



**REPORT OF THE ASEAN-EU VISION GROUP:
TRANSREGIONAL PARTNERSHIP FOR
SHARED AND SUSTAINABLE PROSPERITY**

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INTRODUCTION

The Vision Group on ASEAN-EU Economic Partnership was established by the ASEAN Economic Ministers and the EU Trade Commissioner at their 6th Consultation on 27 April 2005. The Vision Group was to look into the feasibility of a possible ASEAN-EU Free Trade Area (FTA) and other new initiatives for enhancing economic cooperation and ties between ASEAN and the EU. The Vision Group had a total of five meetings in carrying out its mandate.

The following Report has five Chapters. Details concerning the establishment and the work of the Vision Group are provided in Chapter 1. The next Chapter discusses the rationale for, and the opportunities and benefits which can be expected from, closer economic partnership between ASEAN and the EU. In particular, prosperity can be mutually shared and sustained through a sensible mixture of liberalization and cooperation between economies of different levels of development.

An overview and summary of the potential benefits, both qualitative and quantitative, is provided in Chapter 3. This chapter also contains the suggested elements of a possible framework for negotiation of an ASEAN-EU FTA. Chapter 4 looks into the objectives and principles of ASEAN-EU economic cooperation. It also suggests priority areas for enhanced and broad-based economic cooperation between the two groups.

The recommendations of the Vision Group are made in Chapter 5. The enhanced economic partnership between ASEAN and the EU should be based on two pillars – namely an FTA in accordance with WTO rules and an expanded ASEAN-EU economic cooperation.

CHAPTER 1

OVERVIEW OF VISION GROUP ACTIVITIES

1.1 At their 6th Consultation held on 27 April 2005 in Viet Nam, the ASEAN Economic Ministers (AEM) and the EU Trade Commissioner decided to establish the Vision Group on ASEAN-EU Economic Partnership. Both sides agreed to nominate their representatives to the Vision Group which was to look into the feasibility of a possible ASEAN-EU Free Trade Area (FTA) and other new initiatives for enhancing economic cooperation and ties between ASEAN and the EU. It was further decided that the Vision Group, chaired by Viet Nam and the European Commission (EC), would submit their conclusions and recommendations to the 7th AEM-EU Consultation in May 2006.

1.2 The inaugural meeting of the ASEAN-EU Vision Group, held in July 2005 in Viet Nam, agreed on the Terms of Reference for their own activities. The Vision Group also finalized the Terms of Reference for the qualitative and quantitative studies on the impact and benefits of a potential ASEAN-EU FTA. The costs of studies would be borne by the EC, and progress reports and presentation of the results of each study was to be made at subsequent meetings. The Vision Group also decided on the schedule of follow-on meetings so as to meet the indicated timeframe for submitting their conclusions and recommendations.

1.3 The second meeting of the Vision Group took place during 10-11 November 2005 in Brussels, Belgium. Since the Group's mandate was broader than the context of an FTA, there was a comprehensive and substantive exchange of views at the meeting on key economic integration issues. The interaction, however, was carried out without adopting formal negotiation positions or precluding other possible approaches toward a future FTA. Among the subjects discussed were the approaches adopted by the EU and ASEAN as regards to tariffs on goods, rules of origin and non-tariff barriers in their past FTA agreements or current FTA negotiations; services and investment; and technical barriers to trade, sanitary and phytosanitary measures, and trade facilitation. There were also exchanges of views on the two sides' positions relating to IPRs, competition, government procurement, and dispute settlement. Progress reports on the two studies were also made at the meeting where it was further decided that the ASEAN Secretariat and the EC would jointly prepare a draft outline of the Vision Group's report to the Ministers before the third meeting.

1.4 Convened during 24-25 January 2006 in Bangkok, Thailand, the third meeting of the ASEAN-EU Vision Group considered the preliminary results of the quantitative study as presented by the consultants. These results were considered to be relatively positive, and the further work and clarifications were required in the initial report which was to be circulated by the end of February 2006. The Vision Group also suggested several modifications to the outline of the qualitative report as proposed by the consultants. There were follow-on discussions concerning several issues introduced for mutual exchange of views in the second meeting. The

possible timing for launching of the ASEAN-EU FTA negotiation and the potential architecture for such negotiation were also explored at the meeting. In addition, the outline for the report to the AEM and the EU Commissioner for Trade was finalized.

1.5 The ASEAN-EU Vision Group held their fourth meeting during 25-27 March 2006 in Kuala Lumpur, Malaysia. Among the matters considered at length by the Group were the presentations, by the respective consultants, of the initial results of the quantitative study and the inception report of the qualitative study. The draft framework for negotiations of an ASEAN-EU FTA was also considered by the Group. As regards the parallel and supplementary partnership and arrangements in economic cooperation between the two sides, there were detailed discussions on the general principles and specific fields and activities in economic cooperation to accompany an ASEAN-EU FTA. The Vision Group also suggested that the pertinent work programmes be developed and the prioritized activities be implemented. In addition, the Group discussed recommendations on the implementation mechanisms. Lastly, draft write-ups were prepared at the meeting for selected chapters of the proposed Vision Group Report to the AEM and the EU Commissioner for Trade.

1.6 The ASEAN-EU Vision Group held their fifth and final meeting on 10 May 2006 in Ha Noi, Viet Nam. The Group had a round-up discussion of all outstanding issues, including the main potential benefits of an ASEAN-EU FTA. The recommendations for future action were considered by the Vision Group. The Vision Group Report was then finalized for submission to the AEM and the EU Commissioner for Trade at the AEM-EU Consultation in Boracay, the Philippines, on 16 May 2006.

CHAPTER 2

VISION FOR ASEAN-EU FUTURE ECONOMIC RELATIONS: TRANSREGIONAL PARTNERSHIP FOR SHARED AND SUSTAINABLE PROSPERITY

2.1 The relationship between Southeast Asia and Europe dates back over five centuries. Surviving cycles of ups and downs, it has proved to be mutually beneficial to Southeast Asians and Europeans alike. Diversity in terms of levels of development persists between the two regions as well as between members of each of the groupings. Nevertheless, sustaining high growth has allowed Southeast Asia to narrow the gap that separates it from developed regions, including Europe. Southeast Asia has matured as a trading region and has become the EU's 6th largest trading partner in 2005, supplying the EU with products ranging from palm oil to machinery and buying from it equally diverse products and services. To ASEAN, the EU is also a very important market. The EU-25 accounted in 2004 for 14.4% of total exports from and 11.4% of total imports into ASEAN. Trade in services between the two regions has also risen in tandem. Furthermore, ASEAN and EU are important investment partners, though investment flows have remained highly imbalanced. ASEAN serves largely as an investment destination, though Singapore, Malaysia and Thailand have gained in importance as originators of foreign investment in the EU. EU Member States provide large inflows of foreign investment to ASEAN. Collectively, the 25 EU countries rank first among the sources of foreign direct investment to ASEAN.

2.2 Entering the 21st century, economic relations between ASEAN and EU offer lucrative opportunities for expansion and improvement. ASEAN is home to 530 million people of rapidly rising income. Within the EU, 450 million people of high and growing income continue to thrive. Given the complementarity of the diversified economic structures of the two regions as regards output, stock of capital, human resources and trade in goods and services, Southeast Asians and Europeans can expect to sustain this trade and investment expansion or even accelerate it in the foreseeable future. Through a wide range of cooperative measures EU is aiding Southeast Asia to consolidate its development processes. The relationship faces no acute threat. However, it will be affected by the constant changes occurring both within the two regions and in their respective regional surroundings, as well as in the global economy at large.

2.3 While the level of trade between ASEAN and EU has remained encouragingly high, its growth has exhibited a tendency to flatten out in recent years. In the EU market for goods and services, China and Hong Kong have grown in relative importance. For ASEAN, the rise of China and India has also led to a geographically more diversified structure of extra-ASEAN trade where trade with EU has diminished slightly in relative terms. The stock of foreign direct investment in ASEAN as a relative share of the total stock of foreign direct investment from major EU members is declining. The stock of foreign direct investment abroad from EU members has shifted strongly in favour of China and Hong Kong. Both ASEAN and EU are

engaging in regional trading arrangements that have thus far not included one another. ASEAN has forged a free trade agreement with China and is finalizing or negotiating similar free trade agreements with the Republic of Korea, Japan, CER (Australia and New Zealand) and India. While these negotiations are ongoing, the prospect for an East Asia Free Trade covering Southeast Asia and Northeast Asia is being explored. On its side, the EU has concluded free trade agreements with Mexico and Chile and is negotiating with MERCOSUR and the GCC. Given the proliferating free trade agreements involving ASEAN and the EU separately, the risk is that both regions may unintentionally penalise each other by trading on the basis of MFN only in the near future. What is more, ASEAN and the EU must rise to the challenge of a new global economic geography. New technologies, and the ubiquitous availability of information and communication technologies (ICT) have combined to reduce the relevance of physical distance and the costs thereof. Within the context of the three tiers of liberalization, i.e. unilateral, regional and multilateral liberalization, the reduced relevance and costs associated with physical distance are allowing the cross-border flows of goods, services, capital, people and information to take place at an unprecedented speed and scale.

2.4 To put these changes into their proper perspective, one should bear in mind that the restructuring of the global economy in the last 15 years or so is a logical consequence of the dramatic political changes of the last 25 years or so when the Cold War came at last to a end, which has resulted in an ideologically depolarised economy. An increase in trade and investment flows accompanied by a shifting pattern of trade and investment are to be expected in the wake of such important political changes. The slight decline in the relative shares of ASEAN and EU in each other's trade and investment are not a cause for alarm. They largely reflect normalization. Nevertheless, an episode of immense changes is a golden opportunity for politicians to return to the drawing board, searching for ways and means to adjust and adapt to this new environment.

2.5 Bearing in mind the enormous changes taking place inside ASEAN and the EU, in the wider regions of East Asia and the Pacific as well as the wider region of Europe, ASEAN and EU should seize the opportunity to redesign their economic relationship, building further upon its existing positive contribution to people in both regions. The new trans-regional partnership should be comprehensive in terms of its scope, paying balanced attention to trade and investment liberalization or integration and diverse elements of trade and economic co-operation so that even the least developed economies are able to benefit from the trans-regional partnership. The partnership will also have to be ambitious in addressing integration and co-operative measures. A high level of ambition is indispensable, taking into account that other regions have already taken bold initiatives ahead of the EU and ASEAN. Industry and investors will expect to see substantial new advantages arising from this new partnership, which will only occur if both parties remain committed to achieving significant results. ASEAN and the EU will have to act promptly. If the new partnership is delayed or postponed to a distant future, it maybe overshadowed by other regional and bilateral initiatives. Finally, the new partnership should be user-friendly and as simple as possible to understand and implement, to avoid a situation

where traders and investors are unable to take best advantage of the new partnership due to high costs of compliance.

2.6 Substantial free trade between ASEAN and EU has been found to be mutually beneficial in numerous studies, though due to the highly diverse nature of the countries involved, these benefits may not be distributed equally. A sizeable welfare increase is expected to result from an ambitious initiative. Production effects are also estimated to be substantial in magnitude and so are employment effects as a result. Some countries may also benefit earlier than others depending on specific starting condition. The structures of output, trade and investment will also change in all economies. Disparity between ASEAN and EU as well as among members of ASEAN should be taken carefully into account while designing the new partnership. To keep the distribution of benefits acceptable to all members, a harmonious transition should be agreed. The more developed economies in the two regions should fulfil their obligations to liberalize trade in goods and services at a faster speed than the less developed economies. They should reduce and eliminate tariff and non-tariff measures and open up the four modes of supply in services trade in the early years of the transition. The less developed economies should be granted longer transition periods, allowing for a more gradual phasing-in of their commitments. They should also be granted continuous access to autonomous preferential trading regimes, including the EU's EBA (Everything But Arms).

2.7 Liberalization is a necessary but insufficient condition for shared sustainable development. A level playing field is needed to achieve mutual benefits from liberalization or integration. Hence, the new ASEAN-EU partnership should include co-operation programmes that primarily aim at enabling less developed economies to autonomously benefit from the new partnership. In particular, such co-operation will consist of trade and investment facilitation, including the streamlining of customs procedures, enhanced capacity to deal with technical regulations and product standards, strengthened capacity to appreciate the importance of intellectual property rights and protect them against infringement and abuse, and facilitation of business joint ventures. Many of these areas of co-operation have already been going on for many years under the umbrella of ASEAN-EU development co-operation. What is needed is a new priority, with a view to enabling less-developed economies to exploit the benefits of integration and industry to take best advantage of new opportunities. Some existing programmes of co-operation will retain their relevance under this new environment and deserve, therefore, to be amplified.

2.8 The world at large and the economies therein, regions and nations, have never been as close to achieving free trade and investment as they are now in the early part of the 21st century. New technologies will continue to push such free trade ahead even if vested interests seek to slow down or exert greater control over the integration of the world economy. The future of freer trade and investment depends partly on the extent to which it is accompanied by a narrowing gap between the poor and the rich. In as much as liberalization has tended to occur in small steps rather than as a continuous process, where an initiative by one country is often replicated by other countries, a retreat from free trade in one country can also create dangerous precedents. The new ASEAN-EU partnership for a shared and

sustainable prosperity can set a good example that integration between economies at different levels of development can indeed be made mutually beneficial through a sensible mixture of liberalisation and co-operation.

CHAPTER 3

AN ASEAN-EU FREE TRADE AGREEMENT

A. SUMMARY OF THE MAIN POTENTIAL BENEFITS OF AN FTA

QUANTITATIVE STUDY

3.1 As commissioned by the Vision Group, the quantitative study carried out by Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) assesses the likely outcome of a free trade agreement (FTA) between ASEAN and the EU. The study, which is based on a multi-country, multi-sector computable general equilibrium model, provides an in-depth analysis of the welfare, production and trade effects of such an agreement, including at sectoral level (based on database of GTAP and ITC (UNCTAD & WTO)).¹ Various scenarios have been tested, including dismantlement of tariffs on goods with or without the exclusion of sensitive products, liberalisation of the services sector, as well as a situation where the other FTAs being negotiated by ASEAN and the EU are concluded with third parties.

3.2 The main conclusions of the quantitative study are as follows:-

- i. In comparison with other simulations done by CEPII, the gains accruing to ASEAN members simulated in this situation are very large, adding up to more than 2% of GDP in 2020, although the gains for individual member countries are different, with modest gains for the LDCs. Accordingly, this potential agreement would have a major impact on trade, production and welfare, when compared with other trade liberalisation initiatives. Due to the relative weight of the two economies, the gains accruing to the EU, albeit clearly positive, are more modest.
- ii. The bulk of the gains (actually three quarter of the gains accruing to ASEAN), are associated with liberalisation in services (through an assumed 50 per cent cut in trade barriers in services). All scenarios including a liberalisation in services are associated with welfare gains shared by all countries taking part in the agreement.
- iii. The conclusion by the EU and ASEAN of FTAs with third countries reinforces the strength of the case for an FTA between the EU and ASEAN. The overall gains of an ASEAN-EU FTA are stronger when considering an environment in which such a FTA occurs in conjunction with an EU-Mercosur FTA, as well as the various FTAs which ASEAN is currently negotiating with other developed countries.

¹ According to the data source, not all of data from member countries are available.

QUALITATIVE STUDY

3.3 A qualitative study, also commissioned by the Vision Group, was carried out by the University of Limerick, Ireland, and Institut Français des Relations Internationales (IFRI), France, to identify the potential trade and investment impact of an ASEAN-EU FTA on both parties. It assesses the effect of the liberalisation of goods, services and investment, of the strengthening of rules on non tariff barriers as well as SPS and TBT measures, as well as of other possible provisions in the agreements, such as trade facilitation, government procurement, competition or intellectual property rights protection. It also assesses the specific needs of least developed countries and suggests priority areas for enhanced co-operation.

3.4 It concludes that FTAs can be expected to generate a wide range of impacts, both positive and negative, as well as static and dynamic. Given the nature of the obstacles currently hindering trade and investment between the EU and ASEAN, as well as the characteristics of existing inter-regional flows, the probability seems to be high that a wide range of the anticipated positive effects would materialise if an ASEAN-EU FTA were to be established. As a result, the economic case for an ASEAN-EU FTA appears to be quite compelling.

3.5 Trade in manufactured goods between the EU and ASEAN tends to be relatively unconstrained through traditional barriers. With the exception of a limited number of sensitive sectors where tariff peaks still prevail, tariffs do not appear to act as the most important barrier to trade between the EU and ASEAN. As a result, moderate gains can be expected from further tariff elimination with more significant gains in high-tariff sectors such as agriculture and the automotive sector. In addition, the opportunities for further developing inter-regional trade lie primarily in the service sector, where trade is much more constrained as a result of outright restrictions or strict requirements.

3.6 Trade and investment relations between the two regions appear to be asymmetrical. The qualitative analysis suggests that trade complementarity exists between the two regions in a number of industries, with ASEAN being relatively more involved in manufacturing and the EU having a comparative advantage in knowledge-based services.

3.7 Thus there is scope for an agreement that would boost growth in ASEAN and increase ASEAN's presence in the EU, enhancing inter-regional FDI flows in both directions. In that context, however, non tariff barriers (NTBs) have gained in importance as trade impediments on both sides, and this is where the most substantial gains may be expected. NTBs may take many forms. For ASEAN countries, the major obstacles to exports to the EU are considered to be technical standards and requirements, which due to the high safety and environmental requirements in the EU are often difficult for developing countries to meet, thus creating possible barriers to trade. Tariff quotas also exist for certain sensitive agricultural products of interest to ASEAN countries. For EU countries, the major obstacles to trade with and investment in ASEAN countries tend to be restrictions in

service sectors, notably regarding foreign ownership, as well as national policies aimed at supporting selected industrial sectors.

3.8 In addition to the economic case, strategic considerations also rank high amongst the motivations for proceeding with an ASEAN-EU FTA. For the EU, the major economic objective would be to consolidate the commercial presence of its firms in one of the most dynamic markets in the world (particularly in service activities), but equally to ensure a more stable and predictable framework for direct investment, intellectual property protection and other regulatory areas. Moreover, a number of economic partnership agreements are currently being negotiated in East Asia, actively involving ASEAN. The trade diversion potential of inter-Asian countries' FTAs should not be underestimated. In order to avoid potential discrimination, the EU therefore has a strong interest in starting a negotiation with ASEAN, eliminating any possible strategic cost associated with not proceeding.

3.9 For ASEAN, the agreement with the EU is an opportunity to secure market access in one of its major export markets and to increase its presence in certain promising sectors, as noted earlier. Moreover, such an agreement will provide a strong incentive to initiate or pursue structural reform. This would help to enhance competitiveness as well as FDI attractiveness, which is essential to face competition from China. For ASEAN, engaging in negotiations with the EU could be an important element in its strategy to compete with China.

3.10 There is a risk of preference erosion of the current EU preferential schemes (EBA, GSP) for the least advanced ASEAN countries. However, the extent of preference erosion would be moderate, because the preferential treatment granted under the EBA is underused.

3.11 Concerning the scope and format for a potential agreement, the qualitative study recognised that the EU's relations with ASEAN differ from those with either MERCOSUR or the Mediterranean countries. Unlike these regions, ASEAN is extremely heterogeneous as an economic grouping, with both advanced and least developed economies. As a result, a potential ASEAN-EU agreement would need to be multi-faceted so as to accommodate different economic interests and situations. All these call for a differentiated treatment and imply that cooperation will play a key role in relation to the less developed ASEAN economies.

3.12 The study suggests that a reinforced partnership could be based on 3 objectives: co-operation, facilitation and liberalisation.

3.13 With regards to the first two objectives, a potential ASEAN-EU economic partnership should encompass, in addition to standard liberalization provisions, measures of technical assistance and capacity building. As regards the least developed ASEAN members, a possible option could be to focus on cooperation and capacity building before liberalization commitments are negotiated. The partners could build upon existing schemes within TREATI and expand the coverage of such co-operative initiatives.

3.14 Suggested priority areas for co-operation are as follows:

- Trade facilitation measures (already covered by TREATI)
- Co-operation on SPS (covered by the co-operation on agricultural and fishery products under TREATI) and TBT
- Co-operation on IPR issues (not under TREATI)
- Co-operation on competition policy (not under TREATI)

3.15 With regard to liberalisation, the agreement should encompass trade in goods and services, as well as investment and rules on NTBs, including common disciplines on TBT, SPS or IPR. Negotiations to define simple, transparent and liberal rules of origin (RoOs) rank high on the priority list. In this respect, following the principle of regional cumulation (which already exists for ASEAN under the current GSP scheme) should help enhance intra-ASEAN integration. Simple rules should support trade facilitation efforts.

3.16 For liberalisation, a gradual approach with clear time lines would be favoured. Differential treatment would need to be granted to the less advanced countries of the partnership. Accompanying measures could include technical assistance and capacity-building measures to ease negotiations as well as implementation of a potential agreement by least advanced countries, but also assistance provided to support the adaptation of domestic legislation and to accompany structural change.

3.17 Given the rising importance of international investment flows in the globalised economy, investment issues should be an integral part of international trade negotiations.

3.18 The consultant also observed that due to the low level of development of a number of ASEAN countries as well as to the tradition of using this policy tool for economic and social objectives in the region, government procurement is likely to be a sensitive issue in the negotiation. It is worth noting at this stage that no ASEAN FTA addresses the government procurement issue. Therefore, a possible approach on government procurement would be to agree on transparency provisions at the ASEAN level, while maintaining a differentiated approach as to the market access commitments to be adopted by individual ASEAN members.

B. FRAMEWORK FOR NEGOTIATIONS OF AN ASEAN-EU FTA

3.19 Based on the conclusions of the studies, the ASEAN-EU Vision Group recommends that an ASEAN-EU Free Trade Area should be established.

Objectives

3.20 The Free Trade Agreement should aim at fostering bilateral trade and investment flows and deeper economic integration between the parties. It will establish a framework to liberalize trade and investment and create new opportunities by diversifying and increasing mutual trade and investment in a sustainable manner.

3.21 The agreement would complement an ambitious result in the DDA, to which both the EU and ASEAN are fully committed.

Principles

3.22 Negotiations should be governed by the following principles:

- i. The agreement should be comprehensive, balanced, and consistent with WTO rules and obligations.

As regards trade in goods, the ambition is to ensure full elimination of tariffs for 90% of trade and tariff lines within 7 years of the entry into force of the agreement. Other products would be subject to either partial liberalisation or full elimination within a longer timeframe. Exceptions to full liberalisation should be kept to a minimum and mutually agreed.

As regards trade in services and investment, the agreement should:

- (a) have substantial sectoral coverage, and
 - (b) provide for the absence or elimination of substantially all discrimination.
- ii. Recognising the different levels of development between ASEAN and the EU, special and differential treatment for the less developed ASEAN countries should be accorded, and differentiated timeframes for implementation of the agreement should be adopted.
 - iii. The agreement should constitute a single undertaking, implemented by the parties as an indivisible whole. The organisation of the negotiations should take into account the resource constraints faced by some partners.

Scope

3.23 Without prejudice to other issues that may be identified in the negotiations, the agreement should include the following:

- The progressive and reciprocal liberalisation of trade in goods and services, aiming at achieving substantial liberalisation which goes beyond the level of existing commitments in the WTO within an agreed time frame, consistent with the relevant WTO provisions.
- The liberalisation and facilitation of investment and creation of an open and non-discriminatory climate for establishment, including allowing the transfer of funds for foreign investment.
- The elimination of barriers to trade and the creation of clear, stable and transparent rules for exporters, importers and investors, including provisions which aim at the facilitation of trade and reduction of transaction costs in particular in the customs and related areas, as well as provisions on standards, technical regulations, conformity assessment procedures, and sanitary and phytosanitary measures.
- The assurance of a level playing field through discussion on any trade restrictive and distorting measures.
- Setting up a pragmatic approach for addressing government procurement by enhancing transparency, as well as possible improvements in market access opportunities on a plurilateral basis, in view of varying levels of development amongst all parties concerned².
- The adequate and effective protection and enforcement of intellectual property rights.
- The establishment of an efficient and binding dispute settlement mechanism.
- The establishment of an effective mechanism for co-operation in the field of competition.
- Liberalisation measures and enhanced trade rules should be accompanied by economic co-operation in a broad range of areas, including co-operation on sustainable development.
- Technical assistance and capacity building measures should be established to facilitate negotiations and implementation of the agreement and to ensure that all partners can fully benefit from the agreement.

3.24 In the context of the negotiations, measures should be considered to support and strengthen the process of ASEAN integration.

² **Malaysia expressed that she can not accept the inclusion of government procurement in the scope of the framework for negotiation on the ASEAN-EU FTA. Lao PDR and Myanmar have expressed similar reservation as Malaysia on the inclusion of government procurement.**

Architecture and Organisation of the Negotiations

3.25 The negotiations should be completed within 2 years. A work programme specifying a clear timeframe for the presentation of legal texts and market access offers during negotiations should be agreed between all parties at an early stage.

CHAPTER 4

ASEAN-EU ECONOMIC COOPERATION

4.1 In addition to establishing a free trade area between ASEAN and the EU, members of the Vision Group realized that it would be beneficial for the two regions to strengthen cooperation, particularly in key strategic areas relating to trade and economic issues, to maximize and sustain the longer term benefits of the enhanced economic partnership. Given the increasing interdependencies in the global economy, they also recognized the need to revitalize the potential of this relationship and for a partnership that embodies a commitment to regional cooperation and integration by both the EU and ASEAN.

Objectives and Principles

Objectives

4.2 The ultimate objective of enhanced economic partnership between ASEAN and the EU is to promote broad-based and inclusive development in the economic and social spheres in both regions. The Vision Group is also convinced that, through a spirit of trust and partnership, the strengthened and sustained prosperity of both regions will contribute significantly to the growth of world trade and investment as well as to broader international cooperation in the coming century. Liberalization is a necessary but insufficient condition for shared and sustainable development. A level playing field is needed to achieve and internalize the expected benefits from liberalization and integration.

4.3 Thus, the new ASEAN-EU partnership should include an expanded programme of cooperation that aims at enabling the less developed economies to autonomously benefit from and take full advantage of the new partnership. The principles for mutual cooperation as well as the regional cooperation priorities and specific areas of support, mapped out below, underline our firm belief of the interdependence of economic development, social progress and environmental protection in the sustainable development of our two regions.

Principles

4.4 To be meaningful, the partnership should be developed and implemented based on the following fundamental principles.

Recognizing each partner's development needs, priorities and strategies. While the emphasis shall be placed on the regional dimension, cooperation arrangements must take into account the differentiated levels of development and integration in each country, with a view to narrow the development gaps among members, through human resource development, technical assistance and capacity building.

Providing equal treatment among partners and commitment to development strategies and regional integration. Each country must exercise ownership over cooperation programmes and commit to an enhanced longer term relationship.

Adopting a pragmatic and flexible approach. Cooperation arrangements must be designed with flexibility, thus allowing each country to deal with the issues most relevant to its particular needs and interests, thus strengthening its capacity to implement and benefit from the economic partnership.

Building on existing initiatives. Fully utilize platform of existing cooperation mechanisms³ and initiatives to ensure continuity and efficiency.

Maximizing dialogue and recognizing mutual obligations. Partners assume mutual obligations that can be monitored through an intensified exchange of information and dialogue, to foster mutual understanding of common issues and interests.

Regional Cooperation Priorities and Areas of Support

Criteria for Prioritization

4.5 To reinforce these guiding principles, cooperation programmes and activities under the ASEAN-EU economic partnership will be prioritized according to their impact and feasibility. They must produce outcomes that support the ASEAN-EU FTA, and are consistent to the core objectives of the ASEAN-EU economic relations as mentioned in 4.2. In addition, they must be chosen based on their potential for successful implementation, including a level of commitment by partners and effectiveness of support.

Strategic Priorities

4.6 In strengthening this partnership, focus shall be given to strategic priorities to facilitate the establishment of the shared agenda and agreed action plans between ASEAN and the EU. These priorities include the following:

Supporting regional stability and integration. Enable countries to manage the challenges of deeper economic integration and adapt progressively to new conditions of international trade.

Promoting regional trade and investment. Create a favourable environment for private investment and develop a dynamic, viable and competitive private sector.

³ Two important mechanisms are the TREATI (Trans-Regional EU-ASEAN Trade Initiative), which sets up a framework for dialogue on all trade and investment issues, and READI (Regional EC ASEAN Dialogue Instrument), which provides a framework for all other dialogue areas; as well as bilateral cooperation with ASEAN countries and other cooperation programmes under the EU-ASEAN agreement.

Fostering the development of less developed countries. Improve the economic prospects of the less developed countries in the regions, by strengthening the key social infrastructure, particularly in health, education and training.

Revitalizing dialogue in specific sectoral areas. Increase cooperation in trade-related and other economic areas, such as agriculture, science and technology, energy, and environment, to facilitate integration of countries; and incorporate other social, cultural, and institutional development elements into priorities.

Specific Areas of Support and Cooperation

4.7 In the context of these strategic priorities, the following are the preliminary areas for cooperation, which are subject to further elaboration and review by relevant ASEAN-EU cooperation mechanisms (the specific ideas contained in the parentheses under each area were raised during the course of the deliberations of the Vision Group):

- Trade and Investment Facilitation and Promotion
 - Standardization and simplification of Customs procedures and formalities.
 - Information exchange on legislative frameworks and best practices.
 - Enhancement of Professional and Institutional capacity.
 - Application of Information and Communication Technology.
 - Business sector connection and dialogues, including SME cooperation

- Standards and Conformity Assessment

Sanitary and phytosanitary (SPS) as well as technical barriers to trade (TBT) matters which may include, among others, the following areas:

 - Harmonization of standards and technical requirements/ regulations.
 - Development and implementation of Mutual Recognition Arrangements.
 - Strengthening the technical infrastructure on accreditation, testing, certification, inspection and post- market surveillance.
 - Promoting the application of good practices in industry, especially SMEs, such as GMP, HACCP, GHP, GAP etc.

- Development of Efficient Services Sector
 - Capacity building in services negotiations.
 - Information exchange on regulatory reforms and practices.

- Institutional Cooperation
 - Cooperation among policy making agencies on development and regional integration (information exchange, experience sharing, technical assistance).
 - Establishment of sectoral institutions to develop human resources (e.g. Design Center, Skills Development Center).
 - Cooperation between the ASEAN Secretariat and European Commission.

- Specific Sectoral Cooperation
 - Agriculture (food and beverage processing, exports and manufacturing of agriculture machinery and products).
 - Fisheries (capacity building by improving fishery resources management, training researchers and specialists; technology transfer in exploitation and protection of fishery resources; exchange of information and experience in fishery sector).
 - Forestry (promotion of sustainable forest plantation, exploitation).
 - Sustainable Tourism.
 - Science and Technology (training and exchange programmes, strengthening collaboration in R&D, the ASEAN-EU Technology Center).
 - Information and Communications Technology (standards, interconnectivity, development and harmonization of communication systems, internet exchanges and gateways, cybersecurity, e-commerce, e-government, capacity building, internet governance).
 - Intellectual Property Rights (sharing of policy and technical experiences, including those relating to enforcement, and co-operation in IP-related capacity building).
 - Finance Cooperation (experiences of financial and monetary integration; e.g. capital market development, capital account liberalization, policy coordination, structural reforms, economic monitoring etc).
 - Mining and Energy (energy efficiency, oil and natural gas, power generation and supply).
 - Transport (capacity building, information exchange programmes, strengthening in cooperation and collaboration in various transport modes, such as air, maritime, urban and multimodal transport).
 - Manufacturing (automotive, drugs and pharmaceuticals, petrochemicals, and food processing).
 - Cooperation on Sustainable Development.
 - Competition Policy (dialogue among all stakeholders; capacity building that includes law, policy and institutional arrangements; and comparative studies).
 - Education (expanding the ASEAN-EU University Network Programme, promoting cooperative investment by the EU in educational services in

ASEAN, establishment of the ASEAN-EU University, development of vocational education and training).

Implementation Strategy: The Role of the SEOM-EU Consultation

4.8 The Senior Economic Officials of ASEAN and the EU (SEOM-EU) shall establish an appropriate mechanism to develop detailed work programmes with specific activities, targets and priorities to be implemented every two to three years. SEOM-EU shall finalize and approve this work programme.

4.9 SEOM-EU shall also be tasked to oversee and coordinate the implementation of the work programme and other trade-related initiatives to ensure that the goals and priorities of this ASEAN-EU enhanced economic partnership are achieved within the overall framework of AEM-EU Consultation. In addition, they shall monitor and evaluate progress and provide guidance on appropriate additions or modifications when necessary.

CHAPTER 5

RECOMMENDATIONS FROM THE VISION GROUP

5.1 For a variety of reasons discussed in the preceding chapters, the Vision Group is of the view that there is a compelling case to take the economic partnership between the EU and ASEAN to a higher level. A reinforced partnership would be mutually beneficial and could also support the process of ASEAN integration. It would be complementary to the successful conclusion of the DDA negotiations, which both the EU and ASEAN consider to be the highest trade policy priority. In order to maximise benefits for all parties, the Vision Group recommends that an enhanced economic partnership be based on two pillars:

- i. *An FTA in accordance with WTO rules:* The Vision Group is of the view that the benefits to the EU and ASEAN economies would be enhanced if the FTA is comprehensive, covering a broad range of trade related areas. In this connection, the Vision Group recommends that future negotiations be based on the principles and parameters recommended in Section B of Chapter 3 of this Report.
- ii. *An expanded ASEAN-EU economic co-operation:* Such co-operation should supplement and go beyond current TREATI initiatives. It would have a particular focus on the support of the process of ASEAN integration, as well as helping the least developed ASEAN members to cope with the challenges of liberalisation. In its discussion, the Vision Group has identified broad areas for ASEAN-EU economic cooperation, which are listed in Section 4.7 of Chapter 4 of this Report. The Vision Group recommends the EU and ASEAN to identify a number of priority activities on which attention should be focused over the next two to three years.

5.2 The Vision Group is conscious that engaging in an enhanced ASEAN-EU economic partnership, including negotiating a FTA, is a major political decision. Both the EU and ASEAN will need to consult with their constituencies and political leaders. Such consultations should also consider the best architecture as well as the timing and timeframe for future negotiations taking into account the diversity of economic situations of ASEAN members.
