



ASEAN-EU Relations Conference

Session 3: Trade

17th June 2022, Bangkok

Tricia Yeoh, IDEAS

ASEAN and the EU: History

1973 - 2006

- ❑ In 1973, the EEC and ASEAN signed their first co-operation agreement, only six years after the creation of ASEAN. This was the **first interregional cooperation agreement** ever entered into by Western Europe as a whole with another foreign regional body.
- ❑ This **symbolic importance** coupled with the tendency of the EU, as part of its soft power approach to international relations generally, to promote regional integration elsewhere gives a unique significance to EU-ASEAN relations

1973

The European Economic Community (EEC) and ASEAN signed their **first co-operation agreement**

1978

Relations strengthened by **formation of ASEAN- EC Ministerial Meeting (AEMM)** after EC became one of ASEAN's external dialogue partners in 1977

2003

EU-ASEAN relations reinvigorated; the EC published a strategy titled "**A New Partnership with Southeast Asia**"

2005

The EC and ASEAN Economic Ministers constituted the **Vision Group** with the task of investigating the feasibility of new initiatives on closer economic co-operation

2006

The group **presented the final report** opening the way to formal FTA negotiations

ASEAN and the EU: History

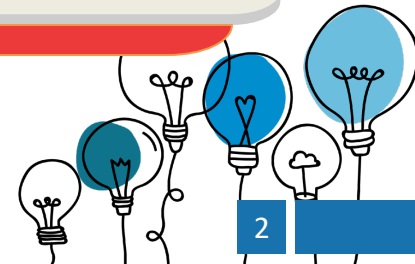
2007 – 2009

2007

- **April** - The EC endorsed the negotiating directive for a comprehensive free trade agreement between the EU and ASEAN.
- **May** - The ASEAN Economic Ministers (AEM) and the EU Trade Commissioner met and agreed for the negotiations to be based on region-to-region approach. **A Joint Committee (JC)** comprising senior officials from all the ASEAN Member States (AMS) and EU was **established**
- Unfortunately, the initial optimism quickly dissipated - the EU expressed disappointment with the slow rate of progress in Nov 2017

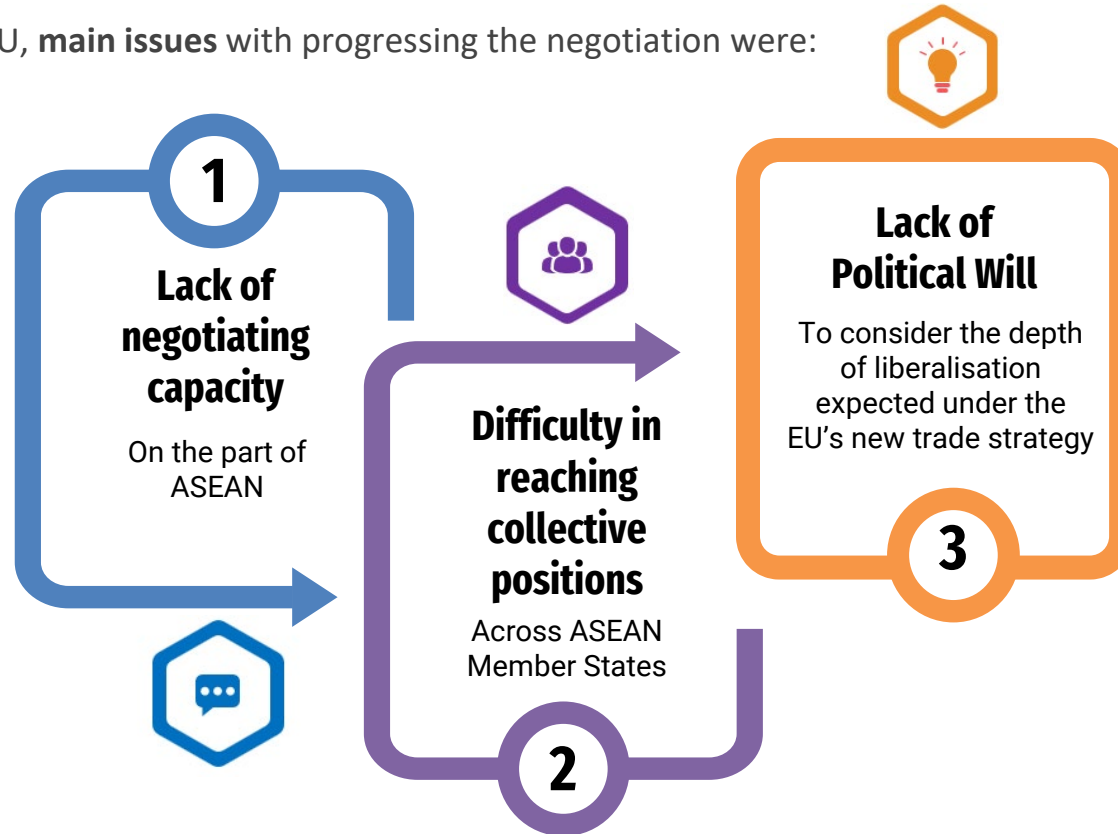
2009

- Negotiations on the region-to-region agreement, **JC were paused**.
- Later that year, the EC endorsed new negotiating mandates for bilateral FTA with individual ASEAN member states



What caused the suspension in 2009?

According to the EU, **main issues** with progressing the negotiation were:



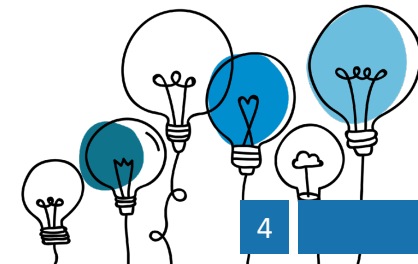
ASEAN and the EU: Trade History

2009 – 2022

Table 1. Summary of EU Trade negotiations with ASEAN and its Member States, 2018

Partner	Proposed Agreement	Date Launched	Date Concluded	Generalised Trading Preference
ASEAN	EU-ASEAN Free Trade Agreement	2007, subsequently suspended. Relunched in 2017	No agreement reached	Various
Singapore	EU-Singapore Free Trade Agreement	March 2009	October 2014	None
Vietnam	EU-Vietnam Free Trade Agreement	June 2012	October 2015	GSP
Malaysia	EU-Malaysia Free Trade Agreement	October 2010 subsequently suspended. Relunched in March 2017	Not agreed	None
Thailand	EU-Thailand Free Trade Agreement	March 2013, subsequently suspended.	Not agreed, currently suspended.	None
Indonesia	EU Indonesia Comprehensive Economic Partnership Agreement	July 2016	Not agreed	GSP
Philippines	EU Philippines Free Trade Agreement	December 2016	Not agreed	GSP+
Cambodia	No agreement	N/A	N/A	EBA (under review)
Lao PDR	No agreement	N/A	N/A	EBA
Myanmar	No agreement	N/A	N/A	EBA (under review)

- Later that year the European Council (EC) endorsed **new negotiating mandates** for bilateral Free Trade Agreements with individual ASEAN Member States.
- On the bright side, some ASEAN countries already completed trade negotiations with the EU. But it was a long shot for them as well:





Singapore

Following the suspension of negotiations on an EU-ASEAN FTA, the EU immediately commenced negotiations on a bilateral FTA with Singapore (EUSFTA) which concluded with an agreement in October 2014. Given the profile of both parties' economies, the negotiations focussed on achieving far reaching liberalisation of trade in services. As a result, the final FTA included provisions on regulations on trade and services, investments, public procurement, intellectual property rights including geographical indications (GIs), commitments on environmental aspects and sustainable development (European Commission, 2013). These provisions would classify this agreement as a WTO-plus, high-quality FTA.



Vietnam

In December 2015, the EU concluded its second FTA with an ASEAN Member, when it agreed the EU-Vietnam FTA (EVFTA). Following a decision to expedite ratification in light of concerns over investment, the Investment provisions were separated from the rest of the FTA. The final text of the agreement alongside the EU-Vietnam Investment Protection Agreement (IPA) were agreed in July 2018. This agreement is considered to be the most comprehensive free trade agreement that the EU has ever concluded with a developing country (Mazur, 2017). The deal liberalises 99% with customs duties removed over a transitional period of 7 years for the EU and 10 years for Vietnam (European Commission, 2016).

Challenges to Agreeing an EU- ASEAN Free Trade Agreement



In four decades, **palm oil** has become an integral aspect of the global economy. For Malaysia and Indonesia, the product **transformed the ecological landscape and the financial market, altered positions on the international stage, and accelerated the countries into a fiercely competitive industry.** Now, palm oil has become a turning point in relationships between Southeast Asian producers and the EU, and in some ways between ASEAN and the EU.

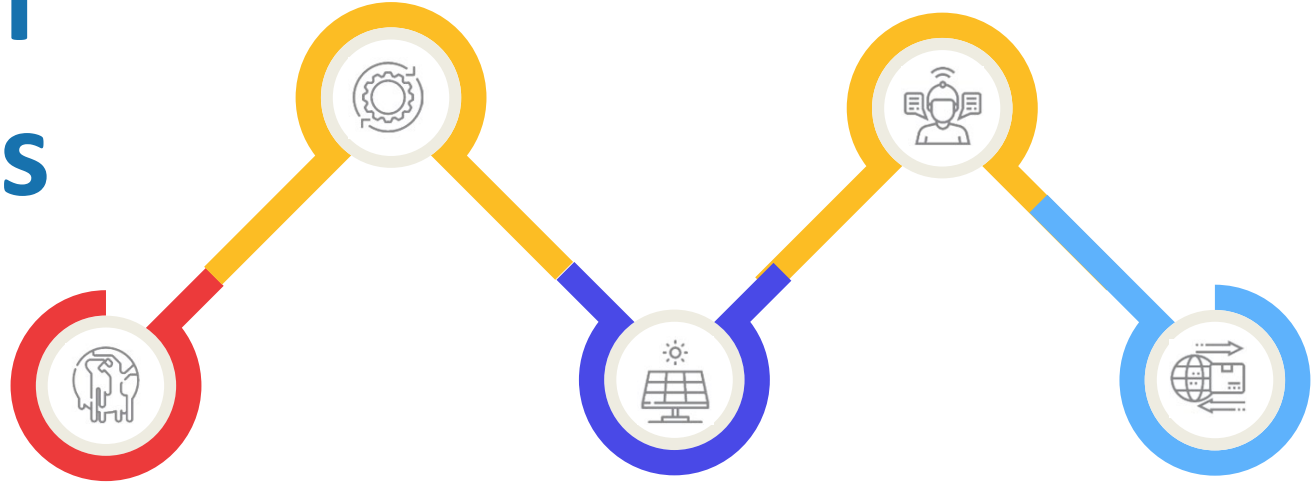
Palm Oil Disputes

Not a “ban”

The action EU has taken does not constitute a “ban” on palm oil, rather than biodiesel produced using palm oil no longer count towards renewable targets

Public Sentiment and Consumer Movement

Problems with EU policy are compounded by a **widespread public sentiment and associated consumer movement that palm oil per se is bad**



Climate Change

Countries in Southeast Asia are highly exposed to the **potential impacts of climate change**, with large coastal populations

Renewable Energy Directive (RED) II and the Delegated Act

- The **product-level approach to palm oil** as a whole also “**punishes**” sustainable producers
- EU acted unilaterally
- The methodology includes somewhat **arbitrary cliff-edge thresholds**.

Cost to Producers

From Malaysian and Indonesian perspective, EU’s decision results in **higher costs of palm oil exports, at a cost to producers**



The Delegated Regulation for Its Second Renewable Energy Directive (RED II) as Environmental Legislation

- In March 2019, the EU adopted the **Delegated Regulation for its second Renewable Energy Directive (RED II)**, which has upped the tension over the EU's concerns regarding biofuels.
- The EU aims to **completely phase out** the use of palm oil biofuel by **2030**, on the grounds that oil palm plantations contribute to a larger carbon footprint than the forests they replace and hence are a threat to climate change.
- **Indonesia filed a lawsuit** against the EU last December, and since then **Malaysia is reportedly planning** to file a legal action with the World Trade Organization (WTO), claiming that the EU's policy is "discriminatory" and "unreasonable".
- EU claims **palm oil biofuel does not count** towards renewable targets, and it would not qualify to obtain the subsidies and reliefs which other renewables benefit from.

The Delegated Regulation for Its Second Renewable Energy Directive (RED II) as Environmental Legislation

EU's Positions

- **Oil palm plantations are a deforestation threat.**
- EU believes that **biodiversity is reduced** as the rainforest ecosystem, the **habitat of wildlife, is destroyed** owing to deforestation for oil palm plantations. According to the International Union for Conservation of Nature (IUCN), oil palm estate expansion is a **threat to 54% of the world's threatened mammals** and **64% of the world's threatened birds**.
- EU recognizes that the global population is estimated to grow **to 9.7 billion by 2050** and expects that food demand will rise by **more than 50%**. Thus, it is essential to make more efficient use of agricultural land.

Malaysia's and Indonesia's Positions

- **The progression towards sustainable palm oil is now too ingrained to be disrupted or regressed by the RED II.**
- **Palm oil has been similarly linked to emotion and identity.** In January 2019, Malaysia launched a year-long Love MY Palm Oil Campaign, intended to “instil pride and greater appreciation of the contributions and benefits of Malaysian Palm Oil to the country and the world” (Impo, 2019)
- Both countries have **emphatically associated palm oil with economic growth**. In response to the RED II, Indonesian officials said that the EU would hinder the country's fight against poverty (Bloomberg, Krukowska 2019).

Challenges to Agreeing an EU- ASEAN Free Trade Agreement



Lack of
Negotiating
Capacity

1. Coordination of ASEAN interests

- ASEAN decentralized model makes it difficult to reach common position among Member States
- Compounded by relatively low-resourcing of the ASEAN's Secretariat

2. Concerns Over Trade and Development

- Protectionist instinct strengthened
- Concern of negotiating trade deals with more developed countries



Difficulty in
Reaching
**Collective
Positions**
Across ASEAN
Member States

1. Concerns Over Adjustments Costs on Both Sides

- Reduction in output and employment subject to a higher degree of competition
- Negative adjustment might be focussed to particular sectors

2. Concerns Over Industrial Development in ASEAN

- Protectionist policies are designed to protect industries in ASEAN Member States
- Some Member States might be unwilling to offer significant liberalisation

3. Concerns Over Public Policy Freedom in ASEAN

- Risk that far-reaching liberalisation impedes on their ability to deliver public policy priorities
- IPR commitments might impede their ability to provide low cost machines

4. Role of the State in the Economy in ASEAN

- Challenge accepted norms
- Includes developing strategic industries, stewarding national resources or delivering on socio-economic objectives



Lack of
Political
Will

1. Political Challenges

- Democratic elections in Thailand are a pre-condition for negotiations
- EU separately launched reviews in Cambodia and Myanmar to exclude both from the EBA preference

2. Lack of Flexibility from the EU

- EU is unwilling to make significant compromises on these issues: depth of liberalisation, environmental and political concerns.
- EC will be subject to strong scrutiny, including from the European Parliament

Boost Trades within the region

Figure 1: Highlights of expected gains from an extended FTA in IIDE's middle scenario (IIDE, 2009)

	EU-27	IN	MY	PH	SG	TH	VN	Other ASEAN
Extended FTA (short run)								
GDP % Change	0.05	0.99	1.17	0.6	3.55	0.39	3.48	0.29
Extended FTA (long run)								
GDP % Change	0.2	3.39	6.85	4.12	12.32	4.81	14.02	3.71

Source: IIDE (2009), retrieved from IDEAS' API Report No 02 (<https://ideas.repec.org/p/lnz/wpaper/20090801.html>)

- According to IDEAS's earlier analysis, both Malaysia and Indonesia stand **to gain significantly from FTAs with the EU** even beyond Generalized System of Preferences (GSP), providing preferential trading terms for developing countries.
- Based on a study from 2009, an extended FTA between Indonesia and the EU could **increase Indonesia's GDP by 0.99 percent in the short run and 3.39 percent in the long run**. For Malaysia, GDP could **increase by 1.17 percent in the short run and 6.85 in the long run** (IIDE, 2009)

The Potential Gains Outweigh Potential Losses from Palm Oil

Figure 2: Economic Impacts of Palm Oil Trade and the RED II, 2018

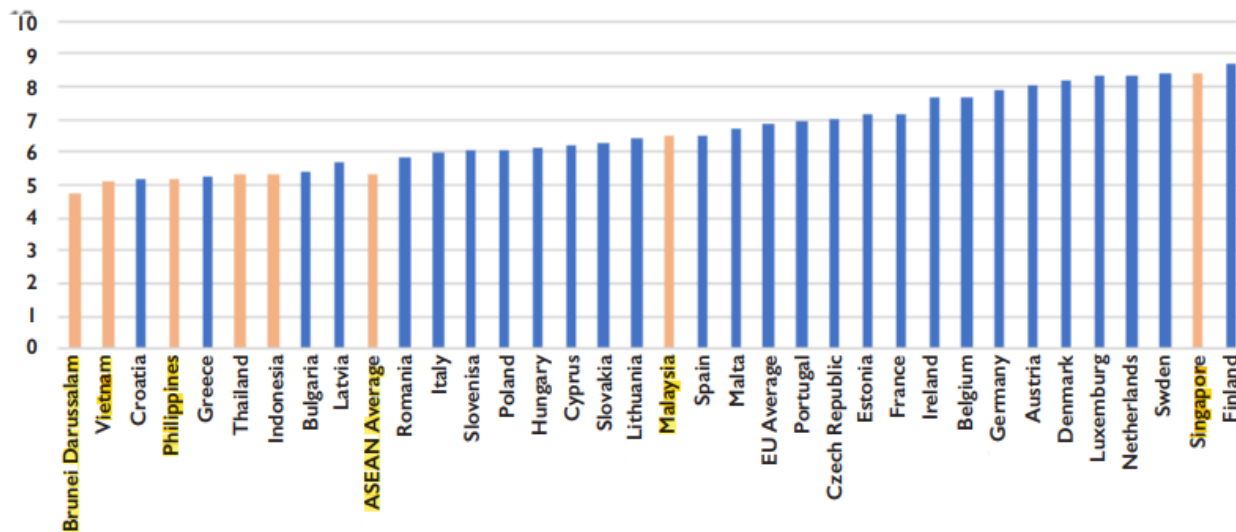
	2018 Palm oil exports to EU (million metric tonnes)	2018 Palm oil exports to EU as a percent of national palm oil exports	2018 Palm oil as a percent of bilateral trade with EU	2018 Palm oil exports to EU as a percent of total global exports	Estimated annual value of palm oil impacted by RED II (million USD)	Estimated impact of RED II as a percent of GDP
Malaysia	1.91	11.56%	2.40%	0.45%	\$380 - \$707	0.11% - 0.20%
Indonesia	4.78	13.78%	9.79%	1.58%	\$996 - \$1850	0.09% - 0.18%

Source: Data retrieved from GAPKI, MA Trade, European Commission — based on the calculations of the author

- The potential gains from extended FTA as shown in Figure 1, is **much higher** compared to the potential losses from palm oil exports for European biofuel, representing **at most 0.2 percent** of **Malaysia's GDP** and **0.18 percent** of **Indonesia's GDP** in 2018.

Strengthening Protection of Intellectual Property Rights (IPR)

Chart 1. IPRI Scores for ASEAN and EU, 2018



- As illustrated above, ASEAN Member States rank **on average lower than EU counterparts**, with respect to IPR standards. according to the International Property Rights Index (2018)

- Protection of intellectual property rights (IPR) is another area which can be improved through EU-ASEAN FTA
- Strong IPR standards **provide business with certainty that integrity of their IP will be protected**, and they will be fairly rewarded
- Improvements in IPR would also **benefit both EU and ASEAN Member States domestically**, for example in healthcare, experience across the globe d

Possible Disruptions in Negotiations

Small Linkages with Russia

- Russia accounts for **0.4%** of ASEAN's total trade in 2021 and **less than 0.1%** of total foreign direct investments into ASEAN
- Prolonged Russia – Ukraine Conflict will affect exports to Europe which accounts for **9% of ASEAN's total exports**

Russian and Ukraine as a Major Exporter of Energy, Food and Metals

- ASEAN economies affected by **supply shocks on key imports and higher energy prices**
- **Prices for energy, grains, and metals soared since the invasion of Ukraine**

Undercut Global Growth, Increase Inflation and Disrupt Supply Chains

- **Higher prices** for commodities will push up inflation eroding the value of incomes
- **Neighboring economies grapple with disrupted trade, supply chains, and remittances**
- **Reduced business confidence and higher investor uncertainty will weigh on asset prices, tightening financial conditions and potentially spurring capital outflows from emerging markets.**

Prioritize on Protecting Domestic Supplies and Meeting Domestic Demand

- Saw protectionism moves, mainly in the form of **export bans**
- Indonesia **banned the export of coal and palm oil.**
- Malaysia recently **stopped exporting chickens**
- India is **clamping down on exports of wheat**

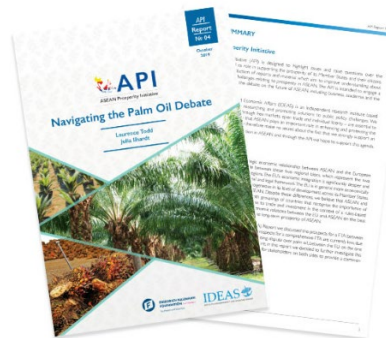
Support EU- ASEAN FTA by Proceeding with Negotiations

- The **EU's economic integration is significantly deeper** and supported by a far more developed institutional and legal framework.
- The EU in general is **more economically developed than ASEAN** and is also more homogenous in its level of development across its Member States than is the case across the 10 Members of ASEAN
- Despite these differences, we believe that ASEAN and the EU share an **essential similarity**; they are **both groupings of countries that recognize the importance of regional integration and the benefits of openness to trade and investment in the context of a rules-based system**.
- We believe that putting economic relations between the EU and ASEAN on the best possible footing is an important step in ensuring the **long- term prosperity of ASEAN**.
- EU- ASEAN FTA will;
 - a) **Boost trades within the region**
 - b) **Ensuring long-term goals by forming trade relationships**



📅 December 15, 2018 📁 EBU, International Trade and ASEAN

EU-ASEAN FTA Report



📅 October 31, 2019 📁 EBU, International Trade and ASEAN

Navigating the Palm Oil Debate



📅 December 14, 2021 📁 EBU, International Trade and ASEAN

ASEAN Integration Report 2021



Thank You

tricia@ideas.org.my

www.ideas.org.my