

The State and Trajectory of Contemporary Inter-regional Economic Relations between the ASEAN and the EU

A gazdasági viszonyok jelenlegi helyzete
és fejlődési pályája az EU–ASEAN relációban

MÁTÉ SZAKÁLI

KKI Policy Brief

Series of the Institute for Foreign Affairs and Trade

Publisher:

Institute for Foreign Affairs and Trade

Reviewer:

Máté Szalai

Typesetting:

Tamás Lévárt

Editorial office:

H-1016 Budapest, Bérc utca 13-15.

Tel.: + 36 1 279-5700

Fax: + 36 1 279-5701

E-mail: info@ifat.hu

<http://kki.hu>

© Máté Szakáli, 2020

© Institute for Foreign Affairs and Trade, 2020

ISSN 2416-0148



Abstract: Among all the Association of Southeast Asian Nations' Dialogue Partners the ASEAN and the European Union share the longest history of cooperation and expanding engagement, going back to 1972, and have strong economic relations including the EU's financial and technical assistance supporting ASEAN's economic integration. But the long-planned launch of ASEAN-EU Strategic Partnership was postponed January 2019 as interest groups continue to impose pre-conditions to interregional and bilateral trade negotiations or ratifications over varied reasons, often stemming from domestic politics and short-term interest. Hence, the EU's many recommendations in recent years to deepen the relationship, for instance, has not received a comprehensive and positive response from ASEAN. Responsibility for the current state of affairs is apparently assigned to each other by both integrations, on the EU's part to some extent as a result of misplaced expectations regarding the progress of ASEAN Economic Community. This study aims to overview this current state and trajectory of the bi-regional economic relations and assesses its challenges and prospects for the EU concerning the integration process of the ASEAN Economic Community.

Összefoglalás: Az ASEAN Dialógus Partnerei közül a Délkelet-ázsiai Nemzetek Szövetsége (ASEAN) és az Európai Unió (EU) között 1972 óta fennálló formális kapcsolatok tekintenek vissza a leghosszabb múltra. A tartós és bővülő együttműködés szoros gazdasági kapcsolatokat is magában foglal, ideértve az EU az ASEAN gazdasági integrációjának elősegítésére fordított pénzügyi és technikai támogatását. Az EU–ASEAN Stratégiai Partnerség régóta tervezett megkötésének 2019. januári elhalasztása azonban jelzi, hogy különböző érdekcsoportok továbbra is előfeltételeket támasztanak a régióközi és kétoldalú kereskedelmi tárgyalások, illetve ratifikációk elé, amelyek gyakran belpolitikai motivációkból és rövid távú érdekekből erednek. Az EU az utóbbi években például számos kezdeményezéssel törekedett elmélyíteni kapcsolatait az ASEAN-nal, de nem kapott egyöntetű és pozitív visszajelzést rájuk. Jellemzően mindkét integráció a másikat okolja a kortárs relációk feszültségeiért, az EU esetében bizonyos mértékig az ASEAN Gazdasági Közösség előrehaladásával kapcsolatos téves elvárások eredményeként. Jelen tanulmány célja a kortárs EU–ASEAN régióközi gazdasági reláció áttekintő bemutatása, valamint az ASEAN Gazdasági Közösség integrációja következményeinek felmérése az Európai Unióra szempontjából.

INTRODUCTION

For over four decades the Association of Southeast Asian Nations (ASEAN) and the European Union (EU) have been in a dynamic and expanding formal partnership in several areas, including development cooperation, trade and investment relations, and cooperation in community building among ASEAN member states. Excluding the role of colonialism in Asian regionalism, the ASEAN and the EU had similar drivers and objectives for community building and integration in the economic sphere. They both have targeted at attracting more foreign direct investment by providing economies of scale, increasing regional autonomy along with the region's competitive edge as a production base in the world market, fostering economic growth within and among member states, and creating social and political stability. Notwithstanding the fact of similar conceptual foundations, their trajectories towards and methods of integration have [diverged](#).

The EU's economic integration is significantly deeper and more formalised supported by a more developed institutional and legal framework in addition to a more homogeneous level of economic development across its member states than that of ASEAN. This has enabled the EU to encourage, support and provide considerable know-how, FDI and technical assistance for the integration process of the [ASEAN Economic Community](#) (AEC) established on 31 December 2015. Gaining better access for European exporters and investors to the ASEAN market is the main motivation to this European engagement in realisation of the AEC, while the Union also acknowledges the importance of a strong, cohesive and self-confident ASEAN for the stability in the wider Asia-Pacific region. As noted in the 2015 Joint Communication from the European Commission and European Council on [The EU and ASEAN: a partnership with a strategic purpose](#) "the EU has a huge stake in the success of ASEAN" and "investing in the EU-ASEAN relationship will bring significant returns for EU interests, both politically and economically". ASEAN's interest is to leverage on this longstanding partnership and the long-term developmental and economic objectives for cooperation between the two regions to enlist European support in furthering Southeast Asia's economic integration and growth. Postponing the signature of the long-planned inter-regional Strategic Partnership in January 2019, however, reflects deep concerns and divisions for upgrading and opening up in the relationship.

This paper aims to uncover the dynamics behind these divisions and the optimal way in which the EU could unilaterally improve the relations. Accordingly, first the state and trajectory of the current bi-regional economic relations will be overviewed. After that the challenges and prospects for the EU concerning the integration process of the ASEAN Economic Community will be assessed. In the conclusion, some attitudinal and tactical changes for the EU are suggested for further advancing the relationship.



THE STATE OF BI-REGIONAL TRADE AND INVESTMENT RELATIONS: DYNAMIC AND (RE)STRAINED

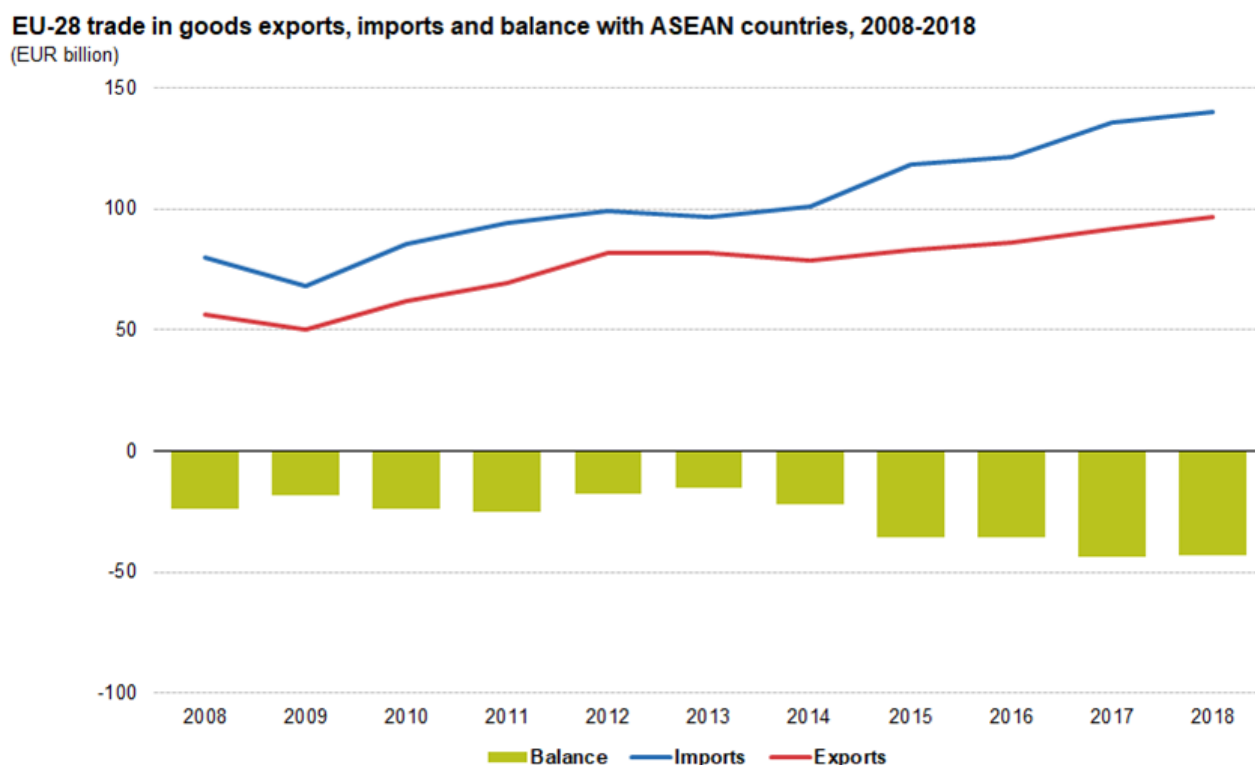
Over the past decade, the economic relationship between ASEAN and the EU has matured as inter-regional trade and investment relations have deepened, intensified and institutionalised benefiting both regions economically, socially and politically. Integration-to-integration economic cooperation is framed by a biannual ASEAN-EU Trade and Investment Work Programme, which is articulated along the activities of an EU-ASEAN dialogue, which includes discussions on trade and investment issues at ministerial and senior economic officials levels; the bi-regional expert dialogue groups; the cooperation activities; and the regular organisation by business of ASEAN-EU Business Summits. Enhanced dialogue and interactions on trade-related regulatory and policy frameworks, intellectual property, standards, customs and transport are currently supported by cooperation programmes such as on economic integration (ARISE Plus); capacity building for monitoring and statistics (COMPASS); agricultural development (AFOSP); and dialogue in areas of shared policy priorities (E-READI) in line with the pursuit of the UN's Sustainable Development Goals (SDGs), the EU-Asia Connectivity Strategy, the ASEAN-EU Plan of Action 2018-2022, and the ASEAN Economic Community Blueprint 2025.

The scale and magnitude of region-level economic connections is illustrated by the EU's rank as ASEAN's second-largest trading partner, and by ASEAN's position as the EU's third-largest trading partner outside Europe. Bilateral trade between the two regions has more than doubled since 2004. More impressive still, the EU has become the largest external investor in ASEAN economies as EU companies have been investing an average of €15 billion annually in Southeast Asia since 2004. In addition, the European Union is ASEAN's largest donor with over €200 million funding for ASEAN economic integration and capacity building in the past five years, on top of over €2 billion of bilateral assistance to ASEAN member states.

Based on Eurostat data, total EU imports and exports of goods of ASEAN countries have a similar pattern between 2008 and 2014: a low point in 2009 followed by a strong recovery (see Figure 1). Throughout this period, the trade deficit fluctuated between €15 billion and €25 billion. After 2014, imports from ASEAN countries grew more strongly than exports and, consequently, the trade deficit grew to €43 billion in 2018. ASEAN's total trade with the EU, therefore, continues to be in surplus.

Figure 1.

EU-28, trade in goods exports, imports and balance with ASEAN countries, 2008-2018 (€ billion)



Source: Eurostat (online data code: Comext data code : DS-018995)

EU-ASEAN trade in goods is dominated by manufactured goods. The EU's [main](#) exports to ASEAN are chemical products, machinery and transport equipment, the main imports from ASEAN are machinery and transport equipment, agricultural products as well as textiles and clothing. Transport and other business services dominate the total inter-regional trade in services both for exports and imports with the tendency of the EU's trade deficit narrowing.

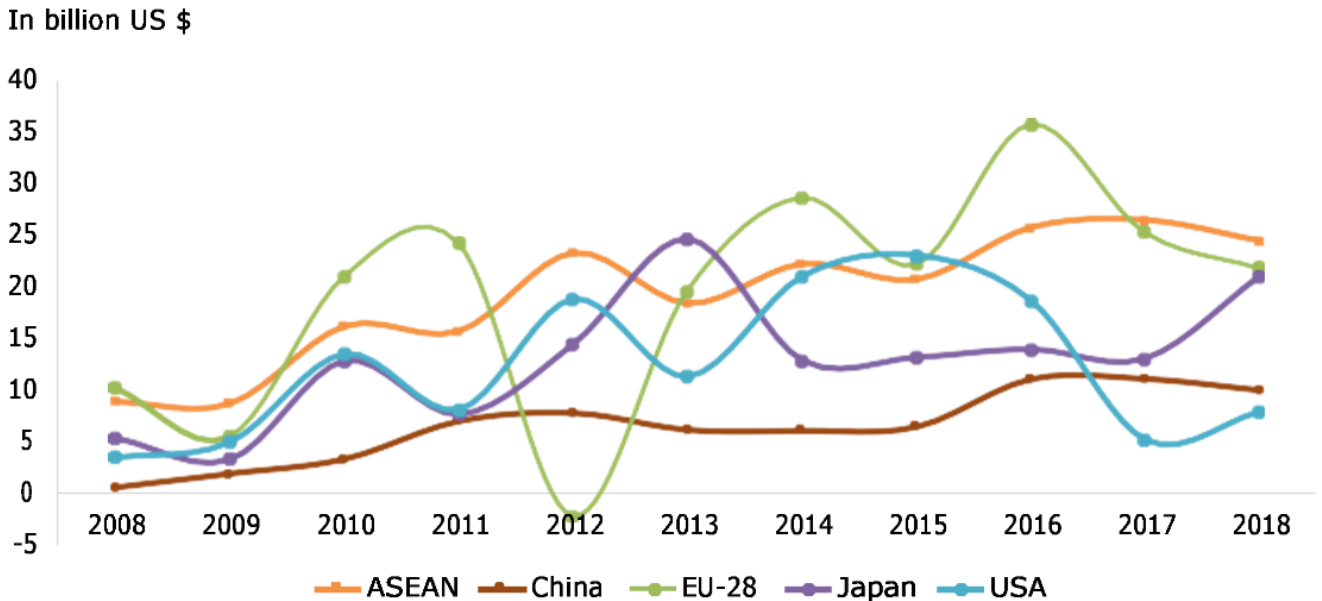
Within the ASEAN, [Singapore](#) is the EU's main economic partner, accounting for almost one-third of EU-ASEAN trade in goods and services, and approximately two-thirds of investments between the two regions. Over 10,000 EU companies have been established in Singapore and use it as a hub to provide for the countries bordering the Pacific Ocean. [In 2018](#) total EU trade with Singapore were at €58 billion, significantly higher volume than the 0.4 billion of the smallest trade partner Laos. Following Singapore, the five largest ASEAN export partners for the EU are Thailand, Malaysia, Vietnam, Indonesia and the Philippines. The EU's largest partner for imports of goods among ASEAN countries is Vietnam.



Over the past decade, the economic relationship between the EU and ASEAN has matured and intensified in the field of investments as well (illustrated by Figure 2). In 2018, the EU's FDI stock in ASEAN was at €330 billion while ASEAN's FDI stock in Europe was over €140 billion. The EU remains the largest extra-ASEAN source of FDI inflows in Southeast Asia.

Figure 2.

Net Inflows of FDI to ASEAN, 2008-2018 (\$ billion)



European investment into ASEAN is concentrating in Singapore, Indonesia, and Malaysia. Predominant sectors that have benefited from EU capital inflows are manufacturing, financial and insurance activities, logistics, food and beverages, electricity production and the chemical and pharmaceutical industry. Infrastructure development, however, is an area where European investors seeking to expand their presence in Southeast Asia face increasing difficulty due to more favourable financing and terms from other ASEAN Dialogue Partners, especially from China.

ASEAN seeks to encourage further European investment by utilising the ASEAN Comprehensive Investment Agreement (ACIA) that aims to create a free and open investment regime by increasing investor confidence in the region. The European Commission nevertheless aims at an EU-ASEAN FTA-plus to improve market access, harmonise rules and regulations, and gain better management of bi-regional supply chains. In economic terms, a region-to-region FTA would also be expected to faster GDP growth due to increase in total trade. In both ASEAN and the EU export-oriented sectors growth would be expected as a result of having access to new markets. Increased trade would also be expected to result in a higher level of competition, which in turn

increase productivity through greater pressure to innovate. Greater competition would also result in a contraction in some sectors, subject to pressure from more competitive products and services from abroad. Income and trade gains would increase as liberalisation deepens and as more dynamic effects are taken into account. In their macroeconomic assessment of the impact of an EU-ASEAN FTA, the Institute for International and Development Economics [concluded](#) that it would result in “positive effects for most of ASEAN under all scenarios, and small but positive effects over the long-run for the European Union”. They also note that in terms of income effects and the removal of non-tariff barriers the EU would gain the most, particularly from the opening up of trade in services. Benefits from tariff reductions for the Union’s agricultural exports could be significant as well.

In addition to the strategic nature of the EU-ASEAN economic partnership and the promising projections, the EU’s recent diligence to conclude region-to-region and bilateral FTAs in Southeast Asia is probably rooted in its positive experience regarding the effectiveness of the EU-South Korea FTA, and also in the Union’s post-Brexit aspirations. The following section examines the progress in establishing the EU-proposed bi-regional FTA-plus and the inter-regional Strategic Partnership.

TRAJECTORY OF THE BI-REGIONAL ECONOMIC RELATIONS: TOWARDS THE ASEAN-EU STRATEGIC PARTNERSHIP AND AN ASEAN-EU FREE TRADE AGREEMENT-PLUS

Strategic partnerships have been proliferated across ASEAN external relations during recent years. As [observed](#) by Singapore diplomat Bilahari Kausikan, ‘strategic’ is “an adjective that ASEAN has used promiscuously or at least attached to other dialogue relationships without much concern for consistency of meaning.” The EU being the biggest investor, second-largest external source of tourists, third-largest trading partner and a substantial aid donor of ASEAN, notwithstanding, lacks this labelling. At the ASEAN-EU Ministerial Meeting (AEMM) in Brussels January 2019, the [launch](#) of the inter-regional Strategic Partnership – that would be inter alia a diplomatic recognition of like-mindedness and shared objectives regarding economic cooperation – was put on hold. ASEAN member states have unilaterally and indefinitely postponed the signing, by reasons of the EU’s potential suspension of Generalised Scheme of Preferences statuses vis-à-vis Myanmar and Cambodia over human rights abuses and political regression, and by EU treatment and regulation of palm oil. Southeast Asian countries are ambiguous regarding the status of Strategic Partnership



with the EU. A number of them are resentful over the EU's condescending attitude toward them: "The EU loves to make ASEAN furious, if not belittle us," [commented](#) one Southeast Asian diplomat whose country objected to granting the EU elevated status without a strong commitment to respect the ASEAN Way, manifesting also in the AEC, in return.

The EU economic sanctions and normative powers that cause the diplomatic rifts in inter-regional economic relations involve aspects rooted in the structural and organisational differences between the EU and the ASEAN, that could be considered a limiting factor also for the ASEAN-EU FTA-plus negotiations. The EU and ASEAN have historically had a common ambition to break down trade barriers among their respective member countries. Yet, the EU is demanding stronger commitments on sustainability issues, while the ASEAN countries perceive that the EU offers increasingly less in return.

The EU and ASEAN [started](#) negotiating the comprehensive region-to-region FTA-plus in 2007 that would liberalise not only trade in goods but also regulate trade in services, investments, intellectual property rights, competition policy and environmental and social aspects of trade. The initial optimism regarding the agreement was quickly dissipated and negotiations were paused in 2009 until 2017. The EU [expressed](#) disappointment with the slow rate of progress claiming that the prospects for an early agreement were undermined by a lack of negotiating capacity on the part of ASEAN, difficulties in developing a common position across ASEAN member states that reflect the collective interests of the region and a lack of political will. In 2009 the European Council endorsed new negotiating mandates for bilateral FTAs with individual ASEAN member states. The progress of relaunched negotiations on an ASEAN-EU FTA-plus for the last two years has been apathetic but in parallel with the ongoing bilateral FTA negotiations (see Graphic) and with the different bilateral [approaches](#) already coexisting:

- The six largest Southeast Asian economies by nominal GDP – namely Indonesia, Thailand, Philippines, Malaysia, Singapore, Vietnam – have opened FTA negotiations with the European Union. The EU-Singapore trade and investment agreements were signed in 2018. Bilateral trade agreements with Vietnam, Malaysia, Indonesia and Thailand remain stalled or unratified as of writing this paper for multiple non-trade reasons.
- Cambodia, Laos and Myanmar already qualify for one-way duty-free quota-free trade for least developing countries under the Everything But Arms (EBA) program. A bilateral investment protection agreement was also launched with Myanmar in 2013.
- Vietnam, Indonesia and the Philippines have market access to the Single Market under the Generalised Scheme of Preferences (GSP).

Graphic:

EU Free Trade Agreement and Investment Agreement Negotiations in ASEAN as of 2019



The EU-Singapore Free Trade Agreement and Investment Partnership Agreement are the single successfully negotiated and ratified FTA and IPA in the ASEAN-EU economic relations. The difficulties are not unique to ASEAN-EU agreements, as evidenced by the prolonged Regional Comprehensive Economic Partnership (RCEP) negotiations, for instance. In this case, attempts to harmonise accords in achieving a comprehensive deal has been challenging despite ASEAN having concluded a bilateral FTA with each of its Dialogue Partners.

The EU's bilateral and regional approaches to FTAs within Southeast Asia are complementary. Similar to other regional agreements (such as the TPP), the architecture of the ASEAN-EU agreement would have a common set of rules and disciplines, while market access schedules would be negotiated bilaterally with each country. Dynamics at the bilateral level have always had an effect on ASEAN relations with its Dialogue Partners. It is with the EU, however, that its difficulties with certain ASEAN member states have obstructed the inter-regional partnership to the furthest extent. The EU's pursuit for influence in Southeast Asia based on its economic largesse and soft power has resulted in a rather erratic performance. In one respect,



ASEAN member states' economic growth has benefited significantly from multifaceted economic cooperation with the EU, while its generous development assistance for ASEAN integration is appreciated across the region. In another respect, EU economic leverage is often linked with sustainability, democracy and human rights purposes, which inadvertently undermines the strategic influence it seeks to advance in the region. Therefore, the factors that have formed the dynamic in ASEAN-EU economic relations are to a significant extent unchanged and unimproved in recent years. Real enhancement and institutionalisation of interregional economic relations are hindered by interest groups continuing to impose pre-conditions to negotiations or ratification over new issues, often stemming from domestic politics and short-term interest; and specific issues including procurements, human rights violations, and labour standards continue to be high-level impediments on the negotiations.

In consideration of this dynamic, to set the ASEAN-EU economic relationship on a more constructive and positive trajectory towards inter-regional economic integration requires a less pressing and policy-focused approach on the EU's part and a more united and proactive stance on ASEAN's part. The current atmosphere of inter-regional relations, however, is in resonance with that of the 1990s when the EU's hard-line bilateral approach towards Myanmar was a constant point of contention in the region-to-region relations, while both institutional mismatches and substantive concerns result in lack of appreciation of certain aspects of the other integration. The decision to create the ASEAN Economic Community, for instance, was made in 2003, and the process of implementing the decision has been an increasingly important field of inter-regional cooperation and a strong source of EU's optimism about ASEAN. The AEC, nonetheless, has hitherto not altered the basic dynamics and trajectory of EU-ASEAN economic relations, rather made the FTA-plus with the EU politically more dispensable for the ASEAN member states.

THE ASEAN WAY OF ECONOMIC INTEGRATION AND IMPLICATIONS FOR THE EU

ASEAN has always been conscious that it cannot and does not intend to emulate the EU integration model. The ASEAN Way of economic integration, however, creates growing frustration among European companies that expect to expand profits and their levels of trade and investment with ASEAN in a relatively short time frame. European businesses tend to consider the economic integration of the Association of Southeast Asian Nations to be well behind schedule due to the reluctance of individual countries to liberalise their markets. "Regional economic integration in ASEAN is happening at a crazily slow pace, to be quite honest. And so we're not seeing big improvement in the trade representation in the region" [remarked](#) Chris Humphrey, Executive Director of the EU-ASEAN Business

Council in a briefing in January 2019. “Improving customs procedures across Southeast Asia, removing non-tariff barriers in trade are simply not happening,” he added. According to the Council’s September 2019 [EU-ASEAN Business Sentiment Survey](#) - which polled online 301 executives from European companies operating around Southeast Asia - merely 12% of responders believe that ASEAN has achieved its goal of serving as an integrated market and production hub. Rather than waiting for substantial progress European businesses prefer to adjusting their business strategies according to local environments while calling for the EU to revitalise its negotiations with the Association and take smaller progressive steps if necessary.

The AEC, with an extended deadline of 2025, is being [pursued](#) through various actions such as trade facilitation measures, elimination of tariffs and non-tariff barriers, ASEAN+1 Free Trade Agreements, ASEAN Single Window, infrastructure building, and supporting small- and medium-sized enterprises. Still, according to the recent Business Survey, from the European perspective, AEC appears to be at a standstill. According to its own member states, however, ASEAN’s economic integration is a success. This latter evaluation can be reasoned correct if the Association is understood to seek rather global objectives with the regional means of economic integration i.e. deeper integration adopted with open regionalism.

The [metrics and data](#) of low-level intra-ASEAN trade and FDI flows indeed suggest that increasing regional economic integration can be considered a merely apparent purpose to the Southeast Asian states. The terms and implementation of the [ASEAN Free Trade Area](#) (AFTA) and the ASEAN Investment Area (AIA) – both agreements integral to AEC – serve as [evidence](#) to this end. Hence ASEAN’s economic integration is driven by extra-ASEAN markets the main aim of ASEAN’s regionalisation is to form an open regional bloc integrated into the world market, i.e. to realise intra-ASEAN integration while member states also integrate themselves into the global economy. Consequently, the opening the region to foreign direct investment via trade multilateralisation can be considered ASEAN’s defining achievement as an organisation while branding the AEC as an economic community or single market can be considered as misleading.

Substantive progress in AEC implementation is [important](#) for the EU as it would, to a certain extent, liberalise many areas of a potential region-to-region FTA-plus where regulatory provisions to non-members would be on a most favoured nation (MFN) basis. Since the AEC lacks a common regulatory framework and the attributes of a single market it is currently instrumental but not yet central element for the EU-ASEAN economic relations. The ASEAN has aimed at advancing regional economic integration while seeking to be an attractive region to invest in and to better connect with global value chains. From an EU negotiating perspective, this might make it easier to work out market access terms with the ASEAN member states than without the AEC. In addition, hence ASEAN has become more industrialised and prosperous in recent years, the ASEAN Way of economic integration accords well with the EU approach to negotiate a comprehensive FTA.



CONCLUSION

The EU and ASEAN have both unilateral as well as cooperative instruments to improve the current state of their bi-regional economic relations and to establish more positive trajectory for them. In order to remove political disquiet towards a more constructive and pragmatic cooperation, both sides should continue engagement in areas of mutual high priority and importance and should seek pragmatic approaches to make the partnership growing in a multi-layered and multi-faceted way.

For now, and for the foreseeable future, ASEAN countries will continue to have significantly less than full regional economic integration and will continue to implement open regionalism with economic policy strategies being dominantly outward-looking. But given resistance in both regions over specific issues, for instance, the European restriction on palm oil imports, the successful conclusion of an EU-ASEAN Free Trade Agreement-plus faces high-level impediments.

Therefore the EU has to exhibit a new strategy, one that [diversifies](#) the inter-regional economic exchanges while embedding them in a broader set of initiatives supported by a new attitude. To strengthen the partnership concentrating efforts on areas of convergence, such as improving ASEAN's regulatory framework and assisting in harmonisation of standards is mutually beneficial. With different strategic thinking, the expansion beyond traditional patterns of European engagement into areas such as logistics and standards, small and medium-sized businesses and people-centred collaboration would also be feasible. The EU ought to find a way to take part in the infrastructure and technology boom in Southeast Asia, possibly by promoting its services, standards and expertise as part of a hub in the development of regional infrastructure and digital economy. This will meet with receptivity within Southeast Asian states and institutions that aim to balance China's growing economic influence, and will deepen economic ties while expanding EU norms and regulations.

Enhancing regional coherence is another area where the EU can support ASEAN to further increase its integration's know-how and capacity. The current ASEAN chair, Vietnam's theme of "Cohesive and Responsive (ASEAN)" resonates with both the fellow ASEAN members and the EU objectives: as Vietnam's Deputy Minister of Foreign Affairs Nguyen Quoc Dung [highlighted](#): "Viet Nam will spare no efforts to successfully act as ASEAN Chairman 2020, making contributions to building a cohesive and consolidated ASEAN Community." To move ahead, the EU should set up working groups to deal with specific issues of the engagement to avoid ASEAN-EU relations being constrained for minor concerns in the future as they have been in the past.

With forward-looking approaches and strategic thinking in the economic realm, the EU might foster higher prioritisation of EU-ASEAN economic relationship on part of ASEAN. A failure to adapt attitudinal changes and to capitalise on the changing balance of power in the region would only serve to omit the EU's internal economic and global strategic agenda.