EU-ASEAN
BUSINESS COUNCIL

2016 EU-ASEAN BUSINESS SENTIMENT SURVEY

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FOREWORD

H.E. Ambassador Francisco Fontan

EU Ambassador to ASEAN

ASEAN and the European Union (EU), two regional organisations with their own respective dynamics and histories, will celebrate the 40th anniversary of their formal relations next year, precisely when ASEAN itself will turn 50 years old.

Both regions can look back at almost 40 years of friendship characterised by their shared goal of peace and prosperity for its peoples, and look forward to further deepening relations based on trust, mutual respect, common interests and values.

As part of its new and ambitious policy drive to elevate EU-ASEAN relations to the next level, the EU doubled its development cooperation funds channelled through the ASEAN Secretariat (€170 million for 2014-2020) to support ASEAN's post-2015 integration agenda. This support comes on top of the €2 billion the EU is devoting over the same period of time to poverty reduction and connectivity within and between ASEAN countries. We have also increased the frequency of exchanges of leaders from both regions, and recently established a new dedicated Mission to ASEAN to deepen our relationship.

ASEAN and the EU, with their own dynamics, objectives and contexts, are probably the two most ambitious regional organisations in the world, and thus we have much to learn from each other. Indeed, the EU wants to deepen our relations with ASEAN because it believes that ASEAN will play an important role in bringing to fruition a larger integrated market within the ASEAN Economic Community (AEC) and with the rest of the world.

I welcome the *2016 EU-ASEAN Business Sentiment Survey*, which shows the strong confidence European companies have in the Southeast Asian region. The commercial and political ties between the EU and our partners in Southeast Asia have existed for centuries and have grown into what is today one of the most important exchanges of goods, services and investment in the world.

The EU has become ASEAN's second largest trade partner (after China) with a share of 10%, while ASEAN, as a whole, is the EU's third largest trade partner outside Europe (after the US and China), with trade totalling €201.3 billion in 2015. In fact, bilateral merchandise trade has almost doubled in the last 10 years. Trade in services in 2014 was valued at €67.4 billion, with the EU continuing to enjoy a healthy surplus in trade in services to the tune of €5.8 billion.

More impressive still, the EU is the biggest investor in ASEAN economies, with FDI inflows from the EU accounting for around €23 billion or 22% of the total investments inflows into ASEAN in 2014, and for about a quarter of the total FDI stock in the ASEAN. This amounts to more than the US and Japan FDI into ASEAN in 2014 combined.

ASEAN has averaged an impressive annual GDP growth of around 5.5% from 2010 to 2015, making it one of the most dynamic regions in the world with a population of more than 630 million people, and a rapidly rising middle-class. As a bloc, ASEAN represents the 7th largest economy today, and it is projected to become the 4th largest economy by 2050.

For all these reasons, Southeast Asia is central to the EU's global negotiating agenda. We have completed our FTA negotiations with Singapore and Vietnam, and we have launched negotiations previously with Thailand and Malaysia. We have recently also launched negotiations with the Philippines and Indonesia. These agreements will comprise building blocks for a possible future comprehensive region-to-region FTA with ASEAN, which remains the EU's ultimate objective.

Ultimately we are negotiating these FTAs on behalf of industry and thus want to ensure that European companies can benefit as much as possible from these markets and be ensured unhindered, non-discriminatory access to ASEAN markets. The EU-Vietnam FTA is a shining example of a successful FTA conclusion – in fact the most ambitious deal the EU has concluded so far with a developing country.

In view of these developments, and as ASEAN advances with its own AEC agenda, trade advocacy and lobbying efforts by the various Chambers including at the regional level is increasingly important for the EU. We need to further nurture the relations between industry associations and EU policy-makers, as we share the same objectives. The EU-ABC plays and will play a key role in this process by representing the bilateral chambers of the ASEAN region, and I look forward to working closely with the EU-ABC as our trade policy agenda makes progress in the ASEAN.

INTRODUCTION

Donald Kanak
Chairman
EU-ASEAN Business Council

The second annual EU-ASEAN Business Sentiment Survey reaffirms the ASEAN region's position as a bright spot in the global economy and a focus for European investment in the year ahead.

At a time when surveys in some other Asian markets show companies taking a more cautious approach, European businesses in ASEAN overwhelmingly expect their profits to grow and their operations to expand over the medium term. Nearly two-thirds expect their ASEAN revenues to grow in importance relative to worldwide revenues over the next five years. More than two-thirds of respondent companies are planning to expand operations and increase employment in ASEAN over the next five years, good news for jobs and investment. This is consistent with our 2015 survey results, suggesting a steady trajectory of strengthening European presence in South East Asia.

Business optimism is driven by a number of factors. First, our respondents report confidence in the growth potential of ASEAN markets, which is powered by large, youthful populations, strong consumer sentiment and skilled workforces. Second, ASEAN member states are embracing external trade as a driver of growth and are demonstrating their commitment to enhancing economic ties among themselves and with the rest of the world.

European business is also encouraged by measures to strengthen and formalize trade ties between the EU and ASEAN member states. The recently concluded EU-Vietnam and EU-Singapore FTAs are seen as building blocks to an overarching region-to-region agreement, and will pave the way for bilateral negotiations with Malaysia, Indonesia, the Philippines and Thailand.

Looking forward, our survey findings show that European businesses in the region are enthusiastic about the prospect of an EU-ASEAN FTA. The EU is already ASEAN's largest source of foreign investment and its second largest trading partner, and a region-to-region FTA would be a powerful catalyst for an even closer, mutually beneficial economic relationship between our two regions. It would also be the world's first region-to-region FTA, and a landmark achievement in international trade integration.

However, our results illustrate that much work remains to be done to ensure that all businesses – local, European, and international – can maximize the obvious growth potential of the ASEAN region.

While our respondents are optimistic, they also want to see deeper engagement between EU and ASEAN governments on trade and investment issues. Since the 2015 survey, there has been progress, but still more than half of European businesses say that the EU can be more engaged in supporting European businesses, and a similar number of respondents reported that they are only sometimes, rarely or even never consulted by ASEAN governments. As a result of this insufficient engagement between governments and the private sector, European businesses report a lack of awareness about how to leverage existing economic agreements, and how their businesses can benefit. Looking at the ASEAN Economic Community, for example, fully half of European companies surveyed indicated that they were unsure how the AEC would impact their business.

With trade growth slowing in some of the world's largest economies, China coping with industrial overcapacity and the American economic debate showing increasing signs of an inward turn, governments and businesses in ASEAN have a unique opportunity to work together to plot a course towards sustainable and inclusive growth. Consistent, substantive dialogue between businesses and EU and ASEAN governments are essential to the successful conclusion and implementation of high-quality trade and investment agreements that will lift up both European and South East Asian economies and peoples.

The key takeaway from this year's survey is clear: European business is fully committed to growing in ASEAN, and is ready and willing to play their part in helping to promote regional development. European companies have a long-term stake in the continuing success of ASEAN and its member states—almost half of the respondents in our 2016 survey have been in the region for 20 years or more and many of the EU-ASEAN Business Council's members have been operating in South East Asia for close to a century. The enduring ties between the EU and ASEAN can and will only grow stronger as we move forward onto the next phase of our economic relationship.

ACKNOWLEDGMENTS

This survey was conducted online and anonymously, distributed with the help of our partners. We would like to thank all the respondents for taking the time to give their input to this report, and the following organisations for their support:

- European Chamber of Commerce in Cambodia
- European Chamber of Commerce Indonesia
- European Chamber of Commerce and Industry in Lao PDR
- EU-Malaysia Chamber of Commerce and Industry
- European Chamber of Commerce Myanmar
- European Chamber of Commerce of the Philippines
- European Chamber of Commerce in Singapore
- European Association for Business and Commerce Thailand
- European Chamber of Commerce in Vietnam

KEY FINDINGS

74% of respondents project an ***increase in ASEAN profits*** in 2016

Almost two-thirds of respondents plan to ***expand their operations and headcount*** in their response location

85% plan to ***increase their level of trade and investment in the region*** over the next five years

74% expect ***ASEAN's importance to their global revenues to increase*** over the next five years

66% of respondents believe the ***EU should pursue a region-to-region FTA with ASEAN***

58% feel that they are at a ***competitive disadvantage in ASEAN without an EU-ASEAN FTA***

52% of respondents feel that the ***European Union is not sufficiently engaged in supporting business activity*** in their response location

Just 43% feel they are ***often consulted by ASEAN national governments***

The majority of respondents are ***not fully informed about the various trade agreements*** that are in place or are currently being negotiated

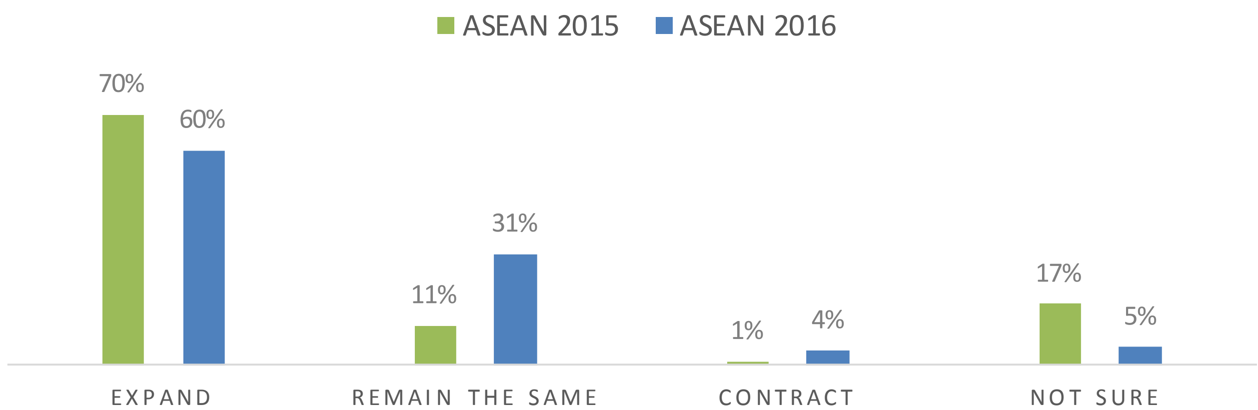
CURRENT BUSINESS ENVIRONMENT AND OUTLOOK

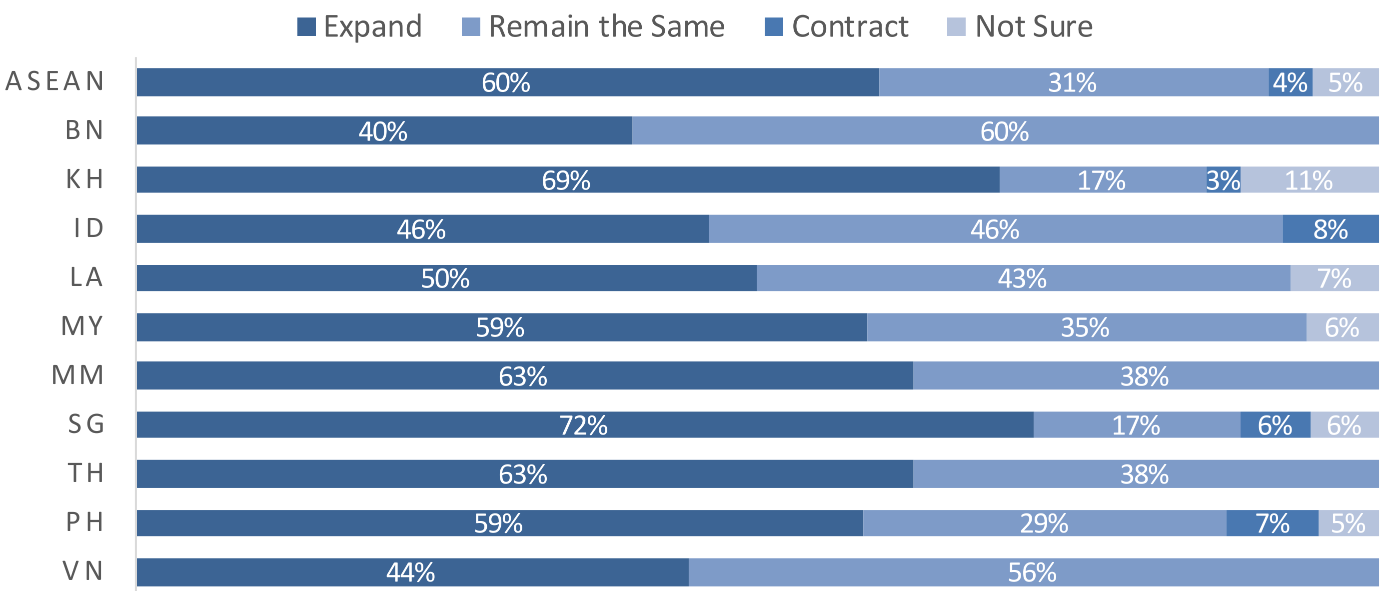
EUROPEAN BUSINESS CONFIDENCE IN ASEAN ROBUST AND GETTING STRONGER

Nearly two-thirds plan to expand ASEAN operations

European businesses are bullish on ASEAN and are staking more capital and resources on the region's continued growth—almost two-thirds (60%) of respondents are planning to expand in the region and a further 31% say they will at least maintain their current level of operations. Only 4% are planning to contract. By contrast, only 47% of European businesses in China plan to expand, with flagging business sentiment attributed to overcapacity in the Chinese economy and an increasingly challenging regulatory environment.[1] Businesses based in Myanmar (86%), Singapore (72%) and Cambodia (69%) in particular are looking to expand.

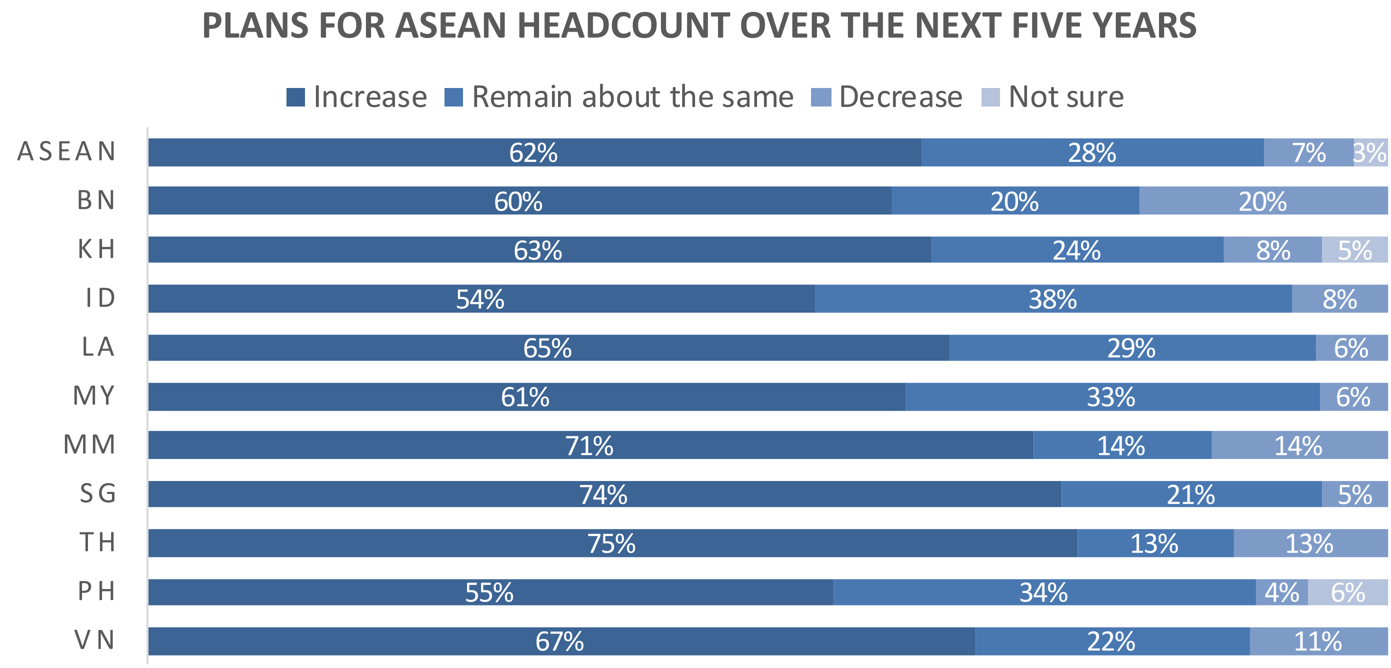
PLANS FOR ASEAN OPERATIONS OVER THE NEXT FIVE YEARS

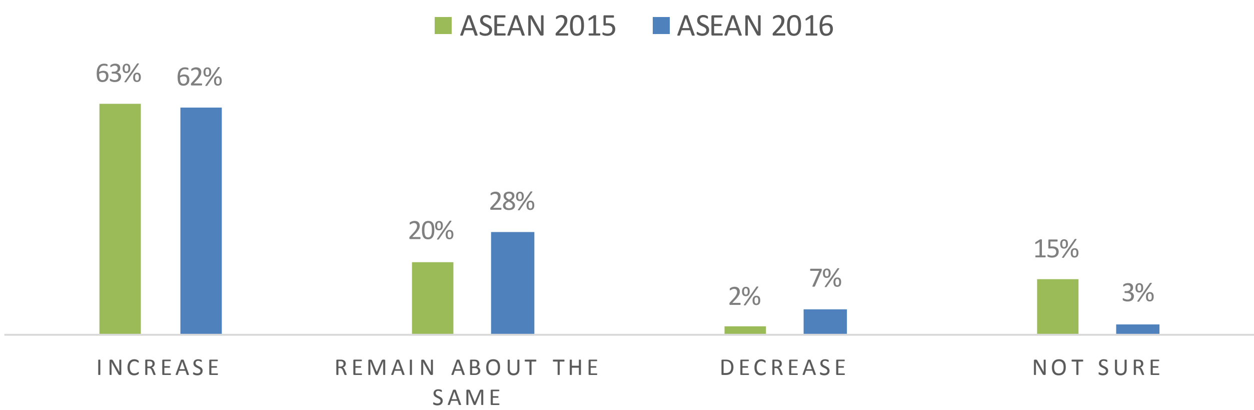




[1] European Union Chamber of Commerce in China, *Business Confidence Survey 2016*, http://www.europeanchamber.com.cn/en/publications-business-confidence-survey

Respondents are also planning to enlarge their workforces to support their expansion—nearly two-thirds (62%) say they will increase their headcount.

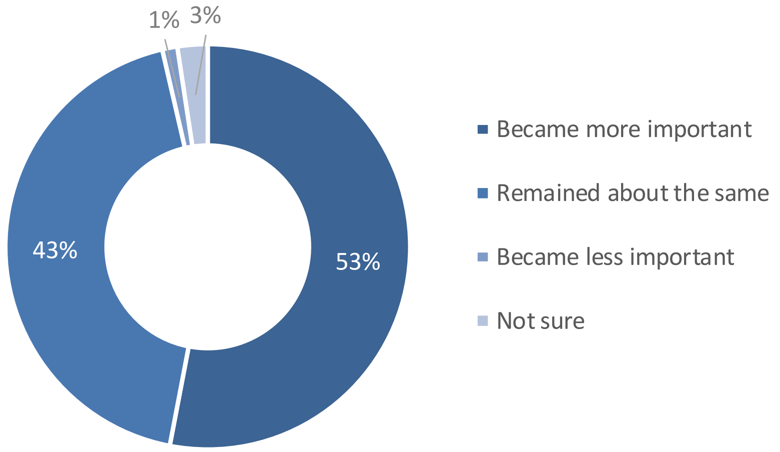


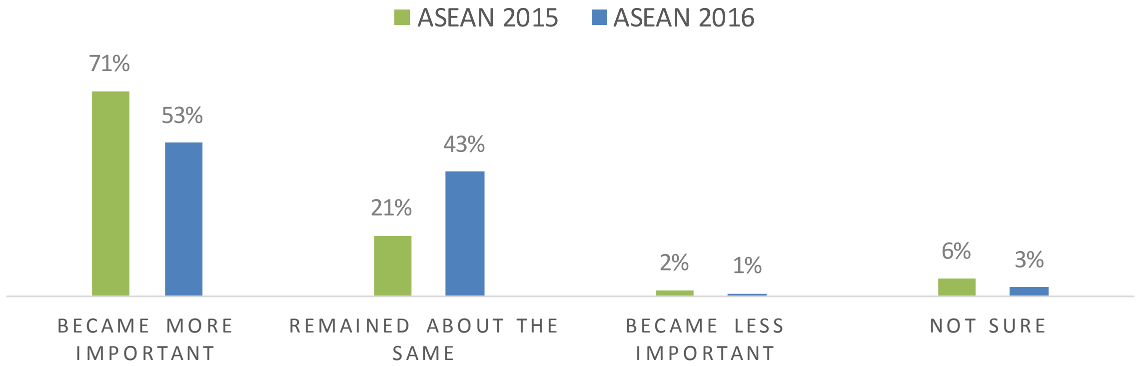


ASEAN more important relative to global revenues

Reflecting the ASEAN region's strong economic fundamentals cast against the backdrop of slowing growth in China and the major developed economies, more than half of respondents reported that ASEAN has become more important to their companies relative to global revenues over the past two years. Another 43% said that ASEAN's relative importance has remained consistent. Perhaps most notably, only 1% of the respondents found that the relative importance of ASEAN markets has declined. This is consistent with findings from the *2015 EU-ASEAN Business Sentiment Survey*, where nearly all (92%) of respondents said that ASEAN's relative importance for their companies had increased or remained the same.[2]

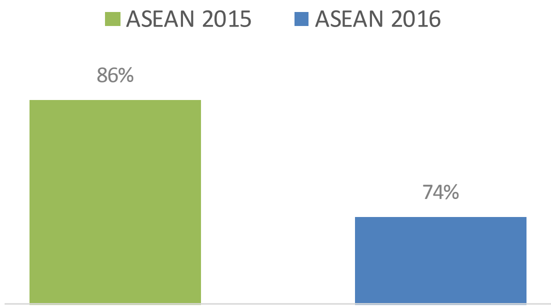
ASEAN'S RELATIVE IMPORTANCE TO GLOBAL REVENUES OVER THE PAST TWO YEARS





Nearly three-quarters (74%) of respondents indicated that ASEAN will become more important going forward, relative to their worldwide revenues, whereas none indicated that ASEAN will become less important, reaffirming the region's position as one of the few economic bright spots in the world.

COMPANIES FOR WHICH ASEAN'S RELATIVE IMPORTANCE TO GROW OVER THE NEXT FIVE YEARS

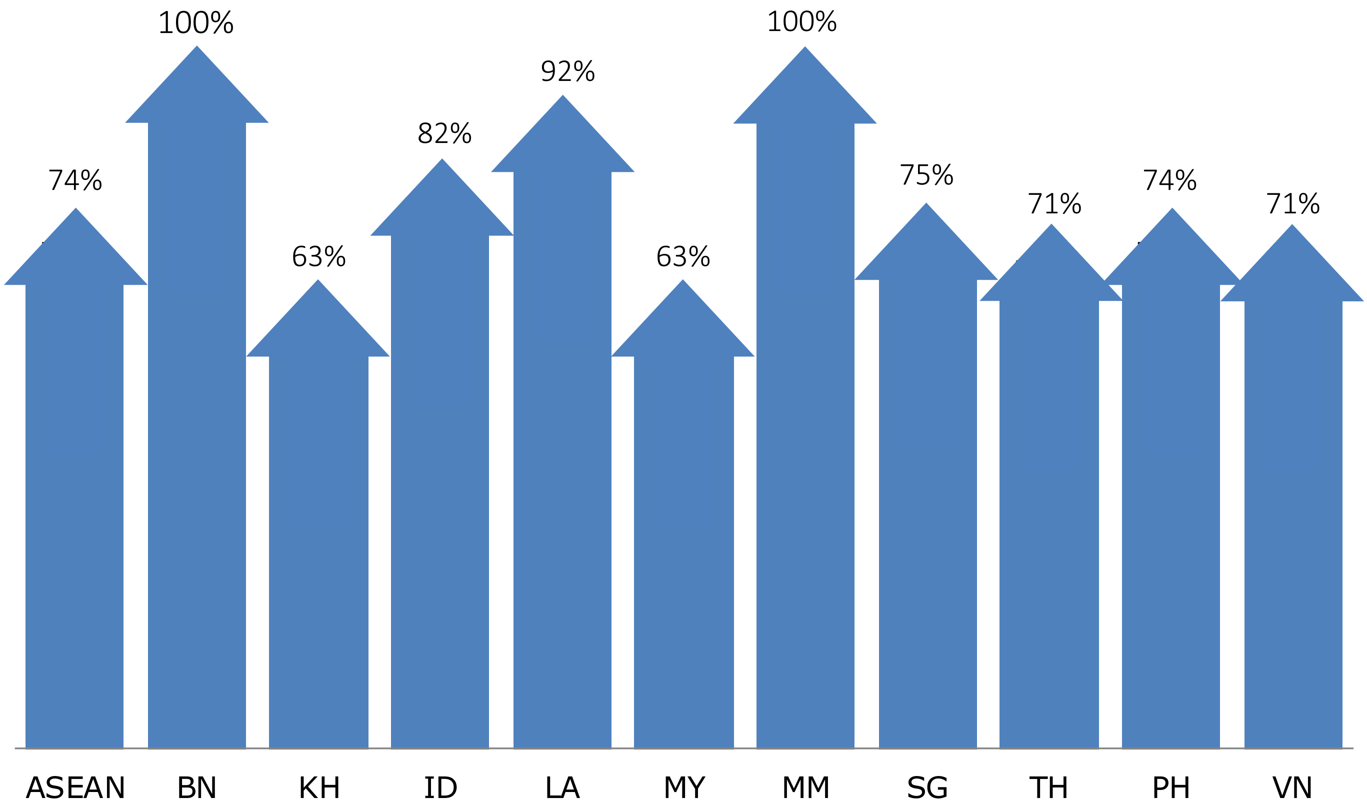


[2] EU-ASEAN Business Council, *2015 EU-ASEAN Business Sentiment Survey*, http://eu-asean.eu/wp-content/uploads/2015/08/EU-ASEAN-Business-Sentiment-Survey-final-draft-online-only.pdf

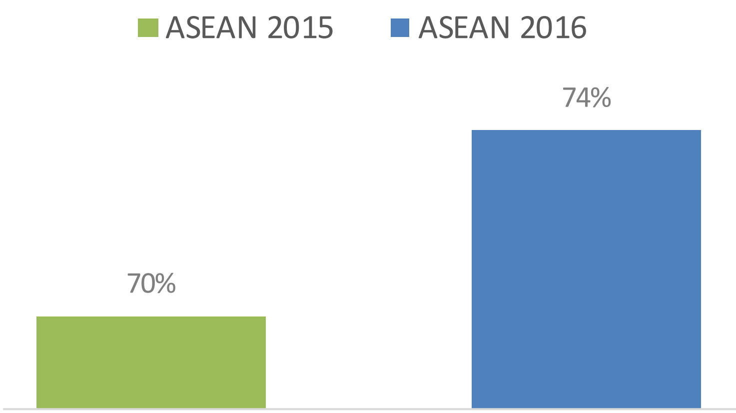
Businesses overwhelmingly expect ASEAN profits to increase

There is no doubt that ASEAN offers an attractive environment in which to do business. Various business reports and studies consistently point to the region's robust economic growth – the OECD is predicting average annual GDP of 5.2% over 2016-2020 for the ASEAN region.[3] ASEAN's attractiveness as a place to do business is reflected in the profit outlook for European businesses for 2016. Nearly three-quarters (74%) of respondents, forecast an increase in profits for 2016. Nearly all respondents in Brunei (100%), Myanmar (100%), Laos (92%) and Indonesia (82%) were confident that profits would be higher in 2016. This is consistent with our findings in 2015, when more than two-thirds projected a growth in profits and less than 10% predicted a contraction.

COMPANIES EXPECTING AN INCREASE IN ASEAN PROFITS OVER 2016



COMPANIES EXPECTING AN INCREASE IN ASEAN PROFITS OVER THE NEXT YEAR

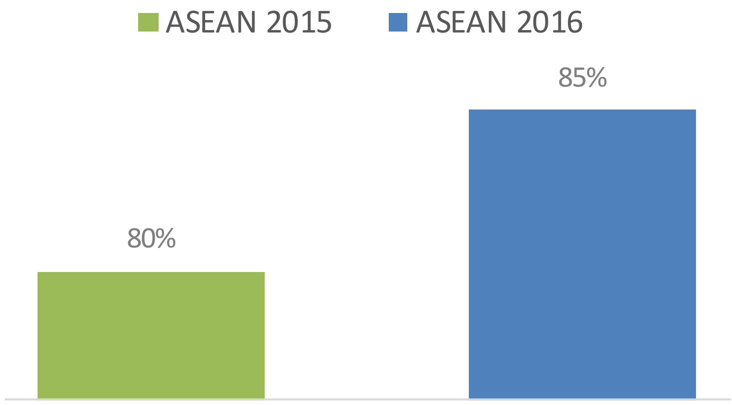


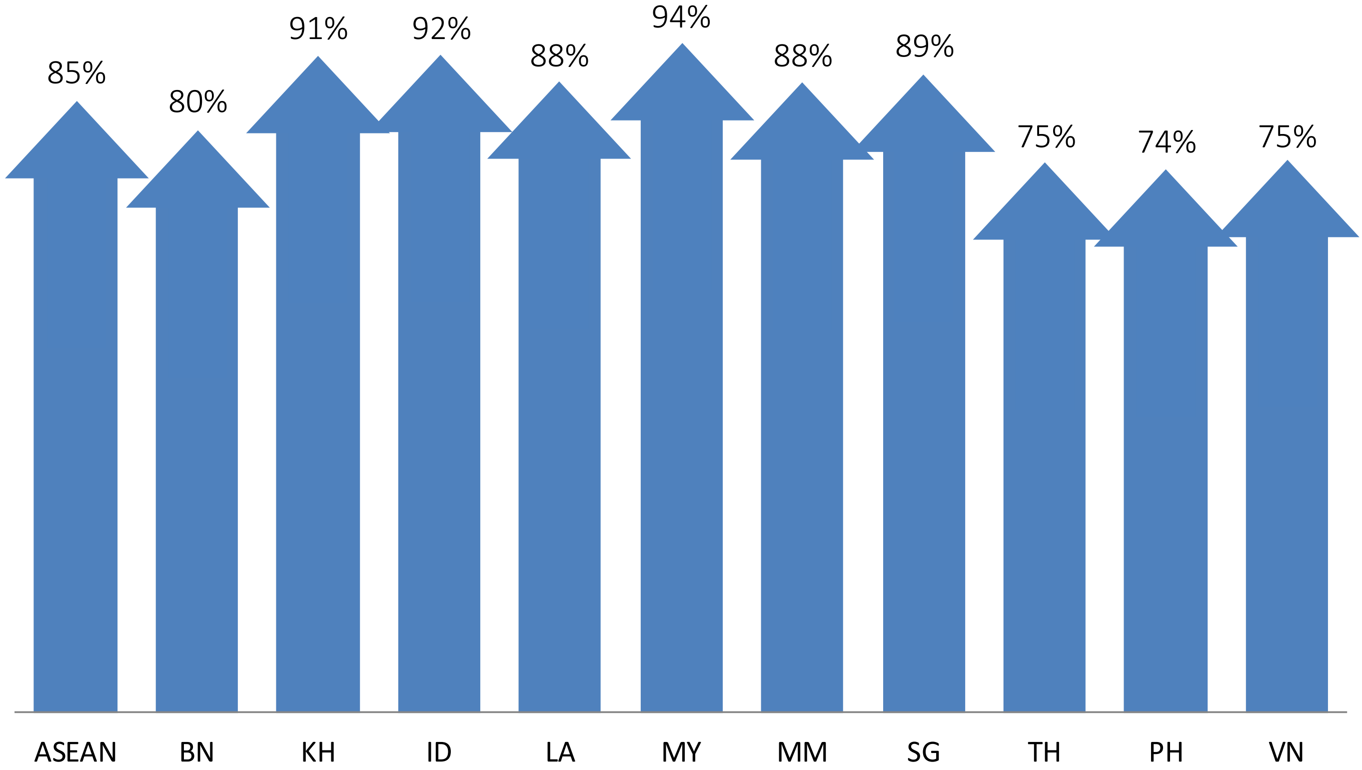
[3] OECD (2016) "Economic Outlook for Southeast Asia, China and India 2016," http://www.oecd.org/dev/economic-outlook-for-southeast-asia-china-and-india-23101113.htm

Level of ASEAN trade and investment expected to increase over the medium-term

Looking ahead, European businesses continue to have a positive outlook for ASEAN. More than four-fifths (85%) of respondents indicated that their level of trade and investment will increase over the next five years. Confidence in the future is high across all ASEAN markets. Regionally, this figure is up slightly from 2015, a strong demonstration of European businesses' firm confidence in ASEAN.

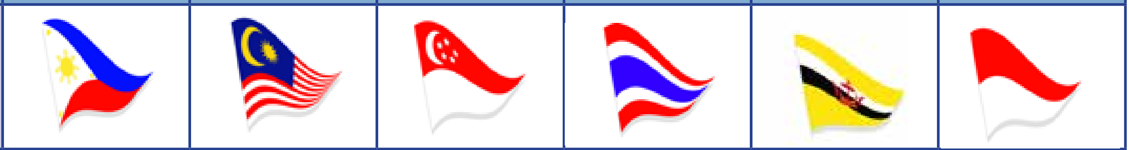
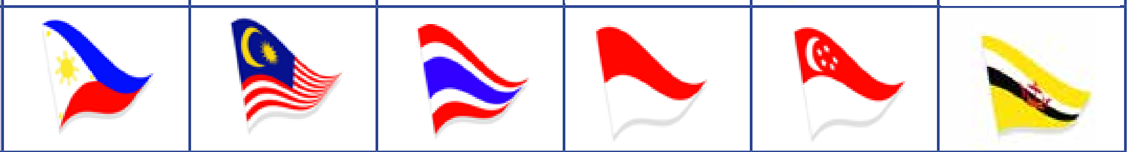
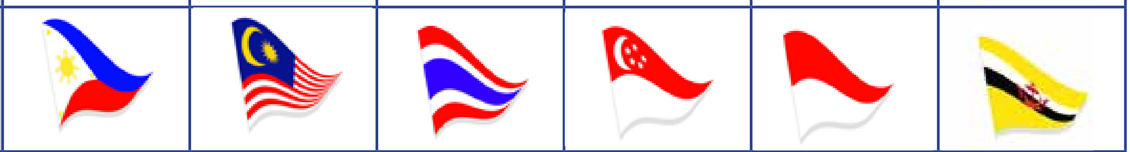
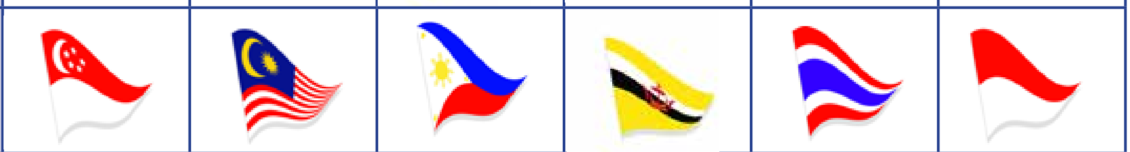
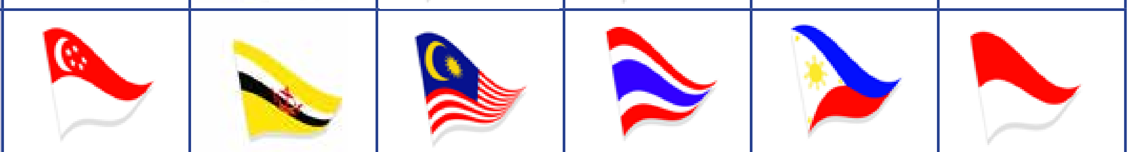
COMPANIES EXPECTING ASEAN TRADE AND INVESTMENT TO INCREASE OVER THE NEXT FIVE YEARS





Singapore top for regulation and infrastructure, Philippines favoured for workforce

When companies based in the ASEAN-6 were asked to rate their satisfaction with a range of factors affecting their ease of doing business in their response location, the survey found that Singapore-based respondents were the most satisfied, reflecting its status as the most advanced economy in the region and as the second most competitive economy in the world as ranked by the World Economic Forum.[4] The Philippines scores most highly on labour supply issues, while Malaysia also makes a strong showing in indicators measuring ease of trade.

	1	2	3	4	5	6
Availability of competitively priced labour						
Availability of skilled labour						
Ease of recruiting labour from abroad						
Prevalence of business-friendly customs procedures						
Ease of importing goods						
Administrative costs for business						
Stable government and political system						
Regulatory regime						
Provision of government incentives						
Fiscal structures						
Infrastructure						

[4] World Economic Forum, Global Competitiveness Index 2015-2016, http://reports.weforum.org/global-competitiveness-report-2015-2016/

Closer regional integration driving European business confidence

When asked why ASEAN's importance for their bottom line is growing, European companies cited regional economic integration and infrastructure improvement as the top two factors two years in a row. Meanwhile, 'limited growth opportunities in other regions' has been supplanted by a 'change in business strategy' in 2016 as the third most important factor, suggesting that European businesses have changed their business strategy to focus more on ASEAN in response to cooling growth in other markets.

	2015	2016
1	Enhanced regional economic integration	Enhanced regional economic integration
2	Improvement in infrastructure	Improvement in infrastructure
3	Limited growth opportunities in other regions	Change in business strategy

Diversification of customer base the top factor driving expansion plans

Respondents were asked to rank the following factors that drive their decision to invest in their response location: adequate laws and regulations to encourage foreign investment; availability of trained personnel / efficient manpower; diversification of customer base; reasonable production costs including labour costs; and, stable government and political systems.

Speaking to ASEAN's importance to European businesses as not just a growing market but a highly competitive production centre, respondents cited the following as the top three reasons they have invested in their response location:

#1 

DIVERSIFICATION OF CUSTOMER BASE

#2 
ADEQUATE LAWS AND REGULATIONS TO ENCOURAGE FOREIGN INVESTMENT

#3 
REASONABLE PRODUCTION COSTS INCLUDING LABOUR COSTS

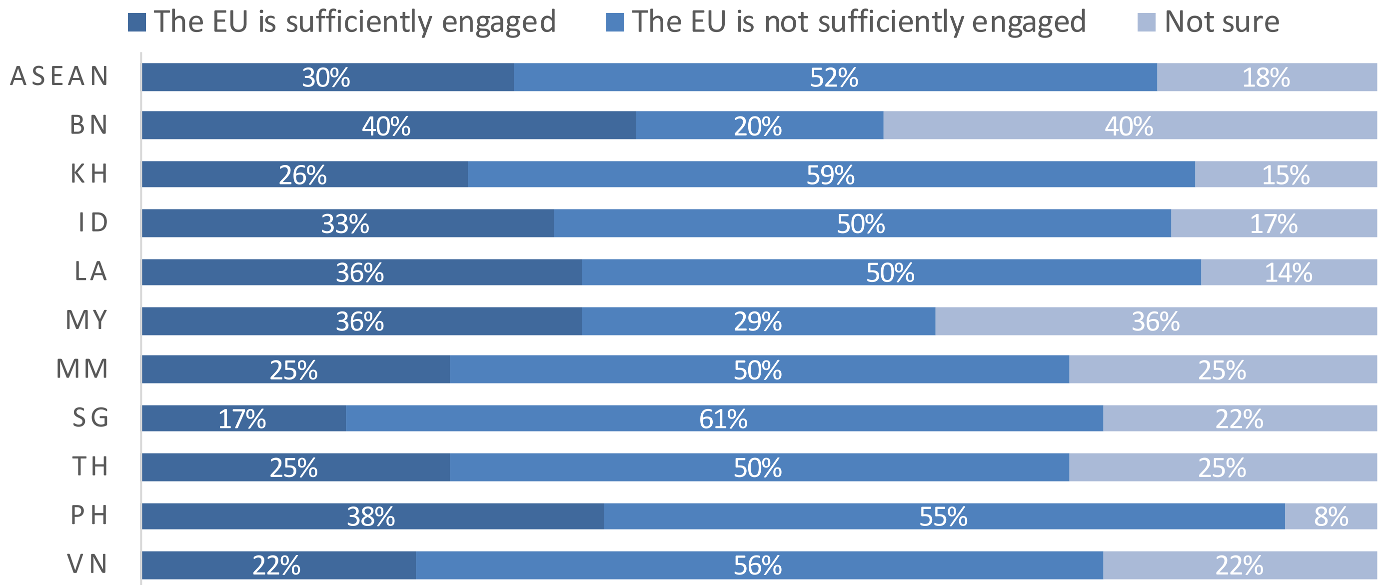
EU ECONOMIC ENGAGEMENT WITH ASEAN

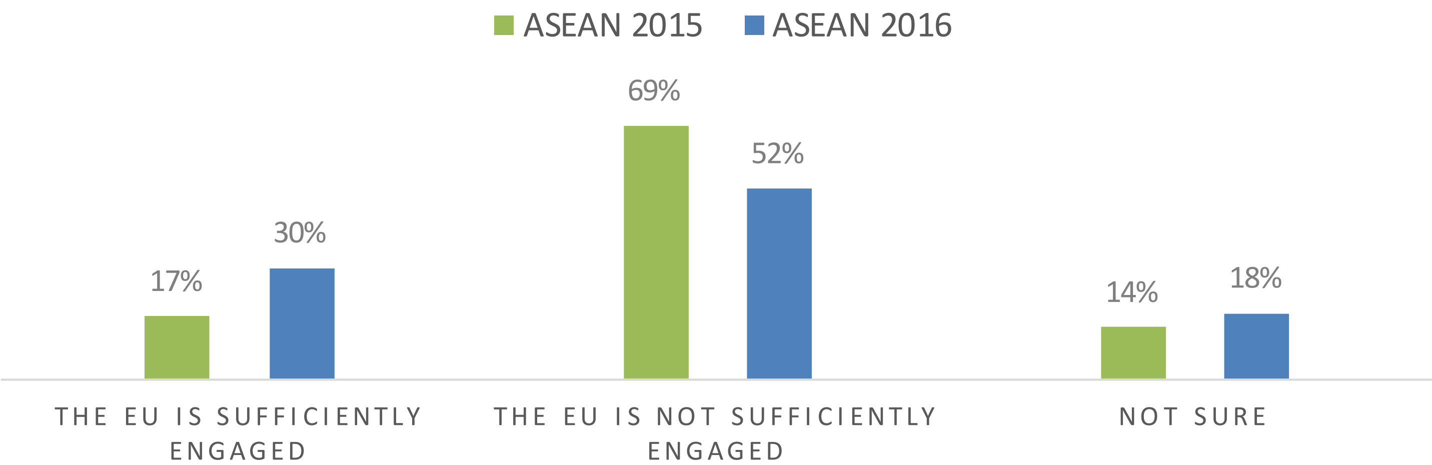
EUROPEAN BUSINESSES STRONGLY IN FAVOUR OF AN EU-ASEAN FTA, MORE ENGAGEMENT FROM THE EU

EU support for European businesses on the rise but still needs improvement

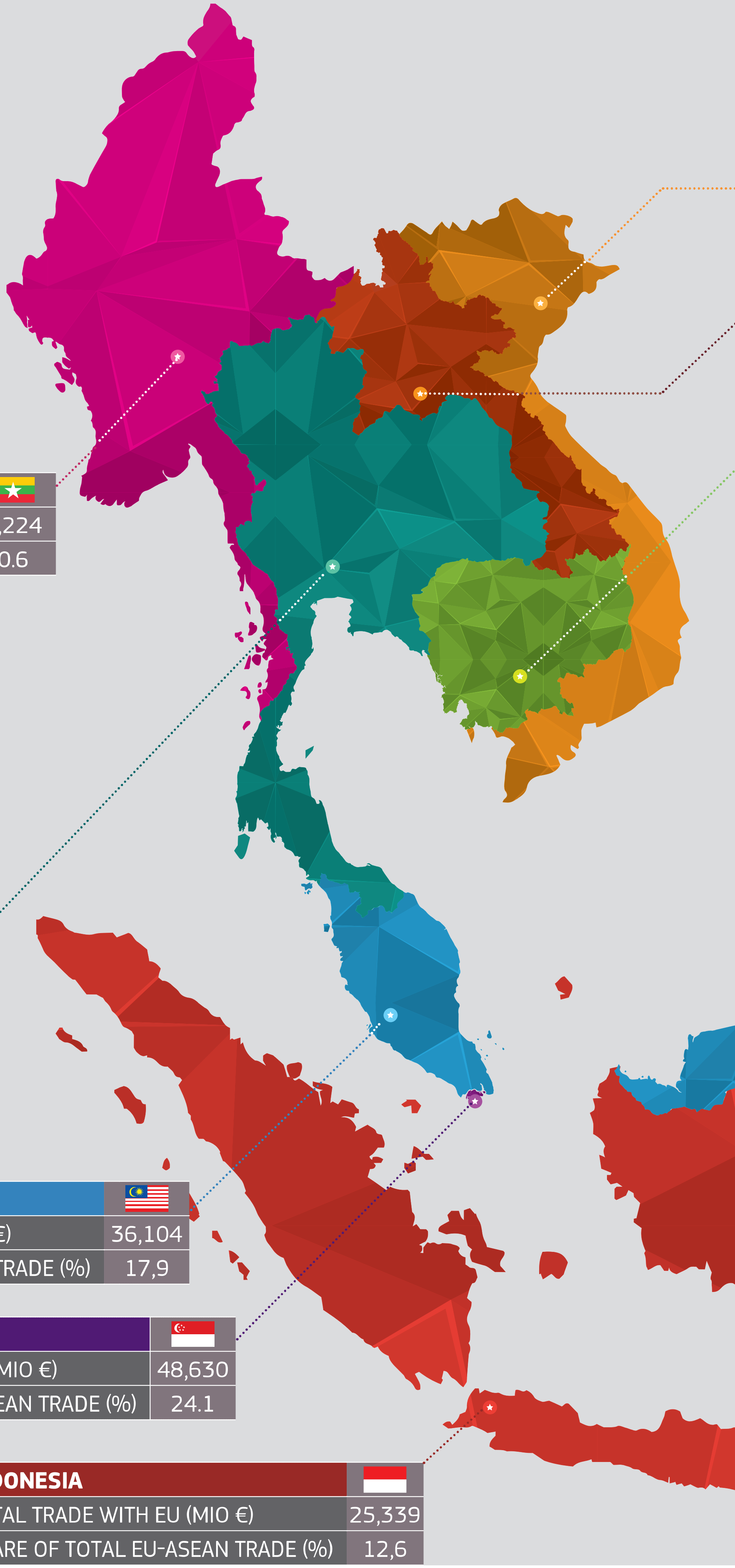
More than half (52%) of European businesses in ASEAN feel that the EU is insufficiently engaged with business interests in the region. Surprisingly, respondents in Singapore and Vietnam are the least likely to feel that the EU is sufficiently engaged, despite the EU having successfully concluded trade agreements with their host countries. However, the EU seems to be making some progress in their engagement with the private sector—the proportion that feel that the EU is sufficiently engaged almost doubled between the 2015 and the 2016 surveys.

PERCEPTION OF EU ENGAGEMENT WITH EUROPEAN BUSINESS INTERESTS IN ASEAN





ASEAN MEMBER STATES' SHARE OF EU-ASEAN TRADE IN GOODS 2015



MYANMAR	
TOTAL TRADE WITH EU (MIO €)	1,224
SHARE OF TOTAL EU-ASEAN TRADE (%)	0.6

THAILAND	
TOTAL TRADE WITH EU (MIO €)	32,929
SHARE OF TOTAL EU-ASEAN TRADE (%)	16.3

MALAYSIA	
TOTAL TRADE WITH EU (MIO €)	36,104
SHARE OF TOTAL EU-ASEAN TRADE (%)	17,9

SINGAPORE	
TOTAL TRADE WITH EU (MIO €)	48,630
SHARE OF TOTAL EU-ASEAN TRADE (%)	24.1

INDONESIA	
TOTAL TRADE WITH EU (MIO €)	25,339
SHARE OF TOTAL EU-ASEAN TRADE (%)	12,6

Source: 2016 EU-Singapore Trade & Investment Report

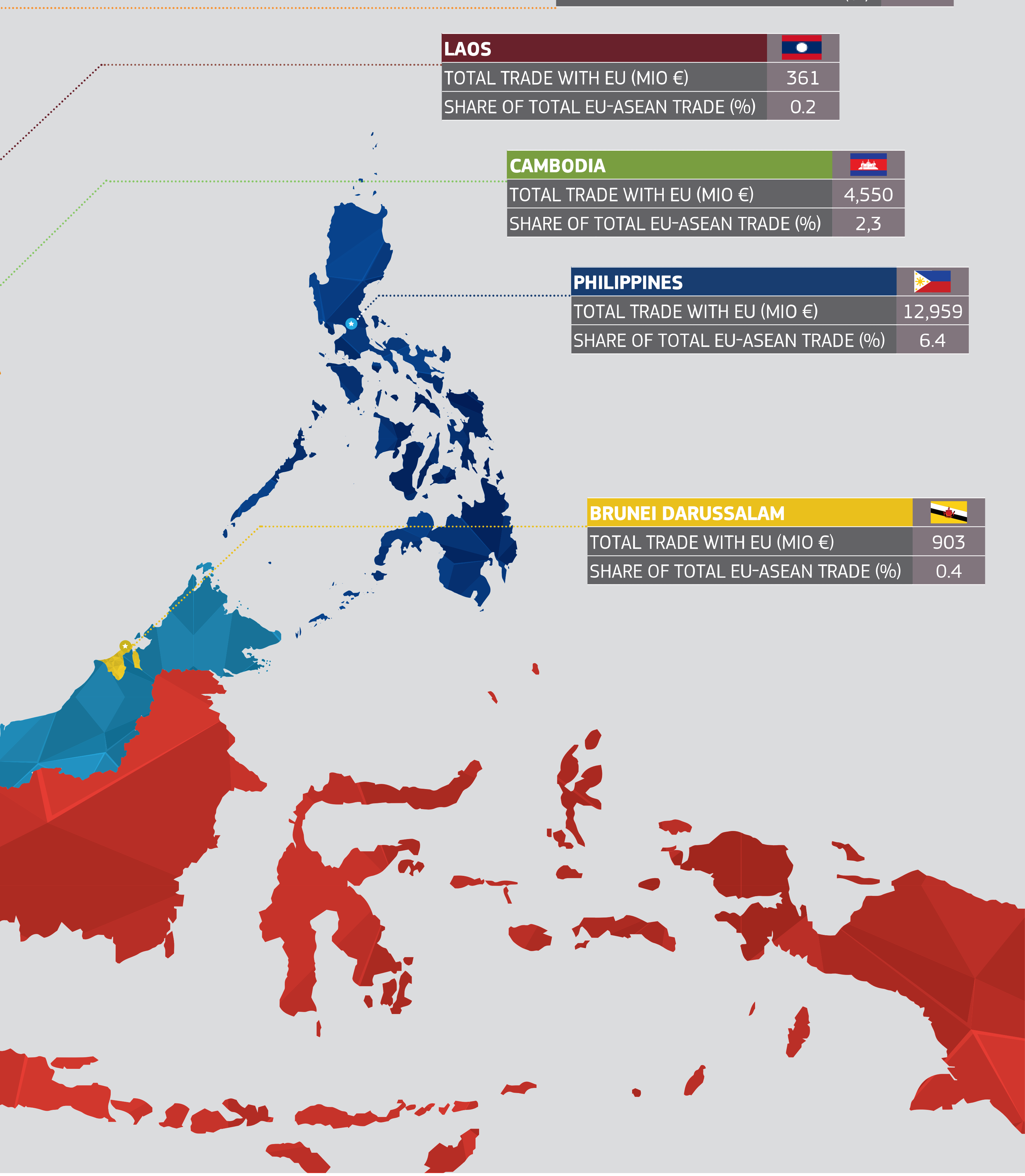
VIETNAM	
TOTAL TRADE WITH EU (MIO €)	38,413
SHARE OF TOTAL EU-ASEAN TRADE (%)	19.1

LAOS	
TOTAL TRADE WITH EU (MIO €)	361
SHARE OF TOTAL EU-ASEAN TRADE (%)	0.2

CAMBODIA	
TOTAL TRADE WITH EU (MIO €)	4,550
SHARE OF TOTAL EU-ASEAN TRADE (%)	2,3

PHILIPPINES	
TOTAL TRADE WITH EU (MIO €)	12,959
SHARE OF TOTAL EU-ASEAN TRADE (%)	6.4

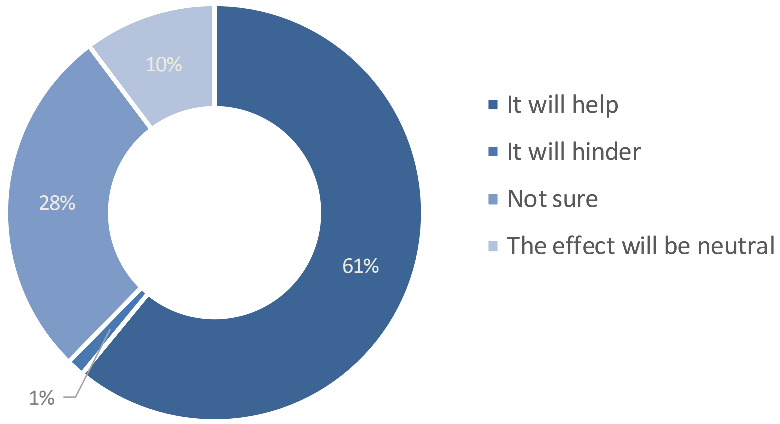
BRUNEI DARUSSALAM	
TOTAL TRADE WITH EU (MIO €)	903
SHARE OF TOTAL EU-ASEAN TRADE (%)	0.4



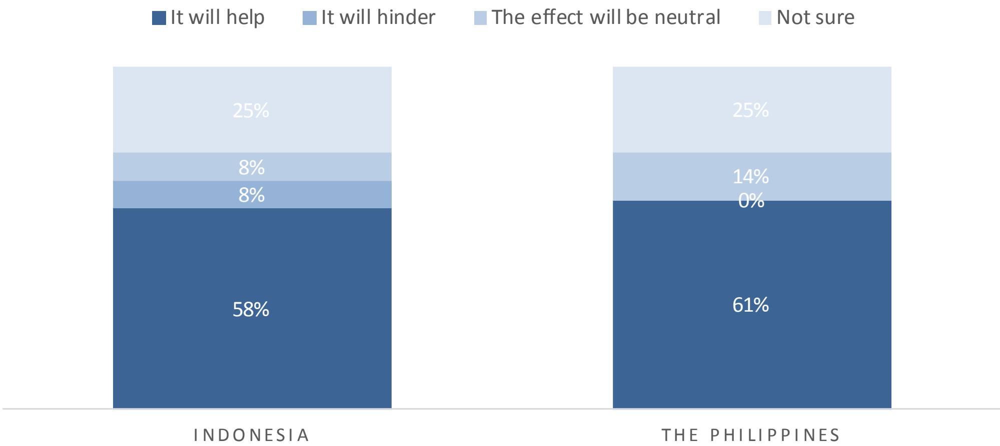
Respondents strongly in favour of EU trade agreements with ASEAN states

In light of the recent conclusion of EU FTAs with Singapore and Vietnam, and recently launched negotiations with Indonesia and the Philippines, almost two-thirds (61%) of European companies indicated that these FTAs would help their company, and only 1% of the respondents indicated these agreements would hinder their trade and investment performance.

BUSINESS IMPACT OF AN EU BILATERAL FTA



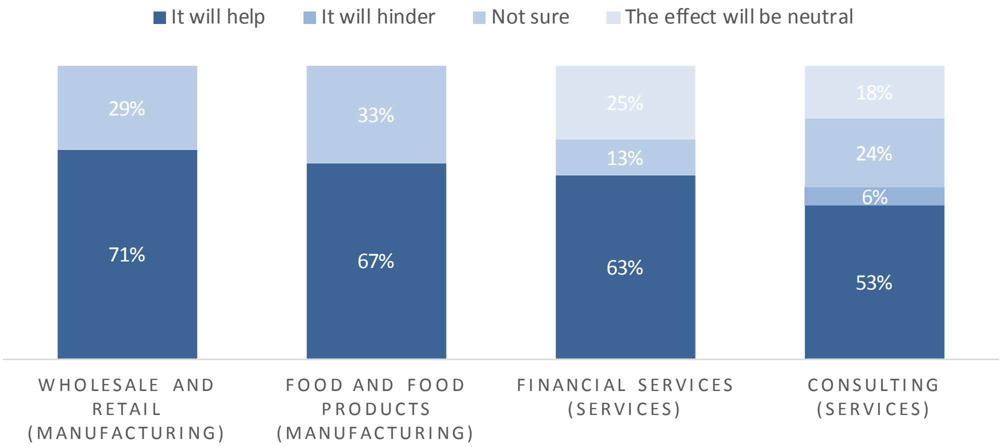
BUSINESS IMPACT OF AN EU BILATERAL FTA



Companies operating in the manufacturing sector are much more positive about the impact of a FTA on their businesses, with more than two-thirds of manufacturers saying that an FTA with the EU would help.

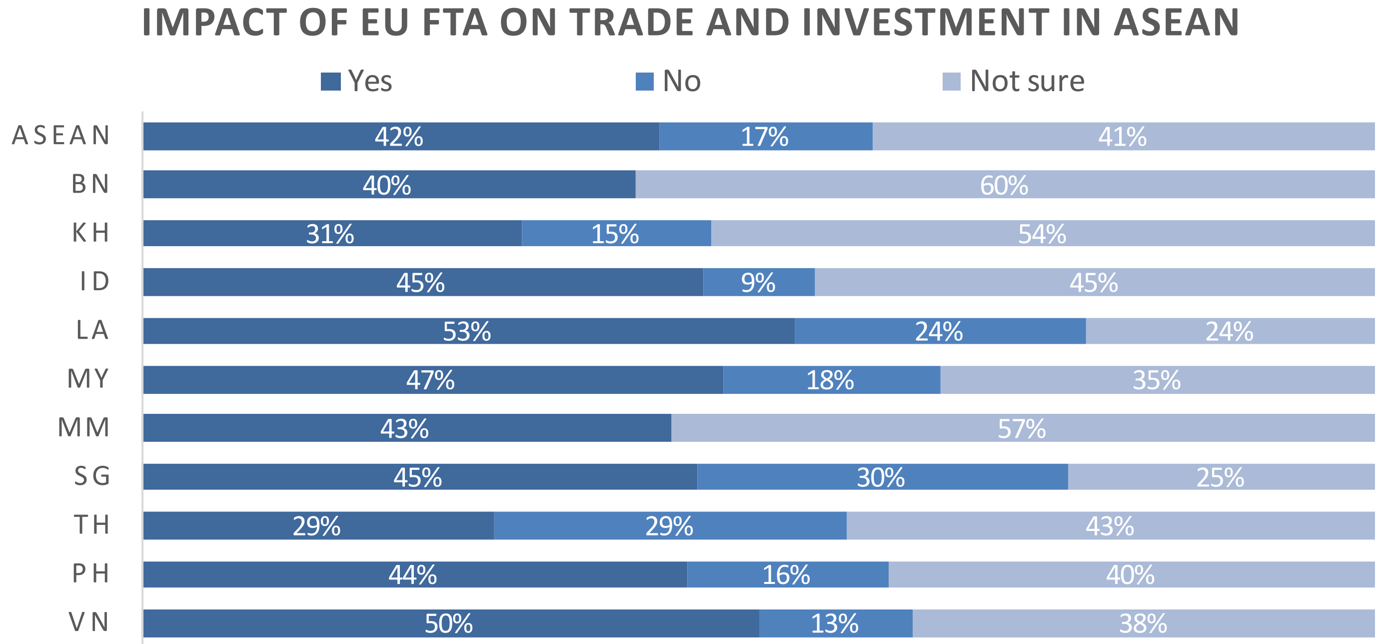
There is less clarity among respondents from the services industry, likely due to FTAs' traditional emphasis on removal of trade barriers for goods.

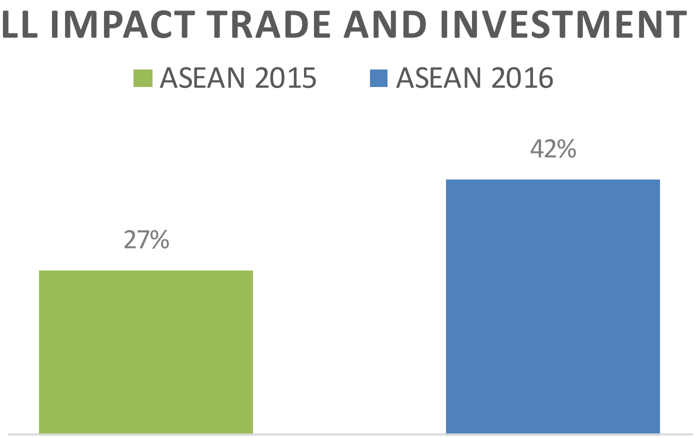
BUSINESS IMPACT OF AN EU BILATERAL FTA



EU FTAs will impact where European companies will trade and invest in the region

Nearly half (42%) of respondents indicated that the conclusion of FTAs between the EU and ASEAN countries would impact their operations in the region, particularly companies based in Vietnam (43%), Malaysia (37%) and Myanmar (33%). The responses also showed that there is a great degree of uncertainty, with 41% not sure of how they would change their trade and investments in the region, if at all. Perhaps reflecting uncertainty about the potential provisions of FTAs and their ability to tackle non-tariff measures and barriers and perceived anti-competitive environments, respondents in Brunei (60%), Myanmar (57%), and Cambodia (54%) were particularly unsure about EU FTAs' potential impact on their business. However, the proportion of respondents who say that FTAs will impact their trade and investment in the region is up from 27% in 2015, likely as a result of increasing general awareness of the EU's trade and investment policies in the region, particularly after the conclusion of the EU-Vietnam negotiations.

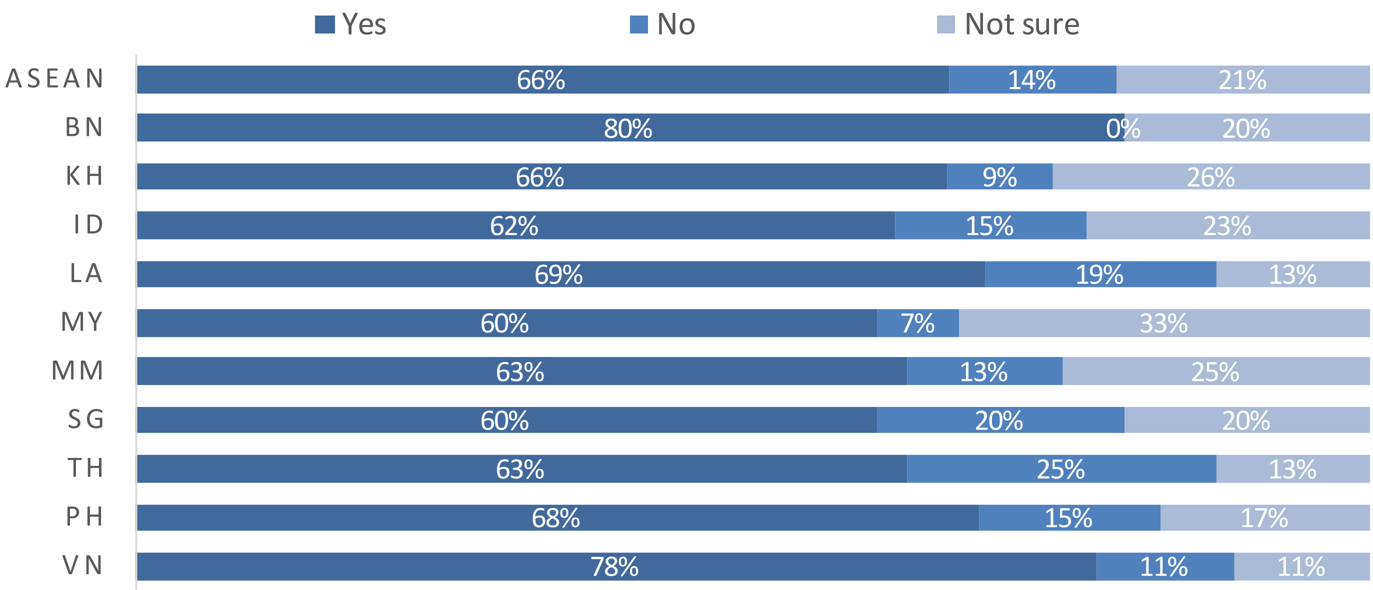




European businesses want a region-to-region FTA with ASEAN

An EU-ASEAN FTA would be the first region-to-region FTA in the world and would be a significant landmark in the world of international trade integration. Though EU-ASEAN FTA negotiations began in 2007, talks were paused in 2009 and the EU began pursuing bilateral FTAs with individual ASEAN member states, with a region-to-region FTA as an eventual goal once less industrialised members were ready for talks.[5] Nearly two-thirds (66%) of respondents are in favour of the EU negotiating such an FTA, particularly respondents from Brunei (80%), Vietnam (78%) and Laos (69%).

BUSINESS OPINION ON WHETHER OR NOT THE EU SHOULD PURSUE AN EU-ASEAN FTA

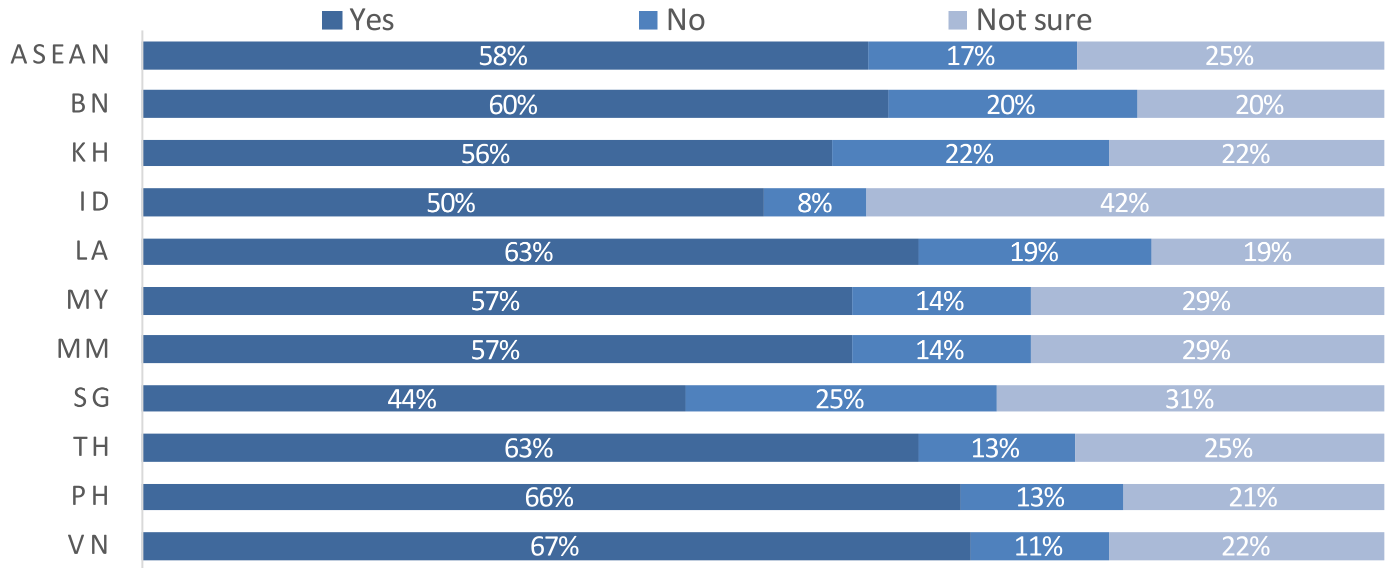


[5] European Commissions (2016) "Association of South East Asian Nations (ASEAN)" retrieved from http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/

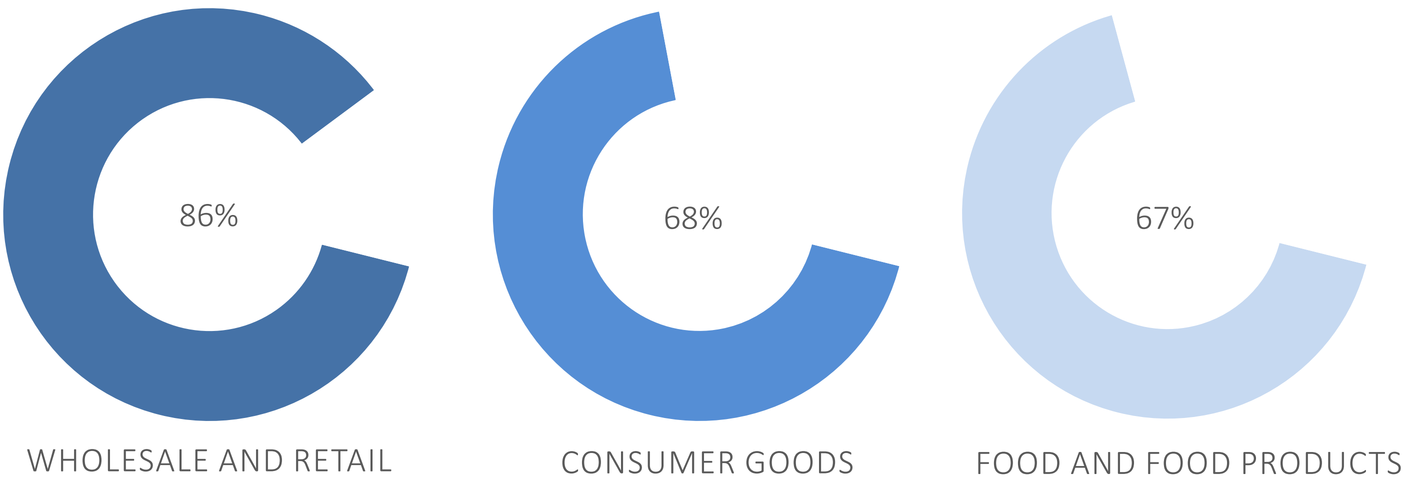
Lack of region-to-region FTA puts European businesses at a competitive disadvantage

The EU has yet to conclude a region-to-region FTA with ASEAN, whereas Europe's main competitors in the region, such as China, Japan and Korea, have successfully negotiated bilateral agreements. More than half the respondents (58%) indicated that they are at a disadvantage due to the lack of a region-to-region FTA. European manufacturers in particular feel that they are disadvantaged.

BUSINESS OPINION ON WHETHER OR NOT THE LACK OF AN EU-ASEAN FTA PUTS THEM AT A COMPETITIVE DISADVANTAGE IN THE REGION



MANUFACTURERS THAT FEEL DISADVANTAGED BY LACK OF EU-ASEAN FTA



Interestingly, two-thirds of companies in Vietnam say that they would be at a disadvantage without a region-to-region FTA with the EU, even though the EU and Vietnam have already successfully concluded a bilateral FTA. More than half of respondents in the Philippines, Malaysia and Indonesia, with whom the EU is already currently negotiating bilateral FTAs, or are about to, say the same. This is a compelling argument that the EU's strategy to pursue bilateral negotiations with individual member states should not be the final goal, and should only serve as building blocks towards a high-quality, overarching region-to-region agreement.

A region-to-region FTA should be the top priority, according to European businesses

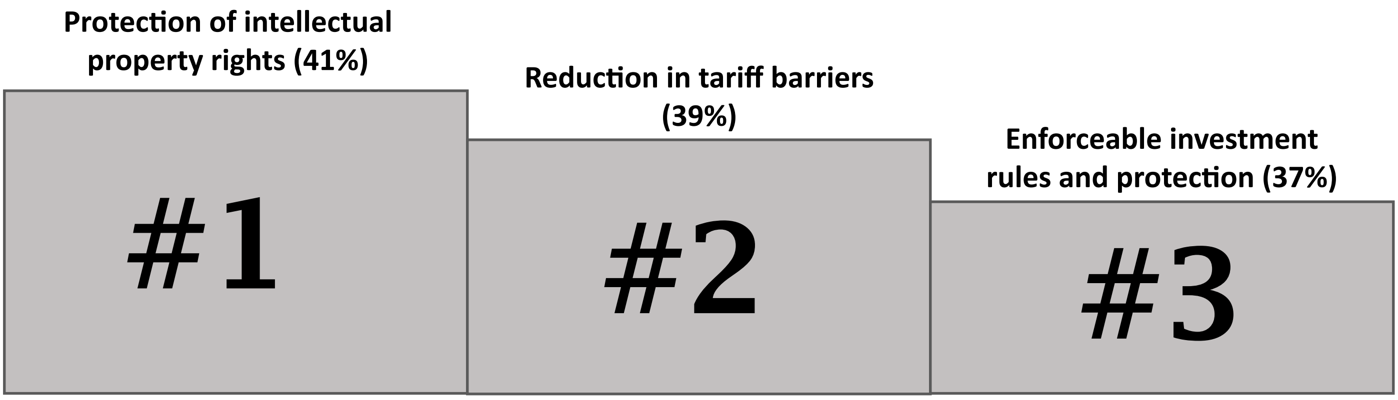
Respondents reiterated their desire for an EU-ASEAN FTA by ranking it first on the list of parties with whom they believe the European Commission should prioritise trade negotiations now that the EU-Singapore FTA and EU-Vietnam FTA negotiations have been concluded. Thailand was second on the list, and current EU negotiation partners the Philippines and Indonesia come in 3rd and 5th respectively.

PREFERENCE FOR AN EU FTA

1	ASEAN
2	Thailand
3	The Philippines
4	Malaysia
5	Indonesia
6	Myanmar
7	Laos
8	Cambodia
9	Brunei

EU FTAs go beyond tariff reduction

When asked what they value most from an EU FTA, respondents named protection of investments and intellectual property rights alongside the low-hanging fruit of tariff reductions. This shows that European businesses want and expect high-quality, 21st century agreements that go beyond eliminating tariffs by extending protections for investors and innovators, and is reflective of the high bar that European agreements have set thus far, including the ones recently concluded with Singapore and Vietnam.



EXECUTIVE SUMMARY - EU-ABC TRADE PAPER
WORKING WITH ASEAN: SUPPORTING EUROPEAN BUSINESS
MARCH 2016

The EU-ABC welcomes the AEC Blueprint 2025 and the commitments contained within it. The EU-ABC is especially pleased to note the several references within the new AEC Blueprint to the need for more and enhanced dialogue and consultation with the private sector. In that regard, we respectfully request ASEAN and its Member States to actively involve the EU-ABC in working level discussions on the development of policies, rules, regulations and standards needed to ensure the full implementation of the AEC by 2025 to the benefit of ASEAN and European businesses alike.

European businesses are fully committed to ASEAN and the European business community welcomed the formal launch of the AEC at the end of 2015. The AEC marks an important milestone in ASEAN's development. It is, as is clearly recognised in the AEC Blueprint 2025, just the beginning of a longer journey to the creation of a fully integrated and harmonised region. Much work lies ahead. The EU-ABC looks forward to working with ASEAN and its various working groups to help the region achieve its ambitions in this respect.

> **Europe continues to be ASEAN's second largest trading partner after China.**
>
> *- EU TRADE DIRECTORATE-GENERAL, OCTOBER 2015*

The ultimate aim of the EU-ABC is to further the trade and investment relationship between our two regions. A major milestone would be the establishment of a comprehensive ASEAN-EU Free Trade Agreement (FTA). In the shorter term, we will support the work of the EU on the finalisation of the bilateral FTAs between the EU and ASEAN Member States that are currently under negotiation. We also encourage the recommencement of negotiations where talks have stalled in recent years and the beginning of the negotiations with other ASEAN Member States. We see no reason why several negotiations could not take place in parallel. The EU-ABC also expects to play a full and active role in any pre-negotiation discussions on an ASEAN-EU FTA and suggests that the European Commission and ASEAN put in place a work programme as a precursor to formal negotiations to serve as a scoping exercise with a view to ironing out any difficulties.

The EU-ABC is perhaps uniquely placed to offer support and assistance to ASEAN as it continues along the economic integration path. We were greatly encouraged by the AEC Blueprint 2025, especially the commitments to greater private sector dialogue and consultation. Industry has an important and vital role play in the economic and social development of regions, so it is vital that the voice of business is heard and taken account of as moves are made to further harmonise rules, regulations and standards across ASEAN and to ensure there is true free movement of goods, services, investment and capital.

We note the commitment in the AEC Blueprint 2025 that "the immediate priority is to complete the implementation of measures unfinished under the AEC Blueprint 2015 by end-2016" . There is much that needs to be done in this respect, especially in the area of Non-Tariff Barrier elimination and trade facilitation – a key deliverable for Laos during its Chairmanship. This is a hugely ambitious target but some early quick wins are possible. As a first step, ASEAN Member States should implement and operationalise all protocols of AFAFGIT, AFAFIST and ACTS and to get the National Trade Repositories set up, as a stepping stone towards the ASEAN Trade Repository. A full list of our suggested short-term goals for the AEC are set out below.

The EU-ABC would like to express its gratitude to ASEAN for the opportunity to engage in an ongoing dialogue with our ASEAN partners and looks forward to working with ASEAN as it continues to develop and augment the AEC through the 2025 Blueprint.

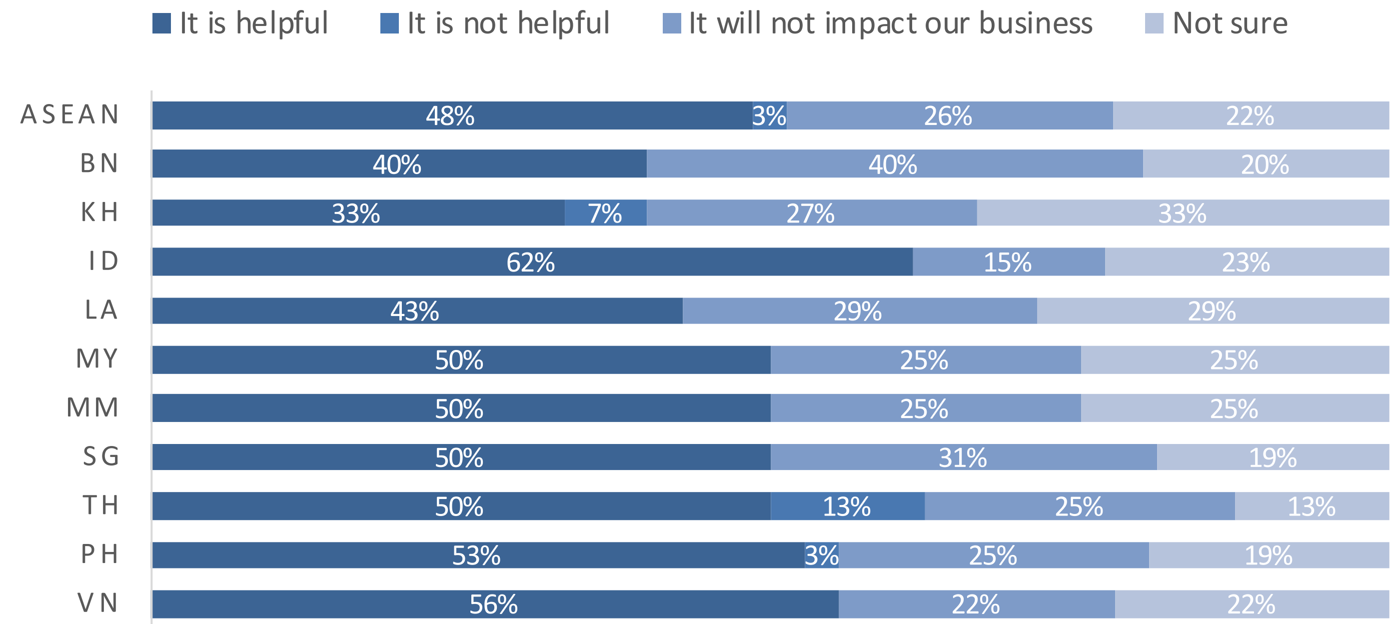
ASEAN REGIONAL AND DOMESTIC POLICY FRAMEWORKS

EUROPEAN BUSINESSES SUPPORTIVE OF MORE AND DEEPER ECONOMIC AGREEMENTS IN THE REGION, IN CONSULTATION WITH ASEAN GOVERNMENTS

FTA 'noodle bowl' not a barrier for European businesses

Free trade agreements (FTAs) have been the go-to instrument for governments aiming to drive economic growth and job creation by increasing trade in goods and services. However, the proliferation of FTAs and the multiplication of rules that govern these agreements have been blamed for excessive complication and subsequently low utilisation rates of such agreements creating a 'spaghetti bowl' or 'noodle bowl' of crisscrossing, overlapping rules and regulations.[6] The view from European businesses is mixed--just under half (48%) of respondents indicated that the proliferation of FTAs was helpful to their business, though only 2% said it was not helpful. Companies based in Indonesia (62%) and Vietnam (56%) were most likely to believe that their businesses could profit from the proliferation of FTAs, while respondents in Thailand were more likely than respondents elsewhere to believe that the many FTAs in the region would not be helpful.

IMPACT OF PROLIFERATION OF FTAs ON BUSINESS

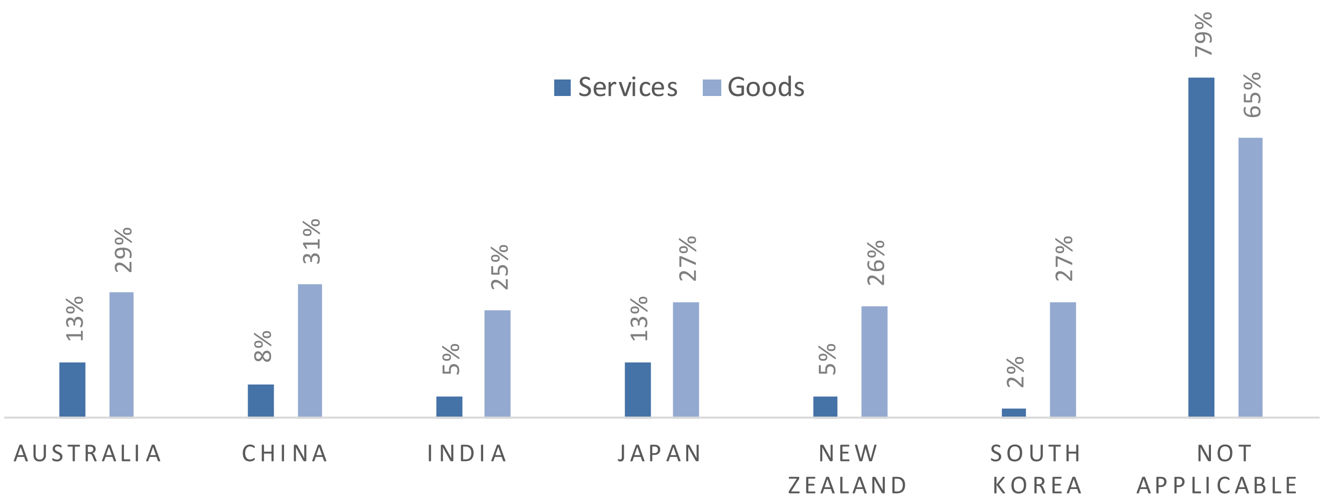


[6] Asian Development Bank (2015): "The noodle bowl effect: stumbling or building block" http://www.adb.org/sites/default/files/publication/172902/ewp-446.pdf

FTA usage in ASEAN low but in line with global averages

Almost two-thirds (66%) of respondents indicated that they did not use any of the ASEAN +1 FTAs to export goods to Australia, China, India, Japan, New Zealand or South Korea. Similarly, 79% of the respondents indicated that they did not use ASEAN's FTAs to export their services to the aforementioned countries. This seems to suggest that respondents are primarily focused on supplying the ASEAN market and only some are using the ASEAN+1 FTAs to export some goods to these other countries. These findings are approximately in line with a study conducted by HSBC that assessed that the average of FTA usage lies at around 26%.[7]

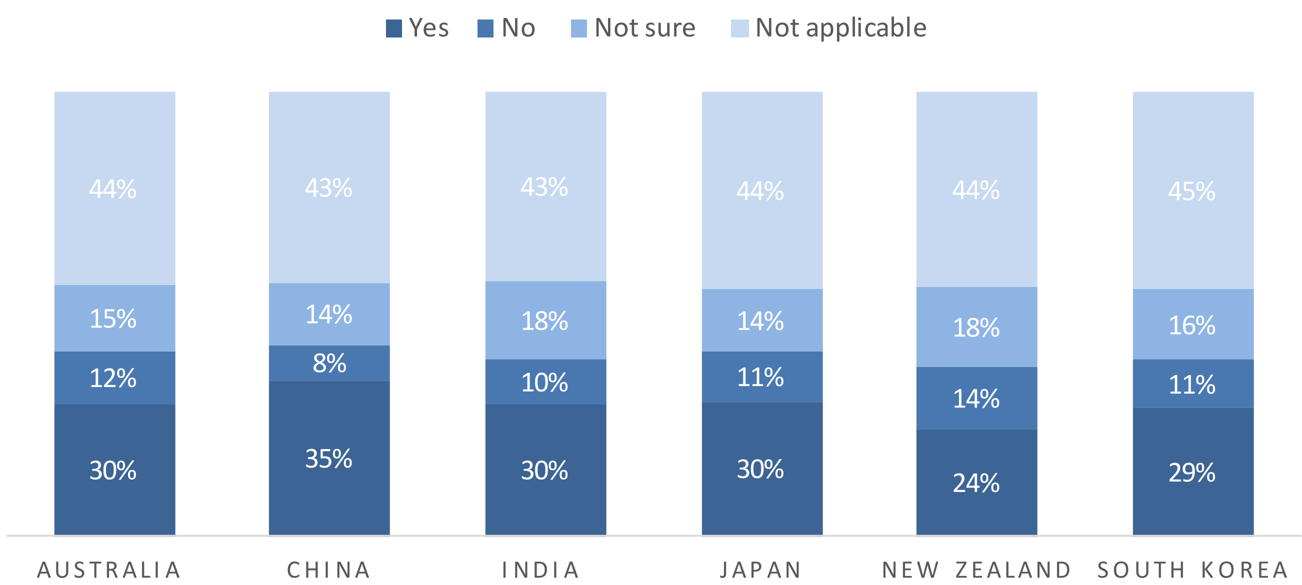
USAGE OF ASEAN+1 FTAs TO EXPORT GOODS AND SERVICES



A third of European businesses to make use of ASEAN+1 FTAs in future

We also asked whether respondents envisioned making use of these agreements and around a third of the respondents indicated that they intended to make use of any of ASEAN's bilateral FTAs. Coupled with the importance that the respondents assigned to regional integration in ASEAN, this suggests that the survey respondents are focused primarily on the ASEAN market.

FUTURE USAGE OF ASEAN+1 FTAs

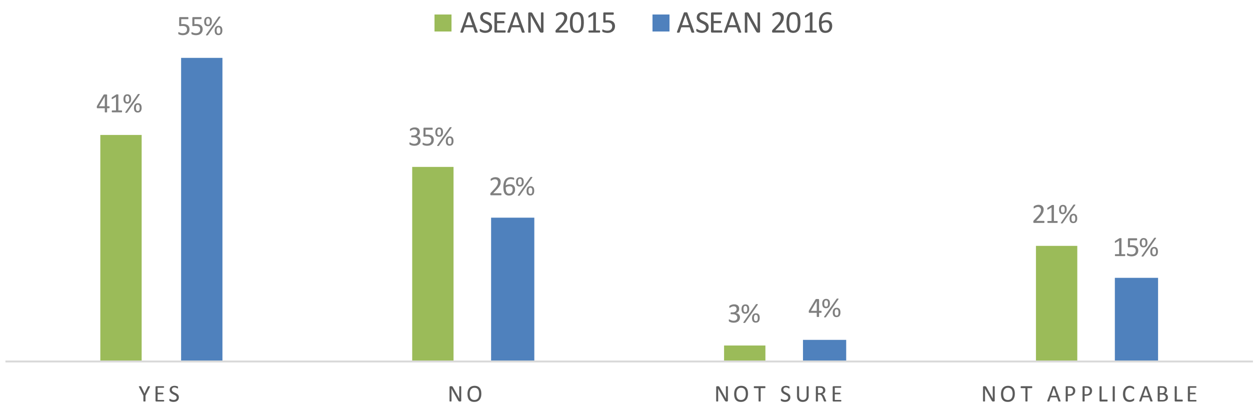


[7] HSBC (2014) "FTA usage rates are low" retrieved from https://globalconnections.hsbc.com/india/en/special-features/fta/ftas-fantastic-fine-or-futile/fta-usage-rates-are-low

Use of regional supply chains is up from 2015...

Greater use of regional supply chains is a key indicator of the success of a regional economic integration project, and increasing the use of regional supply chains has long been a major goal of the AEC. Among European businesses, half of survey respondents make use of regional supply chains in ASEAN, up by 14% from our 2015 findings.

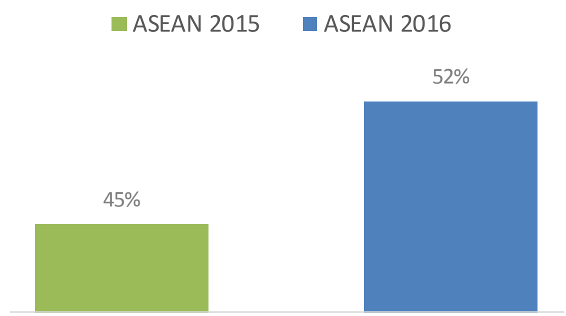
USAGE OF REGIONAL SUPPLY CHAINS



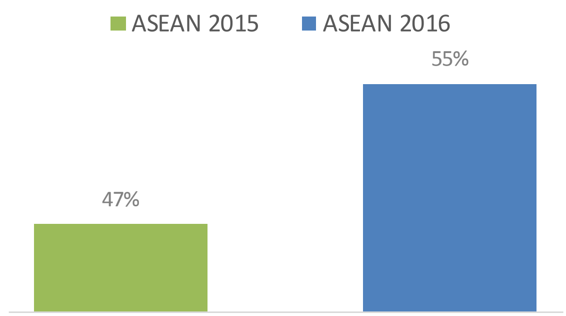
...but still too many regional trade barriers

However, 52% of European businesses indicated that there are still too many trade barriers for the efficient use of regional supply chains, up by 7% from our 2015 results, which may be explained by the fact that business have also started using regional supply chains more this year. Furthermore, more than half (55%) of companies say that they would use regional supply chains more if trade barriers were removed, suggesting that ASEAN governments' continued work to ease trade flows in the region would have a demonstrable impact on further integration of supply chains.

TOO MANY TRADE BARRIERS FOR THE EFFICIENT USE OF SUPPLY CHAINS



BUSINESSES THAT WOULD USE REGIONAL SUPPLY CHAINS MORE IF THERE WERE FEWER TRADE BARRIERS

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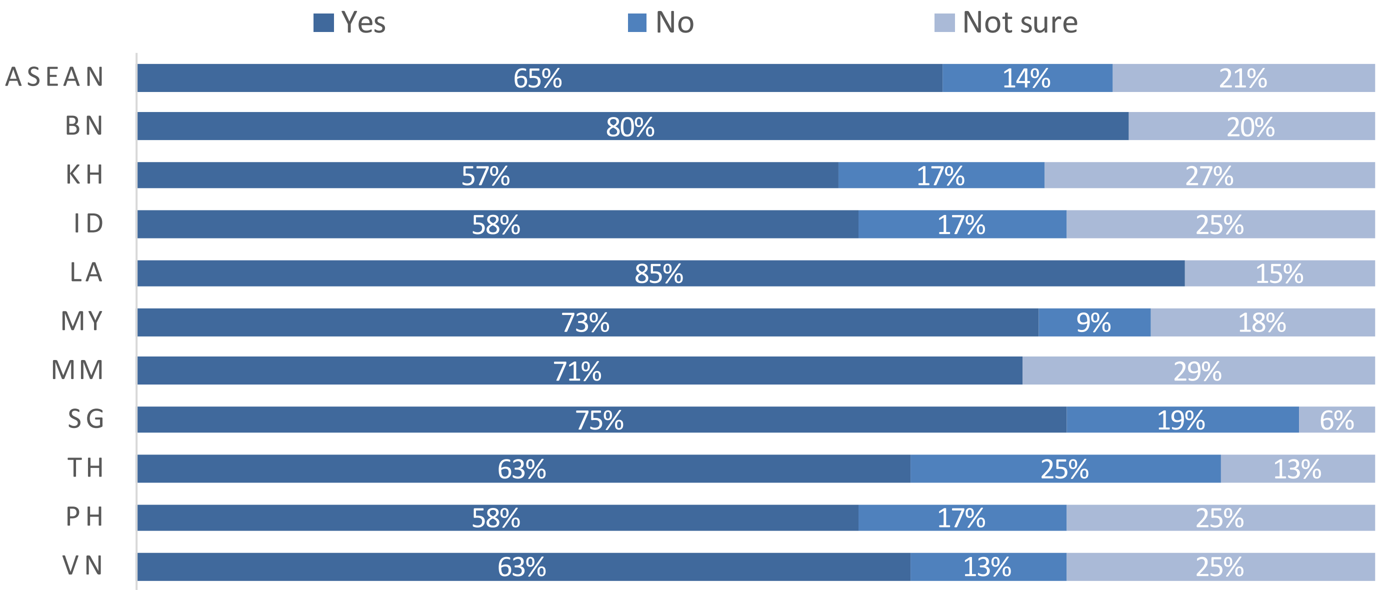
European businesses strongly in favour of closer ASEAN economic integration...

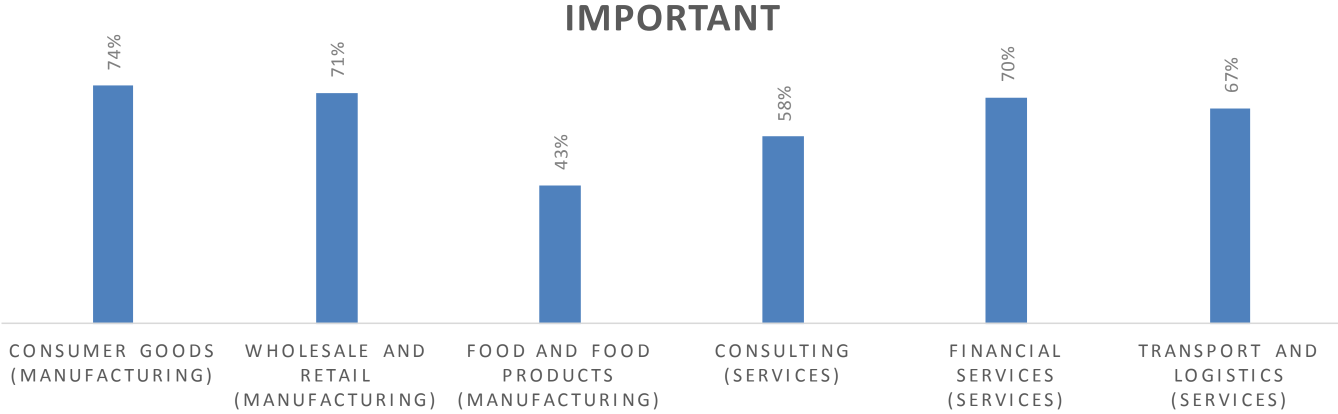
Nearly two-thirds (65%) of respondents indicated that further economic integration within ASEAN is important to their business success in the region. Respondents based in Brunei and Singapore, the ASEAN members with the smallest domestic markets, were more likely to say that further regional economic integration is important to their businesses.

The low levels of awareness of what economic integration means for European companies (more than half say they are not sure what impact it will have on their business), have not dampened enthusiasm for further ASEAN economic integration, which is present across all countries and economic sectors surveyed.

IMPORTANCE OF ASEAN REGIONAL INTEGRATION TO BUSINESS



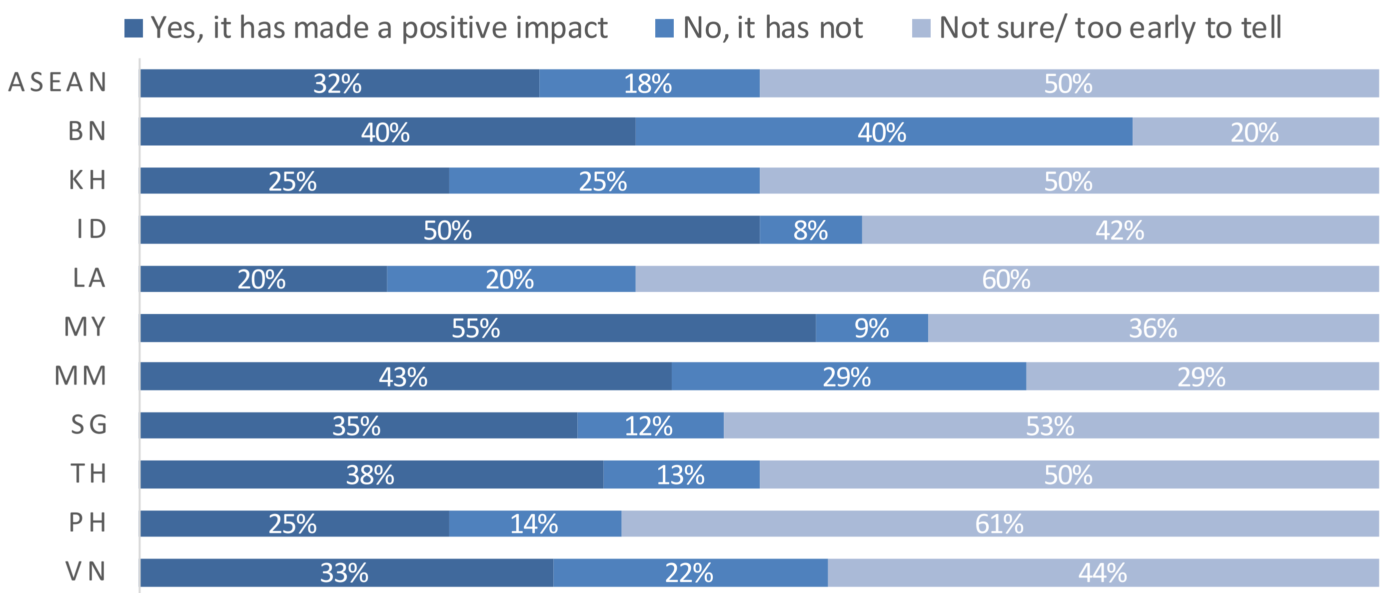
SECTORAL BREAKDOWN OF COMPANIES VIEWING ASEAN INTEGRATION AS IMPORTANT



...but lack of understanding of the AEC's business impact so far

With the official establishment of the AEC at the end of 2015, ASEAN has marked an important milestone in its journey towards closer regional integration. However, ASEAN member states have stressed that 2015 is just a launch pad for an ASEAN single market and production base and the process is by no means complete—indeed over the course of 2016, ASEAN has been rolling out sectoral blueprints and action plans for the next decade of ASEAN integration. In the first year of the AEC's official establishment, European companies for the most part are taking the 'wait and see' approach—when asked whether the AEC has had a positive impact on their businesses, half of respondents indicated that they were not sure or that it was too early to tell.

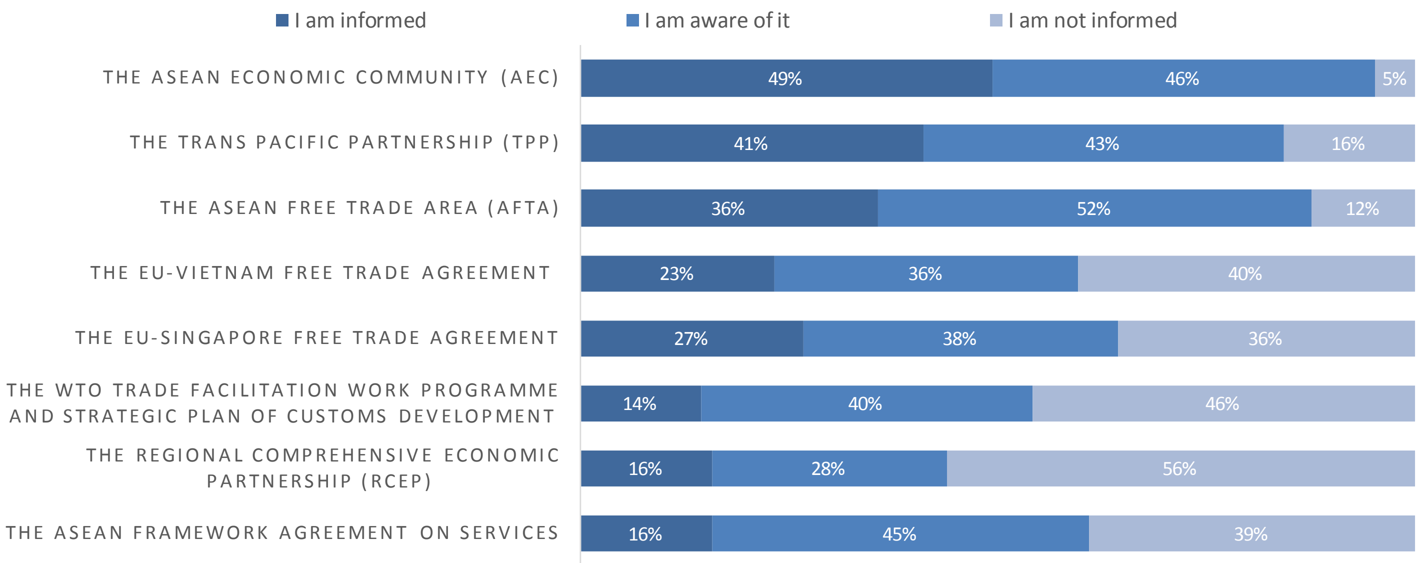
IMPACT OF THE AEC



Low awareness of current economic agreements in the region

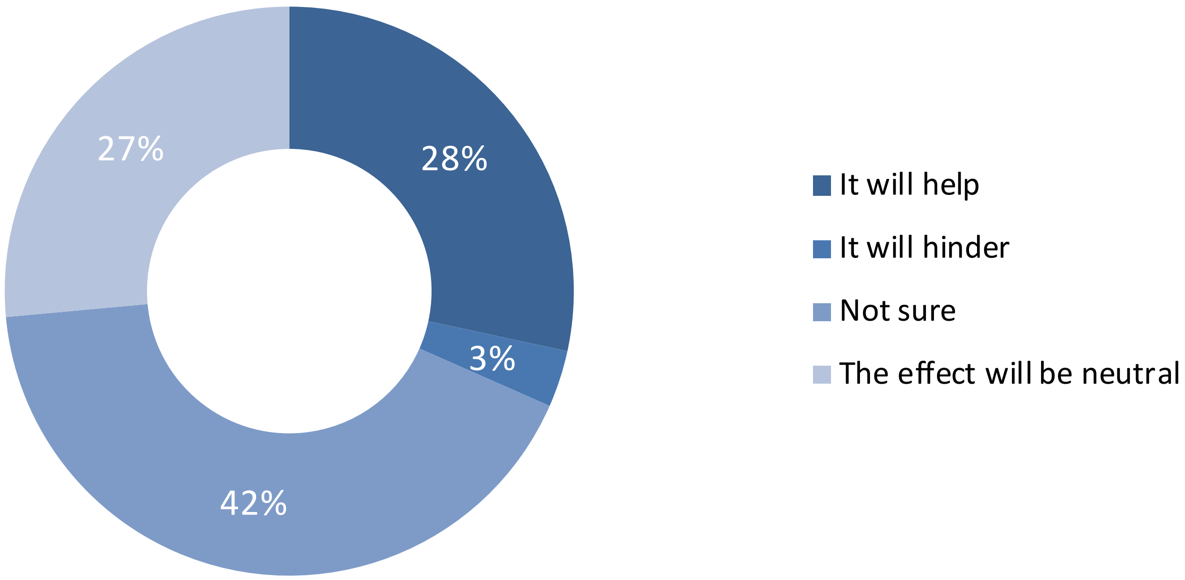
The majority of respondents stated that further regional economic integration is important for their operations in ASEAN and would stimulate future trade and investment in the region. However, the survey revealed that the majority of respondents were not fully informed about the various trade agreements that are currently in place or being negotiated, perhaps showing a lack of communication from governments on the benefits of these agreements for business. Our 2016 findings are consistent with results from 2015, with the exception of the TPP, which has seen an uptick in respondents who say they are informed about it, unsurprising given its signing in February and a subsequent rise in international media coverage.

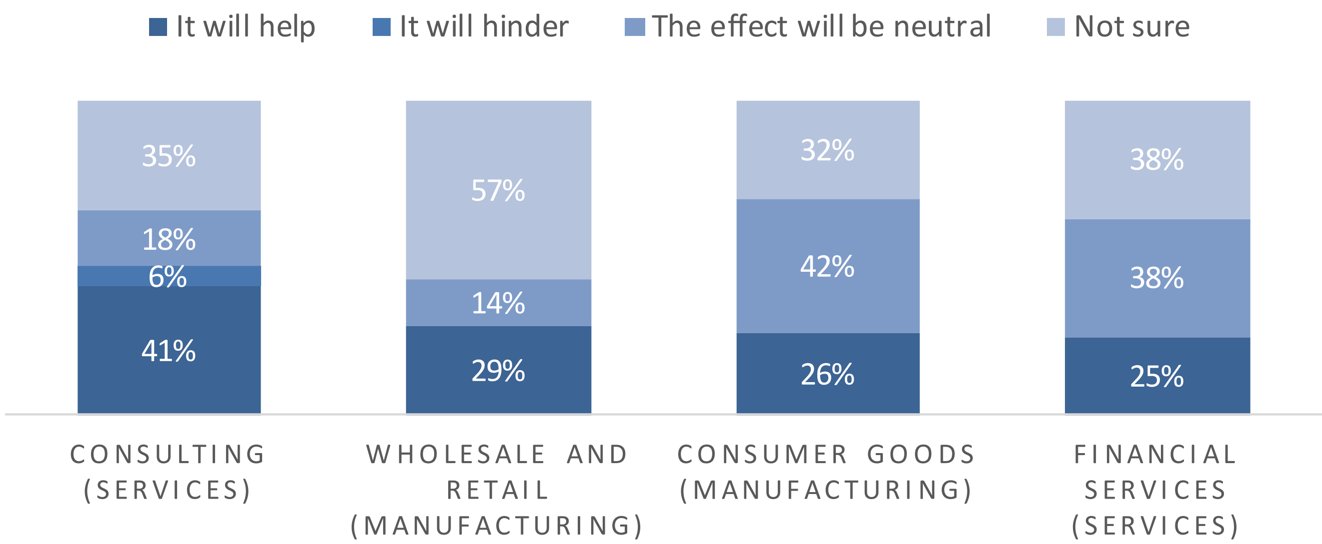
AWARENESS OF ASEAN AND GLOBAL TRADE AGREEMENTS



Respondents were also asked about their views on the Trans Pacific Partnership (TPP) – a plurilateral trade agreement involving four ASEAN countries (Brunei Darussalam, Malaysia, Singapore and Vietnam) and eight other partners (Australia, Canada, Chile, Japan, Mexico, New Zealand, Peru, United States).[9] Just over a quarter (28%) of respondents indicated that the TPP would help their company's regional trade and investment performance. Like the RCEP, seen by some as a competitor trade agreement, there is a high degree of uncertainty on the TPP's impact on European businesses' current operations, particularly among manufacturing companies, and a similar level of uncertainty on whether it will impact future trade and investment in the region.

IMPACT OF TPP ON ASEAN TRADE AND INVESTMENT



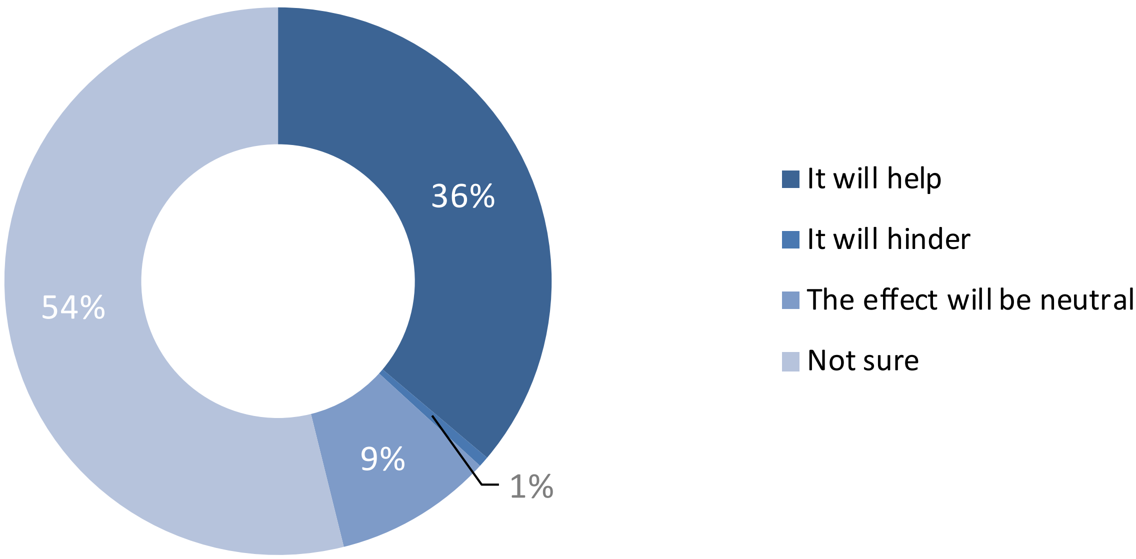


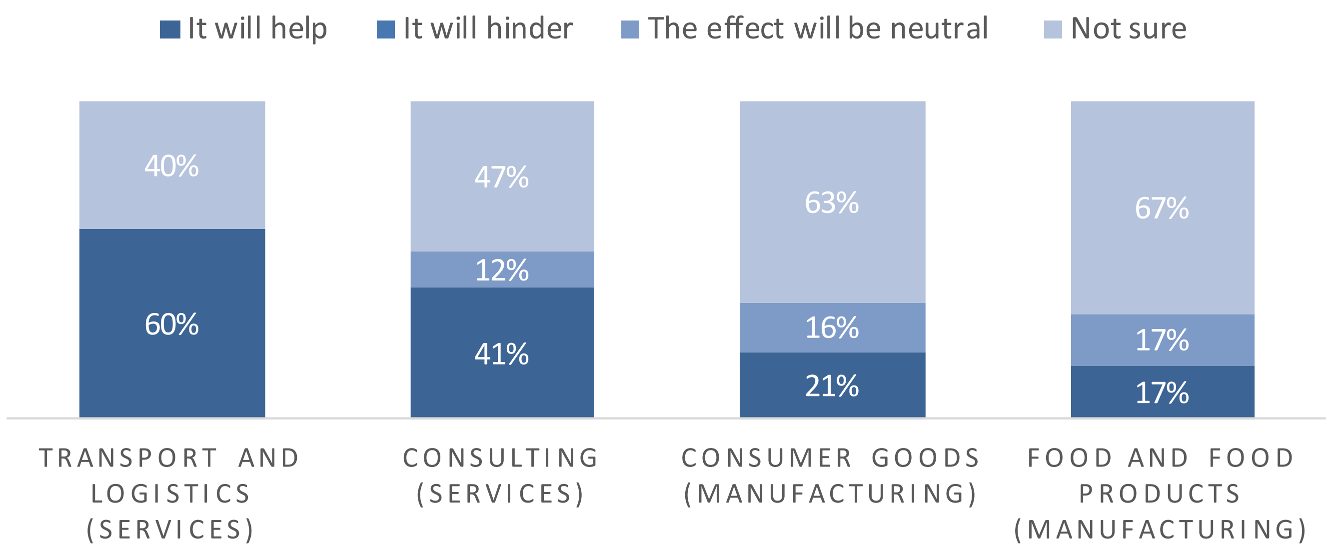
[9] According to the European Commission, the impact of the TPP on the EU is likely to be negative due to trade diversion see European Parliament (2013) "The Trans-pacific partnership and its impact on EU trade", http://www.europarl.europa.eu/RegData/etudes/briefing_note/join/2013/491479/EXPO-INTA_SP(2013)491479_EN.pdf

Uncertainty over business impact of regional mega-FTAs

The Regional Comprehensive Economic Partnership (RCEP) is a proposed mega-FTA between the ten member states of ASEAN and the six countries with which ASEAN has existing bilateral FTAs (Australia, China, India, Japan, Korea, and New Zealand). Negotiations were launched in 2012 but progress has so far been slow. Against this backdrop, more than half of European companies are not sure of RCEP's impact on their business, though over a third (36%) said that RCEP will help their company's regional trade performance, up from 28% in 2015.[8] There are similar levels of uncertainty on how RCEP will affect future trade and investment in the region. Transport and logistics companies are much more positive about the RCEP's impact on their business, unsurprising given their businesses' reliance on lower cross-border trade barriers.

IMPACT OF RCEP ON ASEAN TRADE AND INVESTMENT



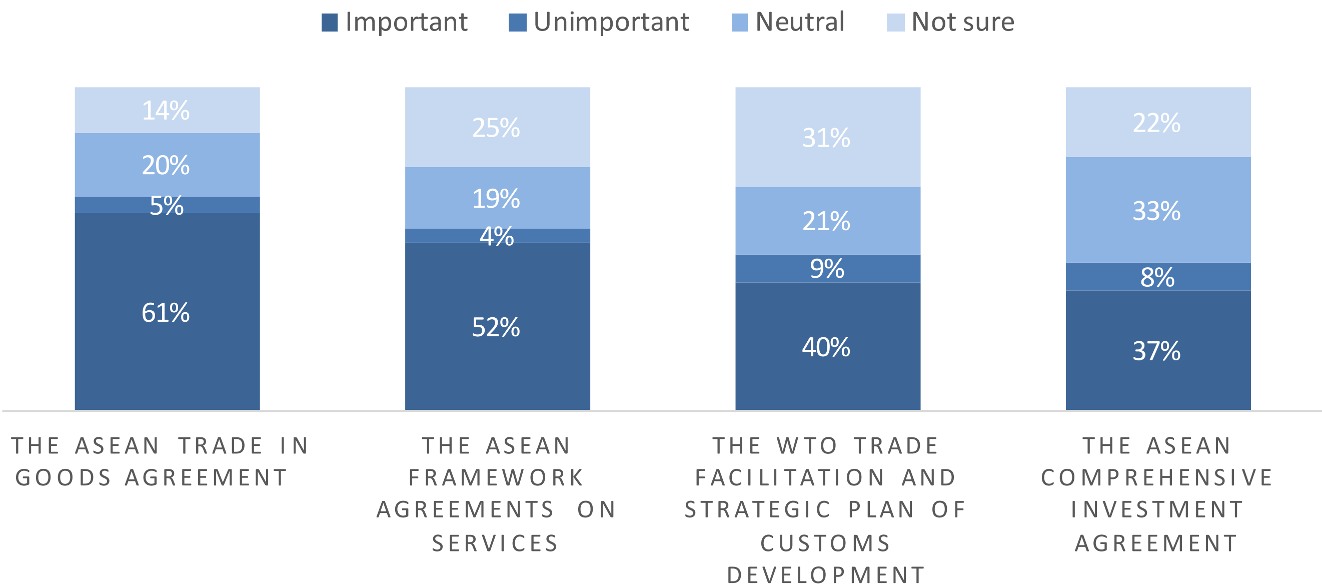


[8] EU-ASEAN Business Council, *2015 EU-ASEAN Business Sentiment Survey*, http://eu-asean.eu/wp-content/uploads/2015/08/EU-ASEAN-Business-Sentiment-Survey-final-draft-online-only.pdf

ASEAN trade agreements more important for European businesses

European businesses tend to be more aware of the benefits of ASEAN-level trade agreements, with more than half saying that the ASEAN Trade in Goods Agreement (ATIGA) and the ASEAN Framework Agreement on Services (AFAS), the agreements underpinning the wider AEC, are important to their businesses. Fewer businesses say that the relatively newer ASEAN Comprehensive Investment Agreement and the WTO Trade Facilitation Agreement are important to their operations, though this number should increase over time as these agreements are phased in and businesses become more aware of implementation details.

IMPORTANCE OF ASEAN AND GLOBAL TRADE AGREEMENTS



EXECUTIVE SUMMARY
EU-ABC CUSTOMS & TRADE FACILITATION PAPER
APRIL 2016

The EU-ASEAN Business Council (EU-ABC)'s 2016 Customs and Trade Facilitation Paper was produced by the Customs & Transit Advocacy Group of the EU-ABC with a view to assisting ASEAN and its Member States in achieving some of the key aims and objectives set out in the ASEAN Economic Community (AEC) Blueprint 2025. These aims and objectives are "to facilitate the seamless movement of goods…" and the commitment that "ASEAN will continue to reduce or eliminate border and behind-the-border regulatory barriers that impede trade, so as to achieve competitive, efficient and seamless movements of goods within the region". It was presented to the ASEAN Finance Ministers as Customs fall within their purview, and many of the recommendations contained in this document relate to Customs.

The paper focusses mainly on customs procedures and trade facilitation practices across the ASEAN. These are seen by many companies across the region, not just the members of the EU-ABC, as being overly complex, burdensome, and sometimes inconsistent in terms of application. Numerous studies have clearly indicated the economic and trade benefits of reducing and simplifying such procedures and practices. Doing so boosts trade, and provides exponential assistance to Small and Medium Enterprises (SMEs) who are often less well placed to understand and navigate customs rules when exporting.

> **ASEAN will continue to reduce or eliminate border and behind-the-border regulatory barriers that impede trade, so as to achieve competitive, efficient and seamless movements of goods within the region.**
>
> ***- AEC Blueprint 2025***

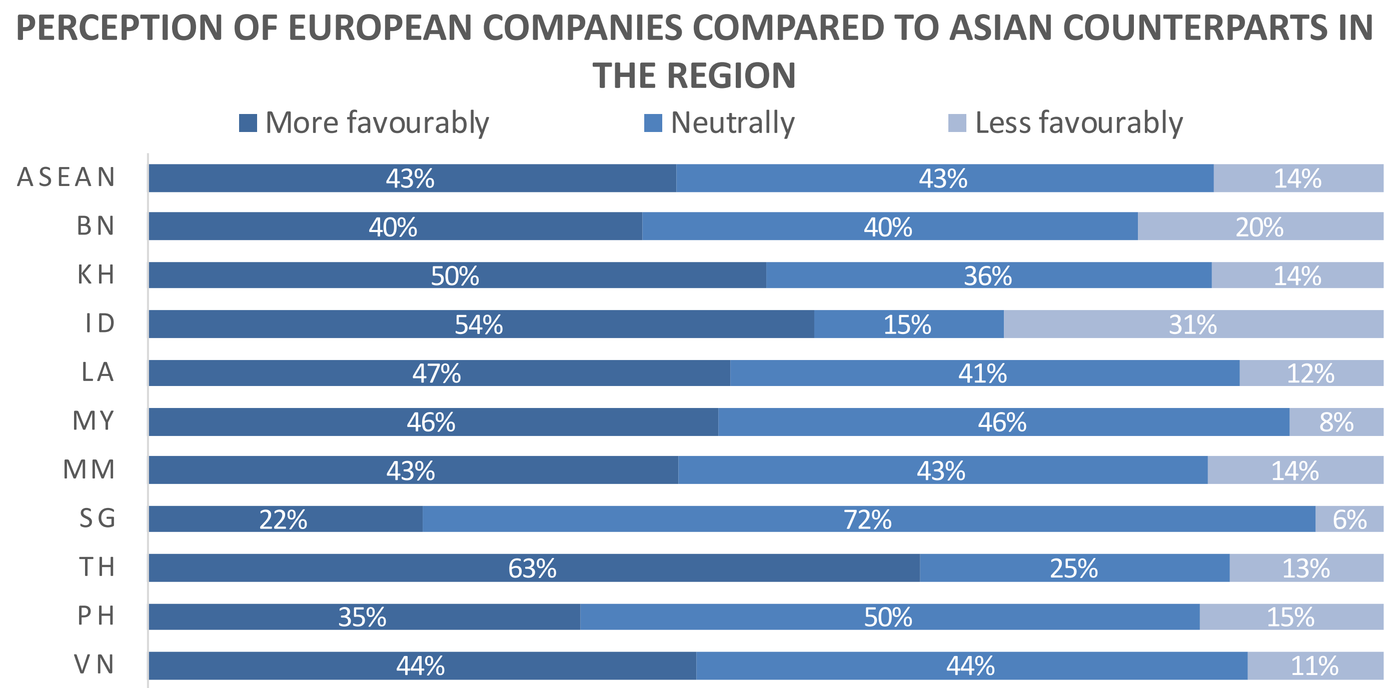
To its credit, ASEAN has recognised the need to move on trade facilitation issues, in particular those relating to customs. The AEC Blueprint 2025, which the EU-ABC has strongly welcomed and supports, makes frequent reference to the need for the region to move forward on these issues. In this paper, we have developed both short-term and medium-term recommendations which we believe are entirely implementable within reasonable time frames, which would, in turn, greatly boost the ease of cross-border trade within ASEAN and bring benefits to all parts of the economy, not just to the larger traders and MNCs, but primarily to SMEs.

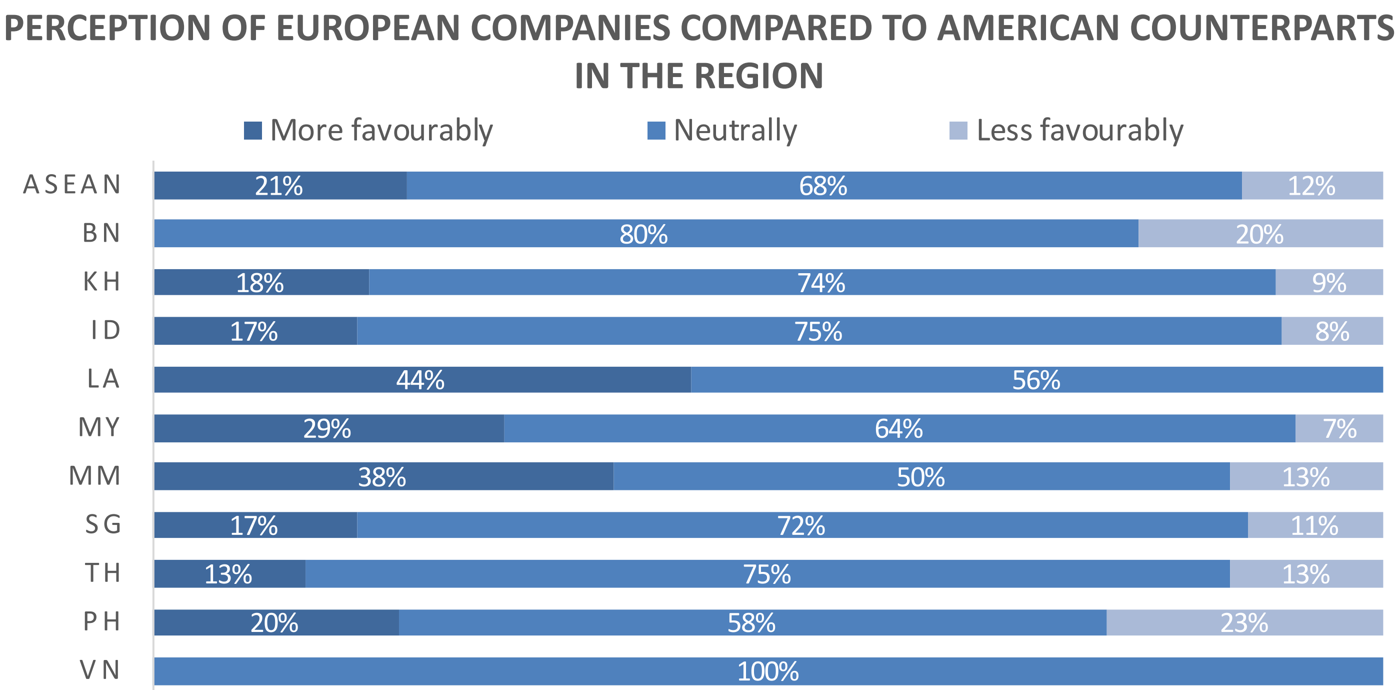
The short-term recommendations are designed so that they could be reasonably achieved in the next 12 to 18 months. They are also designed to full in to line with one of the key objectives of Laos for its chairmanship of ASEAN in 2016, i.e. to improve trade facilitation across the region.

The medium-term recommendations are designed so that they could be reasonably achieved in the next 24 to 36 months. Items such as the full establishment of National Single Windows and, ultimately, the ASEAN Single Window, naturally need more time for implementation due to the infrastructure and software requirements needed. However, we urge ASEAN and its Member States to put in place the necessary programmes, legislation and guidelines as soon as possible so that these measures can be fully implemented within the suggested timelines.

Perception of EU companies in ASEAN on par with that of their Asian and American counterparts

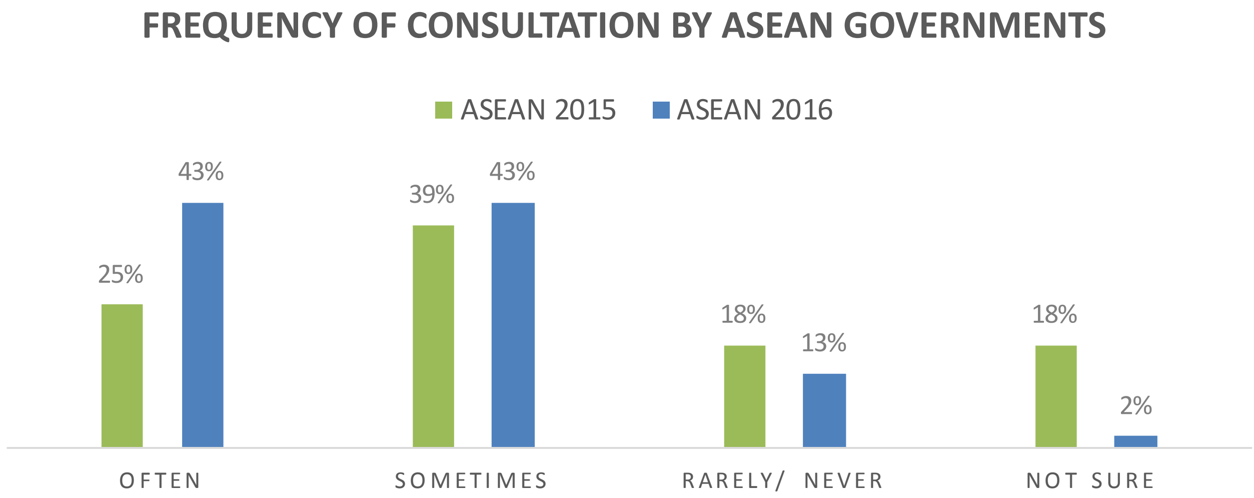
European companies in the region generally feel that they are perceived in a similar way as their Asian and American industry peers.



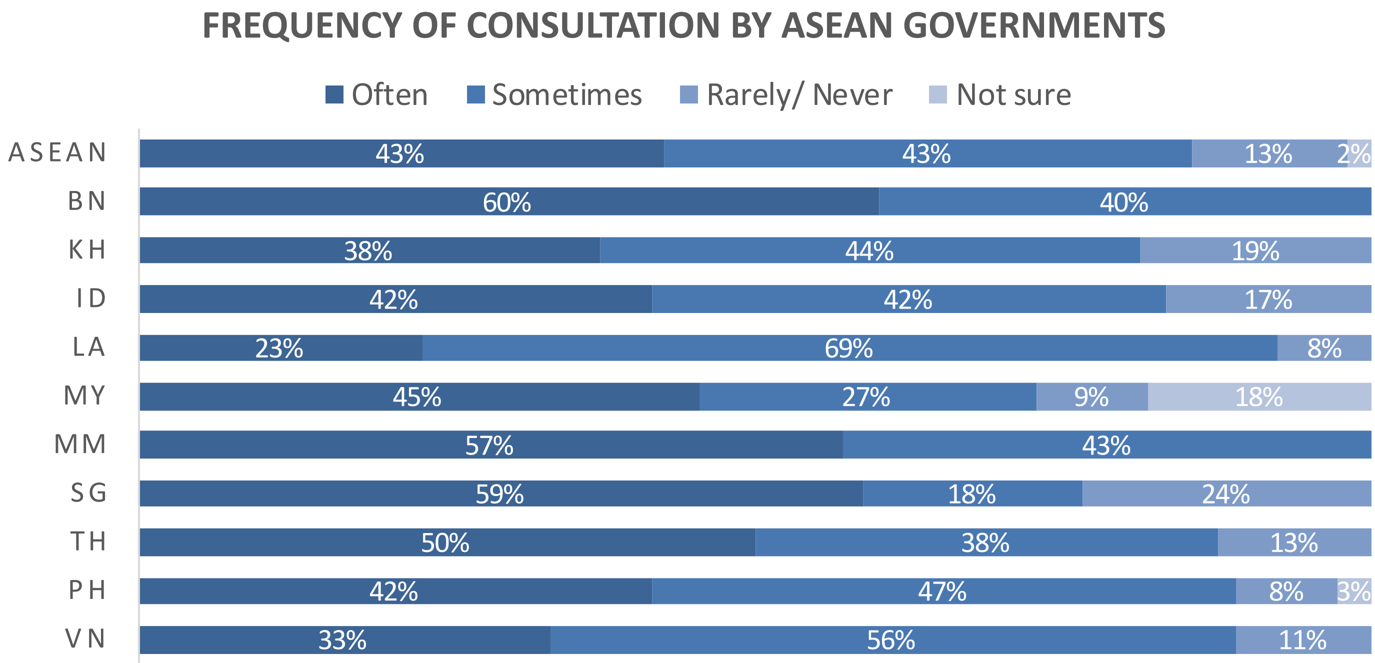


Government consultation in ASEAN improving but still infrequent

ASEAN national governments have identified a strong, harmonised regional regulatory framework as one of the key elements of 'a competitive, innovative and dynamic ASEAN' in the ASEAN Economic Community Blueprint 2025 and, in support of this ambition, the member states have committed to institutionalising stakeholder consultations during the policymaking process.[10] Though member states are taking steps in the right direction, European businesses are reporting that there is still some work to be done. While the proportion of European businesses in the region being consulted by government 'often' is up by 18% from 2015, the number is still low—less than half (43%) of respondents say they are often consulted.



Government consultation of the private sector also varies widely across the region. While more than half of respondents in Brunei, Singapore and Myanmar reported being consulted often, the vast majority in Laos, Cambodia and Vietnam say they are only sometimes, rarely or even never consulted by their respective governments.

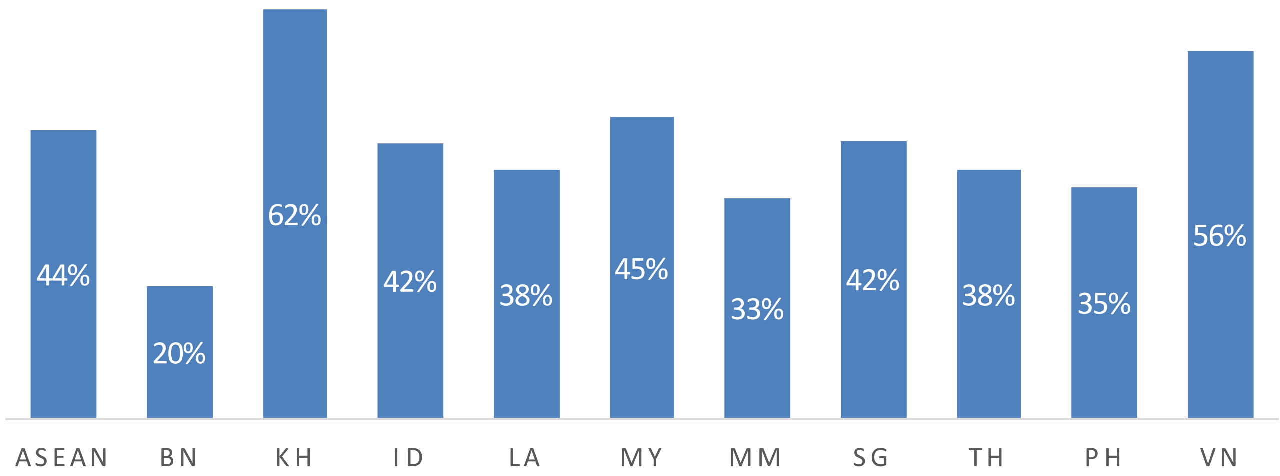


[10] The ASEAN Secretariat (2015): "ASEAN Economic Community Blueprint 2025", http://www.asean.org/storage/2016/03/AECBP_2025r_FINAL.pdf

Nearly half face unfair competition in ASEAN

Effective competition policies are vitally important to fostering efficient and innovative economies, and the lack of strong, enforceable competition policies in many ASEAN member states has been highlighted in the *AEC Blueprint 2025.* Almost half (44%) of respondents across the region reported that they face unfair competition from local, regional or state-owned enterprises. Unfair competition was a particularly prevalent concern among respondents based in Cambodia (62%) and Vietnam (56%).

PROPORTION OF BUSINESSES REPORTING UNFAIR COMPETITION



CONCLUSION

European companies in ASEAN are clearly highly optimistic of continuing economic growth and progress towards economic integration in the region and are planning on expanding their presence and investment in line with this confidence. However, there is still some room for improvement and, from the feedback of European companies across the region, it is clear that they are committed to working towards ASEAN's sustained development. In line with fulfilling the goals of the *AEC Blueprint 2025* and deepening EU-ASEAN relations, we can derive the following recommendations from survey respondents' input:

Accelerate the process for an EU-ASEAN FTA

This optimism and build-up of investment by European businesses in ASEAN will only rise further with the deepening of commercial ties between the EU and ASEAN, most notably with the conclusion and implementation of a sustainable, inclusive, high-quality EU-ASEAN FTA, which European companies are highly supportive of.

Institutionalise more regular interactions between government and the private sector

More frequent interactions between EU and ASEAN governments and the private sector would also go a long way towards making European businesses more aware of the benefits of closer trade integration, and would improve the quality of economic agreements between the two regions. Regular stakeholder consultations are also in line with ASEAN government commitments outlined in the *AEC Blueprint 2025.*

Continue liberalising trade among ASEAN members and with external partners

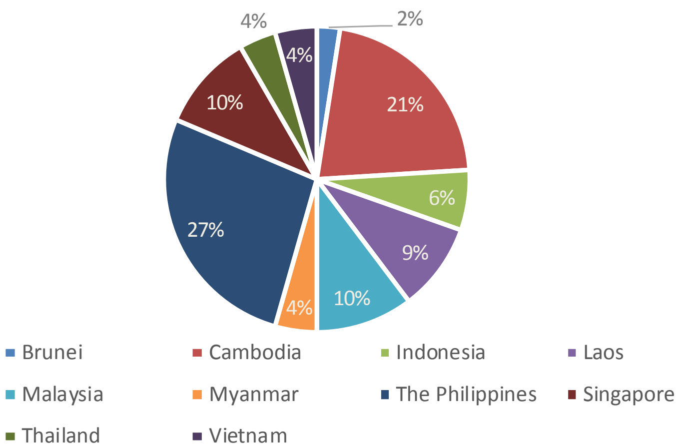
European companies are generally enthusiastic about ASEAN's strengthening economic ties with each other and with external trading partners, and are not deterred by the complexity of overlapping FTAs criss-crossing the region. Use of regional supply chains is on the rise, and European businesses would only use them more with the dismantling of trade barriers, showing a desire to further regionalise their operations and expand their footprint across the region.

ANNEX: RESPONDENT PROFILE AND METHODOLOGY

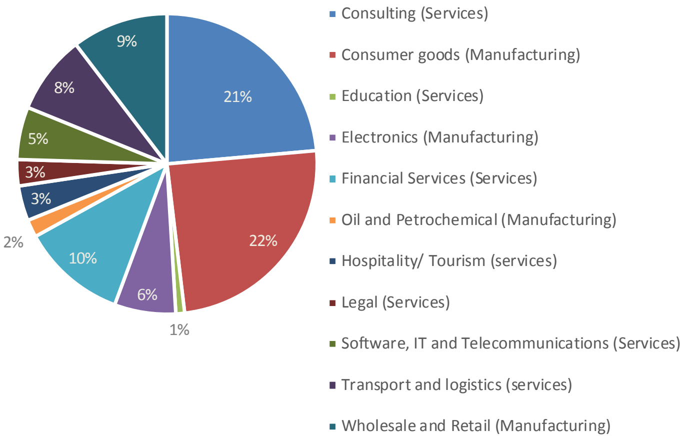
Respondents to the *2016 EU-ASEAN Business Sentiment Survey* encompass a broad range of industries, ownership models, sizes, and longevity in the ASEAN region. Companies based in all ten ASEAN member states contributed their input to this survey. Respondes were collected from March 2016 to June 2016.

Respondents come from all ten ASEAN member states and from a wide range of industries from the manufacturing and services sectors.

RESPONSE LOCATION

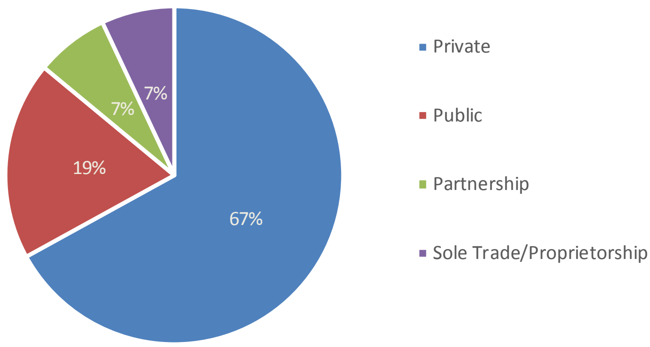


INDUSTRY



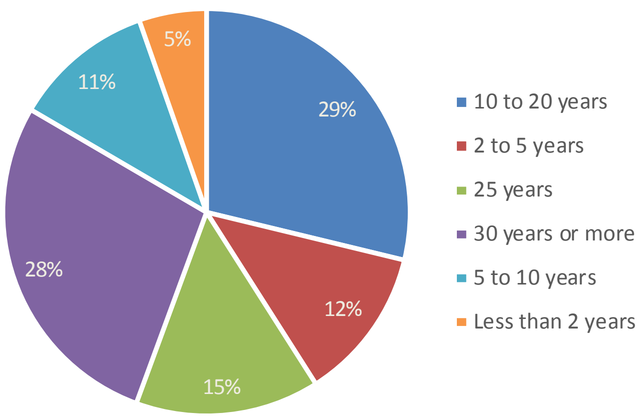
The majority of the respondents indicated that their businesses were private companies, though in some of these cases the parent company is listed in Europe.

OWNERSHIP STRUCTURE



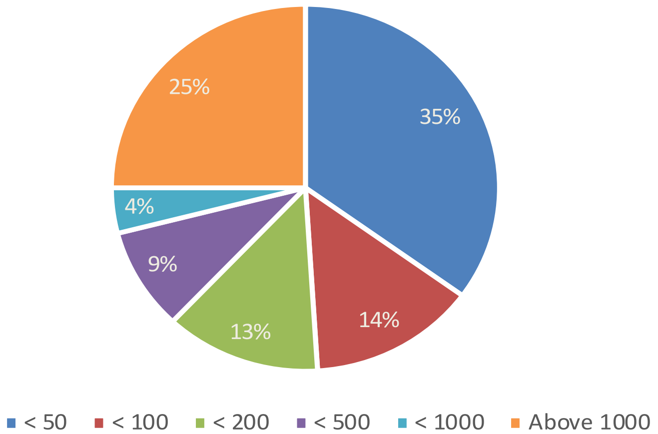
Reflecting the long-term nature of European investment in the region, almost one-third of respondents' companies have been in the region for 30 years or more. At the same time, more than a quarter of respondents indicated that they entered the ASEAN market over the past 10 years, presumably drawn to the region by its rising economic and commercial importance.

NUMBER OF YEARS OPERATING IN ASEAN



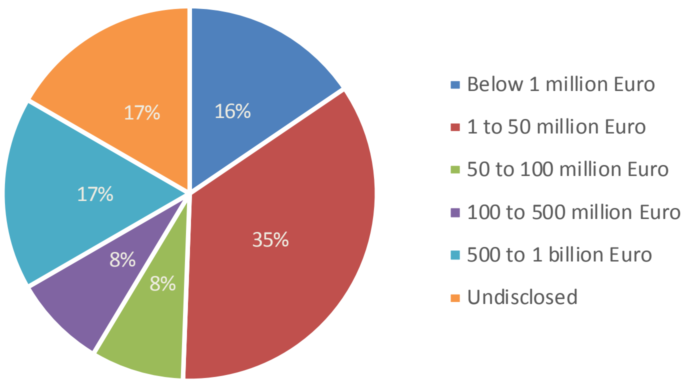
Almost two-thirds (62%) of respondents indicated that their company employs less than 200 people, suggesting a large presence of small and medium sized organisations (SMEs) at a regional level, even though they may be part of much larger organisations on a worldwide basis.[11] Perhaps more significantly, a fourth of the respondents indicated that they currently employ over 1000 people within the ASEAN region, showing a strong presence of larger European MNCs.

NUMBER OF EMPLOYEES

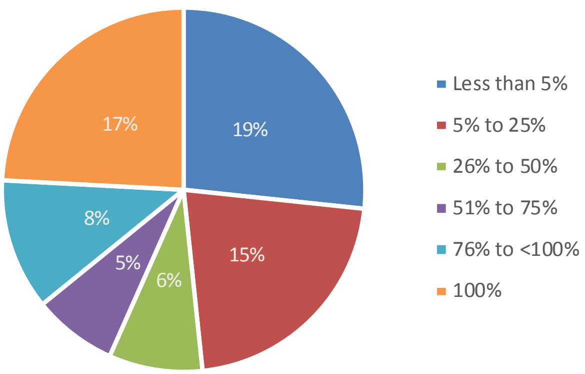


Respondents come from companies with a wide range of turnover in their response location. Most companies derive revenue from more than one ASEAN member state, indicating a regional footprint for most respondents.

TURNOVER IN RESPONSE LOCATION



PROPORTION OF TOTAL ASEAN REVENUE GENERATED IN RESPONSE LOCATION



Respondents by European Chamber of Commerce

- Brunei: 5 respondents
- Cambodia: 44 of 228 members with a response rate of 19%
- Indonesia: 13 of 183 members with a response rate of 7%
- Laos: 19 of 109 members with a response rate of 17%
- Malaysia: 21 of 119 members with a response rate of 18%
- Myanmar: 9 respondents
- Philippines: 55 of 783 members with a response rate of 7%
- Singapore: 21 of 168 members with a response rate of 13%
- Thailand: 8 of 200 members with a response rate of 4%
- Vietnam: 9 of 800 members with a response rate of 1%
- Total respondents: 204

[11] According to the EU Commission recommendation 2003/361 SME's stagg a headcount <250 employees. See: European Commission (2016) "What is a SME", http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

About the EU-ASEAN Business Sentiment Survey

This is the second annual edition of the EU-ASEAN Business Sentiment Survey. The Survey aims to serve as a barometer for the business sentiment and outlook of European businesses in South East Asia on key issues such as macroeconomic conditions, the policy and regulatory environment, and the development of bilateral and plurilateral free trade agreements in the region. The Survey is produced with the cooperation of European Chambers of Commerce throughout the ASEAN Member States. The Survey may be viewed at www.eu-asean.eu.

About the EU-ASEAN Business Council

The EU-ASEAN Business Council (EU-ABC) is the primary voice for European business within the ASEAN region.

It is endorsed by the European Commission and recognised by the ASEAN Secretariat. Independent of both bodies, the Council has been established to help promote the interests of European businesses operating within ASEAN and to advocate for changes in policies and regulations which would help promote trade and investment between Europe and the ASEAN region. As such, the Council works on a sectoral and cross-industry basis to help improve the investment and trading conditions for European businesses in the ASEAN region through influencing policy and decision makers throughout the region and in the EU, as well as acting as a platform for the exchange of information and ideas amongst its members and regional players within the ASEAN region.

The EU-ABC conducts its activities through a series of advocacy groups focused on particular industry sectors and cross-industry issues. These groups, usually chaired by a multi-national corporation, draw on the views of the entire membership of the EU-ABC as well as the relevant committees from our European Chamber of Commerce membership, allowing the EU-ABC to reflect the views and concerns of European business in general. Groups cover, amongst other areas, Insurance, Automotive, Agri-Food & FMCG, IPR & Illicit Trade, Market Access & Non-Tariff Barriers to Trade, Customs & Trade Facilitation and Pharmaceuticals.

Executive Board

The EU-ABC is overseen by an elected Executive Board consisting of corporate leaders representing a range of important industry sectors and representatives of the European Chambers of Commerce in South East Asia.

Membership

The EU-ABC's membership consists of large European Multi-national Corporations and the eight European Chambers of Commerce from around South East Asia. As such, the EU-ABC represents a diverse range of European industries cutting across almost every commercial sphere from car manufacturing through to financial services and including Fast Moving Consumer Goods and high-end electronics and communications. Our members all have a vested interest in enhancing trade, commerce and investment between Europe and ASEAN.

To find out more about the benefits of Membership and how to join the EU-ASEAN Business Council please either visit www.eu-asean.eu or write to info@eu-asean.eu.