

The EU's pivot to Asia

ASEAN



SINGAPORE 2018

Fraser Cameron considers the unforeseen consequences of global uncertainty, and how the EU has seized the opportunity in deepening EU-Asia relations

RESILIENT AND INNOVATIVE

One of the unforeseen consequences of the increasing global uncertainty, largely due to President Trump's unpredictable behaviour, is a deepening of EU-Asia relations. President Obama's 'pivot to Asia' which involved several trips to the region and receiving ASEAN leaders at an unprecedented summit in California, was ditched by President Trump as soon as he took office.

His first action in the White House was to withdraw from the Trans-Pacific Partnership (TPP) trade deal and call into question the usefulness of America's security alliances in Asia. These actions plus his attacks on international institutions caused consternation around Asia, from Australia to Japan, and led many countries to reach out to the EU as a predictable and staunch supporter of a rules-based world order.

The EU has been quick to seize the opportunity signing free trade agreements (FTAs) with several Asian countries, reviving the idea of an EU-ASEAN bloc to bloc deal, and also increasing its political and security engagement with the region.

In July, Presidents Tusk and Juncker had successful summits in China and Japan. In August, Federica Mogherini, the EU's energetic, foreign policy chief, spent ten days in the region cementing ties with a range of partners. Trade commissioner, Cecilia Malmström, has also been very active in Asia promoting closer trade ties. Several other EU commissioners as well as ministers from member states have also visited the region highlighting the growing EU engagement with the Asia-Pacific region.

EU-Asia relations will be further deepened at the biannual Asia-Europe meeting (ASEM) in Brussels in October. Although largely a talk feast, it provides a unique forum for over fifty European and Asian leaders to discuss global issues. ASEM also provides an opportunity for many side meetings. For example, there will be an EU-Korea summit involving President Moon before ASEM begins.

Asia rising

The growing importance of Asia for the EU is easy to understand. It is home to two-thirds of the world's population. It has been the driver of global growth for the past two decades. It is now the EU's biggest trade partner, with some €1.5 trillion in two-way trade in 2017 and over €800 billion of European FDI going to Asia in 2016. There is also an increasingly large amount of Asian FDI coming to the EU. All projections show that these figures are likely to increase in coming years.

Furthermore, it is quite clear that most global problems, from climate change to migration, cannot be resolved without Asia's input. It is also true that there are many unresolved security issues in Asia, from the Korean peninsula,

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through the South China Sea to Kashmir. But most observers are impressed at the ability of Asian countries to live with these unresolved disputes and carry on promoting business ties. For example, despite poor political relations between China and Japan, and China and Taiwan, all three are closely linked via just-in-time supply chains.

Just as the EU is paying more attention to Asia for political, economic and security reasons, there is a reciprocal growing Asian interest in strengthening ties with the EU which is now viewed as a stable and predictable actor, compared to the uncertainty that characterises the United States under Trump.

The constant refrain from all Asian leaders in recent months is that they do not wish to see the current rules-based international system destroyed. Hedging is now the name of the game. Asian leaders can no longer rely exclusively on Uncle Sam and they do not wish to fall under the Chinese steamroller. There is thus a new enthusiasm for the EU as the principal defender of a rules-based order.

EU-Japan FTA

This enthusiasm was most marked by the July agreement on an EU-Japan FTA. Prime Minister Abe, despite his multiple golf rounds with Trump, concluded that it might not be sensible to place all his eggs in the American basket and it was time to deepen relations with the largest trade bloc in the world. The economic and trade agreement was complemented by a wide-ranging political agreement that should lead to closer cooperation in foreign and security policy.

The FTA (known as the EU-Japan Economic Partnership Agreement) is the biggest free trade agreement in the past two decades and creates significant new opportunities for selling European goods and services to the fourth richest economy in the world with 127 million citizens.

According to the EU, the deal should lead to a 13% increase in exports to Japan with the food sector, textiles, chemicals, machinery, cars and business services likely to benefit most. EU companies could save up to €1 billion a year on customs duties compared to what they are required to pay today upon exports to Japan. EU companies will also benefit from higher standards for example on motor vehicles, on food and on wine additives.

Particularly interesting are the provisions for trade in services, currently worth €28 billion to EU firms, including advanced provisions on movement of people for business purposes. The EPA also covers sustainable development, core labour standards, natural resource management, environmental protection and dispute settlement mechanisms. Both sides also agreed to recognise each other's data protection systems as 'equivalent', which will allow data to flow freely between the EU and Japan, creating the world's largest area of free flow of data.

EU-China

China and Europe trade on average over €1 billion a day. Given that China is the EU's biggest source of imports and its second-biggest export market, there are inevitably some disputes. On the EU side, there are concerns about a lack of transparency, industrial policies and non-tariff measures that discriminate against foreign companies, strong government intervention in the economy, resulting in a dominant position of state-owned firms, unequal access to subsidies and cheap financing, and poor protection and enforcement of intellectual property rights. On the Chinese side, there are complaints that the EU has reneged on a promise to grant China market economy status and its growing protectionism.

Although the EU and China have signed impressive documents outlining their mutual desire to deepen their strategic partnership, relations had stagnated in the past couple of years over the above trade disputes. The July summit was significant in that both sides were able to agree a lengthy statement, something that they could not achieve in the two previous EU-China summits.

Trade issues were still central at the summit but both sides sought to emphasise areas of cooperation rather than divergence. Leaders expressed support for the rules-based multilateral trading system and agreed to set up a working group on reform of the WTO.

Both sides also agreed an exchange of market access offers that should give an impetus to the negotiations for a bilateral investment agreement. China confirmed its commitment to acceding to the WTO government procurement agreement (GPA).

There were also other positive outcomes at the summit including MoUs on the circular economy and an emissions trading system plus an oceans' partnership covering fisheries and marine pollution. Finally, both sides discussed connectivity – taking stock of progress in the EU-China connectivity platform – and exchanged views on the digital economy, including how to avoid introducing market access barriers through their respective cybersecurity regulations.

Remarkably, the EU and China are more on the same page when it comes to Iran, climate change and preserving the UN system than with the US. President Xi, who has recently cemented his power base in China, also views the EU as a solid anchor in an uncertain world. There are of course areas of dispute such as human rights between Brussels and Beijing and it remains to be seen how China's highly ambitious Belt and Road Initiative can be linked to the EU's forthcoming policy on enhancing connectivity between Europe and Asia.

EU-Korea

Korea was the first Asian country to sign an FTA with the EU in 2012. Since then EU exports of goods to Korea increased almost 60% and exports of services increased nearly 50% over the same period, turning trade deficits

into surpluses. Two-way FDI also saw a 50% increase in the past five years. Businesses in Korea and Europe have expressed satisfaction with the FTA although there are calls for some adjustments in some sectors.

The EU and Korea also have a political and a security agreement allowing for close cooperation in foreign policy. Ahead of the planned October EU-Korea summit, Mogherini visited Seoul in August for talks with her opposite number. The visit demonstrated the EU's support for the tricky negotiations to denuclearise the Korean peninsula. The EU has been a strong defender of the UN sanctions policy against North Korea. Apart from the DPRK, Brussels and Seoul increasingly agree on major foreign policy issues and Mogherini was able to explore opportunities for further cooperation during her visit.

EU-India

India is currently the fastest growing economy in the world and a strategic partner for the EU, representing a sizable and dynamic market of 1.25 billion people. But the negotiations for an FTA, launched over a decade ago, have proved difficult. Sticking points include improved market access for some goods and services, government procurement, geographical indications, sound investment protection rules, and sustainable development.

The EU is India's number one trading partner while India is the EU's 9th trading partner, sandwiched between Korea and Canada. The value of EU exports to India is much smaller than with China. Exports grew from just €24 billion in 2006 to €38 billion in 2016. Indian exports to the EU were of a similar scale. But export of services to India has almost tripled in the past five years and FDI doubled. There has also been a sizeable increase in Indian FDI to Europe. Both sides recognise that there is vast potential to increase trade but the EU remains disappointed at the unwillingness of India to open its market while India criticises the EU for its restrictive visa policies.

ASEAN

The EU is a strong supporter of the ten-nation association of south-east Asian nations (ASEAN) provided considerable financial support and technical assistance. ASEAN is handicapped by its small budget and secretariat plus its insistence on unanimity for all decisions.

Some have questioned its lack of leadership, a role that used to be played by Indonesia. There are also many internal problems that affect relations with the EU. For example, the drug war in the Philippines, the treatment of the Rohingya in Myanmar, and one party or military rule in a number of ASEAN countries.

There have been numerous action plans to try and boost EU-ASEAN relations that celebrated their 40th anniversary in 2017. The EU is keen to upgrade relations to a strategic partnership but it has proved difficult to agree a response from the ASEAN side.

There are currently negotiations for an open skies agreement which would further boost the booming tourism trade between the EU and SE Asia. There is also renewed talk of an EU-ASEAN free trade agreement but given the disparate size of the economies between ASEAN members this will be a difficult undertaking.

Despite its many internal problems, the EU is keen to promote the centrality of ASEAN, with its commitment to multilateralism, international rules and its culture of consultation and inclusiveness. It believes that its own experiences in resolving disputes could be useful in reducing tensions in the South China Sea and elsewhere.

Australia/New Zealand

Australia and New Zealand have also moved to deepen their relations with the EU. In July both countries opened

negotiations for an FTA with expectations for a swift deal, possibly before the end of the mandate of the Juncker Commission. The biggest problem area will be agriculture, given the efficiency of farmers in both Pacific countries.

Mogherini also visited Australia and New Zealand in July, describing them as 'like-minded supporters of the rules-based, multilateral system'. Given the unpredictability in Washington, Canberra and Wellington are also engaged in a major debate about their future security. They too view the EU as a stable partner in a turbulent world.

An increased security role

In May, EU foreign ministers agreed to enhance the EU's security cooperation with Asia through intensified consultations, capacity building, training programmes and joint exercises. The EU is already working with ASEAN on sensitive issues of maritime security, cyber security and the prevention of violent extremism.

Now the plan is to expand on this soft security agenda to cover conflict resolution and peacekeeping (the EU has already engaged successfully in Aceh, Indonesia), counter terrorism, police and coastguard training, combatting illegal fishing, military to military contacts, and anti-piracy (a number of Asian partners have already participated in the EU-led Operation Atalanta in the Red Sea).

Upping the EU role in Asia will not be easy. The Asian security landscape is shaped by a large number of factors: strategic competition between the big powers; historical grievances; ethnic and religious tensions; governance failures; competition for resources, territory and influence, all compounded by expanding defence spending and capabilities, including nuclear capable states.

This volatile mix explains the EU's vital interest in supporting overall stability in Asia and advancing a rules-based approach to promote effective security structures. On the Asian side, it is the current occupant of the White House

that is driving Asians towards a closer relationship with the EU. It is a relationship that could shape the future of the world. ■

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