A Larger Role from the EU in Southeast Asia: A Perspective from ASEAN

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Background

Established in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand, the Association of Southeast Asian Nations (ASEAN) has become a grouping of ten countries in the region which now includes Brunei, Cambodia, Lao People’s Democratic Republic (PDR), Myanmar, and Vietnam. In the five decades since its inception, the dynamism of the bloc has blossomed. The population has grown to more than 660 million people across 4.5 million square kilometers of busy metropolis, verdant mountains, and tropical islands.¹

The region also shares, in varying degrees and at different points, some of the world’s highest rates of economic growth. ASEAN members are a force for the global economy. In 2019, the region’s gross domestic product exceeded US$3.2 trillion – double the amount a decade earlier. The bloc is now the world’s fifth largest economy.

For decades, trade has been a major growth engine for the region. Goods and services trade amount to more than US$2.8 trillion and US$844 billion, respectively – and the sum is the result of a four-fold increase over two decades.2

ASEAN is also fortunate to be a hub for foreign direct investment (FDI), which has increased to more than US$182 billion in 2019, despite an overall decline in FDI worldwide.3

If the region’s confidence is infectious, it is for good reason. With growing manufacturing hubs, several digital “unicorns,” and a “can-do” attitude, ASEAN is a dynamic region with a promising future. It is no surprise that the European Union (EU) strived for years to become an official “strategic partner” for ASEAN – and finally claimed that status in 2020.

That same year, members issued ASEAN Vision 2020, which reasserts the community’s outward orientation and focus on peace, stability, and prosperity.

The EU’s closer engagement with ASEAN is part of Europe’s strategy towards greater engagement in the Indo-Pacific region. Europe is not alone in embarking on an Indo-Pacific strategy. The United States is also continuing efforts to counter China’s growing influence, including with its own Indo-Pacific Strategy that it hopes to advance with a U.S.-ASEAN Special Summit in Washington, D.C. between U.S. President Joe Biden and leaders of ASEAN nations. Even before it began, ASEAN officials criticized the Special Summit as not allocating one-on-one meetings between President Biden and each ASEAN head of state.4 The outcome – a pledge of US$150 million for special initiatives across a wide range of sectors, from clean energy to education – elicited an equally lukewarm response.5

Southeast Asia’s policymakers also have extended a subdued response to the Biden administration’s Indo-Pacific Economic Framework, which sought stakeholder feedback in recent months – although official comments encouraged more engagement.6 With no further trade and investment relaxation in the framework, ASEAN’s reaction has been tepid.

Will overtures by the EU elicit a similar response? The answer remains uncertain to this question with ever higher stakes. In recent years, ASEAN has found itself increasingly in the

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2 Ibid.
4 “Biden should give Asean leaders more face time to improve ties: Cambodian minister,” Gulf Times, May 8, 2022, https://www.gulf-times.com/story/716765/Biden-should-give-Asean-leaders-more-face-time-to-
middle of tensions between its two biggest partners, the United States and China. As the African proverb reminds us, when elephants fight, it’s the grass that suffers. As the rivalry between the U.S. and China intensifies – more so under the administration of U.S. President Joe Biden – many members are taking a typically ASEAN approach of “non-interference.” Stronger relations with the EU, typically regarded as a more neutral party, may be just the buffer Southeast Asia needs. The offers of support for cybersecurity are particularly welcome in a region trying to catch up with increasing digitalization and ensuing security risks.7

At the same time, European calls for a “free and open Indo-Pacific for all” that defends “values and principles to which we are committed” may narrow the number of eligible partners.8 Indeed, if like-mindedness is the main measure of Indo-Pacific collaboration, participating economies may be those that already have strong relations with the EU. Given the resurgence in recent years of repressive actions in Southeast Asia, the EU’s options are to relax its expectations or contend with the spectre of continued geopolitical bifurcation.

China’s Growing Presence

Maintaining neutrality is challenging when economic engagement with China is intensifying. FDI from China is expanding; it has increased by 65 percent in the last ten years. In member states such as Cambodia and the Lao PDR, Chinese FDI represents the largest source of investment.9 From 2016 to 2020, China invested an average of US$11.5 billion annually in the Belt and Road Initiative (BRI) – Beijing’s flagship platform for infrastructure investment. Seven of the BRI’s top ten destinations are the ASEAN nations of Cambodia, Indonesia, Lao PDR, Malaysia, Singapore, Thailand, and Vietnam.10

With the Regional Comprehensive Economic Partnership (RCEP) in effect as of January 2022, ten years after ASEAN first introduced the initiative, engagement with China will only strengthen. The size of RCEP alone is formidable; its fifteen signatories – ASEAN members plus Australia, Japan, Korea, New Zealand, and China – account for 30% of global GDP and a third of

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8 Ibid.
10 Ibid.
the world’s population. When all its members complete ratification, RCEP will be the world’s largest free trade agreement.

China is already ASEAN’s largest trading partner and has been so since 2009. In 2020, China’s trade with ASEAN exceeded US$516 billion and ASEAN displaced the EU as China’s largest trading partner.11

That said, ASEAN’s trade deficit with China also continues to increase, rising from US$10.4 billion in 2010 to US$102.9 billion in 2019.12

Thus, while China looms large in ASEAN’s outlook, economic engagement between the EU and ASEAN has room to grow.

**EU-ASEAN Trade**

The EU already has a key role in Southeast Asia. As the bloc’s third largest trading partner, goods traded between ASEAN and the EU amounted to €189 billion in 2020, while services trade in 2019 exceeded €93 billion. Overall, trade with the EU amounted to 10.6 percent of ASEAN trade.13

A free trade agreement (FTA) between the EU and ASEAN would take trade between the two economic giants into the stratosphere. Yet seven rounds of negotiations that started in 2007 ended two years later.14 If political disagreements over human rights records were the main obstacles to an agreement, this FTA will remain stalled for some time. In the years since, the “Myanmar problem,” as it was defined at the time, has only expanded to other nations.15

However, other FTA talks that have been on hold may soon resume. Indeed, the EU has been relatively successful in its pursuit of bilateral agreements in the absence of a region-wide deal. Officials in ASEAN states have been optimistic about resuming talks in Thailand, Indonesia, and the Philippines. Singapore and Vietnam already have signed bilateral pacts with the EU.

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12 Ibid.
15 Ibid.
The EU’s role in investment is even more vital. In 2019, EU investments worth €313 billion confirmed the bloc’s position as ASEAN’s largest investor.16 As the list of EU initiatives and support for ASEAN grows longer, the partnership looks set to become stronger.

A Stream of Partnerships

The formalization of EU-ASEAN’s strategic partnership took place as the Covid-19 pandemic paralyzed the global community. As a result, the initiatives have been constrained by travel restrictions and other government priorities. Recently, Russia’s invasion of Ukraine in February 2022 has created a political crisis in Europe of a magnitude not seen in decades. This protracted war may yet trigger a bigger crisis on which the EU would focus its attention.

However, several programs have started since the launch of the EU-ASEAN strategic partnership, and they reflect the stronger ties between Europe and Southeast Asia. Many of the plans focus on infrastructure and connectivity. For example, a deal was signed for the world’s first bloc-to-bloc partnership for air travel. Launched in 2021, the EU-ASEAN Comprehensive Air Transport Agreement seeks to ramp up and streamline passenger and cargo services between Europe and Southeast Asia.17 That same year, the EU also pledged their endorsement for ASEAN’s Digital Masterplan 202518 and reiterated their support for the ASEAN Smart Green Cities program, as well as the ASEAN Customs Transit System project.19

Anticipation also is building in ASEAN for the EU’s Global Gateway program, which promises to channel €300 billion for investments in both hard and soft infrastructure. Viewed, perhaps unfairly, as Europe’s answer to China’s BRI, Global Gateway will bring together the bloc’s financial and development institutions such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), as well as their leverage with the private sector to encourage public private investment. More financing facilities may be further down the pike as the EU hopes to establish and offer a European Export Credit Facility.20

Of course, financial support is not without expectations. In exchange for grants, favourable loans, guarantees to de-risk environments, and capacity building, the EU hopes to promote higher standards for environmental management and what the bloc describes as “democratic values.”

Indeed, official EU-ASEAN documents describe the program as “values driven” and promoting “international stability and cooperation.”

The use of such terms would not have gone unnoticed in the world of diplomacy, especially in a political environment accustomed to obfuscation. If ASEAN issues a statement at all during moments of geopolitical tensions, the words will shy away from the impolitic – lest they agitate the elephants – China and the U.S.

Clashing “Values”

To be fair, the language of the Global Gateway program may not reflect the entirety of EU strategy. However, the reference to “values” – present also in the EU’s Indo-Pacific strategy – may remind ASEAN policymakers that both the goals and orientation of the two partners may not be completely aligned.

The asymmetry becomes evident at the sectoral level of policymaking. Consider the tussle between the EU and Indonesia and Malaysia, which together produce 85 percent of the world’s palm oil. Following the European Commission’s decision to ban biofuel imports by the year 2030 in order to reduce greenhouse gas emissions, both Indonesia and Malaysia filed complaints with the World Trade Organization. Consuming 7.5 million tons of palm oil annually, the EU is the second largest buyer of Indonesian and Malaysian palm oil.

The war in Ukraine may lead to a temporary reprieve of this confrontation. An acute shortage of sunflower and rapeseed oils, the majority supply of which is produced by Russia and Ukraine, has prompted one supermarket chain in Europe to reverse its palm oil ban. Indonesia’s decision to ban the exports of its palm oil in an effort to curb inflation has also helped Malaysia to

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21 Ibid.
22 Ibid.
regain its market leverage. Indeed, as Europe continues to consume Russian gas weeks after the invasion of Ukraine, even the EU is finding it difficult to fully abide by its “values driven” expectations.

Other flashpoints between the EU and ASEAN have not reconciled, however. In February 2022, the European parliament voted to urge the Philippines’ government to “comply with its human rights obligations” and to start proceedings that may result in the country losing its zero tariff privileges on some 6,200 products, from fruits to textiles and automotive parts. The vote follows a similar motion in 2020, although that action failed to unwind the preferential trade scheme. Today, relations between the Philippines and the EU – the archipelago’s largest investor, with US$14.4 billion of FDI stock as of 2019 – are in a holding pattern as the country prepares for the presidential polls in May. A clearer picture of bilateral engagement, including the negotiations for a free trade agreement frozen since 2015, may emerge after the elections on May 9.

Similarly, Europe’s relations with Cambodia have been strained. Citing “serious and systematic concerns related to human rights,” in August 2020, the EU lifted duty-free access to Cambodia’s garments, footwear, and travel goods, which account for approximately 20 percent – or US$1 billion worth – of the country’s exports to the European bloc’s 27 member countries. Once Cambodia’s largest trading partner, consuming some 45 percent of the country’s exports in 2018, the EU now competes with the US and China for presence and influence.

It is worth discussing here the difficult nuances inherent in a discussion of “values.” In itself, a reference to “values” in proposals for investment carry negative insinuations. To propose that there may be an incompatibility of values is discouraging enough. Unless there are arguments to the contrary, policymakers in ASEAN perceive the call for “values-driven” action to imply that existing economic activity suffers from an absence of values. Many in ASEAN states and elsewhere in Asia, both in and out of government, are familiar with the derision that can

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31 Ibid.
accompany a debate about “Asian” values. In general, focusing on “values” has not proven productive and instead becomes a minefield rife with sensitivities.

Positive Public Perception

These examples of tensions between the EU and ASEAN play out against a background of relative unfamiliarity. A 2017 survey by the EU, for example, reported that while 68 percent of Indonesians have heard of the European bloc, only 34 percent can recognize the flag. Furthermore, only nine percent of respondents said they were familiar with the EU. However, more than half support more cooperation, even if they were unfamiliar with its substance.

Similarly, according to a 2021 public perception survey by the Institute for Southeast Asian Studies (ISEAS), the EU (and Japan) were the powers most trusted on a range of issues, from trade to governance and sustainability. The EU is regarded as more neutral than other superpowers, and individual ASEAN countries hoped for the EU to help ease increasing tensions between the US and China. Some 47 percent of respondents in Thailand, for example, chose the EU as their preferred "third country" to hedge against the uncertainties of US-China rivalry.

While the general public in Southeast Asia views the EU in a positive light, the optimism of EU businesses in ASEAN has fallen. A 2020 survey by the EU-ASEAN Business Council found that 73 percent of respondents expect trade and investment in ASEAN to grow in the next five years, compared to 84 percent in 2019. Furthermore, only 53 percent of respondents see ASEAN as the region with the best economic opportunity, compared to 63 percent in 2019.

Comparatively, India, Africa, and North Asia have gained ground in attracting business interest. While still positive, European business sentiment is tempering in ASEAN member states.

Less interest in ASEAN reflects bigger or less challenging prospects elsewhere. Indeed, survey respondents cite lesser than expected regulatory reforms as a particularly discouraging

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37 Ibid.
factor. Only two percent of those surveyed are satisfied with the pace of the ASEAN economic community.\textsuperscript{38} The complaints from the business community are familiar to policymakers: less protectionism will improve economic prospects.

Yet protectionism is hardly the purview of Asia. We may debate about the extent of deglobalization, but increasing regulatory action is hard to miss. Brussels is preparing legislation that would stop “unfair competition” for big public procurement contracts unless reciprocal access is extended to European companies.\textsuperscript{39} Again, no nation or region is immune to the call of protectionism and, unsurprisingly so, nationalist calls win votes and domestic support.

**Next Steps**

ASEAN prefers a partnership of equals – even if, as is often the case in Asia, few words are spoken. If the EU seeks success in the next chapter of their relationship with ASEAN, the bloc will benefit from listening more to understand what is left unsaid. There could be more effort to align the priorities of the EU's Indo-Pacific strategy with the priorities of ASEAN; for example, pandemic preparedness has climbed as a top priority for many economies in Southeast Asia. Feasible timetables that match ASEAN’s timelines – for example, for the blueprint for the ASEAN Economic Community 2025, which completed its mid-term review in April 2021 - would also be welcomed.\textsuperscript{40} The more powerful partner of any collaboration is typically in a rush. Such a dynamic does not necessarily result in urgency for everyone else.

Additional surveys of Southeast Asia’s aspirations for Europe would help provide further guidance about how loud or soft the EU should voice its own aspirations. One such case is the EU’s reiteration to mainstream “human rights considerations” in all EU regulations and policies.\textsuperscript{41} This incongruence between these two aspirations is the heart of the matter. If perceived “values” are the dealbreaker of any potential deal, what are the paths for dealmaking? The EU is making all the right moves in terms of economic overtures. It is the message accompanying the gift that may be left at the door.

\textsuperscript{38} Ibid.

\textsuperscript{39} Andy Bounds, “Brussels to bring in powers to handicap foreign bids for state contracts,” Financial Times, March 15, 2022, https://www.ft.com/content/8532f20c-0f06-40e0-88b2-7841ae9dc281.


Indeed, the mismatch of aspirations and actions that previously thwarted stronger partnership between the EU and Southeast Asia has not dissipated. Given its prominence in position papers, the EU is unlikely to forego its stated principles to placate potential allies. The EU can try to exercise more patience with further listening tours and diplomacy exercises. But if urgency trumps the day, the EU is more likely to settle with bolstering collaboration with existing strong partners in the Asia Pacific region.

**Conclusion**

As Europe – and, by extension, the United States – faces a protracted conflict in Ukraine, the European bloc may devote a large part of their attention on home soil. Yet if recent developments between the EU and India are any indication of what may lie ahead, an inward focus is not a certain outcome. On the contrary, European Commission President Ursula von der Leyen is actively pursuing the bloc’s Indo-Pacific strategy. Her recent visit to New Delhi confirmed that, despite or due to differing positions toward Ukraine, the EU and India are building on their relationship. A trade and technology council similar to the arrangement between the EU and the US is in the works, and India’s trade minister is confident that an EU-India FTA will conclude in 2023.

Developments in India exemplify what the EU can accomplish in Southeast Asia. But the EU must remind themselves about their objectives. What are they seeking in Southeast Asia and why? Are they pursuing a geopolitical balance and stronger alliances? Or are there other factors influencing their actions?

Consider the EU-Africa Summit, which took place this February. The Summit, pitched as a stage for a “true partnership of equals,” also followed concerns in Europe about China’s growing influence in Africa. The Summit was Europe’s opportunity to regain its positioning on the African continent.

Yet, according to experts, asymmetry continued to mark the EU’s Comprehensive Strategy with Africa, as priorities proved to be mismatched. While the EU sought to highlight climate change and migration, Africa wanted to focus on mitigating the Covid-19 pandemic and economic

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growth. Ultimately, less developed economies need more investment, support, and opportunities to grow. And they prefer these opportunities to reflect their priorities.

The same holds true for Southeast Asia. ASEAN states welcome more engagement with the EU as it may provide a bigger buffer from the rivalling superpowers. A closer collaboration between ASEAN and the EU would strengthen the power of each partner and help ASEAN states maintain neutrality.

Ms. Dini Djalal wrote in her personal capacity. The views and interpretations expressed by the author are solely her own.

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