



Graduate School of Development Studies

**The Proliferation of Free Trade Agreement (FTA) after the  
Deadlock in the Multilateral Trade Negotiation (MTN):  
The Case of ASEAN–European Union FTA**

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## **List of Acronyms**

ACP – African Caribbean and Pacific countries  
AEFTA – ASEAN EU FTA  
ACFTA – ASEAN China FTA  
AFTA – ASEAN Free Trade Agreement  
AKFTA – ASEAN Korea FTA  
ASEAN – Association of South East Asian Nations  
CEPT – Common Effective Prefential Treatment  
CU – Custom Union  
EU – European Union  
FDI – Foreign Direct Investment  
FTA – Free Trade Agreement  
GSP – Generalised System of Preferences  
ILs – Inclusion Lists  
LDC – Least Developed Countries  
MTN – Multilateral Trade Negotiation  
NAFTA – North America Free Trade Agreement  
NAMA – Non-Agricultural Market Access  
PTA – Preferential Trade Agreement  
RTA – Regional Trade Agreement  
TREATI – Trans Regional EU-ASEAN Trade Initiative  
US – United States  
WTO – World Trade Organization

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## **Abstract**

This paper is trying to answer a question: What is the main motivation for the EU to have an FTA with ASEAN? and a sub question: What are the driving forces for the EU to have an FTA with ASEAN? In order to answer those questions, the paper will use the concept of power and realism. With the power relation that emerged in the negotiation processes, the party who aggressively acted in the negotiation will emerge and use its meta power to exercise its power in the negotiation to achieve their goals and objectives. From the negotiation processes of the AEFTA, ASEAN seems not have advantages over the EU; hence the EU is exercising its meta power over ASEAN to change the rules of the game toward a market-based regime of FTA rather than authoritative one. The behavior of the EU in the proliferation of the FTA is caused by the stalemate in the MTN.

## **Relevance to Development Studies**

The implementation of FTA with the EU as a trade liberalization in ASEAN will hinder the development in some ASEAN countries, especially the LDCs.

## **Keywords**

[EU, ASEAN, FTA, Power, Singapore Issues]

# Chapter 1

## INTRODUCTION

In the past two decades we have seen the vast expansion of preferential trade agreement (PTA) among states or regions. The proliferation of PTA<sup>1</sup> especially the free trade agreement (FTA) has been supported and triggered by the European Union (EU) and the North American Free Trade Agreement (NAFTA) during 1990s (Ohyama, 2007). Between the period of 1995 to 2002 more than 250 FTA's has been notified to the WTO, in contrast to 125 FTA that had been notified to GATT from 1945 to 1995 (UNCTAD, 2007). Furthermore, up to July 2007 some 300 FTAs has been notified to the WTO and 205 agreement were in force (WTO, 2008). Likely, the failure in the Multilateral Trade Negotiation (MTN), since the launching of Uruguay Round to Doha Round in 2001, has been made the surge number of FTA even bigger and faster. Uncertainty in the MTN has made some countries and regions in favour of PTA than the MTN. Bilateral trade agreement can move faster, wider and deeper than multilateral negotiation (Sally, 121:2008)

There are some issues that must have made the uncertainty and the negotiation process stalled in the MTN. The major disagreement in the MTN between the developed countries, especially the EU and the US, and the developing countries which mainly represented by the G20 and G33 is basically based on some issues concerning agricultural sector, Non-Agricultural Market Access (NAMA), Services and the Singapore Issues<sup>2</sup>. From the perspective of the developed countries the current impasse in the Doha Round can be seen as an impediment to trade liberalisation, but, on the other hand, the developing countries consider this situations as a force for the developed countries as well as to the WTO to start to think about the interest of the developing countries.

As a result of the current impasse in the MTN, some states including some regional organisations have begun to create FTA among them. And the EU is one of the important examples, because the EU has recently pursued some FTA's with other entities, such as Mercosur, China and, furthermore, they will sign an Economic Partnership Agreement (EPA) with the African Caribbean and Pacific (ACP) countries within this year. The proliferation of the FTA by the EU after the impasse in the current MTN can be seen as a proactive approach on a bilateral basis from the EU (Sautenet, 2007) but curiosity has emerged questioning the main factor underlying this behaviour.

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<sup>1</sup> There are three types of PTA, including Free Trade Agreement (FTA), Custom Unions (CUs) and Partial-Scope Agreement (Sally, 122: 2008)

<sup>2</sup> Singapore Issues is a new trade issue mandated by The Ministerial Meeting in Singapore in 1996 to be negotiated in the MTN. Except trade facilitation, the rest has been dropped during the Cancun Ministerial Meeting in 2003 since the developing countries has rejected and opposed this proposal. It is also called the "New generation Issues".

In fact, apart from the EU, the US is also in favour of bilateral trade agreement since slow progress occurred in the Doha Round negotiation, it is also supported by smaller and weaker states (Higgott, 2004) but even though there is another actor that goes along with the EU regarding this issue, this paper will only focus on the EU-ASEAN FTA as an example of FTA which is pursued by the EU.

The FTA between ASEAN and the EU has been the main issue for many years in order to strengthen their relationship and improve their economic cooperation. Nuremberg Declaration on EU-ASEAN Enhanced Partnership is the momentum where the two regions have agreed to establish a free trade agreement and was later followed by Joint Ministerial Statement of the ASEAN Economic Ministers and the European Union Trade Commissioner on the Launch of Negotiations for the ASEAN-EU Free Trade Agreement (FTA) in Bandar Seri Begawan, Brunei Darussalam, on 4 May 2007.

This Ministerial Meeting marked the beginning of the negotiations between ASEAN and the EU to build a new economic cooperation which provides comprehensive trade, service and investment liberalisation. Some studies show that this FTA is likely to boost the economy of both parties<sup>3</sup>, however, pessimism concerning to this free trade agreement has also emerged<sup>4</sup>.

It seems that this negotiation has been accelerated by what happened in the Doha Round negotiation which was not a success. Sampson quoted that uncertainty in the Multilateral Trade Negotiation will hinder further market access that leads to the establishment of regional free trade agreement (Sampson, 2003). Another factor that has to be taken account regarding the negotiation is that the EU has renewed their strategies toward the developing

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<sup>3</sup> Based on the analysis of independent research, conducted by CEPII and Copenhagen Economics, released by the Commission, the future agreement will likely be beneficial for both parties. The agreements will boost EU exports to ASEAN by 24.2%, ASEAN export will increase by 18.5% and the biggest gains for the EU would include business services to ASEAN (<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/540&type=HTML&aged=0>).

<sup>4</sup> According to Alfredo C. Robles, Jr. (2007), there is an evidence which has shown that the prediction released by the Commission is not completely accurate, for instance is the FTA between the EU and Mexico. The Commission has been predicted that the export from Mexico to the EU will rise from \$4.801 billion in 1999 to \$30.002 billion in 2005, but in fact, in the first two years of the agreement the growth of Mexican exports was negative. Indeed, it was increasing in 2006 but it was very far from the prediction (only amounted \$10,890,288,000 than \$30 billion which has been predicted by EU for 2005). Mexican imports from the EU grew even more rapidly, reaching \$27,847,488,000 in 2006. Between 2000 and 2006, Mexico's deficit with the EU increased 79.6%. (<http://www.caramasia.org/eneews/2007/JUNE/Critic%20EU%20ASEAN%20FTA.pdf>).

countries which will be more focus on the multilateral framework in order to expand cooperation on an equal basis; furthermore, for the case of ASEAN, the EU also wants to have an FTA because of the economic importance of the region and of the competition escalation from the US, Japan and China in this region (Forster, 2007). However, this is unlikely the only motivation for the EU since there are various reason for the EU to embark on this negotiation with ASEAN (Dür, 2007), but, in general, there are three broad commercial motivation from the EU to have FTA with their trading partners; i.e. to neutralize potential trade diversion from FTAs among third countries; to strengthen the forging strategic links with countries or regions experiencing rapid economic growth; and to enforce international trade rules (Woolcock, 2007).

Based on those explanation, I would like to conduct a research in order to seek and analyze the main reasons and to find out what the driving forces are for the EU to have an FTA with ASEAN. The research question that I have to answer in order to find out the possible answers to my objective in this research is: "What is the main motivation for the EU to have an FTA with ASEAN?" and the sub question is 'What is the driving forces for the EU to have an FTA with ASEAN?"

Focusing on the analysis of the true motivation for the EU to establish an FTA with ASEAN, this research will try to show that the EU motivation will appear in the negotiation processes between the two regions and will likely support my main argument which will be based on the fact that the slow progress in the MTN has hampered the trade liberalisation and since the MTN agenda is set by the EU and the US themselves (Gibb, 2000), that make the EU have to find another way to impose their agenda to the developing countries. The EU itself has been a major driving force behind the liberalisation of world trade when they established the free trade agreement (McGiffen, 2001: 86).

The clear example for this issue is the EPA between the EU and the African, Caribbean and Pacific (ACP) countries, where the EU is trying to impose its interest which can not be fulfilled in the MTN. The end of the Lome Convention, which was carried out a preferential treatment for the African countries from the EU, is a stepping stone for the EU to impose their policies through the EPA to eliminate all the preferential treatment for the African countries and, of course, this is complies with the Most Favoured Nation (MFN) principle in the WTO.

In my opinion the establishment of FTA between EU and ASEAN is in the same direction with the EPA because some defender of the developing countries in the MTN are countries in this region, for instance Indonesia, Thailand, Malaysia and Philipines. The difficulties in the MTN have created a strategy to impose their interests in the lower level of negotiation with small groups of countries and, hopefully, the EU will benefit from such agreement which will contribute to the progress in the multilateral level. Instead of leading to development to the developing countries, in the case of most ASEAN countries, the argument will support the behavior of the EU, that will only try to reach their goals which was not fulfilled in the MTN, in the negotiation process, supported by their proposal in the FTA with ASEAN

This research has been conducted through literature research which is using secondary data in order to collect data and information related to my research. The data and the information were obtained from books, journals and internet. Eventhough there is possibility to obtain some information from various organization such as the EU, the ASEAN and the WTO, nevertheless I found those would not be too significant since some of the informations was already provided in their websites. There is also limitations regarding to data collection, the limitation for this research is uncomplete information regarding to the negotiation because the negotiation between the EU-ASEAN is still in progress. I also want to point out that since trade is one of the sensitive issue in the international political economy, thus the difficulties to obtain some detail informations and data will be unavoidable especially from the EU. The lack of data from the ASEAN also an obstacle for my research as well.

Trying to relate all the chapters with the whole analysis, the following chapters will be structured as follows: Chapter II will explain the theoretical framework as a foundation of this research; Chapter III will provide the background information about the relationship between the EU and ASEAN, based on the theories explained in the previous chapter; Chapter IV will try to explain and to analyze the negotiation processes between the EU and ASEAN; and Chapter V will summarize and conclude the whole content of this paper.

## **Chapter 2**

### **THEORETICAL FRAMEWORK**

This chapter will explain the theoretical foundation for the analysis of this research. The theoretical framework will focus firstly on liberalism as the basic foundation for the notion of free trade praised by the developed countries to expand their market access in their trading partners, mostly the least developed countries (LDC) and the developing countries; secondly, on the cooperation which inherently exists in the liberalism perspective; and thirdly, on the power, that will appear in order to explain why the EU wants to divert their attention from multilateral negotiation to bilateral negotiation. The last part of this chapter will provide chapter analysis, explaining the relations among theories and the link of these theories with the phenomenon in this research.

#### **2.1 Liberalism**

Stemmed from the doctrine of market system formulated by Adam Smith and David Ricardo, it is argued that, for liberals, free trade will contribute to national utility maximization because the removal of trade barriers will increase the movement of goods among countries to allow national specialization and to facilitate optimal utilization of the world's scarce resources (Gilpin, 2001:198) as free trade will maximize economic growth and generate the competition in promoting the most efficient use of people and capital resources (Burchill, 2001:56) and the gain from free trade itself will result from three sources; i.e. expansion of firm market from domestic to world market that will reduce per unit production cost, elimination of monopoly power caused by foreign competitive pressure forcing domestic firms to sold their outputs at a lower price level, and consumer's gain due to increased product varieties and lower price level (Frieden and Lake, 2000:305). Therefore, free trade is inevitable to increase national welfare; hence, elimination of trade barriers to enhance the free movement of goods and services across national boundaries at the international level should be the object of policy makers in all countries (Burchill, 2001:56).

From the liberal perspective we can also trace that cooperation and harmony are two inherent notions laid in the free market. For liberals, international division of labor based on the principles of comparative advantage will lead to interdependency among nations as a basis for cooperation to bring harmony among nations (Goddard et al, 1996:12). The existence of free trade in the international trading system will allow countries to enjoy the highest level of utility and maximum welfare; thus, there would be no economic basis for international conflict (Frieden and Lake, 2000:10). The manifestation of cooperation in the international trading system, for example, the WTO, which enshrines the liberal principles unfettering competition among privately owned enterprises, is the only efficient form of economic organisation (Burchill, 2001:56)

### ***2.1.1 Regionalism***

As domestic government needs to establish rules and regulations to govern and manage domestic economy as well as foreign economic relations, it would be feasible for international regimes to exist in the international trading system since there are free trade and international cooperation which it entails, that would increase the prospect of world peace (Gilpin, 2001: 198). On a related matter, the international regimes will try to ensure that no country or domestic group is damaged by “unfair” international competition (Frieden and Lake, 2000:10). One of the international cooperation forms is not merely a formal global institution, but also regional organisation. This regional organisation is a product of regionalism which is a formal process of intergovernmental collaboration between two or more states (Ravenhill, 2008). Regional institution as an economic regional cooperation has become a hot issue in international fora as globalization spreads in the whole hemisphere of world economy. Economic regionalism has also spread in response to development in various sectors, such as politics, economy and technology (Gilpin, 2001), especially after the end of the cold war. As the global economy has become closely developed and integrated, a regional organisation is a perfect instrument for promoting its interest, improving bargaining position over other entities and strengthening its autonomy (Gilpin, 2001).

The movement toward economic regionalism or regional trade agreement (RTA), which has recently been accelerated, produces significant impacts on the shape of the world economy. The new regionalism is more global in scope and involves integration, not only in trade, but also in finance and foreign direct investment (Gilpin, 2001: 341).

Globalisation, where there are no limitations in the movement of capital and goods, has made the private sectors play their roles in the world economy significantly and one of them is in the case of regionalism. Regional integration is not merely for the government interests, but it is also desirable for private sectors to retain trade barriers against competitors from outside the region; hence it is possible for the government to provide benefits for domestic companies to expand their economies of scale (Ravenhill, 2008)

### ***2.1.2 Interregionalism***

According to Aggarwal and Fogarty, interregionalism is an intergovernmental relations across the region focusing on commercial relationship and fundamental cooperative intended to benefit both parties through mutual agreements that entail in the cooperation. Regional groups are willing to establish interregional cooperations due to external and domestic factors.

The main cause will be the external factor, namely the ongoing processes of globalisation and regionalisation. Thus, interregionalism appears to have become a lasting feature of the international system and such relationship will seemingly continue to exist in international fora (Hanggi, 2000) and, mostly, the scheme of the agenda concentrates on economic issues, such as trade, but

political dialogue also remains in the agenda, especially in the case of EU (Song, 2007)

Even though there will be mutual agreements in this type of relationship, the driving forces for regional groups to have interregional relations, especially economic relations, are not far from domestic private business interests attempting to push market opening in their partner groups and sometimes asymmetric or gap between two parties is unavoidable (Ruland, 2002). EU is the main actor in this type of relation because this phenomenon is very much a part of the EU foreign policy; hence the proliferation of trade agreement, as one form of interregionalism, has become their agenda to respond the slowdown in multilateral agenda. Then the ASEAN and EU FTA is likely to be considered as interregionalism.

## 2.2 Realism

In contrast to liberalism, realism focuses on the role of the state in the international fora. State is the main actor in the global political economy, though there are some non state actors such as society and private company. Nonetheless, the role of the state is unavoidable. The state plays an important role in the international economic negotiation where each party tries to make gains over the other (Watson, 2008:46). This argument will explain the negotiation process in the ASEAN-EU<sup>5</sup> FTA where the EU that has advantages over the ASEAN will try to seek gains in their relationship.

Due to its role in the international fora, state will always pursue its goals and is solely concerned about its own interests especially in its stance in international economic negotiation (Ravenhill, 2008:46). For realists, there is conflictual nature in the international economic relations because each state will pursue and force its interests to achieve its own goals; hence, international economic relations will become conflictual (Goddard et al, 1996:12) and the benefit of cooperation may be unequal and used as devices to seek and maintain asymmetric gains(Ravenhill, 2008:84).

Some realists have also argued that some economic relations constitute zero sum games (Little and Smith, 2003:425); thus the role of power exists in this relations<sup>6</sup> that will lead to unequal relations among actors as the world market economy operates to the disadvantage of the economic and domestic welfare.

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<sup>5</sup> For realist, the EU and ASEAN are examples of regional arrangement which exemplifies collective national efforts to reach its members goals (Gilpin, 2001:21), hence the EU and ASEAN are actors in the international political economy arena.

<sup>6</sup> “...the role of power is crucial in the creation and sustaining of market relation” (Gilpin, 2001: 424).

Regarding the policy formulation, realists have argued that state interests and policy are determined by pressure of powerful groups within the society, the governing political elite and the nature of the national political economy system (Gilpin, 2001:18).

## 2.3 Power

Power can not be neglected in the area of political science because it plays a very significant role in the political discourse. In the international political economy there is structural power that accounts for states to set up and determine the structure of global political economy. In other words, with power an actor will be able to set the agenda of discussion or to design the international regimes<sup>7</sup> of rules and customs that are supposed to govern international economic relations (Strange, 1985:25; Ravenhill, 2008).

There are two types of power in the international political economy, namely relational power and structural power (Strange, 1985: 24). The former is the power of a party to get another party do something they would not do otherwise, while the latter confers the power to decide how things shall be done, the power to create frameworks within which states relate to each other, relate to people, or relate to corporate enterprises (Strange, 1985: 24-25).

According to Krasner, meta power, congruent with structural power, is not exercised in direct confrontation, but only to control the outcomes through changes of the setting where the confrontation or negotiation occurs (Guzzini, 1993). Krasner's argument how to change the rules of the game will be engaged in this regard. Krasner argued that the third world countries, which always want power and control as much as wealth compared to the developed countries, have strategy to change the rules of the game in various international issue in order to achieve their goals (Krasner, 1985:3) however I will try to link this argument with the EU behaviour.

Krasner have also stated that the third world countries tend to pursue an authoritative regime rather than market oriented regime in every cooperation they have because authoritative regime would ameliorate their weaknesses. Market based regime is a regime that is always pursued by the developed countries since the allocation of resources in this regime is determined by the endowments and preferences of individual actors who have the rights to alienate their properties according to their own estimation of their own interest (Krasner, 1985:5)

From this definition of power and enggaging with Krasner's argument, relationship between the EU and ASEAN, especially concerning to current negotiation for the establishment of the FTA, will be examined<sup>8</sup>. Since the stall

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<sup>7</sup> According to Krasner, regimes are principles, norms, rules and decision making procedures around which actor expectations converge (Krasner, 1985:4)

<sup>8</sup> The relationship between the EU and ASEAN in an FTA will be examined based on the power relation within this relationship. In this regard, Krasner has argued that any

of the current MTN in the WTO, the EU has tried to establish several bilateral agreements. My explanation will be based on the argument that the EU, compare to ASEAN, is an example of a regional organisation that always use its power in order to implement policies and to channel its economic forces in ways favorable to its members interest (Gilpin, 2001: 21). Changes in regimes can alter the control and allocation of resources among actors in the international system (Krasner, 1985:5).

## 2.4 Chapter Synthesis

This chapter tries to explain the relations between free trade, regionalism, interregionalism, realism and power to further explain the phenomena of this research.

Liberalism is a foundation explaining how the EU and ASEAN are engaged in a cooperation, through the ASEAN-EU FTA. And this cooperation will be beneficial for both parties since the liberals argue that cooperation will give mutual benefits to all parties involved in the cooperation. The cooperation between ASEAN and the EU in an FTA is an interregional relations, consist of two regional institutional that have long history, politically and economically in the international affairs since their establishment.

On the other hand, realism view the relationship between these two regions based on power relations, especially concerning to the AEFTA. From the perspective of realism, state is the main actor in the international fora, economically and politically, and the role of power is very important in this regard.

Responding to the stalemate in the multilateral negotiation, EU has tried to establish many trade agreements with other countries and regional groups, and from my perspective, the argument from Krasner would be feasible to explain this issue. EU wants to change the rules of the game through market oriented regime and to step aside from the multilateral negotiation to bilateral to achieve their goals and it is consistent with what have been said by Krasner that changes in regime can alter the control and allocation of resources among actors in the international system because every states wants more control over international regimes in order to make its own basic values and interests more secure (Krasner, 1985:3).

Lastly, realism also mentions that powerful groups within society plays a significant role in state decision making. In the case of the EU, this argument explains how the decison making, especially in the EU trade policies, has made the EU divert its attention to the bilateral trade agreement in order to pursue its goals.

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attempt to change or to set new institutional frames must be integrated into power analysis (Guzzini, 1993).

Those explanation will lead to following expectation that the relationship between the ASEAN and the EU in a free trade agreement can be explained as a relationship based on power relation, which is realists and power arguments have been provided descent explanations in this regard. The following chapters will give a picture how the theoretical frameworks explains the phenomenon of this research.

## **Chapter 3**

### **THE ASEAN AND THE EU**

Before we examine and observe the relationship between the ASEAN and the EU in a Free Trade Agreement, it would be useful to understand some information regarding those two regions.

#### **3.1 ASEAN: an overview**

ASEAN was established on 8 August 1967 in Bangkok, Thailand by five countries in the Southeast Asian region which consists of Indonesia, Malaysia, Thailand, Singapore and Philippines. It was remarked by the endorsement of Bangkok Declaration. After the establishment in 1967, there were no critical steps taken by ASEAN as a regional group in Southeast Asia until 1976. In that year, the Bali Concorde was held to strengthened ASEAN cooperation in order to clarify and expand the initial objectives that were implicitly mentioned in the Bangkok Declaration. The Treaty of Amity and Cooperation in Southeast Asia was established in that meeting to endorsed the achievement of those objectives.

Basically the Bali Concorde resulted in the commitment from the ASEAN member to deepen specific economic objectives, which included efforts to improve global market access, cooperative approaches to international commodity issues, and cooperation in establishing region-wide industries (Denoon and Colbert, 1998). Nevertheless, this effort is remain ad hoc to the fact that the cooperation, especially economic cooperation in ASEAN, and the integration attempt has been slow (Ariff, 1994)

The next phase in the evolution of ASEAN would be the enlargement of its membership from five to ten members. Brunei Darussalam joined the association in 1984, followed by Vietnam, Lao PDR, Myanmar and the last is Cambodia who joined in 1999, just after the financial crisis in that region. It took nearly 40 years for ASEAN to expand its membership to all regions. Although suffered from the crisis in 1997, the rise of ASEAN is unavoidable as a respond to the larger changes at the global level, such as the political economic integration in European hemisphere and also the economic integration in North America (NAFTA). ASEAN also reveals the powerful forces working within the region that catalyzes regionalism. Whatever be the case, globalization is giving regional organization a stronger rationale (Sultanat, 2002).

However, the enlargement of ASEAN can be an obstacle for the initial members in order to participate in the global level, especially economically because there are some differences between the initial members with the so-called newcomer. On this issue Linda Low emphasized that the new ASEAN members are less integrated with the world economy and there are inherent problems of widening versus deepening within the ASEAN 10 to delay integration and intrablock gains (Low, 2004). Furthermore, the political structure between the former and the latter also varies, from the democratic to

the most undemocratic states. Nevertheless, its principles of non-interference coincide with the acknowledgement of national sovereignty and integrity has led Southeast Asia to be a peaceful region. They never had an escalated tension to armed confrontation for 40 years. However, to have further integration in regard of politics will remain tricky.

The most important phase, which was also an attempt of integration, was the launching of ASEAN Free Trade Area (AFTA) in 1992, initiated by Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. There is a tendency to consider AFTA as an open regionalism project, that is an instrument to attract foreign direct investment (FDI) into region through the “carrot” of the single regional market (Nesadurai, 2003). The evolution did not end in the formation of AFTA in 1992. After the creation of this bloc, the ASEAN also spread their intention to be more integrated not only trade and investment but also other sectors such as services (ASEAN Framework Agreement on Services), customs (ASEAN Agreement on Customs), and fund (ASEAN Development Fund). All these initiatives will end up to the creation of ASEAN Economic Community in 2020 ([www.aseansec.org](http://www.aseansec.org))

Yet, the most ambitious objective from ASEAN that will be implemented in 2020 is the establishment of ASEAN Economic Community as the end goal of economic integration. As noted in the current signed ASEAN Charter, ASEAN Economic Community is getting apparent, at least by a plan and a path to achieve the full economic integration in the region.

### ***3.1.1 ASEAN Free Trade Area (AFTA)***

ASEAN Free Trade Area (AFTA) was launched in 1992 and until now, it is still in the progress of negotiation and implementation for several issues. The aim of this agreement is to promote the region’s competitive advantage as a single production unit. Furthermore, the elimination of tariff and non-tariff barriers among Member Countries is expected to promote greater economic efficiency, productivity, and competitiveness ([www.aseansec.org](http://www.aseansec.org))

Since 1 January 2005, tariffs on almost 99% of the products in the Inclusion Lists (ILs) of the Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand (ASEAN-6) have been reduced to no more than 5 % and more than 60% of these products have zero tariffs. Now, the average tariff for ASEAN-6 has been brought down no more than 12%. However, the new members (Cambodia, Laos, Myanmar and Viet Nam) are not far behind in the implementation of their CEPT commitments with almost 80% of their products having been moved into their respective CEPT ILs ([www.aseansec.org](http://www.aseansec.org)).

The signing of the Protocol to Amend the CEPT-AFTA Agreement for the Elimination of Import Duties on 30 January 2003, agreed to reduce and eliminated tariff on 60% of ASEAN-6 products in the IL by 2003. Since the date of implementation of this agreement, the tariff of nearly 64% of products in the IL of ASEAN-6 have been eliminated with the average tariff under CEPT for ASEAN-6 is down to 1.51% from 12.76% when the tariff cutting exercise started in 1993 ([www.aseansec.org](http://www.aseansec.org)).

### ***3.1.2 ASEAN FTA with its partner***

Currently, ASEAN has already established two free trade agreement with South Korea and China, furthermore ASEAN will have another four agreement that is still in negotiation, including with India, Australia-New Zealand, Japan and the EU.

#### **3.1.2.1 ASEAN Korea FTA (AKFTA)**

The first joint statement regarding AKFTA was signed on 8 October 2003 in Bali and it was followed by the signing of Framework Agreement on AKFTA by the head of the government of each party on 13 December 2005 in Kuala Lumpur, Malaysia ([www.ditjenkpi.depdag.go.id](http://www.ditjenkpi.depdag.go.id)).

The negotiation itself has started since February 2005 and will be implemented between 2006 and 2010 for normal track and between 2012 and 2016 for sensitive track ([www.ditjenkpi.depdag.go.id](http://www.ditjenkpi.depdag.go.id))

There are several points which is the focus of negotiation: the establishment of dispute settlement mechanism in order to solve all the disputes between the two parties, trade in services, investment and the formation of Working Group – Economic Cooperation (WG-EC) as the implementing body of the agreement ([www.ditjenkpi.depdag.go.id](http://www.ditjenkpi.depdag.go.id))

The latest negotiation was held on July 2008 in Bangkok which worked through the implementation of trade in goods agreement, implementation of trade in services agreement and investment negotiation (Ministry of Trade Report, 2008)

#### **3.1.2.2 ASEAN China FTA (ACFTA)**

ASEAN China Comprehensive Economic Cooperation was agreed by ASEAN and China on 6 November 2001 in Bandar Seri Begawan. Furthermore, this cooperation was followed by the establishment of ASEAN China FTA remarked by the signing of the agreement by ASEAN and China leaders in Phnom Penh, Cambodia on 4 November 2002 ([www.ditjenkpi.depdag.go.id](http://www.ditjenkpi.depdag.go.id))

This agreement will be implemented in three stages:

1. Early Harvest Programme (EHP), the implementation of duty eliminations to 0% in 2006 for several products
2. Normal track, the elimination of tariff barrier at least to 40% of products from 0-5% in 2005 and 100% products at 0% in 2010
3. Sensitive and Highly Sensitive track, reducing tariff barrier to 20% in 2012 and 0-5% in 2018

The latest negotiation was held in Hangzhou, China on 30th meeting of the ASEAN-China Trade Negotiating Committee (AC-TNC), 20-28 July 2008. The meeting focused on several issues, which are the status of implementation of ACFTA agreement, Rules of Origin, review on trade in goods agreement

and also investment, which is the most progressive due to its 14 articles agreed by two parties out of 18 outstanding issues (Ministry of Trade Report, 2008).

### **3.2 EU: an overview**

#### ***3.2.1 EU Trade Policy***

Released on 4 October 2006, the new EU trade policy which is called “Global Europe: competing in the world” presents a new trade policies and strategy for the years ahead. Focusing on how to improve the competitiveness in the global market, the core of this policies are clearly stated. In order to maintain the competitiveness in the global market, the EU has to enhance its efforts to create opportunities and chance for its companies abroad targeting especially in the third countries (Maes, 2007). Europe’s trade policy must become an integral part of its wider approach to economic reform and competitiveness. A stronger EU economy at home means Europe has to be more competitive abroad. Thus the EU need to open markets and create new opportunities for trade and ensure European companies will be able to compete fairly in those markets ([www.europa.eu](http://www.europa.eu))

To increase their external competitiveness, the EU will use their key strategy, breaking down the regulatory environments and looking beyond the WTO (Maes, 2007). This means that they will try to seek some opportunities to launch some issues that have not been concluded in the WTO negotiation. These ambitious steps are primarily targeted to the emerging market because it will provide some benefits that could be gained by the EU companies.

There are several critiques concerning these new trade policies, especially regarding the relationship between the EU and the third countries. Since they became the target of the EU to impose their goals, the third countries has been in jeopardy. Oxfam said that the new trade policies that had been presented by the then EU Trade Commisioner Peter Mandelson in his speech will pose a serious threat to poor countries’ development ([www.oxfam.org](http://www.oxfam.org)). Another critique emphasis on the far reaching agreement that will be pursued by the EU in every agreement with their trading partners. This means that it will go beyond the WTO where some issues that has made current impasse, such as the Singapore Issues, has to be reached in their trade agreement. Aggressive liberalisation is in their track and will likely hinder further development in the developing countries.

#### ***3.2.2 EU and the developing countries***

The first relation between the EU and the developing countries, especially in regard to economic relations, was the signing of Lome Convention between the EU and 46 developing countries from Africa, the Caribbean and the Pacific (ACP) in 1975. The convention included the cooperation in the field of trade, investment, aid, industry and the stabilisation of ACP earnings from commodity export (Ravenhill, 1985:1).

Not only the Lome convention that remarked the relationship between the EU and the developing countries. The regime of Generalized Systems of Preferences (GSP) was also an important phase in the relations between the EU and the third world countries.

GSP was a preference from the EU given to countries which do not belong to ACP countries (van Reisen, 1999:134) and the GSP principle is quite different with the Lome Convention. While Lome Convention is applied for all ACP countries without prohibition, GSP is based on the graduation principle, where there is possibility for each recipient countries to be excluded from GSP if the country's production is getting stronger and bigger (Reisen, 1999:134). Another principle is that this trade regime is based on unilateral action from the donor country. It means that they can withdraw this policy whether the production capacity and competitiveness of the recipient country has increased or not.

Nowadays, since the stalemate in the MTN, the EU is becoming the major actor behind the spread of FTA and their partner in the FTA is the developing countries (Francois et al, 2005). Several issues justified the reason for the EU to have these FTA, political and economical factor is both accounted. But for the developing countries itself, the primary motivation for them to have FTA with the EU is the attractive market in the EU.

### **3.3 EU and ASEAN economic relationship**

#### ***3.3.1 The Trans-Regional EU-ASEAN Trade Initiatives (TREATTI)***

Prior to the launching of Trans-Regional EU-ASEAN Trade Initiative (TREATTI) in 2003, there was several meeting between the two regions regarding the economic cooperation between the EU and ASEAN. However one of the most important phase concerning the economic relationship between the EU and ASEAN is the TREATTI. Launched at the third ASEAN Economic Ministers and EU Trade Commissioner Consultations on 4 April 2003, the TREATTI was suggested by the EU to address trade facilitation, investment, and regulatory issues between ASEAN and EU. The TREATTI would be based on the existing Cooperation Agreement between the Member Countries of ASEAN and the European Community signed in 1980 and would be established through a joint declaration ([www.aseansec.org](http://www.aseansec.org))

As a main component of the Commission's Communication on "A New Partnership with South East Asia" this initiatives looked closely to link with ASEAN's own drive for economic integration. This initiative will begin with exchange of experience and information between two regions and it is expected to move to more substantial regulatory commitment over time ([www.europa.eu](http://www.europa.eu)). Moreover, this framework will become the basis for the EU and ASEAN to have a preferential trading agreement in the future ([www.aseansec.org](http://www.aseansec.org))

### **3.3.2 ASEAN EU FTA**

#### **3.3.2.1 ASEAN Motivation**

Basically, as well as strengthening economic relations within ASEAN through AFTA, ASEAN also have to practise open regionalism and remain outward looking to be more competitive in the world trading system (Yue and Tan, 1996:4) thus cooperation with its major trading partner is inevitable. Considering that the EU is one of the most important trading partner, after Japan and the US, hence ASEAN is willing to seek and have FTA with the EU, especially after the rise of China in the global market. The rise of China in the global trading system has became a threat for ASEAN since both of them has similar industrial, market and trade structure.

Focusing on the motivation for the AEFTA, ASEAN wants to enhance their product competitiveness in the EU market because there are some regulation in the EU, tariff and non tariff barrier, that have made ASEAN products lose their competitiveness in EU market. And the EU has imposed tariff barrier to product in which ASEAN has comparative advantage compare to the other trading partner in the EU market (Tharakan, 2002)

Therefore, establishment of FTA would be feasible for ASEAN in order to increase their competitiveness in the EU market because with the establishment of AEFTA, expectedly, the EU will change their regulation that had hampered ASEAN export with the reciprocity principle.

#### **3.3.2.2 EU Motivation**

There are several reason why the EU is expanding their relationship between its trading partners through FTA. The broad commercial motivation from the EU to have FTA with its trading partners are to neutralize potential trade diversion from FTAs between third countries; to strengthen the forging strategic links with countries or regions experiencing rapid economic growth; and the enforcement of international trade rules (Wolcoock, 2007).

Specifically for ASEAN, the EU has several reason for them to have an FTA. According to Knottnerus (2007) there is an interest from the EU to maintain their existence in the Southeast Asia particularly in the economic areas where China, Japan and the US is becoming their rivals in this region. In the case of China, the ambassador of the EU, Holger Standertskjold, has pointed out that the EU want to increase their trade relations with ASEAN, and they do not want to be taken over by China<sup>9</sup>.

Secondly, ASEAN is the future key market for the EU since the world's economic center will shift to Asia and ASEAN as the potential regions that will have economic advantage over the other parts in 2050 (Rommel, 2006). Thirdly, in lines with their new trade policies, they want to implement their new strategic over ASEAN with the main goals of deeper liberalization in the FTA including the Singapore Issues attached in it. Lastly, the EU wants to seek

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<sup>9</sup> [www.bilaterals.org/article.php3?id\\_article=7093](http://www.bilaterals.org/article.php3?id_article=7093)

further harmonisation of trade rules and regulation in the ASEAN (Knottnerus, 2007).

### **3.4 Chapter Synthesis**

This chapter has explain the ASEAN and the EU as partner in the global trading system, including their relation and policies to the other partners. The motivation for both parties to engage in the FTA negotiation is clearly stated. From the negotiation process, where both parties is giving their proposal, we shall find out who is the most aggressive party in this regard since there will be power relation in this negotiation and who will exercise their power, that is meta power in the AEFTA. The next chapter will show that the party who acted aggressively and have more power over the other is the EU; hence, exercised its power in the negotiation to pursue their objectives through a market oriented regime of FTA.

## Chapter 4 ANALYSIS

*“..We always use bilateral free trade agreements to move things beyond WTO standards... Now investment, public (government) procurement and competition are areas which we are always addressing in our bilateral free trade agreements.....All these so-called "Singapore Issues" have been part of our bilateral trade agenda. So they will be part of our bilateral trade agenda with this region (ASEAN)..”*

- Pascal Lamy, Former EU Trade Commisioner, 2004<sup>10</sup>-

### 4.1 Current Impasse in the MTN

The establishment of WTO in 1995 as a result of Uruguay Round, followed by The Ministerial Meeting in Seattle in 1999 and The Doha Ministerial Conference, was a step for the multilateral trade negotiation process to gain a new trade agreement in the global trading system.

This conference came up with the Doha Development Agenda which give mandate to WTO members for negotiation on some issues that still needed to be agreed by all WTO members. This serial of conference, then called as Doha Round, mainly focused on issues of Agriculture, Non-Agricultural Market Access (NAMA), Trade in Services, Trade Related Aspect of Intellectual Property Rights (TRIPs), Singapore Issues (competition, investment, government procurement and trade facilitation) and Special and Differential Treatment (Jawara and Kwa, 2003).

This negotiation was launched with the intention of ensuring that developing countries especially least developed, received a share in the growth of world trade commensurate with the needs of their economic development (Winham, 2007).

The deadline of the negotiation is 1 January 2005, which means that all the negotiations have to be completed before the deadline. Hopefully, this can bring the intended result to the members so they can apply it for their purposes in the world trading system and to get some benefit from it. However, it seems impossible to achive since the impasse that occurred between Developing Countries and Developed Countries at the Cancun WTO ministerial meeting in September 2003 (Winham, 2007).

After the Doha Ministerial Meeting, the next round for negotiation was the Fifth Ministerial Meeting held in Cancun, Mexico, in September 2003. It was intended as a stock-taking meeting where members would agree on how to complete the rest of the negotiations (WTO, 2008). But the meeting was not as simple as expected because of the disagreements between the WTO member

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<sup>10</sup> Quoted from the interview between Pascal Lamy and the Jakarta Post's journalist, Zakki P. Hakim in September 2004  
(<http://old.thejakartapost.com/yesterdaydetail.asp?fileid=20040909.N01>).

countries along with the issue from the Doha Round . The stalemate process in Cancun has created huge disappointment for most of delegations. One of the most contentious issue in this meeting is the Singapore Issues proposed by the EU.

Basically, the main problem that was faced by all the WTO members in order to have consensus in Cancun was the wide different interests between countries. For instance, in agriculture, there has to be a willingness to cut subsidies from the developed countries and also to reduce the import barriers in the case of EU. Unless to gain the same treatment from their trading partner, the EU will never have such willingness.

The deadlock was worsened when the EU pushed for the Singapore Issues in Cancun. However, most of the developing countries were reluctant to this issue, especially from Africa. On the other hand, Korea and Japan, who have rejected the agricultural liberalisation, simply agreed with the EU to include Singapore Issues in the Round.

The sixth WTO Ministerial meeting, held in Hongkong on December 2005, continued the negotiation after the failure in Cancun. There are four main issues that have to be agreed in the negotiation. They are services, agriculture, non-agricultural market access and the development packages, which is a demand from the developing countries to get special and differential treatment (Taylor, 2007)

## **4.2 Respond to the Current Impasse in the MTN**

After the stalemate in the MTN, however, in a North-South regional agreements, the industrial countries are pushing ahead with the type of 'WTO-plus' agreements that demand obligations from developing countries in those same areas that are not yet concluded in the multilateral negotiation. For example, despite the decision that was taken at the WTO Ministerial meeting in Cancun to exclude the Singapore issues, they continue to pursued at the regional level the economic partnership agreements being negotiated between the EU and their trading partners, such as ACP countries, Mercosur and Chile. (Gavin, 2005).

The behaviour of the developed countries, especially since the deadlock occurred in the MTN, which tend to try to establish many bilateral trade agreement with other countries can be explained by the argument from Krasner. The EU wants to change the rules of the game or in this case to step aside from the multilateral negotiation to smaller ones in order to achieve their goals. This is consistent with the argument from Krasner that changes in regime can alter the control and allocation of resources among actors in the international system. Moreover, it was stated that every states wants more control over international regimes in order to make its own basic values and interests more secure (Krasner, 1985:3).

Stepping aside from the multilateral negotiation to bilateral agreement can be seen as an attempt for the EU to change the rules of the games, where they want to have an FTA with some countries and other regional groups in order

to achieve their goals through a market oriented based regime. This market based regime will ease the imposition of the EU trade policies that implicitly stated in their proposal for the FTA. Apparently, the main points that were always delivered in the proposal are some issues that have not yet been agreed in the multilateral trade negotiation.

Apart from that, the EU viewed the cooperation between them and ASEAN in a framework of Free Trade Agreement will benefit both parties. This perspective is based on the liberal framework. Unfortunately, there are also some critique to this statement which pointed out that this kind of relationship will produce an imbalances between two parties and disparities of wealth. Trade treaties between a powerful developed country with developing countries can result in problems for their consumers, farmers and industries (South-North Development Monitor, 2007).

### **4.3 ASEAN-EU FTA: Negotiation Process**

#### ***4.3.1 The EU Proposal for ASEAN-EU FTA***

In order to analyse the negotiation processes it is usefull to summarize the proposal from the EU. This proposal was delivered in the 3rd Joint Committee for AEFTA (JC-AEFTA) meeting in Brussels, Belgium from 28 January to 4 February 2008. There are five main points in the proposal as the objectives of the FTA proposed by the EU. The objectives are as follows:

1. Relating to liberalisation of trade in goods, services and establishment including investment
2. Relating to elimination of non tariff barriers
3. Relating to transparency
4. Relating to sustainable development
5. Relating to cooperation activities as regards the implementation of the FTA agreement

Encompassing all the objectives, the proposal mentioned eight issues to be negotiated by ASEAN and the EU including four issues which is the most contentious one -- The Singapore Issues. The issues that have been proposed by the EU are Trade in goods; Trade in services and establishment; Public procurement; Trade and competition; Intellectual, Industrial and commercial property; Capital movement and payments; Trade and sustainable development; Institutional framework and general provision.

In general, the proposal from EU carries very ambitious policies. Deliberately, they demand for further market access in the ASEAN market for industrial goods, services and investment. Contrary with their demand, EU is still protecting their agriculture and fishery sector, which stated in the “tariff reduction flexibility” for agricultural and fisheries products in their proposal (Ministry of Trade Report, 2008).

The proposition from the EU which include Singapore Issues in their proposal is the evidence that EU wants to go further in this negotiation and many ASEAN members are still reluctant to this issue. This New Generation

Issues, viewed as a deeper integration that goes beyond the WTO and some civil society, will bring disadvantages for the third world countries<sup>11</sup>.

ASEAN has made a stance to respond to the proposal from EU. In the proposal which have been delivered by EU in the 3rd Joint Committee for AEFTA, they are going to push sensitive issues to ASEAN; i.e. public procurement, IPR, competition policy, transparency and regulation, and trade and sustainable development. ASEAN, temporarily, has refused to negotiate all those issues, especially public procurement, competition policy, IPR and trade and sustainable development (Ministry of Trade Report, 2008). The rejection is based on the high level of difficulties for ASEAN to consolidate and also because there are some development gap within ASEAN. From this fact, we can see that ASEAN has been trying to avoid the movement from EU regarding liberalization in some sensitive issues, especially the Singapore Issue.

In the case of IPR, EU wants a comprehensive and prescriptive agreement. The IPR proposal consists of trademark registration system, geographical indication, industrial design, data protection, patent, copyright and trademark. However, ASEAN has also refused to negotiate this agreement because of the vast coverage of the agreement and ASEAN is aware that its members is not ready for this kind of agreement (Ministry of Trade report, 2008).

Another issue that has not been agreed to be negotiated in the AEFTA is government procurement. The discussion of this issue is very short and there was no significant progress because the position of ASEAN over this issue is very clear. ASEAN, especially Malaysia, does not want to discuss this issue, however the EU insists to include this in the negotiation (Ministry of Trade Report, 2008).

The proposal from EU has given an evidence, that EU is trying to pursue a market based regime which will make them easier to impose trade liberalization embedded in the issues which have been proposed for the AEFTA. In this regard, the attempt by the EU to step aside from the MTN to the bilateral stage in order to achieve their goals which have not been fulfilled in the MTN, becomes apparent.

#### ***4.3.2 Power Relation in the Negotiation***

Trade agreement between parties who have similar level of economic and political development can be beneficial for both of them. However, if this relationship occur between two parties with different level of development, it would lead to asymmetrical relationship.

In the AEFTA, there is asymmetrical relations between the EU and ASEAN. There is lack of coordination and development gap among ASEAN member that will make this negotiation in favor of the EU. Hence, the EU will

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<sup>11</sup> [http://www.oxfam.org.uk/resources/policy/trade/downloads/fta1\\_intro.pdf](http://www.oxfam.org.uk/resources/policy/trade/downloads/fta1_intro.pdf)

excercise their power, that is meta power, in the negotiation process in order to achieve their goals which has been stated in their proposal to ASEAN.

ASEAN is a highly heterogeneous regional group, with very different levels of development across its member and this heterogeneity leads to different stakes, interests and priorities among ASEAN member (Nicolas, 2006), including some trade issues, especially trade issues in the MTN. For instance, in the agricultural sector, there are two different positions in the MTN which involved ASEAN members. Malaysia and Thailand are the member of Cairns Group which seek greater liberalization of trade in agricultural products. In contrast, Indonesia and the Philippines are the only ASEAN members of the G33, which supports special safeguards allowing developing countries to block imports of sensitive agricultural products under specified circumstances (Tsai, 2007). From this evidence we can see that the ASEAN does not seem to have similar priority regarding agricultural products. Thus, they should coordinate further between themselves if they want to negotiate with the EU equally because the EU could use these differences between the ASEAN countries to impose their policies easily.

Another fact about differences among ASEAN members is regarding issue of services. Singapore is one of the main capitals of services in the world trading system and they will likely try to maintain their advantage in this sensitive sector. Liberalisation of services is in favor of the EU and Singapore will get benefit from this issue. There is a gap between Singapore and the other members that will produce disagreement regarding to this issue, so that the stance of ASEAN concerning to this sensitive issue is not too convincing.

The economic development among ASEAN members itself is not in the same level. On this issue, Linda Low has emphasized that the new ASEAN members are less integrated with the world economy and there are inherent problems of widening versus deepening within the ASEAN 10 to delay integration and intrablock gains (Low, 2004). From this statement, we can see that different levels of development within ASEAN would give a problem to ASEAN especially in regard of external relation with their partners.

These problems will lead to lower bargaining power in the negotiation because it would be difficult and a lot of time is needed in order to have the same perception regarding the issues negotiated. Compared to EU, characterised by supranational decision-making in the trade policy area, resulting in limited opportunities for the individual member state to design and decide upon its own trade policy, ASEAN is not the similar institution with the same authority to represent the opinions of its members by a common voice (Lindberg and Alvstam, 2008).

Power relation emerged in this relationship, because in terms of different level of development, institutional structure and common interest within its member, ASEAN does not have advantage over the EU. Hence, the EU, who has more power in this regard, will get benefit and they tend to have bigger bargaining position over ASEAN. The EU could exercise their power, through meta power, with the imposition of market based regime that implied on several issues, concerning trade liberalization, in the proposal of FTA.

Similar with structural power, that is power to influence outcome in the negotiation process, meta power is an indirect way of power in order to change the rules of a regime or cooperation between member. This indirect power could be exercised in one or two ways, that involves an intentional and active manipulation of the rules of the game and of unintentionality or agency on the part of the dominant party, but instead result from the prevailing institution (Helleiner, 2006).

Applied to this negotiation, the role of the EU is in both ways. The EU wants to impose their agenda through indirect way of power, meta power, where they want to control over the outcome of the negotiation through changing the rules of the game. The outcome they want to pursue is clearly stated in their proposal, including the Singapore Issue, services and IPR.

#### **4.4 What is the driving forces for the EU to establish an FTA with ASEAN?**

The EU wants to establish an FTA with the ASEAN because they want to achieve their objectives, that is their external trade objectives, which have not been fulfilled in the multilateral trade negotiation. However, another question has also emerged. What would be the driving forces for the EU to impose their external trade policies and achieve this objectives?

Realism has argued that in the policy formulation, the interests and policy of state are determined by pressure of powerful groups within society, the governing political elite and the nature of the national system of political economy (Gilpin, 2001:18). Thus, I will argue that one of the powerful pressure within the EU that had been influenced in the decision making of the EU is the business society. Lobbying from the businesses plays significant role in this regard. The European Commission itself, which holds strong powers over EU trade policies, has an active strategy of aligning itself with corporate lobbying structures. (Eurotopia, 2004)

The Commission, for instance, used such industry input to decide the list of requests to Southern governments in the WTO's services negotiations (GATS), which includes market-opening and, in effect, privatisation of water delivery and other essential public services. New documents obtained by Corporate Europe Observatory reveal the close – almost symbiotic relationship – between EU trade officials and the European Services Forum (ESF) (Eurotopia, 2004).

There are multi-level environment (or open decision-making system), which influences interest aggregation and the competition among stakeholders in the process of policy making in the EU. The multi-level character of EU politics opens up new opportunities for interest groups to lobby (Elsig, 2007). One of the stakeholder that plays important role in the decision making in the EU is the European business community. They even usually attempts to make its voice heard through various channels at the national and European level. (Elsig, 2007).

The involvement of private sector in the decision making process in the Union and coincide with the fact that there is alignment between the EU and the private sector, has been produced a new trade strategies of the EU. This new trade policy, Global Europe: Competing in the world, has an immediate and primary goal of EU trade policy, that is now to concentrate on creating markets abroad for European companies, including the initiatives to protect intellectual property rights more aggressively; improve market access for European goods and services in the rest of the world; open up more public procurement markets abroad; and improve the EU's trade defence instruments (Meunier, 2007). This policy leads to pursuance of a market oriented regime, an FTA, especially after the stalemate in the MTN. Because with a market oriented regime, it would be easier for the EU to exercise their meta power over their trading partners, in order to achieve their trade policies.

There is also an evidence where the EU businesses is really a powerful force that could influenced the EU policies. The delayed signing of FTA between the EU with the six-nation Gulf Co-operation Council (GCC) countries was caused by the opposition from a powerful lobby within the EU (Emirates Business, 2008).

Another evidence is coming from the European steel Industry. For them, FTA negotiation should be based on the objective of achieving improved market access and reciprocity, particularly in relation to border restrictions, foreign investment, competition policy and trade defence<sup>12</sup> so that they can easily penetrate to the destined countries.

Services is one of the most important business sector in the UE. There are almost 14.4 million service corporations in all EU countries (EU-27) in 2005 which generated a trunover of EUR 11.974 billion and produce a value added of EUR 2.991 billion with 76 million employment<sup>13</sup>.

With all this statistic, apparently, services is one of the biggest sector in the EU, hence there always be a demand for expanding its market access to another regions. The opening up market in other region will spread the accumulation that has been accumulated in the EU and they will gain more benefit in the new market . Instead of increasing costumer in the EU, it will be more beneficial for these sector to expand and gain more consumer in other region, especially in the developing countries.

Hence, with the need for market expansion, it is becoming inevitable for this sector to have influence over the trade policies in the EU. This fact is supporting the argument that the driving forces to have AEFTA is from the private sectors. In this regard, an independent think-tank IBON Foundation in the Philippine has pointed out, that the ultimate agenda behind such an EU-ASEAN FTA was to liberalize Southeast Asia's services sectors to European

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<sup>12</sup> <http://www.eurofer.org/index.php/eng/Issues-Positions/Trade/Bilateral-Issues/EU-Free-Trade-Agreement-Negotiations>

<sup>13</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-SF-08-078/EN/KS-SF-08-078-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-08-078/EN/KS-SF-08-078-EN.PDF)

corporations, citing that three-quarters of the EU's gross domestic product is in the services sector<sup>14</sup>

## 4.5 Reciprocity and GSP

The element of the FTA that always attached and attracts most attention in the trade regime especially trade agreement between the developed countries and the developing countries is reciprocity. This element also appear in the ASEAN EU FTA which means that ASEAN should give preferential treatment to the EU products exported to ASEAN countries. This preferential treatment should be given by ASEAN because on the basis of reciprocity, if one party has given the other party some preferential treatment, such as reducing tariff barrier, hence the other party has to do the same thing which means the ASEAN should give the EU the same action. Opening market for both parties is the main goals of reciprocity, there is no unequal treatment between parties.

Reciprocal action in the trade regimes has been gained some critique especially when the EPAs between the EU and the ACP countries is in the negotiation. Based on the reciprocity, in the case of EPAs, this effectively means that ACP countries will, in time, open their markets for EU products, giving them preferential access when compared to third countries. Whether the ACP developing countries are able to cope with the increased competitive pressures or the need for adjustment and reform are questioned by academics, policy makers and NGO's alike (van Hoestenberghe and Roelfsema, 2006).

Similar with the case of EPAs, the ASEAN-EU FTA will lead to criticism from the civil society because it is obvious that opening market to EU products, coincide with the uncompetitiveness most of ASEAN products will destroy domestic producers.

Another reason why reciprocity is not good for ASEAN is the fact that most of ASEAN countries has been given by the EU a preferential treatment based on Generalized Systems of Preferences (GSP). The GSP is a unilateral and voluntary action that has been granted for most of developing countries since 1971 in order to develop the market access and enhancing the competitiveness of products coming from the developing countries. Eventhough it is voluntary basis, nevertheless it was an important tools for most of ASEAN countries in order to increase their competitiveness in the EU. Thus there would be no advantages, in regard of market access, from ASEAN countries in this agreement because they already granted by the EU a preferential treatment. On the other hand the EU would have an advantage from reciprocity because they can be given a preferential treatment to penetrate in ASEAN market.

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<sup>14</sup> [http://bilaterals.org/article.php3?id\\_article=12158](http://bilaterals.org/article.php3?id_article=12158)

In this case, the EU can be seen as an actor that try to change the rules of the game through the implementation of FTA because in the FTA, there is always reciprocity that has to be apply by both parties. According to Krasner, with meta power, the EU will try to alter the regime, hence, the reciprocity and also the GSP will not valid anymore in this market oriented regime.

## 4.6 Chapter Synthesis

The first and second section of this chapter have been explaining about the current impasse in the MTN and the effect of the impasse to the behaviour of the EU and ASEAN. Particularly the EU, the proliferation of FTA which involve the EU has been vastly spread since the stalemate in the MTN. This behaviour has remarked a tendency for the EU to divert their attention from multilateral to bilateral agreement in order to have market oriented trade regime, that is an FTA. They tend to have an FTA because it will accomodate more their interest and they will have meta power as they have some advantages over their trading partners, which is the developing countries.

The third section showed that the power relation within AEFTA is emerge, because there is unequal relation between ASEAN and the EU in the negotiation process. This unequal relationship was triggered by the differences among ASEAN members, for instance the differencies regarding to agricultural and services sector. The differences within ASEAN has made the EU exercised its meta power in order to make AEFTA as a market oriented regime, however it will not be easy to achieve that objective since there is also rejection from the ASEAN in several issues that will make this AEFTA not a completely a market based regime.

With the intention from the EU to have a market based regime, there is a main driving forces that pushed the EU to pursue this kind of regime. This section has attempt to examine the main driver for the EU to push FTA with ASEAN. The main driver would be private business interest who always want to gain maximum profit and market access. In order to gain maximum profit and get further market access with full liberalization in all sector, thus the corporation lobbying the EU through a channel that has been provided by the EU. With the power of their lobby, they can influence the Commission to take a step in order to liberalize all sector in the FTA. Therefore, the new trade policies from the EU is mainly focusing on enhancing the competitiveness of European companies in their trading partner market. This evidence is fit with the argument from realist, which stated that decision making could be determined and influenced by the powerful groups within its society.

The last section of this chapter is an evidence which also proved that the EU is trying to alter the regime, especially after the impasse in the MTN, in order to achieve their objectives. The elimination of non-reciprocal trade and GSP for LDC is the main concern in this section and the FTA as a market oriented regime proposed by the EU is likely will implement reciprocity and revocation of GSP.

## **Chapter 5**

### **SUMMARY AND CONCLUSION**

This paper is trying to answer a question: What is the main motivation for the EU to have an FTA with ASEAN? and a sub question: What is the driving forces for the EU to have an FTA with ASEAN? Several reason have been proposed in response to these questions. However, the main motivation can be traced from the negotiation process between these two regions.

The theoretical framework becomes the foundation to explain and to examine the phenomenon in this research. There are several relevant concept which is explaining this research, such as liberalism, cooperation, regionalism, interregionalism, realism and power. Nevertheless, realism and power is the most suitable concept to explain the relationship between ASEAN and the EU in this FTA negotiation.

To answer the main question, it has to trace from the current impasse in the MTN. Slow progress in the Doha Round has made the EU change its strategies in order to achieve its goals, namely through bilateral agreement and since then, especially since the deadlock in the Doha Round in 2001, the EU has changed their strategies to pursue its trade objectives. Eventually in 2006, it revealed its new trade policy, particularly over the developing countries. This new trade policy propose its desire to open further for its market in the developing countries for the sake of its businesses and they also want to impose some agreements to make their companies more competitive in the developing countries market.

The concept of realism is explaining about the power relation occurred in the AEFTA negotiation. The party who has more power, hence exercised its power to change the rules of the game toward a market based regimes rather than an authoritative regime in order to achieve their goals and objectives.

The power relation between these two regions emerges in the negotiation, where the EU seems to have more power, politically and economically, over the ASEAN due to several reasons, among others lack of coordination and economic gap among ASEAN members. Lack of coordination means that within ASEAN, regarding trade issues there is disagreement among members; hence, it would be difficult to have one voice in this regard. One example is regarding services issue, where there is a tendency for Singapore, who has more advantage over the other in this sector, is likely to focus on their policy to liberalize this sector while this policy is not congruent with the other members and the EU has advantage in this negotiation because of that differences.

In order to answer the sub question, the concept of realism has been explaining how the powerful groups within society determine and influence the decision making in the EU. The evidence has showed that basically, the most important driver which is pushing the EU to establish an FTA with ASEAN would be the businesss. There several reason for the business to embark in this issue. The most important point is that the businesses wants to expand market access in the developing countries, including ASEAN; hence, through lobbying

they want to influence the decision making in the EU that will lead to the fulfilment of their desire to have further market access in the developing countries.

Hence the negotiator from ASEAN should be aware that the proposal from ASEAN-EU FTA is packed with the EU interests that are yet to achieve in the multilateral trade negotiation and the ASEAN member have to reduce their weaknesses especially with regard to one voice in ASEAN so that the ASEAN will have more bargaining power in the negotiation, thus, the EU can not easily exercised its meta power and impose its policies to this region.

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## Notes