

Asia-Europe relation: a joint partnership

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Our economies have become increasingly interlinked: There has been a steady pattern of trade development and growth between Europe and Asia over the last twenty years which we have both welcomed and encouraged. Asia taken as a whole now represents more trade than we have with North America and almost as much as the rest of Europe. Asia has therefore become one of our largest partners and is destined to become an even more important partner in future years.

But of course, Asia represents more than just a trading partner for Europe. In the strategic framework for the EU's overall relations with Asia adopted last autumn, the core objectives include the strengthening of our presence here in Asia, the further enhancement of our two-way trade and investment relations, and the development of a global partnership with our Asian partners. Our enhanced relations will find their physical expression in the opening of new EU offices in the region – including in Singapore this year.

Thriving on diversity

The relationship between Asia and Europe continues to thrive for many reasons, but I believe that a key factor has been that both sides have not only tolerated, but recognised and, for the most part, appreciated our differences.

Diversity is clearly a major characteristic of Asia: it contains nearly all climate zones of the earth, has given rise to and still practices the five major world religions, and today it encompasses ideologies from communism to market fundamentalism, as well as the living standards of a few of the wealthiest to many of the poorest people in the world.

Seen against this background, Asians may often view Europe as a rather homogenous and easily unified western tip of the Eurasian land mass. However, the EU of today is comprised of 15 countries speaking 11 different languages – and often having more than 15 slightly different ideas of what our policies should be!

Of course, the EU of tomorrow will be even larger and more complex, with twelve new countries currently negotiating to join the EU. Before the end of 2002, we plan to have completed negotiations to bring as many as ten of them

into the Union by 2004. In a few years, the EU will be a family of nations with a population of more than 500 million people. And at the same time, we will have increased our diversity by adding new cultures, new languages, and new points of view.

But I believe that much of the success which the EU has achieved is a direct result of our diversity, and the recognition that such diversity can be a source of creativity and strength, as long as there is mutual respect for our differences.

Therefore, diversity is a characteristic that both Asians and Europeans accept and even welcome as part of their daily lives, and we want to maintain and exploit it. And there are other similarities.

The challenge of globalisation

Each time that I visit Asia, I discover anew that there is a large degree of commonality between Europe and Asia in the way in which we view globalisation and its opportunities and challenges. Because there are both upsides and downsides. And nowhere have these become more visible than in Asia.

Many Asian countries, particularly in East Asia, have benefited greatly over several decades from increasing integration into the world economy through strong export-led growth. But if this is testimony to the efficiency of market capitalism, the Asian crisis of 1997 has also revealed the instability and inequality inherent in that system.

I am not a “market fundamentalist” who believes that the allocation of resources is best left just to the markets and that any interference with the market mechanism is bound to be counterproductive. On the contrary, global markets need global institutions to sustain and regulate them. I see here a strong point of convergence between Europe and Asia: We both reject the notion that unfettered market forces should dictate our way of life, our culture, and ultimately the nature of our society and our core values.

Why? Because at heart such an approach is inimical to our concept of what constitutes responsible government and a society that is fair as well as free. We are confronted therefore with the challenging task of reconciling the way in which we manage our societies and values with the need to modernise; and to integrate into the global economy.

This involves striking a fine balance between market forces and the role of the state in the supply of public goods and the consolidation of the rule of law and good governance. It is for each country to chart the course that best suits its geography, its history and the spirit of its people. But nowadays no country can act alone. Success hinges on the capacity to engage with the rest of the world.

Models of regionalism

Countries basically have two options to integrate into the world economy: regionalism and multilateralism (I think I can dispense with unilateralism here – this is today neither an option for Asia nor for Europe, and I think it shouldn't be one in the future, either).

The passionate debates of economists often seem to imply that a choice needs to be made between the two basic options: You're either a multilateralist, or a regionalist, but you can't be both at the same time. Well, life tends to be messier and more complicated than economic theory. As policy-maker, I would argue that the two are not mutually exclusive, but complementary instruments to manage the complexities of our interdependent world.

In this respect, I have been following with great interest the recent developments in Asia: the announcement of China-ASEAN FTA negotiations in November 2001, the signing of the economic partnership agreement between Singapore and Japan in January 2002, followed by the offer of a Japan-ASEAN Comprehensive Economic Partnership by the Japanese Prime Minister, to name but a few.

Of course, the EU has its own regional agreements – in fact, a regional trade agreement to create a single market is at the heart of the EU.

But comparisons with the EU experience are difficult, for there are very different kinds of regionalism around. At the risk of oversimplification, I would distinguish two basic kinds of models:

– The first one is what I would call the **“good neighbours’ model”**.

What do good neighbours do? Well, to start with, they don't set fire to each other's hedges, or block each other's driveways with their cars. In addition to that, they will try to sort out any problems amicably, show consideration for each other's needs, they may agree on some basic ground rules to make life together easier, but they also cherish their privacy. Translated into economic co-operation terms, this type of regionalism is essentially about the abolition of barriers at the frontier. The definition of common rules tends to be limited to the strict minimum of what is needed to ensure a level playing field for trade. Within this framework, members remain free to pursue their own development path, co-operating on those issues where they share common views.

– The second model of regionalism is what I would call the **“happy family” model**:

Unlike neighbours, who have to find a way to manage the constraints of living together, the family (I admit this is perhaps an idealised vision) is united by the wish to share their lives, based on common values and views. Of course, families need a different set of ground rules, because living together at close quarters can be very intense and difficult. I, and indeed my family, can speak with personal experience on this point. Where members of the family disagree, they make a conscious effort to find consensus and to upgrade their commonalities; where one of them is in need, other members will help out. Translated into economic terms, “happy family” regionalism is about countries that share the political will to build a Community and to pool sovereignty. This type of regionalism tends to lead to policy integration, such as the establishment of a common market, harmonisation of standards and regulations, redistributive policies, especially where there are differences of development to address, or common policies, in areas such as defence.

Two consequences flow from this model:

- First, the degree of *alignment of countries' collective preferences* differs. It is obviously much higher when common market rules are defined, than for the abolition of tariffs and quotas.
- Secondly, there are great differences in the *institutions* needed to manage the rules that members have set for themselves. If a simple secretariat might be sufficient to watch over the abolition of tariff barriers, the development of common rules and policies obviously requires a more sophisticated institutional framework.

Don't get me wrong: I am not saying that one has to subscribe to one or the other type of regionalism. In fact, these two models should not be seen as alternative choices, but as the two poles of a continuum. Each regional integration association will have to find its own balance between autonomy of its members and their solidarity with each other; between co-operation and competition; between intergovernmental co-operation and supranational institutions. And this equilibrium will always be the subject of intense debate between members.

This is what makes the current debate here in Asia so fascinating: Asia is the current laboratory for regionalism. The idea of an ASEAN-China FTA, for example, would seem to concentrate on organising neighbourhood relations through the elimination of border barriers. Within ASEAN itself, however, we also see elements family ties, which find their expression in elements of "deep integration", such as the Chiangmai currency initiative. The concept of an East Asia Economic "Community" invokes ideas that go beyond simple free trade agreements. No doubt, Asia will mould its very own brand of regionalism which will set it apart both from developments in Europe and in the Americas.

The European experience

But even in Europe, where we can look back at some 50 years of regionalism, things are far from clear-cut. In principle, we have opted for the "happy family" version of regionalism. We have a union, based on values, as enshrined in our charter of fundamental rights, we have a single market, policies for redistribution, and a number of common policies, for instance on trade and competition. We now even have a single currency, the euro, which has become the main trading cash currency for more than 300 million people and which will also play an increasingly important role as an international currency. And like any normal family, we have rows from time to time. But these are eventually overcome in the knowledge that we are bound together by a common project.

Community-building in the EU is far from complete, most obviously in terms of common security and defence, where the EU is only starting to play a role, alongside and in most, but not all cases, within NATO. Or take economic policies: through the process of monetary integration, we have already aligned our collective preferences on monetary policy, but we are still discussing to what extent the euro will also require a closer co-ordination of economic policies between members. This is not to say that we need to align our collective preferences on each and every subject – the EU has managed quite

well so far with very divergent positions of Member States on nuclear energy, for instance, and there is consensus that in areas such as education or social security, each country needs to retain the right to make its own policy choices. This is an expression of the diversity of Europe which is one of its assets.

So where does all this leave us on the multilateralism vs. regionalism debate? The multilateral system embodies the foundation of common rules and principles for interaction in a globalised economy – in a way, the organisation of our “global neighbourhood”. These rules and principles represent the common denominator between WTO members and at Doha, we have agreed to further develop and upgrade this common basis over the next three years. But between 144 members, with their diverse historical, cultural, political and economic background and their distinct aspirations, collective preferences differ quite considerably, and limit the scope for agreement on common rules. These rules are the foundation, not the roof, of the system – but the foundations have to be regularly strengthened, as we continue to build our common future.

This is where I see the added value of regionalism: between countries of the same region which share a common heritage, it is often easier to align collective preferences and to integrate not only markets, but also the flanking policies that are necessary for real Community-building. To put it differently: Regionalism tends to reinforce the co-operative dimension, whereas multilateralism is necessarily more competition-driven.

Interregional co-operation

Into this model, we have to plug in interregional agreements. The Singaporean government has proposed to strengthen the ties between the EU and Singapore through an FTA. Minister Yeo, as one would expect, has made an immensely powerful political and economic case for such an initiative. We are now examining this, and we will certainly be sounding out EU business to provide us with their views. The test that any such agreement would have to pass is clear: first, it has to be WTO-compatible, of course. Second, it has to be “WTO-plus”, i.e. it has to genuinely enhance our multilateral ambitions in the WTO, which are already rather high.

Thirdly, any such initiative must not detract from the pursuit of the Doha Development Agenda in which we agreed to deepen our integration at the global level.

The Doha development agenda

We therefore need to progress on the multilateral route in order to give a sense of direction and equity to globalisation, as we agreed to do in Doha. I am glad that collectively, we were able to move beyond a simple market access round. Without the further development of rules and a major rebalancing of the system in favour of developing countries, we would not be able to tackle the challenge of globalisation. This task cannot be left to regionalism alone, given the global nature of the challenges we face, and given that many countries are left out in the race to regional integration.

Let me pay tribute here to the proactive and decisive role that my friend George Yeo played in pulling off a deal at Doha – he was an untiring bridge-builder between North and South, and his success in achieving this was a vital piece of the jigsaw puzzle.

But of course we cannot rest on the laurels of Doha, for the new Round has a substantial agenda, and a substantial challenge. We face a roller coaster of a ride for the next three short years, but we have to make a top priority of the DDA, and we will. And we want Asia as a key partner in this endeavour. I want to continue the close co-operation with my Asian colleagues – and not just on those issues where our interests coincide, such as market access or geographical indications in the TRIPs agreement, but also in areas where our perceptions still differ: I know that within South East Asia, there are mixed feelings about the inclusion of investment and competition in the new round. But I think that basic rules in these areas, which would leave intact the countries' right to regulate, would give a boost to EU foreign direct investment in Asia and indeed to intra-Asian investment, both of which are below potential. WTO agreements in investment and competition would send the unequivocal signal that Asia – and the rest of the developing world – is back in business and ready to move ahead with confidence. So let's work together over the next months to iron our remaining differences.

Conclusion

What I tried to show was that too much of the current debate about regionalism and multilateralism is simplistic. There are very different models around, and Asia is a hotbed of testing different approaches. The key choice is about the level of integration, and this choice applies to both the bilateral and the multilateral level. I think we need to upgrade our ambitions on both, if we want to harness globalisation. This applies of course also to interregional agreements, where we have to move beyond tariff elimination. Why? Because globalisation inexorably pushes us towards joint policy responses.