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# Agricultural trade relations between ASEAN and the EU

Jyrki Niemi

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TUTKIMUKSIA 223

# **Agricultural trade relations between ASEAN and the EU**

Jyrki Niemi

Selostus: ASEAN-maiden ja EU:n väliset  
maatalouskauppasuhteet

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## Foreword

The economic relations between the Association of Southeast Asian Nations (ASEAN) and the European Union (EU) are attracting increasing attention of policy-makers, scholars and analysts, as well as the business community. This research report attempts to contribute to a better understanding of the agricultural trade relations between ASEAN and the EU as well as their prospects. Trade has always been the driving force in shaping the relations between these two regions. Agricultural trade and trade policy occupy a special niche in the discussion and analysis of bilateral trade relations. The successful completion of the Uruguay Round of the GATT negotiations in 1994 and the coming WTO round have kept the agricultural trade issues high on the international policy agenda.

Agricultural trade relations between ASEAN countries and the EU have been studied very little. There is, however, a growing need for information on and analysis of these issues. Recognising this fact, the Agricultural Economics Research Institute (MTTL) has undertaken a research project on ASEAN-EU agricultural trade relations. In this report, several themes and issues of these relations are examined from both the ASEAN and European perspective. There can, of course, be no question of covering these matters exhaustively within the covers of a single volume. Interim results of an ongoing research endeavour are presented in this report. We anticipate a further publication from the second phase of the project that is yet to follow.

The report has been written by Jyrki Niemi during his stay at the Malaysian Agricultural Research and Development Institute (MARDI) in Kuala Lumpur. The facilities and assistance offered by MARDI have been essential for successfully completing this research. Acknowledgements are due to Director Samion Haji Abdullah and Assistant Director Tengku Mohd. Ariff Tengku Ahmad. The institute also expresses its gratitude to the Ministry of Trade and Industry in Finland and the Tiura Foundation for the resources they have awarded for this study.

Helsinki, February 1998

Lauri Kettunen

## AGRICULTURAL TRADE RELATIONS BETWEEN ASEAN AND THE EU

JYRKI NIEMI

**Abstract.** The objective of this study is to examine and explain the recent pattern, composition, and trends in ASEAN-EU agricultural trade relations. Furthermore, the study attempts to investigate the major trade policies and practices influencing the agricultural trade flows between the two regions. Two-way agricultural trade between ASEAN and the EU was worth ECU 7.2 billion (USD 9 billion) in 1996. Trade with the EU accounts for 14% of the total ASEAN agricultural trade. On the EU side, trade with ASEAN accounts for 6.5% of its total agricultural trade. During the six-year period between 1990 and 1996, ASEAN agricultural exports to the EU rose from ECU 4.3 billion to ECU 5.5 billion (about USD 7 billion), showing an average annual growth rate of 3.9%. ASEAN agricultural imports from the EU rose from ECU 0.9 billion to ECU 1.7 billion (about USD 2.2 billion) over this time period. The trend rate of growth per year was 11.0%. Major agricultural exports from ASEAN to the EU in order of export value include vegetable oils, natural rubber, fish and crustaceans, and vegetables and fruits. On the other hand, the top four commodity groups imported to ASEAN from the EU are alcoholic beverages, dairy products, meat and meat preparations, and cereals.

The EU protection against agricultural imports from ASEAN countries has generally taken three forms. First, domestic suppliers have been protected through variable levies and other interventions on products such as sugar and rice. Second, quantitative restrictions have been imposed on imports of animal feed, such as cassava, which are substitutes for grain. Third, discriminatory measures against ASEAN tropical products – such as cocoa, palm oil, fruits, tobacco, and coffee – have, to some extent, restrained the growth of export revenues in ASEAN countries. The third point relates to the EU policy favouring certain trading blocs, such as the African, Caribbean, and Pacific (ACP) countries. The conclusion of the Uruguay Round agreement will result in the reduction of these restrictive measures for some products, while for others access will still remain relatively difficult.

In the ASEAN countries, import protection structures are more importantly identified with tariff structures. This is because tariffs, rather than other import control measures, are generally more broadly applied across the import categories. During the Uruguay Round negotiations, many tariffs and a number of import licensing requirements in ASEAN countries were reduced. However, a large number of barriers are still in force. Thailand and the Philippines, in particular, have relatively high average tariff levels against agricultural imports.

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**Index words:** agricultural trade, trade policy, ASEAN, EU

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# 1. Introduction

The economic dynamism of the Association of Southeast Asian Nations (ASEAN) with the widening horizons of the business interests of the European Union (EU), has led to a growing awareness of mutually beneficial contacts in both regions. The rapid growth experienced by ASEAN economies in the last decades has meant that the region has become the focus for the world trade to an increasing extent. This promises for more extensive economic relations between ASEAN and the EU. The importance of ASEAN for the EU, and vice versa, was recently highlighted by the first Europe-Asia Meeting (ASEM) on March 1996 in Bangkok, Thailand. The ASEM agreed on the enhancement of bilateral economic co-operation between Asia and Europe through the facilitation of trade and investment and exchanges of technology.

It is the area of trade that entails immediate promises for wider economic relations between the countries of ASEAN and the EU. On the side of ASEAN, the economies are highly dependent on the industrially advanced countries both as markets for exports and as sources of imports of capital goods. This is because the industrial countries are traditionally the major consumers of ASEAN's primary commodities, and more recently, the main market outlets for ASEAN's growing manufactured exports as well. In general terms, the export structure of ASEAN, dominated by geographic-specific primary commodities and low-cost manufacturers, is inherently complementary with the export structure of the EU, based on high-quality foodstuffs and specialised machinery and instruments.

The object of this study is to examine and explain the recent pattern, composition, and trends in ASEAN-EU agricultural trade relations. Agricultural trade and trade policy occupy a special niche in the discussion and analysis of bilateral trade relations. The pattern, composition, and trends of ASEAN-EU agricultural trade is the product of various factors, of which trade policies are the most important ones. Therefore, the study also attempts to investigate the major trade policies and practices influencing the agricultural trade flows between the two regions. The main thrust of the discussion will be on factors distorting trade, more specifically, restrictions on imports such as traditional tariffs and non-tariff barriers.

Foreign trade of agricultural products is closely linked to the domestic agricultural policies followed by the countries of ASEAN and the EU. All these countries channel special attention and public expenditure to their food and agricultural sectors, sometimes to farmers and sometimes to consumers. This often takes the form of deliberate action to tip the scales of the domestic or international market in favour of local producers and consumers.

Although the main concern here is on bilateral trade relations, the factors causing trade distortions between ASEAN-EU agricultural trade arise in the context of global trade relations, which may require multilateral negotiation



and/or reform of certain domestic agricultural policies. There has been considerable discussion about the foundations of agricultural policy all over the world during the last decade. The successful completion of the Uruguay Round of the GATT negotiations in 1994 and the coming WTO round have kept the agricultural trade issues high on the international policy agenda.

In summary, this study makes an attempt to answer the following three questions: 1) what are the pattern, composition, and trends in ASEAN-EU agricultural trade; 2) what are the major trade policies and practices influencing agricultural trade flows between these two regions; 3) what are the effects of agricultural trade policies on the trade flows for specific products between ASEAN and the EU.

However, before attempting to answer all these questions, chapters two and three present an economic overview of the ASEAN region as a whole; discuss the recent economic growth and development prospects in each country; and assess the role of agriculture and agricultural trade in the national economies. This will also involve tracing the development of ASEAN from its conception some 30 years ago up to the present day, and explaining, at least in outline, the basic rules and provisions of ASEAN co-operation. It is important to have a basic understanding of how the economies of ASEAN have developed over the years and evolved into what they are today as well as what are ASEAN's overall economic relations with the EU in terms of trade and investment.

In the beginning of chapter four, the general trends and patterns of the agricultural trade between ASEAN and the EU countries are examined. This is followed by a detailed investigation of the characteristics of ASEAN-EU agricultural trade, disaggregated by product groups. Chapter five then examines the structure of agricultural trade protection in ASEAN and the EU. It provides insights and analyses of the principles and implementation of agricultural trade policies of ASEAN and the EU in relation to each other. In particular, it analyses the major factors that have influenced the EU agricultural trade policy towards ASEAN countries as well as draws some conclusions. Finally, chapter six summarises the findings of the study.

## **2. The ASEAN regional integration and relations with the EU**

Economic relations between the countries of ASEAN and the countries of the EU have a long history. Merchant adventurers, colonialists, traders, and foreign investors from Europe have in the past two centuries brought about a continuous exchange of goods, interests, and ideas with Southeast Asia. In more recent times, mutual co-operation among Southeast Asian countries, on the one hand, and the European countries, on the other, have led to the creation of two

economic groupings, ASEAN and the EU, dedicated to the idea of mutual benefits through trade (Simandjuntak 1997).

This chapter provides an overview of the efforts to promote regional integration among ASEAN nations as well as co-operation between ASEAN and the EU. The first part discusses the current and expected future state of preferential trade arrangements and the impact of these in the ASEAN region. The second section highlights the increasing importance of ASEAN economies for the EU, and vice versa, from a trade, investment, and strategic perspective.

## **2.1. The origins and development of ASEAN**

The Association of Southeast Asian Nations (ASEAN) was founded in 1967, mainly out of concern for political security in Southeast Asia. Today, the political aspect of the association remains significant, but other dimensions of the organisation and its activities have increased in relative importance (Meneyanathan and Haron 1987, DeRosa 1995). These activities include the pursuit of economic arrangements to promote regional integration and, in particular wider intra-bloc trade. ASEAN, originally made up of five very different but geographically close countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), was by no means the first attempt at regional organisation in Southeast Asia, but in the post-colonial years it has proved the most durable. Brunei joined the Association in 1984 and Vietnam in 1995. Laos and Myanmar became official members of the Association in July 1997.

During the first decade of ASEAN's existence it sometimes seemed uncertain whether the organisation would survive at all. Between 1967 and 1976, ASEAN clearly experienced a phase of inertia (Harris and Bridges 1983). ASEAN countries viewed themselves as being economic rivals, competing to export raw materials to the same industrialised markets and competing to attract foreign capital, technology transfer, and management know-how. Consequently, individual ASEAN members were suspicious of ASEAN initiatives; they commonly view them as being threats to their newly-won political sovereignty (Edwards and Skully 1996).

From 1976, ASEAN experienced a sudden surge in momentum. The Bali Summit in February 1976 led to the signing of the Declaration of ASEAN concord, which affirmed the goals and role of ASEAN for economic co-operation. Furthermore, the ASEAN system of preferential trading arrangements (PTA) was signed in February 1977. This was a mechanism through which intra-ASEAN trade could be liberalised at a pace that was acceptable to all the member countries (Edwards and Skully 1996). Since its inception, the PTA sought to expand intra-ASEAN trade by reducing tariff and non-tariff barriers to goods produced in the member states. By stages it evolved into a mechanism for negotiating trade preferences among the member countries (DeRosa 1995). Tar-

iff preferences were granted on a product-by-product basis, and each member country was expected to offer a set number of tariff preferences each year.

The PTA scheme enjoyed very limited success. All empirical studies on the impacts of the scheme on intra-regional trade confirm that only negligible increases in intra-bloc trade were achieved during the 1980s. The PTA did not progress because of its narrow commodity coverage and half-hearted nature of the implementation process (Chee Peng Lim 1997a). Progress was particularly slow 'in the crucial areas of trade liberalisation and industrial co-operation, where perceptions of national interests are most positively engaged' (Chng 1985).

Over the years, proposals were made by various quarters for closer trade relationships through a scheme of economic integration with the ultimate aim of creating an ASEAN common market (Meneyanathan and Haron 1987). During the early 1990s, the objective of increasing regional integration among ASEAN economies received new impetus from growing bilateralism of the major industrial countries and the uncertainty that surrounded the successful outcome of the Uruguay Round. In January 1992 the ASEAN heads of state signed an agreement to establish the ASEAN Free Trade Area (AFTA).

Under this new trading arrangement, beginning in 1995, each ASEAN country will seek to reduce the level of its tariffs on imports of manufactured goods as well as on highly protected categories of agricultural and other natural resource-based commodities, to a range of 0 to 5 percent by the year 2003<sup>1</sup>. The plan also calls for simultaneous elimination of non-tariff barriers to intra-ASEAN trade. The liberalisation of intra-ASEAN trade under the AFTA plan is to be accomplished following schedules of preferential tariff reductions to be announced annually by each country. The main mechanism for the actualisation of AFTA is the common effective preferential tariff (CEPT) scheme. During the first five years, tariff levels are to be reduced substantially. Then, during the remaining three years of the agreement, each member country will seek to reduce tariff levels to a range of 0 to 5 percent.

The primary rationale for the new free-trading area is the need perceived by the ASEAN leaders for the Southeast Asian countries to move, for international competitiveness reasons, toward a degree of regional economic integration more closely matching that of other regional groupings of industrial and developing countries (Ariff 1994, DeRosa 1995). Like other regional trade arrangements, AFTA is expected to create a larger regional market in Southeast Asia, resulting

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<sup>1</sup> In January 1992, the ASEAN heads of state signed an agreement to established the ASEAN Free Trade Area (AFTA) beginning in 1993 and to implement it fully by the year 2008. The commencement date was finally pushed to January 1995 in the ASEAN meeting in Thailand in late 1994. At the same time it was agreed that the implementation of AFTA be completed five years ahead of schedule, in the year 2003.

in increased trade flows and intra-regional investment. It is expected that within the enlarged, protected regional markets the expansion of output in various industries might be accompanied with economies of scale – lower costs per unit of production, translating into lower prices.

However, AFTA remains at its early stages, and some sceptics believe it will achieve little in the long run. This scepticism is based on the fact that AFTA does not address many of the barriers that impede economic integration (Edwards and Skully 1996). Compared to NAFTA and Europe 1992, ASEAN did not formulate a comprehensive and detailed programme of trade liberalisation, complete with rules and procedures. The hidden nature of many existing non-tariff barriers, in particular, makes their identification, and negotiation required in order to remove them, extremely challenging.

Furthermore, ASEAN currency crisis in 1997 may force the region to reconsider the full implementation of AFTA. The currency crisis will increase the disparities in economic development in ASEAN by the turn of the century and force the weaker economies to use tariff levels to protect their inefficient industries.

## **2.2. The nature of ASEAN-EU economic relations**

### **2.2.1. ASEAN-EU co-operation: a brief history**

The European Community, which later became the European Union (EU), was the first dialogue partner to established informal relations with ASEAN in 1972. Prior to 1972 there was little mutual interest in developing formal economic ties between the EU and ASEAN as regional entities. Bilateral ties existed between countries, and diplomatic ties with the Community were established by individual ASEAN countries. Negotiations on the entry of Britain into the Community generated the ASEAN interest. The Special Co-ordinating Committee of ASEAN (SCCAN) was formed in 1972 to handle ASEAN-EC negotiations, with a view to prevent a fall in Malaysian and Singapore exports to the United Kingdom as Commonwealth preferences were phased out and Britain adopted the Community's common external tariffs and the GSP scheme. Although British accession affected directly only Malaysia and Singapore, the provisions of the Joint Declarations of Intent (JDI) annexed to the Accession Treaty were also extended to Indonesia, the Philippines and Thailand.

A new milestone in ASEAN-EU economic relations was reached with the signing of the ASEAN-EU Co-operation Agreement in March 1980. This was the first formal agreement between ASEAN and the EU. Even if it contained little more than expressions of principle and intent as far as co-operation was concerned, it provided a formal framework within which consultations could take place. Over time, a plethora of initiatives and supportive schemes helped

broaden points of contact and areas of mutual assistance between ASEAN and the EU (Dent 1997).

The economic relationship has gradually shifted from its historical “donor-recipient” basis to that of more equal partners. This has been warranted by the rapid upgrading of ASEAN techno-industrial capabilities and subsequent structural changes in the group’s exports to Europe (Simandjuntak 1997). Efforts to move beyond the current provisions encoded within the 1980 Agreement have, however, been principally thwarted by the ongoing dispute between Portugal and Indonesia over human rights issues in East Timor (Dent 1997).

The recent impetus to the strengthening of ASEAN-EU relations was provided by the Asia-Europe initiative, which led to the first Asia-Europe Meeting (ASEM) in Bangkok in 1996. It initiated a process of dialogue between the EU and Asia – albeit of an “informal” structure – and set the basis and network for future relations. The ASEM agreed on the enhancement of bilateral economic co-operation between Asia and Europe through the facilitation of trade and investment and exchanges of technology. The second ASEM will be held in the United Kingdom in 1998 to review the progress made on the various decisions made at the Bangkok Meeting and to chart future directions in Asia-Europe co-operation, to be followed by the third ASEM in the year 2000.

ASEAN is still a much smaller economic grouping than the EU. The seven ASEAN member countries’ total gross national product (GNP) was USD 443 billion in 1994, and they have a combined population of 412 million. Despite a smaller population of 370 million, the EU, with fifteen member countries, is an economic giant with a combined GNP of about USD 6,862 billion (fifteen times that of ASEAN). Likewise, in per capita GNP, ASEAN’s average of USD 1,075 in 1994 is a fraction of the EU’s USD 18,546.

## **2.2.2. Trade between ASEAN and the EU**

Trade is the cornerstone of the ASEAN-EU relations. The present volume of two-way trade between ASEAN and the EU is of the order of ECU 79 billion (about USD 100 billion; 1996 figures), nearly six times the volume of trade in 1980, when the EC/ASEAN co-operation agreement was concluded. Overall, the EU ranks third among ASEAN’s trading partners in total and second as far as imports are concerned. Japan and the US remain the major trading partners of the ASEAN countries. The share of these two countries in ASEAN trade – as reflected by the sum of exports and imports – averaged 40% during the period 1990-1996. The EU accounted for about 14% of ASEAN’s total trade over the same period.

The EU has more trade with ASEAN than with the seventy developing countries linked to the EU through Lome Convention. By comparison, the EU’s trade with Japan was worth ECU 88 billion (USD 112 billion) in 1996. Its trade

Table 2.1. ASEAN exports to the EU.

	Value in million ecus				Share of exports to the EU, %			
	1980	1985	1990	1996	1980	1985	1990	1996
Brunei	3	40	223	263	0.02	1.1		
Indonesia	1,189	1,939	2,865	7,105	6.9	8.0	14.2	18.1
Malaysia	1,773	2,813	3,608	9,430	17.6	15.6	14.5	15.2
Philippines	813	1,229	1,258	3,347	19.6	20.3	19.6	20.7
Singapore	1,846	2,111	4,685	9,253	12.8	10.6	10.0	9.3
Thailand	1,233	2,284	3,914	7,474	26.0	22.6	21.2	16.8
Vietnam	10	36	79	1,438	4.1	3.9	4.2	27.6
ASEAN	6,867	10,452	16,552	38,463	12.5	10.9	14.0	14.0

with the US during the same year was ECU 227 billion (USD 287 billion). The EU had a growing, unfavourable balance of trade with ASEAN from 1980 to 1994, but the trade balance was reversed from an annual deficit of ECU 2.0 billion in 1994 to a hefty surplus of ECU 2.4 billion in 1995. In 1996 the EU continues to enjoy a remarkable trade surplus of ECU 2.3 billion.

As shown in Table 2.1, ASEAN exports to the EU have increased considerably both in absolute and relative terms. In 1996, ASEAN exports to the EU markets amounted to ECU 38.5 billion (USD 49 billion). Over the six years to 1996, ASEAN exports to the EU increased at a trend rate of 14.1 percent. By the same token, the ASEAN region has been one of the largest, most consistent growth markets for both world and EU exports throughout the past 3 decades. Even during the 1980s slowdown in global income and trade expansion, import growth in ASEAN countries was quite rapid relative to most other regions of the world. ASEAN imports from the EU amounted to ECU 40.7 billion (USD 52 billion) during the same year, showing an average annual growth rate of 15.5

Table 2.2. ASEAN imports from the EU.

	Value in million ecus				Share of imports from the EU, %			
	1980	1985	1990	1996	1980	1985	1990	1996
Brunei	53	162	380	1,058	20.2	16.5		
Indonesia	1,252	2,269	2,837	6,969	16.1	16.8	16.5	20.6
Malaysia	1,035	1,563	2,496	7,456	15.8	14.0	10.1	12.0
Philippines	591	632	1,246	3,232	9.9	8.9	12.2	11.8
Singapore	1,713	3,812	5,682	12,246	11.2	11.5	10.5	11.8
Thailand	726	1,637	3,409	8,468	13.4	12.6	12.8	14.7
Vietnam	140	70	121	1,294	14.8	2.9	5.6	12.0
ASEAN	5,510	10,145	16,050	40,722	12.5	12.7	11.8	13.5

per cent during 1990-1996 (Table 2.2).

The trade with the EU now represents about 14.0% of total ASEAN exports and 13.5% of total ASEAN imports. These export and import proportions have remained fairly constant over the past few years, implying that ASEAN's trade with the EU has been increasing in line with total ASEAN trade, which has been growing very rapidly by world standards. On the EU side, exports to ASEAN now account for 6.5 percent of its global exports: a significant jump from the 4.1 percent share of 1990. Imports from ASEAN have also increased more quickly than those from elsewhere during 1990-96, thereby taking imports from ASEAN from 3.8 percent to 6.3 percent of total EU imports.

The overall trend of ASEAN-EU trade relations as discussed above hides important variations in the trade performance of individual countries. In 1990-96, among the ASEAN countries, Singapore and Malaysia are the largest exporters to the EU markets; together they are responsible for about 50% of total ASEAN exports to the EU. If judged by the share of their exports directed to those markets, the EU markets are the most important to the Philippines and Indonesia. In 1996 exports to the EU markets represented almost 21% of total Philippine exports. For Indonesia, the corresponding figure was 18%. For Singapore, the EU was the least important in this sense, taking only some 9% percent of her total exports. Overall, the UK and Germany have been the most important destinations for ASEAN exports, absorbing almost 50% of the total ASEAN exports to the EU.

Singapore has long been the largest importer from the EU, closely followed by Thailand and Malaysia. Imports from the EU are significant for all five economies, ranging from about 12% of all imports in the case of Philippines and Singapore to nearly 21% for Indonesia (1995 figures). Germany and France have gradually increased their shares of ASEAN trade, largely at the expense of Britain. Currently, Germany is clearly the most important exporter to the ASEAN market, being responsible for almost 30% of total EU exports to ASEAN countries.

An analysis of the commodity structure of imports and exports by major subgroups can provide further insights into ASEAN trade relations with the EU (Table 2.3). The commodity composition of ASEAN trade strongly reflects the structure of the ASEAN economies. Consistent with expectation that the natural-resource-rich Southeast Asian countries export a larger proportion of agriculture-resource based products, ASEAN as a whole exported well over three times as much agricultural products as the EU in 1995. Therefore, ASEAN enjoyed a remarkable trade surplus of ECU 3.7 billion in agricultural product trade with the EU.

However, over the period 1980-95, the commodity structure of ASEAN-EU trade has undergone marked changes. This is particularly true in the case of ASEAN's switch from exporting mainly primary commodities to manufactured

products, reflecting the shift from principally agriculture exporting countries to that of more diversified economies. Table 2.3 shows that ASEAN exports of manufactured goods to the EU increased from 35% in 1980 to the present 80% of total exports, while agricultural exports decreased from 48% to the present 16%. On the EU side, agricultural resource-based products make up only 4.4% of total EU exports to ASEAN.

The total agricultural trade between ASEAN and the EU countries rose from ECU 3.6 billion in 1980 to ECU 7.0 billion by 1995. The trend rate of growth per year over the period 1980-95 was 4.4%, which was significantly behind the rise of 12% in overall trade. The leading export items from ASEAN are now electrical and electronic products, parts and components, telecommunications equipment and parts, parts and accessories for office machines, resource-based products of wood, petroleum and petroleum products, textiles and garments, and processed food products.

In terms of ASEAN imports from the EU, Table 2.3 reveals ASEAN's continuing dependence on manufactured goods from the EU. In aggregate, the composition of ASEAN imports from the EU has remained about the same over the period 1980-96. These imports consist largely of sophisticated electric and electronic equipment, transport equipment (especially passenger vehicles), and chemicals. Allowing for fluctuations, they account for about 65-70% of all EU exports to the ASEAN market since 1980.

*Table 2.3. Composition of ASEAN-EU trade.*

	Exports to the EU				Imports from the EU			
	Value		Share, %		Value		Share, %	
	(million ECU)				(million ECU)			
	1980	1995	1980	1995	1980	1995	1980	1995
Total	6,857	34,474	100	100	5,369	36,856	100	100
Agricultural products	3,296	5,387	48.1	15.6	321	1,630	6.0	4.4
- Food and live animals	1,296	2,351	18.9	6.8	195	983	3.6	2.6
- Beverages and tobacco	106	107	1.6	0.3	106	486	2.0	1.3
- Crude materials	1,447	1,642	21.1	4.8	10	136	0.2	1.4
- Oils, fats and waxes	447	1,288	6.5	3.7	10	25	0.2	0.1
Other raw materials	109	287	1.6	0.8	-	381	-	1.0
Fuel products	220	254	3.2	0.7	50	303	0.9	0.8
Manufactured goods	2,447	27,610	35.7	80.1	4,535	33,194	84.5	90.1
- Chemicals	35	701	0.5	2.0	681	3,627	12.7	9.8
- Classified by materials	951	3,360	13.9	9.8	678	4,724	12.6	12.9
- Machinery and transport	770	15,873	11.2	46.0	2,851	21,962	53.1	59.6
- Miscellaneous	691	7,675	10.1	22.3	325	2,880	6.1	7.8
Other goods	785	936	11.4	2.7	463	1,347	8.6	3.7



### **3. Economic prospects and role of agribusiness in ASEAN countries**

This chapter provides an account of the different features of the ASEAN economies, and it is divided into two parts. Part one is a description of the general aspects of the economic situation and role of agriculture in the ASEAN region as a whole. The second part concentrates on brief country profiles, with an emphasis on recent developments in agriculture and food industry. Therefore, this chapter as a whole provides the context for the detailed examination of agricultural trade relations between ASEAN and the EU that follows in chapters 4 and 5.

#### **3.1. Overview**

The ASEAN countries have been among the fastest growing countries in the world throughout the past two decades. Since the early 1980s the ASEAN countries have been restructuring their economies by adopting economic policies that have fostered exports and inward foreign investments. Structural change has transformed their economic profiles from exporters of agricultural commodities and unprocessed goods to exporters of processed agricultural products and light manufactured goods.

As a group, the ASEAN-7 economies have grown well above the world average – thus confirming the popular perception of the dynamism of the region. The growth rates of the gross domestic product (GDP) of ASEAN countries have consistently exceeded those of the EU countries in the past twenty-five years or so. In the period between 1970 and 1996 the economies of Indonesia, Malaysia, Singapore, and Thailand grew more than twice as fast as the EU economies on average. Over 1990-96, ASEAN-7 as a group grew at a rate of 7.5%, while the growth rate for the EU-15 over the same period was 3%.

Economic growth has affected agricultural markets in several ways. It has raised the demand for food and led to changes in the dietary pattern, away from food grains like rice, wheat, and barley towards livestock products and other foods. This phenomenon has been observed in all ASEAN countries over the recent decades. With limited agricultural resources, ASEAN economies must import feed grain and protein meal to support the expansion of their livestock industries. More recently, production constraints have been overcome by increased meat imports (Rae et al. 1992).

There are, however, signs that the rapid growth in ASEAN is running out of steam (at least temporarily), as argued earlier by some economists (Krugman 1994, Young 1995). The year 1997 saw mayhem in the stock markets, falling currencies, and a loss of confidence region-wide. This financial crisis started in

Thailand and spread throughout Southeast Asia and then from Southeast Asia to Northeast Asia. As time has passed, the hidden roots of the crisis have become more visible. The ASEAN economies had – and have – powerful export-oriented real economies. But these strengths masked genuine weaknesses. Fast growth encouraged over-dependence on debt. It also raised the price of land, inducing massive debt-financed investment in poor-quality projects. Where exchange rates had been fixed, much of this borrowing was in foreign exchange. Such rickety financial structures can survive only as long as rapid growth and stable exchange rates prevail. Once these underlying conditions disappear, lenders find their collateral impaired, and the sale of assets by bankrupt borrowers reduces its value further.

The inevitable slowdown – and the measures needed to ensure it does not mutate into a recession – mean hard times for the region's economies. Thailand, the epicentre of the quake, will be most severely affected. Other ASEAN economies, especially Indonesia, the Philippines, and Malaysia will also get hit. However, all growth prospects of these economies have not in reality suddenly disappeared. ASEAN will continue to grow, but not at the same phenomenal rates. Furthermore, there are clear indications that ASEAN exports, including agricultural exports, will perform much better in the coming years as a result of weaker currencies. At the same token, weaker currencies will likely serve to reduce imports.

ASEAN countries (with the exception of Singapore) are well endowed with natural resources, both land and mineral. Agriculture has, therefore, remained one of the key sectors of the ASEAN economies, in spite of the evident success of the manufacturing sector during the last decades. Agriculture accounts for 12 percent of output and 46 percent of employment, and plays a major role in reducing rural poverty. However, the importance of the agricultural sector varies greatly from one ASEAN country to another. In the city-state Singapore, agriculture and primary production are of little significance in the economic structure, except with respect to the trade in primary commodities. The share of agriculture of the gross domestic product (GDP) is only 0.2 percent. At the other end of the spectrum are Vietnam and the Philippines, where agriculture accounts for 33 percent and 21 percent of the GDP, respectively.

Thanks to their location and climatic conditions, ASEAN countries support the cultivation of a number of tropical crops and agricultural products. Rice is the mainstay of the Southeast Asian diet and the commodity most subject to direct government policy intervention. About 37% of cultivated land is under rice. Other food commodities produced include such staples as wheat, corn, vegetables, and sweet potatoes. But they also include such primarily exported products as sugar, tea, spices, oilseeds and vegetable oils, fruits and cassava. With the possible exception of some fresh fruits, and vegetables, the principal agricultural products of the ASEAN countries are all tradeable (Chiew 1997).

While rice remains the staple food in the region, ASEAN countries have not been large or growing markets for rice. With the exception of Thailand and Vietnam, all other countries in ASEAN have traditionally been rice deficit countries. As a region, ASEAN is a net exporter of rice and Thailand is the world's largest rice exporter, supplying about one-third of the total world market in normal years.

Even if rice is the principal crop in all ASEAN countries, significant production of other cereals is also found in the region. Wheat is the second most important food grain in ASEAN region, and one of the region's largest agricultural import product. Wheat still plays a subsidiary role to rice in Southeast Asian diets, but its use is expanding in many countries as higher incomes and urbanisation create preferences for convenient, wheat-based foods. Rising incomes are strongly correlated with shifts from rice to wheat consumption (Giordano 1993).

Livestock production has also expanded rapidly in all ASEAN countries during the recent years. The industry is driven largely by changes in meat demand associated with rapid increase in incomes and changing tastes, a pattern not dissimilar to other industrialised and newly industrialising nations. Production is centred on poultry and pork, although in some ASEAN countries (Malaysia) considerable policy emphasis has been given to the beef and dairy sectors in order to decrease the dependence on imports. Even if most of the livestock production is consumed domestically, rapid expansion has made both Thailand and Malaysia net exporters of livestock products, primarily poultry (Giordano and Landes 1993).

Rising meat production has resulted in equally rapid growth in coarse grain imports to ASEAN region, where the capacity to produce feed grains is limited. Grain and protein demand for livestock feed are projected to rise along with the growth of the livestock industry. Principal feed grain imports are corn, soybeans and soybean meal, and occasionally, wheat. Imports of meat by ASEAN countries are relatively small, but these are also expanding, beef being the most important imported meat.

The production of agricultural raw materials is generally of less relative importance in volume terms than food commodities. However, ASEAN region plays a major role on the world markets for some agricultural raw materials. With regard to exports, natural rubber is ASEAN's single most important raw material. Natural rubber latex is further processed into several forms: sheet, latex concentrate, technically specified rubber, and crepe. The rubber producing countries, Thailand, Indonesia, and Malaysia, in that order, together contribute around 80% of the world's natural rubber supplies. Small holders dominate the

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<sup>2</sup> Malaysian natural rubber production was originally dominated by plantation-type cultivation. However, by 1996 about 72% of Malaysian production came from smallholdings.

cultivation of natural rubber in all producing countries<sup>2</sup>. Smallholders account for more than 80% of the area under rubber. In the 1980s and early 1990s, the production in Indonesia and Thailand has expanded rapidly, while that of Malaysia has contracted.

The two vegetable oil products of considerable importance to the region are palm oil and products as well as coconut oil and products. Both commodities are used for edible and industrial purposes. Together, Malaysia and Indonesia dominate the production of palm oil in the world, accounting for more than 60% of global production. The Philippines is the major producer and exporter in the market of coconut oil, but Indonesia is emerging as a substantial exporter as well. The main coconut products that currently enter the international commodity markets include copra, coconut oil, copra meal, and desiccated coconut.

## **3.2. Country profiles**

### **3.2.1. Indonesia**

Indonesia is the largest nation among ASEAN with a population of more than 200 million. With an average income per capita of USD 1,086 in 1996<sup>3</sup>, Indonesia is not a rich country. The World Bank places Indonesia among the “lower middle income economies”. Yet, Indonesia surely plays a significant role in the international trade of Southeast Asia and beyond. The size of the country is one factor. Also, the rapid growth the Indonesian economy has accomplished since the change in government and economic policy in 1966 is of great importance (Beals 1987).

Indonesia has achieved steady and impressive growth since the early 1970s, thanks to a generally conservative policy of growth based on the country’s natural resources – mainly the processing of agricultural raw materials and the export of primary commodities. The government’s program of deregulation and policy reform has spurred economic growth and the development of a diversified, dynamic private sector. The reform program, prompted mainly by the collapse of oil prices in the early 1980s, has further liberalised the trade and finance and encouraged foreign investment, helping the economy grow at an average Gross Domestic Product (GDP) growth rate of around 7% between 1985 and 1997. However, due to the financial crisis<sup>4</sup>, which started in 1997, the country is expected to experience zero growth in 1998.

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<sup>3</sup> It is important to note that income is considerably higher in the urban areas, where about 30% of the population lives. In Jakarta, Indonesia’s largest city with about 10 million people, GDP per capita is estimated at USD 3,500-4,000.

<sup>4</sup> A financial rescue package of USD 37 billion was put together by the International Monetary Fund and the World Bank for Indonesia in November 1997. It is the biggest international bailout organised since Mexico’s USD 50 billion in 1995.

Despite the strong growth in the manufacturing sector, agriculture remains one of the key sectors of the economy, accounting for 15% of output and 44% of employment in 1996. Agricultural sector has made great strides since the 1960s, when the country was the world's largest importer of rice. Successful economic and agricultural policies and rich agricultural resources have allowed the domestic production to meet the bulk of Indonesia's expanding demand for farm products (Hjort and Landes 1993). The farm sector registered very strong growth in the 1970s and 1980s. In the early 1990s growth in the production of most major commodities has slightly slowed down.

The output of rice, the major crop and food staple, has continued to expand rapidly. More than 40% of the total cultivated land area is under rice, and it is estimated that about 30 million farmers are still involved in rice production. Rice yields in Indonesia are higher than in most Asian countries, following the rapid adoption of higher yielding varieties and increased use of fertilisers and pesticides between the mid-1970s and the mid-1980s. The annual growth in rice output is projected to slow down to 1.6% with smaller gains in both area and yield compared with the 1980s (Hjort and Landes 1993).

Natural rubber is another Indonesia's major product, catering over 25% of the world's requirements for natural rubber. At the same time, rubber ranks one of the largest source of foreign currency, with USD 1.9 billion in 1996 (Table 3.1). Coffee, too, has traditionally been a source of high returns for Indonesia. Up to date, Indonesia has exported almost all of its coffee in green-bean form. In 1996 coffee exports grossed USD 605 million, down from USD 754 million in 1994. As a result of this, Indonesia is forecast to lose its status as the world's largest exporter of robusta coffee. Vietnam's exports of robusta coffee will surpass Indonesia's in the coming years, making Vietnam the largest exporter.

The next most important agricultural products in terms of production are cassava, maize, palm oil, and coconut, in that order. Palm oil production, in particular, has expanded very rapidly during the past two decades, and it is projected to sustain strong growth in the late 1990s. Indonesia is now the world's second largest producer of palm oil (after Malaysia). Many observers predict Indonesia will supplant Malaysia – which is beset by shortages of labour and suitable land – as the world's top producer in the first few years of the next century.

Indonesia's food processing sector has also expanded rapidly during recent years. Indonesia has, for example, the largest and fastest growing instant noodle industry in the world. Joint ventures, production under license, and locally owned companies already exist for snack foods, confectionery, biscuits and bakery, juices, dairy items, canned fruit and vegetables, canned and frozen shrimp, meat and poultry products, and sauces and condiments. Local food products have become more and more competitive with imports (USDA 1996a).

*Table 3.1. Indonesia's major agricultural exports and imports in millions of USD.*

Major export items	1990	1992	1994	1995	1996
Rubber	972	1,042	1,273	1,964	1,920
Palm oil	468	670	1,132	1,041	1,338
Crustaceans	796	789	1,051	1,081	1,064
Coffee	376	242	754	614	605
Fish products	377	381	531	585	613
Cocoa	143	153	274	301	365
<b>Total agricultural exports</b>	<b>3,652</b>	<b>4,501</b>	<b>6,766</b>	<b>7,518</b>	<b>7,951</b>
Major import items					
Wheat	366	404	580	803	1,050
Cotton	634	667	701	923	981
Rice	53	13	157	514	766
Animal feed	225	213	417	460	603
Sugar	117	122	56	272	506
<b>Total agricultural imports</b>	<b>1,710</b>	<b>2,528</b>	<b>3,393</b>	<b>4,844</b>	<b>5,721</b>

In 1996 the agricultural import bill was 13.3% of the country's total import bill. The value of these imports (USD 5.7 billion) was three times higher than in 1990. The major agricultural imports consist of wheat, cotton, rice, animal feed, and sugar (Table 3.1).

### **3.2.2. Malaysia**

Malaysia's ethnically diverse population of around 22 million consists of three main races, that is Malay, Chinese, and Indian. The urban population is over 11.3 million, and it is growing at almost twice the overall population growth rate. The country has been one of the fastest growing economies in the world since 1987 with a per capita income of USD 4,466 in 1996. Malaysia's economy recorded its tenth consecutive year of growth in 1997 with the GDP growth rate of 8%.

The economy's balanced mix of traditional primary commodity production and fast-expanding manufacturing sector also shows promise of continued growth in the future. Because of the underlying strength of the economy the effects of the current financial crisis in Asia have been somewhat less serious for Malaysia than for some other ASEAN economies. However, Malaysia does face

macroeconomic and structural challenges if rapid economic growth is to be maintained. The growth forecast for Malaysia in 1998 is 2.5% (IMF 1997).

The agricultural sector used to be the 'engine of growth' of the Malaysian economy. Due to the success of the country's manufacturing sector, however, the contribution of agriculture to overall GDP has diminished. Agriculture still accounts for more than 13% of Malaysia's GDP, provides employment for 17% of the workforce, and makes up about 15% of the export volume (1996 figures). Tree crop products dominate Malaysia's agricultural export earnings, specifically, palm oil, rubber, and cocoa (Table 3.2). Palm oil has recently supplanted rubber as the country's most important agricultural product, and cocoa and fruit production continues to gain prominence (Giordano 1993).

Rubber has traditionally dominated Malaysian tree-crop production and exports. Until 1991 Malaysia was the world's largest producer and exporter of natural rubber. However, the area planted with rubber has consistently declined over the past 20 years. In 1996 the exports of natural rubber grossed USD 1.4 billion, down from USD 1.6 billion in 1995. Malaysia is now the world's largest producer and exporter of palm oil. Palm oil is now one of Malaysia's biggest export items, with export revenues of more than USD 3.7 billion in 1996. The production has risen from 0.6 million tons in 1970 to an average of 7.5 million tons in 1993-96, and is projected to expand further to around 9 million tons by 2000.

*Table 3.2. Malaysia's major agricultural exports and imports in millions of USD.*

Major export items	1990	1992	1994	1995	1996
Palm oil	1,859	2,175	3,178	3,947	3,702
Rubber	977	927	1,119	1,610	1,395
Palm oil, processed	393	515	830	1,091	951
Cocoa	248	234	251	226	211
<b>Total agricultural exports</b>	<b>7,869</b>	<b>8,353</b>	<b>9,925</b>	<b>11,425</b>	<b>10,821</b>
Major import items					
Dairy products	201	256	274	375	388
Maize	175	205	227	332	372
Animal feed	118	174	207	232	338
Sugar	231	226	266	323	327
Wheat	182	162	215	239	270
<b>Total agricultural imports</b>	<b>2,454</b>	<b>2,903</b>	<b>3,324</b>	<b>4,316</b>	<b>4,814</b>

Reasons for the government's emphasis on palm oil include plantation diversification, farm income stabilisation, compatibility with industrial needs, and increasing domestic value added. Furthermore, Malaysian palm oil has competed well in the rapidly expanding Asian edible oil markets because of taste preferences as well as price and freight advantage compared to the main competitor United States. It is expected that an increasing share of palm oil exports will occur in the form of value-added products, and a declining share as either crude or refined palm oil (Giordano 1993).

Rice is Malaysia's most important non-perennial crop, and it receives the highest level of government intervention among the major agricultural commodities. Malaysia is typically able to cover only 76% of its own rice consumption, and in certain years its production has been susceptible to climatic irregularities. The role of wheat in the Malaysian diet is increasing at a rapid pace as income and urbanisation grow. Increasing wheat consumption is met entirely by imports.

Livestock production and consumption, composed primarily of poultry and pork, are also growing rapidly, and Malaysia is now a net exporter of both products (Giordano 1993). Malaysia exports live animals and birds to neighbouring countries Singapore and Brunei, and meat and eggs to Hong Kong, Japan, and some of the middle-east countries. However, concerns over pollution and religious sensitivity among the Muslim population have prompted policies to curb further increases in pork output.

Malaysia produces a wide variety of tropical fruits such as durian, star fruit, water and honeydew melons, banana, papaya, pineapple, and mango. Many of these products are exported to markets in Singapore, Hong Kong, Japan, and countries in the Middle East. With improved quality control and standards, Malaysia will be able to compete for other markets in North America and Europe (USDA 1997a).

Malaysia has also a growing and impressive food processing industry, which produces for the domestic and export markets. This sector has grown at an average annual rate of 8.5% since 1991, making it one of the fastest-growing sectors in the resource-based manufacturing industries. The Malaysian Government has placed great emphasis on its food processing industry and it is providing incentives to food processors and manufacturers in the form of import duty exemptions for raw ingredients and tax incentives to encourage investment in the development of infrastructure. This has attracted local and foreign investors who are now able to produce and export their products competitively from Malaysia.

The Industrial Master Plan prepared by the Malaysian Industrial Development Authority (MIDA) has identified several sectors of high potential in the food processing business, such as the processing of meat products, cocoa, fruits and vegetables, aquaculture, and poultry products. Major processed food items



include baked beans, canned curry beef, chicken products, canned tuna fish, sardines, instant noodles, canned tropical fruits, fruit juices, milk drinks, ice cream, soya products, chili and tomato sauces, biscuits, breakfast cereals, chocolate products, and snack foods such as chips and candies (USDA 1997a).

Malaysia's agricultural imports totalled more than USD 4.8 billion in 1996, an increase of almost 100% over the 1990 figure (Table 3.2). Though more than half of these imports consisted of bulk commodities such as corn, soybeans, and wheat, the export value of consumer-oriented food products to Malaysia has increased substantially in recent years.

### 3.2.3. The Philippines

The Philippines has a population estimated at 72 million, with an average income per capita of USD 1,265 in 1996. The strong growth of the Philippine economy in the 1970s was followed by a period of economic and political turmoil<sup>5</sup>. In the early 1990s, an array of reforms including deregulation, privatisation, and price, trade and investment liberalisation helped to contribute to an economic turnaround. Between 1993 and 1996, the country showed the dynamic growth typical of its neighbours after a decade of stagnation. The recovery was led by expansion of exports and foreign investment, with merchandise exports rising by 80% over this period. Real Gross National Product (GNP) grew by 4% per annum and unemployment gradually fell to 9.5%. Currently, the Philippines is undergoing some of the currency problems that all of Southeast Asia has felt in the wake of Thailand's economic problems. The growth forecast for the Philippines in 1998 is 4.3% (IMF 1997).

The contribution of agriculture to the GDP is declining, and the agricultural trade balance is shifting from surplus to deficit. In 1996 agriculture accounted for 22% of the GDP, and provided about 10% of all exports revenues. However, agriculture still employs nearly 42% of the Philippines' labour force. Historically, agricultural trade has been a very important foreign exchange earner for the Philippines, but in the late 1980s farm exports – primarily coconut products, bananas, pineapple, coffee, and tea – stagnated. Since 1990 agricultural export earnings have grown, on average, by 5% per annum.

Rice is the most important crop, both in terms of producer revenue and domestic consumption. About 25% of the cultivated land is under rice. After rice, the most important commodities in the Philippine diet are wheat, corn, fish, pork, and poultry. Increasing wheat consumption is met entirely by imports. The

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<sup>5</sup> The accumulating external debt, combined with the economic and political crises of the early 1980s, affected investment and savings and undermined poverty reduction efforts, causing the Philippines to lag drastically behind its dynamic Asian neighbours. The deteriorating economic situation gave the impetus to an extended period of structural adjustment and reform.

coconut industry is the most important agricultural export sector (Table 3.3).

The Philippines is the world's largest producer and exporter of copra, coconut oil, and desiccated coconut. As the Philippines accounts for about 55% of the world exports of copra and coconut oil, variations in her export supplies can be expected to have an important impact on world prices and, hence, export earnings. About 3% (USD 571 million in 1996) of the Philippines' total foreign exchange earnings are derived from coconut oil exports. Around 24% of total agricultural land is devoted to coconut production with 50% of the production for export. The coconut is essentially a small holder crop, coupled with the scattered nature of coconut production on the innumerable islands that make up the Philippines (Hjort and Neff 1993).

There is wide variety of other export crops available to farmers, most of who are small holders. Other major crops grown are sugarcane, banana, pineapple, abaca, and coffee. In addition, mango, rubber, and tobacco are among the important cash crops. The country is self-sufficient in pork and poultry, but normally imports a large proportion of its beef demand. The meat processing industry has come to depend heavily on imported beef over the past 5 years.

The Philippines' food processing sector as a whole is projected to continue to grow strongly in the late 1990s. This sector is diverse in terms of business size and activity. Large-scale agro-industrial corporations dominate it, but small and medium size companies also exist. Most firms are dedicated primarily to supplying the fast-growing domestic market, but a few, primarily large proces-

*Table 3.3. The Philippines' major agricultural exports and imports in millions of USD.*

Major export items	1990	1992	1994	1995	1996
Coconut oil	300	483	476	826	571
Fruits	434	443	502	504	550
Crustaceans	319	258	310	291	220
Fish products	151	134	222	211	217
<b>Total agricultural exports</b>	<b>1,618</b>	<b>1,771</b>	<b>1,941</b>	<b>2,328</b>	<b>2,122</b>
Major import items					
Wheat	218	272	369	410	427
Dairy products	223	265	332	438	405
Rice	2	0	0	283	309
Animal feed	187	216	227	314	230
<b>Total agricultural imports</b>	<b>1,449</b>	<b>1,447</b>	<b>2,016</b>	<b>2,562</b>	<b>2,975</b>

sors are also involved in exports of processed fruits, as well as canned tuna and other processed fish (USDA 1997b).

The food processing industries with the largest demand for imported food ingredients and additives include baked goods, dairy products, processed meats, and beverages. A few large, technologically relatively sophisticated companies dominate all of these industries, except baking, which still has many small operations. Wheat for baked goods is the biggest single imported input used by the processing industry. Since the Philippines has only a tiny domestic dairy industry, imported dairy products are also very important (Table 3.3). Dairy products are processed into a variety of products, including milks, infant formulas, and cheese products, and they are used in a variety of baked goods and snacks (USDA 1997b).

### 3.2.4. Singapore

Singapore has one of the highest population densities in the world, with the total of 3 million inhabitants. Singapore is also one of the wealthiest countries in the world by per capita standards, the nominal GDP reaching USD 30,500 in 1996. Unlike any other ASEAN member states, Singapore makes its living entirely from services and from the processing of imported materials. The island has no

*Table 3.4. Singapore's major agricultural exports and imports in millions of USD.*

Major export items	1990	1992	1994	1995	1996
Tobacco	509	647	1,040	1,006	1,283
Rubber	630	593	515	670	528
Fish products	288	298	347	389	371
Spices	130	125	143	221	191
<b>Total agricultural exports</b>	<b>3,583</b>	<b>4,186</b>	<b>5,209</b>	<b>5,678</b>	<b>5,399</b>
Major import items					
Tobacco	502	588	897	824	884
Alcoholic beverages	368	387	459	535	665
Natural rubber	419	334	304	436	345
Fruits	424	448	463	477	481
Fish products	276	341	368	430	415
Dairy products	192	212	215	302	288
<b>Total agricultural imports</b>	<b>4,859</b>	<b>5,234</b>	<b>5,925</b>	<b>6,419</b>	<b>6,491</b>

significant mineral resources, and scarcely any scope for agriculture because of its tiny land area (620-sq. km.). Because of the small amount of available land, agricultural production is negligible, and only a few vegetables and fruits are grown domestically.

Nevertheless, the country has established a comprehensive manufacturing base, and has attracted substantial investment from abroad. Singapore's economic growth continues to be driven by a strong 10% increase in the manufacturing sector – especially computers and related peripherals. With the exception of the food industry, most of the other key industries also had creditable growth rates. Rising labour costs and labour shortages continue to be a threat to Singapore's competitiveness.

The fact that Singapore sits at the crossroads of major shipping lanes and air routes, together with traditional trade ties to the region, has helped to enhance Singapore's role as a major transshipment centre. While Singapore's food production is small in itself, it is the largest importer of agricultural products in ASEAN region. In 1996 the country's agricultural imports totalled USD 6.5 billion (Table 3.4). Furthermore, the city state is a major trade centre for much of Southeast Asia and the Indian subcontinent. Singapore traders source food and other agricultural products from all over the world for re-consolidation and re-export to Malaysia, Indonesia, Thailand, India, Vietnam, Laos, Cambodia, Burma, and Brunei.

### **3.2.5. Thailand**

Thailand has a population of about 61 million, with an average income per capita of USD 2,970 in 1996. Only about 36% of the population are currently living in urban centres, but this number has grown rapidly since the mid-1980s as peasants, attracted by the higher living standards, have been moving to the cities. The country has enjoyed three decades of impressive economic development, with real per capita income increasing almost 5% each year and real GDP growing almost 10% a year since 1986. Poverty has been reduced from over 57% in the late 1960s to less than 20%. Other social indicators, such as food security, have also improved drastically (World Bank 1996).

However, in 1997 Thailand's economy appeared to have lost some of its vigour. After the sharp slowdown in exports, the country was gripped by currency problems in 1997, which forced the domestic interest rates up and may lead to a slowdown in the economic growth. As a result, the Thai government was obliged to seek the assistance of the International Monetary Fund, which together with Japan and other Asian countries put together a USD 16.7 billion rescue package in August 1997. According to the World Bank, Thailand now faces a long struggle to revive its economy. Average private sector forecasts for Thai growth between 1998-2000 have been cut to 0-1% per annum.

The structure of Thai economy has changed considerably in the past fifteen years. Thailand has evolved from an agrarian-based economy to an industrialised export-intensive one, with diversified economic activity and employment. In 1980 agriculture employed more than two-thirds of the labour force and contributed more than 25% of GDP, compared to the 20% share of manufacturing in GDP. By 1996 agriculture accounted for about 10% of GDP, while the share of manufacturing has soared to 30%. However, agriculture was still providing more than 25% of all export revenues in 1996. Furthermore, 52% the workforce of the 32 million is engaged in farming, compared with, for example, only 12% in manufacturing.

Overall, the growth in agricultural output, at around 4% per annum, is keeping well ahead of the population increase, and the cultivated area has nearly trebled since the 1950s. The most important crop is rice, which now accounts for about 30% of the value of agricultural production and 15% (USD 2.0 billion in 1996) of agricultural export revenues. Thailand's rice growing is rather inefficient by international standards, due to the inadequate provision of irrigation schemes, and it is vulnerable to climatic fluctuations such as droughts. Nevertheless, Thailand is able to rank as the world's biggest exporter of rice by virtue of the sheer expanse of land given over to the crop.

The next most important agricultural product is natural rubber, catering for over 35% of world's import demand. Rubber ranks as one of the largest sources

*Table 3.5. Thailand's major agricultural exports and imports in millions of USD.*

Major export items	1990	1992	1994	1995	1996
Rubber	978	1,139	1,664	2,459	2,535
Crustaceans	1,355	1,566	2,327	2,412	2,080
Fish products	1,540	1,505	1,863	2,035	2,010
Rice	1,196	1,426	1,559	1,952	2,029
Sugar	639	796	733	1,228	1,260
Cassava	925	1,184	750	730	826
<b>Total agricultural exports</b>	<b>7,397</b>	<b>10,045</b>	<b>11,423</b>	<b>13,706</b>	<b>14,055</b>
Major import items					
Cotton	637	568	568	680	
Fish products	969	827	572	515	
Animal feed	244	336	484	496	
Dairy products	160	221	250	336	
<b>Total agricultural imports</b>	<b>2,301</b>	<b>2,916</b>	<b>3,278</b>	<b>3,851</b>	<b>3,855</b>

of foreign currency, with USD 2.5 billion in 1996 (Table 3.5). The Thai government has strongly encouraged the extension of rubber plantations, offering grants and incentives to small-scale farmers who dominate the sector. Sugar also ranks high as a source of foreign currency (USD 1.2 billion in 1996). Exports of sugar have increased considerably in recent years. Cassava (also called tapioca and manioc) is another Thailand's major crop, and most of it is exported to the EU. It made extremely rapid growth during the 1980s, outstripping the local demand. However, cassava is gradually losing its attraction due to the steady decline in world prices.

The dynamic expansion in the livestock sector has been driven much more by the strength of the domestic demand than by international developments. As incomes have grown, the people's diet has diversified from vegetable products toward livestock products (Siamwalla et al. 1992). However, international markets do exert influence as well. Poultry exports from Thailand are now of considerable importance, and pork exports are growing rapidly. The increasing importance of the livestock sector is changing the role of Thailand in international feed markets. Thailand has been a major exporter of feedstuffs, particularly cassava, for the past two decades, but expanding domestic demand may see Thailand importing feed grain in the near future (Giordano and Raney 1993).

Thailand's food processing sector has been growing at a rapid rate since the mid-1960s, allowing it to become one of the leading exporters of processed agricultural products. In 1996 exports of processed agricultural products totalled USD 2.3 billion. Thailand's two main products in its food-processing sector are canned pineapple and canned tuna. Canned pineapple has in the past been a source of high returns for Thailand, but in recent years exports have fallen rapidly. In 1996 exports of canned pineapple grossed USD 260 million, down from USD 264 million in 1994 and USD 330 million in 1992. Dumping duties in the United States and tax preferences in the EU, which other countries are not subject to, have restricted the marketing of this product greatly.

Canned tuna has been an important processed item for export and, unlike pineapple, continues to do well with an estimated growth rate of 6-10% a year and exports totalling USD 490 million in 1996. The canned tuna factories have enjoyed their success because of the skilled labour available, whose efficiency lowers costs, and vast government support in development. However, canned tuna faces high duties of 24-26% in the EU, which greatly limits its competitive potential. Also, in order to process tuna, Thailand must import about 80% of its total demand. Processed seafood, in general, requires a vast amount of imported raw materials (USDA 1997c).

Processed fruits and vegetables have only recently been exported to foreign markets in large quantities, providing tropical fruits and vegetables not readily available in colder climates. With 1996 exports valued at USD 550 million, the processed food and vegetable market has established itself as an important part

of the food processing sector. In its entirety, the Thai processing sector has great potential for expansion and development (USDA 1997c).

### 3.2.6. Vietnam

Vietnam has a population estimated at 77 million. The Vietnamese economy has exhibited strong growth in recent years. In 1996 GDP expanded at a rate of 9.5%, versus 9.5% in 1995 and 10% in 1994. According to a recent World Bank (1997) report, this success is attributable largely to an ambitious adjustment and reform program, which has helped to transform the economy from a centrally-planned to a market-oriented system. Economic prospects are bright for the foreseeable future. Nevertheless, a number of serious problems remain. Among these are low per capita incomes of approximately USD 270 per year, relatively high unemployment, poor infrastructure, and the need for substantial foreign and domestic investment to finance future growth.

The agricultural sector plays an extremely important role in the Vietnamese economy. It is estimated that agriculture accounts for 27% of the country's GDP and 70-75% of the workforce. Major crops include rice, sugar cane, cassava, sweet potatoes, corn, ground nuts, mulberry, soybeans, coffee, rubber, jute, tea, tobacco, cashew nuts, pepper, and fruits and vegetables. Some 85% of the cultivated land is under annual crops, of which rice is the most important one, accounting for 65% of the cultivated area. The recent economic liberalisation program has stimulated agricultural output and exports, particularly that of rice. Rice exports have increased from zero in 1988 to more than 2,000,000 tons (USD 538 million) in 1995. Consequently, the country has become the world's third largest rice exporter, behind Thailand and the United States.

Coffee production has also expanded very rapidly during the last decade, and it is projected to sustain strong growth in the late 1990s. Many observers predict that Vietnam will supplant Indonesia – which is beset by climatic irregularities – as the world's top exporter of robusta coffee in the near future (Levin and Giordano 1993). Significant export increases have also been experienced in another major food-related sector, that of seafood products.

There are a growing number of private companies in the food processing industry. These firms are generally regarded as better managed than the state-owned companies. Nevertheless, most of these firms are small in size and find it difficult to compete with the large state companies, as they are not eligible for any government assistance. Despite this handicap, there is an increasing number of large private food-processing companies, particularly in South Vietnam. The trend towards the privatisation of the industry is expected to continue.

Vietnam has set ambitious targets for increasing the output substantially in most agricultural/food sectors by the year 2010. The achievement of these targets, however, will require substantial investment in modern facilities and food processing and packaging equipment.

## 4. ASEAN agricultural trade with the EU

This chapter analyses the development and structure of ASEAN agricultural trade with the EU between 1977 and 1996. Some comparisons with third countries and regions will also be made in order to highlight the significance of ASEAN's agricultural trade with the EU in the context of global farm trade. The trade data, in general, is taken from the Statistical Office of the EU (EUROSTAT), supplemented with individual country sources as required to fill gaps. This data is based on the Standard International Trade Classification (SITC). For the purpose of this study, the agricultural product heading is defined to include food and live animals (SITC 0), beverages and tobacco (SITC 1), animal and vegetable oils (SITC 4), hides, skins and fur skins (SITC 21), oil seeds and oleaginous fruits (SITC 22), crude rubber (SITC 23), cork and wood (SITC 24), and textile fibres (SITC 26).

In this analysis, the trade data has been expressed in the European Units of Account (ecus). The ecu is a "basket" currency unit, based on a certain quantity of each Community currency, weighted on the basis of a five year average of the gross national product (GNP) and intra-Community trade balance of each member state. Table 4.1 shows the conversion rate for the US dollars. These rates will allow the data to be expressed in US dollars, if required. They also show that the choice of the ecu amplifies the apparent growth in trade between 1977 and 1985 in comparison with an evaluation in US dollars, but it lowers the apparent growth in trade between 1985 and 1996, due to the fall in the value of the dollar. The choice of the US dollar as numeraire would obviously have the opposite effect on these figures.

### 4.1. Trends and intensities of ASEAN-EU agricultural trade

ASEAN's two-way agricultural trade with the EU has more than doubled since 1977. The trend rate of growth per year over the period 1977-96 was 5%. During the six-year period between 1990 to 1996, the total ASEAN-EU agricul-

*Table 4.1. The conversion rate of the ECU into the US dollars during 1977-1996.*

year	value	year	value	year	value	year	value
1977	1.141	1982	0.980	1987	1.154	1992	1.298
1978	1.274	1983	0.890	1988	1.182	1993	1.171
1979	1.371	1984	0.789	1989	1.102	1994	1.190
1980	1.392	1985	0.763	1990	1.273	1995	1.308
1981	1.116	1986	0.984	1991	1.239	1996	1.267



tural trade rose from ECU 5.2 billion to ECU 7.2 billion (more than USD 9 billion), showing an average annual growth rate of 5.4%. The agricultural trade balance has clearly tilted in favour of ASEAN, with a trade surplus of ECU 3.7 billion in 1996.

The EU is a more significant agricultural trading partner for ASEAN than ASEAN is for the EU. Overall, the EU ranks second (after Japan) among ASEAN's trading partners in agricultural products. Two-way trade with the EU now accounts for 14% of total ASEAN agricultural trade. By comparison, trade with Japan and the US account for 18% (ECU 9.2 billion) and 13% (ECU 6.4 billion) of ASEAN agricultural trade, respectively.

On the EU side, trade with ASEAN accounts for 6.5% of total agricultural trade: a jump from the 5.9% share in 1990. The EU's two-way agricultural trade with the US was worth ECU 15 billion (USD 19 billion) in 1996. Its agricultural trade with Russia for the same year was ECU 5.2 billion (USD 6.6 billion). Between 1990 and 1996, trade with the US and Russia increased at trend rates of 2.2% and 6.8%, respectively.

ASEAN's agricultural exports to the EU grew particularly strongly during the period 1977-85, as indicated in Figure 4.1. However, in the period from 1985 to 1990, the value of these exports declined by 15%. Over the six years to 1996, these exports rose again steadily from ECU 4.3 billion to ECU 5.5 billion

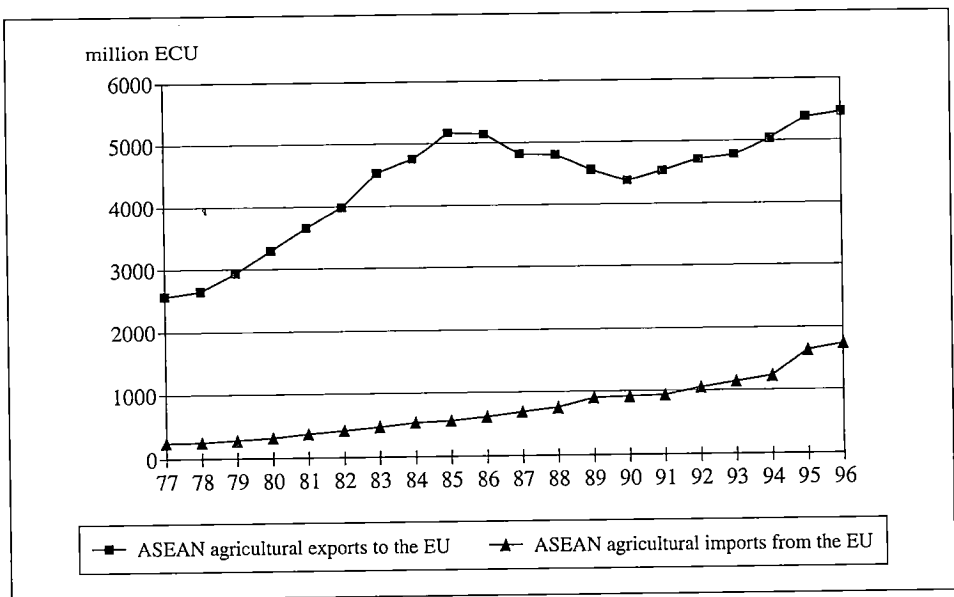


Figure 4.1. ASEAN agricultural trade with the EU from 1977 to 1996, exports and imports in millions of ECU.

(about USD 7 billion). Despite this remarkable growth, ASEAN agricultural exports to the EU grew at a much slower rate than total ASEAN exports to the EU over this time period. Agricultural exports grew at an average annual rate of only 3.9%, compared to 14.1% for the part of the total exports.

Nevertheless, the EU remains an important destination for ASEAN agricultural products, accounting for about 16% of total ASEAN agricultural exports. Japan is the largest export market for ASEAN farm products, accounting for about 27% of ASEAN farm exports. Exports to Japan reached ECU 8.7 billion (USD 11 billion) in 1996. ASEAN agricultural exports to the US totalled ECU 4.2 billion (USD 5.3 billion) in the same year.

Over the years, ASEAN countries have also managed to increase their market share in the EU quite substantially. By 1996, ASEAN countries represented 8.5% of extra-EU agricultural imports, compared to 3.6% in 1977.

By the same token, ASEAN countries have become rapidly expanding markets for EU farm exports because of their large populations, buoyant economic performance, and per capita incomes at levels where food is still an important component in the consumption. Figure 4.1 shows that, during the six-year period between 1990 and 1996, ASEAN agricultural imports from the EU rose from ECU 0.9 billion to ECU 1.7 billion (about USD 2.2 billion), showing an average annual growth rate of 11.0%.

Therefore, ASEAN agricultural imports from the EU grew at a much faster rate than agricultural exports to the EU. This higher growth rate is perhaps not surprising, taking into account the initial smallness of ASEAN's imports from the EU. The value of ASEAN agricultural imports from the EU was less than a third of the value of ASEAN agricultural exports to the EU in 1996. Overall, ASEAN imports from the EU account for 3.2% of total EU farm exports: a jump from the 2.6% share of 1990.

Although the figures indicate that EU exporters are selling more to ASEAN, they do not reveal their relative performance. In fact, ASEAN agricultural imports from the EU have not been increasing more quickly than those from elsewhere during 1990-96. The trend rate of growth (11.0%) per year over the six years to 1996 was slightly behind the rise in overall agricultural imports of 11.8%, thereby taking imports from EU from 8.8% to 8.6% of total ASEAN agricultural imports. The US continues to maintain the largest import market share of 11% (or ECU 2.2 billion) for agricultural products in ASEAN. The US is followed by the EU and Australia. Australia's farm exports to ASEAN totalled ECU 1.4 billion in 1996.

The overall trend of ASEAN-EU agricultural trade relations as discussed above hides important variations in the trade performance of individual countries. Among the ASEAN countries, Thailand, Indonesia and Malaysia are the largest agricultural exporters to the EU markets; together they account for about 85% of total ASEAN farm exports to the EU (Figure 4.2). Agricultural exports

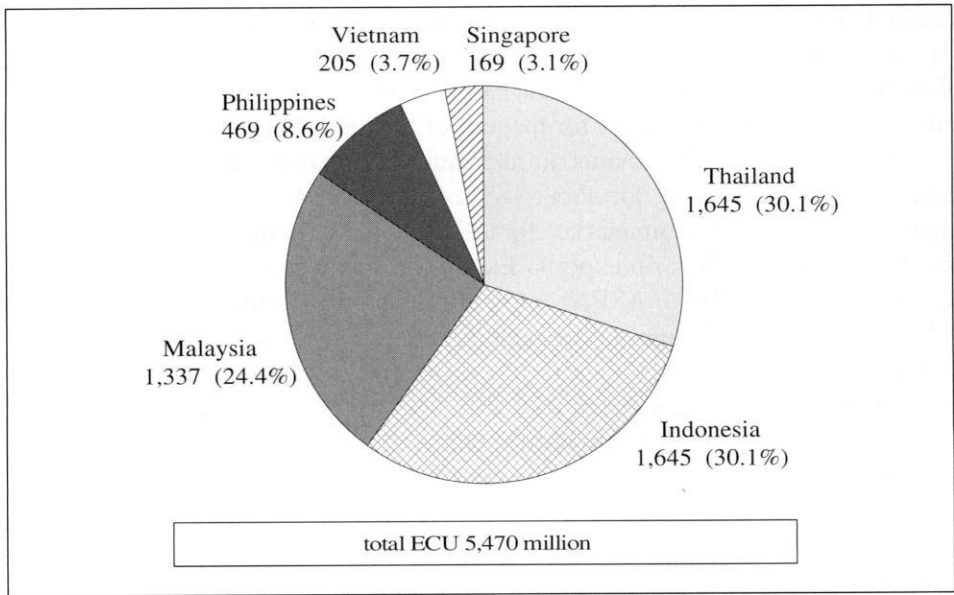


Figure 4.2. ASEAN member countries' agricultural exports to the EU in 1996 in millions of ECU (as a % share of ASEAN total agricultural exports to the EU).

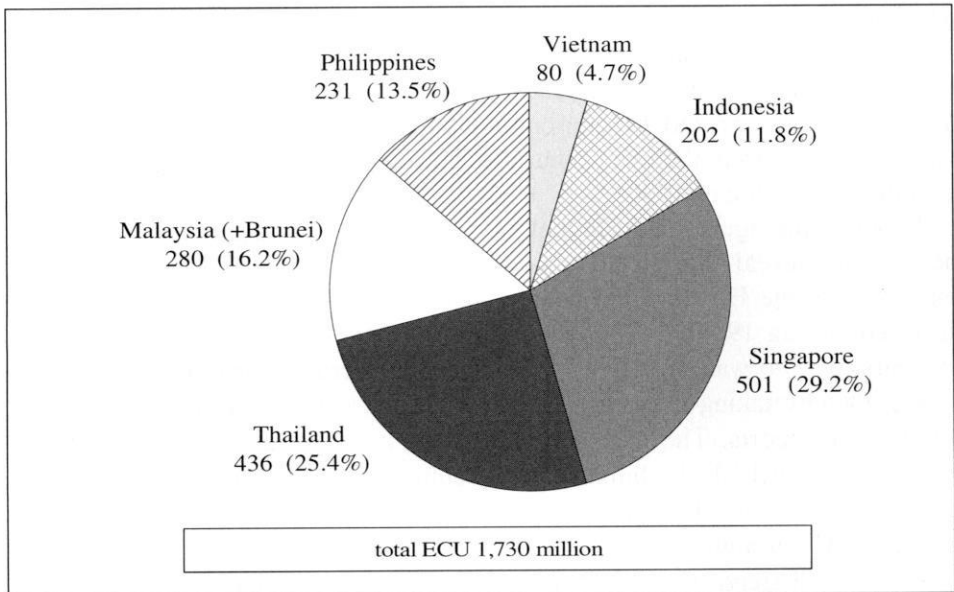


Figure 4.3. ASEAN member countries' agricultural imports from the EU in 1996 in millions of ECU (as a % share of ASEAN total agricultural imports from the EU).

to the EU markets are significant for all seven economies, ranging from about 4% of all agricultural exports in the case of Singapore to nearly 28% for the Philippines in 1996. Among the fifteen EU countries, Germany, the Netherlands, and the UK have been the most important destinations for ASEAN agricultural exports, absorbing almost 60% of the total ASEAN farm exports to the EU.

Singapore has long been the largest agricultural importer from the EU, closely followed by Thailand and Malaysia (Figure 4.3). Currently, France is clearly the most important agricultural exporter to the ASEAN market, accounting for almost 30% of total EU farm export to ASEAN. France together with the UK, the Netherlands, and Germany account for about 72% of these exports.

An analysis of the commodity structure of agricultural imports and exports by major subgroups can provide further insights into ASEAN agricultural trade relations with the EU. The commodity composition of ASEAN trade strongly reflects the structure of the ASEAN agriculture. Major agricultural exports from ASEAN to the EU in order of export value include vegetable oils, vegetables and fruits, fish and crustaceans, and crude rubber. In 1996 these four product groups together accounted for almost 70% of total ASEAN agricultural exports to the EU. On the other hand, the four leading commodity groups imported to ASEAN from the EU are alcoholic beverages, dairy products, meat and meat preparations, and cereals. Allowing for fluctuations, they account for more than 55% of all EU farm exports to the ASEAN market since 1990.

## **4.2. A detailed examination of ASEAN-EU agricultural trade**

### **4.2.1. ASEAN agricultural exports to the EU**

ASEAN agricultural exports to the EU reached ECU 5.5 billion (about USD 7 billion) in 1996. The trend rate of growth per year over the period 1977-1996 was 4.0%. As the world's largest importer of agricultural products, with 1996 imports of nearly ECU 65 billion, the EU as a whole is an attractive and very sought-after market for exporters throughout the world. The EU internal market provides agricultural products from the other 14 member states of the EU a competitive advantage in each individual member country. It is an advantage which cannot be easily overcome by competing third countries.

ASEAN agricultural exports to the EU face competition not only from EU food suppliers but also from many exporters within the Greater Europe and other third countries. Some of the competitors have access to a wide range of sophisticated marketing and promotional programs enabling them to compete effectively on the EU market. Furthermore, the EU provides certain trade concessions to products from its former colonies in Africa, the Caribbean, and the Pacific (the so-called ACP countries), which compete directly with ASEAN

goods, particularly tropical products, such as cocoa, palm oil, fruits, tobacco, and coffee (for more details see pages 62-67).

Nevertheless, ASEAN countries have been very successful in penetrating the EU market. Over the years, ASEAN countries have steadily increased their share of extra-EU agricultural imports despite tough competition. The ASEAN share of the EU imports increased from 3.6% in 1977 to 7.6% in 1990, and in 1994 the share climbed to 8.1%. By 1996, ASEAN countries had managed to extend their foothold on the EU market to account for 8.5% of extra-EU agricultural imports. It is interesting to note that all countries of ASEAN, except the Philippines, contributed to this increase – clearly the fruits of the export drive by the region as a whole, rather than one particular country.

Among the fifteen EU member states, Germany and the Netherlands are the largest agricultural importers from ASEAN, together accounting for more than 40% of ASEAN exports to the EU. They are followed by United Kingdom, France, and Italy (Figure 4.4).

There has been some variation in the export performance of individual ASEAN countries. Of the ASEAN seven, Thailand and Indonesia are the largest agricultural exporters to the EU market (Table 4.2). They both hold a 30% share

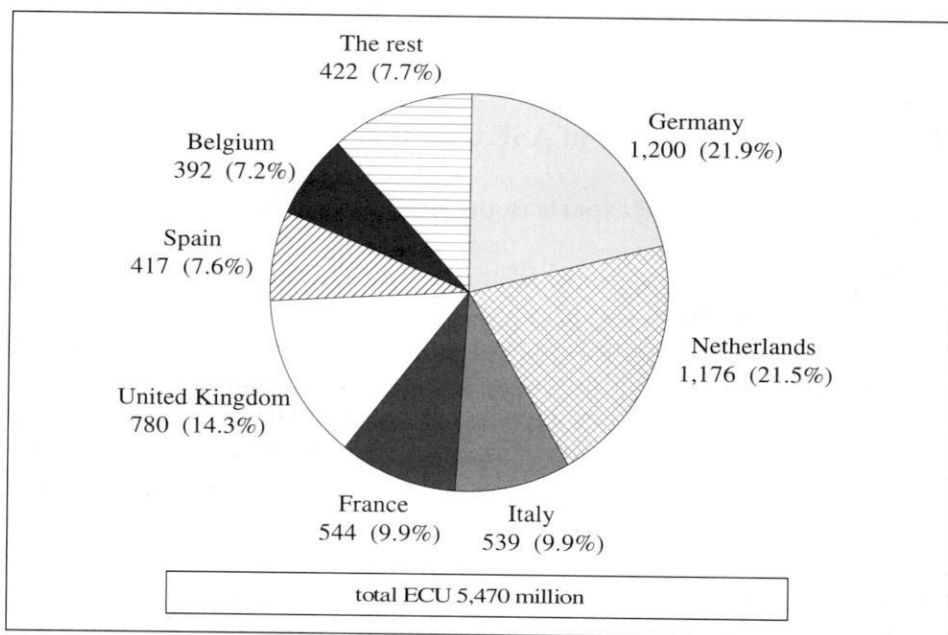


Figure 4.4. ASEAN agricultural exports to the individual EU countries in 1996 in millions of ECU (as a % share of ASEAN total agricultural exports to the EU).

Table 4.2. ASEAN member countries' agricultural exports to the EU.

	Value in millions of ECU				Percentage of country's total agricultural exports		Percentage of total extra- EU imports	
	1977	1985	1990	1996	1990	1996	1990	1996
Thailand	497	1,419	1,350	1,645	21.2	14.4	2.4	2.6
Indonesia	583	1,326	1,111	1,645	38.7	26.3	2.0	2.6
Malaysia	979	1,676	1,326	1,337	21.5	15.7	2.4	2.0
Philippines	395	524	378	469	29.7	28.1	0.7	0.7
Vietnam	5	25	42	205	4.5	14.3	0.1	0.3
Singapore	111	190	170	169	6.0	4.0	0.3	0.3
ASEAN	2,570	5,160	4,377	5,470	21.8	16.1	7.9	8.5

of total ASEAN agricultural exports to the EU. These two countries are followed in descending order by Malaysia (24.4%), the Philippines (8.6%), Vietnam (3.7%), and Singapore (3.1%). Malaysia has lost ground in comparison to other ASEAN states since 1977, when it still accounted for 38% of ASEAN total agricultural exports. Over the same period, Thailand's share of total ASEAN agricultural exports to the EU rose from less than 20% to over 30%.

If judged by the share of their agricultural exports directed to the EU markets, these are the most important to Indonesia and the Philippines. In 1996 the exports to the EU markets represented about 26% of total Indonesian agricultural exports. For the Philippines, the respective figure was 28%. For Singapore, the EU was least important in this sense, taking only some 4% of her total agricultural exports.

Over the period 1977-96, Thailand's agricultural exports to the EU grew by an average of 6.3% per year, whereas the annual growth of the global agricultural exports to the EU was only 3.1%. This has resulted in a rise in Thailand's market share. It was only 1.4% in 1977, and it reached 2.6% in 1996. Major agricultural exports from Thailand to the EU in order of export value include cassava products, rubber, canned tuna, fruits, rice, and frozen prawns and shrimps.

Indonesia and Malaysia recorded average annual growth rates of 5.5% and 1.6%, respectively, for their agricultural exports to the EU during 1977-96. Palm oil, coffee, spices, tea, and rubber dominate the Indonesia exports, while Malaysia has concentrated almost solely on the products originating from perennial crops – such as palm oil and rubber. Indonesia's share of the extra-EU imports rose from approximately 1.6% in 1977 to 2.6% in 1996.

The Philippines' agricultural exports to the EU are dominated by copra and coconut oil exports. Because the Philippines' agricultural exports grew at an average of only 0.9% per year, the country's relative importance in the EU

market declined during the period analysed. Of the ASEAN-7, Vietnam registered the fastest average growth rate of 19.1% (from a small base) for its agricultural exports to the EU between 1977 and 1996. However, its exports are still of little importance to the EU, with the import market share of only 0.3%. Rice, coffee, frozen shrimps, and rubber are Vietnam's leading commodity exports to the EU market. Correspondingly, Singapore plays an insignificant role in agricultural exports to the EU, attaining import market shares of less than 0.3%.

A great deal of attention has recently been focused on the fall of the Thai baht, Indonesian rupiah, Malaysian ringgit, and Philippine peso, and the possible impacts of these currency devaluations on ASEAN agricultural exports. The devalued ASEAN currencies will certainly help export-oriented, resource-based sectors such as palm oil, rubber, cassava, etc. Therefore, with the domestic demand depressed, ASEAN's economies are expected to take advantage of their hugely devalued currencies to export for all they are worth. This will keep a check on prices in the EU countries importing these goods. In addition, the very large devaluations that some ASEAN currencies have suffered against the European currencies could prompt some substitution effect. Agricultural exports to

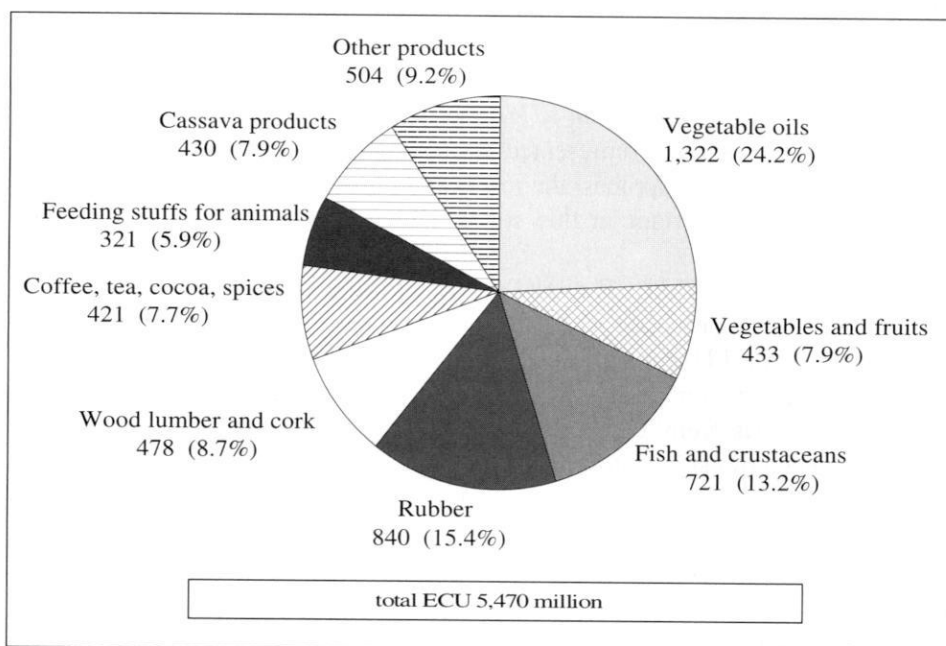


Figure 4.5. Commodity composition of ASEAN agricultural exports to the EU in 1996 millions of ECU (as a % share of total ASEAN agricultural exports to the EU).

the EU from competing countries, whose currencies have not depreciated quite so significantly, could be substituted by ASEAN produce.

Figure 4.5 shows the commodity composition of ASEAN agricultural exports to the EU in 1996. The exports are concentrated in five product groups: (i) vegetable oils and fats, (ii) natural rubber, (iii) fish and crustaceans, (iv) prepared and preserved fruits and vegetables, and (v) cassava products. In 1996 these product groups together accounted for almost 70% of ASEAN agricultural exports to the EU. The commodity composition has stayed more or less the same during the 1977-96 period. However, ASEAN exports of unprocessed primary commodities have fallen in relative importance in favour of processed products. The pressure coming from the price instability and the gradual deterioration in terms of trade of traditional primary commodities has encouraged the ASEAN countries to add more value to a number of products before shipment to the EU market.

Nearly 25% of the total agricultural exports from ASEAN to the EU were made up of vegetable oils and fats (SITC 42 + SITC 43), of which 51% were exported by Indonesia, 32% by Malaysia, and 17% by the Philippines. Exports of these products rose from ECU 335 million in 1977 to ECU 1,320 million in 1996, showing an average annual growth rate of 7.2%. Vegetable oil exports from ASEAN mainly consist of crude palm oil and coconut oil. Malaysia and Indonesia are the largest exporters of the former and the Philippines of the latter. EU countries prefer to buy crude vegetable oils, mainly because of the lower tariffs on unprocessed products and the need to further redefine the oil due to quality deterioration during long voyages. Only 16% of ASEAN vegetable oil exports to the EU markets are in processed form.

Malaysia, being an exporter of mainly processed palm oil, is losing its market share to other ASEAN countries. In 1977 Malaysia accounted for 68% of total ASEAN exports of vegetable oils and fats to the EU, but in 1996 for only 32% (Figure 4.6). On the other hand, Indonesia's share of ASEAN exports to the EU increased from 16% to 51%. It is important to note, however, that Malaysia's exports to the EU only account for less than 11% of country's total vegetable oils exports. For Indonesia, the corresponding figure is 57%.

The EU has a special significance for the ASEAN vegetable oil sector. As a single entity, it is the world's biggest importer of palm oil as well as coconut oil. ASEAN countries also continue to hold a commanding import market share for vegetable oils and fats in the EU market. In 1996, imports from ASEAN represented about 58% of total EU imports of these products, up from about a 40% share in 1990. As a proportion of the total consumption of oils and fats in the EU, vegetable oil exports by ASEAN increased from 8.2% in 1985 to 12.5% in 1996. Germany and the Netherlands are the largest importers of ASEAN vegetable oils, accounting for more than half of total EU imports. The UK and Italy are the next largest importers.



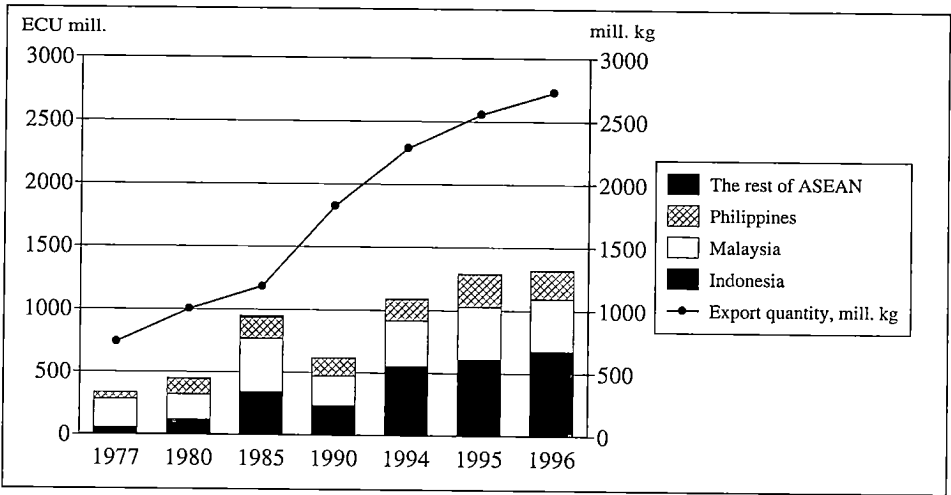


Figure 4.6. ASEAN member countries' vegetable oil exports to the EU from 1977 to 1996 in millions of ECU (& mill. kg).

When ASEAN palm oil exports into the EU over the past 10 years are reviewed in relation to price movement, they have experienced two distinct phases. The consumption in the EU remained steady when the prices of palm and soybean oil were close to each other in 1987-88. The consumption increased substantially when a significant price differential between the oils opened up in 1989-91. While the reduction in the price differential to a minimal amount in 1992 did not lead to a decrease in exports, as may have been expected, the new price differential that developed in 1993 boosted palm oil exports to new levels. These levels were maintained for the next three years, even though palm oil prices had become comparable to those of soybean oil. There is certainly a capacity to use even more palm oil in European products, and a favourable price relationship compared to competing oils will make this possible.

Coconut oil competes with palm oil and other oils on the European market because the different oils are interchangeable to a certain extent. Coconut oil exports have increased sharply since 1977. The bulk is supplied by the Philippines. Exports of coconut oil from the Philippines to the EU rose from ECU 120 million in 1990 to ECU 200 million in 1996. Between 1985 and 1990, exports had declined. With the strong competition from other vegetable oils, the share of coconut oil on the total EU market for vegetable oils has also gradually declined. It is expected that the demand for coconut oil in the EU will remain relatively strong in the late 1990s, provided that its price remains competitive.

Natural rubber (SITC 23) accounts for about 15% of ASEAN agricultural exports to the EU, valued at ECU 840 million in 1996. The ASEAN countries are EU's principal suppliers of natural rubber, providing about half of total EU

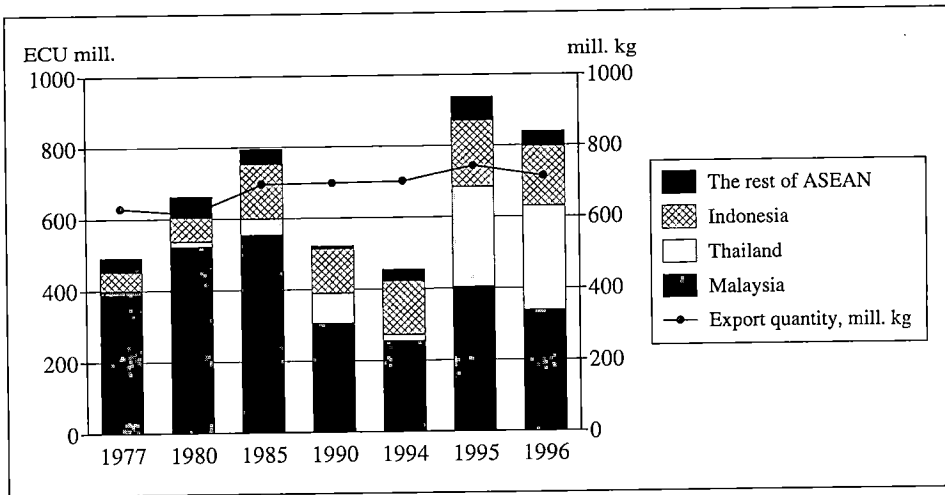


Figure 4.7. ASEAN member countries' natural rubber exports to the EU from 1977 to 1996 in millions of ECU (& mill. kg).

crude rubber imports. The top three consumers in the EU are Germany (26%), France (22%), and Italy (15%). In the 1970s, Malaysia was the main supplier of the EU imports. However, over the years, Malaysia's rubber exports to the EU have decreased both in volume terms and in comparison to the other ASEAN countries (Figure 4.7). Malaysia's share of ASEAN rubber exports to the EU diminished from about 80% (ECU 520 million) in 1980 to 40% (ECU 340 million) in 1996. In comparison, Indonesia's share increased from 10% (ECU 67 million) to 20% (ECU 170 million), and Thailand's share from 2% (ECU 16 million) to 35% (ECU 290 million).

Despite the 9% drop in the price of natural rubber in 1996 from the record levels of 1995, market prices remained historically high in 1996. However, various grades of natural rubber fared differently. Prices declined steadily during the first part of 1996, reflecting favourable weather conditions and prospects for increased supply and the slackening of the demand in the EU. Furthermore, continuing high prices of natural rubber in 1995 resulted in some substitution of synthetic rubber for natural rubber.

Fish and crustaceans (SITC 3) and vegetables and fruits (SITC 54 + SITC 58) accounted for 13% (ECU 720 million) and 8% (ECU 433 million) of ASEAN agricultural exports to the EU in 1996. Thailand is by far the largest exporter of these two product groups. In 1996 Thailand provided 61% of ASEAN exports of fish and crustaceans and 75% of vegetables and fruits (Figure 4.8). The ASEAN overall share (6% in 1996) of the EU's vegetable and fruits imports has fallen slightly since 1990, while ASEAN fish and crustaceans exports have increased to nearly 9% of the total EU imports.

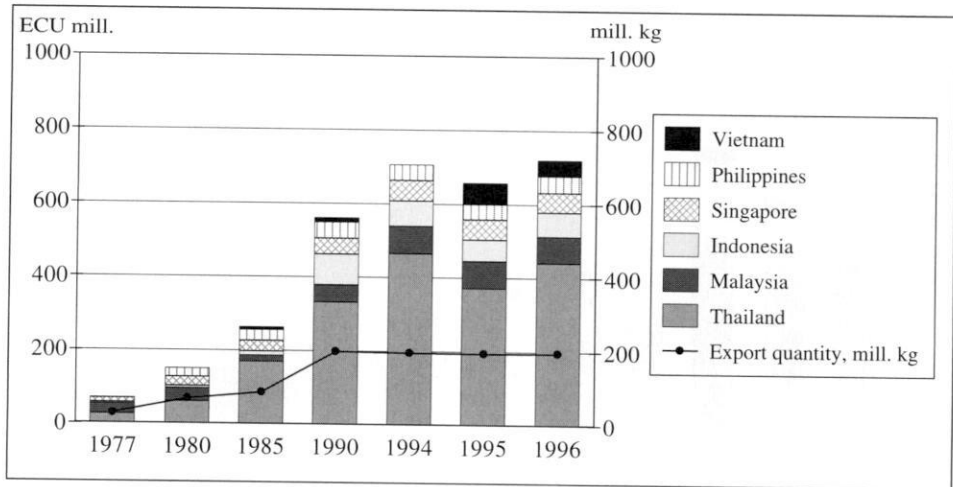


Figure 4.8. ASEAN member countries' exports of fish and crustaceans to the EU from 1977 to 1996 in millions of ECU (& mill. kg).

Exports of fish and crustaceans is composed mainly of canned tuna, frozen prawns, shrimps and lobster, and processed crustaceans. Exports of vegetables and fruits constitute preserved and prepared vegetables, and processed tropical fruits and juices. The EU markets for dried tropical fruits such as mango, pineapple, and papaya are also expanding (Market Asia 1996). Canned pineapple accounted for the biggest share among processed fruit exports, and pineapple juice is the largest tropical juice exported. Europe imports globally about 100,000 metric tons of pineapple juice annually, roughly a quarter of this amount coming from Thailand (Market Asia 1995). Other ASEAN suppliers include Indonesia and the Philippines.

Cassava (also called tapioca and manioc) accounts for about 8% (ECU 430 million) of ASEAN agricultural exports to the EU. Most of cassava exports to the EU goes in the form of pellets for the production of compound animal feed stuffs. The bulk is supplied by Thailand, with a growing supply also being provided by Indonesia. Between 1990 and 1996, more than 40% of Thai cassava production was exported to the EU. Thai exports of cassava pellets began to penetrate into the EU market in a major way already in the late 1970s. The competitiveness of cassava pellets has been mainly due to the Common Agricultural Policy of keeping the EU price of grain at a high level, thus raising the competitiveness of grain substitutes for animal feed<sup>6</sup>. The EU is the world's largest export market for cassava products.

<sup>6</sup> Combining cassava imported at 6% tariff with soybeans at zero tariff essentially allowed European feed compounders to create artificial maize at much lower costs than sold in the EU.

In 1996 ASEAN cassava exports to the EU reversed the downward trend seen in the last few years, rising in 1996 by an estimated 19% over the previous year's volume. Nevertheless, export volumes are still smaller than in the early 1990s. Between 1993 and 1995, cassava exports into the EU fell by more than 3 million tons to a total of 3.2 million tons. Contributing factors to this sharp fall included lower prices in the EU, high freight rates and tight domestic supplies. Import prices of cassava pellets fell sharply, following the implementation of the reform of the CAP from July 1993. However, beginning in the second half of 1994, import prices recovered and the 1996 import price averaged at ECU 125 per ton. The factors behind the recovery in cassava prices included: steadily rising domestic EU grain prices; lower soybean meal import prices; and high domestic prices in several exporting countries. As a result, exports into the EU increased to 3.8 million tonnes in 1996.

Despite the increases in soybean meal prices during the last two years, the prices of cassava/soybean mixtures in the EU were still substantially lower than quotations for barley, the main feed stuff. Therefore, cassava has continued to be an attractive feed ingredient in the Community. The size of cassava exports in the late 1990s will depend on various factors, primarily price developments for grains and oil meals in the EU, which will be influenced in part by the reduction of the set-aside area for grains in the EU and the availability of supplies from other major exporters. Increased grain production in the EU could lead to lower domestic prices, thus making cassava less competitive in feed rations.

The product group SITC 07 – which includes coffee, tea, cocoa, spices – accounts for about 8% of ASEAN agricultural exports to the EU. In 1996 ASEAN exports of these items to the EU countries were approximately ECU 424 million, of which 61% came from Indonesia and 27% from Vietnam. Imports of this product group represented 16% and 56% of EU agricultural imports from Indonesia and Vietnam, respectively. In 1996 ASEAN exported to the EU a total of 65,000 metric tons of coffee, which was about 5% of the EU's total imports. Indonesia accounts for nearly 75% of all ASEAN coffee exports to the EU.

ASEAN tea exports to the EU fell drastically from a 10% market share in 1977 to just below 3% in 1996. Indonesia, which is also the largest ASEAN tea exporter, experienced a decrease in sales to the EU from about 8% of total EU imports in 1990 to only about 2% in 1996. The EU cocoa imports – including cocoa beans, cocoa paste, cocoa butter, and cocoa powder – from ASEAN

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The boom in the cassava trade that followed surprised Europeans and by 1980 affected their sensitivities sufficiently for them to request Thailand's co-operation in limiting its exports. Since the early 1980s, imports from Thailand were subjected to a quota of 5.0 million tons (Siamwalla et al. 1992).

countries increased from only about 3% of total imports in 1977 to approximately 6% in 1996. The largest exporters are Malaysia, Indonesia, and the Philippines.

Between 1990 and 1996, ASEAN exports of spices to the EU increased rapidly in both volume and value. Indonesia is clearly the biggest spice exporter in ASEAN. Furthermore, Indonesia is globally the leading pepper supplier to the EU, with 32% of the total EU market by volume<sup>7</sup>. The pepper market is usually highly cyclical, with high prices encouraging new plantings, and the resulting overproduction leading to low prices (Market Asia 1997). Indonesia is also the top supplier of cinnamon to the EU, accounting for half of all EU imports. In addition, Indonesia provides about 75% of total EU nutmeg imports. Germany is the biggest spice importer from ASEAN, accounting for 31% of total value of in 1996. The Netherlands and the United Kingdom are the next-largest spice importers in the EU.

#### **4.2.2. ASEAN agricultural imports from the EU**

ASEAN agricultural imports from the EU have been expanding rapidly over the period 1977-1996. In 1996 the value of these imports was seven times higher than in 1977. Imports rose from ECU 250 million to ECU 1,730 million (about USD 2.2 billion). The trend rate of growth per year over this period was 8.4%. The increased level of ASEAN agricultural imports have been largely driven by two factors. First, with the exception of Thailand and the Philippines, in recent years decisive steps have been taken toward lowering ASEAN's tariff barriers, thereby facilitating expansion in imports. Second, due to ASEAN's rapid economic growth, the demand for processed food products has increased substantially.

One clear outcome of ASEAN's rapid economic growth over the past decade has been the emergence of a growing middle-class with significant purchasing power. This power is increasingly reflected in rising sales of consumer-ready, high-value food products. Consumers' increasing wealth is fostering the lifestyle changes typically seen in emerging markets that have a tremendous impact on eating habits. Therefore, ASEAN agricultural imports of EU food and agricultural products are continuing to trend toward consumer-ready foodstuffs, and away from bulk commodities.

In 1996 ASEAN countries imported ECU 19.5 billion (USD 24.8 billion) worth of agricultural products, with the EU holding a 8.8% share. Figure 4.9 shows the commodity composition of ASEAN agricultural imports from the EU

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<sup>7</sup> One third of the EU pepper market is for white pepper, the rest for black. Black and white peppercorns are produced from the same plant, but they are processed differently to yield the different colours.

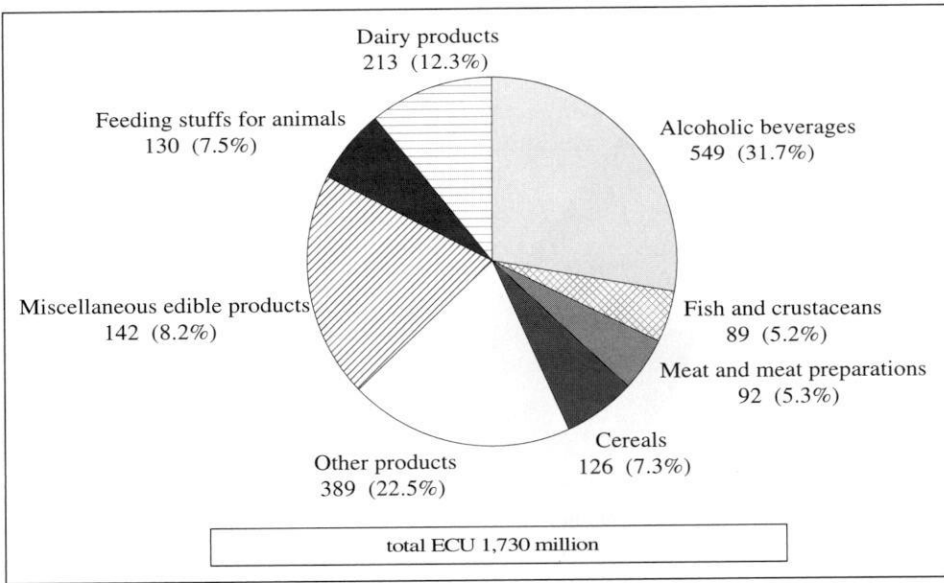


Figure 4.9. Commodity composition of ASEAN agricultural imports from the EU in 1996 in millions of ECU (as a % share of total ASEAN agricultural imports from the EU).

from the year 1996. The five leading SITC commodity groups imported are alcoholic beverages (SITC 11), dairy products (SITC 02), feeding stuffs for animals (SITC 08), cereals (SITC 04), and meat and meat preparations (SITC 01). These product groups together account for about 65% of ASEAN agricultural imports from the EU.

The EU holds a commanding market share of ASEAN's alcoholic beverage product imports, and a sizeable share of dairy product, meat, and snack food imports. Its marketing advantage is clearly price supported by production and export subsidies. France is the EU's uncontested leader and a world class competitor in agricultural production, food processing, and exports, with its highly developed agricultural sector. France holds a 26.5% share of total EU agricultural exports to ASEAN (Figure 4.10). It is followed in descending order by the United Kingdom (21.6%), the Netherlands (12.9%), Germany (11.0%), and Denmark (6.9%).

Foreign competition confronting EU exporters in ASEAN's food market is intensifying. Numerous countries are entering the market for processed and intermediate food products and selling increasing quantities of these items. Since price is almost always a major factor, freight advantages from other countries reduce EU's position in this market. The competitor nations of the EU have used the advantages of proximity and active development programs to strengthen commercial relations.

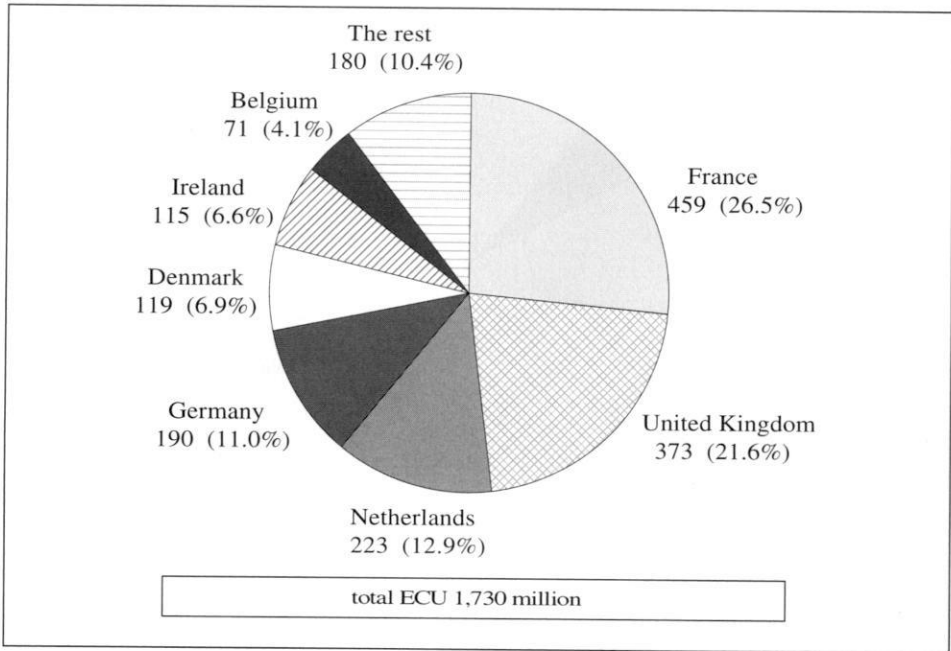


Figure 4.10. ASEAN agricultural imports from the individual EU member countries in 1996 in millions of ECU (as a % share of ASEAN total agricultural imports from the EU).

Australia and New Zealand, in particular, have been major competitors and they have undertaken aggressive promotion campaigns for certain commodities. Australia has dominated ASEAN's meat import market due to competitive prices, lower freight costs, and shorter shipping times. New Zealand and Australia have taken the bulk of ASEAN's sizeable dairy import market for many of the same reasons. Chile is a relatively new competitor, primarily for wine and meat, and it has also put together very impressive promotion efforts.

The recent decline of ASEAN currencies against the EU currencies has sparked fears that EU agricultural exports will be unable to compete on these rapidly growing markets. For a Southeast Asian importer, a landed cargo of any agricultural item from the EU is certainly going to be far more expensive (in local currency) than it would have been before July 1997. There were already some signs of slowing export demand for certain goods, alcoholic beverages in particular, in the third quarter of 1997.

The impacts of these Southeast Asia's woes would be felt the most strongly in two areas. First, there will be an income effect, resulting from the projected decline in economic growth rates in the ASEAN region and rising import prices. The income effect will probably hit the higher-value commodities the hardest. For the part of bulk commodities, at least in the short run, there may be very

little effect. But for income-sensitive commodities – such as alcoholic beverages, dairy products, meat and meat preparations, processed foods – it will certainly make a difference. On the other hand, the very large devaluations that some Asian currencies have suffered against the US dollar could prompt some substitution of US farm produce by output from competing countries, whose currencies have not appreciated quite so significantly – such as the EU countries or Australia. The US is currently the largest exporter of farm products to ASEAN, holding an import market share of 11%.

In summary, ASEAN agricultural imports from the EU are expected to decline in the coming years. However, the growth prospects of the ASEAN economies have not in reality all suddenly disappeared. Therefore, ASEAN imports are expected to pick up again at the turn of the century.

Among ASEAN countries, Singapore is by far the largest agricultural importer from the EU, accounting for 29.0% (ECU 500 million) of ASEAN imports in 1996. Singapore is followed in descending order by Thailand (25.2%), Malaysia (15.4%), the Philippines (13.4%), Indonesia (11.7%), Vietnam (4.6%), and Brunei (0.7%). Agricultural imports from the EU are significant for all seven economies, ranging from 4.5% of all agricultural imports in the case of Indonesia to 14.4% for Thailand (Table 4.3).

As a small and almost entirely cosmopolitan country, *Singapore* is completely dependent on agricultural imports. The country is also a more mature market than the neighbouring ASEAN countries. With per capita incomes of over USD 30,000 (1996 figure), the country's consumers are the "nouveau riche" of Southeast Asia. Thus, the Singapore market serves as the showcase for the rest of the Southeast Asian region. Products which are first introduced to the Singapore market are eventually introduced to the rest of the region (USDA 1996b).

Table 4.3. ASEAN member countries' agricultural imports from the EU.

	Value in millions of ECU				Percentage of country's total agricultural imports		Percentage of total extra-EU exports	
	1977	1985	1990	1996	1990	1996	1990	1996
Singapore	57	223	311	501	8.1	9.8	0.9	0.9
Thailand	35	104	250	436	13.8	14.4	0.7	0.8
Malaysia	44	106	134	266	7.0	7.0	0.4	0.5
Philippines	35	70	130	231	11.4	10.0	0.4	0.4
Indonesia	43	48	63	202	4.7	4.5	0.2	0.4
Vietnam	35	8	25	80	19.4	12.5	0.1	0.2
Brunei	1	6	5	14	4.8	6.6	0.01	0.02
ASEAN	250	565	918	1,730	8.8	8.6	2.6	3.2



Overall, Singapore is a ECU 5.1 billion (USD 6.5 billion) market for agricultural products, about 70 percent of which is made up of high-value, consumer-ready food products. Currently, the EU market share, with ECU 500 million, is 9.8 percent, and this figure is on a slow but steady growth path. Though nearly 50 percent of these imports from the EU consisted of alcoholic beverages, the imports of food products, such as dairy and meat products, have also increased substantially. Alcoholic beverage imports showed a strong increase to ECU 240 million in 1996, as compared to ECU 98 million in 1990. With regard to meat products and dairy products, the Singapore increased its imports to ECU 53 million and ECU 38 million in 1996 from ECU 30 million and ECU 15 million in 1990, respectively.

Due to the open nature of the Singapore market, competition for the agricultural market is extremely intense. The retail market is very competitive and entry costs are high (USDA 1996b). Products that compete with the EU originate from many sources, such as the USA, Australia, New Zealand, Canada, Japan, South Africa, Argentina, and Chile. Current EU market strengths are in alcoholic beverages (SITC 11), meat and meat preparations (SITC 01), and dairy products (SITC 02) with 41%, 20%, and 15% import market shares (by value), respectively.

*Thailand* has been an increasingly important destination for EU agricultural exporters. In 1996 EU exports reached ECU 436 million (USD 555 million), up more than ECU 185 million or 75% compared to the 1990 level. Growth in EU exports averaged 9% per year in the period 1990-96. Booming middle class income levels have fuelled most of the country's increased appetite for imported food products in the early 1990s. In 1996 Thailand imported ECU 3.0 billion (USD 3.9 billion) worth of agricultural products, with the EU holding an astounding 14.4 percent share. However, in the late 1990s, the EU food industry may suffer a serious blow to exports as a result of the very large depreciation of the Thai baht in 1997. There were already strong signs of slowing import demand for certain goods, in particular alcoholic beverages, in the third and fourth quarters of 1997.

In 1996 the major imports from the EU consisted of alcoholic beverages (SITC 11), fish and crustaceans (SITC 03), feeding stuffs (SITC 08), and dairy products (SITC 02). These product groups together account for about 72% of Thailand's agricultural imports from the EU. The EU had the largest import market share by value in alcoholic beverages, meat and meat preparations, and dairy products with 90%, 32%, and 17%, respectively. The EU accounts for a sizeable share (12.2%) of the huge fish and crustaceans market as well. While the size of Thailand's alcoholic beverage market, especially wine market, has grown substantially, the EU market share has held steady at around 90% range. France remains the market leader in wines.

Thai consumers have quickly developed a taste for western styles and imported foods. The USA, Australia, and New Zealand are the EU's main competitors for the imported temperate agricultural product market. South American countries like Chile, Brazil, and Argentina are also making inroads into the market with exports of their meat products. However, Thailand's protection of its domestic food processing sector through the use of tariffs and non-tariff barriers has resulted in a tremendous expansion of domestically manufactured snack foods, beverages, and other consumer-ready food products for local and export markets (USDA 1997c). Therefore, Thailand's abundant domestic supply of relatively good quality fresh fruits and vegetables, processed fruits and vegetables, juices, poultry meat, and other products, coupled with currency devaluation, provides tough competition for imported products.

*Malaysia* continues to emerge as one with the brightest prospects in Asia for growth in exports of consumer-oriented food products and beverages from the EU. The underlying strength of the economy has meant that the effects of the current financial crisis in Asia have been somewhat less serious in Malaysia than in some other ASEAN economies. The per capita food expenditure in Malaysia is estimated at around USD 1,000, and it is considered among the highest in the region. Furthermore, country's racial and cultural diversity has encouraged Malaysian consumers to be more receptive to new food items. Rapid urbanisation and changing lifestyles have also brought about additional changes to local eating habits (USDA 1997a).

The export value of the EU farm products to Malaysia has shown impressive increase from ECU 134 million in 1990 to ECU 266 million in 1996, and, it is likely to increase further in 1997. In fact, the EU farm exports to the country have almost quadrupled since 1980. Overall, the country's agricultural imports totalled ECU 3.8 billion (USD 4.8 billion) in 1996, with the EU holding a 7.0% share. Australia has dominated Malaysia's meat import market due to competitive prices, lower freight costs, and shorter shipping times. New Zealand and Australia have taken the bulk of Malaysia's sizeable dairy import market for many of the same reasons (USDA 1997a).

In *the Philippines*, economic growth has also translated into high rates of growth in consumer-oriented food imports. In 1996 the Philippines imported altogether ECU 2.3 billion (USD 3.0 billion) worth of agricultural products, with the EU holding a 10% share, or ECU 231 million. Growth in agricultural imports from the EU averaged 10% per year in the period 1990-96. Although recent declines in the value of the Philippine peso will probably dampen this rate of growth, it seems that consumer-oriented sales increased still in 1997. With a growing population and limited agricultural resources, prospects look good for continued robust growth for European foods and beverages, at least in the longer term. Current EU market strengths are in processed meat, dairy products, and alcoholic beverages.

The EU's major competitors for the consumer-ready food market are the USA, Australia, New Zealand, Chile, and China. There are also large transshipments of food products through Hong Kong, Taiwan, and Singapore. Much of this transshipment is of U.S. origin, but it is difficult to establish a definite percentage. Because of only recently lifted bans on imports of pork and chicken, and relatively high tariffs on beef imports, most meat is still processed locally. However, the country imports a considerable amount of low-quality beef from the EU as well as from Australia for processing into hamburger patties and canned meat (USDA 1997b).

*Indonesia* has certainly been one of the most dynamic and promising of all markets for consumer-ready food products. The rapid growth of the country's economy in the early 1990s is one factor. The size of the country is another. Agricultural imports from the EU grew by an average of 19.5% per year over the period 1990-96. This high growth rate is perhaps not surprising, given the initial smallness of country's imports from the EU. In 1995 EU exports hit an all time record of ECU 226 million (USD 287 million), up more than ECU 160 million or 260% compared to the 1990 level. In 1996 these exports declined by an estimated 10% from volume of the previous year. The very large devaluation that Indonesian rupiah has suffered recently will certainly dampen the rates of growth in agricultural imports quite substantially in the late 1990s. Imports from the EU could fall as much as 50% in the short term as a result of the fall in the cost competitiveness of the EU food industry and the downturn in the Indonesian economy.

Overall, country's agricultural imports were ECU 4.5 billion (USD 5.7 billion) in 1996, with the EU market share at a 4.5%. The imports from the EU are concentrated in three product groups: cotton, feeding stuffs, and dairy products. In 1996 these product groups together accounted for about 58% of Indonesia's agricultural imports from the EU. The EU has been one of Indonesia's major suppliers of dairy products, holding a 20% import market share in 1996. EU dairy products, such as cheese, are in good demand because of their premium quality. Alcoholic beverages from the EU have also made inroads into the Indonesian market.

The EU's consumer-ready food products compete mainly with Australia for the Indonesian markets. The Australians firmly believe that Indonesia is their own market. The Australian government and industry has worked together to improve the food industry's competitiveness by improving co-operation, removing impediments across the industry and putting the focus squarely on international opportunities (Edwards and Skully 1996). On the other hand, even with this big export drive, Australia's share of Indonesia's food imports remains stuck at about 8%.

## 5. Agricultural trade policies in ASEAN and the EU

The pattern, composition, and trends of ASEAN-EU agricultural trade, as examined in the previous chapter, are the product of various factors, of which trade policies are important ones. This chapter attempts to investigate the major ASEAN and EU trade policies and practices influencing agricultural trade flows between these two regions. The main thrust of the discussion will be on factors distorting trade, specifically restrictions on imports – such as traditional tariffs and non-tariff barriers.

Agricultural trade policies encompass a variety of measures intended to affect the flow of agricultural commodities between countries. These measures frequently include controls on both imports and exports. Import tariffs, trade quotas, price controls, and marketing operations of national marketing agencies are typical commodity-specific policies driving a wedge between the domestic and border prices. Government intervention in agriculture has been intended to achieve many different and often conflicting objectives: cheap food and raw materials to promote industrialisation, greater government revenue, food self-sufficiency, stable prices, and higher farm income.

Tariff duties are the most transparent forms of trade protection. Tariffs and para-tariffs on imports are readily measured and, due to their direct effects on import prices, the economic implications of these measures are mostly straightforward. Non-tariff barriers (NTBs), on the other hand, are more difficult to quantify and they tend to affect prices more indirectly. Non-tariff barriers take a number of forms, including quantitative restrictions, additional taxes, or excessive safety, sanitary, and phytosanitary regulations. Non-tariff barriers can also relate to legal, administrative, or policy regimes that either overtly or covertly disadvantage foreign commercial interests. They are also particularly trade distorting and costly in economic terms because, unlike tariffs, they limit the extent to which the price system allocates resources for production and consumption in the economy (DeRosa 1995).

The concern of the issue on trade protection is important not only because it is intrinsic to the topic but also because of the continuous concerns and controversy over the problem of protectionism in international agricultural trade among countries. Although the concern here is on bilateral trade relations, the factors causing trade distortions arise in the context of the global trade relations of the ASEAN and EU countries, which may require multilateral negotiation and/or reform of certain domestic policies. Import controls, which take various forms, are the primary instruments of trade protection in ASEAN and the EU countries.

The EU, in particular, has been the target of the criticism that its highly protectionist agricultural policies and its export subsidies for EU agricultural products are harmful to the hopes of economic development of many developing countries. The EU, which represents one of the world's largest markets for raw

materials and agricultural products, has a considerable influence on the structure of the world agricultural trade.

Despite the fact that Southeast Asian countries have seen most of the EU's tariffs and quantitative restrictions on their imports fall during the 1990s, they remain deeply anxious about the proportionately high number of EU anti-dumping duties and surveillance measures that they attract. Moreover, the EU's tariff escalation regime ensures that ASEAN countries face progressively higher tariff rates as they move towards downstream value-added production (Akransee 1988).

In the ASEAN countries, import protection structures are more importantly identified with tariff structures (DeRosa 1988). This is because tariffs, rather than other import control measures, are generally more broadly applied across import categories. Some ASEAN countries restrict agricultural exports through state-directed marketing boards for such commodities as rice, sugar, and cotton.

## **5.1. Agricultural trade policies and protection in ASEAN countries**

### **5.1.1. Structure of agricultural protection**

The ASEAN economies have expanded very rapidly during the past three decades. Associated with this rapid growth are considerable changes in the structure of these economies. One manifestation of this structural transformation has been the rapid decline in the relative importance of the staple food sector: its contributions to GDP, employment, and exports have declined rapidly in these economies, as have the rates of self-sufficiency in basic foods. Between the late 1960s and early 1980s, there was a strong policy response designed to slow down this relative decline in food sector by raising steadily the level of agricultural protection (Tyers and Anderson 1985, David 1986). As a result, agricultural protection in ASEAN countries rose from slightly negative levels in the early 1960s to relatively high levels by the late 1980s.

ASEAN's switch from taxing to assisting agriculture, in the course of economic development, is not without a precedent. Indeed, it has often been observed that poor countries tend to tax agriculture relative to other tradable sectors, while industrially advanced countries tend to provide farmers with more assistance than other sectors receive (Bale and Lutz 1981, Andersson and Hyami 1986).

In Indonesia the domestic-to-border price ratio for virtually all agricultural products rose steadily between the late 1960s and late 1980s. Despite significant trade policy reforms in 1991, price and trade policies still isolate domestic prices of major crops from the world markets. These policies provide relatively low protection to the farm sector as a whole, but there is variation across commodities. In general, domestic prices of import-substituting commodities are above the world prices, and those of export-oriented commodities are at or

below the world prices (Hjort and Landes 1993).

Malaysian food producers have also received steady increases in government assistance since the early 1970s, both directly via input subsidies/grants and indirectly via import control. Malaysia has mainly used administered prices, both to support domestic rice producers and to allocate rice and wheat to consumers. Thailand has imposed a high tariff structure, which remains as a critical constraint to higher growth in the consumer demand for imported food products. Tariffs on food items rose substantially in the late 1970s, largely in response to severe current account deficits incurred in the wake of oil price shocks in 1972 and 1979 (Giordano and Raney 1993). However, Thailand provides little direct support to the agricultural sector.

In the Philippines the import regimes for most foods and beverages, most notably meats and domestically produced vegetables, are highly restricted. Furthermore, producer incentives for rice and corn include price supports in the form of procurement prices and, fertiliser and other input subsidies (Hjort and Neff 1993).

Tariff duties, which are the most transparent forms of trade protection, are broadly applied across import categories in ASEAN countries. Table 5.1 provides a general view of tariff and non-tariff barriers enforced by ASEAN countries to control agricultural imports. The general tariff schedules of most ASEAN countries include both ad valorem and specific tariffs. Ad valorem tariffs, however, are by far the most important and common form of tariff, generally involving frequency rates higher than 80% in connection with imports of both food items and agricultural raw materials (DeRosa 1995).

Table 5.1 reveals the following points. Firstly, Singapore is obviously duty-free and Malaysia enforces relatively low tariff levels against agricultural primary products. In Malaysia the average tariff level for the category of primary commodities is about 6%. The remaining ASEAN countries apply ad valorem tariffs at substantially higher average rates. Thailand and the Philippines have imposed the highest average tariff levels, 28% and 27%, respectively. In Indonesia, the average tariff level is 15%.

The information about non-tariff barriers presented in Table 5.1 provides a more accurate picture of the structure of protection in the ASEAN countries, including Singapore. Although Singapore has very low tariff levels, the information reveals the existence of significant quantitative restrictions, mainly in the form of licensing requirements on imports of cereals and agricultural raw materials. For Indonesia and the Philippines, the data reinforce the view provided by the information on tariffs. Both countries have applied non-tariff barriers to primary commodities extensively at a high average frequency ratio. Finally, Malaysia and Thailand appear to exercise restraint in the application of non-tariff barriers, with the important exception of the appreciable non-tariff restrictions applied to imports of cereals in both countries (DeRosa 1995).

*Table 5.1. Import restrictions in ASEAN countries by primary products.*

Country/sector	Tariffs	Frequency of non-tariff barriers <sup>1)</sup>			
	Average tariff <sup>2)</sup>	Licences	Quotas	Prohibitions	Other <sup>3)</sup>
<b>Indonesia</b>					
Primary products	14.7	61.7	13.8	21.8	1.6
Food products	24.5	21.5	29.4	45.6	3.3
Cereals	3.6	0.0	0.0	56.4	43.6
Meat products	25.0	0.0	20.0	30.0	37.5
Agricultural raw materials	10.2	94.0	0.0	1.8	0.0
Textile fibres	8.8	89.0	0.0	0.0	0.0
<b>Malaysia</b>					
Primary products	6.0	4.3	0.0	0.2	0.0
Food products	5.0	5.4	0.0	0.2	0.0
Cereals	0.0	30.8	0.0	0.0	0.0
Meat products	0.0	9.0	0.0	0.0	0.0
Agricultural raw materials	5.5	5.7	0.0	0.4	0.0
Textile fibres	1.5	0.0	0.0	0.0	0.0
<b>Philippines</b>					
Primary products	26.9	32.9	3.6	1.7	2.3
Food products	35.8	45.6	7.7	3.2	3.5
Cereals	36.9	57.7	38.5	0.0	3.8
Meat products	40.0	54.0	70.0	2.0	3.0
Agricultural raw materials	22.7	20.2	0.0	0.9	3.1
Textile fibres	21.8	0.0	0.0	0.0	2.3
<b>Singapore</b>					
Primary products	0.1	15.3	0.0	0.0	0.0
Food products	0.1	21.8	0.0	0.0	0.0
Cereals	0.0	30.8	0.0	0.0	0.0
Meat products	0.0	25.0	0.0	0.0	0.0
Agricultural raw materials	0.0	19.4	0.0	0.0	0.0
Textile fibres	0.0	15.9	0.0	0.0	0.0
<b>Thailand</b>					
Primary products	28.0	21.0	0.0	8.2	0.0
Food products	41.4	30.5	0.0	16.5	0.0
Cereals	5.0	30.8	0.0	30.8	0.0
Meat products	60.0	30.0	0.0	12.5	0.0
Agricultural raw materials	23.7	14.9	0.0	0.0	0.0
Textile fibres	32.0	2.3	0.0	0.0	0.0

<sup>1)</sup> Percentage of national tariff schedule lines affected by non-tariff barriers within the product category

<sup>2)</sup> The table presents average (unweighted) levels of nominal protection across categories of primary commodities.

<sup>3)</sup> Foreign exchange restrictions or state trading monopolies.

Although the non-tariff barriers enforced by the ASEAN countries have predominantly been quantitative restrictions (licensing arrangements, quotas, and prohibitions), state trading is still a feature of the trade regimes in Indonesia and the Philippines. When the Philippines restricts imports of certain agricultural goods and products (mainly maize, sugar and beverages) to official agencies, over 40% of Indonesia's imports of cereals are channelled through parastatal enterprises and official agencies (DeRosa 1995). Through non-tariff barriers, the ASEAN countries have protected their local producers, in particular, cereal producers, to a high degree. The commonly given explanation for this is the necessity of achieving domestic food security (DeRosa 1995).

### 5.1.2. Trade restrictions and regulation

As noted above, agricultural protection in ASEAN countries has taken many forms, consisting of indirect measures affecting the price of the product and direct measures affecting producers' income. Among the indirect measures, border protection measures such as tariffs and non-tariff barriers to trade stand out. Closely related to tariffs and quotas are custom procedures, which are one of the main problems that EU exporters face in many ASEAN countries (Daquila 1997, Oman 1997). During the Uruguay Round negotiations, many tariffs and a number of import licensing requirements in ASEAN countries were reduced. However, a large number of barriers are still in force. This can be seen in Table 5.2, which presents some recent ad valorem tariffs applied to selected imported agricultural products by ASEAN countries.

In *Indonesia* periodic deregulation packages have eliminated or reduced tariffs and non-tariff barriers on agricultural products. The Indonesian government began liberalising its agricultural trade policies in 1991. Currently, tariffs on agricultural products range from 5% to 180%, with the majority falling between 10% and 30%. In July 1996, import tariffs on a wide range of agricultural products were cut from 25% to 20%. However, because of the strong domestic opposition, fresh fruit was not included in the levy reduction. Overall, Indonesia's simple average import tariff fell from 37% in 1985 to about 25% in 1996. The average effective tariff is much lower, however, due to exemptions. Tariffs on imported agricultural products are scheduled to drop to 15% in 1998 and to 10% by 2000 (Market Asia 1997).

The State Logistics Agency (BULOG)<sup>8</sup> still controls rice trade and imports of staple foods such as wheat, soy beans and sugar. BULOG sells licences to

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<sup>8</sup> Bulog was set up in 1967, when the country's economy collapsed, inflation was soaring and even rice was in short supply. By buying over-supply and importing in times of shortage, Bulog ensured the supply and price stability and helped the government, once the world's largest rice importer, reach self-sufficiency in 1984.



*Table 5.2. Recent average ad valorem tariffs on selected agricultural imports by ASEAN countries.*

Country/sector	Indonesia	Malaysia	Philippines	Singapore	Thailand
Unprocessed goods <sup>1)</sup>					
Wheat	1.0	0.0	10.0	0.0	0.0
Sugar	10.0	0.0	50.0	0.0	0.0
Beef	5.0	0.0	12.0	0.0	20.0
Lightly processed goods <sup>2)</sup>					
Wheat	6.0	0.0	27.0	0.0	29.0
Sugar	10.0	0.0	50.0	0.0	0.0
Beef	25.0	0.0	30.0	0.0	60.0
Dairy products	20.0	5.0	16.0	0.0	38.0
Highly processed goods <sup>3)</sup>					
Wheat	33.0	15.0	40.0	0.0	50.0
Beef	25.0	5.0	50.0	0.0	60.0
Dairy products	22.0	15.0	33.0	0.0	56.0

<sup>1)</sup> Unprocessed: wheat, raw sugar, live cattle;

<sup>2)</sup> Lightly processed: wheat flour, refined sugar, fresh, chilled or frozen beef, milk, milk powder, butter, low value cheese;

<sup>3)</sup> Highly processed: cereal preparations (pasta), meat preparations, dried, salted or smoked meat, cheese, other processed dairy products (yoghurt, ice-cream, etc.)

importers, distributors, and producers, often limiting the number of companies that can get started. BULOG has lost some of its domestic monopolies in previous deregulation rounds, but its hold on imports remains strong<sup>9</sup>. As a part of the IMF-led trade liberalisation package introduced in 1997, Indonesia has promised to eliminate BULOG's import and distribution monopoly over wheat and wheat flour, soybeans, and sugar.

All products imported to Indonesia should be registered through the Ministry of Health. However, most of the imported products on supermarket shelves are not registered and enter the market in mixed contained loads. Normally the importer registers the product but has little incentive to do so if the quantities imported are small (USDA 1996a). Increasingly, EU exporters who are serious about the market are having their products registered. The registration process can be lengthy, bureaucratic, and costly. Graft payments to customs and port officials can be significant as well.

<sup>9</sup> According to the World Bank (1997), BULOG's monopolies over imports of rice, sugar, wheat and soybeans have raised average prices and 'tax' consumers. World Bank has calculated, for example, that domestic sugar prices were 20% higher than world prices through the 1980s.

Any licensed importer can import freely most of the food products, with the exceptions of meat, poultry, and alcohol, for which licenses must be obtained. In addition, only two importers are licenced for alcohol imports, which now have tariffs equal to about 300% and a quota of 50,000 units. However, only half of the meat and poultry and about 10% of the alcohol imported are legally licenced (USDA 1996a).

In *Malaysia*, with the exception of a few products, agriculture receives little protection<sup>10</sup>, and benefits only from the supply of low-skilled immigrant labour. Furthermore, Malaysia has made substantial offers in the Uruguay Round contributing to a greater market access for imports of agricultural goods. The scope of tariff bindings increased from 1% to 65% as a result of the Uruguay Round negotiations. Thus, import duties on a wide variety of food items and beverages have been abolished or reduced over the past four years.

The tariff reduction exercises undertaken during 1994-97 have seen tariffs reduced on a total of over 800 agricultural items. These included fresh temperate and processed fruits as well as various kinds of food preparations. Tariff rates on 92 items have been reduced at a rate faster (acceleration) than that required under the WTO proportionate cuts reduction schedule, 159 items were reduced to their bound rates, while another 560 items had their tariff rates reduced lower than the bound rates. In the case of 12 tariffed agricultural products, the applied rates are currently zero.

Nevertheless, high levels of tariff protection remain in some agricultural sub-sectors. Currently, import duties on agricultural products range from zero to 30%, with the majority falling between 0% and 10%. In 1995 tariffs on still wines were reduced by more than 50% by the Malaysian Government to boost the tourism industry. Malaysia also exacts a 5% sales tax on most imports, but imports of products not available locally and used for export production are exempt from both the duty and sales tax. Import licencing is the major non-tariff measure, affecting some agricultural products. Most licenses appear to be granted automatically or predictably upon fulfilment of certain criteria. Imports of coffee beans and round cabbages are, however, subject to quotas.

Among the ASEAN countries, Malaysia has relatively demanding health and labelling requirements. However, they are not overly restrictive. All meat, poultry, and dairy product shipments must be accompanied by appropriate documentation. Since Malaysia, as well as Indonesia, has a large Muslim population, all beef and poultry products must also be certified as "halal". In other words, the products must originate from slaughterhouses that follow Islamic slaughter

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<sup>10</sup> By contrast, relatively high tariffs, combined with an import quota on imported automobiles and sales tax reduction applicable to the national car, directly favour manufacturers of the latter, not just to the detriment of other domestically-manufactured or imported cars, but also at the expense of other sectors, such as agriculture, that receive lower protection.

practices. These facilities must also be inspected and approved by Malaysian religious authorities (USDA 1997a). Other food items that contain any animal products must be clearly marked. If these products cannot be certified as halal, Muslim consumers, who make up about 60% of the population in Malaysia and 90% in Indonesia, are unlikely to purchase them.

*The Philippines* is gradually liberalising its agricultural pricing and trade policies. As of May 1, 1996, the Philippine Government technically eliminated all its non-tariff trade barriers except for a quota on rice. The Government started to issue import permits in August 1996 – over a year after the market was supposed to open under the Philippines World Trade Organisation (WTO) commitments (USDA 1997b). This has allowed the entry of previously banned agricultural products. However, there are still barriers that make market entry in the Philippines difficult, including overall tariff rates, which are still relatively high at about 30-40%, but further reductions are planned.

In 1996 the Government implemented lower tariff rates for a range of agricultural products. Particularly encouraging for the EU exporters are lower rates on alcoholic beverages and chocolate confections. Tariffs on alcoholic beverages have already dropped to the maximum of 30%, and they will drop further to 20% by 1998. This is a considerable drop from a 50% tariff on these products in 1995. Confections now carry a 10% tariff, down from 50% in 1995.

However, despite the more liberalised import regime for most foods and beverages, imports of certain consumer oriented products, most notably meats and domestically produced vegetables, are still highly restricted. Pork, poultry, and beef are subject to tariff rate quotas (known as minimum access volumes or MAV). For 1997, the MAV for pork was 36,135 MT, for beef 57,054 MT, and for poultry 16,160 MT. Within the MAV, tariffs on pork and beef are 30% and on poultry 45%. Out of quota duties are currently 80% for pork and poultry and 50% for beef, but these will be phased down to 40% by the year 2004. Canned and other prepared and preserved meats are subject to an 80% tariff with no tariff rate quota. This will fall to 60% in July 1999. Potatoes and coffee also have tariff rate quotas with in-quota tariffs of 45% and out-quota rates of 80%.

Importers must obtain licenses to import at the in-quota tariff rates. Under the current regulations, the import licenses for frozen raw pork and poultry are predominantly allocated to producers and integrators and those for beef to processors. In 1997, the first full year of implementation, the beef quota was filled. The pork and poultry quotas were slow to fill because of the preference given to producer groups in quota allocations. The United States has challenged this allocation system through the World Trade Organisation (USDA 1997b).

The Government's stated goal is a uniform 5% tariff on all products, agricultural or not, by the year 2004. With producer resistance high, it is not clear, however, if indeed this goal will be realised at least for some of the more sensitive agricultural products, like meats and domestically grown vegetables.

In the case of fruits and vegetables, phytosanitary restrictions can at times create problems.

*Singapore* imposes very few tariffs on imports; 96% of imports enter duty-free. There are no tariffs on imported food products, except on tobacco and tobacco products and alcoholic beverages. Except for beer, where local excise taxes are lower than duties, these duties are non-discriminatory and they are imposed as revenue-raisers or intended to discourage consumption. The Government has begun to reduce the differential between excise taxes and duties by raising the domestic excise tax. With the exception of rice, there are no quantitative import controls on agricultural products. However, Singapore maintains a system of strict sanitary and phytosanitary requirements implemented through import licencing. All importers must conform to the regulations prescribed in the Singapore Food Act. Imports of meat and poultry products must be accompanied by an export health certificate from the country of origin (USDA 1996b).

In *Thailand* duties on imported food items remain in the 40% to 60% range with only a few exceptions, notably, the duty on apples is 10%. The highest average tariffs are for distilled spirits and malt liquors (60%), wine and beverages (about 54%), and canned fisheries products (55%). Thailand's high tariff structure for the consumer-ready food items has reduced the demand for imported food products, although the economic trends during the early 1990s were quite favourable for continued growth and expansion of those items.

As a signatory nation to the WTO, Thailand has committed itself to reduce tariffs and began to do so in 1995<sup>11</sup>. Nevertheless, by the end of the tariff reduction phase-in period in 2004, duties will still be in the 30% to 40% range. In addition, state-trading organisations are one of the exclusive recipients of the import allocations under the in-quota part of the tariff quotas established for a number of products subject to tariffication. Moreover, local content requirements still apply to such items as dairy products. Local content requirements are to be eliminated by the end of 1999.

Thailand's high tariff rates are in stark contrast to the extremely low tariff structure that already exists in the nearby and economically similar countries of Malaysia and Indonesia. This situation is an invitation to smuggling, which occurs in rather substantial volumes for the part of some fresh fruits, but especially processed food products and dried fruits and nuts. Recognising the disadvantages of this situation, the Thai government is considering accelerated duty reductions for several food items, but only those that are further processed or packaged in Thailand.

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<sup>11</sup> Under Thailand's Uruguay Round commitments, virtually all agricultural tariffs have been bound, and the level of bindings in industry increased from 2 to 68%. Agricultural bindings are generally at currently applied rates, with the bound average to decline by some 33% over the implementation period to 2004. Thailand's exceptions to Uruguay Round agricultural tariff bindings include certain live animals, animal fats, and coral.

Apart from high tariffs, Thailand's time-consuming and cumbersome licencing and registration procedure may delay the entry of new products into the market. Importers of many goods<sup>12</sup> under tariff quotas are required to obtain an import license from the Ministry of Commerce. Applications for the license must be accompanied by a supplier's order confirmation, invoice, and other pertinent documents, including packing lists, bills of lading, letters of credit (if applicable), and import entry forms (USDA 1997c).

## **5.2. EU agricultural trade policies towards ASEAN countries**

### **5.2.1. Elements of the EU trade policy and Common Agricultural Policy**

The EU's agricultural trade relations with ASEAN countries have to be seen in the context of overall EU trade policies vis-à-vis the rest of the world, and the developing countries in particular. Trade policy in the EU belongs to those policy domains in which policies on the Community level as opposed to national policies of the member countries play an important role. Since 1968 the responsibility for trade policy has been vested in the EU Commission located in Brussels, the executive organ of the EU. In that year, all tariffs on intra-EEC trade were removed and Common External Tariffs (CET) were introduced. The new member countries, which have joined the EU after 1968, had to adjust to the common external tariffs and abolish their tariffs against the other members (Langhammer 1987).

The access of agricultural exports to the EU has generally been determined by two basic elements of trade policy. The first element consists of de-linking the EU agriculture from international competition and fluctuations in prices. This is reflected in the Common Agricultural Policy (CAP) of the EU as internal price and purchase guarantees, on the one hand, and adjustments of import prices to the EU price level, on the other. The second element relates to the fact that EU trade policy favours certain non-member countries and trading blocs such as the African, Caribbean, and Pacific countries (the so called ACP countries) and the countries of the Mediterranean rim. This is reflected in the complex network of discriminatory tariffs through generalised and country-specific or region-specific trade preferences (Langhammer 1987, Viinikka 1990). These two elements affect the access to the EU's agricultural markets by both the privileged and non-privileged countries in absolute as well as relative terms.

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<sup>12</sup> Import licencing in Thailand has been reduced significantly during the early 1990s, but non-automatic licencing continues to apply to a number of imports, including fish meal, coffee beans, pepper, sugar, and jute.

The Common Agricultural Policy (CAP) of the EU is itself a complex mechanism. The initial intention of the CAP was to promote European integration. The main objective of the CAP is, however, to protect farmers in the member states from too high a pressure to adjust in the process of economic change. In practical terms this means that the CAP is orientated towards supporting European farmers' incomes. This domestic objective is to be pursued with instruments, which have decisive external effects on the international level.

While regulations differ according to commodities, the basic philosophy of the Common Agricultural Policy regarding internal price support and external protection has evolved out of the 1962 regulations for the marketing of grains. This system, which now covers more than 90% of total EU agricultural output, involves a mass of marketing regulations, including schemes for internal price support, external protection measures (e.g. tariffs and levies), and production and export subsidies.

While the CAP in general exhibits a high degree of protectionism, the EU has granted developing countries a whole array of trade concessions. The EU has established a complex system of trade preferences known as the Generalised System of Preferences (GSP), which, however, have not been shaped according to the global needs of the developing countries. Instead, the trade concessions of the EU reflect rather the structure of the EU's interests with respect to domestic output composition and foreign policy relations (Tangermann 1979). In the area of agricultural trade, the preferences are restricted to duty concessions for certain agricultural goods, which either cannot be produced in the EU for climatic reasons (such as tea, cocoa, some fruits, and vegetables) or which could be produced only at prohibitively high costs (as in the case of soybeans).

Although the list of agricultural goods covered under GSP has been successively extended to include more products (of specific interest for single developing countries), it still applies mainly to products, which have low significance for EU producers and processors. Such commodities, finally, which are used in the EU agriculture only as inputs and do not compete with domestic production, as in the case of feeding stuffs like oilseeds, enter the EU with low or zero tariffs.

A complex hierarchy of trade arrangements between the EU and specific groups of developing countries parallels the product-wise hierarchy of EU trade concessions. Since its creation, the EU has entered into a number of different kinds of trade agreements with a number of countries, by virtue of which EU imports from the latter receive preferential treatment. Thus, the EU has deviated widely from the non-discrimination principle of the General Agreement of Tariffs and Trade (GATT), and it applies different policies to different regions and trading blocs. These country-specific trade concessions in part reflect the multiplicity of the EU's foreign policy interests, ranging from old colonial responsibilities to military-strategic considerations (Tangermann 1979).

By ranking the groups of the trading partners of the EU according to increasing degrees of preferential treatment, the following rough classification emerges. Non-beneficiaries are those developed countries, mainly non-European, who, being contracting members to WTO, enjoy nothing more than most-favoured nation (MFN) tariff treatment. Next to these categories come already those developing countries which are subject to treatment under the EU's GSP scheme. For the ASEAN countries, the main preferences offered by the EU are embodied in the GSP (Viinikka 1990). More than one third of ASEAN exports to the EC enjoy tariff concessions under the GSP scheme.

By far more intense are trade preferences granted to the African, Caribbean and Pacific countries (ACP countries) under the Lome Convention. The ACP countries is the only single group, which is afforded concessions for central CAP products like beef and sugar. The privileged treatment of the ACP countries has far-reaching historical roots. Most of the ACP countries are former colonies of the EU member countries (Tangermann 1979). When the Community was formed, the overseas dependencies of Belgium, France, Italy, and the Netherlands in Africa were given associated status. These dependencies gained independence in the 1960s, but continued to maintain close economic links with the Community through the Yaounde Conventions and the Arusha Agreement.

When Denmark, Ireland, and the United Kingdom joined to the EEC in 1973, it was agreed that the developing countries of the British Commonwealth, except those in Asia, should receive similar associated status. The interests of Asian Commonwealth countries were provided separately in the Joint Declaration annexed to the Accession Treaty. In 1975, the EU entered into a new contractual agreement known as the Lome Convention, with its 46 former dependencies in Africa, the Caribbean, and the Pacific. Lome Convention became a centrepiece of the EU's relations with the developing countries.

All the ASEAN countries are excluded from special EU trade preferences. Although the EU has established commercial co-operation agreement with ASEAN (1980), this agreement offers no opportunity for access to markets, but merely provides for consultation in trade policy disputes (Langhammer 1987). ASEAN countries, therefore, receive benefits only from the Generalised System of Preferences (GSP). As mentioned earlier, the GSP treatment is mainly provided for those agricultural products which play only a minor role in EU agricultural policy and which are not close substitutes for domestic products.

### **5.2.2. Protection against agricultural export of ASEAN countries**

The EU protection against agricultural export of ASEAN countries has generally taken three forms. First, domestic suppliers have been protected through variable levies and other interventions on products such as sugar and rice. Second, quantitative restrictions have been imposed on imports of animal feed,

such as cassava, which are substitutes for grain. Third, there has been discrimination in tropical products, such as cocoa, palm oil, fruits, tobacco, and coffee exported to the EU by ACP countries (Langhammer 1987).

### (a) Sugar

The sugar market policy of the EU has discriminated against sugar imports from ASEAN, namely imports from Thailand and the Philippines. This question is of special relevance, since, on the one hand, the EU's sugar market is its most protected agricultural market and, on the other hand, a special preference in the form of the EU sugar quota is given to ACP countries.

The impact of the sugar policies of the EU is many-layered. Firstly, EU price support encourages overproduction of sugar, thereby stimulating exports. Internal prices of sugar in the EU are clearly above the world market prices most of the time and exports receive substantial support. As a result, the EU has changed from a net sugar importer in the mid-1970s to a major world sugar exporter. A significant proportion of the excess supply of sugar has found its way into the world market at a very highly subsidised rate, which has depressed the world market price for sugar. Most of the importing countries, including Indonesia and Malaysia, have benefitted from the protectionist sugar policies of the EU because of the lower world market prices. On the other hand, negative welfare effects occur to ASEAN sugar exporting countries which supply the world market, especially Thailand and the Philippines (Koester and Schmitz 1982).

Secondly, in the ACP sugar protocol, the Community has pledged to import a certain quota of sugar from ACP countries at guaranteed prices on a duty-free basis<sup>13</sup>. The access of ACP preferential sugar to the EU and the support of that sugar have an additional distorting influence on world market conditions. The higher prices received in the ACP export countries result in higher returns and higher sugar production. The extra production is indirectly fed onto the world sugar market through larger supported EU sugar exports. The larger volume reaching the market reduces market prices received by countries which do not have access to the EU market (Roberts and Whish-Wilson 1991). Thus, the

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<sup>13</sup> The entry of the United Kingdom (U.K.) into the EC in 1973 gave rise to negotiations: before joining, the U.K. imported sugar from developing countries. There was agreement that it was not politically feasible to impose tariffs on these imports as was done for imports from other origins. At least some trade preferences had to be offered. The developing countries that belonged to the ACP countries and India negotiated for quite favourable results. They were allowed to export to the EC a fixed quota of sugar, 1.3 million tons annually, which equalled the quantities they had exported to the U.K. before the entry of the U.K. in the EC. Moreover, these quantities entered the EC without duties, and at guaranteed price, should the market price be lower at the time of entry.



ACP sugar protocol discriminates against the non-preferred countries as far as the exporters, including Thailand and the Philippines, are concerned.

### **(b) Rice**

Thai rice trade faces a similar situation as sugar, imposed by the CAP programme, which encourages high-cost production of rice. Like the sugar regime, the rice regime was originally based on an objective to support the incomes of the Union's growers and to protect them from competition from third country imports. Hence, the adoption of a system of intervention buying and import levy protection. Additionally, the regime aims to provide an element of protection to the EU rice millers from competition from third country milled rice imports.

The purpose of the rice regime as applied to imports is essentially to prevent the entry of lower-priced produce from third countries into the EU. All imports and exports of rice over 8.3 tonnes between the EU and third countries are subject to the issuing of import and export licenses. Rice imports are regulated by means of levies based on the threshold price and import licenses, as well as certain emergency measures. The threshold price was the minimum import price at which third country rice could enter the EU. This price was invariably above the world prices, and therefore rice imported into the EU had a levy applied to it which was intended to reflect the difference between the world prices for rice delivered to the EU ports as well as EU prices. Import levies were calculated for each category and type of rice imported into the EU (round grain, medium grain, paddy, husked, semi-milled and milled versions of each of these, plus broken rice). With the implementation of the GATT, the threshold price has been replaced by a maximum duty-paid import reference price from July 1, 1995.

### **(c) Cassava**

The restrictions on cassava, which has affected Thailand and Indonesia, highlights the two major elements of EU protectionism, i.e. the protection of local producers and discrimination between non-EU producers of close substitute products. Thai exports of cassava (also called tapioca or manioc) began to penetrate onto the EU market in a major way in the late 1970s. The competitiveness of cassava was mainly due to the CAP policy of keeping the EU price of grain at high level, thus raising the competitiveness of grain substitutes for animal feed. Therefore, the mixture of cassava pellets with soybean meal, which was not subject to variable import levies, had the competitive edge on grains and would disturb the EU-regulated grain market unless imports of cassava were also restricted<sup>14</sup>.

In 1980, the EC-Thailand agreement was signed, and voluntary export restraint (VER) were instituted. These measures were, however, introduced in a discriminatory manner. While the imports of cassava from Thailand and Indonesia were regulated, another substitute, i.e. corn gluten feed, could be imported unrestricted from the United States. This preference given to the US over imports originating in Asian countries was regarded as compensation for losses incurred by the US in world markets for agricultural products arising from the CAP (Langhammer 1987).

As a result of "voluntary" restraint on exports, the volume of cassava exports from Thailand to the EU declined by 40% after 1982. This entailed a loss of about USD 330 million, representing 11% of Thailand's total earnings from exports to the EU (Langhammer 1987). The annex of Spain and Portugal to the EU in 1983 further reduces the demand for cassava pellets from Thailand. Even thus constrained, the trade in cassava remains beneficial to the Thai economy (Siamwalla et al. 1992).

Furthermore, the EU conducts its trade relations in a context that links specific concerns with larger policy issues. This has often had adverse implications for the country concerned. For example, the request of Thailand to maintain cassava exports at the reduced level was accepted by the EU only when Thailand was willing to sign the bilateral MFA agreement, thereby deviating from the initial stand of ASEAN to oppose such agreements (Langhammer 1987).

#### **(d) Vegetable oil**

The EU protection against imports of palm oil products from Malaysia and Indonesia and coconut oil products from the Philippines has taken the form of import duties. Related to these import duties is the problem of tariff escalation. The EU has imposed a 4% duty on crude palm oil and coconut oil, and a 12-16% duty on processed palm oil and coconut oil. Thus, the EU protects domestic palm oil refineries and gives an unfair advantage to other producing countries to export the commodity in crude form (Chee Peng Lim 1997b). This kind of policy tends to discourage agro-processing, which is now vigorously pursued in ASEAN region.

However, compared to other agricultural sectors, the EU's oils and fats regime has always been relatively liberal: no variable levies, but tariffs. In the

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<sup>14</sup> Combining cassava imported at 6% tariff with soybeans at zero tariff essentially allowed European feed compounders to create artificial maize at much lower costs than sold in the EU. The boom in the cassava trade that followed surprised Europeans and by 1980 affected their sensitivities sufficiently for them to request Thailand's co-operation in limiting its exports (Siamwalla et al. 1992).

1962 Dillon Round of GATT negotiations the EC promised to keep import duties on oilseeds, meals, and oils at a constant level. As regards to third countries, the Marketing Regulation for Oils and Fats distinguish between vegetable oils and fats, on the one hand, and oilseeds and oil husks, on the other. Oilseeds and oil husks can be imported on a duty-free basis, whereas import of oils and fats is subject to varying duties. In addition, the import duties on various types of vegetable oils and fats differ according to the country of origin. For the developing countries included in the Lome Convention, free access was granted.

Another area of concern to the ASEAN countries has been the system of price subsidies to Union growers<sup>15</sup>, because such policies will continue to prevent fair trade in oils and fats (Chee Peng Lim 1997b). The EU's production subsidies for rapeseed, sunflower seed, soybeans, and linseed have resulted in a rapid increase in the EU's oilseeds production and self-sufficiency rate regarding vegetable oils. Oilseed production in the EU increased from the average of 2.5 million tonnes in the late 1970s to well over 12 million tonnes prior to the CAP reform in the early 1990s (OECD 1994). Surpluses of these products have been released on the world markets, resulting in unstable and depressed prices, on certain markets, in particular, in India, Pakistan, China and Japan (Salih et al. 1988). Therefore, vegetable oil exported from ASEAN has to contend with competition from the surplus production of vegetable oils in the EU, which are exported to third countries.

ASEAN is also concerned with the health and safety legislation concerning the cargo restrictions on palm oil that will be imposed by member states of the EU. Most sea-born cargoes of edible oils and fats into the EU are carried under FOSFA contracts, and they have now come within the scope of the EU food hygiene directive of 1993. This directive stipulates that all foodstuffs, including edible oils and fats, should be transported in vessels or containers reserved only

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<sup>15</sup> The oil and fat regime of the EU was originally based on a system of price subsidies to Union growers. This system enabled oilseeds and the products from crushing to be traded within the Union at close to world price levels. To ensure that Community growers can still sell their produce despite competition from cheaper imports, the processing industry received a subsidy if they used Community-grown products. The aim was to make up for the gap between the Union price set by the Council and the price of imports coming in. During the 1990s, support for growing oilseeds has been incorporated in the arable area payment scheme, leaving olive oil sector as the only regime still operating by means of a price subsidy or production aid support system.

<sup>16</sup> The terms of the derogation specify cargo provisions for oils and fats, depending on whether the materials are to be further processed or not. Oils and fats that are to be further processed and are intended to be used for human consumption can be transported in non-dedicated tanks, provided that the tanks are of stainless steel or epoxy lined, and the immediate previous three cargoes have been foodstuffs.

for the transport of foodstuffs and marked as such. This would mean that edible oils and fats can be transported only in dedicated tanks. However, at the end of 1995, following consultation with ASEAN representatives, the EU approved a derogation to the directive for the transport of oils and fats in ocean-going vessels<sup>16</sup>.

### (e) Other products

Most agricultural commodities imported from ASEAN are tropical products, which do not compete directly with EU products. However, tropical products from ASEAN compete with imports from ACP countries and some Mediterranean countries. Discriminatory measures against ASEAN agricultural products that compete with the products from ACP countries have, to some extent, restrained the growth of export revenues in some ASEAN countries. GSP provisions for these products have usually included tariff quotas and ceilings to protect ACP exporters (Table 5.3). For example, until 1997 the EU maintained tariffs on coffee and cocoa beans, though not on tea, to protect the preference margin of the ACP states. Finally, in 1997 the EU abolished its tariff on most coffee and cocoa beans imports. Under the new EU GSP scheme, all green, non-decaffeinated coffee from virtually all producing countries, except Brazil, will enter the EU duty free. The new GSP of the EU has meant duty-free coffee imports from Indonesia and Vietnam, among others. Lome Pact countries, which include most African coffee producers, already had duty-free access.

ACP countries has also enjoyed a 9% tariff preference margin against GSP exporters to the EU for pineapples. Pineapple juice is the largest tropical juice imported to the EU, amounting to 100,000 metric tons annually (Market Asia 1997). In the case of tobacco, the EU maintains higher MFN tariffs than most OECD countries, again partly to sustain the preference margins of the ACP, but also because these are important CAP products. Developed countries usually admit most spices tariff-free or at very low rates. Only the EU and Japan have retained significant rates.

*Table 5.3. Average pre- and post-Uruguay Round tariff rates on major tropical products in the EU.*

	coffee	cocoa beans	spices beans	tobacco	vegetable oils
MFN pre-Uruguay round	5.0	3.0	10.6	22.5	8.0
MFN post-Uruguay round	0.0	0.0	2.7	17.8	5.1
GSP pre-Uruguay round	4.5	-	3.2	22.2	2.5
GSP post-Uruguay round	0.0	-	1.4	17.8	2.5

### 5.2.3. The reform of the CAP and its effects on ASEAN

This subsection focuses on the general impact of Uruguay Round commitments on trade in agricultural commodities between the EU and ASEAN. As the reform of the Common Agricultural Policy (CAP) was introduced to a large extent in anticipation of the conclusion of the Uruguay Round, the effects of both need to be considered together.

The GATT Uruguay Round has put certain limits on the EU's traditional agricultural policies, and reduced the scope for isolating the domestic markets. Under the GATT agreement all import quotas and variable levies are to be abolished and replaced by fixed tariffs. These tariffs, including tariffs on tropical products, are reduced by 36% over a period of six years from 1995 to 2001. At the same time, budgetary expenditures on export subsidies are to be reduced by 36% and the volume of subsidised exports is to be cut by 21%. The impact of these GATT measures on the CAP was to some extent anticipated in the CAP reform<sup>17</sup> introduced in 1992. The instruments of subsidisation were changed in 1992 to conform to the expected GATT requirements, especially in cereals and oilseeds.

The conclusion of the WTO agreement will result in the reduction of restrictive measures for some products, while for others access will remain relatively difficult. For example, in the case of sugar, where quotas and tariffs have been relatively stringent, the WTO agreement has not substantially reduced the EU's tariff protection. The EU access obligations in the sugar sector under the WTO agreement do not exceed the bilateral commitments toward ACP countries and India under the EU sugar regime, which was reviewed in 1994. ACP countries and India continue to have preferential access to the EU markets, and they are allowed to import under a zero-duty access quota. However, it is expected that WTO commitments will influence the terms of trade in sugar in a positive way as the declining EU export subsidies result in a reduction in EU export. The world market prices are then expected to rise, which has a positive effect on export earnings of sugar exporting countries, including the Philippines and Thailand.

The cassava exports from Thailand are particularly affected by developments in the oil meal and grain markets, as cassava combined with oil meals is a

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<sup>17</sup> The 1992 reform of the CAP included, among other things, a lowering of the target price for cereals and a compensatory payment for income losses incurred; direct per hectare aid to producers of oilseeds and protein crops; a regrouping and reform of the tobacco sector; reduction of institutional prices for dairy products; and the introduction of annual premiums for male bovine and suckle cows to balance a cut of 15% in the intervention price for beef. These changes do not influence only the intra-EU trade, but also the world market prices and imports from third countries.

substitute for grains in animal feeding in several EU countries. The import prices of cassava pellets fell sharply following the implementation of the CAP reform from July 1993. As a result, imports into the EU fell from 6.7 million tons in 1993 to 3.4 million tons in 1995, the lowest level since 1990. Nevertheless, cassava has continued to be an attractive feed ingredient in the Community. The size of cassava trade in the late 1990s will depend on various factors, primarily the price developments for grains and soybeans in the EU, as well as on the effects of the enlargement of the Community and the availability of supplies from major exporters. However, EU's imports of cassava pellets in the late 1990s are anticipated to be higher than in 1995.

The agricultural policy of the EU continues to have a major impact on oilseed and vegetable oil trade, including palm oil and coconut oil. A major change has shaped up in the EU production of oilseeds and of vegetable oils in recent years. The new oilseed regime introduced in 1992/93, incorporated into the new CAP regime in 1993/94, has moved the support for EU oilseeds production towards a more de-coupled system than the previous regime. Oilseed producers started to receive direct payments made on a hectare basis in July 1992, rather than on the basis of production quantities and paid by the processors.

Malaysian and Indonesian palm oil exports do not enjoy any subsidies, and the reform commitments in the Uruguay Round will be towards levelling the playing field over the long term. The reduction commitments in export subsidies and volume of subsidised exports did not meet the expectation level for ASEAN countries, but, nevertheless, it was a positive step toward bringing some form of discipline to the heavily subsidised world trade of vegetable oils.

In addition to the arable area payments, oilseed plantings in the EU are subject to the US/EU Oilseed GATT Panel Agreement. This restricts the EU-15 area under rape seed, sunflower seed, and soybeans to 5.482 million hectares, from which a minimum of 10 per cent will be required to be set-aside. As a result, the EU production of oilseeds will be declining contrary to the steep increase that occurred from the early 1980s until 1991. The changes in the EU oilseed regime are expected to cut the combined production of the three major oilseeds to around 11.5 million tonnes. This is a reduction of 1.5 million tonnes from the record of 13.0 million tonnes produced in 1991. Therefore, it is expected that WTO commitments will influence the terms of trade in vegetable oil in a positive way as, due to declining EU export subsidies, the exports will diminish.

The reform of the CAP did not directly affect the regime for tropical fruit and vegetables. Since July 1995, the access conditions for fruit and vegetables are governed by a new system of composite import duties, which replaced the previous reference price system. Under the new system, entry prices are established by the EU based on the prevailing price on the EU markets for fruit and vegetables. If imports comply with the prescribed price, the specific component

is reduced to zero. Trading opportunities in fruit and vegetables (processed and fresh) are expected to be quite favourable for ASEAN countries in the future as the income elasticity of demand for fresh and processed fruit and vegetables is high in the EU, and together with growing health consciousness among the population, the trend of growing imports of these products is expected to continue (ESCAP 1997).

In the case of fish and fish products, the EU has agreed to reduce tariffs on some selected fish products by 50%. Other items will remain unchanged; the average bound tariff on fish and crustaceans exceeds 10 % and 20-25% on fish preparations. On the other hand, the EU has tightened the marketing, hygiene, and health controls on imported fish products. For example, sanitary conditions in third-country processing plants will be closely monitored by EU inspectors (ESCAP 1997).

Reduction of internal price supports, tariffication of variable import levies, and binding and reduction of tariffs are unlikely to provide effective liberalisation or significant improvements in market access in the EU. Still, these developments undoubtedly contribute to greater transparency. Furthermore, the Uruguay Round "Agreement on Agriculture" included a commitment for further negotiations on "continuation of reform process", to begin by the end of 1999. There is no doubt that it will be the occasion for further pressures on the support policies of the EU and other countries.

It should also be noted that the reformed CAP and the Uruguay Round Agreement on agriculture might not be compatible with each other towards the end of the decade, and further CAP reform is thus inevitable. The importance of further reform of the CAP was just recently highlighted in a document prepared by the European Commission (1997). The document – known as Agenda 2000 – calls for far-reaching reforms of the Common Agricultural Policy and the costly aid budget. The commission aims to cut the aid farmers receive through the intervention system – where the EU sets a floor price at which it buys surplus production – and to phase out methods of limiting production, such as set-aside – where land is taken out of use – and quotas. In return farmers would receive direct aid payments, while some spending would be diverted to agri-environmental schemes and rural development.

## 6. Summary and conclusions

The objective of this study was to examine and explain the recent pattern, composition, and trends in ASEAN-EU agricultural trade relations. The pattern, composition, and trends of trade are the product of various factors, of which trade policies are important ones. Therefore, the study attempted to investigate the major trade policies and practises influencing agricultural trade flows between the two regions. The main thrust of the discussion was on factors distorting trade, specifically, restrictions on imports such as traditional tariffs and non-tariff barriers.

ASEAN's two-way agricultural trade with the EU was worth ECU 7.2 billion (USD 9 billion) in 1996. The trade has more than doubled since 1977. The EU is a more significant agricultural trading partner for ASEAN than ASEAN is for the EU. Currently, the trade with the EU accounts for 14% of total ASEAN agricultural trade. On the EU side, the trade with ASEAN accounts for 6.5% of its total agricultural trade. The agricultural trade balance has clearly tilted in favour of ASEAN, with a trade surplus of ECU 3.7 billion in 1996.

During the six-year period between 1990 and 1996, ASEAN agricultural exports to the EU rose from ECU 4.3 billion to ECU 5.5 billion (about USD 7 billion), showing an average annual growth rate of 3.9%. ASEAN agricultural imports from the EU rose from ECU 0.9 billion to ECU 1.7 billion (about USD 2.2 billion) over this time period. The trend rate of growth per year was 11.0%. The Indonesian and the Vietnamese markets grew particularly quickly, 20% and 19.5% per annum, respectively.

Over the years, ASEAN countries have also steadily increased their share of extra-EU agricultural imports despite the tough competition on the EU market. The ASEAN share of total EU imports increased from 3.6% in 1977 to 7.6% in 1990, and in 1996 the share climbed to 8.5%. On the other hand, ASEAN agricultural imports from the EU have not increased more quickly than those from elsewhere during 1990-96. The trend rate of growth (11.0 %) per year over the six years to 1996 was slightly behind the rise in overall agricultural imports of 11.8%, thereby taking imports from the EU from 8.8% to 8.6% of total ASEAN agricultural imports.

Major agricultural exports from ASEAN to the EU in order of export value include vegetable oils, natural rubber, fish and crustaceans, vegetables and fruits, and cassava. In 1996 these products together accounted for almost 70% of total ASEAN agricultural exports to the EU. The four leading commodity groups imported to ASEAN from the EU are alcoholic beverages, dairy products, meat and meat preparations, and cereals. Allowing for fluctuations, they account for more than 55% of all EU farm exports to the ASEAN market after 1990.



Thailand and Indonesia are the largest agricultural exporters to the EU market. They both hold a 30% share of total ASEAN agricultural exports to the EU. These two countries are followed in descending order by Malaysia (24.4%), the Philippines (8.6%), Vietnam (3.7%), and Singapore (3.1%). Among the fifteen EU countries, Germany, the Netherlands, and the United Kingdom have been the most important destinations for ASEAN agricultural exports, absorbing almost 60% of the total ASEAN farm exports to the EU. Singapore has long been the largest agricultural importer from the EU, closely followed by Thailand and Malaysia. France is the most important agricultural exporter to the ASEAN market, accounting for almost 30% of total EU farm export to ASEAN. France together with United Kingdom, the Netherlands, and Germany account for about 72% of these exports.

The access of ASEAN agricultural exports to the EU has generally been determined by two basic elements of the EU trade policy. The first element consists of de-linking EU agriculture from international competition and fluctuations in prices. This is reflected in the Common Agricultural Policy (CAP) of the EU with internal price and purchase guarantees, on the one hand, and adjustments of import prices to the EU price level, on the other. The second element relates to EU trade policy favouring certain non-member countries and trading blocs such as the African, Caribbean, and Pacific countries (the so called ACP countries) and the countries of the Mediterranean rim. This is reflected in the complex network of discriminatory tariffs through generalised and country-specific or region-specific trade preferences.

The EU protection against agricultural import from ASEAN countries has generally taken three forms. First, domestic suppliers have been protected through variable levies and other interventions on products such as sugar and rice. Second, quantitative restrictions have been imposed on imports of animal feed, such as cassava, which are substitutes for grain. Third, discriminatory measures against ASEAN tropical products – such as cocoa, palm oil, fruits, tobacco, and coffee – that compete with the products from ACP countries have, to some extent, restrained the growth of export revenues in ASEAN countries. These discriminatory measures have usually included tariffs to protect ACP exporters. Related to tariffs is the problem of tariff escalation. The escalation is such that the effective rate of protection for semi-processed and final goods in the EU can be very high. This tends to discourage agro-processing and resource-based industrialisation, which are now vigorously pursued in ASEAN region.

Furthermore, the agricultural protection and subsidy programs of the CAP have resulted in excessive supply of many farm products which are of export interest to ASEAN countries, for instance, vegetable oil and sugar. EU price support has encouraged overproduction of these products. A significant proportion of excess supply has found its way onto the world market at a very highly

subsidised rate. Consequently, these moves have further depressed the world prices of these products. Furthermore, ASEAN agricultural exports have to contend with the surplus production in the EU, which is exported to third countries.

A great deal of attention has recently been focused on the fall of the Thai Baht, Indonesian Rupiah, Malaysian Ringgit, and Philippine Peso, and the possible impacts of these devaluations on ASEAN export. One thing is for sure; with domestic demand depressed, ASEAN economies will be taking advantage of their hugely devalued currencies to export as much as they can. This will keep a check on prices in EU countries importing these goods. The devalued ASEAN currencies will certainly help export-oriented, resource-based sectors such as palm oil and rubber. In addition, the very large devaluations that some ASEAN currencies have suffered against the European currencies could prompt some substitution effect. Exports to the EU from competing countries, whose currencies have not depreciated, could be replaced by ASEAN exports.

The increased level of ASEAN agricultural imports from the EU in recent years has largely been driven by two factors. First, due to ASEAN's rapid economic growth, the demand for consumer-ready, high-value food products has increased substantially. Second, with the exception of Thailand and the Philippines, decisive steps have been taken toward lowering ASEAN's tariff barriers, thereby facilitating the expansion in imports.

In Singapore there are no tariffs on imported food products, except on tobacco and tobacco products and alcoholic beverages. Malaysia enforces relatively low tariff levels against agricultural products. Import duties on agricultural products range from zero to 50%, but on most goods the duty is around 5-15%. In Indonesia periodic deregulation packages have also eliminated or reduced tariffs and non-tariff barriers on agricultural products. Currently, tariffs on agricultural products range from 5% to 180%, with the majority falling between 15% and 40%.

The high tariff rates in Thailand and in the Philippines are in stark contrast to the relatively low tariff structure that already exists in the nearby and economically similar countries of Malaysia and Indonesia. In Thailand duties on imported food items remain in the 40% to 60% range, with only a few exceptions. The highest average tariffs are for alcoholic beverages and fisheries products. In the Philippines import regimes for most foods and beverages, most notably meats and domestically produced vegetables, are highly restricted. The average tariff level for the agricultural products is about 35%.

In addition to tariffs, import quotas and licenses are still common in many ASEAN countries. They are usually introduced to support local production or to control imports for other reasons. Closely related to tariffs and quotas are customs procedures, which are one of the main problems that EU exporters face

in many ASEAN countries. During the Uruguay Round negotiations, many tariffs and a number of import licencing requirements in ASEAN countries were reduced. However, a large number of barriers are still in force.

However, in the coming years the economic turmoil in Southeast Asia could have a far more significant impact on agricultural markets than the agricultural protection patterns. The decline of Southeast Asian currencies against the European currencies in 1997 has sparked fears that EU agricultural exports will be unable to compete on these rapidly growing markets. However, there is still a great deal of uncertainty in trying to assess the effect the crisis may have on these markets. It has been a moving target since July, 1997, when the currency crisis started. Certainly, for a Southeast Asian importer, a landed cargo of any agricultural item from the EU is going to be far more expensive (in local currency) than it would have been before July, 1997. There were already some signs of slowing export demand for certain goods, especially alcoholic beverages, in the third quarter of 1997.

The impact of Southeast Asia's woes would be felt the most strongly in two areas. First, there will be an income effect, resulting from the projected decline in economic growth rates in the ASEAN region and rising import prices. The income effect will probably hit higher-value commodities the hardest. For bulk commodities, at least in the short run, there may be very little effect. But for income-sensitive commodities – such as alcoholic beverages, dairy products, meat and meat preparations, processed foods – it will certainly make a difference. As a result, ASEAN agricultural imports from the EU is expected to decline in the coming years. However, in reality the growth prospects of the ASEAN economies have not all suddenly disappeared. Therefore, ASEAN imports are expected to pick up again at the turn of the century.

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## SELOSTUS

### ASEAN-maiden ja EU:n väliset maatalouskaupasuhteet

Jyrki Niemi

Tämän tutkimuksen tavoitteeksi oli asetettu katsauksen luominen Euroopan unionin (EU) ja ASEAN-maiden (Brunei, Indonesia, Malesia, Filippiinit, Singapore, Thaimaa ja Vietnam) välisen maatalous- ja elintarvikekaupan kehitykseen ja hyödykerakenteeseen. Lisäksi tutkimuksessa pyrittiin selvittämään, mitkä tekijät estävät maataloustuotteiden ja elintarvikkeiden kauppaa EU- ja ASEAN-maiden välillä. Viennin ja tuonnin arvoa ja hyödykerakennetta sekä kauppapolitiikkaa koskeva tarkastelu ulottuu pääosin vuodesta 1977 vuoteen 1996. Lähestymistapaa voidaan luonnehtia lähinnä tilastollis-taloushistorialliseksi. Koska tutkimuskohde on laaja, kunkin osakokonaisuuden käsittelyä ei ole voitu tehdä kovin yksityiskohtaisesti.

Tutkimuksessa käytetty tilastoaineisto pohjautuu pääosin EU:n tilastoviraston, Eurostatin (Statistical Office of the EU) tilastoihin. Luokituksena on käytetty kansainvälistä ulkomaankaupan tavaranimikkeistöä (Standard International Trade Classification) eli SITC-nimikkeistöä, joka perustuu jalostuasteen mukaiseen luokitukseen. SITC-nimikkeistön ryhmistä elintarvikkeet ja elävät eläimet (SITC 0), juomat ja tupakka (SITC 1), vuodat ja nahat (SITC 21), öljysiemenet ja pähkinät (SITC 22), luonnonkumi (SITC 23), tekstiilikuidut (SITC 26) ja eläin- ja kasviöljyt ja -rasvat (SITC 4) muodostavat tarkasteltavan maataloustuotteiden ja elintarvikkeiden kokonaisuuden.

Vuonna 1967 perustettu Kaakkois-Aasian maiden yhteistyöjärjestö ASEAN (Association of Southeast Asian Nations) on alun vaatimattomasta roolistaan huolimatta kasvanut tärkeäksi vaikuttajaksi varsinkin 1980-luvulta lähtien. EU:n kanssa käytävällä kaupalla on perinteisesti ollut merkittävä asema ASEAN-maiden maataloustuotteiden ulkomaankaupassa. EU:n osuus ASEAN-maiden koko maataloustuotteiden ja elintarvikkeiden ulkomaankaupasta on pysynyt vuosina 1990-96 melko vakaasti noin 14 prosentin tuntumassa. Toisin sanoen ASEAN-maiden kauppavaihto EU:n kanssa on kasvanut pääpiirteissään samaa tahtia kuin ASEAN-maiden koko maataloustuotteiden ulkomaankauppa. Myös ASEAN-maat ovat melko hyvin säilyttäneet asemansa EU:n kauppakumppaneina. Vuosina 1990-96 ASEAN-maiden osuus EU:n koko maataloustuotteiden ulkomaankaupasta on vaihdellut 6 prosentin molemmin puolin.

EU-maihin on koko tarkastelukauden ajan (1977-96) tuotu selvästi enemmän maataloustuotteita ja elintarvikkeita ASEAN-maista kuin EU:sta vastaavasti viety. EU:n ja ASEAN-maiden välinen maatalouskauppa on siten ollut EU:lle selkeästi alijäämäinen. Vuonna 1996 EU:n alijäämä oli peräti 3.7 miljardia ecua



(21.3 mrd mk). ASEAN-maiden maataloustuoteviennin arvo EU-maihin nousi vuoden 1977 vajaasta 2.6 miljardista ecusta 5.5 miljardiin ecuun (31.6 mrd markkaan) vuonna 1996. Viennin arvo kasvoi siten keskimäärin 5% vuodessa eli selvästi hitaammin kuin maaryhmän kokonaisvienti EU-maihin (14%/vuosi). Maataloustuoteviennin voimakkaimmat kasvuvaiheet ajoittuvat 1980-luvun vaihteeseen. Vuosina 1977-85 viennin arvo kasvoi vuosittain keskimäärin noin 9%. Vuoden 1985 jälkeen vienti hieman supistui, mutta vuonna 1990 suunta kääntyi jälleen ylöspäin. Vuosina 1990-96 viennin kasvu on ollut keskimäärin 4%.

EU:n osuus ASEAN-maiden koko maatalous- ja elintarvikeviennistä oli vuosina 1990-96 keskimäärin 16%. EU onkin ASEAN-maiden maataloustuoteviennin kohdemaista toiseksi tärkein heti Japanin jälkeen. Tärkeimmät maataloustuoteviennin kohdemaat EU:n sisällä ovat Saksa ja Alankomaat, jotka yhdessä vastaavat yli 40% koko ASEAN-maiden EU-markkinoille suuntautuvan viennin arvosta. Yksittäisten tuoteryhmien viennissä myös joillakin muilla mailla on merkittävä asema. Thaimaa ja Indonesia ovat puolestaan ASEAN-ryhmän suurimmat maataloustuotteiden viejät.

ASEAN-maiden EU-maihin suuntautuvan maataloustuoteviennin hyödykerakenne osoittautuu tilastojen valossa jäykäksi. Se ei ole sopeutunut EU-maiden tuonnin rakennemuutosta vastaavaksi. Tästä huolimatta ASEAN-maiden markkinaosuus on noussut vuoden 1997 vajaasta 4 prosentista 8.5 prosenttiin vuonna 1996, sillä ASEAN-maat ovat kyenneet valtamaan markkinoita monissa perinteisissä tuoteryhmissä. Vienti on koostunut pääasiassa sellaisista tuotteista, joita ei EU-maissa voida (tai ei kannata) tuottaa.

ASEAN-maiden tärkeimmät maataloustuoteviennin artikkelit EU-maihin ovat kasviöljy, luonnonkumi, kala, äyriäiset, hedelmät, kasvikset ja maniokki. Vuosina 1990-96 näiden tuotteiden osuus ASEAN-maiden koko maataloustuoteviennistä on pysytellyt 70 prosentin tuntumassa. Kasviöljyjen osuus ASEAN-maiden maataloustuotteiden ja elintarvikkeiden viennistä kohosi vuonna 1996 runsaaseen 24 prosenttiin. Kasviöljyjen vienti koostuu pääasiassa palmu- ja kookosöljystä. Raakakumin arvo-osuus viennistä oli puolestaan noin 15% vuonna 1996. EU on ollut ASEAN-maiden tuottaman palmuöljyn ja kumin merkittävimpiä ostajia jo 1970-luvun alusta lähtien.

ASEAN-maiden maatalous- ja elintarviketuonnin arvo EU:sta kasvoi vuosina 1990-96 keskimäärin 11% vuodessa eli selvästi nopeammin kuin maaryhmän maataloustuotevienti EU-maihin. Tuonnin arvo on kuudessa vuodessa lähes kaksinkertaistunut ollen 1.7 miljardia ecua (9.8 mrd mk) vuonna 1996. Siitä huolimatta ASEAN-maiden tuonnin arvo EU-maista oli vain noin kolmannes kyseisten maiden EU-maihin suuntautuvan maataloustuoteviennin arvosta vuonna 1996. Vuosien 1990 ja 1996 välisenä aikana EU:n osuus ASEAN-maiden maataloustuote- ja elintarviketuonnista on pysytellyt vajaan 9 prosentin tuntumassa.

ASEAN-maiden tuonti EU:sta on koostunut viime vuosina pääasiassa alkoholi-juomista, meijerituotteista, viljasta, lihasta ja lihavalmisteista. Alkoholi-juomien tuonti oli hyvin vaatimatonta aina 1970-luvun loppupuolelle saakka. Vuodesta 1985 lähtien alkoholi-juomat on ollut kuitenkin EU:sta tulevan maataloustuote- ja elintarviketuonnin tärkein tuoteryhmä. Niiden keskimääräinen osuus tuonnista oli 1980-luvulla 26%, mutta vuosina 1990-96 jo noin 30%. Meijerituotteiden arvo-osuus oli vuonna 1996 noin 12.3% ja viljatuotteiden 7.3%. Meijerituotteiden tuonti kasvoi melko jyrkästi 1990-luvun alussa. Myös viljan tuonti EU-maista kaksinkertaistui vuosina 1990-96.

ASEAN-maiden osuus EU:n koko maataloustuoteviennistä oli 3.2% vuonna 1996. Alkoholi-juomien kokonaisviennistä 5.3% suuntautui ASEAN-maihin. Meijeri- ja viljatuotteiden osalta vastaavat luvut olivat 5.0% ja 2.6%. ASEAN-maihin EU:sta tuoduista maataloustuotteista ja elintarvikkeista keskimäärin 30% on ollut peräisin Ranskasta. Ranskan ohella tuonnista merkittävimpiä EU-maita ovat olleet järjestyksessä Iso-Britannia, Alankomaat ja Saksa. Näiden neljän maan osuus ASEAN-maiden maataloustuote- ja elintarviketuonnista oli vuosina 1990-96 yli 70%. Singapore on puolestaan EU:n maataloustuote- ja elintarviketuonnin tärkein kohdema Kaakkois-Aasiassa. Vuosina 1990-96 Singaporen osuus EU:n viennistä ASEAN-maihin oli keskimäärin 30%. Myös Thaimaa ja Malesia ovat tärkeitä viennin kohdemaita EU:n maataloustuoteviemille.

Arvioitaessa EU:n maatalouskauppapolitiikkaa ASEAN-maiden kannalta on tarkasteltava sekä EU:n kehitysmaille myöntämiä suosituimmuusjärjestelyjä että maataloustuontia rajoittavia kaupan esteitä. EU:n tullipolitiikka suhteessa kehitys-maihin jakaantuu kahteen osaan: toisaalta alueellisiin ja selektiivisiin järjeste-lyihin, toisaalta globaaliin politiikkaan. Alueellisista järjestelyistä tärkeimmät ovat Lomen sopimus, joka kattaa 72 Afrikan, Karibian meren ja Tyynen meren kehitysmaata (ns. ACP-maat) sekä eteläisen ja läntisen Välimeren kanssa solmitut sopimukset. Lomen sopimus takaa ACP-maille preferentiaalisen kohtelun EU:n markkinoilla. ACP-maat kilpailevat ASEAN-maiden kanssa trooppisten tuotteiden markkinoilla.

Globaalin järjestelyjen perustan muodostaa UNCTADin piirissä syntynyt tullietuusjärjestelmä GSP (Generalised System of Preferences), jonka EU otti käyttöön vuonna 1971. Se tarjoaa ASEAN-maille ainoan mahdollisuuden toimittaa tuotteitaan tullivapaasti EU:n markkinoille. Maataloustuotteiden GSP-kohtelua on kuitenkin rajoitettu ja vain noin 25% ASEAN-maiden maatalous- viennistä saa varsinaisen tullietuuskohtelun. GSP-järjestelmän vähäiseen soveltamiseen on kaksi syytä. Ensinnäkin EU on pyrkinyt säilyttämään ACP-maiden suosituimmuusaseman muihin kehitysmaihin nähden. Niinpä ASEAN-maiden tuottamille tietyille trooppisille tuotteille ei ole myönnetty tullietuus-kohtelua. Toiseksi EU:n yhteinen maatalouspolitiikka (CAP) aiheuttaa protektio- nistisia paineita. Vain muutamalle CAP:n piiriin kuuluvan tuotannon kanssa kilpailevalle tuotteelle on myönnetty tullietuuskohtelu.

Yhteisen maatalouspolitiikan vaikutus ASEAN-maiden asemaan maataloustuotteiden maailmankaupassa on kaksitahoinen. Ensinnäkin EU:n ylijäämien tuotanto ja protektionistinen kauppapolitiikka vaikeuttavat ASEAN-maiden maataloustuotteiden vientiä EU:iin. EU:n sisäisillä markkinoilla vallitsevien keino-tekkoisen korkeiden hintojen säilyttäminen on edellyttänyt korkeita tulleja. Esimerkkinä voidaan mainita thaimaalaisen riisin tuonti EU:n markkinoille. Toiseksi EU:n maataloustuotteiden vienti kilpailee ASEAN-maiden viennin kanssa kolmansien maiden markkinoilla. CAP-mekanismi alentaa maailmanmarkkinahintoja ja lisää markkinoiden epävakaisuutta, mistä kärsivät CAP:n piiriin kuuluvia maataloustuotteita vievät ASEAN-maat. ASEAN-maat, jotka eivät pysty subventoimaan vientiään, ovat polkumyyntisodan hallitsemilla maailmanmarkkinoilla häviäjiä. Esimerkkinä voidaan mainita kansainvälinen sokerikauppa. EU:n ulkopuolelle sokeria vievät maat kuten Thaimaa ja Filippiinit kokivat 1980-luvulla vientitulojen romahduksen CAP:n vuoksi. Sokerin lisäksi kasviöljyt kuten palmu- ja kookosöljy ovat joutuneet kilpailemaan EU:n kasviöljyviennin kanssa maailmanmarkkinoilla.

ASEAN-maissa tullit muodostavat merkittävimmän maatalouskaupan suojelun välineen. Kannettavat tullit ovat joko prosentuaalisia tulleja tai markkamääräisiä vähimmäistulleja. Suurin osa tulleista on ns. GATT-sidottuja, mikä merkitsee sitä, että kyseisen tuotteen tullille on sovittu tietty enimmäismäärä WTO:ssa. ASEAN-maat eivät kuitenkaan ole mikään yhtenäinen maaryhmä, vaan erot tuontisuojaan tasossa eri maiden välillä ovat suuria. Singaporessa maataloustuotteiden tuonnille ei ole asetettu juurikaan esteitä. Malesiassa tullit ovat suhteellisen alhaisia. Myös Indonesia on vapauttanut maataloustuotteiden ja elintarvikkeiden tuontia 1990-luvulla. Thaimaassa ja Filippiineillä korkea tuontisuoja sen sijaan muodostaa edelleen tärkeän osan kummankin maan kauppa- ja maatalouspoliittista järjestelmää, joiden uudelleen arviointia on kuitenkin kansainvälisillä foorumeilla vaadittu.

Välillisiä ei-tullimuotoisia kaupan esteitä ovat ASEAN-maissa erilaiset tekniset ja hallinnolliset määräykset. Tullimenettelyihin ja muihin hallinnollisiin tuontimääräyksiin kuuluvat mm. tullausarvon määrittäminen, tullausluokitus ja asiakirjojen esittäminen sekä muut tullimuodollisuudet. Asiakirjakäsittelyjen monimutkaistuminen ja paisuminen, erilaisten ilmoitusten ja lupien hakeminen, pitkälliset virastokäsittelyt sekä tavaran toimituksen kannalta toisarvoisten lomakkeiden täyttämisen kiihdyttävät paperisotaa ja vähentävät jakelutien tehokkuutta edelleen monissa ASEAN-maissa.

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