Trade negotiations between the EU and ASEAN member states

SUMMARY

In 2017, the European Union–Association of Southeast Asian Nations (ASEAN) dialogue partnership celebrated its 40th anniversary. The same year saw the 50th anniversary of the founding of ASEAN. The ASEAN region is currently the world’s fifth largest economy, a dynamic economic area home to more than 660 million consumers.

To ensure better access to opportunities in the region’s market, the European Union (EU) started negotiations with ASEAN for a region-to-region free trade agreement (FTA) in 2007. After negotiations were suspended in 2009, the EU decided to pursue bilateral trade agreements with the individual ASEAN member states. To date, six have begun talks on bilateral FTAs with the EU: Singapore and Malaysia in 2010; Vietnam in 2012; Thailand in 2013; the Philippines in 2015; and Indonesia in 2016. Negotiations have already been concluded and FTAs entered into force with two of these countries, Singapore and Vietnam, in November 2019 and August 2020, respectively. Negotiations are under way with Indonesia, while talks are currently on hold with Malaysia, the Philippines and Thailand.

In the longer term, these bilateral FTAs would allow the establishment of a region-to-region FTA, which remains the EU’s ultimate ambition. By bringing together two of the world’s largest economic areas, the agreement would establish a free trade area with a combined market of more than 1 billion people.

It is in the EU’s interest to strengthen its economic cooperation with ASEAN, in order to maintain its competitive position in this dynamically developing region. Closer trade and investment relations could also pave the way towards the EU’s goal of a strategic partnership between the two regional blocs, encompassing political as well as economic cooperation.

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Introduction

Formal 'dialogue relations' between the EU and ASEAN began in 1977. Although cooperation between the two parties has extended over the years to new areas, such as maritime security, economic and trade relations have always been the central focus. In January 2019, an agreement in principle was reached at the 22nd EU-ASEAN Ministerial Meeting on upgrading relations to the level of a strategic partnership. On this occasion, the parties reaffirmed in a joint statement their commitment to free and open trade on a level playing field, and their partnership in supporting a rules-based multilateral trading system.

As a whole, ASEAN is one of the world's largest economies. The ASEAN Economic Community (AEC), launched in 2015 and aimed at creating a single market of more than 660 million consumers with a rapidly expanding middle class, offers great opportunities for EU exporters and investors. The EU supports ASEAN's economic integration through various initiatives, such as the Arise plus programme, as it considers economic and trade connectivity a priority in its relations with the bloc.

The region is also a key hub for the transit of European goods and has an important position in regional supply chains. In addition to the agreements concluded individually by its member states, ASEAN has signed FTAs with China, Hong Kong, Japan, Korea and India, and jointly with Australia and New Zealand. ASEAN member states are among the 15 countries that concluded the text-based negotiations in 2019 for a Regional Comprehensive Economic Partnership (RCEP) agreement, and four of them (Brunei, Malaysia, Singapore and Vietnam), are also members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP), in force since 2018.

Dynamic economic relationship

With a 5.2% share in goods trade, ASEAN was the EU's third largest goods trading partner outside Europe in 2019, after the United States and China, whereas the EU was the bloc's third largest trading partner in goods, following China and the United States. Between 2009 and 2019, total trade in goods more than doubled from €102 billion to €210.6 billion. This increase in trade was, however, coupled with a constant negative trade balance on the EU side. In 2019, the deficit totalled €39.6 billion.

The EU's total trade in services with ASEAN reached €88.3 billion in 2017, with a surplus of €5.5 billion on the EU side. This was more than twice as high as the 2007 level of trade (€40 billion). In 2017, EU–ASEAN total trade in services made up approximately 5.4% of the EU's total services trade with the rest of the world.

In recent years, the EU has remained the most significant source of foreign direct investment (FDI) in the region. In 2018, the EU accounted for 14.2% of ASEAN FDI inflows, followed by Japan (13.7%) and China (6.6%). In 2017, EU outward FDI stock reached €337 billion in the region; compared to 2013 (€170.6 billion), an increase of 93.73%. Totalling €141 billion in 2017, ASEAN investment in Europe constitutes an increase of around 144% compared to 2013 (€56.8 billion).

Individual ASEAN member states' trade relations with the EU differ considerably. Within ASEAN, Malaysia, Singapore, Thailand and Vietnam were the EU's main export and import partners for goods
in 2019, accounting together for around 78% of total EU exports and 76.3% of total EU imports. While Singapore held the highest share of EU exports, Vietnam was the biggest exporter to the EU. Brunei, Cambodia, Laos and Myanmar/Burma collectively represented only 2.3% of total EU exports and 6.1% of total EU imports. For trade in services, the top five ASEAN partners in 2017 were Singapore, Thailand, Malaysia, Indonesia and the Philippines, with more than 93% of the EU’s ASEAN trade in services. Finally, in 2017, Singapore was the location of 69.1% of EU outward FDI stock in ASEAN countries, and was also the largest ASEAN investor in that year, with stock registering €117.3 billion. Overall, Singapore is the EU’s largest trading partner within ASEAN.

An EU-ASEAN bi-regional FTA

Following the identification of ASEAN as a priority region in the 2006 Global Europe Communication, the Council of the EU authorised the European Commission to start talks for an FTA in 2007. Negotiations were launched in the same year, with the EU striving for a comprehensive deal leading to broad liberalisation of trade. Investment protection was not covered by the original negotiating mandate, as the Lisbon Treaty took effect only after the adoption of the mandate. In March 2009, during the seventh Joint Committee for the ASEAN-EU FTA, the two sides agreed to suspend regional negotiations. In December 2009, EU Member States gave their approval to pursuing FTA negotiations with ASEAN member states in a bilateral format. In October 2013, the Council adopted an updated mandate modifying the directives for the talks on FTAs with ASEAN countries and extending the scope of the agreements to include investment protection provisions.

Bilateral FTAs with ASEAN member states

Singapore

EU-Singapore negotiations began in 2010, based on the ASEAN negotiating directives adopted in 2007. These directives were modified in July 2011, to authorise the Commission to open negotiations on investment protection provisions with Singapore. Following the conclusion of talks on investment protection, negotiations were completed in October 2014, with other parts of the EU–Singapore FTA already initialled in 2013.

In 2015, the Commission sought an opinion from the Court of Justice of the EU (CJEU) on the competence for conclusion of the EUSFTA. On 16 May 2017, the CJEU issued its opinion, stating that the EUSFTA, in its 2014 form, also covered shared competences. To take account of both the EU’s new investment approach, which established a new investment court
system, and the CJEU opinion, talks between the parties led to the EUSFTA being split into two agreements. Now separated from the investment protection agreement, the EU-Singapore FTA includes only provisions that are within the exclusive competence of the EU; the EU was competent to conclude this FTA. The EU–Singapore Investment Protection Agreement (IPA) covers investment protection and investment protection dispute resolution. According to the 2017 CJEU opinion, the IPA falls under shared competence and should therefore be ratified by both the EU and its Member States, following their own national procedures.

The FTA and the IPA were signed during the Asia–Europe Meeting (ASEM) Summit in Brussels, on 19 October 2018. On 13 February 2019, the European Parliament gave its consent to the conclusion of the FTA and of the IPA. Following the conclusion of the final formalities of each party, the FTA entered into force on 21 November 2019. By mid-October 2020, the following Member States notified the Council of the completion of their domestic procedures for the ratification of the IPA: Czechia, Denmark, Estonia, Latvia, Luxembourg and Sweden.

Content of the FTA

The EU–Singapore FTA deals with trade and FDI liberalisation. A 'new generation' trade agreement, with an ambitious, comprehensive scope, it provides for the virtually complete elimination of tariffs, at the latest five years after the date of entry into force of the agreement. The FTA also addresses existing non-tariff barriers, for instance it includes commitments on the removal of double testing requirements for motor vehicles and electronics. Moreover, it provides better market access to European service suppliers in Singapore in sectors such as telecommunications and transport, and EU bidders will have new public tendering opportunities. The agreement includes a trade and sustainable development (TSD) chapter, with a list of commitments to ensure, for instance, that domestic labour and environmental standards cannot be lowered in order to attract trade and investment, as well as provisions on intellectual property protection. Thus, in accordance with the FTA, Singapore established a geographical indications (GI) registry, and by April 2020, 138 EU GIs were registered. The agreement also contains a chapter on renewable energy generation, including provisions to facilitate trade and investment for renewable energy generation.

European Parliament position

In its resolution of 13 February 2019, the European Parliament underlined the economic and strategic importance of the FTA. Parliament highlighted, among other things, the elimination of the few remaining tariffs on EU products, the facilitation for EU companies to access the services and public procurement markets in Singapore, and the recognition of the right of Member States at all levels to define and provide public services. It also welcomed the parties’ commitment to providing high levels of environmental and labour protection. However, Parliament deplored the fact that the protection of the EU GIs included in the agreement is not automatic. Parliament also stressed that Singapore should work towards ratifying the three outstanding International Labour Organization (ILO) core conventions, and that civil society and social partners’ participation in the monitoring of the FTA’s implementation is of key importance.

Impact of the FTA

An economic impact assessment of the outcome of the FTA was published in September 2013. The economic estimates predicted that, among other things, over a ten-year period EU exports to Singapore would grow by about 3.6 %, and that in absolute terms the FTA would boost EU GDP by nearly €550 million. A 2018 study, based on the EUSFTA text as of May 2015, estimated that, over the first five years, trade volumes between the EU and Singapore would grow by 10 %. Based on the combined effect of trade and FDI increases, EU and Singaporean GDP would grow by 0.06 % and 0.35 % respectively. After the first year of implementation, the Commission will start to monitor the quantitative and qualitative benefits of the FTA, including the use of preferences. Approximately five years after the entry into force, the Commission will carry out an ex-post evaluation.
Trade negotiations between the EU and ASEAN member states

Vietnam

Negotiations with Vietnam on an FTA were launched in 2012, in accordance with the 2007 ASEAN negotiating directives. An agreement in principle was reached in August 2015, and following the completion of technical discussions, talks were finalised in December 2015. In February 2016, the full text of the agreement was published, together with a Commission staff working document on human rights and sustainable development. However, the formal conclusion of the agreement was delayed by the CJEU’s pending opinion on the competence for conclusion of the EU–Singapore FTA. To take the 2017 CJEU opinion into account, the original agreement was split into a FTA and an IPA in June 2018. Both agreements were signed on 30 June 2019 in Hanoi. The European Parliament gave its consent to the agreements on 12 February 2020. Following the conclusion of the final formalities of each party, the FTA entered into force on 1 August 2020. The IPA still has to be ratified by all Member States following their national procedures. By mid-October 2020, Hungary, Romania and Sweden had notified the Council of the completion of their domestic ratification procedures. During the negotiations and the procedure leading to the conclusion of the agreements, concerns regarding the human rights and political situation in Vietnam have been raised, including by the European Parliament, for instance in its resolutions of 2014, 2016 and 2018.

Content of the FTA

The FTA eliminates over 99% of all tariffs on exports in both directions, at the latest 10 years after the date of entry into force of the agreement. It also addresses non-tariff barriers to trade; Vietnam, for instance, will align its standards more closely with the international standards on cars and pharmaceuticals, and will also provide simplified and standardised customs procedures. The FTA ensures that EU companies will be able to participate in bids for public contracts with Vietnamese authorities and state-owned enterprises. It also improves access to Vietnamese service markets; EU firms will operate under more favourable conditions in the Vietnamese postal, banking, insurance, environmental and other service sectors. In response to the concerns regarding labour rights and environment expressed in relation to Vietnam, the trade agreement contains commitments to implement the core standards of the ILO, for instance, on freedom to join independent trade unions, and United Nations conventions, such as on combatting climate change and protecting biodiversity. Provisions on intellectual property protection and investment liberalisation are also included in the FTA that provide protection to more than 160 EU GIs on the Vietnamese market. Moreover, Vietnam will open up various manufacturing sectors to EU investment, including, for instance, food and beverages.

European Parliament position

In its resolution of 12 February 2020 on the FTA, Parliament stressed the economic and strategic importance of the FTA. It underlined that the FTA is, inter alia, a tool for development and social progress in Vietnam, helping to improve labour rights and environmental protection. In this context, it welcomed the adoption of the reformed Labour Code, the ratification of ILO core Convention 98 and the commitment to ratify the two remaining core conventions (Convention 87, which is still outstanding and Convention 105, which was ratified by Vietnam on 8 June 2020); it called on the Vietnamese government to ensure a credible roadmap for these ratifications. The EP also called for a thorough monitoring of the FTA and considered the involvement of independent civil society and social partners to be essential. It pointed out that the human rights clause in the EU-Vietnam Partnership and Cooperation Agreement (PCA) allows for appropriate actions and also, as a last resort, for the full or partial suspension of the PCA and, implicitly, the FTA.

Impact of the FTA

The assessment carried out within the framework of the 2009 EU-ASEAN Trade Sustainability Impact Assessment (SIA) suggested that the FTA would raise Vietnam’s GDP by more than 15% in the long term, most ambitious scenario, and its export value by almost 35%. A 2018 report carried out by the
European Commission estimated more modest, but still significant benefits: an economic welfare increase of €6 billion and €15 billion in additional exports by 2035. It predicted smaller gains for the EU: a €1.9 billion increase in economic welfare and an export growth of €8.3 billion by 2035. After the first year of implementation, the Commission will start to monitor the benefits of the FTA; approximately five years after the FTA becomes operative, an ex-post evaluation will be carried out.

Indonesia

Following the successful conclusion of the exploratory talks in April 2016, negotiations for an EU–Indonesia FTA were launched in July 2016. Between September 2016 and December 2019, nine rounds of negotiation took place. The tenth negotiation round, scheduled for March 2020, was postponed due to the Covid-19 pandemic. A virtual round of negotiations was held in June 2020 in most negotiating groups and on selected issues.

A civil society dialogue to present the state of play of the trade negotiations was held by the European Commission in April 2019. The Commission also presented the SIA draft final report for Indonesia. Now finalised, the SIA analyses the potential economic, social, human rights and environmental impacts of the agreement, and provides input to the EU negotiators. On 16 July 2020, the Commission published the response to the recommendations set out in the final SIA report.

Main negotiation issues

Since the start of the negotiations, the European Commission has published a number of initial textual proposals, which were presented to Indonesia as a basis for the negotiations. An explanatory note accompanies each textual proposal. The Commission also publishes the report of each round of negotiations. Based on the negotiation reports published by mid-October 2020, developments in several negotiation areas can be summarised as below.

Detailed discussions were held on all topics to be included in the agreement. Good progress has been made across the board, although to differing extent, according to the various chapters. The chapters on sanitary and phyto-sanitary issues and trade defence instrument are close to conclusion. After the virtual round of June 2020, only the institutional provisions and the provisions on mutual administrative assistance remain outstanding in the chapter on customs and trade facilitation. Discussions are progressing well on, for instance, technical barriers to trade as well as on rules of origin, including on product-specific rules. The EU and Indonesia have exchanged two offers on the liberalisation of trade in goods. Before the ninth round, both sides had published for possible opposition their respective list of GIs to be protected under the FTA. However, the timeline has not yet been decided as regards the exchanged offers on market access in government procurement. While under the competition chapter, the parts on anti-trust and mergers are concluded, substantive discussions are advancing at a slower pace on state owned enterprises and subsidies. Discussions on regulatory issues have made good progress and the respective offers on services and investment have been discussed. Given the parties’ conceptual differences, text consolidation in the TSD chapter continues to be difficult. In the margins of the fourth round, both EU and Indonesian civil society organisations took part in meetings with the chief negotiators, and on the side-lines of the eighth round, in the framework of a special session, parties reviewed palm oil developments.

As Indonesia is the largest global palm oil producer and exporter, the palm oil sector is not only one of the most significant economic areas in the country, it is also important in its trade relations with the EU. Within this context, Indonesia considers that EU measures implied by the 2019 Delegated Act based on the revised Renewable Energy Directive (REDII) discriminate against imported palm oil based biofuels from Indonesia. Following Indonesia’s request for consultation with the EU under the WTO’s Dispute Settlement Mechanism in December 2019, and the consultation held in February 2020, Indonesia requested in March 2020 that the Dispute Settlement Body set up a panel to adjudicate this matter. A panel was established in July 2020.
Impact of the FTA

The Trade SIA final report predicts an overall increase in welfare and GDP for both sides, as well as an increase in trade. The report projects, by 2032, an increase in EU GDP of between €2.46 billion to €3.09 billion, and between €4.56 billion to €5.19 billion for Indonesia. The increase in overall exports is expected to range between €5.03 billion and €5.89 billion for the EU and between €5.03 billion and €5.60 billion for Indonesia, depending on the degree of liberalisation.

Thailand

Following the Council’s authorisation from February 2013, FTA negotiations with Thailand were launched in March 2013, with four negotiation rounds held by April 2014. The EU suspended negotiations after Thailand’s military took power in the country in May 2014. The Council conclusions on Thailand from June 2014 urged the country to return to democracy and to establish respect for human rights and fundamental freedoms. The conclusions also stated the EU’s refusal to sign the PCA concluded with Thailand in February 2013, until a democratically elected government has assumed office. EU institutions continued to follow developments in Thailand closely. In its resolution of October 2015, the European Parliament expressed deep concerns about ‘the deteriorating human rights situation following the illegal coup of May 2014’ and urged the restoration of democratic governance. In its December 2017 conclusions on Thailand, the Council reiterated the call for the urgent restoration of the democratic process, while noting some encouraging developments, for instance a statement on the general election date. In view of these developments, it invited the Commission to explore with Thailand the possibilities of resuming the talks. In July 2019, the new Deputy Prime Minister and Minister of Commerce of Thailand announced to the Thai Parliament its intention to re-launch the FTA negotiations with the EU. In the context of the political developments following the March 2019 Thai elections, the Council underlined the importance of taking steps towards relaunching the FTA talks, among other things, in October 2019. As it is important that the parties agree on their ambitions regarding the scope of the FTA before resumption of the talks, the Commission has engaged in consultations with Thailand to this end.

Malaysia

Negotiations on an FTA between the EU and Malaysia were launched in October 2010, after the Council gave its approval in September 2010. They were put on hold after the last round in 2012. According to different sources, there were various reasons for the break, such as preparations for the Malaysian national elections in 2013, Malaysia’s participation in the Trans-Pacific Partnership (TPP) agreement talks, which restricted its negotiating capacity, and the failure of both sides to agree on the terms of the agreement. On the occasion of the 22nd ASEAN Economic Ministers’ Retreat in March 2016, the two parties agreed to restart talks on the trade agreement. A Trade SIA draft final report carried out for the Commission was published in May 2019. However, the re-launch of the negotiations is also conditional on the EU and Malaysia agreeing on the scope of the future agreement. The EU expects Malaysia to be open to an ‘ambitious deal’, similar in coverage to those it has reached with Singapore and Vietnam. In 2016-2017, a stocktaking exercise was conducted to explore the prospecs of resumption of the negotiations, however, Malaysian decision-makers have not yet taken a position on their continuation.

The EU’s palm oil policy already mentioned above has been identified by Malaysian officials as one of the factors for the suspension of negotiations. Malaysia, which is the world’s second-largest palm oil producer, announced in July 2020 that it will also take legal action at the World Trade Organization against the EU and that it will join Indonesia’s case as a third party, arguing that EU measures restrict free trade. On the other hand, in a February 2020 meeting of the European Parliament’s International Trade (INTA) Committee, then Trade Commissioner Phil Hogan stated that, unless the sustainability issues, particularly around palm oil, had been resolved, the agreement with Indonesia would not be concluded and the negotiations with Malaysia would not be reopened.
The Philippines

Following exploratory talks that began in 2013, negotiations for an FTA with the Philippines were officially launched in December 2015. The first round of negotiations was held in May 2016. Prior to the second round that took place in February 2017, the parties presented several initial textual proposals. The Commission also published short factsheets to accompany the above-mentioned proposals for legal texts. No further negotiation round has been scheduled as yet. A Trade SIA draft final report carried out for the Commission was published in May 2019. Currently, the Philippines is a beneficiary of the EU's Generalised Scheme of Preferences Plus (GSP+).

Reportedly, the continuation of negotiations has been hampered, among other things, by the situation of human rights and democracy in the country. The European Parliament has raised serious concerns about human rights violations in the Philippines in a number of resolutions. In its resolution of 17 September 2020 on the situation in the Philippines, the Parliament called on the European Commission to immediately initiate the procedural steps which could result in the temporary withdrawal of the GSP+ preferences, should there be a lack of 'any substantial improvement and willingness to cooperate on the part of the Philippine authorities'.

The first meeting of the Joint Committee under the EU-Philippines PAC, which entered into force in March 2018, took place in January 2020. On this occasion, the parties also discussed the prospects of continuing the FTA negotiations.

Reopening negotiations for a bi-regional FTA

In recent years, a number of statements have been made on the intention to reopen the bi-regional negotiations, for example, at the 14th ASEAN Economic Ministers–EU Trade Commissioner consultations in March 2016. Since March 2017, the Commission and ASEAN members have conducted a stocktaking exercise to assess the prospects for resuming talks. The joint EU-ASEAN Working Group, tasked with developing a framework setting out the parameters for a future agreement, meets on a regular basis. In the 2019 joint statement published on the occasion of the 22nd EU-ASEAN Ministerial Meeting, the EU and ASEAN reaffirmed their commitment to the future EU-ASEAN FTA. During his October 2020 hearing in the European Parliament, prior to taking over the trade portfolio permanently, the Commission’s Executive Vice-President, Valdis Dombrovskis stated that, to date, there has been little convergence between the two parties, as well as within ASEAN, regarding the scope of the agreement; however, given the importance of the region, engagement with the process will continue.

In its October 2020 resolution on the implementation of the common commercial policy, the European Parliament stated that it views such agreements as those with Singapore and Vietnam as a step towards concluding an FTA with the ASEAN region as a whole. In September 2020, at the 41st General Assembly of the ASEAN Inter-parliamentary Assembly, Daniel Caspary (EPP, Germany), Chair of the European Parliament’s ASEAN Delegation, stated that, 'Our ultimate goal remains to establish a region-to-region Free Trade Agreement'.
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MAIN REFERENCES

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