

## Rethinking EU-ASEAN Economic Engagement

by Bridget Welsh

As the European Union looks to the Association of Southeast Asian Nations (ASEAN) to anchor its political engagement in Asia, there is a need for strategic vision and concerted efforts to strengthen economic ties, re-assessing the nature of the relationship while preparing for the future. It is not enough to rely on the natural camaraderie between what are arguably the two most successful cooperative regional organizations.

The EU needs to be more strategic. It must learn from the recent history of engagements with ASEAN and come out in front of regional trends, developing a more targeted and people-centred approach that reinforces EU norms.

To date, key economic debates between the EU and ASEAN have centred on a potential region-wide free trade agreement. This builds on the success of other bilateral trade agreements

with Japan (with negotiations finalized last year), Singapore (to be submitted for EU approval in April 2018) and Vietnam (currently under legal review), and reinforces the EU's commitment to overcome global trade barriers. Economic exchanges have also been buttressed by robust multilateral and bilateral missions. These have expanded the EU's presence and visibility in ASEAN, with the 2015 appointment of an ambassador to ASEAN and increased prominence of and funding for the European Council in fostering ASEAN regional integration.<sup>1</sup>

<sup>1</sup> For further reading, see Shada Islam, "A New Momentum in EU-ASEAN: Drivers, Risks, the Way Forward", in Louis Brennan and Philomena Murray (eds.), *Drivers of Integration and Regionalism in Europe and Asia. Comparative Perspectives*, London and New York, Routledge, 2015, p. 289-308; and Yeo Lay Hwee, "ASEAN-EU Dialogue: Moving Towards Strategic Relevance", in Tommy Koh, Sharon Seah Li-Lian and Chang Li Lin (eds.), *50 Years of ASEAN and Singapore*, Singapore, World Scientific, 2017, p. 169-175.

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**Table 1** | EU foreign direct investment to ASEAN (million dollars)

Economic sector	2012	2013	2014	2015	2016
Agriculture, forestry, and fishing	228.32	471.17	332.30	61.93	39.21
Mining and quarrying	741.56	1,574.65	1,667.93	1,772.45	854.55
Manufacturing	-15,719.01	4,154.61	14,509.52	3,700.99	-9,443.04
Electricity, gas, steam and air conditioning supply	182.45	248.13	110.17	-212.38	-207.84
Water supply; sewerage, waste management and remediation	78.49	101.45	82.09	-143.38	71.34
Construction	-22.44	189.75	237.66	48.93	122.23
Wholesale and retail trade; repair of motor vehicles and motor cycles	9,021.98	7,412.46	5,478.53	479.03	8,422.37
Transportation and storage	-510.05	-772.11	238.28	458.13	1,629.33
Accommodation and food service	3.47	-2.96	35.67	22.67	20.79
Information and communication	811.30	333.42	350.31	274.81	72.19
Financial and insurance	-2,824.61	1,996.14	11,781.47	-162.75	18,890.04
Real estate	363.36	327.13	450.77	619.34	457.56
Professional, scientific and technical	130.25	181.64	242.64	158.37	51.89
Administrative and support service	53.04	31.14	-10.02	86.52	124.82
Public administration and defence; compulsory social security	0.00	0.00	0.00	0.00	18.44
Education	-2.32	0.70	2.03	0.46	3.36
Human health and social work	4.37	1.61	10.75	0.67	7.48
Arts, entertainment and recreation	5.84	11.55	-9.33	3.97	8.53
Other services	5,047.21	3,099.57	2,122.35	12,567.03	8,699.57
Unspecified	636.75	296.20	228.24	1,091.11	2,396.19
<b>Total activities</b>	<b>-1,770.06</b>	<b>19,656.27</b>	<b>37,861.35</b>	<b>20,827.90</b>	<b>32,238.99</b>

Source: ASEANStats Database, *Flows of Inward Direct Investment to ASEAN by Source Country and Economic Sectors (in US\$ Million)*, as of 31 October 2017, [https://data.aseanstats.org/fdi\\_by\\_sector.php](https://data.aseanstats.org/fdi_by_sector.php).

Note: 2016 data is preliminary.

Such efforts are based on an appreciation that ASEAN countries comprise a third of the EU's trade. EU-ASEAN two-way trade grew to 226.8 billion euro in 2017, second only to that of the United States and China. The EU is also ASEAN's largest external source of foreign direct investment flows with 26.3 billion euro in 2016.<sup>2</sup> These flows have remained strong over the last decade and have represented a

significant boost for economic growth in both regions.

How can the EU deepen these economic ties, especially given the increasingly dominant role that China has in the region? China is by far Southeast Asia's largest commercial partner with 514.8 billion dollars of trade in 2017.<sup>3</sup> With the implementation of the One Belt One Road initiative, China is promising to become the leading source of capital

<sup>2</sup> Joint EU-Asia Media Statement, Singapore, 2 March 2018, <http://trade.ec.europa.eu/doclib/html/156623.htm>. See also Cheryl Lim, "The Time for Deeper Integration between ASEAN and EU is Now", in *The ASEAN Post*, 5 March 2018, <https://theaseanpost.com/node/2344>.

<sup>3</sup> Weida Li, "Trade Volume between China and ASEAN Exceeds US\$500bn in 2017", in *gbtimes*, 29 January 2018, <https://gbtimes.com/trade-volume-between-china-and-asean-exceeds-us500bn-in-2017>.

investments in Southeast Asia.

With 191 projects and an investment totalling 155 billion dollars to date, most of this in the past three years, China is perceived as the dominant driver for regional growth.<sup>4</sup> This has the potential to squeeze out competitors, implicitly undercutting the EU's relationship with Southeast Asia. The EU needs to prevent this from happening, and to do this Europe must rethink its economic approach to Southeast Asia.

EU-ASEAN economic exchanges need further diversification. One of the most important lessons from the Obama administration's negotiations over a Trans-Pacific Partnership Agreement (TPPA) was its mistake in concentrating exclusively on sealing a trade deal. When this policy was reversed by the Trump administration, goodwill and US credibility among Southeast Asian governments eroded.

The fault stemmed in part from a myopic focus on trade. The EU can heed this lesson. The obstacles to the passage of a EU-ASEAN trade agreement are high, given resistance in both regions and thorny issues such as the European ban on palm oil. Trade agreements in Southeast Asia are less about outcome, and more about process, however. The EU is right to maintain a place at the table and deepen dialogue on trade, but this engagement needs to be part of a broader set of initiatives.

<sup>4</sup> Siegfried Alegado, "Japan Still Beating China in Southeast Asia Infrastructure Race", in *Bloomberg*, 8 February 2018, <https://www.bloomberg.com/news/articles/2018-02-08/japan-still-beating-china-in-southeast-asia-infrastructure-race>.

One such means to broaden relationships is to capitalize on Southeast Asia's desire to balance China's growing economic influence in the area. Japan, South Korea and Taiwan have all revamped their economic engagement with the region, primarily competing with China for investment in infrastructure. The EU needs to find a way to be part of this infrastructure drive in Southeast Asia.

European investors, despite having superior high-end technology in areas such as transportation, have to date lost out on important deals that have involved more favourable financing and terms, especially from China. A good example was the Singapore-Malaysia High Speed Rail project.<sup>5</sup> Rather than consider Southeast Asia as a destination for hardware investment, the EU should seek to promote its services and expertise as part of a hub in the development of regional infrastructure.

The EU's comparative advantage lies in complementing areas where competitors are lacking, namely in software. The EU's strength in logistics and standards is an important gap that needs to be filled. China often has a poor record in these domains, and similarly is seen to do little to maintain projects after they are

<sup>5</sup> For background on this project, see Francis E. Hutchinson, "The Kuala Lumpur-Singapore High Speed Rail: Costs, Contracts and Complications", in *ISEAS Perspective*, No. 7 (17 February 2016), [https://www.iseas.edu.sg/images/pdf/ISEAS\\_Perspective\\_2016\\_7.pdf](https://www.iseas.edu.sg/images/pdf/ISEAS_Perspective_2016_7.pdf); and Srinivas Mazumdar, "Europe Faces China, Japan in High-Speed Rail Battle in Asia", in *Deutsche Welle*, 14 February 2018, <http://p.dw.com/p/2shLU>.

completed. The EU invests for the long term and can argue that maintenance in infrastructure ultimately protect investments. This will foster resonance within Southeast Asian institutions and deepen economic ties while expanding EU norms and regulations.

At the same time, the EU can expand its economic range of activities. It can do so in a more targeted manner. To date, the EU's main exports to ASEAN have been chemical products, machinery and transport equipment. The fastest expanding area has been services, more than tripling since 2012 to almost 30 billion dollars in 2016. The service sector is arguably the most meaningful engine of growth for Southeast Asian economies, as it creates much-needed jobs for younger generations. Targeting should also be enhanced by focusing on economies with the most potential for growth, namely Indonesia, Myanmar, Thailand and Vietnam.

Southeast Asia simultaneously provides an arena to strengthen the EU's comparative weaknesses in certain areas, namely the digital economy. Data flows are estimated to contribute 11 trillion dollars to the global economy by 2025.<sup>6</sup> China has become the leader in digital innovation, not only with conglomerates such as Alibaba, but also with cutting edge technology in companies such as Tencent. The EU cannot compete on a level playing field within China, but in Southeast Asia it

<sup>6</sup> Joshua P. Meltzer and Peter Lovelock, "Regulating for a Digital Economy. Understanding the Importance of Cross-Border Data Flows in Asia", in *Brookings Global Working Papers*, No. 113 (March 2018), p. iv, <http://brookings/2GKkMPb>.

can access technology on a more equal footing.

Another area where much potential benefit exists would necessitate a change in approach by the EU towards Southeast Asian economies. Rather than focus on elites, working through state-driven enterprises, the EU can gain through greater collaboration with small and medium business and a more people-centred engagement.

These companies are suffering due to China's growing encroachment in ASEAN and are in need of meaningful collaboration. Small business can benefit from exchanges with vibrant incubation centres for innovation such as those in the Netherlands.<sup>7</sup> Similar exchanges in Southeast Asia for European companies can do the same. Not only does this promote innovation, it develops relations with companies that have the most vested interest in maintaining competition and a level playing field in Southeast Asia. Over time, this reinforces EU norms and maintains access to the region's economies.

Such shifts will involve difficult attitudinal changes. Expanding beyond traditional patterns of engagement – trade, core products, hardware investment, elite and state-centred partnerships – towards the provision of software in areas such as logistics and standards, services, the digital economy, people-centred collaboration and innovation require different

<sup>7</sup> Jessica Hoyt, "Top Accelerators and Incubators in the Netherlands", in *Globig Blog*, 9 March 2017, <https://www.globig.co/blog/top-accelerators-and-incubators-in-the-netherlands>.

strategic thinking. Given that the EU has already recognized that ASEAN represents its fundamental anchor for political engagement in Asia, one hopes that similar, forward looking approaches will soon be taken in the economic realm as well. A failure to shift EU engagement will only serve to undercut much needed sources for growth for Europe and be a missed opportunity to fill a larger role in the global economy in this era of US decline in Southeast Asia.

*5 April 2018*

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