countries.

141 European Parliament (1995a; 1995b; 1995c)

142 EU (2000). [Online.] Available at http://europa.eu.int

- Business and investment cooperation: Investment opportunities in the EU and ASEAN; European Investment Bank in the ASEAN countries; European Community Investment Partners Programme (ECIP).[143]

What was significant in the 1997 meeting, was that sensitive political issues, e.g. the situation in Myanmar, a non-member of ASEAN at that time, were also discussed. As the issue of human rights was at the forefront of EU external policies, the political situation in Myanmar had posed an ongoing problem in the EU's relations with ASEAN. For ASEAN, these meetings indicated that the EU recognised the political and economic importance of ASEAN and the wider Asia-Pacific.

The third phase of ASEAN – EU trade relations was thus characterized by a sense of enthusiasm and an active interest in enhancing cooperation through various programmes. At the time, multilateral trade negotiations had reached a new level, with the establishment of the World Trade Organization (WTO) as a result of the conclusion of the GATT Uruguay Round. This could be considered a success after the prolonged negotiations. The outcome of the GATT had also included decisions to liberalize trade in sectors important to the ASEAN countries, such as textiles and clothing. At the same time, the economies of especially Southeast Asia were growing at high rates, adding to the optimism.

(4) Late-1997 – 2003 Political and structural challenges

The fourth phase in trade cooperation started in late 1997 when inter-regional relations faced two new challenges, namely the Asian financial crisis and the political tension between the EU and ASEAN after Myanmar joined ASEAN in December 1997.[144] The EU refused to conduct a Ministerial Meeting with a counterpart which included a state led by a military junta.[145] This seriously affected the relations and remained an obstacle to cooperation, delaying the ministerial meetings for almost three years. At the same time, the financial crisis was spreading in East and Southeast Asia, developing into an economic crisis and seriously affecting the ASEAN economies. Although the recession reduced the potential for economic cooperation between ASEAN and the EU, it transpired that this was not as serious a problem as the issue over Myanmar. However, a meeting of the Joint Cooperation Committee was held in 1999, taking note of a 'joint response' to the Asian crisis and the "new dynamic in ASEAN – EU relations". The meeting recorded the EU's proposal of a protocol on cooperation in

[143] Joint Declaration of the 12th ASEAN - EU Ministerial Meeting, Singapore, 13-14 February 1997

[144] Political problems emerged regarding Myanmar's membership since EU had a policy of not cooperating with any country ruled by a military junta, and could not accept Myanmar into the EC – ASEAN Cooperation Agreement.

[145] The Burmese were not granted visas to enter the EU (Parviainen 2001).

customs matters, and the counterparts emphasized cooperation to foster business relations, especially among small and medium sized enterprises. Reference was also made to new cooperation programmes launched since the earlier JCC meeting, notably the Asia-Invest programme and the 'Asia Urbs' programme for urban development.[146]

After the AEMM standstill, ASEAN proposed to arrange the 13th ministerial meeting in Vientiane in late 2000. Ostensibly, the major outcome of the meeting was the mere fact that it took place. The discussions mainly touched on general issues such as the introduction of euro, non-tariff barriers, and the price of oil.[147] The meeting was considered a relative failure by ASEAN because of the poor turnout of the EU since only three European ministers (out of fifteen) arrived to the meeting. As it turned out, the AEMM coincided with the prolonged EU Governmental Conference held in Nice in December 2000, a major EU meeting where enlargement and internal restructuring issues were negotiated. Concerning ASEM, the EU Commission had prepared a follow-up for its Asia Strategy from 1994, and issued a Communication on "Europe and Asia: A Strategic Framework for Enhanced Partnership" on September 4, 2001. The communication contained proposals to enhance EU-Asia relations in key areas such as peace and security, trade and investment, poverty reduction, democracy, good governance and the rule of law, human rights, partnerships and alliances on global issues, and promotion of mutual awareness and knowledge.

In early 2003, the 14th AEMM in Brussels held general discussions on trade facilitation between the two regions and on the multilateral trading system, especially the Doha Development Agenda. Guidelines for a future agenda for cooperation were outlined, including the promotion of bilateral trade and investment flows, sustainable and equitable development, cooperation to combat terrorism, promotion of cultural cooperation and people-to-people contacts, and promotion of dialogue on issues of common concern such as democracy, good governance, human rights, and the rule of law.[148] Thus the outline followed the EU Commission's strategy for Asia relations presented above.[149] Later, on 9th July 2003, the EU Commission released a Communication "A New Partnership with South East Asia" that portrayed the strategic priorities in EU's relations with ASEAN in line with the above agenda. Regarding trade, the EU proposed a Trans-Regional EU-ASEAN Trade Initiative

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[146] Joint Press Release of the 13th ASEAN – EC JCC Meeting. Bangkok, 24-27 May 1999
[147] Joint Declaration of the 13th ASEAN – EU Ministerial Meeting, Vientiane, 11-12 December 2000
[148] Joint Co-Chairmen's Statement of the 14th EU – ASEAN Ministerial Meeting, Brussels, 27-28 January 2003
[149] However, the issue of terrorism was at the forefront after September 11th, 2001, and as a result of the meeting, the counterparts also issued a Joint Declaration to Combat Terrorism.

(TREATI) as a action plan for dialogue and regulatory cooperation in trade facilitation, market access and investment issues between the two regions. According to the proposal, the intention of the dialogue was to inform partners about each other's regulatory systems and eventually develop into an exercise of approximation and harmonisation. The proposal noted that some ASEAN countries had expressed a desire to pursue a FTA with the EU, and suggested that the FTA ("a *deeper FTA*") should encompass regulatory cooperation, address NTBs such as standards and customs procedures, and also deal with services, investment and competition, in order to produce a substantial impact on trade flows.[150]

The latest phase of EU-ASEAN trade cooperation was thus affected by political fluctuations, the Asian financial crisis, and the larger-scale cooperation. The WTO had been established, the ASEM process was started, and both the EU and ASEAN had enlarged with new member countries. Regional integration had also deepened in both regions, with the European monetary union and the gradual establishing of AFTA.

4.4.3 Asia-Europe Meeting (ASEM)

The launch of the Asia-Europe Meeting had its origins in EU-ASEAN relations. In conjunction with the 11th AEMM in Karlsruhe in 1994, Prime Minister Goh Chok Tong of Singapore had suggested a summit meeting between countries of Europe and Asia (Leino 1996, 21). After discussions, it was decided to enlarge the meeting on the Asian side to include three East Asian countries – Japan, China and South Korea – in addition to the seven ASEAN countries. The first summit was held in Bangkok in 1996 with representatives from 10 Asian and 15 EU countries. The main areas of discussion were political dialogue and cooperation in economic and other areas.[151] For obvious reasons, the EU's most important Asian partners are Japan, China, and ASEAN (Algieri 1999, 86), and the launch of the ASEM was the most visible implication of the enhanced relations between Europe and Asia in the mid-1990s. The first meeting also resulted in the establishment of the Asia-Europe Foundation (ASEF) in 1997 in Singapore to foster greater people-to-people relations and to develop institutional links between Asia and Europe. The Asia-Invest program was launched by the EU to encourage trade and investments between the EU and South and Southeast Asia. The program provides various instruments to help companies study new markets, to do

[150] Communication from the Commission: A new partnership with South East Asia. COM (2003) 399/4. [Online.] Available at http://europa.eu.int. (Visited 17.11.2003)
[151] ASEM also spurred a new wave of literature, especially in the areas of political economy and international relations; e.g. the special edition of the Journal of the Asia Pacific Economy 4: 1 (1999).

business in unfamiliar cultural environments, to meet and evaluate potential business partners and to identify investment opportunities.[152] As to the organizational form, the members wanted to maintain ASEM as an informal process and keep it from being further institutionalised. The counterparts had a different approach inasmuch as the Asians wanted to build mutual understanding, whereas the Europeans wished to have an agenda and an institutionalised way of working (Leino 1996).

Economic recession in Southeast Asia halted the progress of cooperation, and the second summit held in 1998 in London took place in very different circumstances as most of the Asian countries were in the midst of a severe financial crisis (Cammack & Richards 1999). However, recovery since 1999 gave some impetus for renewed cooperation, and the third ASEM summit held in October 2000 in Seoul brought together cooperation attempts especially in the areas of economic and financial matters, resulting in an Asia-Europe Cooperation Framework 2000. New initiatives were made in information technology, transnational and law enforcement matters, human resources development, environmental matters, and health issues. Similarly, the fourth ASEM summit in September 2002 in Copenhagen agreed to work towards a closer economic partnership, outlining that the three economic areas (trade, investment and finance) could include issues such as the creation of a Eurobond market in Asia and the use of the euro as an international currency. Furthermore, the meeting issued a declaration on cooperation against international terrorism.

The relevance of ASEM to EU-ASEAN cooperation can be evaluated in light of the economic and political priorities of the participants. For the EU, the ASEM process has evidently been an important one, broadening its regional Asian relations into a framework of 10 Asian countries.[153] This seems to have reduced the EU’s interest in the EU-ASEAN ministerial meetings. For ASEAN, this could be regarded as a challenge, as the launch of the Asia-Europe Meeting increased the number of cooperating countries to include China, Japan, and South Korea – a fact that might decrease the significance of EU-ASEAN cooperation. At the same time, the intensifying East Asian cooperation has led to the ASEAN+3 process, and the EU has been occupied with the process of both enlargement and restructuring its institutions. Thus, trade cooperation has been further challenged by regionalization trends both in East Asia and in Europe.

[152] EU (2000). [Online.] Available at http://europa.eu.int
[153] Additionally, the EU regards the ASEAN Regional Forum (formed by ASEAN in 1994 for regional security negotiations) as an important forum for inter-regional negotiations.

4.4.4 Summary: Profile of trade negotiations

The above investigation has focused on EU-ASEAN trade cooperation with the aim of assessing whether and, if so, how the two groupings have used the forum to advance regional trade priorities. Answering sub-question 1.b. of this study, it was found that:

- ASEAN has repeatedly used the AEMM as a forum to request better market access for its various exports to the EU, while the EU has instead adhered to multilateral trade negotiations
- the two have discussed the intensifying economic regionalism of both regions as a matter for further cooperation potential
- the ministerial meetings have initiated cooperation in e.g. customs matters, business education and investment cooperation
- trade cooperation has, however, been relatively slow and vulnerable to political issues that have been bound up with economic matters
- trends in the EU-ASEAN relations can be divided into four phases according to the intensity of trade issues discussed in the AEMMs and the multilateral trade environment

To summarize, trade policies are not decided in inter-regional negotiations, but on a national or regional level. Negotiations at the AEMM have thus been more a forum to articulate the existing trade policies and to request market access, rather than to actually agree on the policies. Inter-regional relations between the EU and ASEAN focus more on consultation, general discussion, and the initiation of cooperative schemes to facilitate trade on a long-term basis. Examples of such schemes are cooperation in customs matters and the standards and quality assurance schemes between the EU and ASEAN. Furthermore, the inter-regional meetings typically promote the multilateral setting of trade negotiations, supporting the argument of mutually evolving regionalism and multilateralism (Michalak & Gibb 1997; Milner 1997).

In connection with the four phases in inter-regional relations, challenges have been evolving for both the EU's and ASEAN's external economic policies relating to the regionalism trend in East Asia and in Europe. Yeung *et al* (1999) argued that the EU was moving down ASEAN's list of relative priorities, because of the regional focus on the Asia-Pacific area. During the 1990s, ASEAN intensified its relations with South Korea, China and Japan within the ASEAN+3 process. Furthermore, ASEAN initiated the ASEAN Regional Forum (ARF) as a political dialogue process with the major Asian and Western countries. These developments indicated a shift of ASEAN interest to regional issues within the Asia-Pacific, where EU-ASEAN relations may face an uncertain future. Similarly, the enlargement of the EU challenges inter-regional cooperation and shifts European trade interests towards intra-EU trade. The recent proposals in 2003 for an EU–ASEAN free trade agreement must be evaluated against the backdrop of the 25-member EU and the diverse ASEAN where the three newer members are only gradually being integrated into the regional AFTA.

As to the specific export sectors under negotiation, the ASEAN countries have repeatedly promoted tropical exports, such as vegetable oils, cocoa, pineapple and timber products as well as textiles and clothing, and have requested better market access for these in the EU market. The EU has typically referred to multilateral negotiations as the setting for market access discussions; however, it has requested better market access for various manufactured items including cars, computers, paper and chemical products.

Organizationally, ASEAN's main dilemma in external trade negotiations is its loose structure. Yeung *et al* (1999) pointed out that the major problem in this respect is the lack of any mechanism to negotiate a common ASEAN position. While the EU has the Commission, which is responsible for developing and negotiating a common trade policy in the name of the European Union, ASEAN has no institutional body that has the responsibility or the authority to develop a common negotiating strategy (cf. Archer 1983; 2001). At the same time, ASEAN is a rather outward-oriented regional trade organization, with most of its trade being directed outside the region. In contrast, the EU is more a community-oriented 'trade bloc' where trade priorities are predominantly intra-regional. It is apparent that ASEAN is facing a challenge in the coordination of its trade relations with the EU and with other trading partners.

4.5 Summary of the chapter

This chapter has presented findings on the trade policies of the EU and the ASEAN countries, as well as on EU-ASEAN trade negotiations, against the framework of multilateral trade policies of the WTO. As regards the EU, regionalism was found to have six specific types of impact on the EU's common trade policy: (a) an extended network of preferential trading agreements; (b) harmonizing of import quotas; (c) the initiation of Market Access Strategy; (d) the initiation of more anti-dumping measures against Asia; (e) new regulations in the EU standards. Of these, the first three were essentially liberalizing, while the rest were more protective. The protectionist measures towards the ASEAN countries remained relatively moderate. Other major changes in the EU's trade policies, such as the overall decrease in tariffs and the further elimination of import quotas on textiles and clothing products, were a result of multilateral agreements at the WTO. Based on the above, the geography of EU trade policies evolved as follows:

- EU-wide decision-making and international representation were strengthened; in AEMM, the EU adhered to multinational trade negotiations;
- the hierarchy of trade preferences became more extensive and complex; general negotiations were commenced within the Asia-Europe Meeting;
- the industry requirements for protection decreased considerably in agriculture and industry

Regarding trade policies of the ASEAN countries, the major impacts of regionalism included: (a) the decrease of intra-regional AFTA tariffs; (b) the limited tariff preferences under the Indonesia-Malaysia-Singapore growth triangle scheme; and (c) the extended network of trade cooperation, including FTAs with China, India and Japan. All these had an essentially liberalizing effect on regional trade. Major changes in external trade policies included those based on multilateral agreements at the WTO, where the ASEAN members act on a national basis. The overall decline in the external tariffs of the ASEAN countries was a result of the multilateral trade negotiations, but temporary fluctuation in tariffs was observed in several member countries after the Asian financial crisis in 1997. Other policies became either more protective or more liberalizing, and some of the protectionist policies were a response to the financial crisis. Thus, the geography of trade policies in ASEAN evolved as follows:

- decision-making in trade policies remained at the national level; the AEMM was actively used to promote trade with the EU
- the hierarchy of trade preferences became slightly more extensive; general negotiations were commenced within the Asia-Europe Meeting;
- the industry requirements for protection remained in some industries especially after the Asian financial crisis

Furthermore, trade negotiations between the EU and ASEAN evolved in four phases based on the activity of cooperation and issues of common interest: (1) General discussions 1978-86, (2) Active bargaining 1988-92, (3) Enthusiasm for cooperation 1994-mid-97, and (4) Political and structural challenges late-1997-2003. These phases reflected the trade priorities of both parties, as well as the overall developments in the multilateral setting and the global trade environment.

5. EU-ASEAN trade flows and trade policies

In this chapter, the various trade policies related to trade flows between the EU and the ASEAN countries are illustrated, answering the second sub-question posed in the introduction of the study, namely:

> What kind of policy stances can be identified based on the competitive structure of industries in EU-ASEAN trade?
>
> a. Which sectors in EU-ASEAN trade have been affected by regionalism and multilateralism in trade policies?
> b. How have Finland's trade policies changed after joining the EU, and which sectors have been affected by regionalism?

Firstly, the trends in overall exports and imports between the two regions are sketched to give an overview both of the value and structure of trade (in section 5.1). Secondly, the composition of trade is portrayed against the major trade policies of the EU and the ASEAN countries (5.2.). The analysis is based on findings on trade policies presented in Chapter 4, drawing together the incidence of trade policies with regard to trade flows both on a longitudinal and cross-sectional basis. Thirdly, changes in the trade policies of Finland towards ASEAN are illustrated with a study into detailed product categories of Finland-Malaysia trade in electronics (5.3.). The findings show the sectors that were subject to the changing trade policies as a result of Finland's integration into the EU customs union.

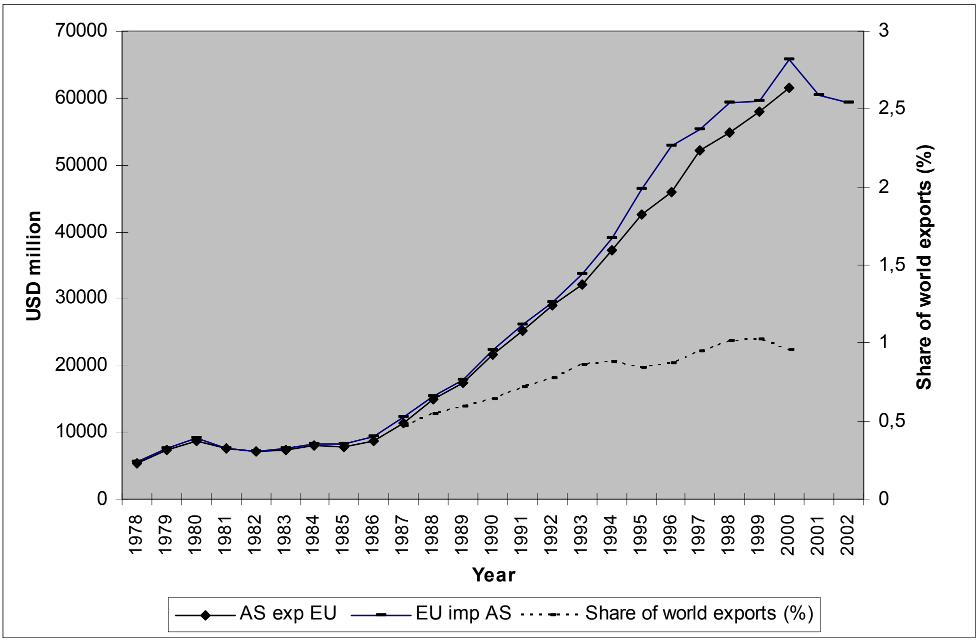
5.1 The pattern of EU-ASEAN trade

Trade relations between Europe and Southeast Asia have evolved with significant changes in both the volume and structure of trade. Created by colonial relations, the traditional trade flows were based on Southeast Asian exports in the tropical primary sector and European exports in the manufacturing sector. The industrialization of Southeast Asian countries was the most important factor behind recent changes in the value and product composition of their exports. This was related to the inflow of foreign direct investments and the shift of manufacturing into the ASEAN countries since the late 1970s (Robison 1986; Hill 1989; Alvstam 1993; Yeung 1994; Hill & Athukorala 1998; Bende-Nabende 2000; Alvstam 2001a; Andreosso-O'Callaghan & Bassino 2001). The electronics sector, in particular, grew as a result of the shift of assembly operations into some Southeast Asian countries.

5.1.1 Trade value 1978-2002

The value of trade between the EU[154] and ASEAN countries[155] has grown substantially (about ten-fold in nominal terms) since 1978 when relations between the two groupings were formalized. Both the ASEAN countries' exports to the EU, and the EU countries' exports to the ASEAN countries have increased notably in the long run, the latter however slumping somewhat following the Asian financial crisis in 1997. Figure 9. illustrates the value of the ASEAN countries' exports to the EU countries over the 25-year period. This data is compared with the EU imports from ASEAN, depicting the same trade flows.

Figure 9. ASEAN exports to the EU; data comparison with EU imports from ASEAN (USD millions), 1978-2002, and share of world exports (%), 1987-2000.



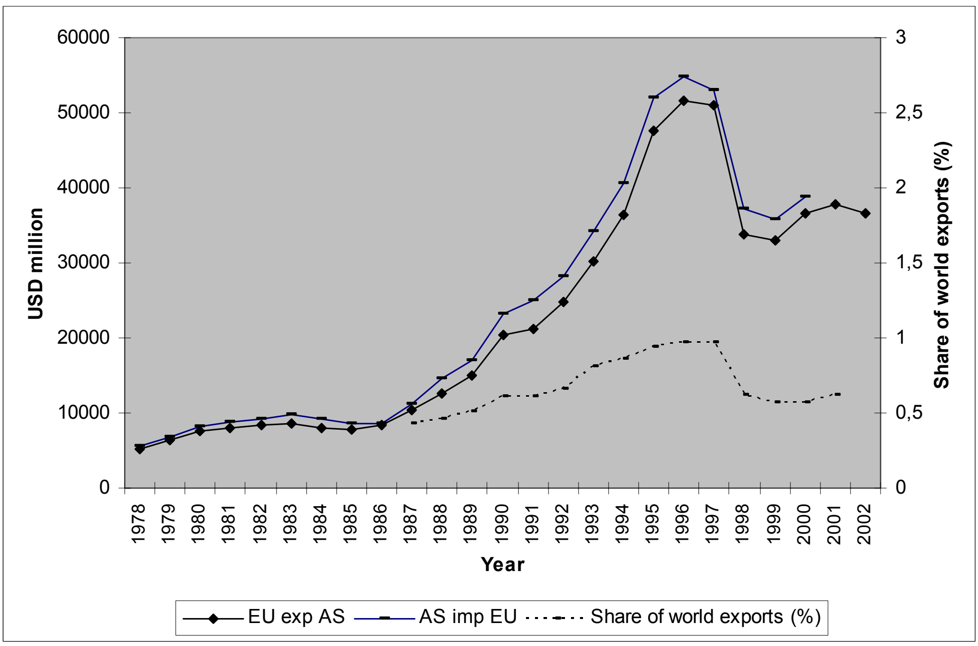
Source: Compiled and calculated from the IMF Direction of Trade statistics, various issues.

[154] In the trade analysis, the EU countries are treated as a grouping because of the common trade policy, and only a few notions about national data will be provided. Aggregate data includes nine member countries up until 1980, ten members from 1981, twelve members from 1986, and 15 member countries from 1995 to 2002.
[155] As to ASEAN, the analysis incorporates ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand), unless otherwise indicated. For simplicity, the aggregate trade of these countries is referred to as 'ASEAN trade'. Other members (Brunei, Cambodia, Laos, Myanmar and Vietnam) are excluded, either due to their insignificant trade with the EU, or due to the lack of data on trade policies, or both.

The annual value of the ASEAN countries' exports to EU countries remained between 5 and 10 billion USD in the initial phase of 1978-1986. The takeoff can be said to have occurred in 1987, after which exports grew continuously, reaching the annual value of approximately 58 billion USD in 2000. The 'mirror' figures of the same trade flow, i.e. the EU countries' imports from the ASEAN countries, corresponded well with this data up until 1994. After that, there were more noticeable differences between the two sets of statistics that can partly be explained by the overall growth in the figures. Total ASEAN exports to the EU, as a share of total world exports, grew from about 0.5 % to about 1 % from 1987-2000.

Similarly, the value of EU countries' exports to the ASEAN countries increased significantly from 1978-2000, growing over nine-fold up until 1997 (Figure 10.). The initial takeoff began in 1987. However, the value of trade declined dramatically due to the Asian financial crisis in 1998, but increased somewhat in 2000. The drop, in USD terms, reflects the currency depreciation especially in Indonesia and Malaysia and the reduced demand in the ASEAN countries.

Figure 10. EU exports to ASEAN; data comparison with ASEAN imports from the EU (USD millions), 1978-2002, and share of world exports (%), 1987-2000.



Source: Compiled and calculated from the IMF Direction of Trade statistics, various issues.

Again, the figures are compared with 'mirror' data of the ASEAN countries' imports from EU countries, and although data are less similar than in the previous case, they are relatively consistent with each other for most years. The share of EU exports to the ASEAN countries, as a percentage of world exports, increased from about 0.5 % to approximately 1 % from 1987-1997, after which the share declined to about 0.6 %. The most recent figures for the year 2002 show that the value of exports from EU countries' to ASEAN countries remained at the same level as in 1994. This also reflected significant changes in the trade balance between the two regions, which clearly became negative for the EU from 1998 onwards.

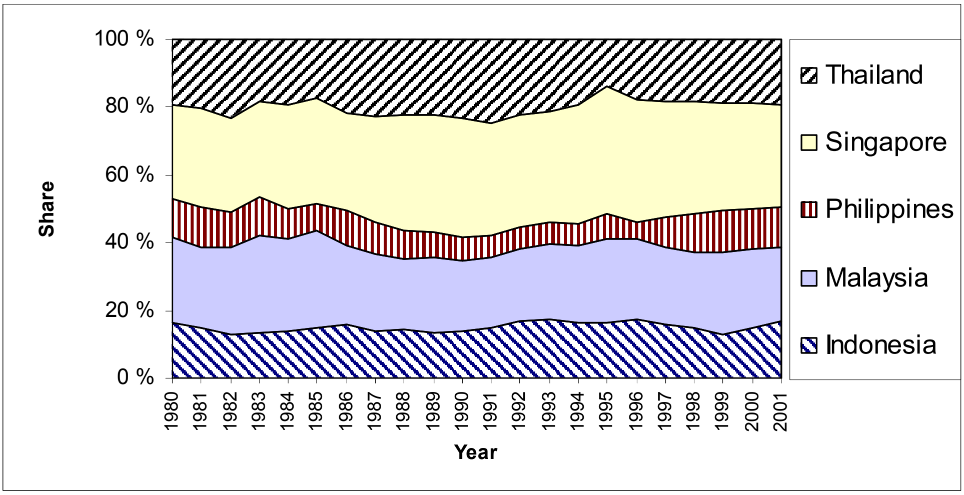
5.1.2 Country composition

Since the ASEAN countries apply national trade policies, it is reasonable to examine the shares of each ASEAN country in the aggregate EU-ASEAN trade flows. As was noted above, Singapore, Malaysia, Thailand, Indonesia and the Philippines account for 90-95 % of the ASEAN trade with the EU. Below, Figure 11. illustrates the country composition of ASEAN-5 exports to the EU. It is evident that Singapore was the largest source with a share of about 30 % of the total exports, followed by Malaysia (23 %), Thailand (20 %), Indonesia (17 %) and the Philippines (10 %) in 2001.[156] These shares have remained relatively stable for two decades. The latest data for 1999-2001 show that the share of Indonesia has been increasing slightly, while the share of Malaysia has been decreasing somewhat.

In comparison, Figure 12. shows the shares of each ASEAN country in the total ASEAN imports from the EU. The country composition is fairly similar to the export shares, Singapore being the major importer with almost 40 % of the total in 2001. The next largest importers were Malaysia and Thailand, each with about 20 % of the total. Indonesia's share has decreased from about 30 % in 1982 to approximately 10 % in 2001, and the Philippines' share has remained slightly below 10 %. Overall, there has been more fluctuation in the annual shares of the ASEAN imports, than in their exports to the EU. During the latest period from 1999-2001, Thailand's and Malaysia's shares have clearly increased, while Singapore's share has decreased somewhat.

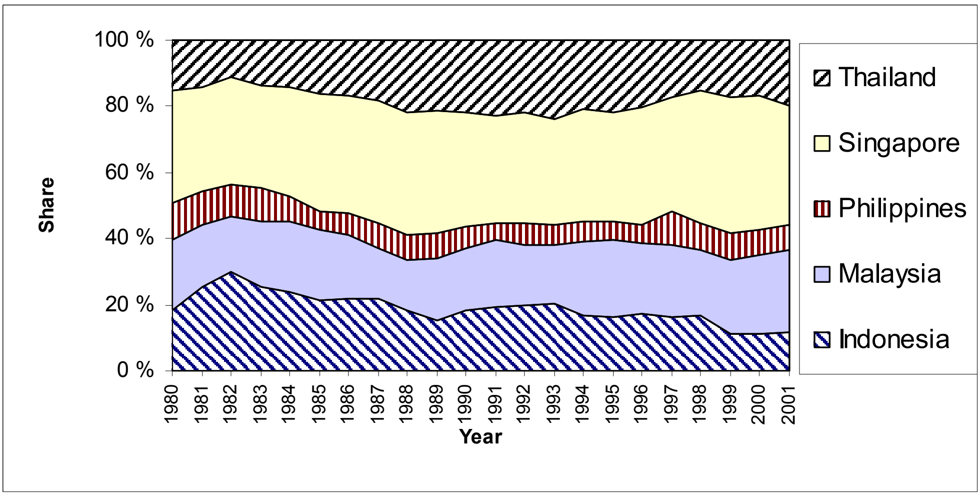
[156] For absolute values, see Figure A5. in the Appendix.

Figure 11. Country composition of ASEAN-5 exports to the EU countries, 1980-2001.



Source: Compiled from the IMF Direction of trade statistics, various issues.

Figure 12. Country composition of ASEAN-5 imports from the EU countries, 1980-2001.



Source: Compiled from the IMF Direction of trade statistics, various issues.

The Asian financial crisis after 1997 affected the ASEAN economies in different ways, and there were differences between the countries in this respect. Singapore was not severely affected by the crisis, being able to maintain the level of its imports from the EU and absorbing about 40 % of all ASEAN imports from the EU in 1999 (Figure 12.). At the same time Malaysia, Thailand, and especially Indonesia suffered more from the economic difficulties and the decreased demand for imports due to the financial crisis.

Trade is the cornerstone of EU-ASEAN relations, as Niemi (1998) has argued. However, the relative importance of these inter-regional trade relations is greater to the Southeast Asian countries than to the European counterparts. During the mid-1990s, about 14 % of ASEAN's total trade was with the European Union countries. From the EU's perspective, the share of Southeast Asia was about 4-6 % of its total trade.[157] This partly reflects the magnitude of intra-EU trade. Hence, despite the significant growth in the value of EU-ASEAN trade neither of the two regions, nor any of the countries involved, is dependent on these trade flows. It must be noted, however, that altogether, the EU has more trade with the ASEAN countries than with the 70 developing countries of the African, Caribbean and Pacific region linked to the EU through the Lomé/Cotonou Convention (ibid.).

Inflow of foreign direct investments

It has been argued that trade patterns of the ASEAN countries are linked with inward investments (Alvstam 1993; 2001a, Min 2003). In investment-driven trade, foreign companies have set up premises in the ASEAN region, thereby generating imports of raw materials and components, and exports of intermediate or final products.[158] Table 13. below summarizes the total inflow of foreign direct investments (FDI) into five ASEAN countries from 1985 to 1999. As can be seen, Singapore and Malaysia have been the main recipients of global FDI among ASEAN, while, at the same time, they have also been the largest traders with the EU region.

Table 13. Inflow of foreign direct investments in ASEAN-5, 1985-1999 (USD mill.).

	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Indonesia	310	1,093	1,482	1,777	1,648	1,500	3,743	5,594	4,499	-400	-2,817
Malaysia	695	2,332	3,998	5,183	5,006	4,342	4,178	5,078	5,137	2,163	1,553
Philippines	12	530	544	228	864	1,283	1,079	1,335	1,068	2,127	436
Singapore	1,047	3,541	4,361	887	2,534	3,973	925	2,049	-773	7,018	3,041
Thailand	163	2,303	1,847	1,966	1,571	873	1,182	1,405	3,356	6,811	5,344

Sources: Urata (1998); UN (2000) Statistical Yearbook for Asia and the Pacific.

[157] The most important export recipients in the EU have been Great Britain and Germany, who have together absorbed almost 50 % of total ASEAN exports to the EU region. Similarly, Germany, Great Britain and France have been the most important sources of ASEAN imports from the EU, and Germany alone has provided about 30 % of all ASEAN imports from the EU (Niemi 1998, 14).

[158] From the EU region, companies from Britain and Germany are major investors in the ASEAN countries, especially in Singapore, Malaysia and Thailand. Accordingly, part of the ASEAN trade with the EU is constituted from the overseas production of these European companies, such as Siemens.

5.1.3 Commodity structure

The notable increase in trade value was linked to the changing commodity composition of EU-ASEAN trade over the two decades. Since the 1980s, the rapid expansion of the manufacturing sector in the ASEAN countries has been related to the inflow of FDI which led to strong growth particularly in the exports of Singapore, Thailand, and Malaysia (Alvstam 1993; Yeung 1994; Hill & Athukorala 1998; Bende-Nabende 2000; Alvstam 2001a; Andreosso-O'Callaghan & Bassino 2001). The major new exports have been in globalized industries, such as textiles and clothing, machinery, and electrical appliances, which operated global commodity chains reflecting the global competitive structures of the industries (cf. Stopford *et al* 1991).

5.1.3.1 The ASEAN countries' exports to the EU countries

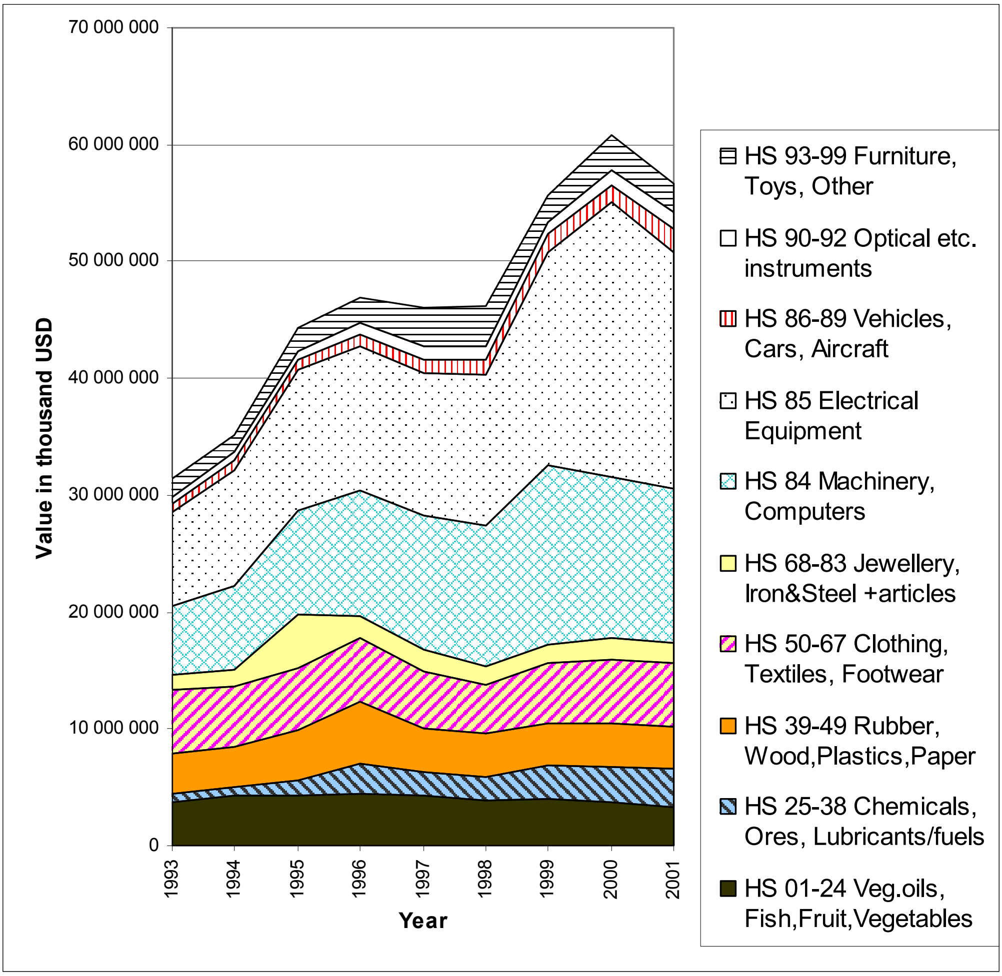
In 1980, the bulk of Southeast Asian exports to Europe consisted of tropical primary commodities, and according to the ASEAN Secretariat (2002), agricultural products accounted for 48 % and manufactured goods for 36 % of exports at the time. The composition of exports changed as the ASEAN countries began to industrialize, and in the 1990s, the share of manufactured goods peaked at 80 %, while the share of agriculture decreased to about 16 %. During the late 1990s, the pattern of trade continued to change significantly. Categorized by (combined) HS sections, ASEAN exports to the EU comprised the following major sectors (Table A6. in the Appendix) for 1993-2001:

- HS 85 Electrical equipment
- HS 84 Machinery, computers
- HS 50-67 Clothing, textiles, footwear
- HS 01-24 Agricultural products, foodstuffs (e.g. vegetable oils, fish, fruit)
- HS 39-49 Basic manufactures (e.g. rubber, wood, plastics, paper)
- HS 25-38 Chemicals, mining, energy (e.g. ores, fuels)

Figure 13. shows the ensuing structure of aggregate exports of the ASEAN countries to the EU (in USD terms) for 1993-2001. Data for the nine-year period indicates a large and increasing value and share of manufacturing exports during this period. The absolute value and the relative share of electrical equipment, and machinery and computers, increased notably, and, in 2000, these two product groups accounted for over 60 % of ASEAN exports to the EU. At the same time, the absolute value of agricultural exports decreased slightly, while the value of textiles and footwear remained relatively stable. The share of both agriculture and textiles in overall ASEAN exports to the EU decreased noticeably. The value

and share of mining, energy and chemicals exports increased somewhat, their overall significance being rather small, however.

Figure 13. Structure of the ASEAN countries' exports to the EU countries, by combined HS sections, 1993-2001 (USD thousand).



Note: The product groups and their legends follow the series order (down to up).
Source: Compiled and calculated from the ASEAN Secretariat (2002).

In order to check the accuracy of data, figures from the ASEAN Secretariat (2002) were compared with data from the IMF Direction of trade statistics for the period 1993-2001. As can be seen in Table 14., the figures are similar to each other in 1993 and 1999, but deviate somewhat in the other years, especially in 1997 and 1998. While data from the ASEAN Secretariat (2002) portrays a slight slump in the value of exports from 1997-1998 (as depicted in Figure 13.), the IMF DOTS data shows a steadily increasing annual trade value up until the year 2000.The biggest differences thus occur in the years of the Asian financial crisis. Currency depreciation in several ASEAN countries after the financial crisis could explain the deviations. As currencies depreciated throughout the crisis years, fluctuating exchange rates to the USD might have been used in different statistics for converting local currencies into US dollars (e.g. the annual average value vs. the end of year value). By contrast, differences in the country composition between the two sets of data are a less probable reason for deviations, due to the insignificant value of exports of the smaller ASEAN economies.[159]

Table 14. The ASEAN countries' exports to the EU; comparison of data from two sources, 1993-2001 (mill. USD).

Data source	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
IMF DOTS	31,399	36,810	41,930	45,027	50,623	52,732	54,898	58,060	53,917
ASEAN	31,392	35,196	44,286	46,926	46,087	46,144	55,725	60,752	56,681
Deviation	*-7*	*-1,614*	*+2,356*	*+1,899*	*-4,536*	*-6,588*	*+827*	*+2,692*	*+2,764*

Note: IMF data includes ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore, Thailand); ASEAN data includes ASEAN-5 plus Brunei, plus Myanmar from 1999 onwards, plus Cambodia from 2000-01.
Sources: Author's calculations from the IMF Direction of Trade Statistics, various issues; and ASEAN Secretariat (2002).

The product composition of ASEAN exports to the EU supports the argument of emerging industrial core areas in Southeast Asia as depicted in the regional theory of world trade (Grotewold 1990); however, peripheral industries still predominate in the region. Multinational companies have set up premises in the region to establish networks of production, often in the assembly operations of intermediate or final products for exports, and the subsequent increase in the ASEAN countries' exports of electrical appliances and machinery has been linked to the foreign-owned production in these sectors. Consequently, since electronics and engineering are major sectors with a substantial inflow of foreign direct investments in the ASEAN countries (Dobson 1997), part of the trade flow could be induced from these investments (cf. Alvstam 1993; 2001a).

5.1.3.2 The ASEAN countries' imports from the EU countries

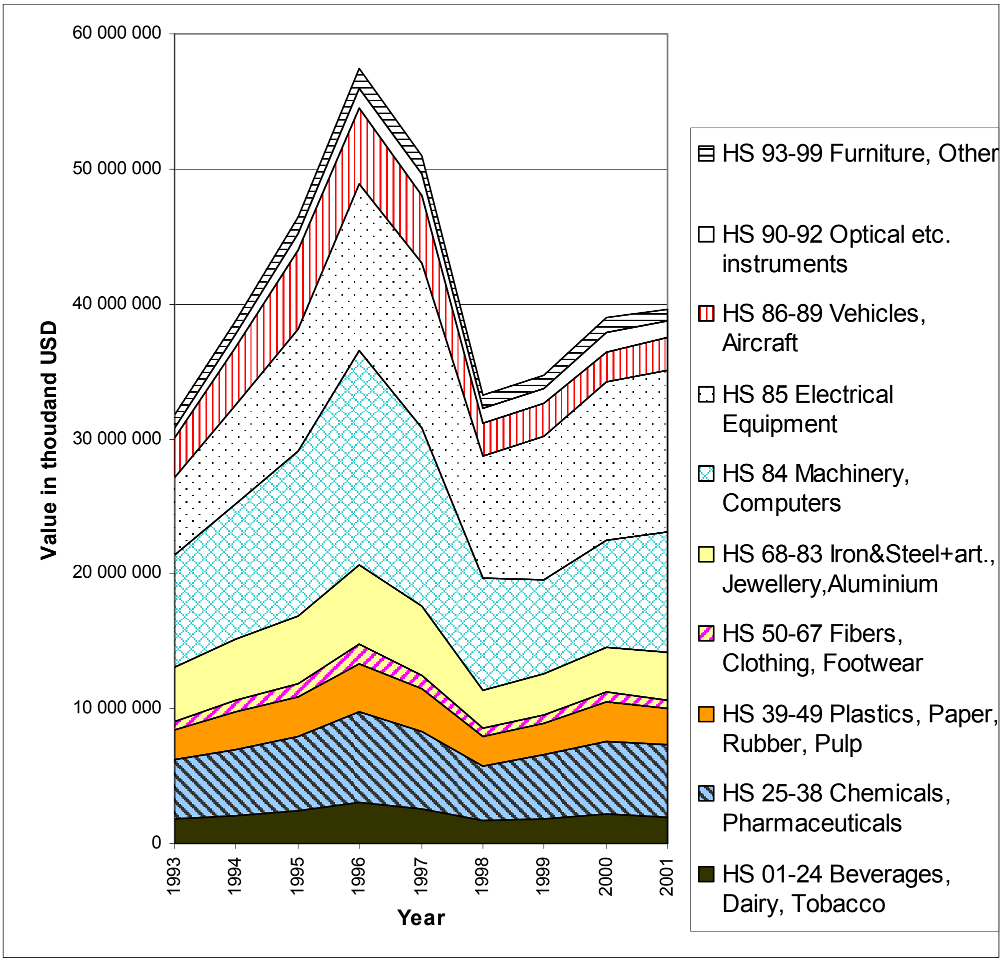
Throughout the period between 1980 and 2001, the composition of ASEAN countries' imports from the EU countries remained fairly stable with regard to the share of

[159] Data from ASEAN Secretariat (2002) includes ASEAN-5 plus Brunei, plus Myanmar for 1999-2001, plus Cambodia for 2000-01.

manufacturing products which increased from 85 % in 1980 to about 90 % in the mid-1990s (ASEAN Secretariat 2002), with machinery and electrical appliances as the main product groups. Categorized by (combined) HS sections, ASEAN imports from the EU comprised the following major sectors (Table A6. in the Appendix):

- HS 84 Machinery, computers
- HS 85 Electrical equipment
- HS 25-38 Mining, energy, chemicals
- HS 68-83 Base metals, jewellery, ceramics (e.g. chemicals)
- HS 39-49 Basic manufactures (e.g. plastics, paper, rubber, wood)
- HS 86-89 Vehicles

Figure 14. Structure of the ASEAN countries' imports from the EU countries, by combined HS sections, 1993-2001 (USD thousand).



Note: The product groups and their legends follow the series order (down to up).
Source: Compiled and calculated from the ASEAN Secretariat (2002).

As can be seen from Figure 14., data shows an increase in the import value of machinery and computers, electrical equipment, and mining, energy and chemicals up until 1996. What is notable is the impact of the Asian financial crisis on imports: after the peak, the absolute value of imports in machinery and computers, base metals and mining decreased substantially as a result both of financial difficulties and the decline in investment in some member countries in 1998. However, imports of electrical equipment decreased relatively little and increased steadily again from 1999 onwards. Since the value in almost all product groups decreased, their shares remained relatively stable throughout the period; the share of the two biggest groups remained at over 50 % of total import value.

Again, to check the accuracy of data, the above figures were compared with data from the IMF Direction of trade statistics. The figures in the two data sets were found to be relatively close to each other in 1994, 1997 and 1999, but deviate somewhat in the other years (Table 15.). The biggest differences occur in 1995 and 1996, however in opposite directions. Figures from the ASEAN Secretariat (2002) might overestimate both the peak in imports in 1996 and the subsequent fall in 1998. However, the figures for post-crisis years do not show such major differences as the pre-crisis figures.

Table 15. The ASEAN countries' imports from the EU; comparison of data from two sources, 1993-2001 (mill. USD).

Data source	1993	1994	1995	1996	1997	1998	1999	2000	2001
IMF DOTS	32,822	39,528	50,801	53,129	51,139	35,057	34,330	37,447	37,994
ASEAN	31,822	38,729	46,393	57,381	51,010	33,256	34,710	38,958	39,678
Deviation	*-1,000*	*-799*	*-4,408*	*+4,252*	*-129*	*-1,801*	*+380*	*+1,511*	*+1,684*

Note: IMF data includes ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore, Thailand); ASEAN data includes ASEAN-5 plus Brunei, plus Myanmar from 1999 onwards, plus Cambodia from 2000-01.
Sources: Author's calculations from the IMF Direction of Trade Statistics, various issues; and ASEAN Secretariat (2002).

Regarding the product composition of the ASEAN countries' imports from the EU countries, the large shares of electrical equipment and machinery indicate that part of the imports is explained by assembly operations in the ASEAN countries. Also, the relatively large share of base metals could denote imports of raw materials for machinery and appliances. This might be related to the earlier notion of FDI-induced trade between the EU and the ASEAN countries.

5.2 Trade policies related to EU-ASEAN trade flows

The various trade policies presented in chapter 4 are portrayed here against the pattern of EU-ASEAN trade flows. Reflecting Stopford *et al* (1991), the major sectors in EU-ASEAN trade are depicted according to trade policies and the competitive structure of industries. Findings show that a major share of EU-ASEAN trade was relatively liberal because the main sectors comprise of mainly globalized industries. For the EU, regionalism and multilateralism implied major changes in trade policies. For ASEAN, multilateralism and the Asian financial crisis were the main explanations for changes in trade policies, while regionalism did not have a direct effect on external trade policies. Based on the findings, it is argued that as the scale of decision-making is shifting from the national to regional, the dominant industries in a region gain for the strengthened role of the regional trade organization in multilateral negotiations.

5.2.1 EU import policies towards the ASEAN countries

The EU's import policies, as discussed in the previous chapter, have been based both on a variety of preferential schemes on a country basis and on industrial protection on a sectoral basis. The protected sectors have included agriculture and 'sunset' industries such as textiles and clothing. In the 1980s, the composition of the ASEAN countries' exports began to change with notable growth in product categories against which the EU had strong protectionist measures and wished to isolate from world market pressures (Yeung *et al* 1999). For example, the Southeast Asian clothing and footwear sectors were in direct competition with the industries in Spain, Italy and Portugal, and despite the EU's protectionism, these exports from ASEAN to the EU increased significantly.[160] From 1990-2002, the ASEAN countries' exports to the EU were subject to sector-specific, but overall liberalizing, import tariffs, quotas, and other restrictions. These are investigated below according to, firstly, the major export sectors, and secondly, the major changes in trade policies due to regionalism and multilateralism.

5.2.1.1 Policies towards the major sectors

The EU's import restrictions were eased in all major ASEAN export sectors from 1993-2001. Below, Table 16. lists the nine biggest product categories and the related EU trade policies.[161]

[160] According to Yeung *et al* (1999, 92), ASEAN's textile exports to the EU increased by 900 %, clothing by 250 %, and electronic components by 187 % from 1980-1988.

[161] Tariffs in Table 16. are basic MFN rates, but the actual tariffs imposed on ASEAN countries' exports were slightly lower due to GSP reductions in some products. The GSP will be further discussed in 5.2.1.3.

The cumulative value of the nine largest export sectors (by HS 2-digit sections) represented 72 % of total ASEAN exports to the EU. As can be seen, the average tariff declined from 9 % to 6.6 % during the period. Also, other restrictions, notably the number of quotas, decreased. Some products within these categories were subject to the EU's anti-dumping actions, the number of which increased during the latter part of the 1990s.

Table 16. Largest product categories in ASEAN exports to the EU (cumulative 1993-2001), and trade policies applied, by HS sections.

HS	*Description*	*AS exp EU 1993-2001 (mill. USD)*	*Average EU MFN tariff % 1995*	*1999*	*2002*	*Other import restrictions*
85	Electrical equipment	129,412	5	3.0	2.8	Anti-dump.act.
84	Machinery, computers	98,554	4	1.7	1.7	Anti-dump.act.
61	Apparel/clothing (knitted)	14,352	13	12.3	11.9	Quotas
40	Rubber	12,450	3	2.4	2.4	
62	Apparel/clothing (not knitted)	12,122	13	12.4	11.9	Quotas
15	Fats and oils	11,753	17	8.2	8.9	Licensing
64	Footwear	9,211	11	10.0	10.0	Anti-dump.act.
29	Organic chemicals	8,158	7	4.7	3.7	
87	Vehicles, cars and trucks	7,354	8	6.4	6.4	
	Sum	*303,366*	*aver.*	*aver.*	*aver.*	
	% of total ASEAN exports to EU	*72 %*	*9*	*6.8*	*6.6*	

Note: EU tariffs are simple averages from tariff rates at 6-digit CN level and lower. Thus the inner variation within one HS chapter might be considerable.[162]

Sources: Compiled and calculated from ASEAN Secretariat (2002); WTO (1995a; 2000a; 2002a).

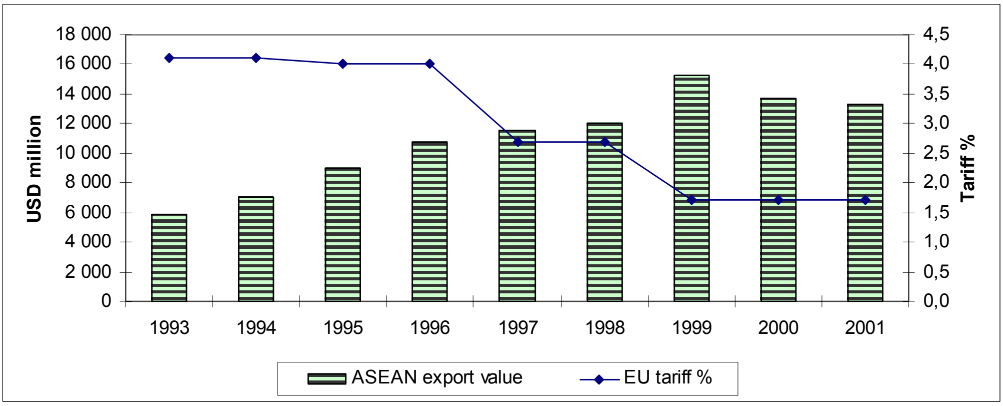
The main sectors in the ASEAN countries' exports to the EU are portrayed in relation to trade policies imposed and the competitive structure of industries, as suggested by Stopford *et al* (1991) and elaborated in Figure 5. in the framework of this study. The sectors are positioned in the 'spheres of possible bargaining sites' where, on the vertical axis industries are categorized according to their competitive structure into three types: global, local-for-local, and natural resource added-value. On the horizontal axis four types of trade policy intent are distinguished: free imports, import substitution (protection), dependent exporting, and independent exporting. The findings on each major sector are presented below, and are summarized in Figure 16. that illustrates the EU's stances in trade policies in various industries.

Electrical equipment. The most important ASEAN export sector faced a liberal EU import regime. Average EU tariffs for electrical equipment and appliances declined from 5 % to less

[162] The selection of years for tariff data was based on the availability of data from the GATT/WTO Trade Policy Reviews on the EU, which were published in 1995, 1999 and 2002.

than 3 % during the period. Anti-dumping actions were initiated by the EU towards some products, such as magnetic disks from Indonesia and Malaysia (further discussed in 5.2.1.2). At the same time, the value of ASEAN exports of electrical equipment to the EU increased substantially. The liberal trade regime and the increasing trade flows were based on the global nature of the industries that produce electrical equipment and appliances. Production is characterized by trade in intermediate products between various locations and the ensuing global commodity chains. Several ASEAN countries are important producers of electrical equipment, such as household electronics or integrated circuits, and the EU maintains low trade barriers on the sector (Figure 16).

Figure 15. ASEAN exports of computers and machinery (HS 84) to the EU, and the EU tariff applied, 1993-2001.



Sources: Compiled from the ASEAN Secretariat (2002); GATT (1993a); WTO (1995a; 1997a; 2002a).

Machinery and computers. Also the other major sector was subject to liberal, and a constantly liberalizing, EU trade policy. Average tariffs for machinery and computers declined from 4 % in 1995 to 1.7 % in 2002. The EU initiated anti-dumping actions against some products, such as personal fax machines from Malaysia, Singapore and Thailand. The value of ASEAN exports of machinery and computers to the EU increased notably during the period. Again, the sector is highly globalized, while it comprises of finished products, such as engines, paper machines or typewriters. Figure 15. illustrates developments in terms of the falling EU tariff for the category of computers and machinery (HS 84) and the growing value of exports.

Apparel/clothing and footwear. ASEAN exports of apparel (knitted and not knitted) and footwear were subject to relatively high trade barriers in the EU. Tariffs of apparel/clothing averaged 13 % in 1995 and declined only slightly to 12 % in 2002, and despite the process of phasing out the earlier quotas under the Multi-Fibre Arrangements, several clothing products were still subject to quotas. In footwear, tariffs declined slightly from 11 % to 10 % during the period, but some products were subject to anti-dumping actions. Regarding trade flows, the absolute value of ASEAN exports of clothing and footwear to the EU remained somewhat stable during the period, while their share clearly declined. The sector had been one of the first to globalize, and in the EU, it is characterized as a 'sunset' industry where European manufacturers face intense competition from many newly industrializing countries in Asia.

Rubber. ASEAN exports in the traditional sector of rubber faced a liberal trade policy in the EU throughout the period, with the average tariff nevertheless declining from about 3 % to 2.4 %. The value of rubber exports from ASEAN to the EU increased during the first half of the decade, but decreased somewhat during the latter half. This may relate to the depreciating currencies or the increased competition with synthetic substitutes, which might have negatively affected the exports to the EU market. The liberal import policy is explained by the lack of the natural resource in the EU region.

Fats and oils. The other traditional natural resource based export sector of ASEAN countries, vegetable oils, was subject to higher tariffs, as well as licensing in the EU, based on the protective EU import regime for many agricultural products. The average tariff for fats and oils was 17 % in 1995 and decreased to about 8 % in 2000, and increased slightly to approximately 9 % in 2002. [In comparison, the average GSP tariff for fats and oils was 6 % in 1999 (WTO 2000a, 176)]. Fats and oils were the most important agricultural export sector of the ASEAN countries to the EU,[163] and their annual value increased up until the mid-1990s but decreased in the late 1990s. The EU's relatively high average trade barriers on the sector are explained by the protection of e.g. olive oil that is a substitute for the imported vegetable oils from Asia.

Organic chemicals. Among several ASEAN export sectors, organic chemicals were subject to moderate import restrictions in the EU. The average tariff declined from 7 % in 1995 to

[163] Niemi (1998, 39) pointed out that almost 25 % of total agricultural exports from ASEAN to the EU in 1996 were vegetable oils and fats, of which crude palm oil was mainly from Malaysia and Indonesia and coconut oil from the Philippines. The EU countries preferred to buy crude vegetable oils chiefly because of the lower tariffs on unprocessed products and because of the need to further refine the oil due to quality deterioration during long transport. Palm oil was subject to a lower import tariff, averaging 8 % in 1999 (WTO 2000a, 97).

less than 4 % in 2002. At the same time, the value of exports increased substantially, and was up 7-fold during the period. The sector comprises many intermediate products globally traded for chemicals industries.

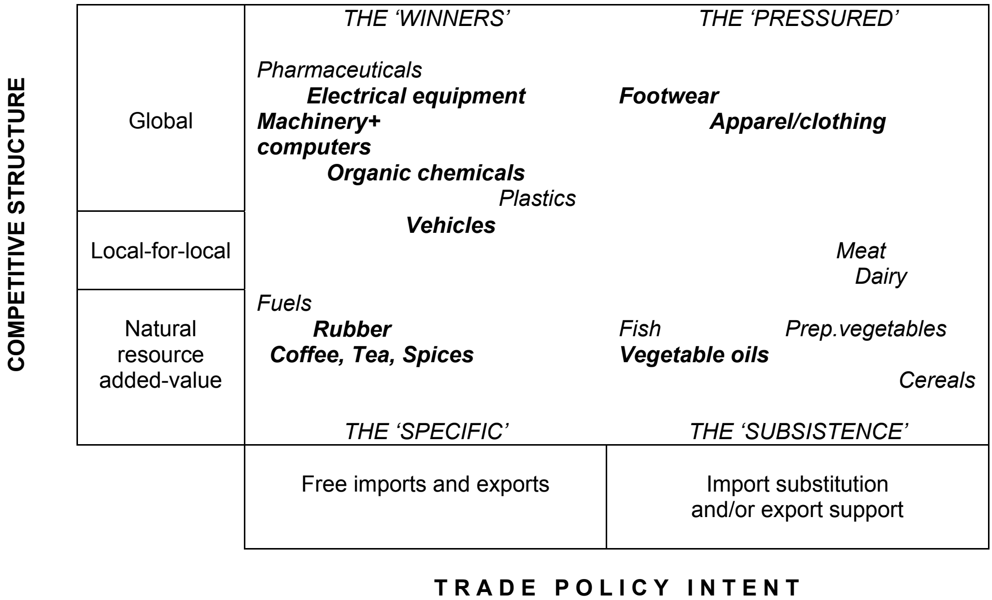
Vehicles; cars and trucks. The ninth biggest ASEAN export sector comprised vehicles, mainly passenger cars and trucks, and faced moderate import restrictions. The average EU tariff of this product group declined from 8 % in 1995 to about 6 % in 2002; however, with a large tariff range (WTO 2000a). At the same time, the value of ASEAN exports in this global industry increased approximately threefold. The EU's relatively moderate policy (though more protective than in Japan or the US) was based on its position as the world's largest producer of motor vehicles and the largest market for passenger cars. The motor vehicle industry is regarded in the EU as a strategic industry because of its importance in employment and trade.

To summarize, the overall trade flow was dominated by two categories (electrical appliances, and machinery and computers) that comprised about two thirds of total exports and faced a liberal import policy in the EU.[164] Thus a major part of trade was relatively liberal. Other major categories, apparel and clothing accessories, rubber, fats and oils, and footwear, were subject to varying, yet liberalizing import policies. The only sector with a slightly increasing average tariff in 2002 was fats and oils, the tariff of which had, however, been lowered considerably from 1995-1999.

The pattern that could be observed is that the EU's import policy in various industries (Figure 16.) varied mainly between free imports of certain natural resource-based agricultural products which are not available from the EU region, such as coffee, tea and spices, to import substitution in the 'sunset' industries of clothing and footwear, as well as highly protected dairy, meat, fish and cereals. The free import regime was also applied in pulp, fuels and rubber. In exports, the main category was the free exporting in the global industries of e.g. pharmaceuticals, electronics, vehicles, paper and machinery. The position of each industry in the figure is based on empirical findings where data was categorized at the HS 2-digit level. Thus some industries, e.g. machinery and computers, are made up of numerous different types of products with distinct competitive structures and trade policies, which could be located at different points in the graph. The eventual position of the broad category is based on the average trade policy in that industry.

[164] The market share of ASEAN exports in this sector in the EU market was about 4 % in 2000 (Eurostat 2004).

Figure 16. The EU's trade policy by type of industry.



Note: The graph portrays major industries with either high value of imports or high protection in the EU; major industries of ASEAN exports to the EU are in ***bold***.
Source: Author.

Based on the competitive structures of industries and the trade policies applied, as illustrated in the above scheme, four types of policy stances towards various industries can be identified in EU-ASEAN trade, namely:

- policies for the 'winners', i.e. liberal policies towards global industries (upper left part of the scheme)
- policies for the 'specific', i.e. liberal policies towards natural resource based products not available domestically (lower left part of the scheme)
- policies for the 'pressured', i.e. restrictive policies towards global sunset or infant industries (upper right part)
- policies for the 'subsistence', i.e. restrictive policies towards local strategic industries or agriculture (lower right part of the scheme)

As to market shares of ASEAN products in the EU market, the major ASEAN export category, i.e. machinery, electronics and transport equipment combined, had a share of about 5 % of all extra-EU imports in this category in 1990, and the share declined to approximately 4 % in 2001. However, its absolute value increased by about 150 % during this period (Eurostat 2004).[165] This was mainly because of the significant increase in imports of these

[165] Data refers to imports originating from three major ASEAN exporters: Malaysia, Singapore and Thailand.

products from other sources, such as the United States and China. At the same time, the EU trade policy also became slightly more restrictive towards the ASEAN countries in certain product groups, as several anti-dumping measures were in force and some tariff preferences under the GSP were eliminated during the 1990s (see 5.2.1.2). Despite these policies, the value of ASEAN exports increased, as noted above.

Altogether, the changes in the EU trade policies were induced from developments in regional or multilateral policy-making that affected different industries in different ways. While the impact of regionalism is the focus of this study, the EU's common trade policies were also subject to multilateral decision-making, i.e. the results of the Tokyo and Uruguay round negotiations. In the following two sections, the impacts of regionalism and multilateralism on EU trade policies are explained in relation to the ASEAN countries' exports to the EU region.

5.2.1.2 The impact of regionalism

The process of regionalism from 1990-2002 had specific effects on the EU's trade policies towards ASEAN. As was summarized in 4.2.7, the major impacts of regional economic integration on the EU's import policies were: (a) the extended network of preferential trading agreements both in Europe and on the global level; (b) the harmonization of import quotas; (c) an increase in the number of anti-dumping actions, especially towards China and India; and (d) new standards and regulations regarding safety and environment issues. Furthermore, (e) the negotiating mandate of the Commission strengthened the role of the EU in international trade negotiations. These affected ASEAN exports to the EU in a slightly restricting way, especially in textiles and clothing, and in certain consumer electronics, which are further discussed below.

(a) The extended network of preferential trading agreements

During the 1990s, the network of the EU's preferential trade arrangements became more complex; in this process, the relative status of the ASEAN countries declined. The EU gave new preferences particularly to the Eastern European countries due to the gradual integration process, and to the African, Caribbean and Pacific countries based on the development assistance policy within the Lomé Agreement. Only some ASEAN exports enjoyed preferential tariffs within the EU's GSP system, and these were also subject to several exceptions. The EU's GSP reductions were relatively modest for its highly protected agriculture, especially for fish, vegetables, fruit, fats and oils, preparations of fish and preparations of fruits and vegetables, which were major categories of ASEAN exports to the EU (WTO 2000a).[166] In contrast, the GSP treatment was more generous in imports of chemicals, plastics, rubber, machinery and electrical equipment, where the basic MFN tariffs were also relatively low. As to ASEAN exports, the value of agriculture remained fairly stable, while the value of chemicals, plastics and electronics clearly increased.

Additionally, the elimination of many GSP preferences by the 'graduation' mechanism affected the ASEAN countries' exports from 1996 onwards. Singapore's electronics and electrochemical sectors were graduated in 1996, and all Singaporean exports were graduated in 1998. In addition, the EU excluded several ASEAN sectors from the GSP in 1999, namely: Thailand's exports of fish products, fruit, plastics and rubber, leather and fur-skins, clothing, footwear, and jewellery and precious metals; Malaysian exports of cereals, vegetable oils, plastics and rubber, wood, clothing, and consumer electronics; Indonesian exports of vegetable oils, wood, and footwear; the Philippines' exports of vegetable oils; and Brunei's exports of jewellery and precious metals.[167] Since 1999, all these sectors have been dealt with using the basic MFN tariffs. In 2002, also Thailand's exports of rubber, clothing and footwear were graduated.[168]

As a result, the major ASEAN exports were increasingly treated as non-preferential by the EU, and the average tariff shifted closer to the MFN rates throughout the decade. For major product categories, the average applied tariffs were between the MFN rates and the GSP preferential rates, depending on the sensitivity of the product and the country of origin.[169] For example, the average applied tariff for electrical appliances (HS 85) in 1999 was between the MFN tariff of 3.0 % (see Table 16.) and the GSP tariff of 1.1 % (WTO 2000a). While most electrical appliances, machinery and computers were 'non-sensitive', i.e. permitted zero-tariff imports in the EU, many exceptions were listed in the 'sensitive' products list with an import duty of 70 % of the basic MFN rate. Also all apparel and clothing accessories were 'very

[166] The complexity of the EU's preferential trade arrangements complicates the assessment of the arrangements. In an effort to investigate the impact of these arrangements, the WTO (2000a, 47) conducted an analysis of market access under the EU's numerous preferential regimes in 1999. The analysis employed the EU's TARIC database on the applied tariff for all products from all origins under all regimes in 1999, adding up to approximately 16 million records altogether. Based on this data, averages for e.g. the GSP preferential rates were calculated by the WTO. In Table A7 (in the Appendix), these are compared with the basic MFN rates for major product groups in ASEAN exports to the EU.

[167] Council Regulation (EC) No 2820/98 of 21 December 1998 applying a multiannual scheme of generalized tariff preferences for the period 1 July 1999 to 31 December 2001. OJ L 357, 30/12/1998.

[168] Council Regulation (EC) No 2501/2001 of 10 December 2001 applying a scheme of generalized tariff preferences for the period 1 January 2002 to 31 December 2004. OJ L 346, 31/12/2001.

[169] The HS chapters in Table 16. included product categories with GSP preferences, as well as those without the preferences. Based on data from the WTO (2000a), the GSP rates can be assumed to be 1-2 percentage points lower than the MFN rates.

sensitive' and were imposed a duty of 85 % of the basic rate.[170] Altogether, the changes in the EU's preferential schemes during the 1990s had the effect of eliminating some earlier preferences towards ASEAN, with a slightly restricting impact on ASEAN exports to the EU.

(b) Harmonization of import quotas

While the existence of quotas had a generally protective impact on trade, the harmonization of quantitative restrictions from national into pan-EU ones in 1993 had a slightly liberalizing effect on some agricultural and industrial exports of the ASEAN countries, as some quotas were altogether eliminated in the process. Access conditions improved in certain 'sensitive' product categories such as fruits, cereals, food preparations and consumer electronics (GATT 1993a, 67; WTO 1995a, 57). The remaining harmonized quotas that affected the ASEAN countries' exports included some agricultural and fishery products, as well as textiles and clothing. In agriculture, the EU imposed 'community' quotas on manioc from Thailand and Indonesia, and on canned sardines and tuna from Thailand and the Philippines (abolished in 1996), and on bananas (ibid.), with no impact on the ASEAN countries. At the same time, the value of ASEAN exports to the EU in these agricultural products remained relatively small.

(c) Anti-dumping actions

As was illustrated in section 4.2., the EU's anti-dumping actions increased during the late 1990s, and a major share was directed towards imports from Asian countries, including six ASEAN members. From 1996-2002, altogether 38 new investigations were initiated towards the ASEAN countries (Table A8. in the Appendix.).[171] The affected product categories included e.g. consumer electronics, footwear, bicycles, certain plastics, and polyester fibres and yarns. In 1997, the EU had 19 measures in force towards exports from ASEAN members, and in 2000, altogether 33 measures (Table 17.), most of which were against Thailand, Malaysia and Indonesia. The increase was mainly a result of the new investigations initiated by the EU in 1999. The anti-dumping measures in most cases resulted in extra duties imposed on these imports to bring their price closer to the 'normal value'. In some cases, the exporting company raised the price to the agreed level (by 'undertakings') in order to avoid anti-dumping import duty. From 2000-2003, several of the cases against the ASEAN countries had been concluded, and at the end of 2003, the number of measures in force had declined again

[170] Council Regulation (EC) No 3281/94 of 19 December 1994 applying a four-year scheme of generalized tariff preferences (1995 to 1998) in respect of certain industrial products originating in developing countries. OJ L 348, 31/12/1994 P. 0001-0056.

[171] However, the number of EU anti-dumping investigations towards the ASEAN countries remained moderate, compared to measures against e.g. China or India; a total of 212 new investigations were initiated towards all countries.

to 18, of which 8 measures were towards Thailand (EU 2003; 2004). New measures included e.g. steel ropes and cables from Thailand, ring binder mechanisms from Indonesia, and zinc oxides from Vietnam.

Table 17. The EU's definitive anti-dumping measures towards ASEAN countries in force on 31.12.2000 (by year of Council regulation); product categories affected.

Year	***Indonesia***	***Malaysia***	***Philippines***	***Singapore***	***Thailand***	***Vietnam***
1993	Magnetic disks	Magnetic disks		Electronic weighing scales		
1995		Colour TVs		Colour TVs	Colour TVs	
1996	Bicycles; PTY	Bicycles			Bicycles; PTY; Tube/pipe fittings (iron/steel)	
1997	Footwear; Sacks& bags	PTY; Ring binder mechanisms	Lighters (non-refillable)		Lighters (non-refillable); Sacks & bags	
1998	Footwear	Personal fax machines; Stainless steel fasteners		Personal fax machines	Footwear; Personal fax machines; Stainless steel fasteners	MG
2000	PET; Polyester fibres	PET;			PET; Polyester fibres; Tube/pipe fittings (cast iron)	
Total ***33***	8	8	1	3	12	1

Abbreviations: PET = Polyethylene terephthalate. PTY = Polyester textured filament yarns.
MG = Monosodium glutamate.

Source: Compiled from EU (2001).

The overall impact of the EU's anti-dumping actions on ASEAN exports was thus fairly restrictive. Since measures were often directed towards imports where tariff protection was relatively low, such as electronics and other manufactured items, the anti-dumping measures had a role of protecting (or 'defending') the domestic EU industries against 'dumped' imports. Hine (2000) discussed the EU's various trade policies towards ASEAN, and pointed to arguments about anti-dumping actions which can be regarded as the primary form of new protection in both the US and the EU. In Hine's account, there was evidence that producer organizations had 'captured' the anti-dumping regime and were able to influence the outcome of the anti-dumping investigations. Exceptionally high rates of anti-dumping duties, which remain in force for five years, were imposed on selected suppliers, especially from China and India, that were particular targets of the EU's anti-dumping actions. As such, anti-dumping actions were an example of a trade policy in which domestic industries played a direct role (as illustrated in Figure 4. in section 2.5.)

(d) Standards and technical requirements

The EU's standards and technical requirements were typically imposed for apparent safety and environmental reasons. The affected sectors included chemical products, pharmaceutical products, food, and certain industrial products, as well as the labelling of the products. Exports of the ASEAN countries in these sectors were affected by standards and technical requirements; however, no specific data was available on the product categories affected. Basically, standards are different in the ASEAN countries and the EU has not signed Mutual Recognition Agreements with the countries, as it has with some other trade partners, such as the US and Japan; however, cooperation in this field started in 1997.

(e) The negotiating mandate of the Commission

The authorization of the Commission to negotiate for and to represent the entire EU in multilateral forums in 1999 made the EU a more powerful actor in international trade negotiations. Ostensibly, this did not have a direct impact on the EU's import policies towards the ASEAN countries' exports. The possible effects are long-term and indirect since the EU's interests have more influence on the outcome of multilateral and inter-regional negotiations.

Summarizing from the above, EU regionalism had slightly restricting effects, both direct and indirect, on ASEAN exports. In the most restricted sectors, agriculture, textiles and clothing, the value of ASEAN exports to the EU remained somewhat stable throughout the years from 1993-2001. This was related to the further cost-competitiveness of intra-EU trade because of the Single Market, and the free trade agreements made with the Eastern European countries since 1992.

5.2.1.3 The impact of multilateralism

Besides the policy changes initiated regionally, the EU's common external trade policies were subject to multilateral agreements. As was summarized in 4.2.7, major changes in the EU's common trade policies due to multilateralism, i.e. the WTO commitments, were: (a) tariff reductions, especially in agriculture; and (b) integration of textiles and clothing into 'GATT 1994', that is, transforming quotas into tariff duties (tariffication) in the textiles and clothing trade. These affected the ASEAN exports to the EU mainly in a liberalizing way, thus levelling out the basically protectionist EU regimes in agriculture and the textiles and clothing sector.

(a) Tariff reductions

While the Common Agricultural Policy remained the major protective instrument in EU-wide trade policy on agriculture, the sector was subject to notable tariff liberalization as a result of WTO agreements. The major reductions in EU tariffs took place in agriculture; in effect, the average tariff rates in all agricultural product categories (by HS chapters) declined from 1995-2002. The largest reductions occurred in cereals, meat, tobacco, residues of food industry, cereal preparations, sugars and beverages (Table 18.); however, none of these were among major categories of ASEAN exports to the EU. All tariff reductions were a result of multilateral liberalization and commitments made at the GATT/WTO. The value of cereals and meat in ASEAN exports to the EU increased somewhat during the period under investigation. In contrast, exports of residues from the food industry decreased. Other sectors, such as tobacco, cereal preparations and sugar, were minor or insignificant in overall ASEAN exports to the EU.

Table 18. Product categories with major reductions in the EU's average MFN tariffs and the related ASEAN exports to the EU (by HS chapters).

HS	***Description***	***EU MFN tariff %***			***AS exp EU 1993-2001***	
		1995	***1999***	***2002***	***mill. USD***	***Trend***
10	Cereals	62	47	39	964	increasing
02	Meat and edible meat offal	50	33	28	1,044	increasing
24	Tobacco and manufactured substitutes	46	21	18	847	
23	Residues of food industry	37	14	7	1,245	decreasing
19	Preparations of cereal, flour, milk	35	18	16	418	
17	Sugars, sugar confectionery	31	18	21	498	
22	Beverages, spirits, vinegar	25	8	6	118	
35	Glues, albuminoidal substitutes, enzymes	12	9	7	123	
48	Paper and paperboard	8	4	2	1,722	increasing

Note: Figures for ASEAN exports to EU are cumulative for 1993-2001. EU tariffs are simple average MFN tariffs (%).

Sources: Compiled and calculated from ASEAN Secretariat (2002); WTO (1995a; 1997a; 2002a).

By contrast to the steep decline in the EU tariffs of the above product categories, there were nevertheless exceptions, for example, in agriculture. The average tariff for HS 04 including dairy products, eggs and honey was 51 % in 1995 and had only fallen to 38 % by 2002. Thus it remained higher than the overall tariff for agriculture. In addition, agriculture was continuously protected by the EU's Common Agricultural Policy. Figure A6. in the Appendix illustrates changes in the EU's MFN tariffs for agricultural imports.

In industry, there were two product categories with notable tariff liberalization: paper and paperboard, and glues, enzymes and albuminoidal substitutes (Table 18.). Compared to agriculture, their trade policy had been relatively liberal even before 1995. The value of ASEAN exports of paper and paperboard to the EU increased during the period 1993-2001, but the value of glues and albuminoidal substitutes remained minor.

(b) Integration of textiles and clothing into the 'GATT 1994'

In textiles and clothing, the quota restrictions based on the Multi-fibre Arrangements affected the ASEAN countries' exports to the EU in two ways. Firstly, the EU's bilateral textile agreements based on 'voluntary export restraints' under the MFA imposed quotas on imports from Indonesia, Malaysia, the Philippines, Singapore and Thailand (WTO 1995a, 102). Restricted products varied from country to country, including items such as T-shirts, nightshirts, pyjamas and bathrobes. Secondly, the EU's unilateral import monitoring on certain textile and clothing imports affected Laos and Vietnam in the early 1990s (GATT 1993a). The quantitative restrictions on textiles and clothing were extended with the Outward Processing Traffic (OPT) regulations in cases where textiles were exported from the EU to third countries for further processing and imported back to the EU market. The OPT regulations were applied on Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam; however, these represented a minor share of the EU's OPT quotas (WTO 2000a, 55) as the major targets of OTP in Asia were China, Hong Kong, Macau and the South Asian countries. Thus the liberalizing impact of the OPT was limited on ASEAN exports. Overall, the value of textile and clothing exports from ASEAN to the EU remained relatively stable.

The regionally protected textiles and clothing sector was subject to developments at the multilateral level, as the Multi-fibre Agreements were replaced by the 'GATT 1994' Agreement on Textiles and Clothing to eliminate all quotas in global textile trade by the year 2004. The gradual dismantling of the MFA from 1995 onwards gave the ASEAN exporters the potential to expand clothing exports to the EU. Overall, the EU was slow to implement the ATC, and only a few quotas were removed by 2000. According to the data available, some quotas that affected the clothing and textile exports of Thailand and the Philippines were removed between 2000 and 2002. These included nightshirts, pyjamas, bathrobes, tracksuits, gloves and nets (WTO 2000a; 2002a). Many quotas affecting the ASEAN countries' textiles and clothing exports to the EU still remained for the period 2002-2004. Of the 35 product categories under quotas, those on 20 product categories affected the exports of one or several

ASEAN countries. These included e.g. cotton yarns, woven fibres, t-shirts, jerseys, shirts and synthetic yarns. For the most part, quota eliminations in the EU were due at the end of 2004.

5.2.1.4 Sectoral incidence of trade policies

As explained above, the EU's common trade policies were affected by the parallel developments in EU-wide and WTO-wide decision-making. These impacts are summarized below in Table 19. which lists the liberalizing and the restrictive effects of both regionalism and multilateralism on EU import policies on various sectors. Regarding the overall ASEAN countries' exports to the EU, agriculture and textiles were most frequently subject to various EU import restrictions, particularly quotas, abolition of GSP preferences, and anti-dumping actions. The affected product groups included e.g. prepared foodstuffs, vegetable oils, various clothing products, and footwear. Similarly, certain other manufactured items, especially consumer electronics, faced anti-dumping actions and abolition of the EU GSP preferences.

Table 19. The effects of regionalism and multilateralism on EU import policies towards the ASEAN countries; types of trade policies and sectors affected.

	Impact of regionalism				***Impact of multilateralism***	
	Quotas	*GSP abolition*	*Anti-dumping*	*Standards*	*Tariffs*	*Quotas*
Foodstuffs, agriculture	L R	R		R	L	
Mining and chemicals				R	L	
Paper+board etc. manuf.			R		L	
Textiles,clothing,footwear	R	R	R			L
Machinery+computers			R			
Electrical appliances		R	R			

Symbols: L = liberalizing. R = restrictive.
Source: Author.

While the EU's agriculture was constantly protected by measures related to the Common Agricultural Policy, and textiles and clothing were protected under the Multi-fibre Arrangements, the simultaneous liberalization in these sectors was a result of the Uruguay round conclusions and the GATT 1994 agreement. In particular, the textiles and clothing sector was subject to concurrent processes of multilateral liberalization and regional restrictions in the EU. By contrast, the sectors of machinery and electrical appliances had already been largely liberalized in the EU before the early 1990s. This was partly due to the nature of these industries consisting of global production networks located in different parts of the world. Assembly operations of these global industries were particularly shifted to the industrializing Asian countries. The ensuing large volumes of international trade in machinery and electronics were accompanied by relatively few import restrictions in the industrialized countries; however, these sectors were subject to increasing numbers of anti-dumping actions by the EU and the US towards Asian exporters. In the case of the EU trade policies, selected product groups faced both the abolition of GSP preferences and new anti-dumping actions (Table 19.) in the exports of the ASEAN countries.

5.2.2 ASEAN export policies

Whereas the ASEAN countries employed active export promotion at a national level, the ASEAN-wide promotion of business and trade was limited to occasional trade fairs and business conferences. The market access requests made by the Southeast Asian representatives at the inter-regional ASEAN-EU ministerial meetings were, however, an indication of regional-wide trade promotion. As discussed in section 4.4, ASEAN made several requests in 1988 and 1990 for better market access on various products of export importance to the Southeast Asian countries. The requests reflected both the export priority sectors of the ASEAN countries and the protective import regime of the EC on these products.

The main product categories in the market access requests included fats and oils, tropical timber, textiles and clothing, cocoa products, canned pineapple, tapioca products, pulp, and fuel wood. All these had been subject to protective EC policies. As a result of regional and multilateral liberalization, the EU's import regime liberalized in several of these sectors during the 1990s. The average tariff on fats and oils decreased markedly (from 17 % in 1995 to 9 % in 2002), as was noted earlier, as did tariffs on cocoa products (from 16 % to 12 %). The value of fats and oils in ASEAN exports to the EU remained notable throughout the period, reaching a peak in 1997. At the same time, the value of cocoa exports decreased steadily, the sector being relatively insignificant in the overall trade structure. In contrast, the EU tariffs were moderate or low in some sectors, such as in fruits (10 %), wood (2-4 %) and pulp (0 %) during the whole period. The value of ASEAN exports of fruit and pulp remained low throughout, while wood exports were more significant in overall trade. Textiles and clothing faced high trade restrictions throughout the period, as discussed earlier.

It can be noted that ASEAN was active in market access requests in the inter-regional trade negotiations of the early 1990s, which reflected the difficulties in the global trade environment at the time when GATT negotiations were proceeding slowly. After the Uruguay round was concluded in 1994, major liberalization took place at the multilateral level. Ostensibly, the need for inter-regional trade promotion in the late 1990s was not as acute as before. Also, the share of manufacturing and electronics in ASEAN countries' overall exports increased notably during the period, mainly due to the global shift in manufacturing production in these sectors to the region, thus decreasing the relative importance of tropical crops in exports.

5.2.3 ASEAN countries' import policies towards the EU

Turning to the ASEAN countries' imports from the EU, the following sections investigate the specific policies affecting ASEAN imports from the EU. The national import policies applied by the ASEAN countries, as discussed in Chapter 4, have been largely based on industrialization policies. The industrial strategies have included protection of 'infant' industries, such as automobiles or agri-food products in some member countries. However, large variations exist from country to country; for example, Singapore has maintained a free import regime. In addition, limited preferential schemes have been applied on a regional basis. Import policies have also been connected to active export policies, which have often been promoted as investment incentives for foreign companies in export-oriented industries. These have resulted in growing trade flows with major trade partners, including the EU countries.

From 1990-2002, the EU countries' exports to ASEAN countries faced various types and levels of import restrictions, depending on the destination country. In addition to import tariffs, licensing, quotas and anti-dumping actions, also state-trading (i.e. import monopolies) was extensive in some ASEAN countries. These are examined below according to, firstly, the major sectors of imports from the EU, and secondly, to the major changes in the ASEAN countries' trade policies as a result of regionalism and multilateralism.

5.2.3.1 Policies towards the major sectors

During the period under investigation, restrictions towards the major sectors of imports from the EU fluctuated in the ASEAN countries. Below, Table 20. lists the eleven biggest product categories in ASEAN imports from the EU from 1993-2001 and the related import tariffs applied by ASEAN countries.[172] The cumulative value of the eleven largest sectors (by HS 2-digit sections) represented 72 % of total ASEAN imports from the EU. The average tariffs in these sectors varied from country to country and from year to year. In Thailand and Indonesia, average tariffs declined throughout the period, but in Malaysia, tariffs declined in the mid-1990s and increased again after the Asian financial crisis in 1997. The most recent tariffs applied on EU exports averaged 13 % in Malaysia, 7 % in the Philippines, 13 % in Indonesia and 15 % in Thailand. The number and extent of other import restrictions oscillated during the period.

Table 20. Largest product categories in ASEAN imports from the EU (cumulative 1993-2001), and import tariffs applied, by HS sections.

HS	*Description*	*AS im EU -93-01 mill. USD*	*Average MFN tariffs (%) in ASEAN countries*								*Other restr.*
			Malaysia			*Thailand*		*Indonesia*		*Phil*	
			-93	*-97*	*-01*	*-95*	*-99*	*-94*	*-98*	*-99*	
84	Machinery, computers	91,517	8	5	6	10	8	10	2	4	Lic.
85	Electrical equipment	90,152	17	11	10	16	15	18	9	8	Lic.
87	Vehicles, cars, trucks	17,180	27	35	59	36	35	60	36	15	P, Lic
29	Organic chemicals	12,120	3	0	1	na.	na.	na.	na.	3	
39	Plastics	10,047	26	17	17	36	24	35	23	9	
90	Optical etc. instruments	10,043	6	2	1	11	9	12	7	4	
73	Articles of iron or steel	8,891	20	16	17	11	10	11	10	13	Lic.
72	Iron and steel	7,832	9	5	12	7	1	4	9	6	
38	Misc.chemical products	6,802	5	4	5	16	10	10	7	4	
71	Jewellery	6,704	9	3	3	35	15	29	15	7	
48	Paper and paper board	6,457	12	12	11	19	19	20	7	9	AD
	Sum *% of ASEAN imp EU*	*267,745* *72 %*	av. 13	av. 10	av. 13	av. 20	av. 15	av. 21	av. 13	av. 7	

Note: Tariffs are simple average MFN (%). Thailand's and Indonesia's tariffs are by ISIC categories. [173]

Abbreviations: Lic. = Licensing P = Prohibitions AD = Anti-dumping actions

Sources: Compiled and calculated from ASEAN Secretariat (2002), GATT (1993b; 1995; 1995c), WTO (1996; 1997b; 1998; 1999b; 1999c; 2000b; 2001b).

Trade policies on the main sectors in the ASEAN countries' imports from the EU are portrayed in the 'spheres of bargaining sites' as suggested by Stopford *et al* (1991) with industries categorized on the vertical axis and trade policy intents on the horizontal axis. The findings on each major sector are presented below, and are summarized in Figure 18. that

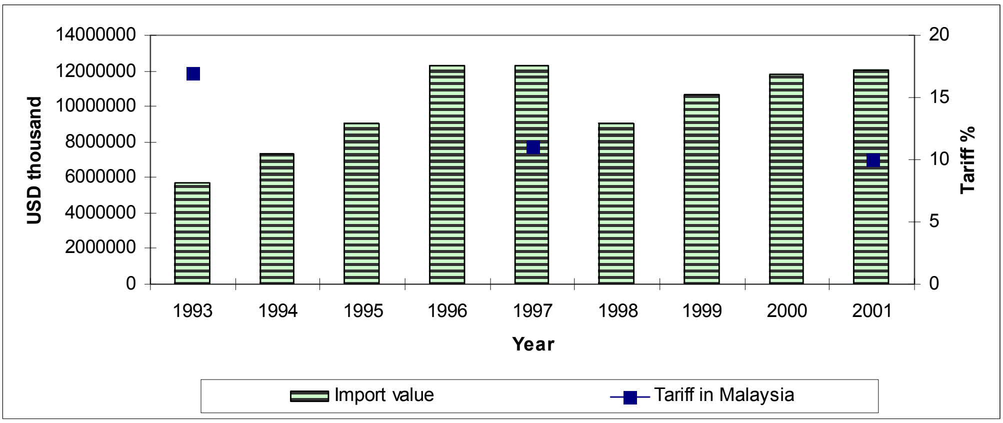
[172] Data includes four ASEAN countries: Malaysia, Thailand, Indonesia and the Philippines. In contrast, Singapore and Brunei are excluded from the analysis, since average tariffs were 0 % in Singapore, and Brunei's trade with the EU remained insignificant.

[173] Based on the available data, the average tariffs of Indonesia and Thailand are by ISIC classification. The closest equivalents to HS categories have been sought by the author; e.g. ISIC 382 for HS 84 (Machinery and computers), ISIC 383 for HS 85 (Electrical appliances), ISIC 351 for HS 38 (Misc. chemical products) and ISIC 3,843+3,844+3,849 for HS 87 (Vehicles, cars and trucks). However, for HS 29 (Organic chemicals), no direct equivalent could be found in the ISIC categories.

illustrates the stances of the ASEAN countries' trade policies in various sectors. The overall trade flow was dominated by two moderately restricted import categories – machinery and computers, and electrical appliances – which added up to about half (49 %) of total ASEAN imports from the EU. Other major categories were cars and trucks, organic chemicals, plastics, and optical, photographic and medical instruments, with varying import policies.

Machinery and computers. The major import sector faced moderate and declining import restrictions in the ASEAN countries. In the first half of the decade, average tariffs stood at between 8-10 %, while the most recent data indicates that average tariffs for machinery and computers varied between 2 % in Indonesia and 8 % in Thailand. Also licensing was applied, and especially Indonesia introduced various new NTBs in conjunction with declining tariffs. At the same time, the value of ASEAN countries' imports of machinery and computers from the EU fluctuated substantially due to the financial crisis. Having increased up to 1996, the value decreased notably in 1998-99. This can be explained by the decreased demand of machinery for various industries because of the recession in the ASEAN countries.

Figure 17. ASEAN imports of electrical appliances (HS 85) from the EU; the tariff applied in Malaysia, 1993-2001.



Sources: Compiled from the ASEAN Secretariat (2002); GATT (1993b); WTO (1997b; 2001b).

Electrical equipment. On a somewhat higher level, average tariffs of the ASEAN countries for electrical equipment and appliances had varied between 16-18 % in the early 1990s, but declined to between 8 % in the Philippines and 15 % in Thailand by the end of decade. The largest decreases in tariffs occurred in Indonesia, while some fluctuation was evident in

Malaysia. At the same time, the value of ASEAN countries' imports of electrical appliances from the EU remained relatively stable, increasing slightly up to 1997 and decreasing a little the next year. The sector was important in global assembly operations of e.g. household electronics that were widely produced by international companies in the ASEAN countries. Figure 17. gives an example of the decline in tariffs of electrical appliances in Malaysia portrayed against the trend in the value of overall ASEAN imports in the sector.

Vehicles, cars and trucks. Imports of motor vehicles from the EU faced high barriers to trade in all ASEAN countries under investigation. According to the data, tariffs increased notably in Malaysia but declined in Indonesia. Latest data indicates that average tariffs varied between 15 % in the Philippines, 35 % in Thailand and 59 % in Malaysia (Table 20.). Infant industry protection was the main reason for import restrictions, and high average tariffs were a result of tariff peaks in specific categories of the strategic industry. In the 1980s Thailand had applied even higher tariffs, with tariff peaks of 600 % for CBU motor vehicles. Malaysia raised tariffs on vehicles to protect its car industry after the financial crisis. In contrast, there were liberalizing measures in Indonesian tariffs on vehicles. The value of vehicle imports from the EU to the ASEAN countries increased up until 1996, after which it declined steeply. The declined demand for vehicles resulted in both the decrease in imports and the increase in protection in some ASEAN countries.

Organic chemicals. Various organic chemicals were subject to liberal trade regimes in the ASEAN countries, as organic chemicals are important intermediate products for many industries. Malaysia's average tariff on organic chemicals was 1 %, while the tariff in the Philippines averaged 3 %. The value of ASEAN countries' imports from the EU in this sector remained stable throughout the period, with a share of about 4 %. Thus the demand for imports in organic chemicals remained stable despite the effects of the Asian financial crisis.

Plastics. In contrast, plastics were subject to relatively high barriers to trade in the ASEAN countries. According to the latest data, tariffs varied between 9 % in the Philippines and 24 % in Thailand, although declining considerably from the tariff levels in the early 1990s. The value of the ASEAN countries' imports from the EU in this sector remained stable, with a share of approximately 3 % throughout the period. The decline in tariff protection may have contributed to the steady demand for plastics in spite of the overall recession in the ASEAN countries.

Optical, photographic and medical instruments. Moderate and decreasing import restrictions were in place in the ASEAN countries for various optical, photographic and medical instruments. Malaysia's trade regime was the most liberal in this respect, with a 1 % average tariff, while, according to the most recent data, Thailand imposed an average tariff of 9 % (Table 20.). As to overall trade flows, the value of imports in this sector increased somewhat in the mid-1990s, after which it remained stable.

Articles of iron or steel; iron and steel. Imports of articles of iron or steel faced relatively high trade barriers in the ASEAN countries. According to the most recent data, average tariffs varied from 10 % in Thailand and Indonesia to 17 % in Malaysia, and also licensing was applied. By contrast, imports of lower value-added iron and steel were subject to more liberal trade regimes. Thailand's average tariff was the lowest at 1 %, while Malaysia imposed a tariff of 12 % in 2002 (thus raising the tariff from the level of 5 % in 1995). The total value of imports from the EU in these sectors were at their peak from 1996-97 but otherwise fluctuated from year to year: imports of iron and steel declined dramatically in 1998, while imports of articles of iron and steel remained more steady. This was due to the decreased demand in the ASEAN countries as a result of the financial crisis.

Miscellaneous chemical products. The import regulations on miscellaneous chemical products varied between the ASEAN countries (Table 20.). Average tariffs in Malaysia remained low throughout the period (5 % in 2002), while tariffs were somewhat higher in Thailand (10 % in 1999). The overall value of imports from the EU remained fairly stable, however increasing temporarily during the mid-1990s. Tariff decline was notable in Thailand.

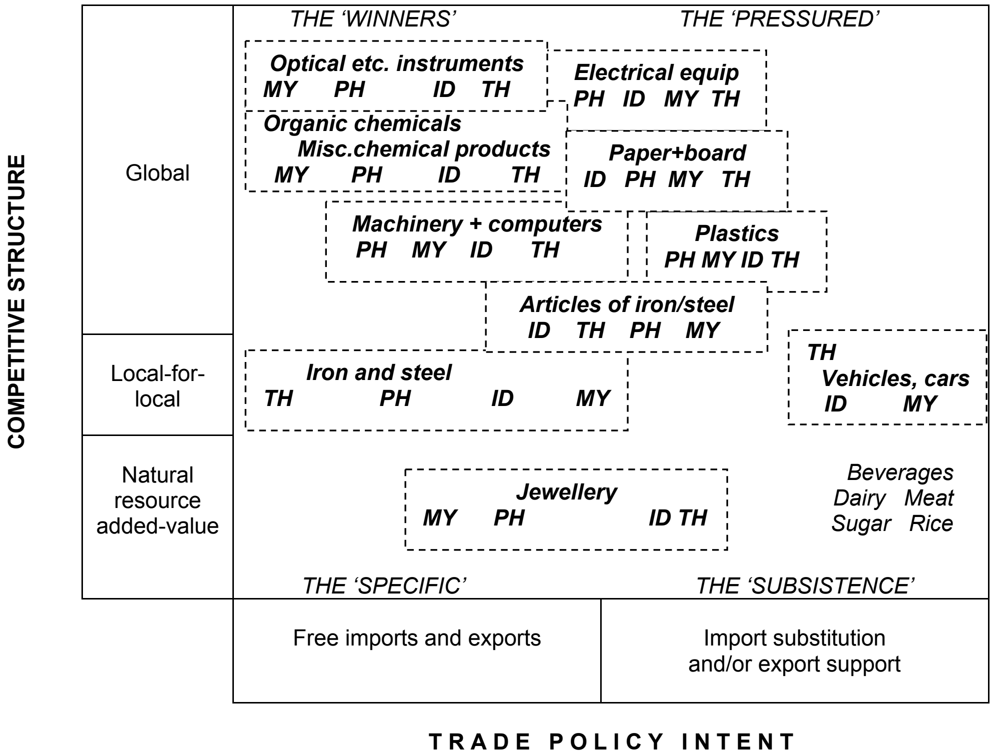
Jewellery. The ASEAN countries maintained rather dissimilar import regimes on jewellery. Average tariffs were the lowest in Malaysia (3 %) and the Philippines (7 %), while Thailand and Indonesia maintained average tariffs of 15 %. In the case of Thailand, the main argument for protection was the status of the jewellery industry as one of the promoted industries, Thailand being the world's second largest exporter of gem stones and the second largest exporter of cut gems (WTO 1995c, 107). However, liberalization in this sector was notable both in Thailand and in Indonesia. The total value of imports of jewellery from the EU fluctuated substantially, increasing until 1996, and decreasing sharply in 1998. The decreased demand of luxury products due to the recession appears to explain the decline in imports.

Paper and paper board. Imports of paper and paper board faced varying import policies in the ASEAN countries. Only Indonesia liberalized its policies in this sector, with tariffs declining from 20 % to 7 % during the period under investigation. Thailand maintained an average tariff of 19 % throughout the period, while Malaysia's tariff remained at the level of 11 % (Table 20.). Malaysia also imposed anti-dumping duties on self-copy paper imported from the EU (WTO 1997b, 54). Overall, the value of ASEAN countries' imports of paper and paper board from the EU increased somewhat in the mid-1990s.

To summarize, variations existed in the ASEAN countries' trade policies as to industrial structures and the trade policy intent (Figure 18.). Several ASEAN industries could be situated in the spheres of the possible bargaining sites, where the trade policy intents of the member countries are relatively similar. The major pattern that could be observed was dependent exporting in certain global industries, notably electronics and machinery in four ASEAN countries; and at the same time, import substitution in e.g. automobiles especially in Malaysia, Indonesia and Thailand. Exporting was partly dependent and partly independent in clothing and footwear from Indonesia and Thailand, as well as in vegetable oils from Malaysia and the Philippines. By contrast, free imports were permitted in organic chemicals into Malaysia and the Philippines.

More variation was apparent in the automobile industry and in the products of iron and steel amongst the ASEAN countries, based on different levels of protection (i.e. highest barriers to imports in Malaysia and the Philippines). Similarly, in the automobile industry there were differences as to the competitive structure of the industries, where Thailand operated more at the global production level, while Malaysia and Indonesia aimed to substitute imports and serve the local market. These variations in the trade policies on specific sectors clearly complicate the further deepening of regional economic integration among the ASEAN countries. Given the need to harmonize external trade policies if a customs union were to be formed, the policy stances of the ASEAN member countries should be brought much closer together in sectors such as vehicles, plastics, paper and paper board, and articles of iron and steel.

Figure 18. The ASEAN countries' trade policy by type of industry.



Note: The graph portrays major industries of ASEAN imports from the EU (in boxes) and other highly protected sectors.
Abbreviations: ID = Indonesia, MY = Malaysia, PH = Philippines, TH = Thailand.
Source: Author.

Based on the competitive structures of industries and the trade policies applied, as illustrated in the above scheme, as well as that in Figure 16. for the EU, the four types of policy stances identified applied for ASEAN, namely:

- policies for the 'winners', i.e. liberal policies for global industries (upper left part)
- policies for the 'specific', i.e. liberal policies towards natural resource based products not available domestically (lower left part of the scheme)
- policies for the 'pressured', i.e. restrictive policies towards global sunset or infant industries (upper right part)
- policies for the 'subsistence', i.e. restrictive policies towards local strategic industries or agriculture (lower right part of the scheme)

Altogether, the changes in ASEAN countries' trade policies towards imports from the EU can be explained by multilateralism and the Asian financial crisis, both of which had industry-specific impacts on the trade regimes. In addition, the process of regionalism had an indirect impact on ASEAN imports from the EU. In the following three sections, the impacts of regionalism, multilateralism and the Asian financial crisis on the ASEAN countries' trade policies are explained in relation to their imports from the EU region.

5.2.3.2 The impact of regionalism

Although the process of regionalism had major impacts on intra-ASEAN trade, it only had indirect effects in the trade policies applied by the ASEAN countries towards the EU. As was summarized in section 4.3.8, the major impacts of regional economic integration on the ASEAN countries' import policies were: (a) the decrease of intra-regional CEPT tariffs according to the AFTA agreement, (b) the limited tariff preferences under the sub-regional Indonesia-Malaysia-Singapore (IMS) growth triangle scheme, and (c) the extended network of trade cooperation both regionally and globally, including FTA agreements with China, India and Japan. These did not have direct effects on ASEAN imports from the EU, mainly due to the nature of free trade areas where external trade policy remains intact. In addition to tariffs, other restrictions to EU imports such as quotas, prohibitions or licensing, remained intact by the process of ASEAN regionalism. The only exception was related to the sub-regional Indonesia-Malaysia-Singapore growth triangle scheme, where imports to the Indonesian island of Batam were liberalized under certain conditions, such as re-exports or processing for re-exports, these preferences being extended to all imports regardless of the source country.

However, the indirect impact of ASEAN countries' trade policies on EU exports was related to ASEAN's free trade area and the extended network of trade cooperation. In this connection, the relative status of the EU declined in overall trade policies of the ASEAN countries, as preferences were given only within ASEAN and to other Asian trade partners. Imports from the EU countries were subject to the basic MFN tariffs throughout the period, while lower average tariffs were applied in intra-ASEAN trade.

Regarding the theory on economic integration (Balassa 1961) and customs union (Viner 1950), the implementation of the ASEAN Free Trade Area is expected to increase trade between the member countries. As to the earlier Preferential Trade Arrangements of ASEAN, Frankel (1997, 98) has pointed out that while many studies had reported a small volume of trade creation from the PTA, the studies generally did not take into account the incomes of the ASEAN countries. Since the ASEAN countries were more open to trade than typical countries at their stage of development, no specific 'ASEAN effect' could be traced in the analyses up to 1992. In comparison, the free trade area should have increased intra-ASEAN trade, and based on price differences, part of this increase could have been redirected from earlier extra-ASEAN trade. After the initiation of AFTA, data indicates that intra-ASEAN imports increased by 67 % from 1993-1997, while imports from extra-ASEAN sources grew by 57 % of which ASEAN imports from the EU increased by 59 % (see Tables A6., A9. and A10. in the Appendix). However, there were also considerable differences in trade values from year to year. To summarize, while intra-regional trade increased, external trade also expanded after the establishment of AFTA. The increase in overall trade flows appeared to be linked to the multilateral liberalization of trade, as well as to the continuous growth of export industries in the ASEAN economies.

5.2.3.3 The impact of multilateralism

As was indicated in 4.3.8, the major impacts of multilateralism in the ASEAN countries' import policies included a general decline in tariffs, a decrease in special duties, a decrease in quotas and a decrease in licensing in some ASEAN countries. All these were a result of commitments made at the GATT/WTO. These commitments were made by the national governments of the ASEAN members, not on a regional basis, and are therefore not one of the primary interests of this study. However, since some of the major liberalizing measures affected specific imports from the EU, the national trade policy changes due to multilateralism are briefly illustrated below.[174]

Regarding the structure of ASEAN countries' imports from the EU, the major points of tariff liberalization during the 1990s were Indonesia's trade regime for machinery and computers, as well as electrical appliances, where average tariffs decreased from 10 % to 2 %, and from 18 % to 9 %, respectively (see Table 20.). Other notable tariff reductions occurred in Malaysia for plastics (from 26 % to 17 %), in Indonesia for optical, medical and scientific equipment (from 12 % to 7 %), and in Thailand for iron and steel (from 7 % to 1 %). All these sectors were among the five most important product categories (by HS classification) in the overall ASEAN imports from the EU.

As to special duties, the liberalizing process was more moderate with only two countries removing some duties. Indonesia had applied special duties widely up until the mid-1990s,

[174] Besides the developments in the ASEAN countries' trade policies that were relevant regarding the major sectors of imports from the EU, the national policy changes are not addressed further in this study.

but it eliminated surcharges on all imports in 1996 based on the Uruguay round commitments. Similarly, Thailand removed some special duties in 1999 on certain agricultural products, as well as some iron and steel products. These measures had a liberalizing impact on imports from the EU countries; however, imports of e.g. iron and steel products (HS 73) declined after 1997 due to the Asian financial crisis (Figure 14.; Table A6. in the Appendix).

Also the quota regimes in the ASEAN countries were liberalizing slightly, yet varied. Indonesia removed its quotas on trucks in 1995, and the Philippines abolished quotas on all products except rice by 1999. As to licensing, Thailand in particular substantially reduced its system of licensing during the period under investigation. The liberalized products included e.g. silk textiles, tin foil, and student exercise books, which had been subject to licensing for over three decades (WTO 1995c, 45), as well as certain agricultural products; however, these sectors were not relevant in the overall ASEAN imports from the EU.

5.2.3.4 The impact of the Asian financial crisis

As has been noted, the problems associated with the financial crisis in Asia after 1997 had a restrictive effect on the trade policies of some ASEAN countries on certain sectors. Most notably, the impact was seen in Malaysia, where various tariffs were raised and other import restrictions, such as licensing, were extended. In contrast, the Indonesian economy, and to some degree, the Thai economy, were gradually liberalized throughout the decade.

The Malaysian import regime which had already begun to liberalize in the early 1990s, became significantly more restrictive after 1997 for several product groups, including vehicles, cars and trucks (HS 87) and iron and steel (HS 72), as depicted in Table 20.. In addition, average tariffs increased slightly for machinery and computers, organic chemicals, articles of iron or steel, and miscellaneous chemical products, all of which were important sectors in the aggregate ASEAN imports from the EU. In fact, Malaysia was the only ASEAN country with increasing overall tariffs after the Asian financial crisis. While the average Malaysian tariff on imports from the EU had decreased from 13 % in 1993 to 10 % in 1997, it increased back to the level of 13 % in 2001. Similarly, the Malaysian system of licensing appeared to have increased after 1997 in both agricultural and industrial imports; in addition, as licensing was subject to administrative judgement, the system was not fully transparent (WTO 2001b). Several new products were brought under the licensing system, such as some construction equipment, certain iron and steel products, some types of machinery, and certain household electronics (WTO 2001b, 38). Also, some of Thailand's import policies were affected by the Asian financial crisis, with either fluctuating or permanently high tariffs in some sectors. For example, average tariffs remained high for vehicles, cars and trucks (35 %) throughout the period, as well as for paper and paperboard (19 %). Both categories, i.e. vehicles, cars and trucks, and paper and paperboard, had been important product categories in the overall ASEAN imports from the EU, but the value of imports in both sectors declined notably after 1997 (Figure 14.; Table A6.).

5.2.3.5 Sectoral incidence of trade policies

As explained above, the ASEAN countries' trade policies towards imports from the EU during the 1990s were mainly affected by the GATT/WTO commitments and the Asian financial crisis. Table 21. summarizes the impacts of multilateralism and the Asian crisis on the ASEAN countries' import policies on different sectors based on the above analysis and Table 20.. It can be seen that the most frequent liberalization measures occurred in Thailand, Indonesia and Malaysia, while the most numerous new protectionist measures were applied by Malaysia during the period under study. Due to Malaysia's originally lower trade barriers, the countries had relatively similar average levels of trade protection in the latest data.

Table 21. The effects of multilateralism and the Asian financial crisis on the ASEAN countries' import policies towards the EU; types of trade policies and sectors affected.

	Impact of multilateralism (liberalizing)				***Impact of Asian crisis (restrictive)***	
	Tariffs	***Sp.duties***	***Quotas***	***Licensing***	***Tariffs***	***Licensing***
Food; agriculture	PH	TH		TH		
Mining; chemicals	MY,TH,ID				MY	
Plastics	MY,TH,ID					
Paper, paper board					TH	
Clothing; footwear				TH	MY	
Iron+steel; +products	TH	TH		TH	MY, ID	MY
Machinery+computers	ID				MY	MY
Electrical appliances	ID, MY					MY
Vehicles; cars, trucks	ID		ID		MY,TH	TH
Optical etc. equipm	ID,TH,MY					

Note: ID=Indonesia MY=Malaysia PH=Philippines TH=Thailand
Source: Author.

Various industrial manufactured items were most frequently subject to import restrictions such as high tariffs or licensing. The sectors particularly affected were vehicles (in all

ASEAN countries), plastics (in Thailand, Indonesia and Malaysia), jewellery (in Thailand and Indonesia), and paper and paperboard (in Thailand). Several of these industries were constantly protected in the ASEAN countries by measures relating to the infant industry argument. However, the concurrent liberalization in some sectors was a result of the Uruguay round trade negotiations and agreements. In particular, iron and steel, and the machinery and computers sector were subject to parallel processes of multilateral liberalization in e.g. Thailand, and national restrictions in e.g. Malaysia.

In comparison, certain sectors had already been largely liberalized in the ASEAN countries in the early 1990s. These included organic chemicals in Malaysia; optical, medical and scientific instruments in Malaysia; iron and steel in Thailand; and machinery and computers in Malaysia. The reasoning behind some of these was that neither raw materials nor finished products were available in the ASEAN countries. The other reason for relatively liberalized trade regimes was that these industries operated global production networks, and e.g. their assembly operations were often traditionally located in the ASEAN countries. The resulting growth in imports and exports can be explained both by the liberalizing trade policies as part of the industrialization strategy, and the growth in inward FDI in these sectors.

5.2.4 EU export policies

Similar to ASEAN, the EU's pan-regional export promotion remained relatively insignificant compared to the national efforts of the EU member countries. Some limited trade promotion existed on a pan-EU basis in the form of business conferences, trade fairs and the contracting of market studies. However, the EU initiated the Market Access Strategy in 1996 to scan problems to market access in third countries.

As to trade negotiations with the ASEAN countries, the EU did not actively promote exports at the inter-regional ministerial meetings; rather, the EU representatives repeatedly referred to the multilateral trade negotiations as the forum to discuss issues of market access. The market access requests of the EU in the inter-regional meetings were limited to 1990 when the European counterparts made a request for better market access for motor cars, personal computers, paper, textiles and clothing, fertilizers, pharmaceuticals and chemical products. The ASEAN countries' import regimes in these sectors were varied. The most restrictive policies were in place for CBU motor cars and paper. By contrast, e.g. chemical products were subject to relatively liberal import policies in the ASEAN countries. The EU's seemingly inactive export promotion at the ASEAN-EU ministerial meetings was apparently related merely to the size of the EU as an actor (cf. Archer 1983; 2001) in global trade negotiations, and to the relatively low status of the ASEAN countries as trade partners for the European Union members.

5.2.5 Summary: Major changes in EU-ASEAN trade policies

This chapter has dealt with the various types of trade policies on different sectors in EU-ASEAN trade. The major changes in EU-ASEAN trade policies have been explained by regionalism, multilateralism and the Asian financial crisis. The findings have illustrated that the three processes had distinct, yet sometimes contrasting, industry-specific impacts. In answer to sub-question 2.a. of the study, "Which sectors in EU-ASEAN trade have been most affected by the changes in trade policies?" the following four sets of results were singled out from the data analysis:

(1) The ASEAN countries' exports to the EU were subject to restrictions in the EU's common import policies due to regionalism, including:
- the remaining quotas on foodstuffs and clothing
- the abolition of GSP preferences on several agricultural and industrial product groups
- frequent anti-dumping actions towards certain manufactures
- standards and technical requirements especially on foodstuffs and chemicals

(2) At the same time, the ASEAN countries' exports to the EU were subject to liberalization in the EU's trade policies due to multilateralism, such as:
- decrease in tariffs especially in foodstuffs, chemicals, paper and paper board
- decrease in the number of quotas in clothing and textiles

(3) In comparison, the ASEAN countries' imports from the EU were subject to liberalization in their import regimes due to multilateralism, notably the:
- decrease in tariffs in Indonesia, Malaysia and Thailand on several manufactures
- decrease in special duties in Thailand and Indonesia on agriculture and industry
- abolition of quotas in Indonesia on vehicles
- decrease in the extent of licensing in Thailand on agriculture, textiles and metals

(4) At the same time, the ASEAN countries' imports from the EU were subject to restrictions in their trade policies due to the Asian financial crisis, such as:
- increase in tariffs in Malaysia on a multitude of product categories in manufacturing
- increase in tariffs in Thailand on paper and paper board and vehicles
- increase in the extent of licensing in Malaysia on several industries

Summarizing from these, the sectors that were most affected by liberalization measures in the EU included several foodstuffs and agricultural products, and, to a lesser extent, clothing; and in ASEAN, electrical appliances, plastics, and machinery and computers. Liberalization allowed for an increase in ASEAN exports of clothing (HS 61 and 62) to the EU and growth in ASEAN imports of electrical appliances (HS 85) from the EU during the period under investigation (see Figure 14. and Table A6.). By contrast, sectors that were subject to protective measures in ASEAN comprised automobiles, iron and steel, products of iron and steel, and certain machinery. It is notable, however, that the protective measures in ASEAN were most apparent in Malaysia (which had earlier applied a more liberal trade regime) and less so in Thailand. In comparison, Indonesia liberalized its tariffs in practically all sectors, except iron and steel, but implemented new non-tariff barriers. Of the above sectors, ASEAN imports of especially automobiles and iron and steel from the EU declined after 1997.

Regarding the link between industries and the state, the protective trade policies set by the state to shelter domestic industry have been a result of negotiation at the national level (cf. Carlson 2000) – or, in the case of the European Union, the EU-wide level. For example, the European clothing and textile industries have been specific beneficiaries of the EU's protective policies on 'sunset' industries. At the same time, the EU has bargained with other states at the multilateral level, with pressure to liberalize the protected sectors to gradually reach the generally accepted goal of 'free trade'. The result has been a gradual liberalizing of the global trade regime on textiles and clothing, where the EU and other industrialized countries have had to loosen their earlier import restrictions. On a somewhat different front, the ASEAN states have had to re-negotiate their trade policies with domestic industries in the wake of the Asian financial crisis, which put the ASEAN economies into recession and caused difficulties for many strategic industries, such as automobiles. The outcomes of these policy re-negotiations in the ASEAN countries have been rather varied, with Malaysia increasing its trade barriers from the previous relatively liberal level, and with Indonesia shifting its trade barriers from the earlier tariffs to highly protective non-tariff barriers.

5.3 From national to regional trade policies: The case of Finland

This section discusses the impacts of regionalism at a national level, focusing on the changing trade policies of an entrant EU member. The findings display a country-specific case within the bigger picture of EU-ASEAN trade relations, i.e. Finland, and the major effects of EU membership on its trade policies. These are analysed by investigating the changes in the Finnish trade regime with regard to the institutional basis of trade policy decision-making, the tariff system, as well as changes in the types and extent of import restrictions, including tariffs, preferential arrangements, quotas, anti-dumping actions, and standards and technical requirements. The specific impacts of regionalism on Finland's trade policies are further illustrated by an investigation into the pattern of its trade with ASEAN countries, especially Malaysia, for the period 1990-2000.

5.3.1 Finland's trade policy and trade relations before 1995

The foreign trade policy of Finland has been guided by the strategic importance of external economic relations. Being a small, open and trade-dependent economy, Finland has pursued a relatively liberal trade policy both at the multilateral,[175] regional, and bilateral levels. As to regional relations, Finland joined the European Free Trade Association (EFTA) as an associate member in 1961 and as a full member in 1986.[176] Regional liberalization was further achieved in trade of manufactured items by the free trade agreement between Finland and the EEC and the Finland-ECSC Agreements in 1974. Thus its gradual adjustment to the European trade policy began in the 1960s and continued with its further integration into the regional trade area over the following decades. In bilateral relations, Finland had concluded a trade agreement with the then Soviet Union after the war in 1947 to establish MFN treatment, i.e. non-discrimination in bilateral trade.[177] After the breakdown of the Soviet Union, a new trade agreement was signed with the Russian Federation in 1992.[178] Among other trade arrangements, Finland had adopted a system of customs preferences for imports from developing countries within the guidelines of the GSP in 1972. For goods included in the

[175] Finland joined the GATT in 1950, and became a member of the Organization for Economic Cooperation and Development (OECD) in 1969.

[176] Finland had joined the Nordic Council of Ministers in 1955. The Nordic common market comprised of a passport union and free movement of labour (GATT 1992, 54).

[177] In 1960, a customs agreement granted duty-free trade with the country. For forty years, a special trading relationship existed under a bilateral trade and payments agreement based on a clearing system (GATT 1992, 57). Also, the impact of the war reparations to the Soviet Union was significant; until 1952 all Finnish metal industry production was for reparations (Nykopp 1985).

[178] Finland had also concluded bilateral trade agreements from 1974-78 with Hungary, the German Democratic Republic (GDR), Bulgaria, Czechoslovakia and Poland (ibid., 59).

scheme, imports were granted zero import duties and levies and no quotas. Originally, the number of beneficiaries was 92, and this had been expanded to 138 countries in 1990 (ibid., 60).[179]

In 1984, the EC and EFTA had issued a joint goal of creating the European Economic Area (EEA), for which negotiations were officially launched in 1990 and the Treaty was finalized in 1991 (GATT 1992, 57). The EEA came into force in 1994 between the EU and five EFTA members, i.e. Austria, Finland, Iceland, Norway and Sweden (WTO 1995a, 20). Finland was thus further integrated into the European regional trade area, and after applying for EC membership in 1992, it joined the European Union in 1995. This marked a turning point in the formulation of Finnish trade policy and was the final stage in the process of adjusting to the European internal market. In Balassa's (1961) categories of regional economic integration, Finland had entered the second stage (the European free trade area) in 1961, and the third and fourth stages (the EC customs union and the EU common market) concurrently in 1995.[180] In between Finland's application for membership in 1992 and its eventual accession, the EU itself had evolved from a customs union into a common market.

As to Finland's trade relations, the major trading partners have historically been – in varying order – Sweden, Great Britain, the ex-Soviet Union and Germany. Since the early 1990s, foreign trade has evolved within the framework of changing global politico-economic relations. The end of the Cold War and therein the collapse of the Soviet Union shifted the bulk of Finnish exports towards Western Europe. In the late 1990s, the main trade partners were Germany, Sweden, Great Britain, the United States and Russia. Finland's overall trade balance was positive, with a surplus growing towards the year 2000.

5.3.2 Harmonisation with EU trade policy

As Finland harmonized its trade policies with the EU customs union and common market, both the union's import restrictions and export promotion were adopted. In addition to the earlier free trade agreement with the EC, trade policy formulation and decision-making shifted from the national Finnish government to the EU institutions. Also, certain changes

[179] The major beneficiaries of the GSP treatment were China and South Korea, and the leading imports were electronics (mainly from Korea), bananas and coffee. Receiving GSP preferences, Thailand was an important supplier of processed fish and pineapple products, and the ASEAN countries as a group, of furniture.

[180] In earlier literature, trade policies of Finland and/or integration into the EU have been discussed by e.g. Haataja (ed.) (1978), Nykopp (1985), Hämäläinen (1986), Laaksonen (1987) and Hjerppe (1993), EY-kauppapolitiikka (1994), Widgren (1993; 1995; 1997), Alho *et al* (1996), Alho *et al* (ed.) (1996), Jalava (1999), Kyläheiko *et al* (1999) and Mäkelä (1999).

were due in specific import policies, since there had been differences between Finland and the EU on the sectoral level. In contrast, export policies remained relatively untouched. All these are further discussed in the following.

5.3.2.1 Institutional basis of trade policy decision-making

Before 1995, Finland's trade policy had been formulated by the national government. Ministries most directly involved in the formulation of trade policies had been the Ministry for Foreign Affairs, which was responsible for the preparation of foreign and trade policies and trade negotiations; the Ministry of Trade and Industry which implemented trade policies and was responsible for export promotion; and the Ministry of Finance which dealt with matters relating to customs and tax legislation, anti-dumping and countervailing duties, and subsidies and safeguard measures.

After joining the EU, the final decision-making over trade policy shifted to the EU institutions, and Finland became one of the decision makers of the union through its committee system. On a national level, the Finnish Ministry of Trade and Industry administers trade policies for industrial products. It brings the Finnish stand on trade policy to the EU's 'Committee 133' which pools the member countries' stances for EU-wide policy preparation (Ala-Nikkola 2002). As discussed in section 4.2.2, the Commission initiates and proposes policies to the Council of Ministers, which has the highest union-wide decision-making power (on majority) on foreign trade matters. The Commission then implements the decisions made by the Council. The member countries thus participate in the formulation of trade policies in the preparation phase and in the final decision-making exercised by the Council of Ministers.

Membership also led to significant changes in the legislative and administrative affairs of trade policy. Finnish foreign trade legislation and implementation had been much narrower than that of the EU, which had extensive and complex customs legislation. Finland's trade law and customs system was expanded accordingly to be more detailed (Jalava 1999, 17). The anti-dumping regulation had been the most important and most used import protection mechanism in the EU, while it had not been significantly used in Finland before accession. Legislation was also harmonised with the EU pertaining to e.g. food and chemicals, as well as tax and corporate issues. Finland also became a member of a range of EU trade agreements with several countries and regions. One of these was the ASEAN – EU cooperation agreement from 1980 (EY-kauppapolitiikka 1994, 3). Since 1995, Finland has participated in the ASEAN-EU Ministerial Meetings, as well as in the Asia-Europe Meetings (ASEM).

In Archer's (1983; 2001) categorization of the roles of international organizations, Finland thus became a member of a regional trade organization which itself is an actor in international negotiations over trade policies. This had two-sided effects on its position in policy-making. On the one hand, Finland lost its earlier sovereignty in decision-making over policies; while on the other, it gained negotiating power in the multilateral setting, being part of a large grouping.

5.3.2.2 Import and export policies

After the GATT Uruguay Round had been completed in 1994, Finland's average tariff level for non-agricultural imports was 3.6 %, while the EU's average tariff was 2.9 % (Flam 1995 quoted in Widgrén 1997, 27). Thus the average tariff levels were close to each other.[181] In both Finland and the EU, import restrictions were imposed especially on the agricultural and the textiles and clothing sectors; however, there were differences in specific product groups.

Import tariffs by sector

Changes abounded in the level of import tariffs in certain sectors. Based on data from 1988-90, major differences in import tariffs between Finland and the EU occurred in several products groups. Tariffs were clearly higher in Finland for rubber, tobacco, textiles and clothing, footwear, and beverages. By contrast, tariffs were lower for pulp and paper, chemicals, transport equipment, and fish products (Table A11. in the Appendix.).[182] Finland negotiated a transition provision of three years in certain import duties upon joining the union. These provisions comprised about 190 tariff-line items, most of which were in the textiles and clothing sector. According to the agreement, a gradual lowering of tariffs was implemented in imports from third countries in these tariff lines (EY-kauppapolitiikka 1994, 53). In 1995, tariffs remained on the level of the previous year after which duties were gradually reduced in 1996 and 1997, and the final shift to common EU tariffs took place on 1.1.1998.

[181] As to tariff systems, Finland had applied the Harmonized System of tariff classification in 1988. At that time, 29 % of tariff lines received duty-free treatment, and 92 % of all tariff lines were bound in the GATT (GATT 1992).

[182] There were also differences in other trade measures for some product groups, such as quotas for textiles and clothing.

Adopting the common external tariff of the EU led to varying outcomes in different sectors. Widgrén (1997) noted that in general, tariffs rose on raw materials and semi-processed goods, while they fell in some processed products. The impact was smallest on the Finnish forest industry, which had been subject to free trade for a long time, and where the economies of scale were fairly well utilised. In contrast, the impact was biggest on metal and engineering; especially on electronics where components were imported from outside the EU, from regions including the ASEAN countries. Tariffs on certain electronics components from third countries rose from 0 % to 14 %. Also, the Finnish chemical industry which largely imported raw materials from third countries faced an obvious disadvantage. In the textile, clothing and footwear industry, the effect depended on the added-value- of the product: duties rose in high added-value- products, and fell in low added-value products (ibid.). The average import tariff on clothing fell from 35 % to 14 % after 1995.

Other policies towards imports

The major implication of direct trade policy was the EU's system of non-tariff barriers, which affected Finland's trade with some major trade partners such as the United States and Japan. A broader range of imports was regulated in the EU than had been the case in Finland. The EU's considerable use of actions against dumping, as well as various other NTBs, such as import monitoring and bilateral import restriction agreements, were a new feature for Finland, which had used anti-dumping actions and other measures sparingly.

As to prohibitions, licensing and quotas, Finland's overall policies had been relatively similar to those of the EU. Finland had prohibited imports of e.g. coniferous wood from certain areas, as well as lead-based paints, yellow (white) phosphorus matches and immoral literature (GATT 1992, 97). A permit had been required for imports of e.g. firearms and ammunitions, explosive substances, pharmaceuticals and radiation equipment, as well as for live animals and most animal products. Licensing had been applied to certain agricultural and energy products. In addition, global quotas had been applied to a number of agricultural and petroleum products, salmon and other fish, berries and their juices, starches, vegetable oils and motor spirit. After joining the EU, quotas were based on the Community-wide system which had been in place from the start of Finland's year of accession.

Anti-dumping actions had been applied sparingly in Finland before membership. According to data from 1986-1991, there had been nine cases against seven countries, most frequently against Poland and the GDR (East Germany). The products involved were e.g. hardboard from Poland, aluminium cables from the GDR and optical fibre cables from Japan. Several of the cases were terminated with price undertakings (ibid., 115). After 1995, Finland was involved in the EU anti-dumping system with an increasing number of actions especially towards Asian countries.

Standards and regulations applied in Finland had been largely harmonized with the Nordic and Western European countries (ibid., 102). Elimination of technical barriers to trade had been the subject of cooperation in EFTA. In addition, Finland had begun unilaterally to align its technical standards to those of the EC, and about 95 % of its standards were identical to those of the EC in 1993 (ibid., 104). Thus there were no major changes in this regard after accession.

Export policies

The EU did not induce major changes in Finland's export policies. As has been discussed earlier, there were relatively few EU-wide policies on exports, and in general, export promotion remained within the competence of the member countries. Measures directly affecting exports in Finland had included exemption from turnover or sales tax, export subsidies (including subsidies for agriculture exports and refunds for exported food), export finance (credit), export insurance and guarantees, and grants and loans for export promotion and marketing assistance (GATT 1992). Export promotion has been managed by Finpro, the former Finnish Foreign Trade Association. Its services for Finnish companies have included consulting, information on global markets, and various events in Finland and abroad, such as exhibitions and trade fairs. Trade delegations have been an important part of export promotion especially in Asia, the Middle East, and Latin America (Saneri 2002). Since the 1990s, some of the Finnish export promotion activities have been reorganized. The trade policy department of the Ministry of Foreign Affairs has taken more responsibility in the field.

Summarizing from the above, membership in the EU customs union changed Finland's extra-EU trade policies, and this was reflected in the actual trade patterns. As an illustration of the impacts of regionalism on Finland's trade policies relating to its external trade flows, the following sections present findings from an examination of Finland-ASEAN trade and the case of electronics imports from Malaysia. Electronics, especially integrated circuits, appear in this study as an example of a product group with major effects of regionalism. The shift from the Finnish to the EU import regime increased the level of tariffs on certain product categories significantly. This was notable in Finland's trade with Malaysia, where the bulk of imports was in the electronics sector.

5.3.3 Implications to Finland's trade with Malaysia

Finland's trade with the Southeast Asian countries had evolved slowly since the 1940s-50s when there were some imports of spices from Indonesia and rubber from Malaya. By the 1990s, three decades of vibrant economic growth in ASEAN had raised its potential as a trade target, which coincided with Finland's trade expansion in Asia. Due to initially low levels of trade, the region became one of the fastest growing export markets for Finland. The significance of ASEAN was further reinforced by the regional integration process, i.e. the gradual establishment of AFTA. Below, the pattern of Finland-ASEAN trade is presented as a backdrop for the case of Finland's electronics imports from Malaysia.

The pattern of Finland-ASEAN trade

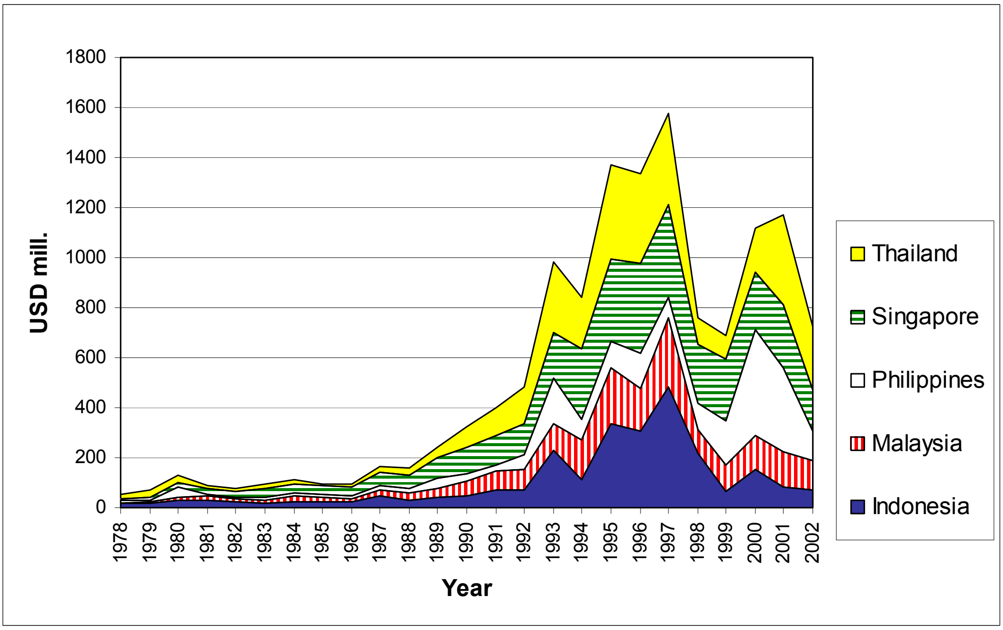
During the 1980s, Finland's trade with the ASEAN countries had increased manifold due to swift economic growth in Southeast Asia. As Figure 19. shows, the value of Finland's exports to ASEAN-5 rose from about 50 million USD in 1978 to about 1,600 million USD in 1997 before the Asian crisis.[183] After the decline, exports increased again to about 1,200 million USD in 2001. Similarly, Finland's imports increased from about 20 million USD in 1978 to over 550 million USD in 1998, and fluctuated somewhat after that (Figure 20.).

As to country composition, the most important export destinations among the ASEAN countries in the 1990s were Thailand, Indonesia and Singapore. Both the absolute values of exports and the shares of each of the countries fluctuated significantly. Exports to Indonesia increased notably during the mid-1990s, but declined steeply after 1997. Exports to Singapore and Thailand were slightly more stable throughout the period (Figure 19.). In terms of Finnish imports, Malaysia, Singapore and Thailand were equally large sources, while imports from Indonesia reached the same level after 1995 (Figure 20.). As it turned out, the impact of the Asian financial crisis was visible in Finland's exports to Indonesia which declined from about 500 million USD in 1997 to less than 100 million USD in 1999 (Figure 19.). Malaysia was also affected, but less dramatically so. Despite the crisis, Finnish exports to the large ASEAN

[183] Trade was negligible with Brunei and with the new members of ASEAN – Vietnam, Cambodia, Laos, and Myanmar. These trends reflected the economic sizes of the respective ASEAN countries.

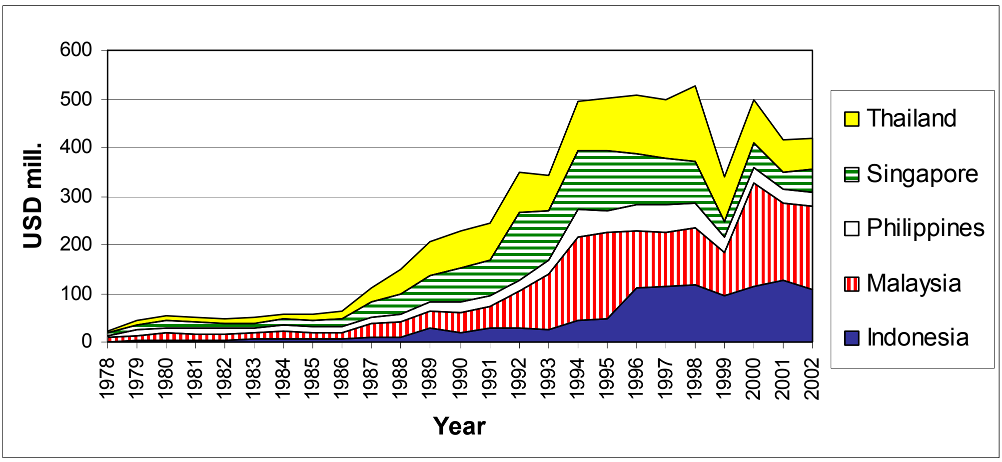
trade partners exceeded imports, as e.g. in 1998 exports amounted to about 100-200 million USD /country, while imports amounted to approximately 50-120 million USD /country.

Figure 19. Finland's exports to ASEAN-5, 1978-2002.



Source: IMF Direction of trade statistics, various issues.

Figure 20. Finland's imports from ASEAN-5, 1978-2002.



Source: IMF Direction of trade statistics, various issues.

Also the share of Southeast Asia in Finland's total foreign trade grew slightly up until 1997; however, it remained below 1 % for each individual ASEAN country. While Southeast Asia was conceived as a market of great opportunities, investment relations developed slowly because of the generally late internationalization of Finnish businesses, as well as physical and cultural distance. Some large Finnish companies, such as Nokia, Ahlström, Wärtsilä, and Jaakko Pöyry established operations in Southeast Asia in the 1980s; however, large-scale business relations remained modest (Kettunen 2002). At the same time, Finland had begun active export promotion in Southeast Asia. Export offices were established jointly with the Finnish Embassies in e.g. Malaysia, Thailand and Singapore. The significance of embassies was important in foreign trade promotion, and in accordance with growing trade, export promotion was also carried out in several trade fairs and industry seminars (Vinha 2001). Led by the President of Finland, business delegations visited several Southeast Asian countries especially in the mid-1990s (Saneri 2002).

According to a quantitative assessment, Finland's export potential in the Southeast Asian market is fairly well utilised. Blomqvist (1995) studied the market potential of ASEAN for Finnish exporters, using a gravity type model as the main method. The Finnish export potential was estimated for seven ASEAN countries. According to the assessment, the over-utilization of export potential was particularly high for Singapore and Indonesia, and only Brunei and Vietnam showed some untapped export potential. The assessment for the year 1993 showed that the non-utilised export potential was rather small, indicating that Finnish exporters had been successful in achieving markets in Southeast Asia. However, the results varied according to two different methods: while the regression analysis based on a modified gravity model of foreign trade suggested an over-utilisation of export potential, a trade intensity index showed an under-utilisation by about the same amount. The differences in results were explained by the underpinning of the two methods.[184] Overall, the results were rather consistent with the relative economic sizes of the partner countries.

The product composition of Finland-ASEAN trade changed considerably. In the late 1980s, forestry products (e.g. paper and paperboard) had amounted to about one fourth of Finnish exports to Southeast Asia. In 1993, the share had declined clearly due to faster growth in other

[184] While the trade intensity index only looked at trade volumes of the two countries and compares trade between the two partners as to their total trade, the gravity model included more variables. The model used in the study included four variables: the size of the trade partner's economy; the population of the trade partner; the physical distance between the two; and the relative factor abundance of the two trade partners. A further problem in the estimation was the yearly variation in Finnish trade with the ASEAN countries, due to the low level of trade volumes. To overcome this, the study took the year 1992 as the year to be assessed for comparison. Some differences, though not considerable, were noted between the two years. (ibid.)

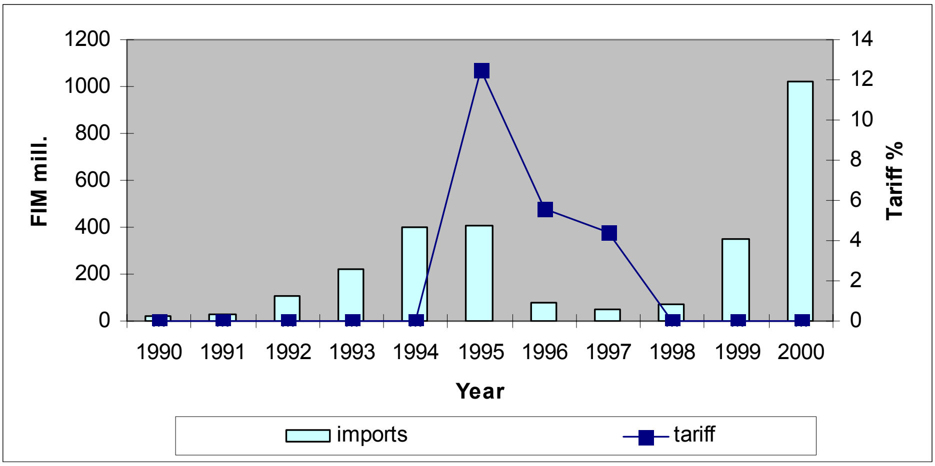
product groups, especially machinery and equipment, which grew to be the biggest export categories with a share of over 60 % of exports, including e.g. paper machines, electric motors and generators, and telecommunications equipment. In Finnish imports, the share of electric and electronic equipment from ASEAN grew considerably by 1993, including parts of automatic data processing machines, foodstuffs, and fish and fruit preparations (National Board of Customs, 1993). As such, the composition of Finland's exports to Southeast Asia was clearly different from its overall export structure where the share of forestry exports was significant (National Board of Customs, 1998; 2000). The product composition of Finland's trade with ASEAN-5 in 2000 is further illustrated in Figure A7. (in the Appendix) which indicates that machinery was the leading sector in both exports and imports.

Finland's imports from Malaysia

Finland's electronics imports from Malaysia are discussed as an example of changes resulting from membership in the EU customs union. From 1990-2002, Malaysia was one of the major sources of Finland's imports from ASEAN; however, the value of imports declined steeply in 1996 (Figure 20.). At the same time, the value of imports from the other ASEAN members remained rather stable or increased, such as in the case of Indonesia. After 1999, imports from Malaysia increased again notably, and Malaysia remained the largest source of imports up until 2002. Regarding the objectives of this study, the year 1995 was considered significant in Finland's imports, as the EU tariffs and other trade policies were adopted in that year. The notable decline in imports from an extra-EU trade partner could indicate an increase in trade barriers towards that country and a possible trade deflection.

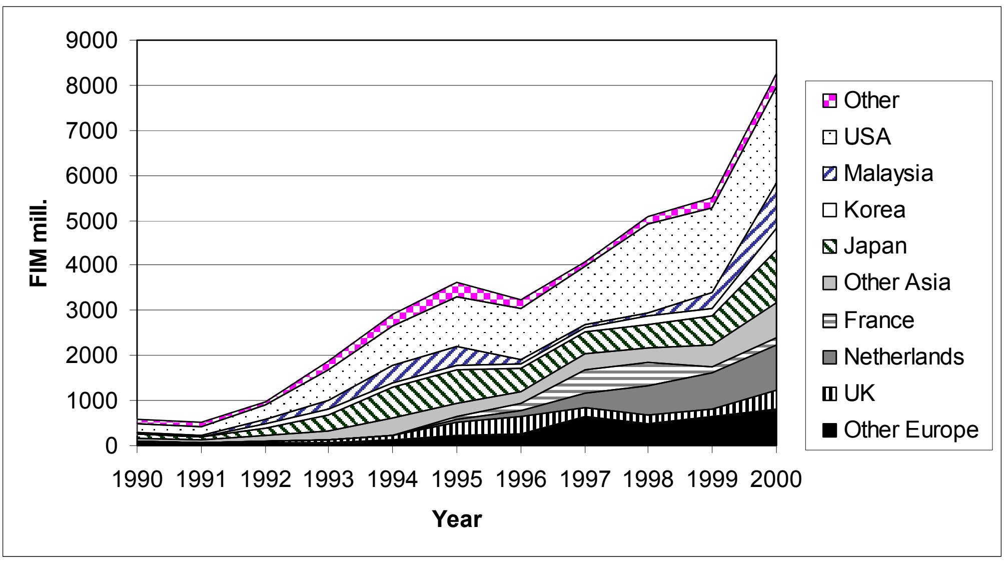
Related to Malaysia's industrial strategy in electronics (Kanny 1999), integrated circuits were the largest single product group in Finland's imports from Malaysia between 1992-95, and added to about 60 % of the total value of imports from Malaysia in 1995 (National Board of Customs, various issues). Figure 21. illustrates the changes in the trade value of, and import tariffs on, Finland's imports of integrated circuits from Malaysia, with data from Finnish statistics. Data on import tariffs represent Finnish tariff levels up until 1994, and the EU tariff levels which Finland adopted from 1995 onwards. As is evident, Finland's tariffs on imports of integrated circuits (HS 8542) from Malaysia had been at the level of 0 % from 1990 to 1994 before Finland joined the EU customs union. Throughout this period, the value of imports in this product category increased steadily. In 1995, the tariff level increased according to the EU's common external tariff to 12.5 %, but declined to 5.6 % in 1996 and further to 4.4 % in 1997, after which a 0 % tariff level was applied again. At the same time, the value of imports dropped to a low level for three years, but increased again in 1999 after the elimination of tariffs.

Figure 21. Finland's imports of integrated circuits (HS 8542) from Malaysia (FIM mill.); tariff imposed (%), 1990-2000.



Source: National Board of Customs, Finland, various issues.

Figure 22. Finland's imports of electronic integrated circuits and micro circuits (HS 8542) by source country, 1990-2000 (FIM mill.).



Source: National Board of Customs, Finland, various issues.

Overall, the United States dominated as a source of imports throughout the period, as can be seen in Figure 22. The decline in imports from Malaysia and other Asian sources in 1996 was accompanied by an increase in imports from various European sources, such as France and the Netherlands.[185] The example illustrates developments in intra- and extra-regional trade after joining a customs union, which appears to have resulted in trade creation and possibly also trade diversion in the case of trade in integrated circuits; however, this explanation would require further analysis before being confirmed.

Summarizing from section 5.3, Finland's joining the EU customs union had a major impact on its trade policy formulation and institutions, as decision-making shifted from the national level to the pan-EU level. In addition, the membership affected the tariff levels applied on imports to Finland, liberalizing in some sectors and restricting in others. In answer to the sub-question "How have Finland's trade policies changed after joining the EU, and which sectors have been affected by regionalism?", the findings showed that the EU's regionalism had a restricting effect on a major product group, i.e. electronics components imported from Malaysia, which was also reflected in a shift to increased imports from European neighbours.

5.4 Major trade barriers in EU-ASEAN trade

A major part of ASEAN exports to EU countries were subject to relatively liberal EU trade policies. The nine largest export categories comprised 72 % of all ASEAN exports to the EU during 1993-2001. The average tariff imposed on these categories was 9 % in 1995, declining to an average of 6.6 % in 2002. The highest tariffs were in place for textiles and clothing, and footwear (which were important export products for the ASEAN countries) as well as for certain agricultural products (cereals, dairy and meat), which were not among major ASEAN export items. In addition to tariffs, ASEAN exports to the EU faced various types of non-tariff measures. The most important of these were the quotas on textiles and clothing which were, to a large extent, based on the voluntary export restraints (VER), bilateral agreements between the exporting and the importing countries on quantitative restrictions for specified product groups. Other types of non-tariff measures included import monitoring and countervailing actions, especially anti-dumping actions.

[185] The value of imports the Netherlands grew rapidly after 1995. One reason for the growth might be a change in the statistical definitions of a source country, relating to e.g. the international transport routes of exports and imports, where Rotterdam is a significant node for EU imports.

Some quotas for textiles and clothing were removed due to the WTO commitments, and the higher tariffs in agriculture decreased significantly. Hence the overall EU trade policies towards the major ASEAN exports were in a process of liberalization in the long term. At the same time, the value of ASEAN exports of electrical appliances, as well as machinery and computers, increased significantly throughout the nine-year period. The exports of apparel and clothing accessories remained more stable. In EU exports to ASEAN countries, the highest barriers to trade were in place for vehicles, plastics, and articles of iron and steel. These products faced high protection in all ASEAN members. However, there were also country-specific trade barriers, such as on jewellery in Thailand and Indonesia, on electrical appliances in Thailand, and on paper and paper board, as well as miscellaneous chemical products in Thailand.

5.5 Summary: The geography of EU-ASEAN trade policies

This chapter has presented findings on trade policies and trade flows between the EU and the ASEAN countries. Overall, since European trade is dominated by considerable intra-regional trade, as well as trade with other major industrialized economies, the share of Southeast Asia in its total trade is relatively low. In contrast, the major trading partners of the ASEAN countries are outside the region, and strong trade links have been developed with the United States, Japan, and the EU. The growth of trade in the Southeast Asian countries has been connected to their industrialization process over the last three decades. The structure of production in Malaysia, Thailand, and, to some extent, Indonesia, has shifted from primary agricultural production to more industrialized and, initially, labour intensive manufacturing, and, to a growing extent, capital intensive manufacturing. In the same vein, the composition of trade has changed from primary to industrial products, which has also been reflected in the EU-ASEAN trade structure. Recently, the share of labour intensive manufacturing has declined rapidly in the more developed ASEAN countries, as such production has been moving to e.g. China and Vietnam. Thus, a major factor in the growth of EU-ASEAN trade over the two decades has been related to the industrialization of the ASEAN countries, and to the subsequent growth in their manufactured exports and imports.

The geography of trade policies that the study aims to elaborate on, has been suggested to comprise three issues as discussed in the framework of the study, namely:

- scales of negotiation, decision-making and agreements: national, regional, inter-regional and multilateral
- hierarchies of trade preferences: preferential trade area, free trade area, customs union and common market
- industry pressures for protected and promoted sectors: the link between industrial policy and trade policy

The evolving geography of trade policies between the EU and ASEAN includes shifts in the scales of negotiation and decision-making and in hierarchies of trade preferences, and the sector-specific requirements of either protection or promotion of an industry. It has been found that: (1) The scales of negotiation, decision-making and agreements have shifted towards the regional level in both the EU and ASEAN. The EU has been represented by the Commission in international negotiations since 1999, and in ASEAN, the AFTA has been implemented since 1993 and a decision has been made to create a common market by the year 2020; (2) The hierarchies of preferences have extended in both regions to include neighbouring countries and sub-regions. The EU has free trade agreements with the Eastern European countries which were integrated into the Union in May 2004. Similarly, ASEAN has cooperated with its regional neighbours in the ASEAN+3 process, aiming to develop a free trade area. Also, the ASEM process has extended inter-regional cooperation to include other Asian countries such as Japan, China and South Korea; (3) The industry requirements in both the EU and the ASEAN countries have been linked with trade policies. The protected sectors have included the declining ‘sunset’ industries, such as clothing in the EU, as well as the emerging ‘infant’ industries, such as vehicles in the ASEAN countries.

6. Conclusions and implications of the study

This study has dealt with trade relations between the EU and the ASEAN countries. In preceding chapters, the dissertation has reported findings on the changing trade policies between the EU and the ASEAN countries during a period of intensified regionalism in 1990-2003. The broad background interest of the study has been related to the notion of the parallel trends of regionalism and multilateralism in the world economy, as well as the underlying restructuring of global production systems (Gibb 1994, Frankel 1997, Yeung *et al* 1999, World Bank 2000, Alvstam 1993, Carr 1997, Dicken 2003). The manifestation of regionalism was observed in two trading regions, the EU and ASEAN, which were chosen for the study because of their importance in the arena of world trade. Regionalism had also led to intensified inter-regional relations in the global governance of trade. Accordingly, the research problem of the study was *how regional economic integration in the EU and in ASEAN affects trade policies between the two regions*.

The relevance of the topic had arisen from the identified gap in research, i.e. the scarcity of research on various types of trade policies affecting the specific trade patterns between the EU and ASEAN. In addition, the parallel trends of regionalism and multilateralism had raised contradicting hypotheses on whether global trade had become more restricted or more liberal (Bhagwati 1993, Bergsten 1994, WTO 1995, Bhagwati & Panagariya 1996, Milner 1997, World Bank 2000, Bhagwati & Panagariya 2003). While there is an abundance of studies on regional economic integration in both the EU and ASEAN, there have been few empirical accounts of sector-specific trade policies vis-à-vis the actual trade flows. In an attempt to breach the research gap, this study aimed to assess the impacts of regionalism on EU-ASEAN trade policies, relating these with the pattern of trade between the regions. The objective was operationalized and broken into sub-questions for the empirical analysis:

1. How have trade policies evolved in the EU and the ASEAN countries during a period of intensified regionalism?
2. What kind of policy stances can be identified based on the competitive structure of industries in EU-ASEAN trade?

To answer these questions, the study was designed to include a cross-disciplinary approach and multiple types of data, and a mixed method of both an institutional analysis of trade policy decision-making and an investigation into the various types of trade policies towards the specific sectors in EU-ASEAN trade. The theoretical framework of the study was structured to combine earlier literature on three major fields: regional economic integration, trade policies, and the geography of international trade. Based on a critical account of previous theorizing, suitable approaches were selected for the framework of the empirical study. Literature suggested that regional economic integration evolves in stages (Balassa 1961) and that regional trade organizations can be either instruments or arenas for the member countries in coordinating common policies; or they can be actors in their own right in the multilateral setting (Archer 1983; 2001). States regulate trade by bargaining on two levels, national and international (e.g. Carlson 2000), and, based on the national policy interests and the competitive structure of domestic industries (Stopford *et al* 1991), they have several possible bargaining 'sites' in setting trade policies for various industries. In Asia, changes in trade are partly explained by the inflow of foreign direct investments (Alvstam 1993; 2001a), which appears also to be reflected in the links between trade policies and industrialization policies.

Following the theoretical framework, the empirical study was structured to examine two major themes: trade policies at various geographical scales (in chapter 4) and trade flows subject to trade policies (in chapter 5). Particular emphasis was placed on the geographical scales of negotiation and agreements, the hierarchies of trade preferences, and the industry-specific needs for protection. Building on these, the study elaborated on a new concept, the geography of trade policies. It was argued that operationally, the geography of trade policies can be assessed by analysing (1) the level of trade policy decision-making, e.g. national or regional, (2) the trade agreements of a country/grouping, and their hierarchies of preferences, and (3) the industry-specific trade restrictions or liberalization of the country/grouping. The changing trade policies are manifested in the bargaining relationship between the state, domestic industries, and other states. These can be illustrated as the 'spheres of possible bargaining sites' based on the objectives of national policy and the competitive structure of industries (as modified after Stopford *et al* 1991).

With an inductive approach, chapter 4 presented a longitudinal description of the changing trade policies in the EU and in ASEAN, as well as the trade negotiations between the two. The findings were summarized to indicate the evolving geographies of trade policies of the two regions. This formed the platform for the cross-sectional analysis of the EU-ASEAN trade policies affecting trade flows, in chapter 5.

6.1 Summary of the empirical findings

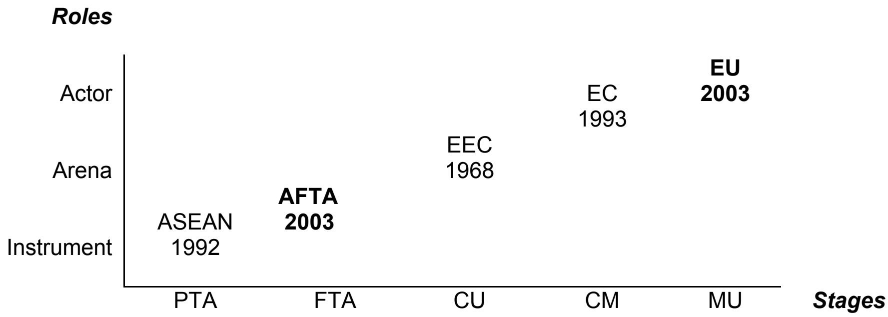
In answer to the two research questions posed for the study, it is concluded that:
(1) Trade policies in both the EU and ASEAN have liberalized because of multilateral commitments and despite the alleged restrictive effects of regionalism, but the Asian financial crisis had a somewhat restrictive impact on some ASEAN countries' trade policies in specific sectors.
(2) Four types of policy stances were identified in the EU-ASEAN trade relation that combined liberal or restrictive policies with global or local industries, where global industries predominated. Consequently, the overall EU-ASEAN trade became more liberal because of recent multilateralism, but also because machinery and electronics, the two global sectors that constituted almost 60 % of the total trade, include trade in intermediate products in global commodity chains, which had largely been liberalized already.

These conclusions are based on the results of the empirical examination, which is summarized in the following.

Trade policies at various geographical scales
The findings in chapter 4 illustrated the changing EU-ASEAN trade policies against the backdrop of regionalism and multilateralism. As regards theories on *regionalism and the institutional basis of trade policy making*, the stages of regional economic integration defined by Balassa (1961) were a valuable categorization, in spite of their large internal variety in reality. Similarly, Archer's (1983; 2001) categories were found to be helpful in distinguishing between different roles of international organizations vis-à-vis their member countries, where the EU and ASEAN were found to be very different.

As a result, the EU and ASEAN are positioned along two dimensions (Figure 23.): their roles as regional organizations (on the vertical axis), and their stages of economic integration (on the horizontal axis). Both groupings have been moving towards increased internal economic integration. In 2003, the EU moved to the highest category, being an actor in international negotiations, and a monetary union. At the same time, AFTA was close to being a full free trade area, representing an organization which has characteristics of both an instrument and an arena for the member countries to advance their trade objectives.

Figure 23. Stages of economic integration and roles of EU and ASEAN as regional trade organizations.



Source: Author.

As regards the *types and the geographical extent of trade policies*, it was observed that both the EU and the ASEAN countries applied several, but to some degree, different, types of trade policies. This was also the most time-consuming part of the empirical investigation, since a major part of trade policies are of the non-tariff type, which are furthermore varied across countries and across time. It was found that the EU was an active user of quotas and anti-dumping actions, while in the ASEAN countries, licensing and state-trading were extensively applied, and to a growing degree, also anti-dumping actions. Table 22. summarizes the overall level of protection and the types of trade policies in the EU and the ASEAN countries. The EU's trade policies were generally more liberal than those of the ASEAN countries, and the EU had a more extensive network of preferential trade agreements both regionally and globally.

Table 22. Level of protection and types of trade policies in the EU and the ASEAN countries.

Trade policy type / ***Level of Protection***	*Tariffs*	*Quotas*	*Licensing*	*State-trading*	*Anti-dumping actions*	*Safeguard etc. trade defence*
Restrictive		EU	ASEAN countries	ASEAN countries	EU	
Moderate	ASEAN countries	ASEAN countries	EU		ASEAN countries	
Liberal	EU			EU		EU ASEAN Countries

Source: Author.

In addition to the impacts of regionalism on external trade relations that were the focus of this study, regional economic integration affects the internal trade of a regional grouping. The effects of trade creation and trade diversion in customs unions (Viner 1950) can be debated with regard to the EU and to ASEAN. In the case of the EU, the phenomena have been in place since 1958 when the EEC customs union was established. According to earlier literature, intra-European trade had grown faster than world trade from 1955-1975 (e.g. Alvstam 1979), with estimated effects of trade creation amounting to 19 billion USD (Balassa 1974). This study summarized that regionalism had six specific impacts on the EU's trade policies, three of which were liberalizing: harmonizing and partly eliminating import quotas; new preferential trading arrangements with regional and global trade partners; and initiation of the Market Access Strategy aiming to liberalize export markets. Two other impacts were protective: an increased number of anti-dumping measures; and new regulations on EU standards. As to the ASEAN countries, regionalism had three major impacts, all of which had the effect of regional liberalization, namely: the decrease in intra-regional AFTA tariffs; limited tariff preferences in the growth triangle scheme; and trade liberalization agreements with regional East Asian neighbours.

Regarding *EU-ASEAN trade negotiations*, it was found that ASEAN was active in requesting better market access in the EU. At the same time, the EU adhered to multilateral trade negotiations to discuss market access. It was observed that the relations between the EU and ASEAN had evolved in four distinct phases, based on the activity of cooperation and issues of common interest: from general discussions (in 1978-86) to active bargaining (1988-92), to enthusiasm for cooperation (1994-97), and to political and structural challenges (1997-2003). The 1990s in particular were a volatile decade in EU-ASEAN relations as the spirit of negotiations fluctuated between tension and enthusiasm. Political issues were strongly bound up with economic and trade matters. The 'Burma issue', i.e. the accession of Burma/Myanmar to ASEAN in 1997, remained the main obstacle to EU–ASEAN cooperation, and had implications on inter-regional negotiations and trade policy.

The negotiations were also affected by the roles of the two organizations, i.e., the institutional characteristics of the EU and ASEAN in coordinating trade policies and external trade negotiations. Despite certain similarities between the two as regional organisations – both have been committed in the long term and successful in their regional issues (contrary to many other trade groupings) – major differences remained between the two. While the EU as an actor in trade policy has a strong structure with central institutions and decision-making power, ASEAN as an instrument and arena is more of a cooperation forum with no supranational power in trade policies.

EU-ASEAN trade flows and trade policies

Based on the framework modified from Stopford *et al* (1991), and building on data presented in chapter 4, findings from the cross-sectional analysis of trade policies vis-à-vis the trade flows between the two regions were portrayed in chapter 5. Industries were positioned in relation to their competitive structure and the trade policies applied in a scheme of bargaining as elaborated in Figure 5. of the study. It was found that, by trade value, a major part of exports and imports between the EU and the ASEAN countries were in largely globalized industries, such as electrical equipment, machinery and computers. Based on the competitive structures of industries and the trade policies applied, as had been illustrated in Figures 16. and 18., four types of policy stances were identified in EU-ASEAN trade, namely:

- policies for the 'winners', i.e. liberal policies for global industries, such as machinery
- policies for the 'specific', i.e. liberal policies towards natural resource based products not available domestically, such as tropical crops in the EU
- policies for the 'pressured', i.e. restrictive policies towards global sunset or infant industries, such as clothing in the EU
- policies for the 'subsistence', i.e. restrictive policies towards local strategic industries or agriculture, such as vehicles in many ASEAN countries, or local agriculture in the EU

The three industry categories – global, local-for-local, and natural resource added-value – can also be compared with the four types of industries based on globalization and location (Storper 2000), i.e. the world-serving industries, local industries serving non-tradable goods, import-sensitive manufacturing (global commodity chains), and industries in the globally contestable markets, where the fourth is close to the 'global' industries as suggested by Stopford *et al* (1991). The commodity pattern of EU-ASEAN trade changed significantly and the value of trade increased during the period under study, 1993-2001. The share of computers and machinery, as well as electrical equipment, increased considerably in both ASEAN exports to, and imports from, the EU. Trade policies on these sectors liberalized throughout the decade, but the sectors were affected by the Asian financial crisis after 1997, which could be observed as a slump in ASEAN imports of especially machinery and computers from the EU during 1998-99. Hence the decline in demand was an intervening factor that affected the realized trade flows in spite of liberalization.

The impacts of both regionalism and multilateralism on specific sectors were identified for the ASEAN countries' exports to the EU, as well as the ASEAN countries' imports from the EU. As was discussed in chapter 4, the impacts of regionalism, i.e. regional trade policy decision-making and cooperation, had both liberalizing and restricting effects on trade regimes of the EU and ASEAN. Trade barriers in the major sectors of EU-ASEAN trade were relatively moderate: the EU's import tariffs on the nine largest sectors (72 % of total ASEAN exports to EU) declined from 9 % to 6.6 % during the decade. The EU also applied anti-dumping actions and quotas on major sectors of ASEAN exports to the EU. The EU's regionalism had a slightly restricting impact on ASEAN exports because of the elimination of GSP preferences and the use of anti-dumping actions, while at the same time, the liberalizing impacts of multilateralism were more prominent. In general, all EU sectors were liberalized throughout the period. The sectors most affected by liberalization measures included certain agricultural products, as well as textiles and clothing.

The average tariffs of the ASEAN countries towards imports from the EU declined throughout the period, except those of Malaysia. The tariffs in the eleven largest sectors (72 % of ASEAN imports from the EU) varied between 7 % in the Philippines and 15 % in Thailand in 1999. Malaysia's average tariff towards the EU increased from 10 % in 1997 to 13 % in 2001, mainly due to the restrictions after the Asian financial crisis. Other restrictions were also applied, such as licensing by Malaysia on e.g. machinery, and import prohibitions and licensing on certain vehicles by Thailand. The multilateral liberalization within the GATT/WTO had a major impact on reducing trade barriers in the ASEAN countries. Electrical appliances, plastics, and machinery and computers were particularly liberalized. By contrast, the sectors subject to protective measures due to the Asian financial crisis were automobiles, iron and steel, products of iron and steel, and certain machinery.

EU regionalism and Finland

The case of Finland's joining the EU illustrated the specific impacts of regionalism on the trade policies of an 'entrant' country. The accession had significant impacts on the institutional basis of trade governance, that is, in the legal and administrative framework, decision-making structures and membership in the EU's inter-regional and multilateral arrangements. The membership also affected Finland's trade policy in the import regulation system, i.e. in tariff levels and other types of restrictions to imports (cf. Widgrén 1997). Most importantly, the introduction of EU-wide anti-dumping actions and quotas changed the applied trade policies. Export promotion, however, remained basically a national effort. These observations stand as reference for comparisons with other entrant countries, such as the ten new EU members.

In Finland's trade with Southeast Asia, a special feature was the fact that the product composition was significantly different from Finland's overall exports: the share of forestry products was minor, while machinery and equipment amounted to approximately two thirds. Accordingly, the share of electronics was significantly large, and, therefore, the impact of higher EU tariffs on electronics components after 1995 clearly had a restricting effect on Finland's imports from Malaysia. This was observed as a notable decline in the imports of electronics, particularly integrated circuits, from Malaysia from 1996-98; however, when the tariff declined back to 0 % in 1998, the value of imports increased notably again in 1999.

6.2 Theoretical conclusions: The geography of trade policies

As a theoretical contribution, the study elaborates a new concept, the geography of trade policies. The need for considering the geography of trade policies arises from the ongoing evolution of the global governance of trade, that is, the enlarging multilateral negotiations in the WTO and the simultaneous trends towards regionalism in various parts of the world. In contrast to much of the earlier literature which treats the two phenomena as mutually contradicting (e.g. Bhagwati 1993, Bhagwati & Panagariya 1996; 2003), this study has taken a different approach to examine the simultaneous impacts of both regional and multilateral agreements on trade policies of two regional entities. This has been endeavoured with an institutional approach, similar to that of Grant (1993a) but combined also with an examination on the actual trade flows between the regions.

Drawing on literature in the geography of trade (e.g. Alvstam 1993s; 1995, Grant 1993a; 1994; 2000) and in international political economy (e.g. Strange 1988, Stopford *et al* 1991), this study also contributes in bringing the relevant political actors to objects of the study in discussing the evolving geography of international trade. The power of trade policies lies in the very nature of the state-firm relationships where, based on the competitive structure of the industry and the state's policy needs, specific policy stances are brought together. An example is the clothing industry that has for several decades been protected in the industrialized countries against the ever-growing competition from various developing countries, but that is currently being liberalized with expected increase in trade volumes in 2005. The change in trade policies is assumed to affect the industry by way of changing comparative advantages (cf. Grant 1994; 2000) across different locations and thus by reorganizing the networks of hierarchical production (Bernard & Ravenhill 1995). Hence the geography of international trade in the industry will evolve through cross-border investments (Alvstam 1993; 2001a).

Furthermore, the study contributes in assessing the level of ASEAN integration in terms of trade policies, coordination of regional cooperation and the institutions of decision-making. It has been shown that national trade policies are rather varied, both in terms of types of trade policies and the level of protection. While all countries have liberalized trade barriers based on commitments at the GATT/WTO, the impact of the Asian financial crisis has been varied on raising the barriers again. Also, since the industrial structures of the ASEAN countries are quite different, the basic policy needs are diverse. Despite the claimed objective of forming an 'ASEAN Community' that is similar to a common market, by the year 2020, even a 'lower' stage of integration would pose a challenge for the member countries, since forming a customs union would imply the harmonizing of external tariffs.

The concept of the geography of trade policies was defined in the theoretical framework to include three elements: scales of negotiation, hierarchies of trade preferences, and industry requirements. These were further elaborated in the empirical examination of the EU and ASEAN, with findings summarized in section 5.6. The conclusions proposed by the theoretical and empirical examination are that:

1) The scale of negotiation, decision-making and agreements is shifting from the national level to the regional and multilateral levels, and, more recently, to the inter-regional level. Bilateral and inter-regional trade agreements are also made and negotiated between geographically-distant counterparts.
2) The hierarchies of trade preferences and their geographical organization are more numerous and more complex than the basic theory suggests. The networks of trade arrangements include preferential trade areas, free trade areas, customs unions and common markets. Regional economic integration does not necessarily evolve through all stages, nor is it present in a 'pure' form in the practices of the existing regional trade organizations.
3) The link between industrial policy and trade policy is strong, and industry requirements either for protection or/and promotion are visible in eventual trade policies. This is especially true in the case of 'infant' industries, as in the ASEAN case, and in the 'sunset' industries, as in the EU case.

It is argued that these three elements shape the evolving geography of trade policies both between countries and regions, and on the multilateral level.

Firstly, the shifting scale of negotiation towards geographically larger entities, such as regional trade blocs, implies that dominant industries within the bloc will gain more power in forwarding their business interests to the multilateral level. This has effects in the outcomes of regional and multilateral agreements, where the interests of the dominant businesses overcome those of domestic interests of businesses in individual countries. Hence the relations between the 'state' and the 'firm' are not only affected by globalization (Stopford *et al* 1991), but also by regionalism, as has been illustrated in this study. However, as trade agreements are concluded also between geographically-distant countries such as Singapore and the US, or negotiated between distant regions such as the EU and Mercosur (WTO 2000), the scales of negotiation have become ever-more complex and somewhat intertwining, where business interests play a significant role.

Secondly, the hierarchies of trade preferences identified in the EU and in ASEAN indicate that the deepening of regional economic integration does not necessarily follow the pattern as presented in the basic theory (Balassa 1961) but evolves as a specific process based on the regional characteristics, such as the stage of economic development, political relations and external competition faced by industries. The stage of regional integration varies between different types of trade policies, where e.g. external tariffs are harmonized in a customs union, but external quotas are only harmonized in a common market, as was the case in the EU. Or, as in the case of ASEAN, the deepening of regional economic integration may be suggested to skip one stage of integration i.e. from a FTA to an arrangement close to a common market, thus skipping the customs union stage.

Thirdly, the link between industrial policies and trade policies is evident, and in this study, it was identified in relation to the competitive structure of industries in the EU-ASEAN trade. This mirrors the earlier arguments of the link between foreign direct investments and changing trade flows in East Asia (Alvstam 1993, 1995, 2001a). In the EU, some of the global but protected 'sunset' sectors, such as clothing and footwear, exemplify this, and in the ASEAN countries, several global industries are protected based on the 'infant' industry argument. Trade in the protected industries is however gradually but constantly liberalized as a result of the multilateral trade negotiations.

Differences between Europe and Asia

It has been found that the main differences in trade policies between the EU and the ASEAN countries were related to the stage of economic development of the regions. By comparison, Painter (2000) had reflected on the distinctions between American, Japanese, European, and British systems of capitalism, originally suggested by Hutton (1995) who drew on differences in financial systems, labour markets, welfare systems and government policies. It was argued that the openness to trade is accordingly different in the four types of capitalism, being relatively open in Europe and less open in Japan. In contrast, the role of government in industrial policies is strong in both Europe and in Japan, while it is weak in the American and British systems. The findings from this study support the argument that the EU is relatively open to trade, while the role of state in industrial policy is strong, and that the ASEAN countries combine active industrial policies (e.g. investment incentives) with trade policies. In comparison, Sum (1998) criticized the "liberal versus statist" discourses of economic development that she called the "Enlightenment categories" and argued for a network analysis based on a regulation approach and critical realism. According to Sum, neither 'economy' nor 'state' as such is relevant to Asia, but instead the set of political and economic networks which have greater or lesser centrality within an economic mode of growth, and within a mode of governance. This is notable in the policy-making in much of East Asia, which differs in many respects from European systems of governance, and has an impact on how trade policies are set or how cooperation is carried out. It was found in this study that trade policies in the ASEAN countries were often non-transparent, especially after the Asian financial crisis, where the governments were challenged by the dilemma between the earlier commitments at the GATT/WTO on reducing trade barriers, and the pressures for protection from domestic industries amidst the economic slowdown. This often resulted in declining tariffs (according to WTO commitments) but increasing non-tariff barriers to protect the troubled industries.

Earlier, Yeung *et al* (1999) had stated that the prospect for improving the EU-ASEAN trade link depended on three issues: economic growth and integration of the ASEAN economies, the effect of APEC on the trade relations of ASEAN, and actions and policies of both groupings in their regional and external trade relations. Based on the findings of this study, multilateral negotiations within the WTO can be included as a fourth issue contributing to the improving trade relations. The tariff reductions and other deregulation (in textiles, agriculture, and certain manufacturing) have had positive implications on the trade link between the two regions. In addition, as the structure of trade is changing, with a growing share of manufactured products, also the nature of the EU-ASEAN cooperation is expected to change. Having been one between developed and developing countries with a colonial history, the future relation is assumed to become more equal, given the economic development in the ASEAN countries.

6.3 Implications for businesses and policy-making

At various instances, opportunities have been identified for the private sector of the EU in its business relations with the ASEAN countries, and, already in the late 1980s, potential was found in the construction of industrial facilities, as well as trade in consumer goods, transportation equipment, and communications. Yeung *et al* (1999, 121) pointed out that the EU's main opportunities in the ASEAN market are in trade of goods and services with intellectual property because such trade is not as constrained by distance as trade in traditional goods. Thus, policy-makers should act as facilitators for the private sector in submitting information, enhancing trade liberalization, promoting regulatory reform, and supporting trade in services and cooperation in science and research & development. As the ASEAN countries have attempted to reduce their reliance on the US in exports and on Japan in the inward FDI, the EU has the opportunity to increase trade with ASEAN (ibid.) (Table A12. in the Appendix.).

Based on this study, the notable liberalization in the EU in the sectors of fats and oils (HS 15), organic chemicals (HS 29) and paper and paperboard (HS 48), provides specific potential for ASEAN exporters to expand in the EU market. The same applies to many agricultural products, such as cereals (HS 10) and meat (HS 02) which have been significantly liberalized in the EU. Similarly, exporting firms from the EU should note the considerable liberalization of certain sectors in the ASEAN countries, such as iron and steel (HS 72) in Thailand, electrical appliances (HS 85) in Malaysia and Indonesia, machinery and computers (HS 84) in Indonesia, jewellery (HS 71) in Malaysia, and paper and paperboard (HS 48) in Indonesia. At the same time, policy-making needs to be more observant of the links between foreign direct investments and trade.

As the geographical levels of trade policy decision-making and negotiation are constantly shifting towards the regional and the multilateral arena, policy-makers should be sensitive to the networks of cooperation. As Davidson (2004) pointed out, certain issues negotiated within and formulated in RTA agreements have directly contributed to the scope of issues negotiated multilaterally at the GATT/WTO. The prospect for further regional economic integration in ASEAN appears positive, albeit slow. The establishment of a free trade area with the elimination of internal tariffs will have the effect of increasing intra-regional trade within

ASEAN. In order to fulfil AFTA, the ASEAN countries need to lower all tariffs in intra-regional trade, as the current AFTA aims to liberalize only 15 sectors. The remaining sectors include non-processed agriculture and certain sensitive sectors, such as automobiles in Malaysia. The joint objective of forming a common market by the year 2020, which the ASEAN countries have agreed on, remains an open question. In light of both theory and practice, ASEAN should first establish a customs union because of the need for common principles regarding external trade, as well as the need for common institutions to govern, coordinate and administer the common market.

Further challenges remain in EU-ASEAN relations, mainly due to the regionalization trend in both regions (cf. Charrié 1998, Gibb 1998, Rieger 1985, Rimmer 1994, Plummer 1998, Poon 2003), that is, the EU enlargement and restructuring of its institutions, and the ASEAN+3 process with China, South Korea and Japan. In addition to political sensitivities, it seems that part of the challenge for EU-ASEAN relations is attributed to the nature of the organizations themselves, and their practices in, firstly, formulating and coordinating trade policies and, secondly, coordinating external trade relations towards third partners. It has been pointed out that the differences in organizational structure and the resulting difficulties in EU-ASEAN meetings pose a problem for negotiations as the meetings are loosely defined discussions relating to different issues (cf. Yeung *et al* 1999).

6.4 Implications for further research

As to further research, at least three implications can be drawn from this study. Firstly, there is a need for more country-specific case studies on various trade policies to add to the mainly quantitative approaches on the phenomenon. As Yeung & Lin (2003) have argued, there is a need for comparative understandings of economic geographical processes emerging from the various regions of the world economy in order to comprehend the particularities of different regions. The impacts of regionalism and multilateralism should be studied in various parts of the world in order to increase understanding of the links between the national level and other levels (regional and multilateral) in trade policy coordination, negotiation, agreements and decision-making. In particular, the institutional approach in studying trade policies (cf. Grant 1993a) should be combined with analyses of the actual trade patters in order to understand the inter-relation between policies, trade flows, and intervening factors.

Secondly, more research is required on trade groupings and their regional integration processes. As has been found by this study, there are a variety of integration levels in trade policies, which may differ from what the basic theory suggests. Also, the declared objectives of trade groupings such as the EU and ASEAN may be challenged in reality by external shocks that hinder the evolving cooperation. The web of trade preferences, as well as the bilateral, regional and multilateral trade arrangements has become more complex and extensive both among developed and developing countries during the last decade, which calls for more exploration. The ongoing WTO negotiations and the evolving integration in the EU, ASEAN, and e.g. Mercosur will undoubtedly change the pattern of global trade governance in the coming decade as well. It is assumed that within the WTO, the developing countries will by mutual cooperation gain more power over the issues negotiated, such as agricultural trade policies. At the same time, the EU acts as a counterforce to the US interests that used to dominate the early GATT process. These developments call for more analyses, both comparative and case studies.

Thirdly, the concept of the geography of trade policies should be further elaborated based on empirical and theoretical studies on trade groupings and countries alike. Institutional and comparative analysis has been found a suitable approach, where both the extent and degree of integration are addressed. It is acknowledged that the issue is empirically complex, which alone is a reason for more research on the topic. In addition, there is a need for more studies elaborating on the link between trade policies and industrial policies, especially in the ASEAN case. This is because the observed interconnection between trade and inward FDI in Asia Pacific (Alvstam 1993; 2001a, Poon & Pantulu 2003) appears to be of major importance in the trade policy setting of the ASEAN countries. This should be empirically examined with evidence from a variety of countries and trade groupings in order to further elaborate on the phenomenon.

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APPENDICES

Figure A1. Map of the ASEAN countries.

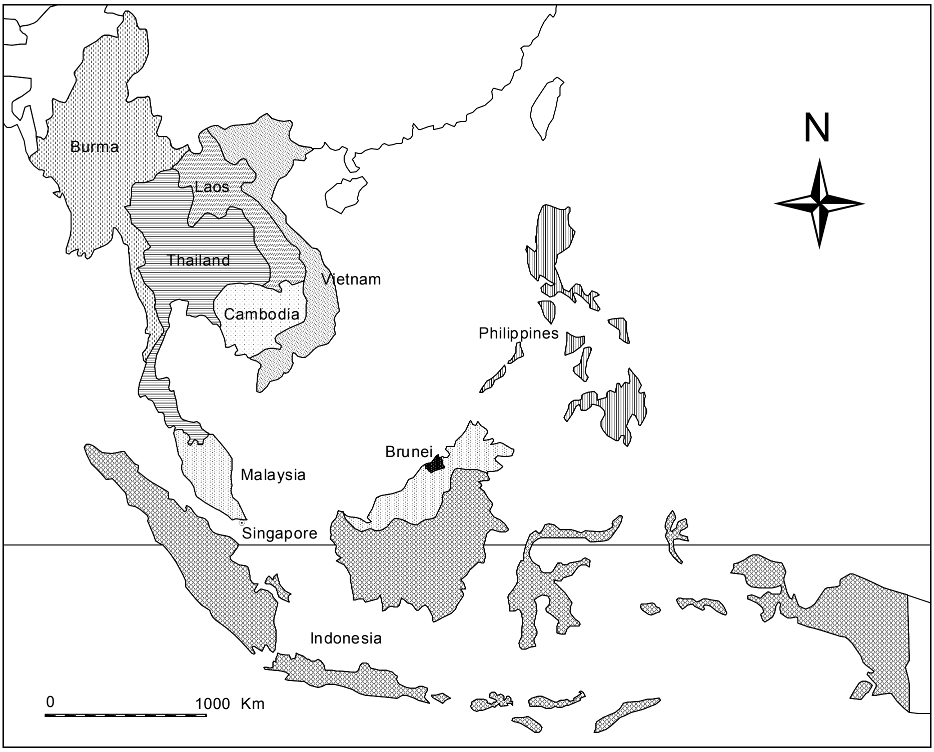


Table A1. Macroeconomic indicators of the ASEAN countries.

	Area *(1000 km^2)*	***Population*** *(mill.)*	***GDP*** *(USD mill.)*	***GDP/cap*** *(USD)*	***GDP growth %*** ***2000***	***2001***
Brunei	5.8	0.3	5422	12435	2.8	1.5
Cambodia	181.0	13.4	3413	253	7.7	6.3
Indonesia	1904.6	214.8	145307	678	4.9	3.3
Laos	236.8	5.4	1750	324	5.8	5.7
Malaysia	329.8	22.6	88050	3748	8.3	0.4
Myanmar	676.6	48.4	34572	717	5.5	4.8
Philippines	300.0	77.1	71382	925	4.4	3.2
Singapore	0.6	4.1	85647	20865	10.3	-2.0
Thailand	513.1	63.6	114774	1865	4.6	1.8
Vietnam	331.7	79.2	32944	416	6.8	6.8

Note: GDP at current prices.

Sources: UN Statistics Division (2004a; 2004b).

Table A2. Data sources and compilation.

Data on import tariffs
Data on tariffs was collected from the GATT/WTO Trade Policy Reviews and complemented with data from other sources such as the EU and the Finnish Board of Customs (Tullihallitus). The table below illustrates detailed data on tariffs with examples of tariff categories, i.e. tariff lines, under the product group 'Electronic integrated circuits and microcircuits' (CN 8542) of the EU's tariff classification, the Combined Nomenclature (CN). From this primary data on tariffs, different kinds of averages can be calculated, such as simple averages or weighted averages (weighted according to the value of trade in each product category).

Example of tariff categories.

CN code	*Description*	*EU tariff 1995*
8542	Electronic integrated circuits and microcircuits	
8542 1121	Static memories (S-RAM), memory space max 64 Kb	11.2 %
8542 1147	Micro processors (processing capacity 16-32 bits)	11.2 %
8542 1152	Micro drivers (processing capacity 4-8 bits)	14.0 %
etc.		

Source: Compiled by author from the Finnish Board of Customs (Tullihallitus).

Since the pool of detailed data on tariffs is massive, with about 10000 tariff lines for the EU and over 6000 for the ASEAN countries, averages are used to reduce the amount of data in the overall analysis. In the GATT/WTO sources, data on average tariff levels on various product sectors are typically calculated at the level of 2-digit Harmonized System categories. However, for more detailed analysis on protected sectors, the study employs primary data illustrated above.

Data on NTBs and export policies
Similarly, information on non-tariff-barriers (NTBs) such as import quotas, import licensing, anti-dumping actions and countervailing measures, as well as data on export policies, were obtained from the GATT/WTO Trade Policy Reviews. The various types of trade policies are reviewed in the source material both by type and by sector. Some of these data are qualitative by nature, and are not easily expressed in numerical terms, such as information on import licensing or product standards, both of which are effective barriers to trade. Typically, overall data on NTBs varies significantly from country to country, as practices are rather diverse in e.g. the ASEAN countries.

Data on exports and imports
With the multiple sources of data on exports and imports, the analysis employed three different currencies, the USD, the Finnish *markka* (FIM). While international trade statistics are basically in US dollars, national trade statistics are produced in national currencies. In this study, data of Finland-Malaysia trade was gathered both from Finnish and international sources.

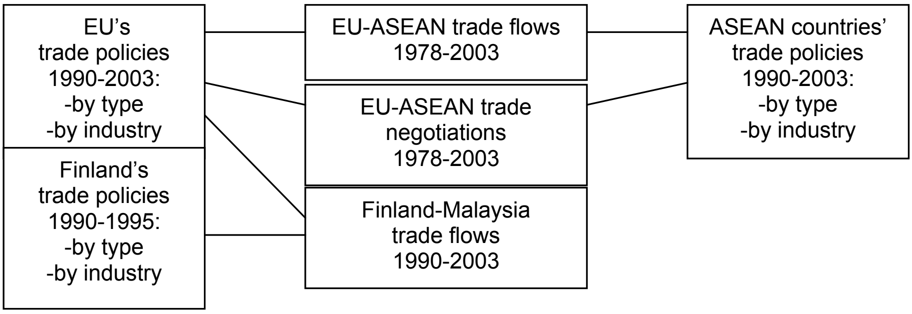
Example of trade data: Finland's imports from Malaysia in 1995.

CN code	*Description*	Value (thousand FIM)
8542	Electronic integrated circuits and microcircuits	408 658
8542 1121	Static memories (S-RAM), memory space max 64 Kb	9 664
8542 1147	Micro processors (processing capacity 16-32 bits)	147 832
8542 1152	Micro drivers (processing capacity 4-8 bits)	24 903
etc.		

Source: Compiled by author from the Finnish Board of Customs (Tullihallitus).

The table above illustrates data on imports compiled from Finland's national trade statistics on Electronic integrated circuits and microcircuits (CN 8542) and some of its sub-groups. Similar to data on import tariffs illustrated earlier, the primary data on exports and imports is extremely detailed and large in quantity, with over 10000 product categories (tariff lines) as the basic unit. This primary data on trade in various product categories is added up into upper categories such as CN 8542 in the example above, and further into groups such as CN 85 'Electrical machinery, equipment, parts thereof, and sound recorders'. Thus, depending on the purpose of analysis, different levels of investigation are used in the study.

Figure A2. Building blocks of data and timeframe of the study.



Source: Author.

Figure A3. Map of the Indonesia-Malaysia-Singapore growth triangle.

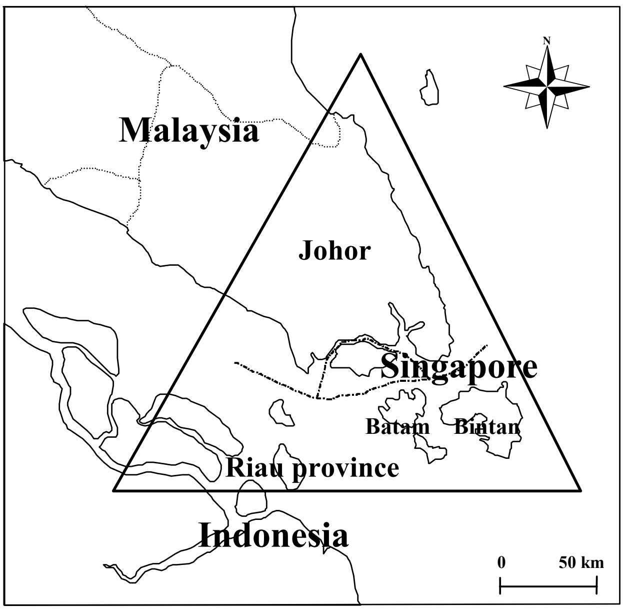
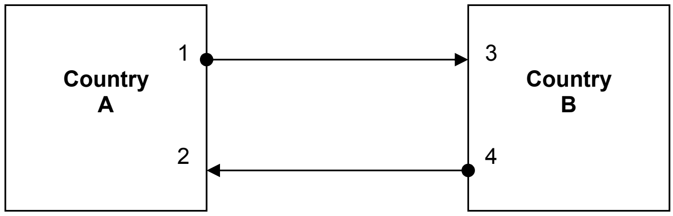


Figure A4. Data recording practices in (a) trade between two countries and (b) intra-EU and extra-EU trade.

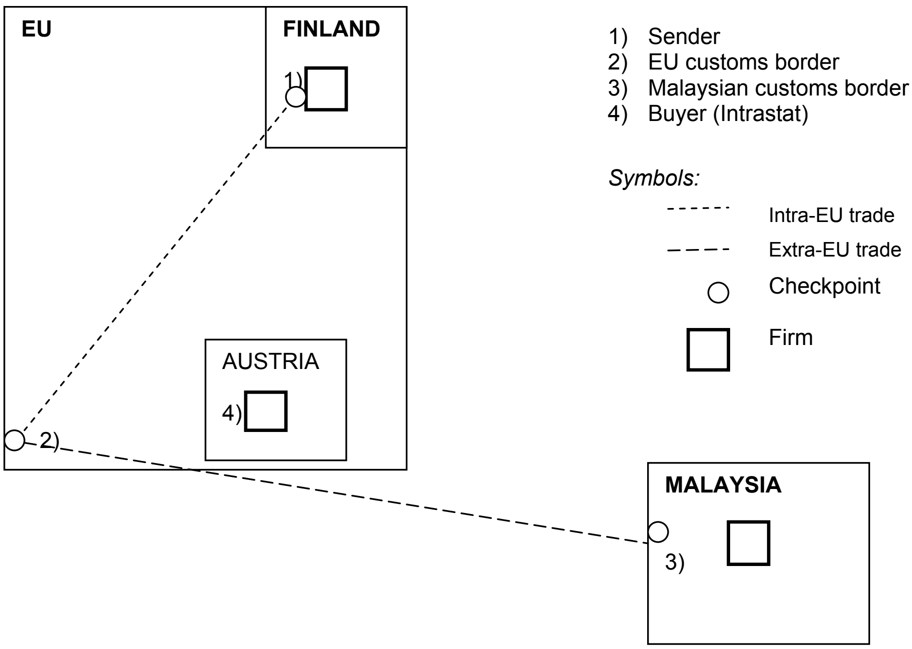
(a)



1 = Exports from A to B (fob)
2 = Imports to A from B (cif)
3 = Imports to B from A (cif)
4 = Exports from B to A (fob)

The value of exports is registered as their transaction value at the place of exportation in Country A, from which the 'free on board' (f.o.b.) value is derived into trade statistics. This is indicated as (1) in the figure. At the place of importation in Country B, the value of imports is registered as their transaction value including the sum of 'cost, insurance, and freight' (c.i.f.) which is indicated as (3). Similarly, exports from Country B are registered at the place of exportation (4), and when arrived as imports to Country A, the transaction is registered at the place of importation (2).

(b)



In the case of exports from Finland to Malaysia, the goods is typically reported at the sender (1), thereafter as intra-trade within the single internal market to the EU transit point (2) and registered as extra-EU exports. Finally, the goods is registered as imports at the destination border checkpoint (3).

In the case of trade within the Single European Market, there is no border-crossing checkpoint, but instead at the sender (1) and the buyer (4).

Source: Modified from Alvstam (1993).

Table A3. Rounds of Multilateral trade negotiations (MTN) within GATT, 1947-1994.

Round, year (n:o countries)	*Subjects covered*	*Signatories to GATT (altogether 128 countries)*
Geneva Round 1947 (23)	45000 tariff concessions on 43 tariff lines	1948-49: Australia, Belgium, Brazil, Burma, Canada, Chile, Cuba, France, India, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, South Africa, Sri Lanka, United Kingdom, United States, Zimbabwe. (In addition, the original 'contracting parties' to GATT included: China, the Czechoslovak Republic, Lebanon, and Syria)
Annecy Round 1949 (13)	Modest tariff reductions	-
Torquay Round 1950-51 (38)	8700 tariff concessions	1950-51: Austria, Denmark, Dominican Republic, Finland, Germany, Greece, Haiti, Indonesia, Italy, Nicaragua, Peru, Sweden, Turkey 1953: Uruguay
Geneva Round 1955-56 (26)	Modest tariff reductions	1955-57: Ghana, Japan, Malaysia
Dillon Round 1960-61 (26)	Tariff reductions among EEC	1960-62: Israel, Nigeria, Portugal, Sierra Leone, Tanzania, Trinidad and Tobago, Uganda 1963: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Côte d'Ivoire, Cyprus, Gabon, Jamaica, Kuwait, Madagascar, Mauritania, Niger, Senegal, Spain
Kennedy Round 1964-67 (62)	Tariffs and anti-dumping measures; GSP	1964-65: Burundi, Gambia, Kenya, Malawi, Malta, Togo 1966-68: Argentina, Barbados, Guyana, Iceland, Ireland, Poland, Rwanda, South Korea, Switzerland, Yugoslavia 1970-72: Bangladesh, Egypt, Mauritius, Romania, Zaire
Tokyo Round 1973-79 (102)	Tariffs and non-tariff measures; Framework agreements	1973-79: Hungary, Philippines, Singapore, Suriname 1980-85: Belize, Colombia, Maldives, Thailand, Zambia
Uruguay Round 1986-94 (123)	Tariffs and non-tariff measures; Services; Intellectual property; Dispute settlement; Textiles and clothing; Agriculture	1986-90: Antigua and Barbuda, Bolivia, Botswana, Costa Rica, Hong Kong, Lesotho, Mexico, Morocco, Tunisia, Venezuela 1991-94: Angola, Bahrain, Brunei, Czech Republic, Djibouti, Dominica, El Salvador, Fiji, Grenada, Guatemala, Guinea, Guinea Bissau, Honduras, Liechtenstein, Macao, Mali, Mozambique, Namibia, Papua New Guinea, Paraguay, Qatar, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Slovak Republic, Slovenia, Solomon Islands, Swaziland, United Arab Emirates

Note: Names of countries as of 2002.

Source: Compiled from World Trade Organization (www.wto.org)

Table A4. Preferential trade agreements of the European Union, 1992 and 2002.

<table>
<tr><th>Type of agreement</th><th>Main elements</th><th>Signatories 1992</th><th>Signatories 2002</th></tr>
<tr><td>Customs unions</td><td>Free trade and common external tariff</td><td></td><td>Andorra; Malta; San Marino; Turkey</td></tr>
<tr><td>Free trade agreements</td><td>Reciprocal free trade in industrial products</td><td>EFTA (1973-74):
Austria; Finland; Iceland; Norway; Sweden; Switzerland; Liechtenstein.

Israel (1975)</td><td>Europe Agreements (1992-97):
Bulgaria; Czech Republic; Estonia; Hungary; Latvia; Lithuania; Poland; Romania; Slovakia; Slovenia
European Economic Area (1994):
Iceland; Liechtenstein; Norway
Bilateral agreement: Switzerland
Other: Cyprus; Faroe Islands; Palestinian Authority of the West Bank; South Africa</td></tr>
<tr><td rowspan="2">Association Agreements</td><td>Free access to EC markets for industrial products</td><td>Turkey (1963)
Malta (1970)
Cyprus (1972)</td><td rowspan="2"></td></tr>
<tr><td>Creation of a free trade area in 10 years</td><td>Czech and Slovak Federal Republic; Hungary; Poland (1992)</td></tr>
<tr><td rowspan="3">Cooperation Agreements</td><td rowspan="2">Non-reciprocal free access to EC markets for industrial products, raw materials and traditional agricultural exports</td><td></td><td>Israel (1975)</td></tr>
<tr><td colspan="2">Mediterranean countries (1975-76): Algeria; Egypt; Jordan; Lebanon; Morocco; Syria; Tunisia
Lomé Convention with the ACP countries (1990):
Angola, Antigua and Barbuda, Bahamas, Barbados, Belize, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Cote d'Ivoire, Djibouti, Dominica, Dominican Republic, Equatorial Guinea, Ethiopia, Fiji, Gabon, Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, Haiti, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Papua New Guinea, Rwanda, St. Christopher and Nevis, St. Lucia, St. Vincent and the Grenadines, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, Sudan, Suriname, Swaziland, Tanzania, Togo, Tonga, Trinidad and Tobago, Tuvalu, Uganda, Vanuatu, Western Samoa, Zaire, Zambia, Zimbabwe.</td></tr>
<tr><td>Association with certain non-European countries and territories</td><td colspan="2">PTOM II (1971): Comoros Archipelago, French Polynesia, French Somali Coast, Southern and Antarctic Territories, Mayotte, New Caledonia and Dependencies, St. Pierre and Miquelon, Suriname, Wallis and Fortuna Islands, Netherlands Antilles</td></tr>
</table>

Sources: GATT (1993a); WTO (2000a).

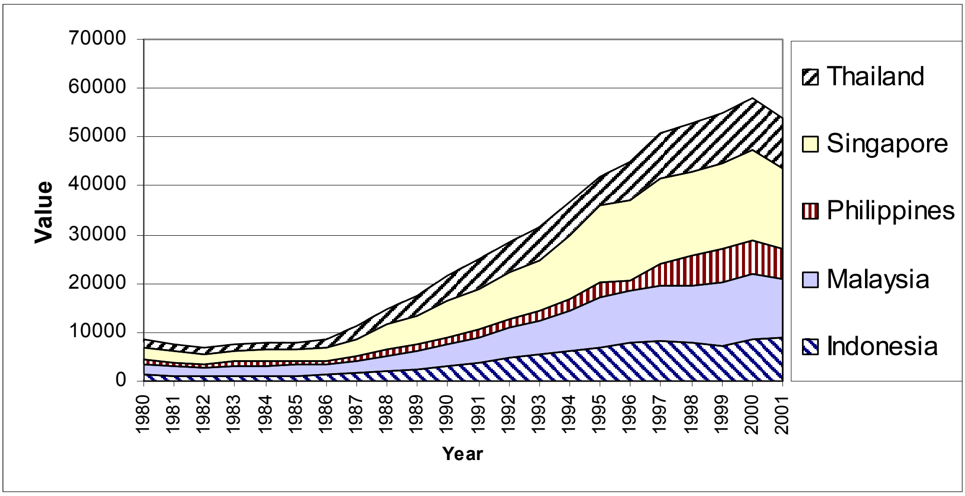
Table A5. Average tariffs in four ASEAN countries in 1992.

	Indonesia	**Malaysia**	**Philippines**	**Thailand**	***Average***
Overall average nominal tariffs (%)	22	16	26	44	*27*
Average unweighted tariffs (%) by CEPT product:					
Pulp	9	3	7	5	*6*
Textiles	19	6	26	30	*20*
Vegetable oils	13	1	21	10	*11*
Chemical	4	0	7	10	*5*
Pharmaceuticals	5	0	9	8	*5*
Fertilizers	0	0	3	0	*1*
Plastics	15	13	17	25	*18*
Leather	3	9	19	24	*14*
Rubber	9	8	23	22	*15*
Cement	15	55	30	5	*26*
Glass	20	15	20	18	*18*
Gems	11	5	24	0	*10*
Electronics	24	15	18	25	*21*
Furniture	50	24	33	80	*47*
Average	*14*	*11*	*19*	*19*	*16*

Source: Adapted from Ariff (1992, 4); Kumar (1992) in ref Ariff (1992, 5).

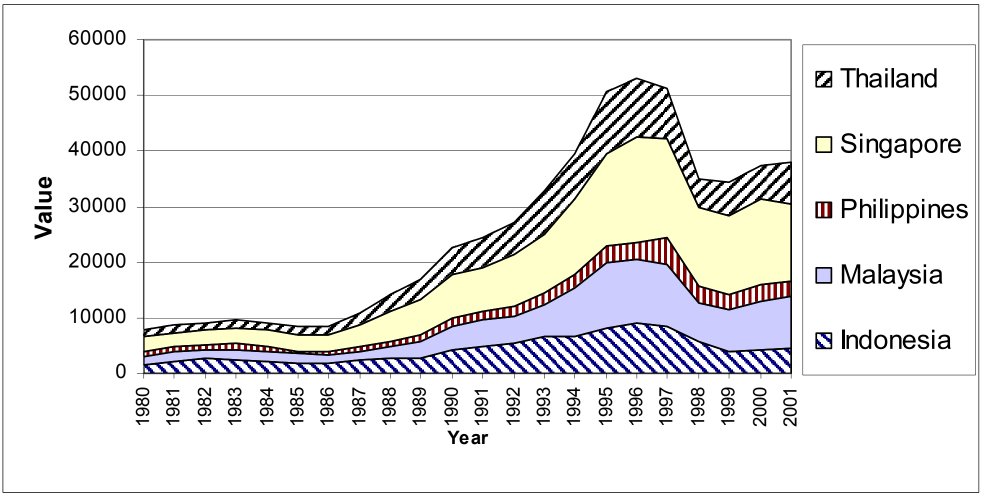
Figure A5. Country composition of the ASEAN countries' trade with the EC/EU countries in 1980-2001 (USD million).

(a) Exports of the ASEAN countries to the EC/EU countries (USD million), 1980-2001.



Source: IMF Direction of Trade statistics, various issues.

(b) Imports of the ASEAN countries from the EC/EU countries (USD million), 1980-2001.



Source: IMF Direction of Trade statistics, various issues.

Table A6. ASEAN Trade with European Union by HS Product Chapter, 1993 – 2001 (in thousand USD).

(a) ASEAN Exports to the EU

Chapter	Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001
01	Live Animals	1 382,7	1 512,8	1 281,3	1 701,5	1 229,9	1 195,1	1 196,8	1 215,7	1 238,1
02	Meat & Edible Meat Offal	74 955,3	79 791,8	70 912,9	88 570,2	128 420,3	96 944,1	131 653,2	141 661,6	230 700,6
03	Fish	331 532,1	361 137,4	415 246,4	724 552,7	366 466,3	364 833,0	410 522,4	427 255,9	415 438,6
04	Dairy Produce	593,3	782,0	3 367,0	1 404,4	848,6	1 397,3	917,8	1 665,8	22 968,8
05	Other Animal Products	5 415,0	5 027,4	6 952,9	6 199,7	3 568,2	2 719,9	2 697,4	1 588,8	2 076,8
06	Live Trees	17 604,0	18 294,1	19 348,4	18 916,8	16 557,9	13 310,9	19 511,8	17 463,8	21 577,4
07	Edible Vegetables	700 277,0	531 271,5	414 787,1	469 933,3	356 707,4	168 886,5	338 780,3	188 731,1	186 052,0
08	Edible Fruit & Nuts	45 689,1	35 614,7	39 551,9	70 515,9	62 448,3	50 559,1	60 577,3	53 752,2	45 675,3
09	Coffee, Tea, Spices	230 200,0	394 794,3	407 034,4	309 058,5	389 428,9	365 798,5	350 394,3	267 966,0	154 007,4
10	Cereals	49 451,5	66 776,3	55 390,6	75 969,4	113 375,8	242 624,4	82 880,2	191 326,5	85 820,8
11	Malt & Wheat Gluten	10 596,4	8 283,5	8 752,9	12 436,5	14 390,3	9 178,2	27 048,5	11 887,6	7 684,6
12	Seeds	31 997,6	37 243,0	49 734,5	41 957,7	32 083,0	30 835,8	39 299,4	36 990,7	25 857,5
13	Lac, Gums & Resins	25 229,8	23 289,0	29 151,6	38 427,9	36 446,9	25 784,3	36 656,9	38 791,3	36 436,4
14	Other Vegetable Products	15 594,9	16 145,7	17 351,4	2 991,1	3 530,6	10 402,1	13 318,0	11 882,3	9 966,5
15	Fats & Oils	901 586,6	1 385 406,4	1 599 466,3	1 228 858,3	1 713 427,7	1 584 385,2	1 330 369,1	1 020 483,7	988 742,6
16	Preparations Meat/Fish	341 772,2	389 444,9	383 111,0	373 606,2	366 954,1	316 251,4	388 254,6	345 725,0	410 304,9
17	Sugars	33 826,2	43 101,2	21 955,6	28 935,8	22 265,2	11 041,4	10 158,2	317 389,2	9 781,8
18	Cocoa	264 105,6	221 159,6	178 562,4	148 773,1	115 197,7	86 736,4	110 854,0	74 505,7	71 776,5
19	Prep. Cereals/Flour/Milk	48 779,2	49 945,7	46 107,3	58 051,0	42 799,0	34 033,1	41 540,5	47 193,0	49 920,4
20	Prep. Vegetables/Fruit/Nuts	246 511,6	236 452,4	271 137,5	369 381,7	271 312,0	190 476,5	355 843,3	256 187,6	258 029,6
21	Misc. Edible Products	29 895,0	32 229,8	34 920,8	41 973,7	53 744,1	52 155,1	66 129,0	80 264,5	91 408,8
22	Beverages	9 491,3	8 736,5	7 467,7	9 197,5	22 680,1	22 652,3	11 423,3	12 480,7	13 403,0
23	Waste from Food Industry	227 840,8	238 606,6	209 640,0	215 836,3	105 138,1	63 382,2	59 187,4	74 712,7	50 406,5
24	Tobacco	105 255,8	75 716,6	81 412,9	86 196,5	93 311,2	126 199,1	106 546,5	55 165,5	117 440,0
25	Salt/Sulphur/Lime/Cement	477,6	955,2	1 372,4	7 814,7	4 370,4	6 299,7	22 821,3	46 862,0	14 900,9
26	Ores	119 873,9	138 413,7	248 393,0	1 033 384,2	501 987,8	403 579,5	340 672,6	496 579,9	604 388,3
27	Lubricants/Fuels/Oil	217 498,4	228 960,3	279 398,2	576 903,9	346 396,9	326 992,7	237 866,0	506 575,7	338 685,9
28	Inorganic Chemicals	9 242,0	14 298,3	15 903,2	21 406,9	18 328,0	30 847,7	35 320,6	14 847,8	16 327,6
29	Organic Chemicals	247 299,2	251 485,4	366 498,2	530 602,1	705 923,1	958 009,5	1 866 602,0	1 500 176,9	1 731 089,7
30	Pharmaceutical Products	17 800,5	19 010,4	13 725,7	16 237,9	13 942,8	11 285,1	11 912,2	23 670,2	127 270,8
31	Fertilizers	78,1	33,5	66,4	886,0	336,8	176,2	120,3	130,8	183,0
32	Tanning/Dyeing Extracts/Ink	17 980,8	18 945,3	33 364,0	46 976,4	37 335,1	48 031,6	53 672,7	168 887,7	169 439,1

(cont.) Chapter	Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001
33	Cosmetics	27 792,5	29 685,8	34 366,1	49 805,9	41 557,3	71 164,3	36 490,5	41 821,3	60 545,5
34	Soap, Waxes, Pastes	10 338,2	11 399,1	20 755,1	29 924,4	16 109,8	21 103,2	26 446,9	32 318,5	28 505,5
35	Glues	8 079,8	8 598,6	11 825,8	19 739,2	13 700,0	10 426,4	13 054,9	16 750,3	20 762,1
36	Explosives	2 824,6	1 066,0	1 452,1	986,3	1 472,3	1 159,7	2 125,9	2 376,2	2 541,4
37	Photographic Goods	18 991,5	24 088,9	20 545,9	16 468,2	8 936,6	28 358,9	20 947,9	17 385,6	12 733,1
38	Misc. Chemical Products	54 876,5	80 768,4	139 890,4	202 917,4	229 997,5	133 477,1	287 591,6	161 498,8	152 138,1
39	Plastics	319 074,1	293 256,3	483 346,2	520 084,4	518 677,3	566 805,8	540 598,6	651 871,8	654 193,5
40	Rubber	1 058 940,4	1 215 703,2	1 815 862,5	1 713 843,0	1 527 383,0	1 433 948,7	1 272 892,6	1 207 840,3	1 203 925,6
41	Raw Hides & Skins	38 282,1	38 722,1	38 407,1	37 317,7	38 430,8	40 603,8	39 803,8	72 442,4	59 569,3
42	Articles of Leather	209 759,4	205 056,0	220 252,8	228 683,8	208 827,5	128 112,6	185 297,2	192 855,7	191 809,9
43	Furskins	3 788,5	3 982,8	7 936,9	5 562,2	4 439,2	3 073,8	4 374,7	3 187,8	3 511,1
44	Wood	1 515 810,1	1 431 457,7	1 377 332,5	2 194 979,9	1 149 772,6	883 460,8	950 997,2	941 284,9	938 839,1
45	Cork	57,5	6,7	85,6	15,1	233,6	346,4	63,3	90,1	76,6
46	Straw	47 238,4	47 715,0	47 606,5	54 174,5	39 081,5	26 694,1	45 272,1	47 425,0	48 803,4
47	Wood Pulp	12 015,7	32 772,4	142 731,4	245 284,3	104 116,9	136 792,7	72 573,7	155 820,3	122 051,5
48	Paper & Paper Board	92 756,3	72 945,6	100 901,7	198 344,6	118 159,2	371 034,8	256 106,0	275 509,4	235 755,7
49	Books, Newspapers	93 398,6	94 910,4	113 841,9	131 877,8	118 022,7	123 731,1	147 504,2	150 192,0	130 400,3
50	Silk	5 326,1	5 050,7	4 241,0	6 558,1	6 980,5	4 270,8	6 451,3	7 144,3	5 490,2
51	Wool	11 824,9	6 988,2	32 590,0	77 297,5	37 221,7	28 854,5	21 571,3	30 290,1	22 729,6
52	Cotton	217 843,6	285 791,2	324 730,9	421 379,2	285 593,1	244 267,9	217 101,7	211 489,8	213 922,4
53	Paper Yarn	28 135,9	28 254,9	18 641,8	13 438,1	10 008,5	8 230,2	9 980,4	9 019,3	4 019,8
54	Man-made Filaments	262 628,4	294 058,5	346 331,5	293 996,7	256 551,4	311 598,5	324 304,6	305 595,9	329 136,3
55	Man-made Staple Fibers	308 374,1	372 260,7	424 712,4	484 284,8	335 503,9	319 001,4	334 483,0	318 916,6	274 336,8
56	Wadding	22 963,9	18 564,5	23 691,8	24 226,8	20 118,8	19 823,2	20 805,1	19 646,6	19 378,8
57	Carpets	2 829,1	4 081,1	3 006,2	4 930,0	3 292,1	3 955,1	5 718,8	5 573,6	4 753,6
58	Special Woven Fabrics	22 856,9	22 337,6	22 109,4	23 751,1	31 476,4	12 440,4	16 645,7	20 672,7	16 758,3
59	Laminated Textile Fabrics	3 717,0	3 158,0	4 420,4	4 742,6	2 450,9	3 619,3	4 465,7	6 573,3	8 670,4
60	Knitted Fabrics	3 227,6	3 648,3	2 781,4	8 454,3	4 051,6	4 037,9	6 284,3	6 788,5	4 306,6
61	Apparel, Knitted	1 721 059,8	1 453 032,3	1 440 960,0	1 586 126,2	1 595 279,0	1 227 207,8	1 665 167,0	1 836 862,1	1 825 938,2
62	Apparel, not Knitted	1 523 340,8	1 349 962,7	1 289 357,4	1 285 126,5	1 101 346,6	1 046 313,8	1 335 776,7	1 644 882,4	1 545 775,6
63	Other Textile Articles	152 403,6	133 068,8	132 616,0	129 156,8	77 727,1	62 961,7	86 945,1	88 955,0	90 189,4
64	Footwear	1 062 924,2	1 115 463,9	1 212 175,9	1 029 710,9	991 280,6	782 244,6	1 033 099,0	1 012 676,2	971 166,0
65	Headgear	19 356,6	16 802,6	17 997,9	21 031,6	21 308,8	15 407,4	20 355,3	25 123,7	29 164,4
66	Umbrellas, Walking Sticks	16 506,9	10 411,7	7 774,2	5 179,2	5 704,6	2 061,7	5 207,4	4 137,7	3 708,1
67	Prepared Feathers	23 186,5	21 833,7	21 794,8	31 717,0	25 602,4	24 223,0	26 347,6	27 376,3	19 373,6

(cont.) Chapter	Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001
68	Stone/Plaster/Cement	4 117,1	4 032,4	5 200,7	9 638,5	8 212,3	6 617,9	9 788,1	11 374,6	16 206,6
69	Ceramic Products	116 177,0	121 794,6	147 764,2	155 134,3	134 973,5	139 231,8	178 256,7	179 082,7	193 395,3
70	Glass and Glassware	25 999,3	30 388,2	41 861,0	52 993,5	43 401,0	61 087,1	79 051,2	90 110,5	89 877,7
71	Jewelry	825 982,4	845 903,5	3 697 988,4	1 059 882,0	1 116 149,0	663 437,9	679 398,9	721 178,3	674 285,6
72	Iron and Steel	23 185,4	31 292,5	49 256,6	45 348,7	41 093,2	159 817,0	121 354,6	221 183,5	109 858,6
73	Articles of Iron or Steel	116 072,7	138 063,7	194 078,4	169 855,2	165 906,9	177 800,2	204 535,8	220 252,8	201 514,4
74	Copper	18 349,7	21 356,9	32 558,4	35 676,5	28 341,0	31 033,6	30 687,3	39 072,9	43 549,2
75	Nickel	1 842,5	2 518,8	3 112,3	2 497,9	398,0	416,4	381,6	4 399,7	3 835,8
76	Aluminum	18 649,8	24 947,6	26 657,1	40 072,6	18 157,8	64 228,5	63 426,4	36 446,9	65 332,4
78	Lead	210,3	92,7	542,4	390,7	300,2	531,8	2 003,7	5 316,5	1 681,4
79	Zinc	273,7	340,2	537,7	878,0	2 272,0	571,1	733,4	2 367,6	1 649,8
80	Tin	81 261,3	73 277,5	149 769,9	170 377,5	147 218,5	159 019,5	129 978,2	102 230,3	164 626,9
81	Other Base Metals	4 011,6	4 404,1	4 048,2	1 951,1	3 095,2	1 423,0	2 723,3	6 733,9	4 857,7
82	Tools	55 843,5	61 841,8	77 256,1	90 377,7	66 494,9	71 845,0	80 648,5	95 347,2	72 482,0
83	Miscellaneous Base Metals	81 309,5	84 284,9	97 317,2	87 145,8	89 236,3	75 042,1	75 535,9	80 985,4	80 218,9
84	Computer/Machinery	5 888 512,6	7 081 128,7	8 986 445,1	10 749 335,3	11 520 684,8	12 043 238,7	15 272 358,8	13 712 194,3	13 290 281,1
85	Electrical Equipment	8 036 545,2	9 867 569,1	12 002 481,8	12 380 543,8	12 137 220,0	12 937 939,6	18 191 126,7	23 622 970,4	20 235 659,7
86	Railway	7 696,3	5 460,4	17 499,7	32 453,4	7 941,5	2 575,6	1 762,1	3 467,5	3 842,3
87	Cars, Trucks, Autos	409 946,7	399 470,4	451 586,0	572 935,6	902 864,7	885 837,6	1 116 952,9	1 124 070,2	1 490 621,0
88	Aircraft, Spacecraft	130 186,6	288 231,0	244 296,1	139 864,7	172 846,1	308 698,5	241 195,0	196 041,4	432 628,3
89	Ships, Boats	45 655,6	187 461,2	92 099,1	138 055,7	42 118,3	63 520,6	211 997,8	31 947,6	30 503,1
90	Optical/Medical Instruments	532 866,2	621 636,4	648 281,9	827 985,2	1 008 504,4	976 195,1	935 897,4	1 132 518,7	1 296 398,5
91	Clocks	67 028,5	111 805,9	111 590,1	133 520,9	175 924,7	126 041,2	70 138,1	66 851,4	49 614,3
92	Musical Instruments	9 711,0	23 397,7	25 997,8	38 216,8	29 355,1	25 487,6	36 175,9	90 338,3	81 532,2
93	Arms & Ammunition	2 354,7	1 693,0	2 524,1	2 468,7	1 043,5	2 259,6	1 994,6	1 074,3	2 890,9
94	Furniture	459 683,8	470 699,4	504 266,8	576 158,2	617 505,5	440 116,9	942 049,0	1 076 815,5	986 134,9
95	Toys	466 576,8	403 291,4	649 996,1	666 548,6	335 791,1	277 924,2	304 435,2	324 026,7	283 719,9
96	Misc. Manufactured Articles	97 730,2	98 159,7	110 644,1	135 087,8	91 776,5	97 929,9	97 470,1	101 896,2	93 467,3
97	Works of Art	3 466,0	6 371,3	48 984,6	5 801,2	7 205,1	8 738,7	5 823,1	8 314,4	7 671,6
98	Postal Packages & Special Transactions	477 513,7	450 935,0	518 644,6	583 683,2	1 968 566,0	2 416 956,0	913 203,0	808 942,2	734 600,2
99	Other	80 423,4	64 735,4	104 194,8	262 351,9	290 757,6	160 213,4	116 267,8	648 347,9	374 529,8
Total	**ALL**	**31 391 546,7**	**35 196 355,1**	**44 285 920,7**	**46 926 004,9**	**46 086 723,0**	**46 143 593,3**	**55 724 950,2**	**60 752 312,0**	**56 681 447,4**

Note: Figures cover only Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (1993 - 1998)

Figures cover only Brunei Darussalam, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (1999)

Figures cover only Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (2000 - 2001)

(b) ASEAN Imports from the EU

Chapter	Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001
01	Live Animals	12 133,3	18 027,1	23 786,4	29 330,6	20 659,6	10 424,5	18 454,3	18 910,4	17 669,2
02	Meat & Edible Meat Offal	46 929,2	81 970,7	61 356,8	76 077,6	47 712,3	29 223,5	57 922,1	108 069,9	32 915,6
03	Fish	89 349,6	68 704,7	70 684,2	95 591,7	78 947,5	87 057,9	42 755,1	49 929,9	52 851,7
04	Dairy Produce	221 641,2	266 125,0	480 865,5	405 635,9	346 011,6	187 335,8	183 415,0	334 254,0	313 606,8
05	Other Animal Products	2 075,7	1 873,7	2 797,6	2 416,9	2 727,0	2 131,9	2 818,1	2 468,9	2 534,7
06	Live Trees	5 115,7	6 149,4	7 317,0	10 662,0	9 329,3	5 479,6	6 438,1	6 785,2	6 142,0
07	Edible Vegetables	20 553,6	16 896,0	15 242,3	32 687,5	33 070,6	35 206,4	28 881,0	31 823,7	31 573,5
08	Edible Fruit & Nuts	20 828,0	23 302,4	36 349,3	52 991,7	25 255,1	12 519,6	14 444,2	19 638,3	17 468,5
09	Coffee, Tea, Spices	3 720,0	4 565,5	5 930,3	6 672,3	11 795,1	17 679,2	6 968,6	5 684,5	19 825,4
10	Cereals	1 784,7	4 768,3	8 817,8	3 194,1	9 508,1	14 176,3	23 346,3	10 081,6	2 797,6
11	Malt & Wheat Gluten	91 085,5	119 946,9	182 751,8	170 192,7	181 541,0	121 225,4	163 422,9	162 727,2	122 134,9
12	Seeds	30 142,3	46 529,7	42 252,3	34 083,9	29 865,5	4 785,4	5 122,6	7 552,3	15 366,3
13	Lac, Gums & Resins	21 069,3	23 450,1	25 568,1	31 657,9	30 520,1	21 543,1	25 012,9	32 156,2	33 401,0
14	Other Vegetable Products	486,4	228,9	399,1	105,9	252,4	99,4	276,9	571,5	542,8
15	Fats & Oils	29 464,5	75 333,7	43 940,2	42 787,3	38 103,0	50 676,1	27 016,4	27 224,8	23 699,5
16	Preparations Meat/Fish	14 126,6	18 426,1	16 844,9	19 276,4	19 544,7	11 239,2	13 692,6	14 707,5	11 923,0
17	Sugars	47 397,0	58 158,9	74 744,7	120 004,2	89 937,9	64 402,5	83 543,2	76 320,9	87 045,7
18	Cocoa	25 035,1	34 196,9	38 939,4	42 472,7	47 301,7	29 396,2	30 196,0	35 304,2	38 629,6
19	Prep. Cereals/Flour/Milk	82 612,3	103 720,2	121 622,2	174 778,0	154 366,3	116 016,3	111 149,9	126 674,6	148 883,0
20	Prep. Vegetables/Fruit/Nuts	15 457,9	18 127,3	18 782,9	25 712,7	27 563,7	18 294,7	19 195,3	26 505,0	33 453,2
21	Misc. Edible Products	72 611,2	88 493,0	99 727,2	114 345,0	147 588,3	115 349,4	125 944,2	164 154,8	178 981,9
22	Beverages	558 268,0	663 798,4	696 237,9	836 739,5	694 099,7	401 360,6	461 554,0	493 781,1	450 840,8
23	Waste from Food Industry	139 704,0	136 882,4	136 199,9	297 250,2	117 501,9	47 659,0	60 080,8	116 664,1	65 763,3
24	Tobacco	254 357,5	207 230,7	224 620,4	375 267,8	448 231,6	331 058,2	272 247,8	319 338,1	230 758,2
25	Salt/Sulphur/Lime/Cement	81 209,7	102 794,7	125 148,5	205 116,9	151 508,8	72 350,4	67 551,0	77 492,3	61 475,6
26	Ores	92 815,9	89 028,0	102 151,6	147 541,2	106 369,3	35 335,6	32 322,7	37 539,9	64 096,4
27	Lubricants/Fuels/Oil	513 560,3	434 305,4	389 465,2	465 964,6	217 812,6	204 014,1	517 499,6	647 289,9	603 521,7
28	Inorganic Chemicals	290 869,3	332 669,1	365 224,7	523 905,0	384 089,4	264 570,6	279 942,6	314 965,1	299 910,6
29	Organic Chemicals	1 066 250,6	1 260 661,4	1 541 884,0	1 936 048,2	1 499 667,7	1 067 107,8	1 168 442,7	1 299 515,8	1 280 919,6
30	Pharmaceutical Products	388 561,2	492 107,8	525 025,8	639 929,8	695 889,4	479 990,5	596 180,1	665 080,8	734 317,2
31	Fertilizers	121 078,9	144 891,0	149 359,0	177 151,6	142 989,5	96 033,9	115 649,1	129 820,7	104 711,5
32	Tanning/Dyeing Extracts/Ink	446 560,7	519 373,8	580 319,3	639 576,6	632 514,8	371 744,8	443 609,7	570 360,8	486 126,0
33	Cosmetics	383 831,2	462 771,5	502 899,2	558 967,5	552 617,5	445 531,7	483 979,7	539 178,5	543 350,4
34	Soap, Waxes, Pastes	131 168,8	161 998,7	171 688,6	215 165,7	166 338,8	119 648,5	134 225,6	167 826,2	170 386,7

(cont.) Chapter	Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001
35	Glues	75 995,7	94 448,1	100 930,7	123 137,8	114 259,4	88 618,5	103 593,0	135 273,8	126 018,9
36	Explosives	15 756,9	17 577,3	29 394,2	27 170,7	16 376,4	9 442,3	6 860,7	7 133,1	8 496,8
37	Photographic Goods	80 870,3	105 334,0	107 528,8	135 467,1	120 884,1	75 838,4	119 571,2	145 666,6	118 038,6
38	Misc. Chemical Products	682 243,3	693 969,4	774 429,5	1 001 222,3	840 872,6	686 680,9	692 052,7	691 897,6	738 225,4
39	Plastics	892 953,1	1 122 348,2	1 175 772,4	1 448 817,2	1 288 209,4	946 766,9	939 117,2	1 147 978,6	1 084 823,1
40	Rubber	198 241,4	241 048,0	278 152,1	345 200,5	309 337,1	216 735,7	239 187,8	276 342,8	313 703,9
41	Raw Hides & Skins	146 529,0	168 752,4	155 481,6	234 602,7	143 889,3	99 492,8	119 426,4	145 603,7	105 509,2
42	Articles of Leather	126 255,5	168 084,6	174 660,6	195 308,0	166 541,6	74 791,7	97 033,8	128 485,4	119 818,8
43	Furskins	4 060,9	6 265,1	4 871,2	5 534,5	6 441,1	4 204,2	2 824,7	2 093,7	2 046,2
44	Wood	28 556,5	44 240,3	44 933,3	79 730,3	106 403,9	41 157,3	61 479,3	92 370,8	81 510,8
45	Cork	3 621,8	4 211,6	4 063,2	4 098,3	4 212,1	2 383,8	2 440,7	3 262,3	2 401,8
46	Straw	89,8	369,3	203,3	665,8	316,1	238,0	557,2	465,8	555,5
47	Wood Pulp	108 221,6	99 751,9	111 043,0	212 627,8	150 507,9	145 493,6	200 034,8	289 655,2	226 537,3
48	Paper & Paper Board	651 906,1	787 638,9	904 222,1	867 912,8	825 772,6	518 672,4	590 601,0	681 383,2	629 045,5
49	Books, Newspapers	99 679,5	124 350,9	137 363,1	186 521,2	196 691,1	140 707,7	169 081,8	164 363,2	163 378,2
50	Silk	4 882,5	6 922,4	6 319,2	5 087,3	7 554,5	2 270,7	2 032,4	3 300,4	2 897,1
51	Wool	38 135,1	43 561,7	40 457,2	59 160,8	46 246,3	31 890,5	29 709,0	45 530,0	44 974,2
52	Cotton	70 972,6	102 268,6	117 843,6	131 085,6	100 231,9	60 664,0	71 253,2	78 430,0	52 883,3
53	Paper Yarn	6 602,3	9 271,9	8 644,9	9 188,4	5 976,6	7 773,1	9 469,7	16 011,0	16 960,4
54	Man-made Filaments	69 572,2	74 955,3	107 068,5	177 307,0	101 222,5	54 506,9	63 906,4	81 096,4	64 860,0
55	Man-made Staple Fibers	92 491,5	108 571,1	129 753,5	198 045,9	129 518,6	86 812,2	66 321,2	97 926,8	100 588,5
56	Wadding	36 613,3	45 588,9	49 655,8	80 949,2	38 262,9	24 127,5	24 453,2	33 192,9	36 863,7
57	Carpets	39 200,9	46 675,3	42 690,6	46 952,6	42 073,7	17 340,2	18 715,9	23 811,4	25 838,4
58	Special Woven Fabrics	30 305,4	39 760,3	41 139,3	63 578,8	43 652,3	24 694,1	26 559,8	27 074,8	26 529,4
59	Laminated Textile Fabrics	45 299,6	58 611,7	80 353,5	147 198,0	96 647,9	80 875,3	64 084,9	78 607,0	74 945,1
60	Knitted Fabrics	22 312,7	26 495,1	33 914,1	90 384,8	28 008,8	24 635,0	35 792,3	46 340,5	39 469,5
61	Apparel, Knitted	31 715,7	50 259,3	52 070,5	71 478,1	88 084,5	41 820,3	32 125,6	41 597,5	46 250,5
62	Apparel, not Knitted	93 627,9	129 979,6	140 584,3	173 189,6	162 198,3	76 521,4	64 514,9	73 847,0	71 670,1
63	Other Textile Articles	19 484,6	22 383,7	25 361,7	39 525,0	36 080,4	20 598,6	14 774,4	15 724,6	13 579,9
64	Footwear	61 798,0	82 963,3	88 929,3	140 618,5	105 703,7	59 172,7	52 074,2	72 873,5	60 712,1
65	Headgear	2 499,2	2 925,8	5 855,8	6 801,6	5 758,1	2 095,1	1 498,2	2 508,8	2 202,5
66	Umbrellas, Walking Sticks	563,1	756,4	846,2	1 080,5	841,3	552,3	374,0	417,9	347,4
67	Prepared Feathers	370,3	687,1	557,3	1 827,8	743,4	201,1	371,5	631,9	584,4
68	Stone/Plaster/Cement	130 832,6	166 595,6	200 823,1	240 403,1	214 565,1	132 438,9	117 401,6	121 697,6	108 709,0
69	Ceramic Products	246 129,8	271 347,4	377 522,1	390 948,8	337 591,6	214 106,5	170 615,3	168 792,9	148 926,9

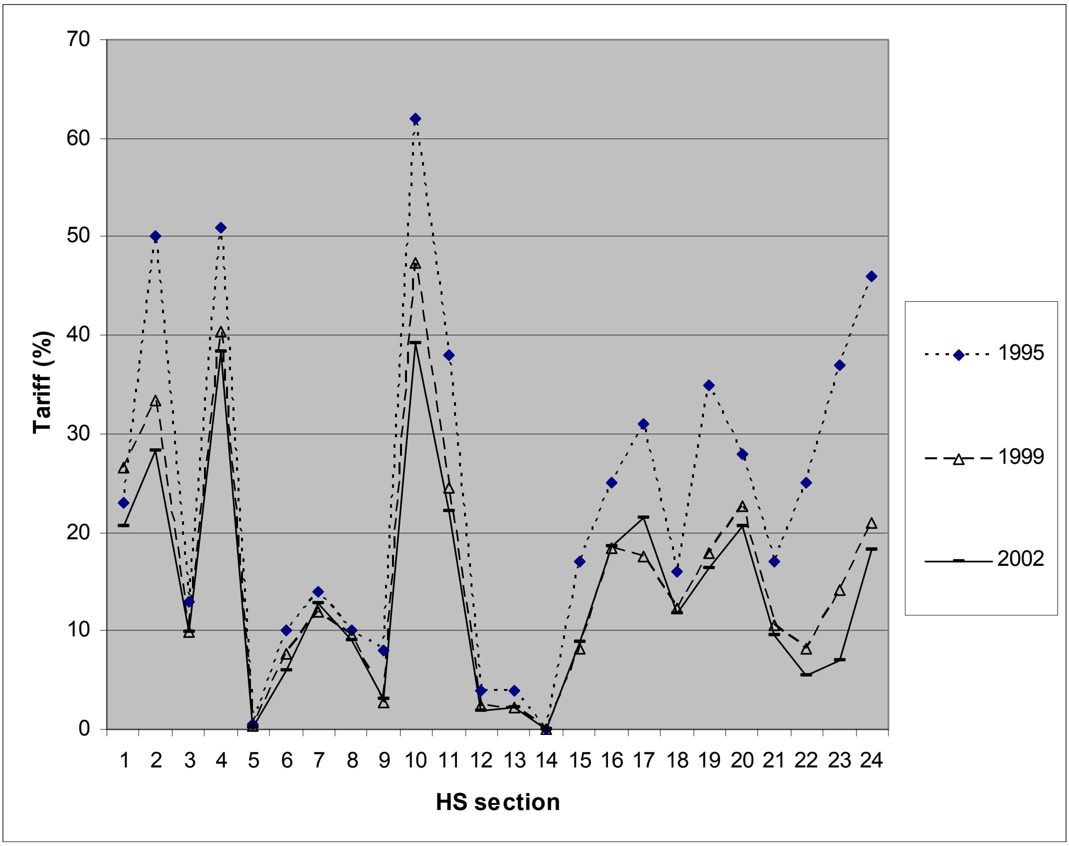
(cont.) Chapter	Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001
70	Glass and Glassware	133 898,9	159 422,1	203 472,2	212 610,0	176 290,0	113 847,9	113 352,0	137 347,7	126 200,5
71	Jewelry	849 904,9	998 202,9	993 041,8	1 017 098,4	926 359,0	317 249,9	441 324,4	593 570,7	566 884,8
72	Iron and Steel	1 230 994,7	918 984,2	1 041 010,6	1 388 704,8	940 835,6	327 431,3	640 545,3	608 793,3	734 906,3
73	Articles of Iron or Steel	695 713,3	1 131 371,2	1 007 213,4	1 400 399,2	1 319 274,2	952 672,1	823 072,1	671 659,6	889 876,6
74	Copper	140 492,2	226 966,2	291 985,7	281 681,9	325 952,7	158 797,3	171 044,1	253 600,8	207 043,1
75	Nickel	21 713,4	23 565,0	20 576,3	29 037,7	27 377,6	12 868,8	16 383,7	28 632,2	18 145,5
76	Aluminum	196 507,1	283 702,7	339 881,3	330 209,6	342 960,3	251 476,4	281 715,8	346 289,6	275 013,7
78	Lead	13 908,4	11 411,3	15 483,7	36 611,6	9 075,4	2 671,5	1 236,9	1 527,2	1 276,8
79	Zinc	37 806,1	29 512,1	51 411,2	54 131,7	46 287,6	25 056,6	22 182,0	24 279,0	18 046,5
80	Tin	1 380,3	1 390,3	1 541,5	1 768,4	1 511,1	3 150,2	2 523,2	3 566,6	2 712,2
81	Other Base Metals	8 898,7	11 026,4	12 779,3	18 954,3	11 722,7	12 017,1	11 562,9	16 170,9	13 618,4
82	Tools	180 615,6	206 829,8	255 157,8	295 098,6	273 735,1	173 646,1	158 280,0	197 955,2	255 305,6
83	Miscellaneous Base Metals	123 418,3	139 838,4	159 432,1	181 946,3	163 088,9	89 313,4	96 167,1	125 330,7	105 574,3
84	Computer/Machinery	8 267 767,2	10 002 252,9	12 218 603,7	15 861 000,3	13 128 735,9	8 341 265,8	6 893 852,5	7 877 394,3	8 926 615,9
85	Electrical Equipment	5 707 515,7	7 334 023,5	9 068 491,5	12 293 746,9	12 273 724,9	9 042 353,0	10 634 986,0	11 762 074,8	12 035 269,9
86	Railway	123 526,8	95 072,7	246 338,9	109 069,2	86 941,9	123 340,5	167 907,8	44 237,0	113 940,7
87	Cars, Trucks, Autos	1 636 740,5	2 325 268,6	2 659 117,8	3 446 459,9	2 275 213,0	850 792,5	816 755,1	1 543 634,5	1 625 808,8
88	Aircraft, Spacecraft	1 003 902,2	535 723,8	2 389 507,1	1 511 498,0	2 040 277,8	1 156 281,2	1 282 779,6	547 165,6	435 949,5
89	Ships, Boats	174 519,5	1 268 469,4	613 191,4	607 365,6	644 805,7	257 838,9	202 355,8	117 394,1	201 952,9
90	Optical/Medical Instruments	754 273,7	888 098,0	1 073 449,0	1 292 673,1	1 395 634,1	1 033 857,8	1 011 042,2	1 418 705,0	1 175 089,2
91	Clocks	25 537,6	42 210,7	50 998,1	98 600,2	178 580,0	66 425,7	61 116,0	43 125,2	29 930,3
92	Musical Instruments	7 928,3	9 847,1	13 776,1	17 401,0	13 515,2	5 504,3	5 933,6	10 660,8	8 903,9
93	Arms & Ammunition	111 164,4	103 276,5	66 239,2	133 098,2	67 423,4	38 915,5	31 534,9	9 161,6	12 755,1
94	Furniture	173 629,6	229 493,7	278 495,1	372 571,6	362 648,7	232 924,0	230 853,5	272 074,7	209 911,7
95	Toys	35 364,2	54 584,8	79 878,8	75 314,2	70 782,1	35 536,5	41 066,1	46 369,5	43 211,5
96	Misc. Manufactured Articles	85 437,2	100 585,4	108 523,7	137 885,9	118 748,6	55 964,7	60 935,0	66 908,6	70 490,2
97	Works of Art	7 414,7	12 004,2	14 275,3	22 017,4	26 549,9	9 238,5	11 330,7	10 648,4	12 209,7
98	Postal Packages & Special Transactions	349 905,4	423 624,3	543 304,1	560 692,7	594 854,1	505 743,5	605 792,9	550 598,3	499 383,7
99	Other	242 256,7	106 098,0	133 209,9	140 730,6	123 999,8	154 963,9	38 700,1	47 224,2	114 775,9
Total	**ALL**	**31 822 381,5**	**38 729 334,1**	**46 392 770,3**	**57 380 507,3**	**51 009 814,2**	**33 256 133,4**	**34 709 542,6**	**38 957 887,4**	**39 678 329,7**

Note: Figures cover only Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (1993 - 1998)
Figures cover only Brunei Darussalam, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (1999)
Figures cover only Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (2000 - 2001)

Source: The ASEAN Secretariat (2002).

Figure A6. EU's average MFN tariffs (%) in 1995, 1999 and 2002.

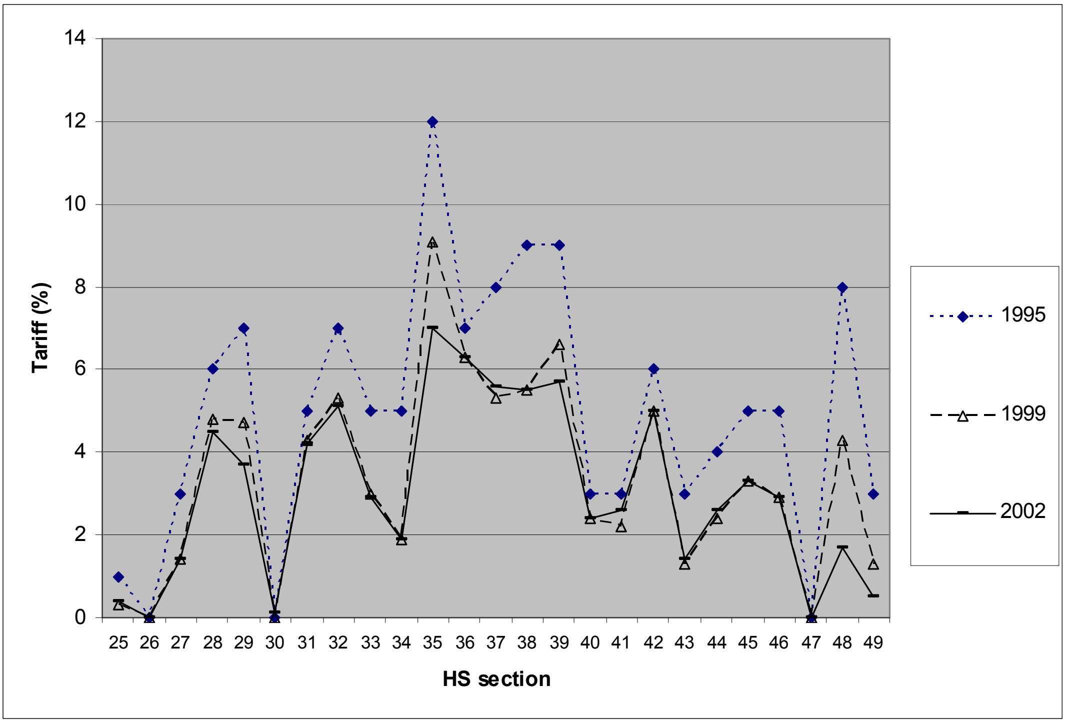
(a) EU's average MFN tariffs (%) for agriculture (HS 01-24)



HS	Descriptions		
01	Live animals	13	Lac, gums, resins, veg.saps, extracts
02	Meat and edible meat offal	14	Vegetable plaiting materials, products
03	Fish, crustacean, mollusc	15	Animal /vegetable fats, oils
04	Dairy products, eggs, honey	16	Prep.of meat, fish, crustaceans etc
05	Products of animal origin	17	Sugars and sugar confectionery
06	Live trees, plant, root, cut flowers	18	Cocoa and cocoa preparations
07	Edible vegetables, roots, tubers	19	Prep.of cereal, flour, milk, pastrycooks
08	Edible fruit, nuts, peel	20	Prep.of vegetables, fruit, nuts
09	Coffee, tea, maté and spices	21	Miscellaneous edible preparations
10	Cereals	22	Beverages, spirits and vinegar
11	Malt, starches, inulin, wheat gluten	23	Residues/waste from food ind.
12	Oilseeds, oleaginous fruit	24	Tobacco, manuf. substitutes

Sources: Compiled from WTO (1995a); WTO (2000a); WTO (2002a).

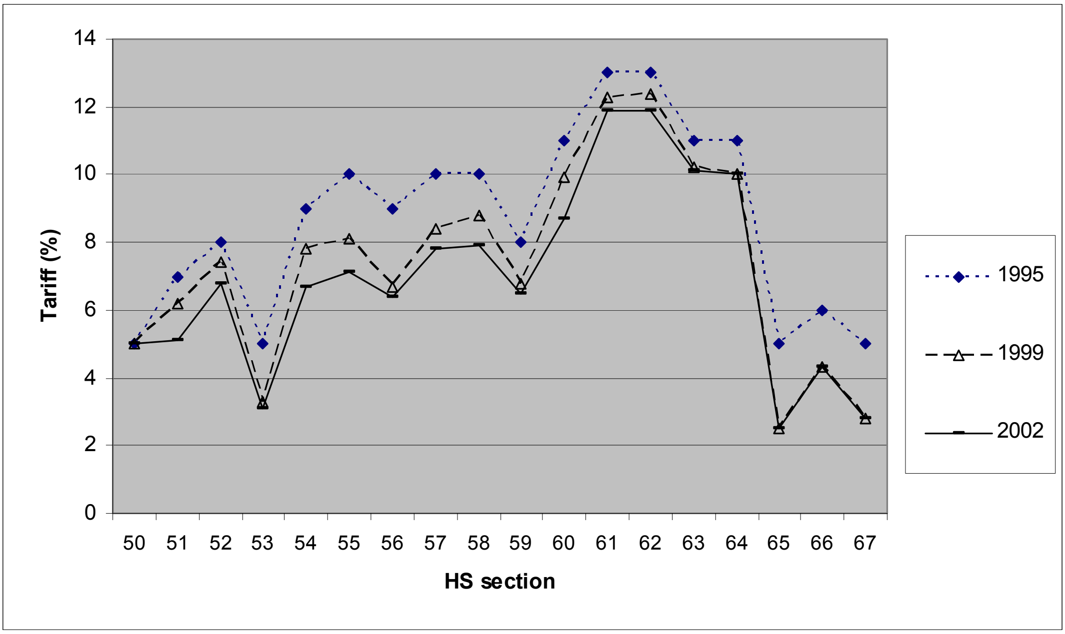
(b) EU's average MFN tariffs for minerals, chemicals and basic manufactures (HS 25-49)



HS	Descriptions	HS	Descriptions
25	Salt, sulphur, earth/stone	38	Misc. chemical products
26	Ores, slag, ash	39	Plastics, articles thereof
27	Mineral fuels, oils, products	40	Rubber, articles thereof
28	Inorganic chemicals	41	Raw hides, skins, leather
29	Organic chemicals	42	Articles of leather, travel goods
30	Pharmaceutical products	43	Furskins, artificial fur
31	Fertilizers	44	Wood, articles of wood
32	Tanning/dyeing extract	45	Cork, articles of cork
33	Essential oils/resinoids	46	Manufactures of straw, esparto
34	Soap, washing prep.	47	Pulp of wood/fibrous cellulosic
35	Albuminoioal subs.	48	Paper, paperboard
36	Explosives, pyrotech.prod.	49	Printed books, newspapers
37	Photographic, cinematographic goods		

Sources: Compiled from WTO (1995a); WTO (2000a); WTO (2002a).

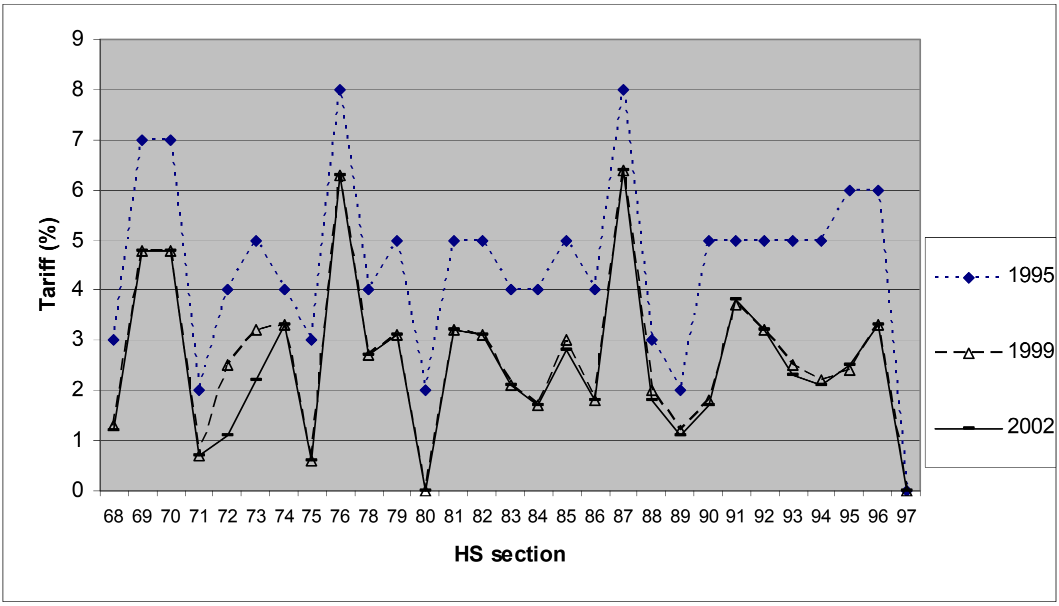
(c) EU's average MFN tariffs for textiles, clothing and apparel (HS 50-67)



HS	Descriptions	HS	Descriptions
50	Silk		
51	Wool, animal hair	59	Impregnated, coated textile fabric
52	Cotton	60	Knitted, crocheted fabric
53	Other vegetable textile fibres	61	Apparel, clothing accessories, knitted
54	Man-made filaments	62	Apparel, clothing accessories, not knitted
55	Man-made staple fibres	63	Other made-up textile articles, sets
56	Wadding, felt, yarns, twine	64	Footwear, gaiters, parts
57	Carpets, textile floor coverings	65	Headgear, parts thereof
58	Special woven fabric	66	Umbrellas, walking-sticks, whips
		67	Prepared feathers, artificial flowers

Sources: Compiled from WTO (1995a); WTO (2000a); WTO (2002a).

(d) EU's average MFN tariffs for industrial products (HS 68-97)



HS	Descriptions		
68	Stone, plaster, cement		
69	Ceramic products	84	Machinery, mechanical parts
70	Glass, glassware	85	Electrical equipment, sound recorders
71	Natural/cult.pearls, prec.stones, metals, coins	86	Railway, tramway locomotives
72	Iron and steel	87	Vehicles, other than railway
73	Artic.of iron or steel	88	Aircraft, spacecraft, parts
74	Copper, articles thereof	89	Ships, boats, floating structures
75	Nickel, articles thereof	90	Optical, photo, cinemas, checking, precision
76	Aluminium, articles thereof	91	Clocks, watches, parts
78	Lead, articles thereof	92	Musical instruments, parts
79	Zinc, articles thereof	93	Arms, ammunition, parts
80	Tin, articles thereof	94	Furniture, bedding, mattress, cushions
81	Other base metals, cerments	95	Toys, games, sports requisites, parts
82	Tools, implements, cutlery of base metals	96	Misc. manufactured articles
83	Misc. articles of base metal	97	Works of art, collectors' pieces, antiques

Sources: Compiled from WTO (1995a); WTO (2000a); WTO (2002a).

Table A7. Simple average tariffs of the EU imports under MFN and the GSP, 1999 (%).

HS	*Description*	*MFN applied rate*	*GSP*
01-05	Meat, fish, dairy, eggs	22,0	21,4
06-14	Vegetable, fruit, nut, coffee, tea, cereals	12,0	11,0
15	Fats and oils	8,2	6,1
16-24	Prepared foodstuffs (01-15), beverages, tobacco	15,9	13,0
25-27	Mineral products (salt, ores, mineral fuels, oils)	0,6	0,0
28-38	Chemicals, pharmaceuticals, fertilizers, pigments, soap, glues, photographic chemicals	4,6	1,3
39-40	Plastics and rubber; articles thereof	4,5	1,3
41-43	Hides, leather, furskin, manufactures thereof	2,8	1,1
44-46	Wood, cork, straw, articles thereof	2,9	0,9
47-49	Pulp, paper, paperboard, books, newspapers	1,9	0,3
50-63	Silk, wool, cotton, man-made fibres, carpets, apparel and clothing accessories	8,1	6,9
64-67	Footwear, headgear, umbrellas	4,9	2,1
68-70	Stone, cement, ceramics, glass products	3,6	1,6
71	Pearls, precious stones/metals, coins	0,7	0,1
72-83	Iron, steel, copper, nickel, aluminium, lead, zinc, tin; articles thereof; tools of base metals	2,7	1,2
84-85	Machinery and electrical equipment, appliances, sound recorders	2,4	0,7
86-89	Railway locomotives, vehicles, aircraft, ships	2,9	1,0
90-92	Optical, precision, clocks, musical instruments	2,9	0,8
93	Arms and ammunition, parts thereof	2,5	2,5
94-96	Furniture, cushions, toys, games, sports, misc.	3,0	0,8
97	Works of art, antiques	0,0	0,0
Total		**6,9**	**4,9**

Source: Author's calculations from WTO (2000a, 173-178), Tables AIII.1 and AIII.2.

Table A8. New anti-dumping investigations initiated by the EU towards imports from ASEAN countries in 1996-2002 (number of cases).

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**Total**
Indonesia	1	1	-	4	-	3	2	11
Malaysia	1	2	-	4	1	1	1	10
Philippines	-	-	-	1	-	-	-	1
Singapore	-	1	-	1	-	-	-	2
Thailand	-	3	-	7	1	1	-	12
Vietnam	-	1	-	-	-	-	1	2
Total ASEAN	**2**	**8**	**-**	**17**	**2**	**5**	**4**	**38**
All countries	*25*	*45*	*29*	*86*	*31*	*33*	*23*	*272*

Sources: Compiled from EU (2001); EU (2003).

Table A9. Intra-ASEAN trade by country, 1993-2001 (in thousand USD).

(a) Intra-ASEAN Exports

COUNTRY	Exports								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei	487 236,4	468 229,5	529 658,1	446 382,0	496 420,9	220 830,5	375 135,1	639 489,6	774 809,7
Cambodia	-	-	-	-	-	-	-	76 034,3	72 574,9
Indonesia	4 997 171,4	5 867 077,8	6 475 859,8	8 310 128,0	8 850 946,3	9 346 725,0	8 278 307,7	10 883 680,0	9 507 069,7
Malaysia	12 986 858,7	15 256 869,7	18 435 590,3	22 693 954,0	23 248 724,1	21 611 412,7	21 885 037,5	24 408 638,3	21 024 151,4
Myanmar	-	-	-	-	-	-	236 808,2	393 460,9	951 273,1
Philippines	795 312,5	1 425 530,3	2 357 509,0	2 970 332,3	3 436 164,9	3 821 026,5	4 989 133,4	5 982 570,5	4 986 037,5
Singapore	18 406 112,2	27 562 399,4	31 770 692,8	34 441 433,7	35 793 849,0	25 998 244,4	29 269 342,3	37 783 963,6	32 815 393,7
Thailand	6 008 401,3	7 991 373,1	10 609 570,8	12 111 497,4	13 525 718,7	8 314 666,0	9 901 916,7	15 099 704,7	14 356 592,3
TOTAL	**43 681 092,5**	**58 571 479,8**	**70 178 880,8**	**80 973 727,4**	**85 351 823,9**	**69 312 905,1**	**74 935 680,9**	**95 267 541,9**	**84 487 902,3**

(b) Intra-ASEAN Imports

COUNTRY	Imports								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei	886 282,0	983 454,0	1 013 019,2	2 848 595,5	976 753,8	591 071,1	895 621,8	534 350,4	544 788,1
Cambodia	-	-	-	-	-	-	-	549 142,1	1 091 719,9
Indonesia	2 658 730,1	3 270 893,3	4 218 949,5	5 549 042,1	5 413 048,3	4 559 234,1	4 783 565,4	6 781 207,6	5 726 811,4
Malaysia	8 903 577,8	10 947 912,1	12 522 576,0	14 682 325,0	14 840 076,9	12 940 018,2	12 412 836,0	15 934 846,2	15 254 288,0
Myanmar	-	-	-	-	-	-	1 038 635,7	1 113 286,7	1 319 175,1
Philippines	1 882 996,1	2 463 843,8	2 489 131,4	4 011 805,3	4 872 822,7	4 428 887,3	4 461 006,1	4 955 437,6	4 664 794,6
Singapore	18 760 474,7	22 166 741,7	24 537 634,5	27 362 189,6	30 396 881,7	23 647 590,8	26 240 969,7	33 291 306,8	28 990 986,3
Thailand	5 671 232,2	7 079 022,6	8 820 752,3	9 757 224,8	8 121 645,7	5 438 072,7	7 987 393,6	10 475 886,0	10 046 961,6
TOTAL	**38 763 292,9**	**46 911 867,5**	**53 602 062,9**	**64 211 182,3**	**64 621 229,1**	**51 604 874,2**	**57 820 028,3**	**73 635 463,4**	**67 639 525,0**

Source: ASEAN Secretariat (2002).

Table A10. Extra-ASEAN Trade by Country, 1993-2001 (in thousand USD).

Extra-ASEAN Exports

COUNTRY	Export								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei	-	1 317 109,2	2 241 324,5	2 046 872,5	2 217 740,8	1 702 824,3	1 965 528,7	1 529 657,1	2 755 635,9
Cambodia	-	-	-	-	-	-	-	1 291 498,1	1 422 517,7
Indonesia	31 825 812,5	32 979 080,2	38 942 124,0	45 534 396,3	42 423 363,6	39 500 913,9	40 387 144,4	51 240 336,2	46 810 548,1
Malaysia	33 329 669,5	40 208 271,3	48 712 234,3	51 552 710,6	54 208 920,1	55 487 219,6	62 402 875,4	73 745 846,0	67 007 456,8
Myanmar	-	-	-	-	-	-	501 229,4	800 384,5	1 267 094,6
Philippines	10 579 492,6	12 024 656,5	15 036 684,1	16 562 673,2	21 791 537,9	25 675 326,6	30 047 759,1	32 095 679,7	27 164 164,5
Singapore	55 594 981,8	64 327 149,8	72 848 000,2	82 907 942,8	92 380 437,6	83 804 679,7	85 355 799,3	100 568 496,6	88 871 422,0
Thailand	31 626 102,4	37 337 000,3	48 737 437,3	43 783 201,3	44 296 313,5	41 166 911,4	46 208 962,8	54 154 340,0	50 761 234,4
TOTAL	**162 956 058,8**	**188 193 267,3**	**226 517 804,4**	**242 387 796,7**	**257 318 313,5**	**247 337 875,5**	**266 869 299,1**	**315 426 238,2**	**286 060 074,0**

Extra-ASEAN Imports

COUNTRY	Import								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Brunei	-	1 016 950,2	1 119 641,6	1 586 245,4	1 333 933,8	685 178,8	824 731,4	533 259,4	765 186,7
Cambodia	-	-	-	-	-	-	-	855 445,3	410 266,5
Indonesia	25 669 025,0	31 512 342,7	36 435 181,3	41 069 438,5	36 266 734,2	22 777 637,3	19 219 716,1	26 733 597,6	25 235 329,7
Malaysia	35 484 406,7	46 110 332,3	58 917 339,0	60 620 766,8	62 148 207,1	48 036 438,5	51 265 005,5	63 712 620,9	57 843 613,7
Myanmar	-	-	-	-	-	-	844 399,0	1 106 146,9	1 492 256,0
Philippines	15 714 406,0	18 833 435,4	19 150 817,5	24 380 754,9	31 059 687,8	25 230 999,1	26 281 452,3	26 431 963,9	24 886 016,3
Singapore	66 467 212,2	75 381 883,5	85 577 705,7	96 049 453,5	105 575 832,6	77 848 277,8	84 757 001,4	101 388 824,1	86 928 052,4
Thailand	41 212 457,4	47 474 769,9	63 752 049,2	62 688 352,6	54 966 131,2	33 273 479,0	40 330 619,6	51 429 850,8	52 025 323,7
TOTAL	**184 547 507,3**	**220 329 714,0**	**264 952 734,3**	**286 395 011,7**	**291 350 526,7**	**207 852 010,5**	**223 522 925,3**	**272 191 708,9**	**249 586 045,0**

Source: ASEAN Secretariat (2002).

Table A11. Comparison of import tariffs of Finland and the EC in 1988 by sector; simple average in MFN tariffs (%).

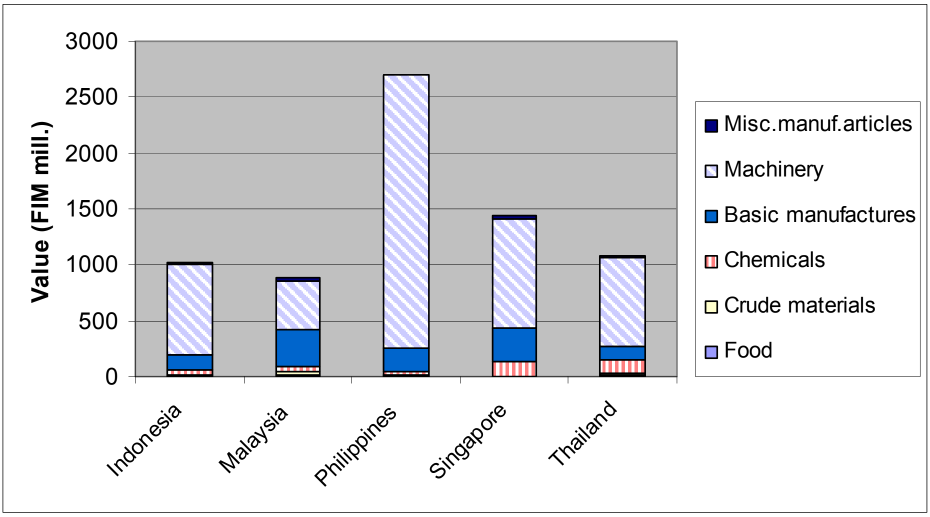
Tariff study category	***Fin***	***EC***
Raw hides, skins, leather, furskins	6,8	3,1
Rubber	11,3	3,1
Wood and cork	1,5	4,4
Pulp, paper, and paperboard	3,7	7,4
Textiles and clothing	21,7	10,1
Mineral products and fertilizers	5,4	n.a.
Precious stones, precious metals	2,3	2,6
Ores and metals	3,9	5,1
Coal (petroleum) and natural gas	0,2	2,2
Chemicals	2,8	7,3
Non-electric machinery	3,9	4,1
Electrical machines and apparatus	7,7	5,8
Transport equipment	4,2	7,0
Prof.scient,contr.instrum., photogr.appar., clocks,watches	3,8	5,4
Footwear and travel goods	14,1	10,4
Photographic, cinematographic supplies	0,7	6,0
Furniture	5,8	5,4
Musical instrum.,sound recording/reproduction appar.	3,8	5,7
Toys	5,9	6,7
Works of art, collectors' pieces	0	0
Firearms,ammunition,tanks,other fighting vehicles	4,0	5,0
Office and stationery supplies	3,8	5,7
Manufactured articles n.e.s.	6,7	6,4
Foodstuffs	16,2	14,5
Grains	8,3	n.a
Animals and products thereof	8,9	n.a
Oil seeds, fats and oils, their products	9,4	6,9
Cut flowers, plants, vegetable materials	8,1	8,4
Beverages and spirits	24,6	21,5
Dairy products	1,6	n.a
Fish, shellfish, and products	4,8	12,2
Tobacco	0	26,4
Petroleum	n.a	3,1
Industry average	*7,3*	*n.a*
Agriculture average	*11,2*	*n.a*

Note: n.a. = not available.

Sources: Compiled from GATT (1992) and GATT (1993a).

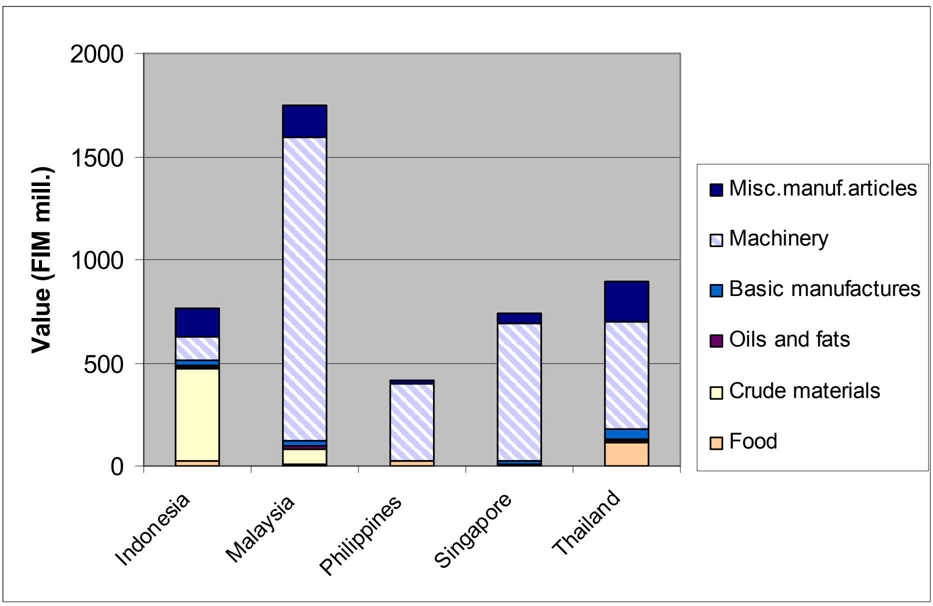
Figure A7. Commodity structure of Finland's trade with ASEAN-5 in 2000.

(a) Commodity structure of Finland's exports to ASEAN-5



Source: National Board of Customs, Finland.

(b) Commodity structure of Finland's imports from ASEAN-5



Source: National Board of Customs, Finland.

Table A12. Some policy initiatives suggested for EU-ASEAN relations.

Common initiatives:
- ensure continuation of meetings
- facilitate FDI
- encourage mutual understanding through cultural and scientific interaction, and art
- strategic alliances
- coordination of financial and trade policies
- revision of Cooperation Agreement
- trade liberalization

EU policy initiatives:
- guide ASEAN in administering of regional trade accociation ie. AFTA, and CEPT
- partnering with ASEAN in trade (as with the Mediterranean)
- reducing an 'ignorance gap'
- more flexibility in 'social clauses' and economic cooperation
- move from development cooperation to economic cooperation
- reconsider antidumping policy, Common Agricultural Policy and GSP
- offer experience in small enterprise adjustment

ASEAN policy initiatives:
- liberalize FDI, especially in maritime transport and support services, and the financial sector
- reform AFTA
- encourage ASEAN firms to invest in European transition economies
- develop relations with EU's Associated Islamic Mediterranean nations
- promote trade with European countries to diversify export market and reduce dependency on a few markets (US, Japan)

Source: Yeung *et al* (1999).

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