



EU-ASEAN Relations

Essay Series

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EU-ASEAN enterprises pursuing growth through Connectivity and Collaboration

The European Union (EU) is one of the oldest dialogue partners of the Association of Southeast Asian Nations (ASEAN). Bilateral relations were formalised in 1977 and since then, the two economic blocs have established strong ties with each other and are deeply economically intertwined through trade, foreign investment, global value chains and mutual market demands. As their economic ties continue to progress steadily, the EU and ASEAN are strengthening their connectivity to maximise the full potential of their collaboration.

With more than 50 years of commercial relations with ASEAN, the EU has consistently been one of ASEAN's top three trading partners and a leading source of foreign direct investments (FDI). According to Eurostat, between 2010 and 2019, exports from the EU to ASEAN grew 57 per cent to 85 billion euros although the pandemic caused exports to dip to 69 billion euros in 2020. According to the EU-ASEAN Business Sentiment Report 2021, more than 80 per cent of European businesses expect to increase their level of investment in ASEAN over the next five years.


As one of the fastest-growing regions in the world, ASEAN represents a huge business opportunity for European companies, including small- and medium-sized enterprises (SMEs), looking for new growth markets. There are a few reasons why ASEAN appeals to European companies. Home to about 650 million people, the majority of whom are young and technologically savvy, ASEAN offers long-term business and investment opportunities to European companies.

Economic connectivity between the two regions

With the conclusion of the landmark ASEAN-EU Comprehensive Air Transport Agreement (AE CATA) in June 2021, air connectivity between the two regions will get a boost, facilitating the exchange of people and businesses. This will in turn help to support economic development in both regions as nations work on the recovery from the pandemic. Under the world's first bloc-to-bloc air transport agreement, the airlines of EU and ASEAN will be able to fly any number of services between both regions and any number of cargo services via and beyond to any third country.

To increase market access for European businesses, the EU has also entered into Free Trade Agreements (FTAs) with several ASEAN countries. One example is the European Union-Singapore Free Trade Agreement (EUSFTA) which entered into force in November 2019. The EUSFTA provides more opportunities for European companies to participate or to collaborate with Singapore companies in government procurement projects. Besides the EUSFTA, the EU also has an existing FTA with Vietnam, while negotiations are taking place for Indonesia, Philippines, Malaysia, Myanmar and Thailand.

The Regional Comprehensive Economic Partnership (RCEP) represents another opportunity for European companies in ASEAN. Through the RCEP, European companies can set up their production in any RCEP country to secure preferential access, tariff reduction and the harmonisation of the rules of origin across the region. Given the pandemic and geopolitical



risks, European businesses can also tap ASEAN's increasing role in global value chains and shift or diversify their supply chains into ASEAN.

From the existing FTAs to RCEP, they could potentially serve as building blocks for a EU-ASEAN trade agreement that will increase economic connectivity further.

New areas for collaboration

Access to a large and young talented workforce is not the only factor drawing European companies to ASEAN. ASEAN has a firm commitment to innovative manufacturing – formalised by the 2019 ASEAN Declaration on Industrial Transformation to Industry 4.0.

European companies involved in advanced manufacturing and that are planning to expand to the region can tap the Southeast Asia Manufacturing Alliance (SMA), an alliance between Singapore's Economic Development Board (EDB) and Enterprise Singapore (ESG). The SMA aims to serve as a 'matching' service connecting manufacturers with industrial parks in the region. Under the SMA, foreign companies can leverage ASEAN's diverse manufacturing capabilities, one-on-one customised services and deep support for the implementation of Industry 4.0 technologies.

In addition to advanced manufacturing, the EU and ASEAN can also cooperate in areas of innovation and sustainable development. For example, Singapore is looking to sign a Digital Economy Agreement (DEA) with other economies so as to establish digital trade rules and to foster digital economy collaborations in areas such as artificial intelligence and secured cross-border data flows. A DEA with the EU will be a step towards helping businesses in Europe to capitalise on opportunities arising from ASEAN's growing digital economy.

ASEAN's transformation toward a greener economy provides an estimated US\$1 trillion in annual economic opportunities by 2030, according to Bain & Company.

The EU, with its considerable expertise in developing and adopting of smart urban solutions, can also bring added value to the ASEAN Smart Cities Network Initiative, created to address potential new growth opportunities estimated at US\$400 billion annually out of the total of US\$1 trillion. To capture these new growth opportunities, we rolled out the UOB Smart City Sustainable Finance Framework in November 2020 to support companies in various sectors that are committed to building sustainable and smart cities by making it simpler for them to apply for sustainable financing and to access industry expertise.

Enhancing the connectivity and forging greater collaboration between business communities in the EU and the ASEAN are critical to ensuring a strong recovery from the pandemic. The UOB FDI Advisory Unit has been helping to facilitate cross-border trade and investments between Europe and Singapore and the rest of Southeast Asia since 2011. To-date, the team has supported nearly 250 European companies in their expansion into ASEAN and we will continue to play our role in driving the business and economic flows between the two regions.