

AUTUMN 2016

EU-ASEAN: FROM WORDS TO ACTIONS

THE BUSINESS VIEW

REPORT



This event is part of our Asia Programme, which looks at the political, economic and social facets of the “Asia Century”, Europe’s interaction with China and the region’s other fastest growing economies as well as Asia’s less developed countries.

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INTRODUCTION

Next year promises to be an important one for EU-ASEAN relations, noted moderator **Shada Islam**, Director of Europe & Geopolitics at Friends of Europe. As ASEAN moves closer to the development of the ASEAN Economic Community (AEC) and its Vision 2025 goals, the relationship between the two regional organisations, now entering its 40th year, is set to deepen.

European business, too, has a long history in the ASEAN member states, said **Donald Kanak**, Chairman of the EU-ASEAN Business Council, which represents over 11,000 European companies and multinationals in the region, spanning multiple sectors from manufacturing, through information and financial services, to logistics and consumer goods.

“There are many companies on the ground with deep roots in the region that are committed to sustainable growth and economic development,” he stressed. “We are seeing encouraging signs and a lot of optimism across the region for economic growth, social inclusion, and the prospects of European businesses.”

From now through 2030, ASEAN member states are set to nearly double the number of middle-class households to 160 million. In addition, the working and urban populations are expected to increase by 100 and 90 million respectively.

“The EU-ASEAN relationship is really about economics, trade, and investment,” said Islam. “In 2017, the discussion is set to focus renewed energy on an EU-ASEAN free trade agreement (FTA) and the economic dynamism of Southeast Asia and the European businesses that are at the core of the relationship.”

MOVING FORWARD WITH THE ASEAN ECONOMIC COMMUNITY

In 2015, ASEAN announced the formation of the AEC as a step towards the realisation of the region’s goal of economic integration. The AEC aims to promote the vision of ASEAN as a single market and production base, competitive with, and fully integrated into, the global economy.

“The AEC is more vision than reality for the moment and has yet to deliver any tangible results for industry,” noted **Carsten Hess**, Vice President and Head of Corporate Public Policy for Asia Pacific, Eastern Europe, Middle East and Africa at Deutsche Post DHL Group. “What we are seeing, however, is that there are huge opportunities in the region.”

“The bottom line of the AEC is to develop inclusive and innovation-led growth in ASEAN member states,” stressed **Jose Antonio Buencamino**, Special Trade Representative and Commercial Counsellor at the Mission of the Philippines to the European Union. “In Southeast Asia and the Philippines we are not retreating from the world but seeking to engage more with global business.”

Increasing economic opportunities in the ten ASEAN member states include growth in manufacturing industries and a rise in network industries that would benefit from further cross-border trade and cooperation.

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Additionally, he noted, the number and importance of micro, small, and medium enterprises (MSMEs) continues to grow, as the business potential of the internet increases small companies' access to global markets.

These opportunities mean that the AEC should be able to move quickly on the implementation of low-hanging fruits such as customs reforms and trade facilitation measures with relative ease and help deliver growth to ASEAN members.

Vietnam, having recently signed an FTA with the EU, is a prime example of the potential of these reforms as investments pour into the country following last year's customs law reform, noted Hess.

As concerns trade facilitation, the Philippines aims to develop a trade facilitation index to monitor progress among ASEAN members during its chairmanship of the organisation in 2017, Buencamino said. In addition, other measurement indices will depend on members' self-assessment and peer review of economic measures and growth.

“Looking forward, there is a lot of potential in ASEAN from a business perspective,” concluded Hess. “For the moment, however, there remain ten different sets of standards in the region. If the ultimate goal is to conclude a region-to-region FTA between the EU and ASEAN, the first step is to create a strong and unified AEC.”

THE FUTURE OF THE EU-ASEAN FREE TRADE AGREEMENT

The theme of ASEAN 2017 under the chairmanship of the Philippines is ‘Partnering for change, engaging the world,’ Buencamino said, adding that, as part of this engagement, ASEAN economic ministers and EU Trade Commissioner Malmström met in March 2016 in Chiang Mai, Thailand and agreed to outline a work programme to advance on an EU-ASEAN FTA.

“There is a robust economic case for an EU-ASEAN FTA but it is still not clear if the political framework between our two organisations is strong enough at the moment,” noted **Peter Berz**, Head of Unit responsible for Southeast Asia at the European Commission Directorate General for Trade.

The next steps for the European Commission are to remain engaged with senior economic officials throughout 2017 and take stock of the depth of ASEAN integration and the ambitions of each country. Though there are many positive signs from individual ASEAN members, the ultimate goal of a unified EU-ASEAN free trade agreement will take time to complete, he added.

The EU's free trade negotiations with ASEAN in 2007-2009 were unsuccessful due to divergent ambitions between the two blocs, but also within ASEAN itself. As a result, the EU has shifted gears and is going ahead with bilateral trade agreements with certain Southeast Asian countries, notably Vietnam, Singapore, and Indonesia.

“As concerns bilateral agreements, we aim to create a solid foundation for trade in the region,” he said. “The agreements with Vietnam and Singapore are ambitious and create a benchmark against which we will in time measure a region-to-region FTA.”

Agreements with Vietnam and Singapore are expected to come into force at the beginning of 2018. Other countries in the region that have entered into negotiations are Malaysia and Thailand, whose processes have been suspended for political reasons, and the Philippines and Indonesia, both of which will begin the second round of negotiations before the end of 2016.

Though the outlook remains positive for these bilateral agreements, it has undeniably been a difficult year for global trade policy following Brexit, the near-death experience of the agreement with Canada (CETA) and the election of Donald Trump as US president who opposes free trade deals.

“This is a time for reflection in the EU institutions about trade and investment policy,” said Berz. “We must ask ourselves what we want to achieve and what is achievable as populist and anti-globalisation sentiment grows around the world.”

In the absence of a region-to-region agreement, moving ahead with bilateral FTAs is important for setting standards across the region to promote, if not a single market, then at least a homogenous market in terms of legislation noted **Alessia Mosca**, Member of the European Parliament Committee on International Trade and S&D Shadow Rapporteur for the EU-Vietnam Free Trade Agreement.

“Free trade has become a hot topic in the last year and, though discussions on the EU-Vietnam FTA have been pragmatic and relaxed, the crucial question for the Parliament is whether or not national governments will be able to approve it and other forthcoming deals,” she said.

“Perfect agreements simply do not exist and can always be pushed further,” stressed **Guenter Taus**, President of the European Chamber of Commerce of the Philippines (ECCP) and Managing Director for JEC Philippines. He noted that sectoral agreements and less rigorously applied FTAs can be useful for strengthening ties in the absence of all-encompassing deals.

“The real rationale behind bilateral agreements with ASEAN countries is to set standards and support ASEAN regional integration,” Mosca concluded. “The European Commission’s strategy to go ahead with negotiations is a step towards helping policymakers and business representatives on both sides develop better relations.”

ADDRESSING THE CHALLENGES OF CORRUPTION AND HUMAN RIGHTS

“Corruption and human rights impact on trade relations and are big issues that need to be overcome in the region,” noted Islam, adding that, “The international business community, though optimistic about the AEC addressing these issues in its Vision 2025, needs to engage more with governments in each bloc.”

As ASEAN members work to integrate themselves more fully into the global economy, it is important to tie reforms to anti-corruption measures and respect for human rights, stressed Taus, adding that “we do not want to do business with countries that violate human rights. Every person has their basic rights and no government can take that away.”

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To demonstrate the business community’s commitment to fight corruption and human rights violations, the ECCP has started an integrity initiative that, over the last four years, has collected over 7000 signatories from businesses and governments in the region, he added.

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The reforms necessary for a successful FTA with the EU also serve to increase transparency and protect the rights of citizens and economic actors, noted Hess. Shifting to digital customs systems or introducing national single windows as the Philippines has done under its new customs modernisation act is a relatively simple way to cut back on corruption and, in a larger sense, demonstrate that businesses and governments can trade in different and more reliable ways.

“Free trade agreements will help to level the playing field in terms of corruption,” Taus stressed. “Stamping out graft and corruption will take time but if we do not start the race, we will never make it to the finish line.”

CONCLUSION

As the EU and ASEAN celebrate 40 years of relations in 2017, there will be a great deal to discuss. While the relationship has seen many successes over the years, there remain weaknesses that need to be addressed, including whether or not the relationship can be elevated to a strategic partnership.

As China slows down, businesses will be looking for other centres of growth and ASEAN, with its dynamic economy and regardless of the challenges facing it, is one of those centres. In light of this, European businesses are looking forward to rising profits, expanded operations, and an acceleration of trade relations between the EU and ASEAN.

“It is important to remember that EU-ASEAN relations are not only about business,” Islam concluded. “Trade is the backbone of the relationship but this is really just the beginning.” If talks on a region-to-region FTA go ahead as planned in 2017, they will inject new energy into the wider discussion on a true EU-ASEAN strategic partnership.



LISTEN TO THE PODCAST

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Carsten Hess, Vice President and Head of Corporate Public Policy for Asia Pacific, Eastern Europe, Middle East and Africa at Deutsche Post DHL Group



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