



ERSA

Economic Relations between Scandinavia and ASEAN: Issues on Trade, Investment, Technology Transfer and Business Culture.

Edited by Jan Selmer and Tan Loong-Hoe.

Proceedings of the ERSA Symposium Week, October 21–25, 1985, Stockholm, Sweden.

Center for Pacific Asia Studies, University of Stockholm, Sweden
and ASEAN Economic Research Unit, Institute of Southeast Asian Studies, Singapore.



ERSA

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Participants of the ERSA Symposium Week.

Foreword

The political stability and economic dynamism of ASEAN, coupled with the widening horizons of Scandinavian official and business interests, have led to a growing awareness of mutually beneficial contacts in both regions. Indeed, this awareness could have developed even earlier if not for the lack of adequate knowledge relating to business principles and practices in the respective areas. This was a pity as many were the opportunities missed for mutual gain and well-being. Conscious of this, the Rector of the University of Stockholm, Professor Staffan Helmfrid, and the Director of the Singapore-based Institute of Southeast Asian Studies (ISEAS), Professor K.S. Sandhu, met in September 1983 to stimulate research and discussion on ASEAN-Scandinavian economic relations, that is, work that would help to build long-term, stable relations between the Scandinavian and the ASEAN countries, including identification of possibilities for trade and investment.

The joint University of Stockholm-ISEAS project, entitled "Economic Relations between Scandinavia and ASEAN", was designed to extend over several years to enable the completion of a number of specific projects. The first of these projects was the preparation of ten research papers that would provide an overview of economic relations between the two regions, paying special attention to issues relating to trade, investment and problems of technology transfer. The researchers involved were to come from both the ASEAN and Scandinavian countries.

The ten papers were then presented at a research seminar held in Stockholm on 22-23 October 1985. In addition to the researchers involved, participants in the symposium week included other specialists, officials, and businessmen. This mix of expertise and interests allowed for different perspectives on the issues under discussion, thereby giving the researchers new insights and material to be incorporated into their papers. It is these revised papers that form the

basis of the volume that follows. In presenting these papers we very much hope that they will generate further interest in ASEAN-Scandinavian economic relations.

In the meantime we are happy to note that the University of Stockholm, as a part of its long-term and continuing commitment to promoting a better understanding of Asia, has established a Center for Pacific Asia Studies and appointed Dr George O. Totten as its first Director with effect from 1 October 1985.

In closing, we would like to record our appreciation of the assistance we have received from the University of Stockholm, the coordinators of the project on "Economic Relations between Scandinavia and ASEAN", Dr Jan Selmer, Marianne Nilson, and Dr Tan Loong-Hoe and all others who have in one way or another helped in the research, the preparations for the symposium, and the publication of this volume. In thanking all of these and wishing the volume all the best, it is clearly understood that responsibility for facts and opinions expressed in the work that follows rests exclusively with the individual authors, and their interpretations do not necessarily reflect the views or policies of the organizations concerned or their supporters.

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Preface

This volume represents probably the pioneering efforts and tangible outcome emanating from a joint research project involving ASEAN and Swedish scholars. It marks the first phase of a prospective three-year project on the "Economic Relations between Scandinavia and ASEAN" (ERSA). The proceedings of the symposium were conducted at the premises of the University of Stockholm from 21 to 25 October 1985. The symposium week activities included (a) a research seminar open only to a small academic community and (b) a conference with invited guests from Swedish trade and industry, officials of the ASEAN embassies, Swedish government authorities and export promotion agencies, the press and the public. All the papers contained in this volume were presented and discussed in the course of the ERSA research seminar; however, short lecture presentations drawing from some of these research papers were later given at the ERSA conference.

The main idea at the outset of the inaugural year of the ERSA project was to allow the commissioned researchers a relatively wide frame of reference in defining and carrying out their specific topics of research. This would permit innovativeness in analyses and independence of approaches in the process to illuminate the common theme of this joint research enterprise. In addition, this facilitates the division of research work between the Scandinavian and the ASEAN sides and stimulates a complementary and cooperative efforts in mapping the substantive issues for empirical studies. The basic overview and substantive analyses of aspects of the economic relations between the two regions are provided mainly by the ASEAN researchers while the Swedish contributions tend to examine the equally important noneconomic factors underpinning economic relations. Another notable difference between the technical inputs from the two sides is that the ASEAN scholars, with few exceptions, seemed to pursue lines of macrotheory and reasoning founded on their training as economists, while the Swedish participants, having a more varied background, were more inclined to discuss problems at a micro- or organizational level.

This heterogeneity among the participants in the research seminar and their contributions were sometimes bewildering and even frustrating, but proved in the end to produce mutual understanding and

recognition of the value of different research approaches and traditions within the framework of a common theme. Indeed, both regional perspectives are undoubtedly needed to attain an understanding of the fruitful economic relations between Scandinavia and ASEAN.

All ten contributions, regardless of the diversity of analytic approaches used, can be organized coherently into the following sequence of constituent parts: (1) Trade and Investment, (2) Technology Transfer and (3) Culture's Consequences. In the first part, "trade and investment", the overviews of basic patterns and trends as well as analyses of their determinants and implications are provided. This is then followed by the second part dealing with one of the prime motives of creating investment and trade between highly industrialized countries and developing countries: "technology transfer". The third part takes up the common problems arising when culturally (and geographically) distant regions intensify their economic relations and contacts. Inevitably, important cultural consequences must be observed and their implications analysed both in trade relations and especially in direct foreign investment in the ASEAN region.

The ERSA symposium week was concluded with a policy meeting where both coordinating parties judged the first year of the ERSA project to have been a success and hence decided to continue the project into Year II. The venue for Year II ERSA symposium is to be in ASEAN (preferably Singapore). The ERSA theme for Year II is to be: "Socio-cultural and Economic Dimensions of Trade, Investment and Technology Transfer."

The editors wish to take this opportunity to express their deep appreciation to one and all who participated in making this publication possible. Especially the President of the University of Stockholm, Professor Staffan Helmfrid, whose never ending moral support, financial arrangements and practical backing; among other things as a session chairman at the research seminar, made the ERSA Symposium Week into a success. We would also like to acknowledge the indispensable financial support of our external funding organizations FRN, the Swedish Foreign Office and the Swedish Institute and in particular, the valuable contributions of the participants at the October 1985 ERSA Symposium Week.

Jan Selmer & Tan Loong-Hoe

PART ONE:

TRADE AND INVESTMENT

ASEAN-Scandinavian Economic Relations: An Overview*

by Tan Loong-Hoe

I. Introduction

The importance of Scandinavia to the Association of Southeast Asian Nations (ASEAN),¹ and vice versa, is just recently highlighted particularly by Malaysian Prime Minister's "Longest Foreign Tour" focusing on the Scandinavian countries: Denmark, Norway and Sweden. The "thrust of his visit is to promote trade and investment".²

Malaysia's balance of trade with Sweden, Norway and Denmark has always registered a deficit and Prime Minister Mahathir wishes to have these trade imbalances corrected through increasing Malaysia's share in the markets of these countries. (Indeed, market access is probably a more important issue than trade imbalance.) Although it is recognized that the combined population of 17.5 million (mid -1982) in Scandinavia may provide a limited market, it is also believed that what they lack in numbers they make up in terms of greater purchasing power and sophistication in consumer demand. Malaysia is also interested in attracting Scandinavian investments in high-technology and capital-intensive industries which will suitably contribute to its industrialization efforts. These two major concerns of trade and investment in international economic relations in general, and with the countries of Scandinavia in particular, are increasingly also shared by other countries of ASEAN.

Last year, Sweden's Minister of Trade, Mr Mats Hellstrom, and his delegation representing fifteen Swedish industries visited ASEAN.³ Addressing Singapore's need for high-technology industries and high value-added services, he spoke of industrial cooperation to include education and research, food technology, computer innovation, geotechnology, packaging know-how, banking and other fields. Similar concern towards industrial cooperation to suit the development needs of the other ASEAN countries, particularly Thailand and Malaysia where the high-powered delegation also visited, was also articulated.

This paper provides an introduction to the economic relations between ASEAN and Scandinavia highlighting the importance of basic economic factors, policies and practices affecting trade and investment relations. The rest of this paper is organized as follows. Section II discusses the economies of ASEAN and Scandinavia. Section III examines ASEAN-Scandinavian trade relations; while Section IV analyses the nature of Scandinavian investments in ASEAN. Section V takes a different tack by examining selectively the theoretical literature on the interactions between international trade and foreign investment in the attempt to throw more light on or to gain deeper insight into the empirical analyses of trade relations and investment relations treated separately in Sections III and IV. The concluding Section VI will review the major findings of this study and draw out the problems and prospects of ASEAN-Scandinavian economic relations.

II. The Economies of ASEAN and Scandinavia

The five countries in ASEAN and the three countries in Scandinavia seem to share a similar economic philosophy advocating variations of laissez-faire private enterprise. Following the free enterprise market-economic system, they are also open economies stressing international trade and capital flows. For instance, in terms of "degree of openness" (Table 1, item 7) on average, the values for this indicator for these two groups of countries are high i.e. the ratio of the sum of exports and imports to GDP for the Scandinavia countries is about 0.5; while for ASEAN, particularly Malaysia and Singapore they are about 0.9 and over 3.0 (in 1982) respectively. However, there are notable differences between these two groups of countries which will

be discussed later. These differences will appear to be complementary pointing to the possibilities of expanding economic relations (both trade and investment flows) between ASEAN and Scandinavia.

"The ASEAN group have among the strongest economies in the world. Out of more than 80 countries in the period since the oil crisis of 1974, seven of the 10 top performers were in Asia and three of these include... ASEAN countries. The industrialized nations (presumably including the Scandinavian countries) have not done nearly as well in their economic performance, and this fact constitutes the major current economic problem for this region!"⁴

The rapid and high growth rates have been sustained through the 1970s despite the adverse global economic situation jarred by oil shocks and international financial instabilities. The strength and good performance of the five ASEAN economies stem from the rich endowment of natural resources particularly in Malaysia, Indonesia and Thailand; and the relatively successful strategy of export-promotion development, especially for Singapore.⁵ The rapid growth of the ASEAN economies has also rendered them more susceptible to instability, which will exert some effect on the ASEAN countries' future trade strategies.

As indicated in Table 1; items 1-6, the individual countries of ASEAN show considerable diversity of natural, physical and human resource endowments; as well as variations in economic structure. With a population of about 150 million and a land area of about two million sq.km. Indonesia accounts for the largest share of ASEAN in terms of area (about 60 percent) and population (about 50 percent). However, it has the lowest per capita output level among the ASEAN countries. At the opposite end of the spectrum, Singapore, with the smallest population of about 2.5 million, is blessed with the highest per capita income. Malaysia, the next most affluent ASEAN country after Singapore, has about 14 million people with a similar land area as the Philippines. The Philippines and Thailand are very similar with regard to population size, per capita GDP, and territorial size.

Historically, the ASEAN economies, with the exception of Singapore, supplied the international economy with industrial raw materials and foodstuffs. Singapore played the role of service centre for the former British Empire in East Asia and as an entrepot for the neighbouring countries of Southeast Asia. Hence, it was well-integrated with British Malaya, Netherlands, East Indies and independent Thai-

land. Plantation and mine workers in the region, Malaya in particular, received their food supplies from Thailand. But, otherwise during the colonial era, the five economies in present day ASEAN had minimal economic ties with one another. Singapore and Malaya were oriented towards Britain; Indonesia and Thailand, towards the Netherlands and Europe; and the Philippine foreign economic relations were strongly oriented toward the United States.

The past decades have witnessed a notable transformation of these five economies. Each country has experienced rapid growth and structural changes to a different degree and extent. Singapore has grown into a modern manufacturing and financial centre serving world-wide market rather than just Southeast Asia. Its traditional enterpot trade in resource-based products, while it remains significant, has declined in relative importance over the years. Indonesia, Malaysia, Philippines and Thailand continue to be strongly specialized in the export of primary commodities. The major commodities of ASEAN are rubber, palm oil, crude oil, tin, rice, copra, sugar and maize.

All the ASEAN countries, however, have been industrializing at a rapid pace, with value added in the manufacturing sector ranging from 13 to 26 percent in 1982 with an average close to 20 percent. (Table 1 item 4). Between 1960 and 1982, Indonesia experienced the most notable increase in industrial performance. Its share of industry in total output over the period increased from 18 percent to 39 percent. The increasing share of industry and the corresponding decreasing share of agriculture in all the ASEAN countries indicate that considerable structural changes in these economies have occurred in the last two decades.

The nature of resource endowments and economic constraints can probably account for the pattern of productive activities in ASEAN. Rich in natural resources, (petroleum, minerals and forest resources) with its teeming population mostly crowded in Java, Indonesia has to develop its resources for export. With the foreign exchange it pays for the imports of food^{5a} to feed its huge population and capital goods for its development efforts. Singapore, a resource-poor, urbanized, and high-population density city-state most appropriately takes full advantage of its strategic location nurturing its human resource to serve the global markets in trading, manufacturing and financial and other service activities. With relatively low population-land ratios, Thailand and