

Analysis on Motivation of EU in Economic and Trade Investment in ASEAN and Regional Influence

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Abstract

The Economic and trade relationship between the EU and ASEAN is determined by on the “soft power” strategy of the EU, which is different from that of the US and Japan. On the other hand, the relationship is also a reflection of economic interest demands of the EU’s trade and investment. As for ASEAN, it needs to get rid of its over-dependence on the US’s and Japan’s economy following the Southeast Asia financial crisis, and to develop multiple economic partnerships to release pressure on financial risks. After expansion to the east, with increase of economic strength, the EU has replaced the US to occupy more shares of ASEAN investment. In addition, the EU plays an increasingly vital role in investment in experience of integration, counter-terrorism, regional security and education, etc.

Keywords: the EU-ASEAN, economic and trade relationship, regional influence

1. Introduction

Both the EU and ASEAN are natural economic partners. For ASEAN, the EU is not only an important region for its export, but is also one of the main sources of the investment in the region. Meanwhile, for the EU, apart from the significance of ASEAN in the EU’s global investment expansion, the growing ASEAN region is also a potential client for its highly developed technologies and services. Furthermore, other than the US, China and Japan—the most important regional organizations in the world—the EU has its own advantages and plays an increasingly vital role in investment in experience of integration, counter-terrorism, regional security and education, etc. Communication and cooperation within the regional economy and trade highlights the status of the EU in ASEAN, and at the same time, ASEAN can better suppress the leading position of the US and China in the region, utilizing a balancing strategy of great powers, thereby consolidating its status and reinforcing its influence in Asia. The intensifying economic and trade relationship of the EU and ASEAN will not only bring a win-win situation, but also let the EU emphasize its increasingly significant role in politics, security, counter-terrorism, human rights, education, and many other fields of ASEAN.

2. Motivation of EU-ASEAN Economic and Trade Relationship Development

2.1 The EU Factors

For years, the EU seems to value its cooperation with developing countries and regions, whose foreign aid received from the EU exceeds the US to a large extent. The EU utilizes the “soft power”, which is a totally disparate thing to the US and plays its essential role on the world stage, i.e. aiding and subsidizing developing countries is a magnificent strategy to present a kind of “soft power” of the EU its own. European Commission (EC) signed *Europe and Asia: a Strategic Framework for Enhanced Partnership* approved by Commission and Council in 2001. To

strengthen the relationship with ASEAN and countries in Southeast Asia, the EU put forward a new strategy to rejuvenate the relationship with Southeast Asia in this file (Note 1).

Application of the “soft power” of the EU also reflects in EC increasing aids to Southeast countries. In 1999—2001, aid funds of the EU to ASEAN reached €334 billion; in the following 3 years 2002—2004, €438 billion aid funds was expected in National Indicative Programmes, and developing aid funds of the EU in Southeast Asia countries rose to €1.3 billion in 2007—2013. Moreover, in the EU foreign aid programmes, ASEAN benefited from All-Asia program proposed by the EU and detailed EC—ASEAN cooperative aids (€70 million expected since 1998) (Note 2). Nowadays, cooperative programmes that the EU assists ASEAN mainly encompasses trade, energy, environment, regional integration construction, and higher education, etc.

Apart from demands of self-developing strategy, the reason why the EU consolidates cooperation with ASEAN is that ASEAN is not merely a crucial export or an investment market of the EU, but also a gate to connect other Asia countries. In recent years, ASEAN has devoted itself to building intimate partnership actively with other Asia countries, for instance, launching and establishing *China—ASEAN Free Trade Area (CAFTA)*, building comprehensive economic partnership with Japan, developing cooperative partnership with India, proposing the concept of *East Asia Free Trade Area (EAFTA)*, all of these manifest that ASEAN is the promoter and key joint of Asia regionalism development, and its status and influence in Asia cannot be underestimated. Therefore, if the EU desires to realize the new strategy of Asia-European cooperation raised in the Mid 1990s, it has to take its relationship with ASEAN seriously. Besides, it may be a challenge for the EU’s economic interest in the region, since most of the EU’s economic partners and competitors have already established partnership with ASEAN or its members, so if the EU wants to keep long-term economic benefits while enhancing its status further in the market, it must strengthen friendly cooperation with ASEAN.

2.2 ASEAN Factors

In terms of ASEAN, weak economy in the US and Japan is related to economic slowdown in ASEAN countries, especially, after 9-11 attacks. Economy in Southeast Asia undertakes more severe risks than usual, with the impact of terrorism there.

Furthermore, export rate of ASEAN has reached more than 75% equally with the guide of export-oriented economy; however, ASEAN is now suffering vulnerability of economy while facing finance insecurity problem due to over-dependence on export. To turn over this situation, ASEAN pursues for multiple foreign cooperation more eagerly so as to prevent causing vulnerability of economy in Southeast Asia caused by over-dependence of a certain country or region. Consequently, ASEAN needs to fortify economic connection and cooperation with Asia countries, but also naturally selects the EU, its traditional economic partner, to be an ideal cooperator.

From the above, although there is a long geographical distance between the EU and ASEAN, they still have many common interests in economy and trade. The EU and ASEAN started negotiation of Free Trade Area (FTA) in 2007, but their progress was very tardy, so the EU changed its negotiation strategies, which means the EU holds one-to-one negotiation with ASEAN countries. The EU has concluded a Free Trade Agreement (FTA) with Singapore and is negotiating FTA with several other ASEAN countries (Vietnam, Thailand, and Malaysia). These agreements are the stepping stones to a full agreement between the EU and ASEAN as a whole (Note 3).

3. Trade and Investment of EU in ASEAN

3.1 Import and Export of ASEAN to EU

The EU is the 3rd largest trading partner (import and export) of ASEAN after China and Japan, accounting for around 13% of ASEAN trade just shown below Table 1. From the table 1 we can conclude that ASEAN’s import to the EU is about €92,869 million and the export is about €192,125 million which ASEAN export to the EU is far greater than the import.

Table 1. ASEAN top trading partner 2012

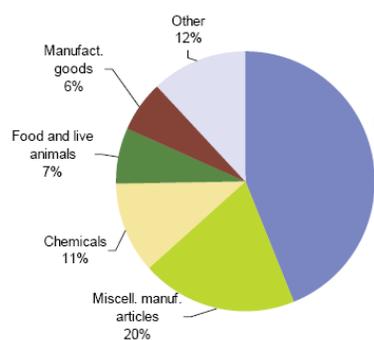
Import				Export				Total trade	
partner	Value (Mio €)	Share in world	partner	Value	Share in world	partner	Value	Share in world	
world	740,863	100.0	world	719,971	100.0	world	1460,834	100.0	
1 China	142,234	19.2	1 China	110,648	15.4	1 China	252,882	17.3	
2 Japan	106,305	14.3	2 Japan	100,125	13.9	2 Japan	206,430	14.1	
3 EU	92,869	12.5	3 EU	98,255	13.6	3 EU	191,125	13.1	
4 USA	71,246	9.6	4 USA	85,430	11.9	4 USA	156,675	10.7	
5 SK	60,045	8.1	5 HK	61,320	8.5	5 SK	103,066	7.1	
6 UA E	30,695	4.1	6 SK	43,020	6.0	6 HK	72,650	5.0	
7 Saudi Arabia	29,176	3.9	7 Australi a	35,816	5.0	7 India	54,986	3.8	
8 India	21,898	3.0	8 India	33,088	4.6	8 Austr alia	54,296	3.7	
9 Australi a	18,480	2.5	9 UA E	12,127	1.7	9 UA.E	42,822	2.9	
10 Switzerland	12,461	1.7	10 Panama	10,163	1.4	10 SA	35,158	2.4	
3 EU	92,869	12.5	3 EU	98,255	13.6	3 EU	191,125	13.1	

SK=South Korea UA E= UA Emirates HK=Hong Kong SA=Saudi Arabia

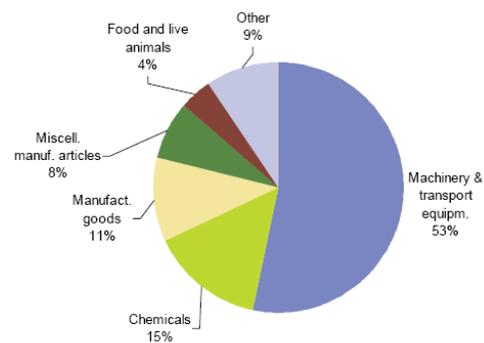
Source: Compiled according to <http://ec.europa.eu/trade/policy/countries-and-regions/>

3.2 Import and Export of EU to ASEAN

The main products of the EU imported from the ASEAN countries include electronic equipment, covering computers and consumer items, clothing and footwear, pharmaceuticals, crude rubber, palm oil and furniture. The EU exported mainly machinery and transport equipment including aircraft, alongside pharmaceuticals and medical equipment to ASEAN countries just below Graph 1 and Graph 2.



Graph 1. EU-27 import from ASEAN (2010)



Source: Eurostat (online data code: [DS_018995](#))

Graph 2. EU-27 export to ASEAN (2010)

Source: Eurostat 2010.

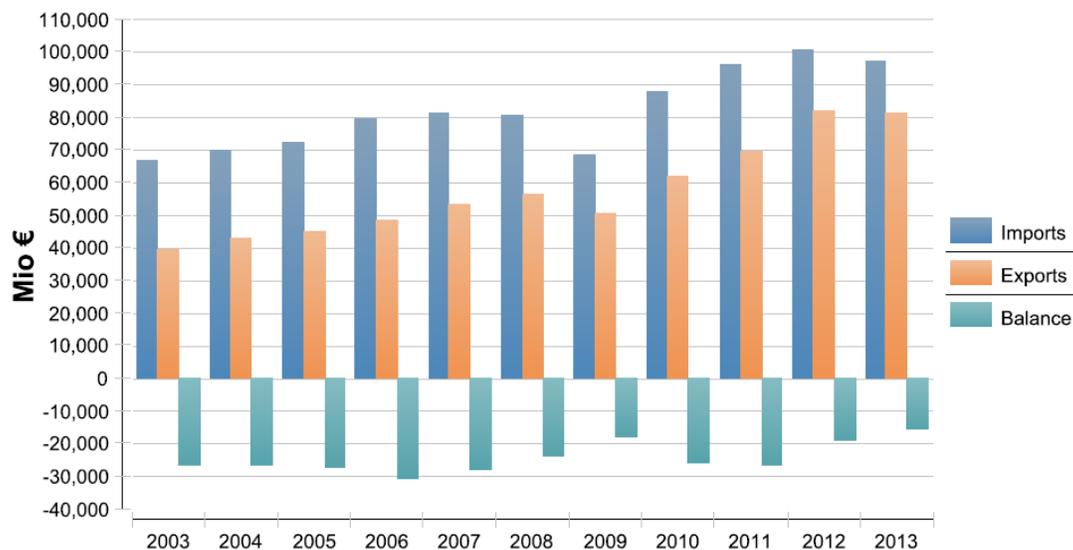
The trade policy mechanism ASEAN pursues is so open and feasible that ASEAN can cut tariff barriers down. Because of the low tariff in Southeast Asia, the EU can gain relatively low tariff in exporting from ASEAN, for example, tariff rate in Singapore is only 1.04%. However, further cutting down tariff is much more beneficial to the EU and ASEAN, because operating companies of the EU regards ASEAN as their production platform, then as for ASEAN, abundant import share means internal trades join the EU market (Note 4). Hence, the EU further proposes a

trade action plan, or *Trans-Regional EU-ASEAN Trade Initiative (TREATI)*. This plan suggests enlarging trades and investment flows, promoting fixed cooperation with both the EU and ASEAN, establishing an effective dialogue framework, and eventually reaching an EU-ASEAN Preferential Trade Agreement, in terms of trade convenience, market entrance and investment issues. EU-ASEAN discussed signing Free Trade Agreement related problems in 2005, and EC achieved formal authorization of ASEAN FTA negotiation in 2007, though it postponed two years for Vietnam issue (Note 5).

The EU remains open to start negotiations with other partners in the region and hopes one day to complete these agreements with a region-to-regional trade agreement. Now the EU is actively promoting the establishment of EU-ASEAN FTA. The final negotiations for a Free Trade Agreement between Singapore and the EU were completed in December 2012, with the initialing of the agreement taking place on 20 September 2013. According to EU-ASEAN FTA, the EU can also benefit from other tariff-unrelated fields — technology standard, detection and cognition of both parties.

3.3 The EU Trade Flows with ASEAN

The EU has recorded deficits in trade in goods with the ASEAN countries since 2000. In 2010 and 2011 the deficit was €26 billion, a substantial rise compared with the previous year just shown below Graph3. Presently, main partners and competitors in Europe, such as the US, Japan and China, establish economic partnership or federate with ASEAN or its members so as to set up a Free Trade Area. So, unless the EU achieves an intimate connection with Southeast Asia, it will not keep its status and influence in the region. The strategies of the EU applying in the region should be more “aggressive” (seeking an opportunity to enhance marketing status of the EU in this region) and more “defensive” (protecting its existing economic interests in the region). That is the reason why the EU changed its strategy, which negotiated with a part of ASEAN members one-to-one, and promoted actively to build Free Trade Area.



Graph 3. EU Trade flows and balance, annual data 2004-2013

Source: European Commission (Directorate-General for Trade), Trade in goods with ASEAN (Association of South-East Asian Nations) <http://ec.europa.eu/trade/policy/countries-and-regions/>

3.4 EU FDI with ASEAN

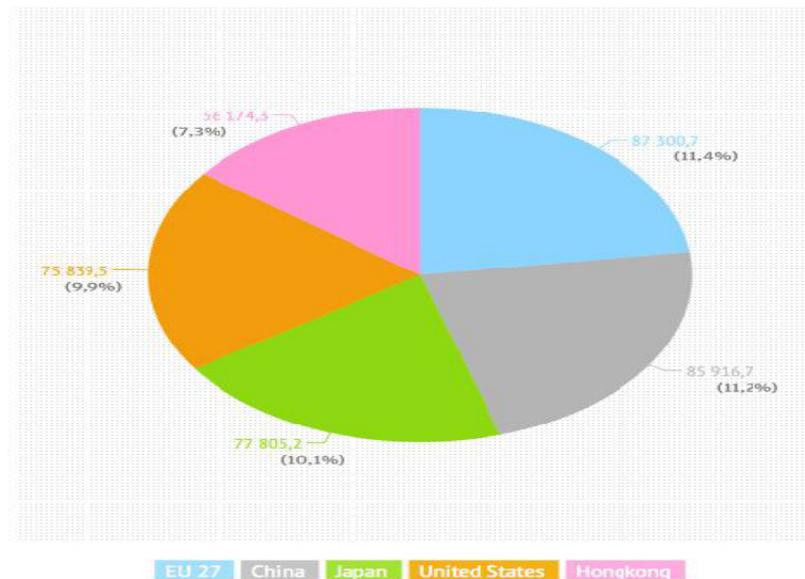
ASEAN is the region overly depending on foreign investment, nearly 90% of which comes from the countries outside ASEAN, during the period from 1995 to 2003, shares of foreign investment belonging to the EU, the US, and China in ASEAN related countries respectively reached 28.83%, 16.47% and 12.90% (Note 6). For ASEAN, the EU is always the most necessary partner of foreign direct investment (FDI), since 2006—2010, except for shrinking in 2009 because of European Debt Crisis, EU-FDI with ASEAN still remains steady increase, specific as shown in Table 2. As for the EU, active economy, cheap human capital and other advantages in ASEAN are also the main reasons to attract EU-FDI with ASEAN.

Table 2. EU-27 FDI (Foreign Direct Investment) with ASEAN

year	FDI Outflows(Mio€)	FDI Inflows(Mio€)
2006	12,670	4,802
2007	144,490	12,478
2008	25,097	2,597
2009	5,787	2,840
2010	22,000	9,100

Source: Eurostat, 2012

Furthermore, ASEAN is also an export-oriented region, its economic development and soar relies on export to a large extent. The significant influence of the EU economic and trade investment reflects the EU is the most vital export partner of ASEAN, whose export share reached 11.4%, higher than 11.2% of China (Hong Kong and Taiwan excluded), 10.1% of Japan, 9.9% of the US, specific as shown in Graph4. Therefore, to ASEAN, economic impact and regional influence brought by the EU is self-evident, because the EU market is especially crucial to its economic development. However, the EU economic and trade investment with ASEAN will be affected to a certain extent, with the rise of China and the impact brought by European Debt Crisis.



Graph 4. ASEAN export from main partner

Source: European Commission, March 2012.

3.5 ASEAN FTA and the Future Economic Relations of EU-ASEAN

Presently, ASEAN devotes itself to constructing a regional economic area in Southeast Asia, and building economic partnership with China, Japan and Korea, which is the response to economic competition pressure, on the other hand, is also good for attracting FDI. The establishment of ASEAN Free Trade Area in 2003 was a milestone; nevertheless, more actions and steps need to be taken to establish a single market. With observation of Europe, ASEAN is seeking the experience of establishing the model of single market, and will be given power support by the EU as long as opportunities come in the future (Note 7). The EU also provides financial support to economic cooperation and integration in ASEAN, for instance, the EU offered €10.7 million to support ASEAN regional economic cooperation program during 1998-2005, and the EU launched a project valued €10 million to sustain ASEAN economic integration. The capital the EU allocated to ASEAN for operate economic cooperation programmes and support economic integration added its influence and permeation to ASEAN members, particularly in the field of economy.

4. The EU's Regional Influence to ASEAN

With the expansion to the east and the addition of investment in ASEAN, the influence of the EU in the region is gradually increasing, which reflects not only in economy and trade, but in other respects as following: providing learning experience of the EU integration to help ASEAN improve its mechanism under ASEAN model, offering financial support and aids in counter-terrorism and regional security of ASEAN; in addition, pursuing cooperation in climate, energy, environment protection and higher education, etc.

4.1 The EU's Aids to ASEAN's Regional Integration

Since the 13rd EU-ASEAN Ministerial Meeting, the EU and ASEAN have achieved great progress in cooperation in other field. Firstly, the EU utilized its own experience of integration to improve ASEAN regional integration. The 14th EU-ASEAN Joint Cooperation Committee meeting held in Brussels in September, 2001. The meeting consented to reckon ASEAN regional integration improvement (the program was called APRIS1) as focus of mutual policy dialogue. Thus, the EU signed the agreement with ASEAN in the early 2003, and provided €4.5 million during 2003—2010, assisted ASEAN members to improve its regional integration. And after accomplished the 1st stage programme, the EU launched programme named APRIS2, and offered ASEAN €6.2 million to support regional integration in 2006—2009.

Jusuf Wanandi, the foreign minister of Malaysia, explicitly pointed that, "the integration of ASEAN should base on regulations, and be better sustained by institutionalized regional cooperation", "On this point, ASEAN can learn from the EU". In the president joint declaration of the 14th EU-ASEAN Ministerial Meeting, ASEAN conveyed a strong interest to absorb experience so that it can improve economic integration in ASEAN region, which the EU expressed welcome and helped ASEAN integration with cooperative programs and activities.

4.2 The EU-ASEAN Security Cooperation and the EU Political Influence

Since 9·11, Southeast terrorism organizations become increasingly rampant and pervasive, like Indonesia Bali bombing happened on Oct.12th, 2002 is the most serious terrorism attack in Southeast region. Due to long coastline, plentiful islands, difficult border management and lack of region united counter-terrorism emergency mechanism, international terrorists take those bugs to transit here or purchase arms illegally, which forms Southeast to be an aisle for terrorists of Mid-east and Afghanistan, a brand new base for international terrorists. The EU countries support ASEAN counter-terrorism cause zealously and provide some financial assists.

In recent years, ASEAN has joined eagerly in *United Nations Convention against Transnational Organized Crime*. ASEAN promotes itself to establish regional surveillance system and reporting system, fortify international cooperation so as to fight against transnational organized crimes directly. Moreover, fighting pirates is another theme of ASEAN-EU security cooperation, for *EU-ASEAN Convention for the Safety at Sea* held in Manila in 2002 so that both of them proposed cooperation to fight pirates together. The EU promised they provided technique support in information communication and absorbed some ASEAN students to attend seminar related pirates (Note 8). Cooperation and communication of counter-pirate were ongoing as well among ASEAN members. It was said by an Indonesia official that Indonesia, Malaysia and Singapore plan to set up a united army recently to patrol around Malacca Straits, to fight against smuggling, pirates and other forms of terrorism, to maintain the security of the strait.

In addition, the EU breaks a fire-new ground in mutual cooperation of maintaining the ASEAN region and interior security. For instance, ASEAN members and the EU set up a united civil crisis management team for the first time to supervise execution of the peace agreement when there was a rebellion between Indonesia Government and Aceh. It is the team deployed by the EU countries t in Asia countries for the first time under the operation of European security and defense policies, and meanwhile, was the crisis management team ASEAN joined in for the first time (Note 9). To positive intervention in ASEAN affairs and increase the influence in Southeast Asia, EU deployed army in ASEAN played an active role.

5. Conclusion

Except for the cooperation in economy trade, the EU and ASEAN develop cooperation actively in other field, like climate, energy and technique of environment protection, etc. The EU always offers financial aids and supports cooperation with ASEAN in environment, energy, intellectual property, technology and university networks, etc. Different from USA, EU put more emphasis on cultural communication and cooperation in promoting regional or bilateral cooperation. Because the EU deems that communication and cooperation of higher education and cultural is the key to improve people's understanding and comprehension in both regions. Currently, a series of multi-lateral or mutual cooperative program and activity supporting internet are in progress.

Apart from enlarging economic and trade investment in ASEAN and a package of cooperation programs, the EU also establishes some cooperative frameworks and mechanisms. The important part of EU-ASEAN dialogue is Asia-Europe Meeting (ASEM) which is Europe's main multilateral channel for communication with Asia. The first meeting was held in Bangkok in 1996, followed by summits in London(1998), Seoul(2000), Copenhagen(2002), Hanoi(2004), Helsinki(2006), Beijing(2008), Brussels(2010) and Vientiane(2012). ASEM aims to strengthen the relationship and increase mutual understanding between Europe and Asia promoting cooperation mechanisms of EU-ASEAN. In addition, EU has also the programmes with the developing countries such as ALA (1996-2006) and DCI (2007-2013). ALA called "Asia-Latin America" regulation highlighted that aid to economic cooperation and technical and financial assistance. DCI replaces the ALA programme for developing countries in Asia promoting the democracy, good governance and respect for human rights and for the rule of law. With the expansion and increase of economic power, the EU is doing more cooperation with the third world countries, and utilizes the *Soft Power* sustained by financial aids to play a role distinct from USA and Japan.

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Notes

Note 1. COMMUNICATION FROM THE COMMISSION—A new partnership with South East Asia, COM(2003),P.3-4.

Note 2. COMMUNICATION FROM THE COMMISSION—A new partnership with South East Asia, COM (2003) 399/4, p.10

Note 3. http://eeas.europa.eu/asean/docs/key_facts_figures_eu_asean_en.pdf

Note 4. Willem van der Geest, An EU-ASEAN Free Trade Agreement: Sharing Benefits of Globalisation?, Lecture Delivered at the ninth ASEM university session, Manila, February 6, 2004

Note 5. <http://www.xjqsi.gov.cn/StandSite/WTO/8410.asp>

Note 6. ASEAN Statistical Yearbook 2004, p.142. <http://www.aseansec.org/syb2004.htm>

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Note 9. John Quigley, Aceh Monitoring Mission gets underway. *EurAsia Bulletin*, Sept-Oct 2005.