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European Businesses Eye ASEAN as a Top Economic Opportunity, but Rising Challenges Loom — EU-ASEAN Business Council

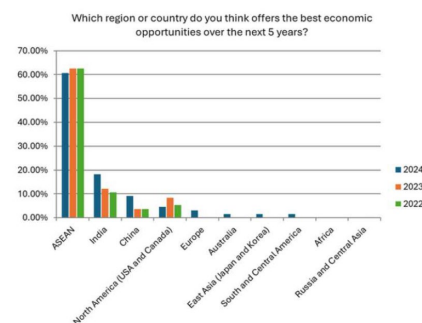
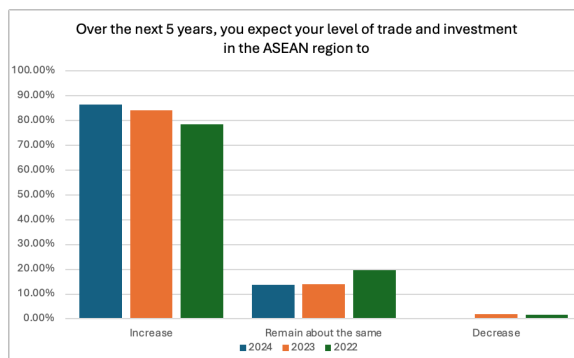
SINGAPORE, 9 SEPTEMBER 2024 – Nearly 9 out of 10 respondents to the 10th Edition of the EU-ASEAN Business Council’s annual poll of European firms say they expect to expand their level of trade and investment in Southeast Asia – the strongest response since the COVID-19 pandemic. This optimism is in tandem with their view of ASEAN as the region with the greatest economic opportunity over the next five years.

The 2024 Business Sentiment Survey, which gathered insights from nearly 400 business leaders across various industries, has been a barometer of European companies’ views of doing business in ASEAN.

However, despite the positive outlook of the ASEAN region, significant concerns persist. Their main gripe: rising non-tariff barriers and facing obstacles to utilising regional supply chains effectively. This is the most vocal that respondents have been, since the survey was launched in 2015. .

Ongoing optimism and economic opportunity in ASEAN despite headwinds

ASEAN continues to be the region with the greatest economic opportunity in the short term, despite a small slip from 2023. While ASEAN retains its position as the top choice, India has emerged as a strong contender, followed by China.



“ASEAN’s growth potential for European businesses remains unparalleled, boasting a rapidly expanding consumer base, strategic location at global trade crossroads, and a dynamic workforce. However, the slight dip in confidence indicates that regional complexities are becoming more pronounced. Without swift action to advance regional economic integration, ASEAN risks losing its competitive edge. There is also a clear need for stronger engagement from European institutions to support businesses in navigating these challenges and to ensure the region remains a leading hub for trade and investment,” said **Chris Humphrey, Executive Director of EU-ABC**.

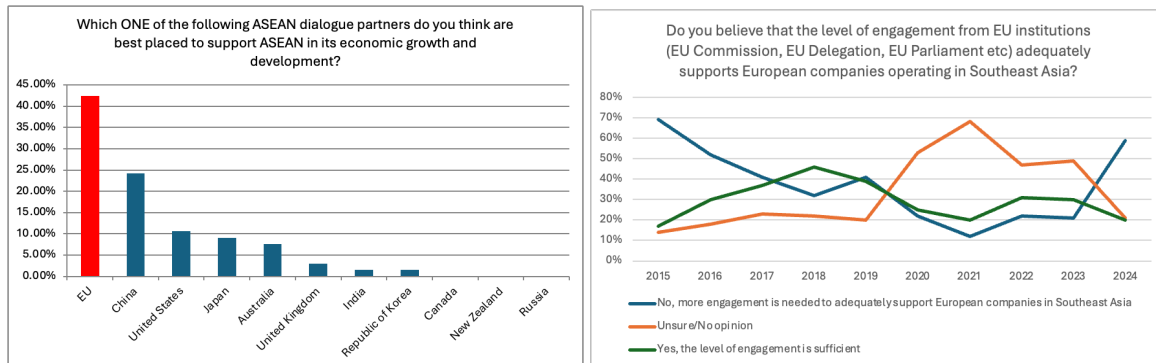
The survey highlights several critical challenges that could undermine ASEAN's attractiveness. A staggering 88% of respondents pointed to inefficient supply chain processes as a major barrier, the highest level recorded since 2021.

Additionally, 40% of respondents reported that non-tariff barriers within ASEAN have become increasingly problematic, while only 2% view customs procedures as speedy and efficient. These obstacles erode the region's appeal as a trade and investment hub.

European engagement with ASEAN falls short, raising concerns

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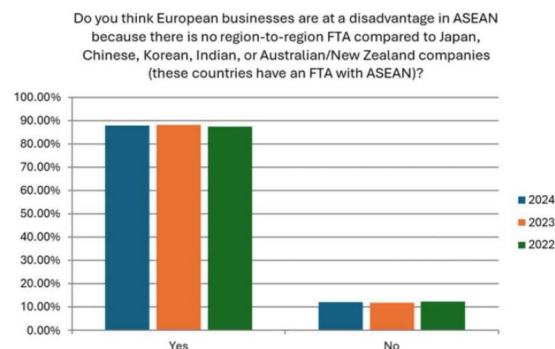
While 42% of respondents believe that Europe is best positioned to support ASEAN's future growth, a majority (59%) feel that European institutions need to increase their level of engagement to support European businesses in the region better, the highest number saying so in the history of the survey.



With the impending implementation of the EU's Carbon Border Adjustment Mechanism (CBAM), concerns about compliance complexity, potential cost increases, and competitive disadvantages are growing. However, 52% of respondents still view the European Green Deal positively impacting their business operations in ASEAN.

Absence of the EU-ASEAN Free Trade Agreement seen as a missed opportunity

The lack of a region-to-region Free Trade Agreement (FTA) between the EU and ASEAN remains a critical concern. A substantial 88% of respondents believe that the absence of such an agreement puts European businesses at a disadvantage compared to their global counterparts.



"Whilst the level of engagement from Brussels to the region on trade and investment issues is now at the highest we have ever seen, the absence of a comprehensive region-to-region FTA is perceived to place European businesses at a significant disadvantage compared to their peers from elsewhere. A region-to-region agreement would unlock greater market access, optimise supply chains, and fortify economic ties. European businesses are eager to fully capitalise on ASEAN's immense potential, but they need stronger EU support," **Humphrey asserted**. "It's time to decisively tap into ASEAN's growth opportunities."

Digital economy is a crucial frontier

In 2023, ASEAN initiated negotiations for the Digital Economy Framework Agreement (DEFA) to establish rules for the region's digital economy. DEFA will address key areas like cross-border data flows, e-commerce, and data privacy. Respondents gave a 5.9 out of 10 score when asked to rank its

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importance, but a clear majority of them wanted to be consulted on the DEFA's development moving forward.

Humphrey said, "The 5.9 importance score suggests a lack of understanding of DEFA's significance for business operations. DEFA represents a critical step forward in establishing a unified digital economy across ASEAN, which will be essential for businesses to thrive in an increasingly digital and interconnected world. While many of our respondents rightly prioritise cross-border data flows, privacy, and security, the mosaic of policy approaches across ASEAN member states presents a formidable challenge to consensus."

"This complexity could result in underpreparedness and missed opportunities for businesses that do not fully grasp DEFA's implications, underscoring the need for greater involvement in shaping an agreement that will profoundly impact how companies operate in the digital economy."

The 2024 survey results present a nuanced outlook: while ASEAN remains a region of significant opportunity, the growing challenges must be addressed. As European businesses navigate this dynamic landscape, the balance between opportunity and risk will shape the future of their operations in the region.

For ASEAN to fully realise its economic potential, close collaboration between ASEAN policymakers and the private sector is essential to remove barriers, enhance economic integration, and strengthen ties with the EU through comprehensive trade agreements.

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About the EU-ASEAN Business Sentiment Survey

This publication is the 10th edition of the annual EU-ASEAN Business Sentiment Survey. As always, it aims to serve as a barometer for the European Business outlook in Southeast Asia regarding key issues such as macroeconomic conditions, the policy and regulatory environment, and the development of free trade agreements in the region. The Survey is produced with the support of the European Chambers of Commerce in ASEAN. You may also view this report and its previous editions online at www.eu-asean.eu/publications.

About the EU-ASEAN Business Council

The EU-ASEAN Business Council is the leading voice for European businesses within the ASEAN region. Established to champion the interests of European businesses operating in ASEAN, the Council collaborates closely with governments and stakeholders to improve the investment and trade environment, benefiting both regions.

Media Contact:

Penta, on behalf of EU-ABC

eu-abc@pentagroup.co