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**NOTE**

**EU-ASEAN TRADE RELATIONS**

**Abstract:**

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## **EU-ASEAN TRADE RELATIONS**

### **1. ASEAN is an area of strategic importance for the EU**

In 2005 EU-ASEAN trade represented 6% of total EU trade, and the enlarged EU is currently one of ASEAN's top trading partners, with bilateral trade totalling €116 billion in 2005. This figure is almost identical to the volume of bilateral trade flows between the EU and Japan. EU exports to ASEAN were estimated at 45 billion €, while EU imports from ASEAN were valued at 71 billion €. The main exports from ASEAN to the EU are machinery, agricultural products, chemical and textiles and clothing. 15% of ASEAN exports are destined for the EU, which makes it ASEAN's second largest export market after the US. The EU is the first investor of the ASEAN region. However, FDI flows to the region are uneven and Singapore attracts about as much FDI as all the other ASEAN countries together.

ASEAN is one of the most dynamically developing regions of the world economy with a significant future potential, despite the existence of very different economic and political structures and huge disparities within the ASEAN group. Laos and Cambodia qualify for the Everything But Arms (EBA) schemes as LDCs but Myanmar's EBA status is suspended due to its political and human rights situation. Other ASEAN nations are among the top beneficiaries of the GSP scheme, while Singapore is excluded from the GSP scheme. Its GDP per head is above EU average and it participates in ASEAN assistance programmes at its own cost. Singapore alone accounts for about a third of EU-ASEAN trade. Vietnam's recent accession to the WTO marks a crucial step towards further integrating the country and the whole region into the world economy.

With a population of over 500 million people, ASEAN represents one of the largest regional markets in the world. Deepening economic and political integration was set out in 2003 when ASEAN leaders decided on the creation of an ASEAN Community by 2020 composed of three pillars : Economic, Security and a Socio-cultural . At the last ASEAN Summit held in Cebu on 13 January 2007, the leaders agreed to hasten the establishment of the ASEAN Economic Community by 2015 and to transform ASEAN into a region with free movement of goods, services, investment, skilled labour and freer flow of capital. The EU greatly supports this development, building on its own experience of regional integration.

### **2. The institutional framework for EU-ASEAN trade relations so far**

Co-operation between the EU and ASEAN is based on a Co-operation Agreement (1980) between the EC and member countries of ASEAN: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Protocols for the accession of Laos and Cambodia to the Agreement were signed in July 2000 but the EU has indicated that it cannot agree to negotiate an extension of this agreement to Burma/Myanmar as long as the situation as regards democracy and human rights in that country does not improve significantly.

The Commission's 2001 Communication "Europe and Asia: A Strategic Framework for Enhanced Partnerships" identified ASEAN as a key economic and political partner and emphasised its importance for overall relations between Europe and Asia. This was reinforced by the 2003 Commission Communication 'A New Partnership with South East Asia' which launched, among other activities, the Trans-Regional EU-ASEAN Trade Initiative (TREATI). This provides a framework for dialogue and regulatory co-operation to enhance EU trade

relations with ASEAN. The priority areas for co-operation under TREATI are closely linked to ASEAN's own drive for economic integration and comprise sanitary and phytosanitary standards in agro-food and fisheries products, industrial product standards and technical barriers to trade, and forestry and wood-based products. Trade facilitation and co-operation on investment will be tackled as cross-cutting issues.

The EC-ASEAN Joint Co-operation Committee (JCC) promotes and keeps under review the various co-operation activities envisaged in the Co-operation Agreement. An official-level Committee usually meets every 18 months. Sub-committees have been established for Trade and Investment, Economic and Industrial Co-operation, Science and Technology, Forestry, Environment, and Narcotics.

### **3. Towards a bilateral free trade agreement (FTA)**

At Halong Bay (Vietnam) in 2005, Commissioner Mandelson proposed an EU-ASEAN Vision Group to explore ways of deepening trade relationship, including investigating the feasibility, scope and modalities for a potential Free Trade Agreement. The Vision Group's report suggested a range of ways to strengthen the trading relations: improving protection of intellectual property rights to help attract investment, simplifying customs procedures and aligning some regulatory approaches to make it easier for business to trade. One of the report's most important conclusions was that there are benefits from reducing tariffs for trade in agriculture and industrial products and services.

Last Autumn, the Commission outlined its new commercial strategy entitled "*Global Europe - Competing in the World*". Although the Commission reiterates that the EU is fully committed to the WTO and the Doha Development Agenda, the single most important development of this new strategy is a programme of bilateral free trade agreements (FTAs) with a series of important partners, among them ASEAN. The document sets out that the Commission will ensure these agreements are a "stepping stone" for future multilateral liberalisation and integration into the world economy, not a "stumbling block". Bilateral FTAs often carry the risk of diverting rather than creating trade and thus, undermining efforts to pursue liberalisation in a multilateral context.

The Commission set out economic criteria to evaluate the potential gains from FTAs with various partners. These criteria include:

- the actual level of tariffs and non-tariff barriers on industrial goods and existing barriers to effective trade in services;
- the economic potential of future partners and market size;
- and the risk of EU companies being excluded from key markets by actual and/or potential FTAs between Europe's major trading partners.

These criteria provide a strong case for an EU-ASEAN FTA given that there are still considerable barriers to trade, the ASEAN region is rapidly growing and a number of bilateral trade agreements are under negotiation with the US and other Asian countries (e.g. US-Malaysia, US-Thailand, Japan-Thailand, China-ASEAN, South Korea-ASEAN). Bilateral agreements have indeed the potential to tackle issues which are not on the agenda of multilateral discussions and/or may go beyond the market opening that can be achieved in the WTO (WTO+ agreement). In this context the Singapore issues (investment, transparency in government procurement and competition policy) deserve special attention.

Negotiations may face potentially very complex and problematic issues, such as the very different political situation and level of development in the various ASEAN countries. Some ASEAN members, such as Laos and Cambodia, may choose to stay out for the time being or need longer transition periods, additional flexibilities and guarantees, such as special and differential treatment. Myanmar's political situation means that the EU will object to its participation in the negotiations unless a credible democratisation process begins ( the EC has requested ASEAN to come up with a solution to this problem to agree on a negotiations format). Preparations for a comprehensive partnership and cooperation agreement with Malaysia have been made in the autumn of 2006 that could also be the platform to a free trade agreement. The EU may have to negotiate with individual countries in parallel to the ASEAN umbrella in order to make progress or propose a more flexible arrangement to conclude an agreement with only those ASEAN members that are ready for an FTA.

Civil society groups have already signalled their concern over the EU-ASEAN FTA referring mainly to its implications for development, services trade and the Singapore issues. They asked for more involvement of civil society groups and a comprehensive sustainability impact assessment (SIA) before launching the talks.

At the moment, neither the contents nor the structure of the negotiations is known and bilateral talks may last very long. ASEAN and the EU are likely to launch negotiations next May.

#### **4. Legal framework and implications for the European Parliament**

According to Article 133 of the Treaty, trade agreements do not require any role from the European Parliament. However, the interinstitutional agreement sets out that in connection with international agreements, including trade agreements, the Commission shall provide early and clear information to Parliament both during the phase of preparation of the agreements and during the conduct and conclusion of international negotiations. This information has to be provided to Parliament in sufficient time for it to be able to express its point of view if appropriate, and for the Commission to be able to take Parliament's views as far as possible into account.

The EP has recently reacted to other similar negotiations (e.g. Andean Community, Central American countries, Mercosur) in order to contribute to the accountability and transparency of such negotiations. MEPs of the INTA Commission have repeatedly called on Commissioner Mandelson to associate the EP in some way with trade agreements.

Parliaments and the European Parliament in particular, can play a constructive role by being associated with trade negotiations. Parliamentarians can make a meaningful contribution to the transparency of the process by channelling in views of stakeholders from their constituencies, including civil society and economic operators. Parliamentary diplomacy can also be a useful instrument to better understand various sensitivities linked to specific issues that have often created deadlocks in previous negotiations. Interparliamentary contacts or bodies may also play a very important role in monitoring the implementation of agreements.

#### **Excerpts from recent EP resolutions on trade negotiations**

-**MERCOSUR** (resolution approved by the Plenary on 12 October 2006):

*"Urges Mercosur to successfully complete the preparations for setting up the future Mercosur Parliament with representatives from the various national parliaments; take the view that the creation of an inter-parliamentary delegation formed by members of the Mercosur Parliament and Members of the European Parliament could help achieve greater participation of civil society in the form, inter alia, of the social partners, economic operators and social agents of the two regions, which would lend the process greater legitimacy;*

*Stresses the need for close cooperation by all the EU institutions in order to obtain satisfactory results in the negotiations with Mercosur; calls on the Council and the Commission, therefore, to consult and inform Parliament in proper and timely fashion on the EU's strategy in those negotiations; asks the Commission, at the end of each round or significant negotiating meeting, to forward a document to Parliament describing the results obtained, subject to confidentiality rules in force;"*

**-Andean Community (CAN)** (approved by INTA Commission on 18 December 2006 but not yet by the Plenary Assembly):

*"to provide the process of negotiations for the FTA with CAN with greater legitimacy by means of increased transparency and greater participation on the part of all EU stakeholders, including the relevant actors in civil society, the social partners and economic operators in the two regions; in this connection, to pledge its support for the establishment of the Euro-Latin American Parliamentary Assembly, comprising Members of the European Parliament and of the Latin American integration parliaments, including the Parliament, as the parliamentary institution of the Bi-regional strategic partnership responsible for the parliamentary control and monitoring the Association Agreements concluded between the two regions."*

**-Central American Countries (CA)** (approved by INTA Commission on 18 December 2006 but not yet by the Plenary Assembly):

*"to provide the process of negotiations for the FTA with CA with greater legitimacy, increased transparency and the necessary participation of all EU stakeholders, including the relevant actors of civil society, social partners and economic operators of the two regions; to take into account that the Commission must provide early and clear information to Parliament both during the phase of preparation of the agreements and during the conduct and conclusion of international trade negotiations, and this information should be provided to Parliament in sufficient time for it to be able to express its point of view if appropriate and for the Commission and the Council to be able to take its view into account as far as possible."*