

2017 EU-ASEAN BUSINESS SENTIMENT SURVEY



A publication of



ACKNOWLEDGEMENTS


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

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



TABLE OF CONTENTS

FOREWORD BY THE EU AMBASSADOR TO ASEAN	01
INTRODUCTION BY THE CHAIRMAN	02
KEY FINDINGS	03
CURRENT BUSINESS ENVIRONMENT & OUTLOOK	05
EU ECONOMIC ENGAGEMENT WITH ASEAN	12
ASEAN REGIONAL & DOMESTIC POLICY FRAMEWORKS	21
CONCLUSION	36
ANNEX: RESPONDENTS' PROFILE & METHODOLOGY	37
ABOUT THE EU-ASEAN BUSINESS COUNCIL	40





FOREWORD

BY H.E. FRANCISCO FONTAN PARDO
EU AMBASSADOR TO ASEAN

2017 is a special year for ASEAN and the EU. As we celebrate the 40th anniversary of our formal relations, looking back to four decades of friendship and cooperation, we also have before us an excellent opportunity to reflect on where we go next together as the two most successful regional integration processes in the world and key supporters of international cooperation and open markets.

Indeed, even at difficult economic times, trade and investment flows between the EU and ASEAN continue growing substantially – showing how robust and promising our economic relations are, and how important we are becoming for each other's prosperity.

In fact, bilateral trade in goods has almost doubled in the last 10 years, and the rapidly growing trade in services added over EUR 80 billion (in 2015) to the relationship. The EU continues to be ASEAN's largest trade partner (after China) with a share of over 13% of its market, while ASEAN is the EU's largest trade partner outside Europe (only behind the US and China), with trade totalling over EUR 208 billion in 2016.

More impressive still, the EU is the largest investor in Southeast Asia accounting for about a quarter of the total FDI stock in the ASEAN (EUR 234 billion in 2015). EU companies have been investing an average of EUR 14 billion annually in the region in the last decade. In fact, in 2015, the EU investments in the ASEAN region topped the FDI inflows of the United States and China combined.

To sustain this momentum, the EU has launched a series of FTA negotiations with ASEAN countries in order to fully realise the market opportunities for EU companies, aiming at unleashing the full potential of our economic relations. Until now, the EU has concluded negotiations with Singapore and Vietnam. Talks have been launched with four other ASEAN countries and the ambition is to conclude those negotiations in a few years from now. These bilateral Agreements are seen as stepping stones towards a fully-fledged region to region EU-ASEAN FTA.

I am therefore pleased and encouraged to read in this new and excellent survey published by the EU-ASEAN Business Council the strong interest of the EU business community on the pursuing of the EU-ASEAN FTA. Almost 9 out of the 10 respondents see the merits of a region-to-region agreement and practically its entirety demands an acceleration of the EU engagement with the region. This is a substantial increase compared to last year, showing that we are heading into the right direction, and that there is no lack of appetite from European companies to continue building a strong partnership with the ASEAN region.

It is precisely this strong support and active engagement of the EU business community in the ASEAN region that lay behind all our institutional efforts in the economic field. I want to again thank and congratulate the EU-ABC for this new Business sentiment survey and for the excellent partnership with the EU Mission to ASEAN.

INTRODUCTION

BY DONALD KANAK, CHAIRMAN
EU-ASEAN BUSINESS COUNCIL



This is the third year that the EU-ASEAN Business Council has undertaken a Business Sentiment Survey of European Businesses in the ASEAN Region. We have an increased number of respondents this year, and I would like to thank all of those who took the time to complete the survey.

We are happy to note that European Businesses continue to maintain a highly positive outlook for the region. Nearly three-quarters (a significant increase over 53% in 2016) say that the region has become more important in terms of their company's worldwide revenues over the last two years. Three-quarters of respondents feel ASEAN represents the best economic opportunities over the next 5 years compared to other economic areas. More than half of respondents expect to create additional employment in the next few years, and 94% plan to expand or keep the current levels of jobs. This supports what the EU-ABC has been saying to ASEAN Ministers this year: that ASEAN is on the brink of becoming the next key driver of global economic growth and needs to continue its open trade policies and regional economic integration.

Many in Southeast Asia justifiably should look at these responses with pride and point to progress on both national and regional policies as a reason for the positive sentiment. The Survey, however, does not call for complacency. Almost three-quarters of respondents say that the continued pursuit of regional economic integration is important to the future success of their operations in ASEAN. Hopefully this will help encourage the region to integrate faster. Responses also point to concerns about the continuing prevalence of non-tariff barriers, which hinder the development of regional supply chains. Although ASEAN's share of global trade has plateaued,

with both total merchandise exports value and FDI inflows peaking in 2014, we believe ASEAN can see new heights in both global trade and investments by addressing these challenges.

Businesses' attitudes also show strong support for EU-ASEAN trade agreements. Almost 90% of respondents believe the EU should pursue a region-to-region FTA with ASEAN, up from 66% in 2016. Close to 60% indicated that the lack of a region-to-region deal is placing European businesses at a disadvantage. This emphasises the importance of continuing progress on the bilateral trade negotiations between the EU and the Philippines and Indonesia, bringing the completed FTA agreements with Singapore and Vietnam to ratification and full implementation, and starting work on a framework agreement leading to an EU-ASEAN Trade Agreement.

Overall, the key conclusion from this year's survey, as in 2016, is that European businesses remain committed to ASEAN and are looking to further develop and invest in the region. As I said to the ASEAN Economic Ministers at our dialogue in March, European businesses have had a long-term and deep relationship with the region; European businesses are part of the ASEAN family. The region's success will also mean increased success for those businesses and vice versa. Combining hard work and cooperation, further trade agreements and further advances in ASEAN's own regional integration project, the future looks very bright for all.



expect to either expand or maintain
their current levels of operations and
headcount in their response location
(with almost 60% expecting to expand)



believe that the EU should
accelerate the negotiation
of FTAs with the ASEAN region

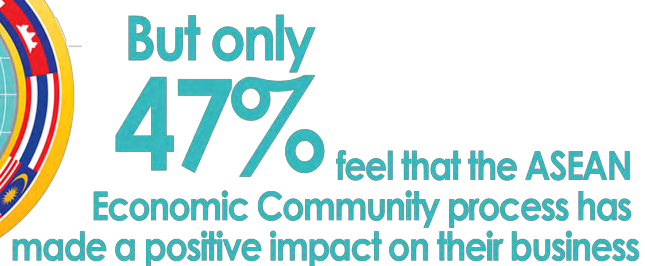
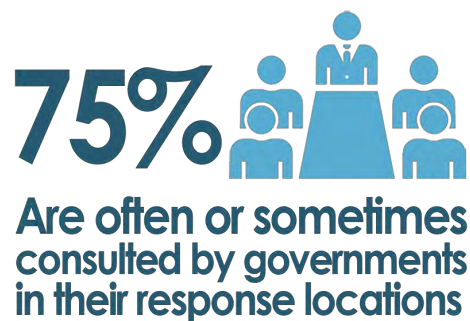
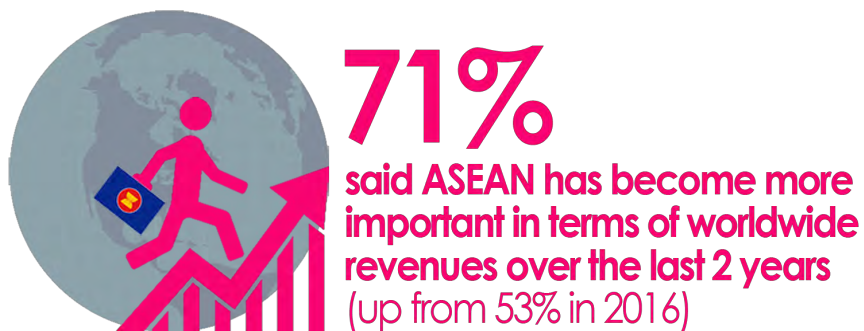
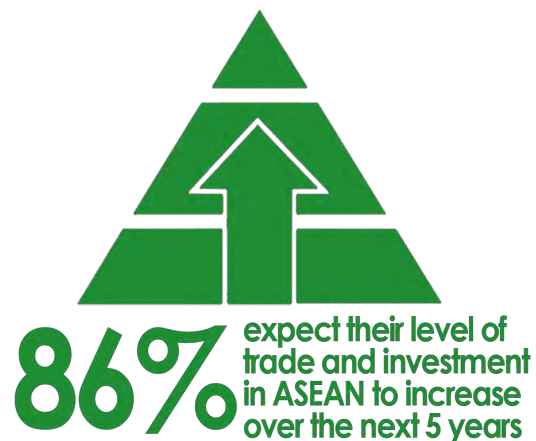
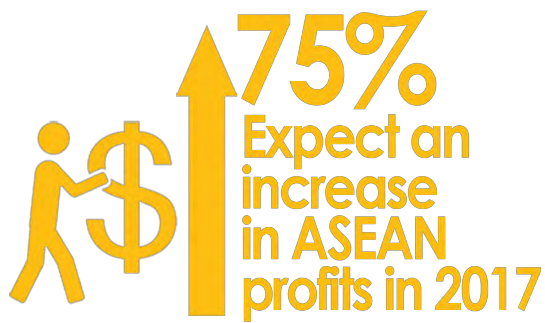


55%
believe that European
businesses are at a
disadvantage in ASEAN
without an EU-ASEAN FTA



**Believe the EU should pursue a
region-to-region FTA with ASEAN**
(a significant increase on the 66% from 2016)

KEY FINDINGS



NDINGS

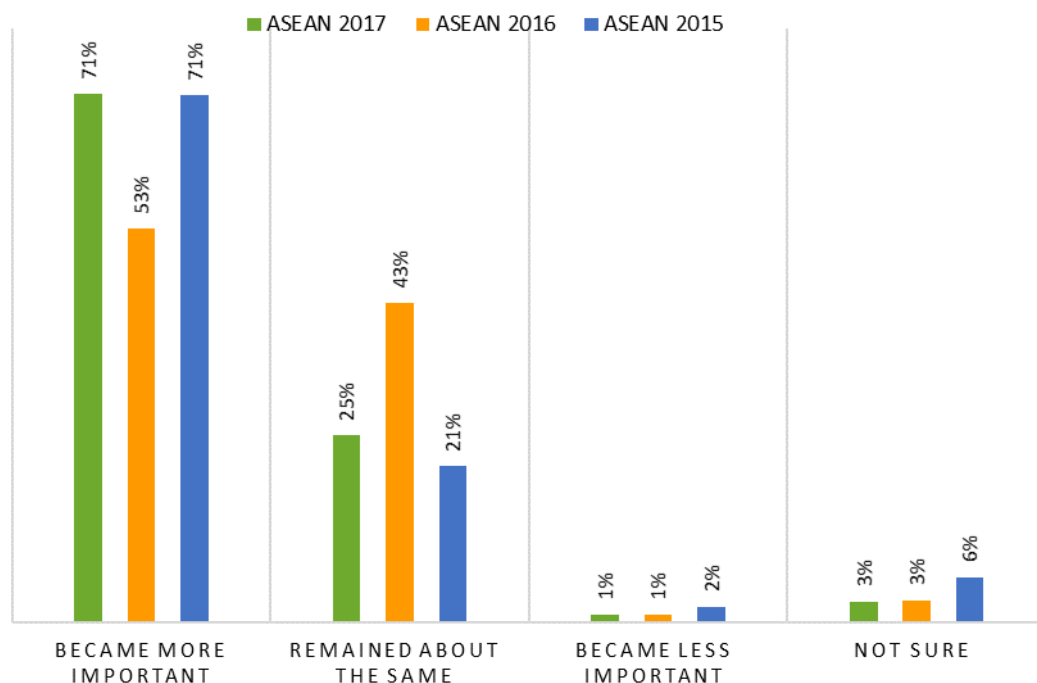
CURRENT BUSINESS ENVIRONMENT & OUTLOOK

EUROPEAN BUSINESS CONFIDENCE IN ASEAN CONTINUES TO GROW

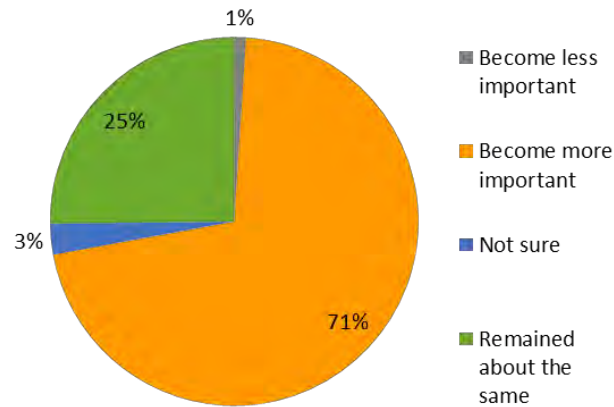
European businesses remain bullish about the economic prospects of ASEAN, with more than 7 out of 10 of respondents saying that ASEAN markets have increased in importance over the last two years. This sentiment is further supported by the percentage of respondents who stated that they

expected their profit levels to increase this year – with three-quarters expecting an increase in profitability, again an increase over previous years of the Survey. Companies based in Brunei, Vietnam and Myanmar were especially positive about future prospects in this regard.

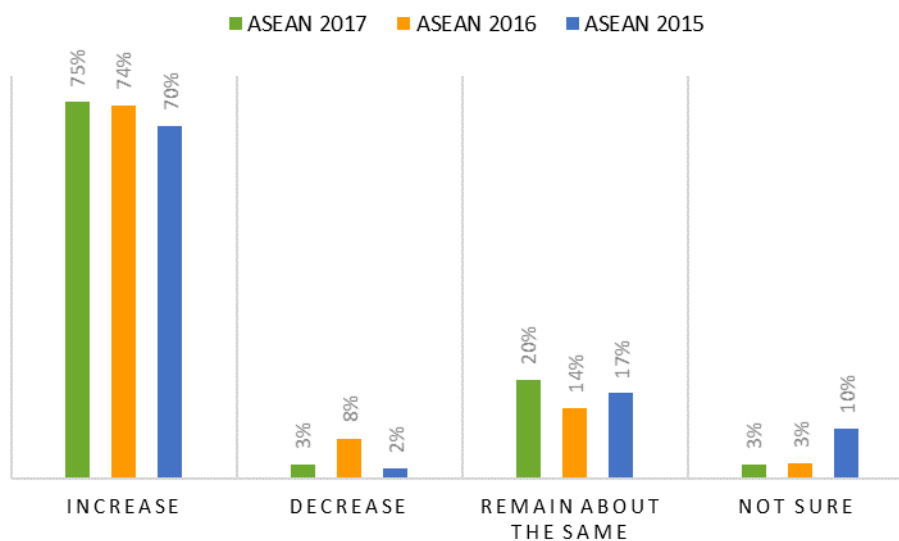
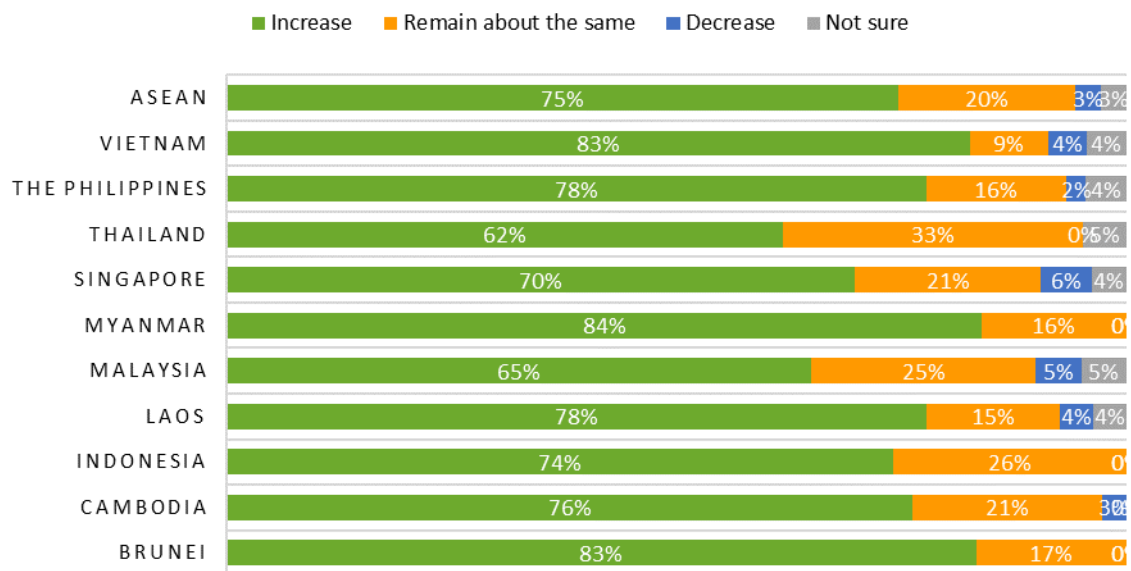
ASEAN'S RELATIVE IMPORTANCE TO GLOBAL REVENUES OVER THE PAST TWO YEARS



ASEAN'S RELATIVE IMPORTANCE TO GLOBAL REVENUES FOR THE NEXT TWO YEARS



COMPANIES' EXPECTATIONS OF ASEAN PROFITS IN 2017

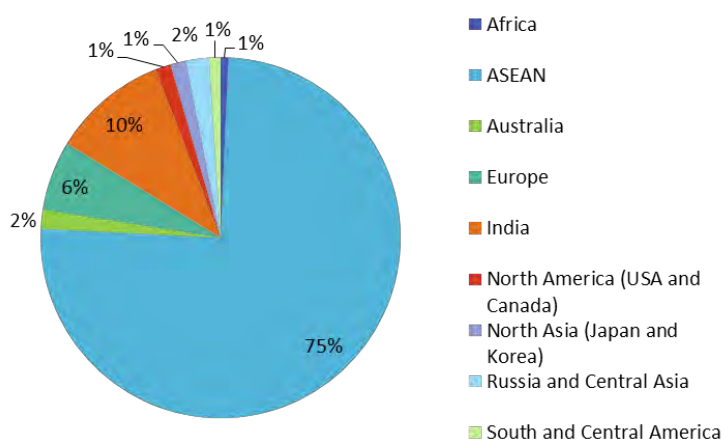


ASEAN SEEN AS THE REGION WITH BEST ECONOMIC OPPORTUNITY

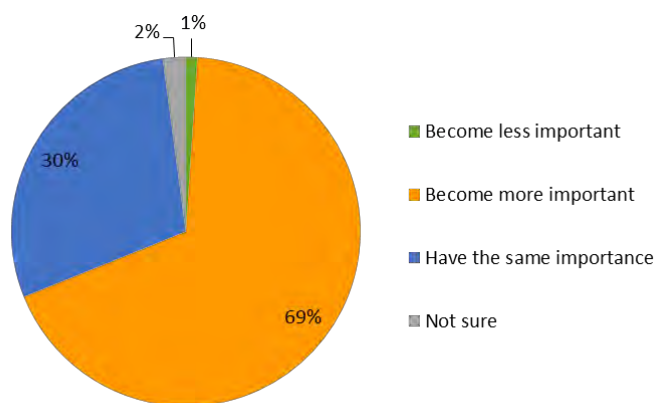
As if to emphasise the positive sentiment towards ASEAN, three-quarters of respondents said that they felt that ASEAN offered the best economic opportunities over the next 5 years compared to other regions in the world. This was also reflected by the fact that 86% of respondents (an increase over

2016) said that they expected their level of trade and investment in the ASEAN region to increase over the next 5 years, whilst 69% felt that the region would become more important in terms of worldwide revenues over the same time frame.

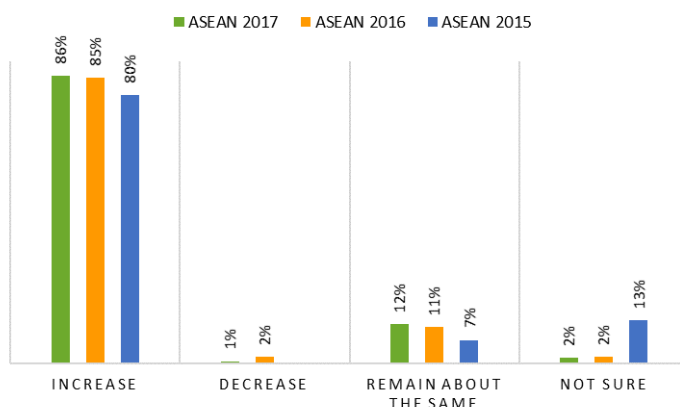
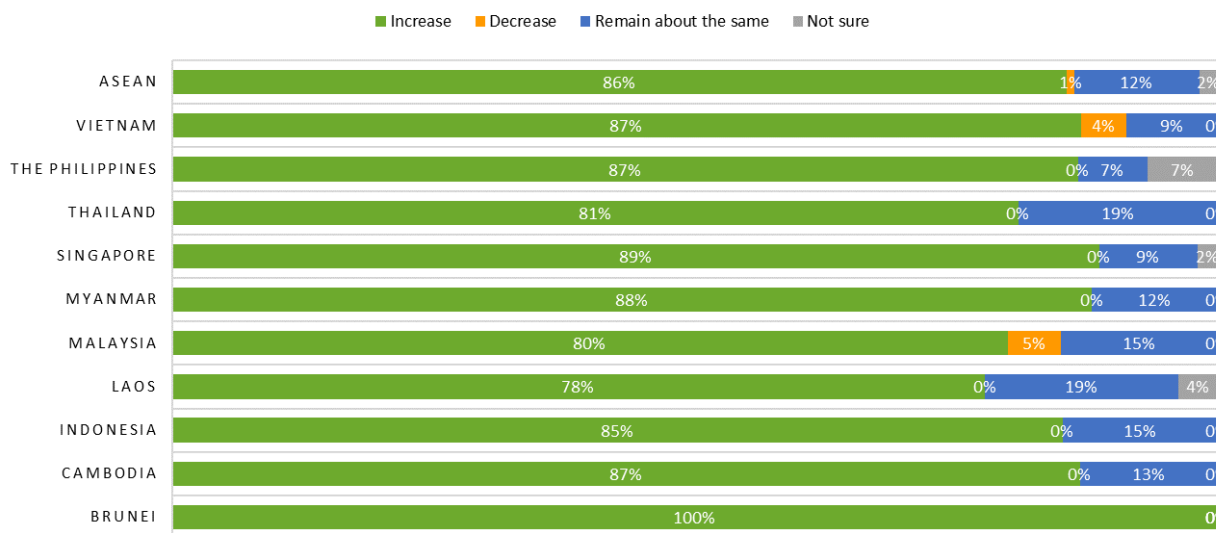
REGION WITH BEST ECONOMIC OPPORTUNITIES OVER NEXT 5 YEARS



IMPORTANCE OF ASEAN OVER NEXT 2 YEARS



EXPECTATION OF ASEAN TRADE AND INVESTMENT OVER THE NEXT 5 YEARS

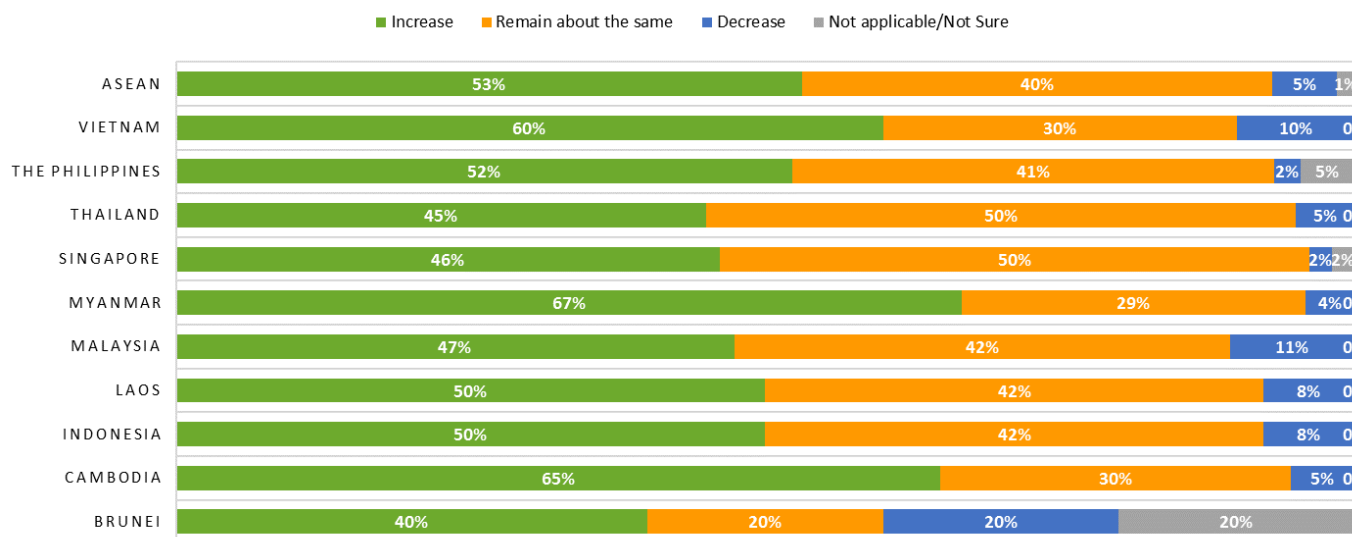


MAJORITY OF EUROPEAN COMPANIES LOOKING TO GROW OR MAINTAIN OPERATIONS AND HEADCOUNT

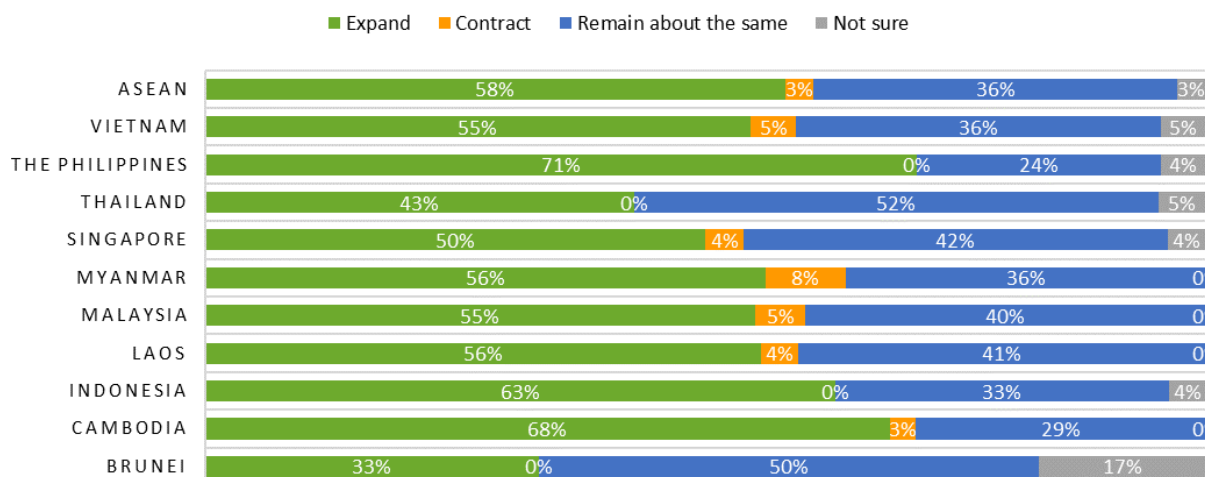
Overall 94% of respondents expect to either expand operations or maintain them at current levels. When it came to the prospects for expanding operations and headcount, the picture seems a bit more mixed compared to previous years. The numbers expecting to increase operations and headcount have fallen slightly (58% expect to ex-

pand operations; 53% expect to increase employee numbers) compared to 2016. However, the numbers expecting to contract operations or downsize employee numbers has fallen, with only 3% of respondents expecting to contract operations (vs. 4% in 2016) and only 5% expecting to reduce headcount (vs. 7% in 2016).

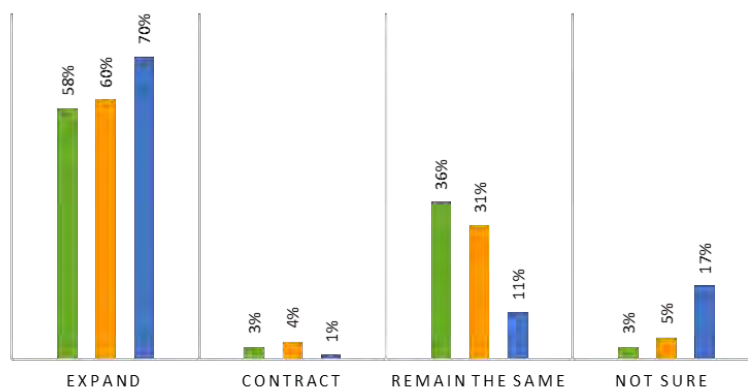
EXPECTATIONS OF TOTAL HEADCOUNT IN RESPONSE LOCATION



PLANS FOR ASEAN OPERATIONS IN RESPONSE LOCATION




























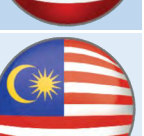




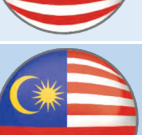


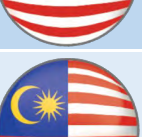











■ ASEAN 2017 ■ ASEAN 2016 ■ ASEAN 2015



Singapore again top for regulation; Philippines again seen as the best for work-force issues.

We again asked companies based in the ASEAN-6 to rate their satisfaction on a number of doing business factors within their response location. In terms of the top spots for labour issues and general business regulation, there was no overall change from 2016 to 2017 with the Philippines and Singa-

pore occupying the top slots for both areas. What was noticeable this year was the fall in the number of respondents expressing satisfaction with Malaysia in a number of areas, whilst Thailand's ranking appeared to increase.

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

MIXED NEWS ON THE IMPORTANCE OF REGIONAL INTEGRATION AS A DRIVER FOR EUROPEAN BUSINESS CONFIDENCE, BUT ECONOMIC RECOVERY FEATURES REFLECTING THE STRONG ECONOMIC GROWTH PROSPECTS FOR ASEAN

We have asked respondents what are the factors driving ASEAN's importance to their bottom lines. In 2017, enhanced regional economic integration slipped down the order of importance from the number one slot (in both 2015 and 2016) to second position. Improvement in Infrastructure has moved up to the first position, maybe reflecting a

sense that more investment is being made across the region in this area. Perhaps more telling is that economic recovery also makes a first appearance in the top 3 this year, which should be a reflection of the relatively strong economic growth forecasts for ASEAN compared to other regions.

	2015	2016	2017
1	Enhanced regional economic integration	Enhanced regional economic integration	Improvement in Infrastructure
2	Improvement in Infrastructure	Improvement in Infrastructure	Enhanced regional economic integration
3	Limited growth opportunities in other regions	Change in business strategy	Economic recovery

Diversification of Customer Base remains the top factor driving expansion plans

Respondents were again asked to rank the following factors that drive their decisions to invest in their response location:

- ◆ Adequate laws and regulations to encourage Foreign investment
- ◆ Availability of trained personnel/efficient manpower
- ◆ Diversification of customer base
- ◆ Reasonable production costs (including labour cost)
- ◆ Stable government and political system

There was a slight change in the ordering of the various factors this year compared to 2016. Whilst diversification of the customer base remained the primary reason, and reasonable production costs remained in the top 3, stable governments and political systems entered the top 3 in place of adequate laws and regulations to encourage foreign investment.

#1 Diversification of customer base



#2 Stable government and political system



#3 Reasonable production costs (including labour cost)



Celebrating 50 years of ASEAN

Looking ahead into ASEAN's Digital Future



ASEAN has come a long way: when it was established in August 1967, the association was just a conglomeration of developing nations. Fast forward 50 years: ASEAN has grown into one of the most dynamic drivers of the global economy today. Against the current economic climate of the global economy, the ASEAN region is a growth frontier that offers plenty of opportunities for the global business community. The ASEAN region has about 38% of the world's youth and 48% of Global Social Media users. These statistics indicate that the region has the potential to become a global powerhouse, complementing and balancing the increasing influence of China and India in Asia.

As ASEAN celebrates its 50th anniversary this year, it is a good time for member governments as well as businesses to recalibrate where the region stands in today's digital economy, and identify opportunities for the ASEAN region to shine in this new economic landscape. This recalibration requires establishing a blueprint for ASEAN's 'Digital Future'.

Road to 2020: Establishing ASEAN's digital foundation

The ASEAN ICT Masterplan (AIM) 2020 was created to propel ASEAN into the future. Defined by eight Strategic Thrusts, the AIM 2020 is focused on enabling an economy-wide transformation of ASEAN as it sets sights on becoming a digitally-enabled economy that is secure, sustainable and transformative at the same time.

These will be made possible through programmes to equip ASEAN citizens with the latest infrastructure and digital skills, such as the ASEAN Data Science Explorers (www.aseandse.org),

a data analytics competition which is aimed at empowering ASEAN youths with digital literacy. To achieve this ambitious aim, ASEAN must overcome the challenges in its path to digital economy.

Public-Private Partnerships (PPP): The way forward

Technological megatrends such as machine learning and blockchain are poised to disrupt ASEAN economies as we move to 2020. To meet the AIM 2020 goals and ensure ASEAN is ahead of the game, partnerships between the public and private sector are crucial. The private sector brings with it the business expertise which ASEAN governments can leverage to drive innovation and deliver inclusive digital solutions. Further, the private sector has been proven to help improve efficiency and service quality via PPP projects.

Solving society's problems through digitization

Public sector organizations will be transformed by the increasing digitization and will fundamentally change the way public services are provided. The time is right for governments to leverage the existing digital technologies and build cloud-based IT systems. The infrastructural needs mentioned above can be met by member governments via planned

investment in the right technologies. This will allow nations to reap the exponential benefits of disruptive technologies and digitization.

The future of ASEAN governments involves moving to a digital governance scenario. This means that the interface between governments and citizens becoming more and more IT based, with lesser face time with government officials. As governance methods and processes evolve and transform, governments must adapt to the coming technological advancements and their associated disruptions. This will allow them to effectively provide services to citizens and govern efficiently as they shift to a digital service delivery model.



L-R: H. E. Dr. A. K. P. Mochtan, Deputy Secretary-General of ASEAN for Community & Corporate Affairs; Elaine Tan, Executive Director of ASEAN Foundation; Scott Russell, President of SAP Asia Pacific & Japan; and Eugene Ho, Head of Corporate Affairs of SAP Southeast Asia

ABOUT SAP

SAP is a European Company (Societas Europaea, SE) headquartered in Walldorf, Germany. It first entered the ASEAN region in 1989, starting out with 16 employees based in Singapore, and have since grown to 3,700 employees with 10 offices in 7 out of 10 ASEAN member states. Today, 92 out of the Top 100 ASEAN companies are SAP customers, and 5 out of 9 ASEAN Startup Unicorns run SAP. In addition, 12,000 students through 100 SAP's university partners in ASEAN go through a SAP curriculum every year.

SAP currently provides solutions to 58% of United Nations member governments to help improve citizen's lives. Helping ASEAN run better. Improving Lives. That's our Purpose.

SAP congratulates the 50th anniversary of the establishment of ASEAN, the 40th anniversary of ASEAN-EU dialogue relations, and the 20th anniversary of the establishment of the ASEAN Foundation

EU ENGAGEMENT WITH ASEAN

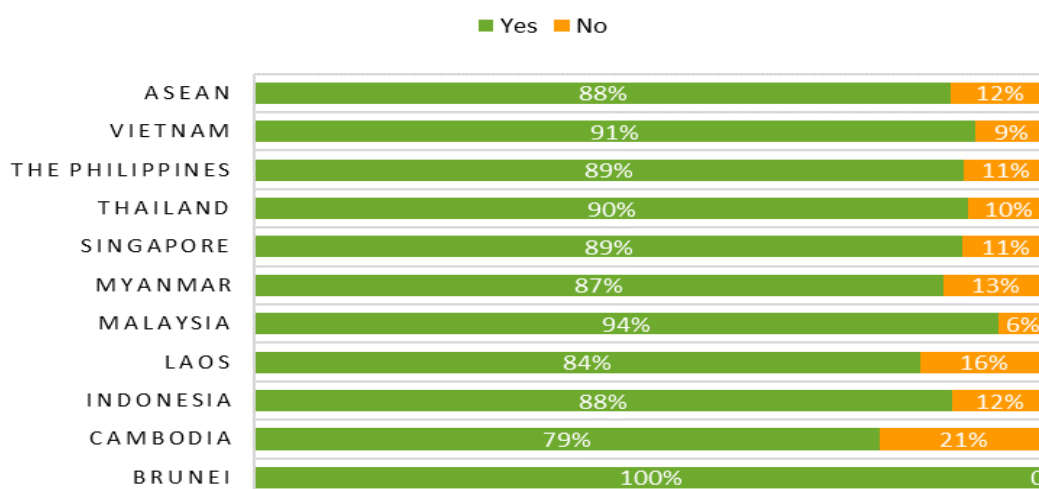
EVEN STRONGER SUPPORT FOR A REGION-TO-REGION FTA; STRONG DESIRE FOR THE EU TO ADVANCE FTA NEGOTIATIONS

Overwhelming support for a region-to-region FTA; and European Businesses want to pursue it NOW!

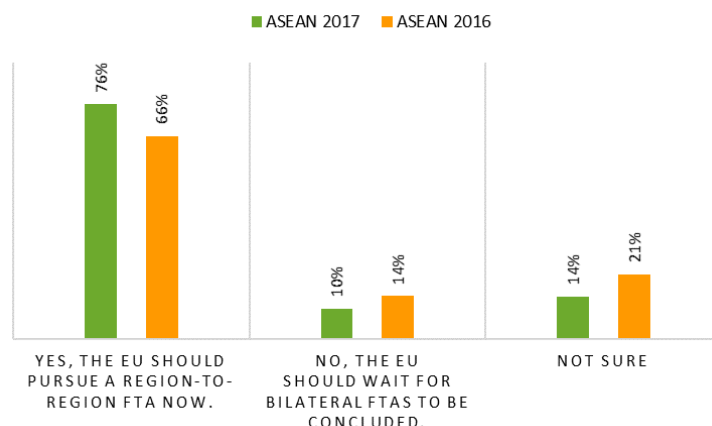
A region-to-region FTA between the EU and ASEAN would link together the world's largest and fifth largest economies, covering bilateral trade in goods alone which now exceeds €209bn per annum. Earlier this year, following a consultation meeting between the European Commission's Trade Commissioner, Cecilia Malmström, and the ASEAN Economic Ministers, it was announced that both sides had agreed to work towards a framework agreement which would lead to negotiations

on a region-to-region trade deal. This was a welcome development, as it showed a move in the right direction. It is clear from this year's Survey results that a region-to-region trade deal would have overwhelming support amongst European businesses. Nearly 9 out of 10 respondents in 2017 said that a region-to-region FTA would deliver more advantages than a series of bilateral deals, with 76% (up from 66% in 2016) saying that such a deal should be pursued now.

WOULD AN EU-ASEAN FTA DELIVER MORE ADVANTAGES THAN SEVERAL BILATERAL FTAS?



SHOULD THE EU PURSUE A DEEP & COMPREHENSIVE REGION-TO-REGION FTA WITHIN ASEAN NOW

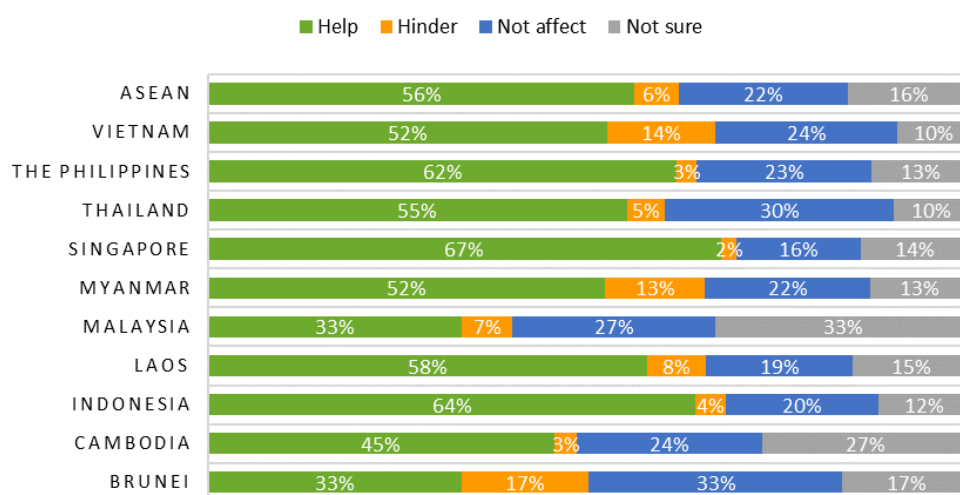


Clear support amongst respondents for Free Trade Agreements between the EU and the ASEAN region

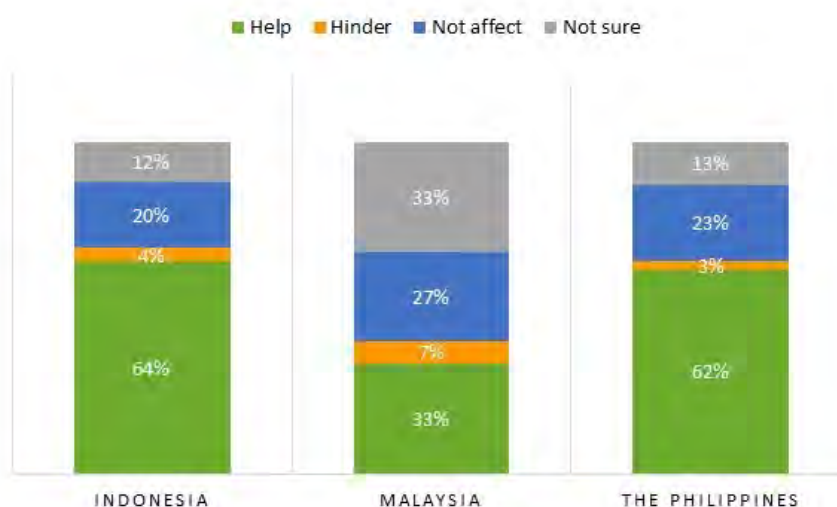
We posed a series of questions related to the prospect of FTAs between the European Union and ASEAN, both bilateral trade deals and a region-to-region deal. There was clear support from respondents for the concept of FTAs with 56% of respondents saying that the FTAs that the EU was presently negotiating in the region would help their company's regional trade and investment performance – broadly in line with responses from previous years. Of the two countries with whom

the EU is presently negotiating (The Philippines and Indonesia), the percentage of respondents saying that an FTA would help was even higher, at 62% and 64% respectively (both higher than in 2016). Conversely, for Malaysia, with whom FTA negotiations are expected to recommence later this year, only 33% of respondents said they expected an FTA to help, perhaps reflecting the lack of clarity over what may, or may not, be included in such a deal.

IMPACT OF EU-ASEAN FTAs ON REGIONAL BUSINESS PERFORMANCE



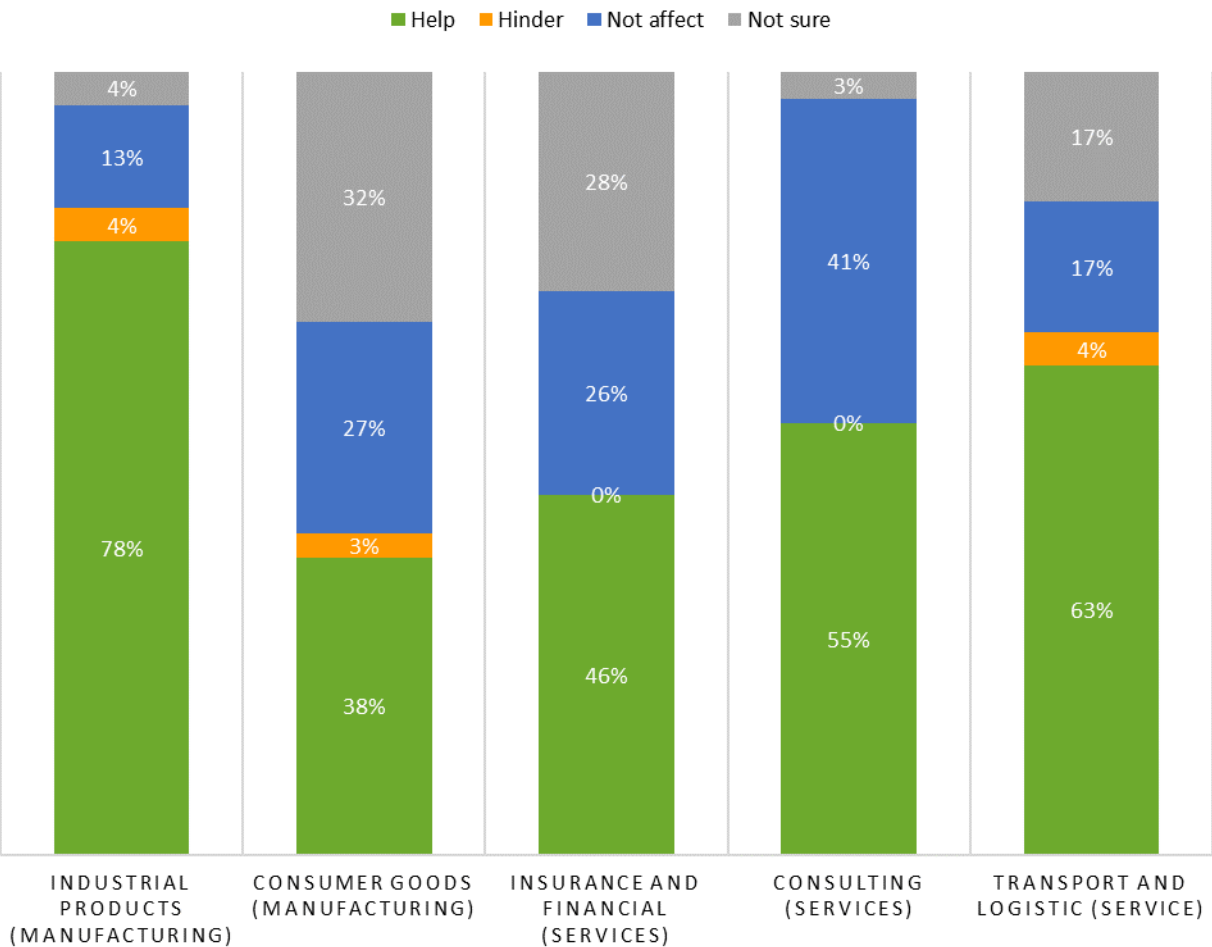
BUSINESS IMPACT OF EU-ASEAN BILATERAL FTA



When we looked at the responses broken down by business sector on whether or not EU-ASEAN FTAs would help or hinder a business, there were more mixed views. For some reason, those involved in the manufacturing of consumer goods seemed un-

certain as to the potential benefits, with only 38% saying that FTAs would help. For industrial product manufacturing the number saying that FTAs would help was at 78%.

IMPACT OF EU-ASEAN FTAs ON REGIONAL BUSINESS PERFORMANCE (BY INDUSTRY)

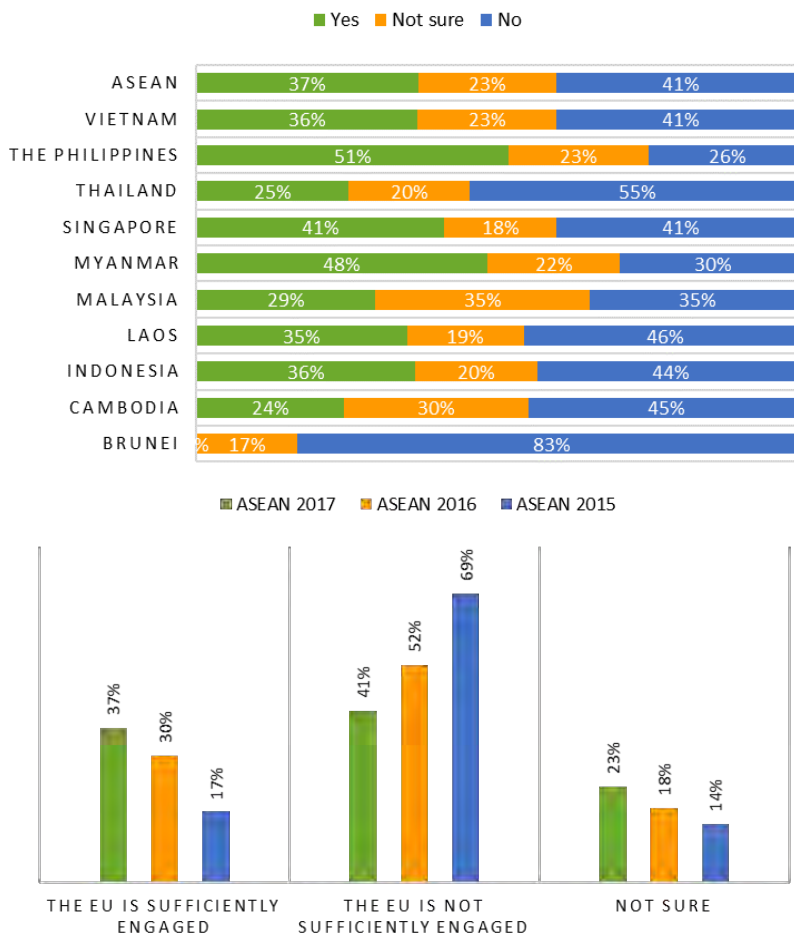


Apparent improvement on the view of EU engagement

In a change from previous Surveys, it seems that the increased involvement from the European Commission in the region, through the FTA discussions with the Philippines and Indonesia, and the improvement in EU-ASEAN level discussions, has been recognised by European businesses. There

has been an increase in the number of respondents saying they believe the Commission is sufficiently engaged with the region and a decrease in the number saying it is not sufficiently engaged (see below).

PERCEPTION OF EU ENGAGEMENT WITH EUROPEAN BUSINESS INTERESTS IN ASEAN

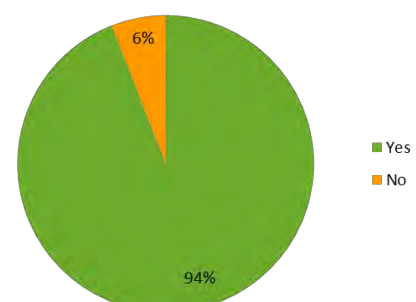


European Companies wish to see more action from the EU on FTAs

A new question for 2017 was related to the United States' decision to withdraw from the Trans-Pacific Partnership, and the realignment of trade policies and priorities under the new Trump administration in Washington D.C. We asked the respondents whether, in light of the US withdrawal from the

TPP, the EU should look to accelerate trade deals with ASEAN. 94% of respondents said the EU should accelerate such deals, reflecting the feeling amongst European businesses that the apparent change of trade policies from the US represents a great opportunity for Europe in Southeast Asia.

SHOULD THE EU ACCELERATE TRADE DEALS WITH ASEAN POST TPP-WITHDRAWAL BY THE UNITED STATES?

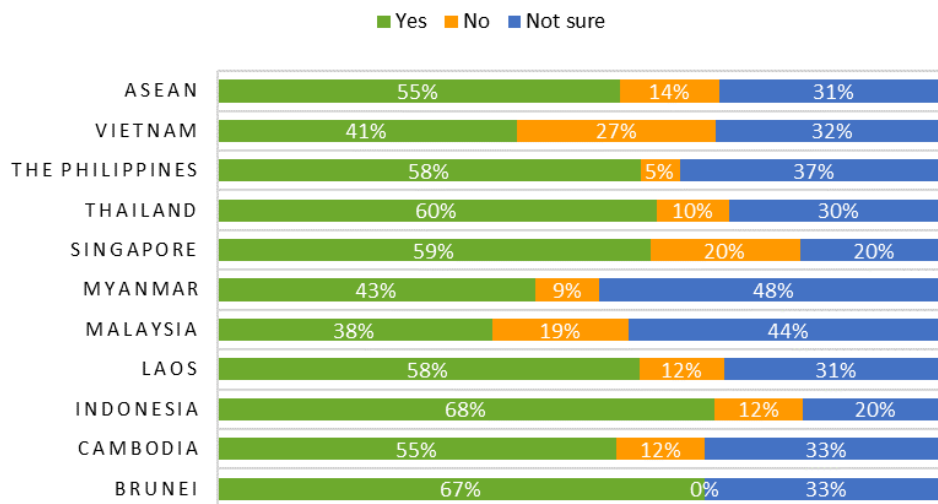


European Companies continue to feel that they are at a competitive disadvantage in the absence of a region-to-region FTA

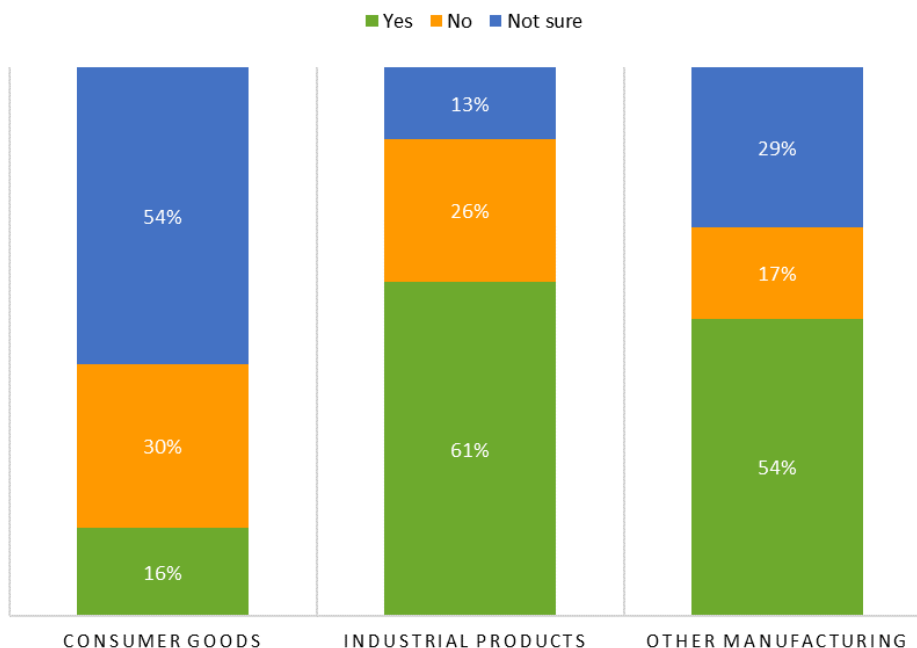
Whilst the EU is only now beginning to restart the process of considering a region-to-region FTA with ASEAN, and is in the process of negotiating a series of bilateral FTAs, some of its main competitors (e.g. Japan, China, Korea) have put in place trade deals with ASEAN and are, indeed, engaged in active negotiations on an even larger trade deal – The Regional Comprehensive Economic Partnership – which would involve all of the ASEAN+1 free trade

partners. We again asked respondents if they felt the lack of a region-to-region trade deal placed them at a disadvantage. The response for 2017 was almost the same as for 2016, with 55% of respondents saying that they were operating at a disadvantage. Amongst manufacturers of goods, the view was mixed when the breakdown of sectors was looked at.

DOES THE LACK OF AN EU-ASEAN FTA PUT EUROPEAN BUSINESSES AT A COMPETITIVE DISADVANTAGE IN THE REGION?



MANUFACTURERS THAT FEEL DISADVANTAGED BY LACK OF EU-ASEAN FTA



A region-to-region FTA remains the top priority for European Businesses

As with previous years we asked respondents for their ideal wish list for the ordering of FTAs between the EU and the ASEAN Region. Given that deals with Singapore and Vietnam have been concluded (but not ratified or implemented) and that negotiations with the Philippines and Indonesia

have formally commenced, these choices were removed as options. As can be seen below, a region-to-region deal tops the list (as it did in 2016), with Thailand second (again the same as 2016).

Preference for next EU FTA	
1	ASEAN (Region-to-region FTA)
2	Thailand
3	Malaysia
4	Cambodia
5	Myanmar
6	Laos
7	Brunei

Enforceable investment rules seen as being the most important aspect of EU FTAs

The desire for the EU FTAs to be deep and comprehensive, a stated aim of the European Commission, continues to be supported by European businesses responding to the Survey. As with previous years, we asked respondents to list the key aspects of FTAs in order of importance. Tariff reductions, whilst important, fell out of the top 3 this year, be-

ing replaced by regulatory coherence and stability. It was noticeable though that in 2017 the percentages attached to the first three areas were significantly smaller than in 2016, with the need for a level playing field with local competitors only just outside the top three.

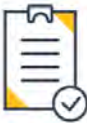
#1 Enforceable investment rules and protection



#2 Intellectual property protection and enforcement



#3 Regulatory coherence and certainty

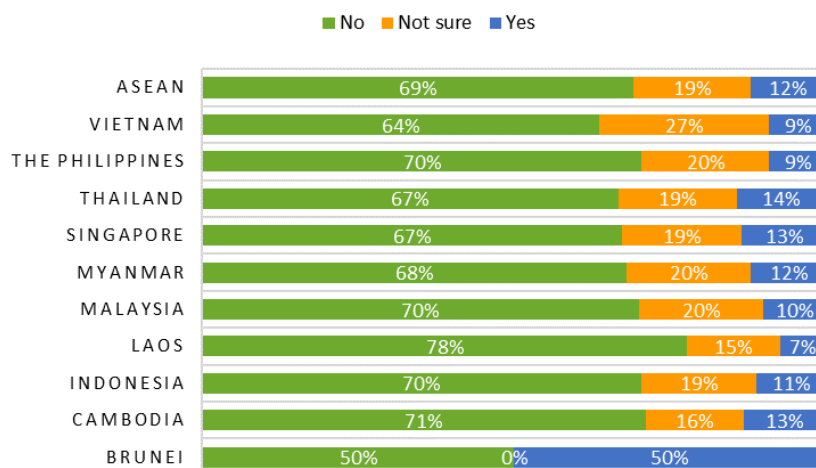


No significant fall out from Brexit on trade and investment plans

In light of last year's referendum in the United Kingdom on its continued membership of the European Union, we decided this year to ask whether the prospect of Brexit would have any significant impact on the trade and investment plans of Euro-

pean businesses in the ASEAN region. Reassuringly for ASEAN, the overwhelming view from respondents was that Brexit will not affect their trade and investment plans, with only 12% saying that it would.

ADVERSE IMPACT OF BREXIT ON ECONOMIC AND INVESTMENT OUTLOOK

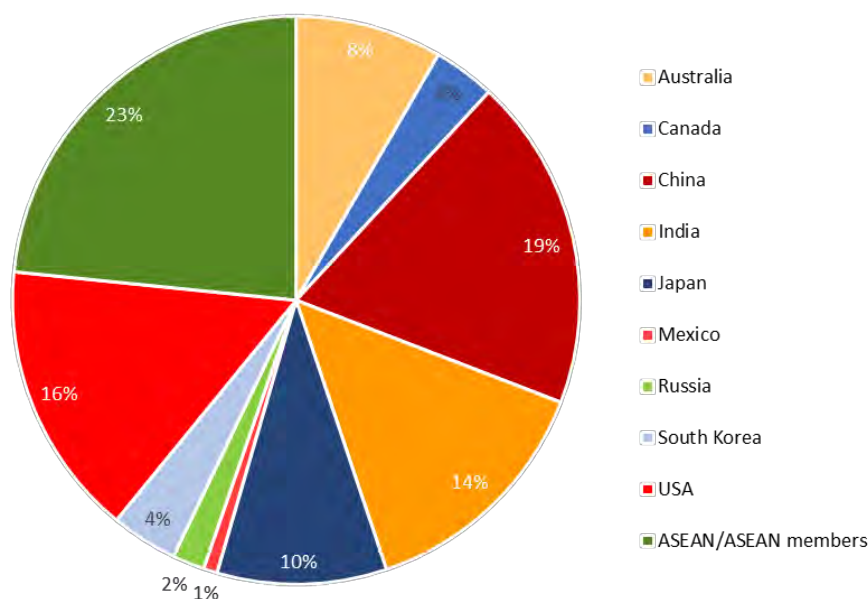


ASEAN & ASEAN Member States slightly favoured for a possible UK trade deal

There is some debate in the United Kingdom as to which trade partners the country should seek to do trade deals with first, once it has the ability to do so (depending, of course, on the nature of Brexit).

We posed the question in our survey to see what the viewpoint was of European Businesses in ASEAN. There was no clear opinion, but ASEAN and ASEAN Member States did come out on top.


OPINION ON REGIONAL PRIORITIES OF UK TRADE DEALS AFTER BREXIT





MYANMAR	
TOTAL TRADE WITH EU (Bn €)	1,6
SHARE OF TOTAL EU-ASEAN TRADE (%)	1


LAOS	
TOTAL TRADE WITH EU (Bn €)	0,3
SHARE OF TOTAL EU-ASEAN TRADE (%)	0

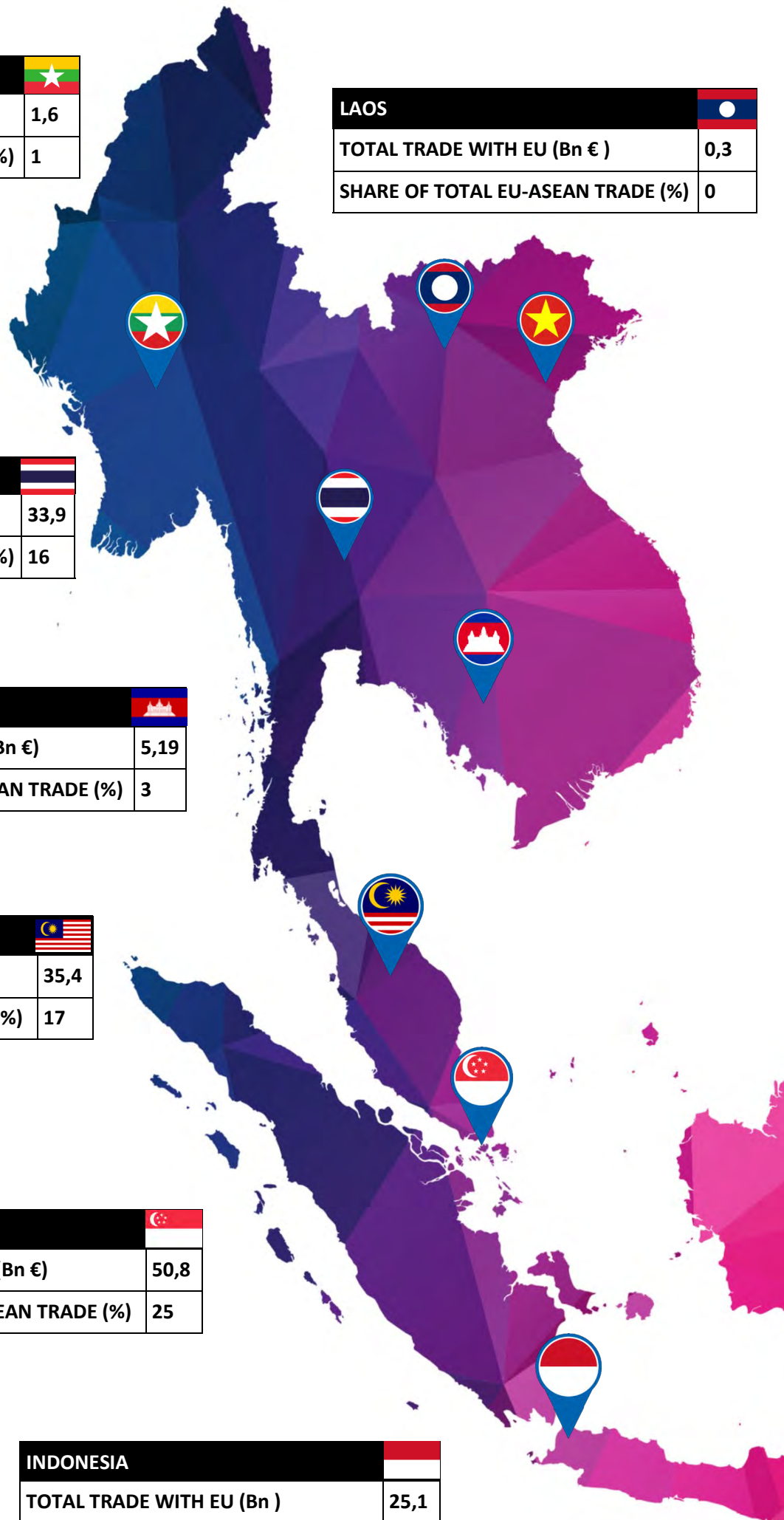
THAILAND	
TOTAL TRADE WITH EU (Bn €)	33,9
SHARE OF TOTAL EU-ASEAN TRADE (%)	16

CAMBODIA	
TOTAL TRADE WITH EU (Bn €)	5,19
SHARE OF TOTAL EU-ASEAN TRADE (%)	3

MALAYSIA	
TOTAL TRADE WITH EU (Bn €)	35,4
SHARE OF TOTAL EU-ASEAN TRADE (%)	17


SINGAPORE	
TOTAL TRADE WITH EU (Bn €)	50,8
SHARE OF TOTAL EU-ASEAN TRADE (%)	25


INDONESIA	
TOTAL TRADE WITH EU (Bn €)	25,1
SHARE OF TOTAL EU-ASEAN TRADE (%)	12




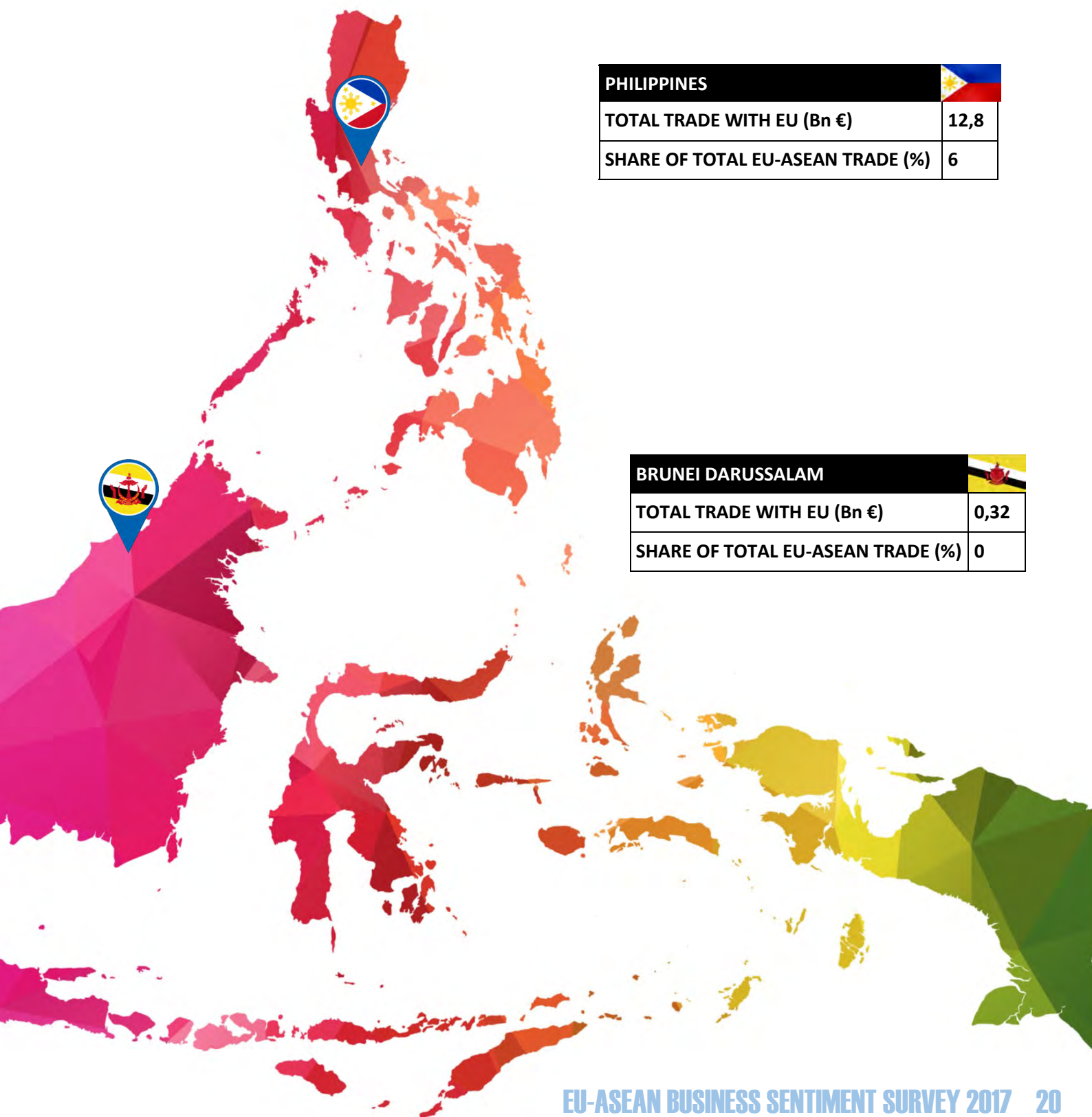
ASEAN MEMBER STATES' SHARE OF EU-ASEAN TRADE IN GOODS 2016

SOURCE: 2016 EU-SINGAPORE TRADE & INVESTMENT 2017 REPORT

VIETNAM 	
TOTAL TRADE WITH EU (Bn €)	42,4
SHARE OF TOTAL EU-ASEAN TRADE (%)	20

PHILIPPINES 	
TOTAL TRADE WITH EU (Bn €)	12,8
SHARE OF TOTAL EU-ASEAN TRADE (%)	6

BRUNEI DARUSSALAM 	
TOTAL TRADE WITH EU (Bn €)	0,32
SHARE OF TOTAL EU-ASEAN TRADE (%)	0



ASEAN REGIONAL & DOMESTIC POLICY FRAMEWORKS

EUROPEAN BUSINESSES SUPPORTIVE OF ASEAN REGIONAL ECONOMIC INTEGRATION: SEE IT AS IMPORTANT TO THEIR BUSINESS INTERESTS. BUT ONLY A SMALL NUMBER HAVE A REGIONAL STRATEGY CENTRED ON THE AEC

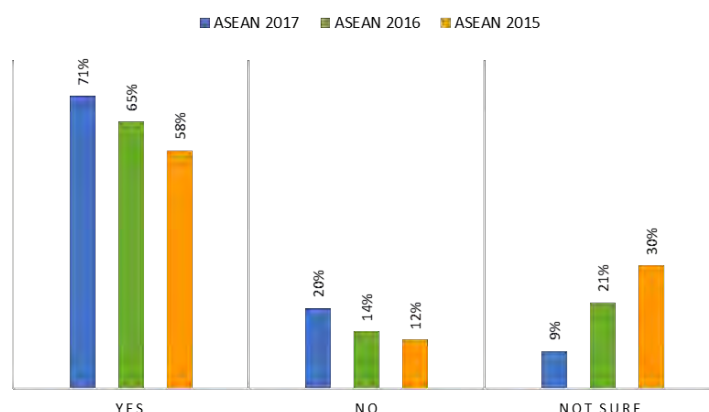
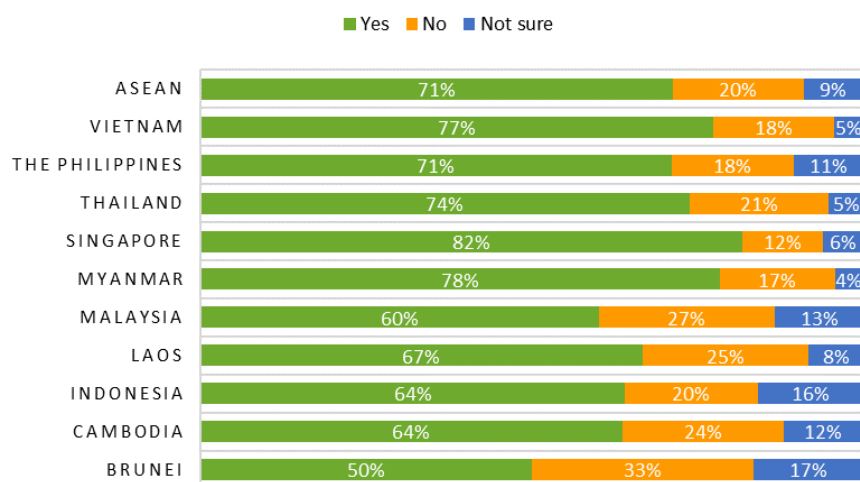
Greater importance placed on ASEAN Economic Integration than in 2016

Nearly three-quarters of respondents (vs. two-thirds in 2016) said that further ASEAN economic integration was important to their business success in the region, with respondents in Singapore, Myanmar and Vietnam feeling particularly strongly on the subject. However, less than half (47%) of respondents said that the AEC had had a positive impact on their businesses so far, reflecting the fact there is still much to do on ASEAN economic integration before the full benefits of it

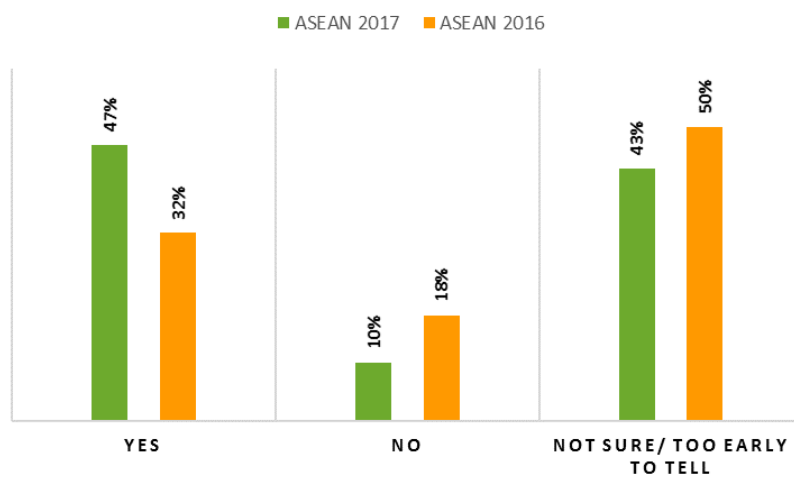
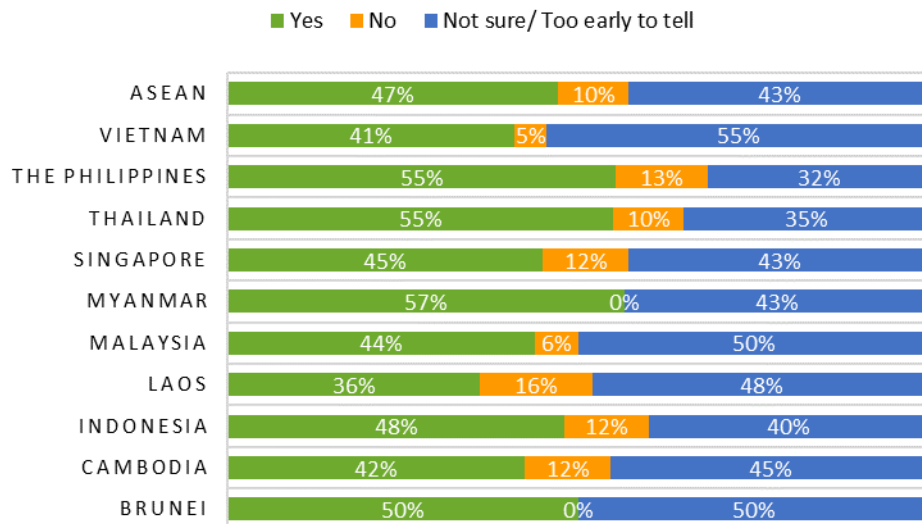
can materialise: nearly the same number said it was too early to tell if there would be a positive impact (43%). This is further demonstrated in the response to our questions on the use of regional supply chains (see below).

The good news for the region is that more companies report that the AEC is having a positive impact than in 2016.

IS ASEAN REGIONAL INTEGRATION OF IMPORTANCE TO YOUR BUSINESS?



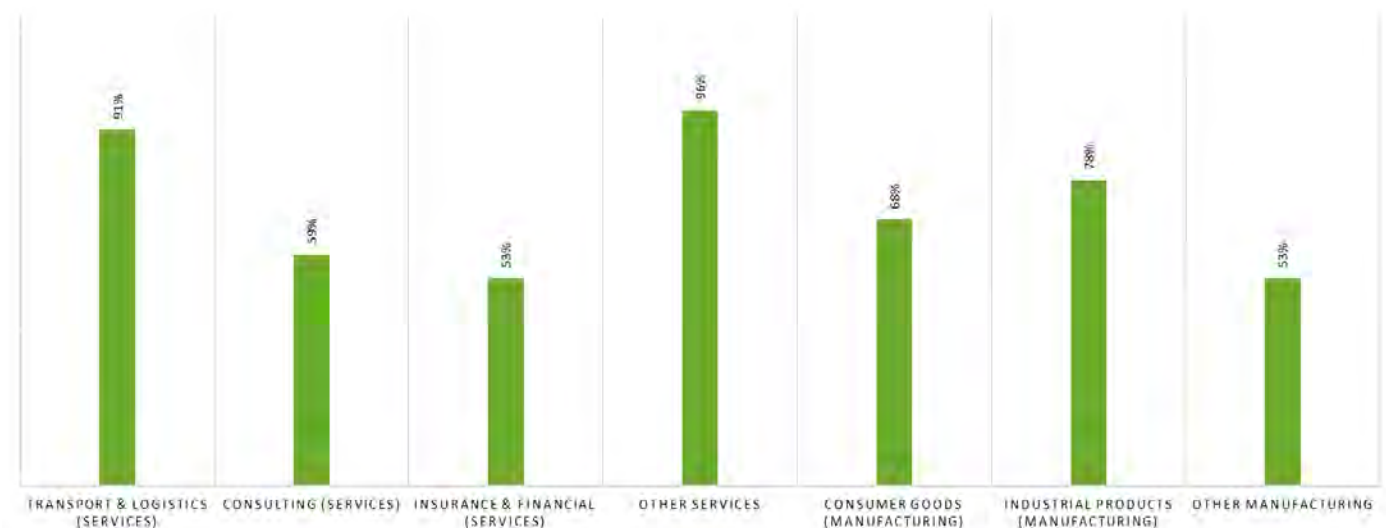
HAS THE AEC HAD A POSITIVE IMPACT ON BUSINESS ACTIVITY IN ASEAN?



No major discrepancy by industry sector on the importance of ASEAN Economic Integration

When looking at the importance placed on ASEAN economic integration and the AEC process by industry sector, the majority of respondents in most sectors agreed that ASEAN economic integration was important to their business success in the region.

IMPORTANCE OF ASEAN REGIONAL INTEGRATION BY INDUSTRY

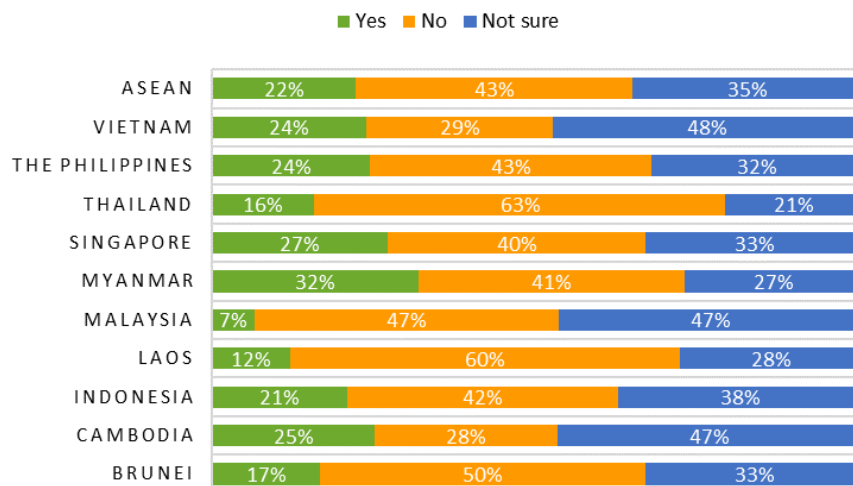


Despite importance placed on the AEC, few have a dedicated AEC Strategy

Despite the importance placed on the AEC process by respondents to the survey, only a low number of them said that their companies had a dedicated business strategy based on the AEC itself. Less

than quarter reported that such a strategy existed, though there were a high proportion of “not sure” responses.

PRESENCE OF ASEAN REGIONAL STRATEGY BASED ON AEC BLUEPRINT 2025

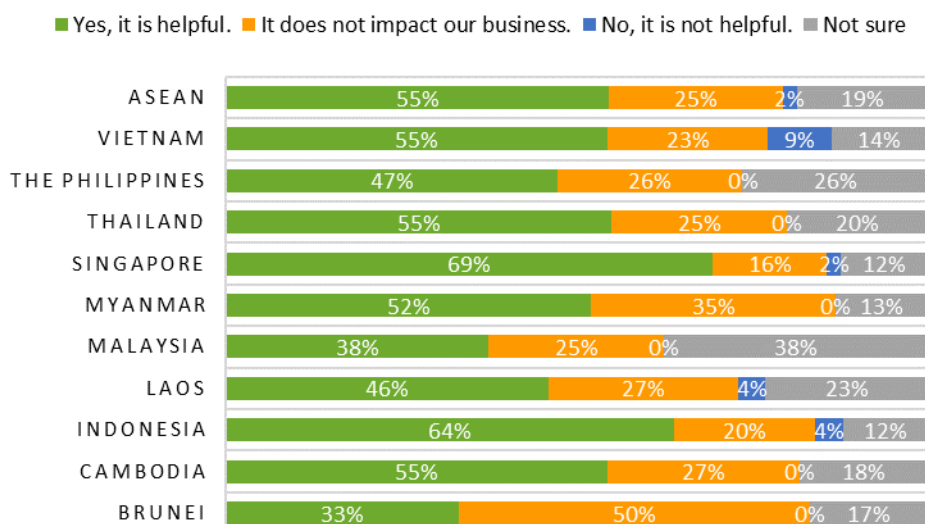


The impact of the “noodle bowl” effect of FTAs

A lot of trade deals that impact on the Southeast Asia region are currently being worked on. In addition to the deals that the EU is pursuing (see above), ASEAN is working on a new deal with Hong Kong (shortly to be concluded), enhancements to various ASEAN+1 deals, and the RCEP. In addition, there is the prospect of a TPP11 (i.e. the TPP without the United States), plus also the possibility of

an ASEAN-Eurasian deal. We asked respondents if they felt that the proliferation of FTAs in the ASEAN region was helpful to their businesses. 55% of respondents (up from 48% in 2016) said that it was helpful. Respondents in Singapore and Vietnam were particularly positive about the “noodle bowl” effect, perhaps reflecting the number of deals that those countries have done on a bilateral basis.

IMPACT OF FTA PROLIFERATION ON ASEAN OPERATIONS

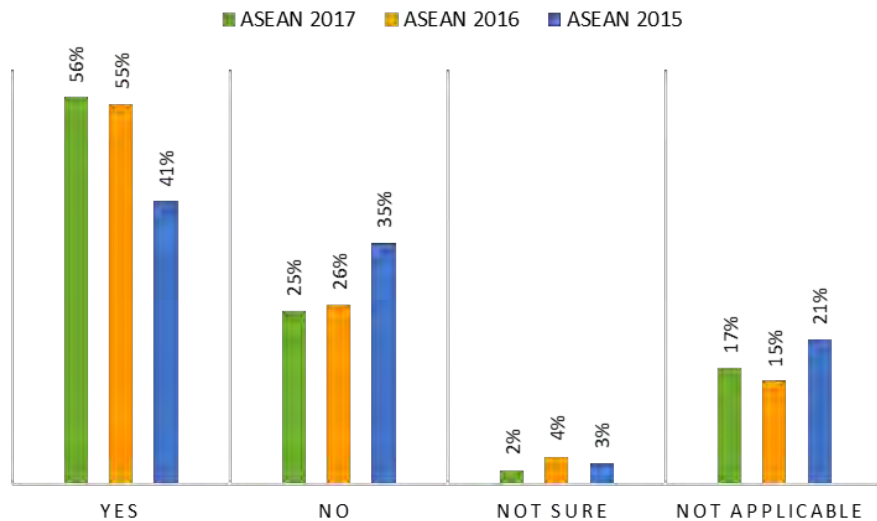


European Companies use regional supply chains, but would use more if barriers removed

The use of Regional Supply Chains by European businesses in ASEAN has again increased, albeit only marginally. 56% of respondents said that they made use of regional supply chains, compared to only 41% in 2015. However, again, European busi-

nesses are reporting that there are too many trade barriers to the efficient use of regional supply chains, highlighting an area that ASEAN needs to focus on more as part of its regional economic integration project.

USAGE OF REGIONAL SUPPLY CHAINS



E 200 - Fuel Consumption: 6.3-6.6 l/100 km; CO₂ emission: 142-149 g/km,
E 250 - Fuel Consumption: 6.6 l/100 km; CO₂ emission: 149 g/km,
E 300 - Fuel Consumption: 6.9 l/100 km; CO₂ emission: 156 g/km.

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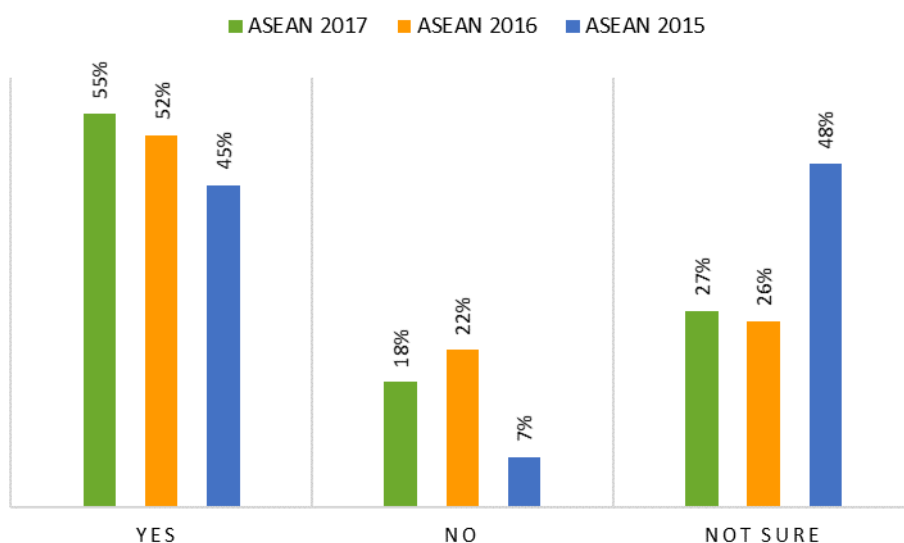


Too many regional trade barriers remain – despite the AEC...

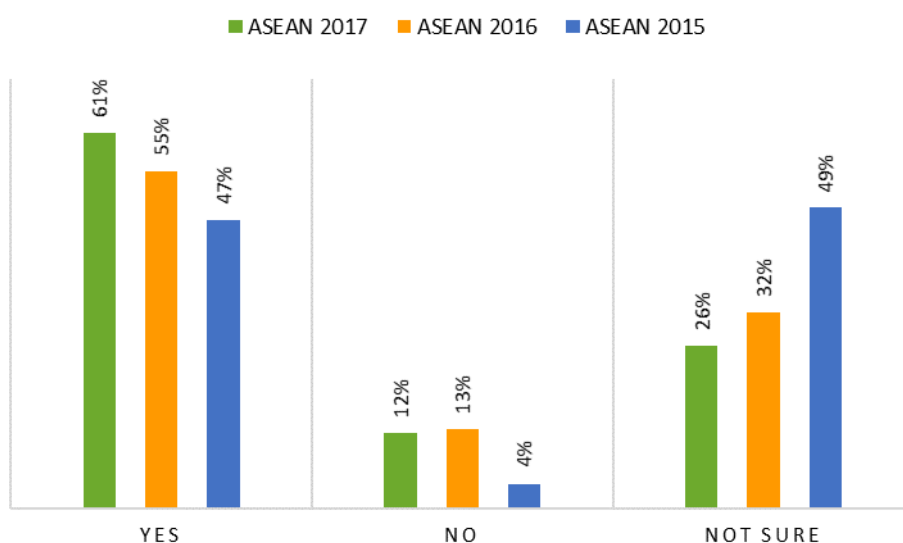
Whilst use of regional supply chains is increasing, it is equally clear from the Survey responses that European businesses see too many trade barriers remaining, even as tariffs for intra-ASEAN trade are at an all time low and at zero in most cases. 55% of respondents said that there were too many such

barriers – up from the responses in both 2016 and 2015. 61% of respondents reported that they would make greater use of regional supply chains if these barriers were removed (again an increase of previous years).

TOO MANY BARRIERS FOR EFFICIENT USE OF SUPPLY CHAINS



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





EU-ABC Customs & Trade Facilitation Position Paper

Trade Facilitation in ASEAN: Modernising Customs Procedures and Helping MSMEs

May 2017—Executive Summary

Whilst there has been some progress in the region since the release of the EU-ABC's Customs Procedures and Trade Facilitation paper in April 2016, it has been disappointingly slow.

We welcome the move to have a single ASEAN Harmonised Tariff Nomenclature across all of the region from April 2017, and also the moves by the Philippines to increase its *de minimus* level to PHP10,000, well ahead of the minimum level that we had previously suggested ASEAN should aim for.

We also welcome and note the renewed impetus on advancing trade facilitation across ASEAN through the reconstituted ASEAN Trade Facilitation – Joint Consultative Committee (ATF-JCC), and the participation on that group by the private sector under the auspices of the ASEAN Business Advisory Council.

This updated paper has been produced by the Customs & Trade Facilitation Advocacy Group of the EU-ABC with a view to assist ASEAN and its Member States in achieving some of the key aims and objectives set out in the ASEAN Economic Community (AEC) Blueprint 2025, i.e. **“to facilitate the seamless movement of goods...” and the commitment that “ASEAN will continue to reduce or eliminate border and behind-the-border regulatory barriers that impede trade, so as to achieve competitive, efficient and seamless movements of goods within the region”.**

Today, as it stands, the governments in ASEAN are witnessing economic growth fuelled to a large extent by e-Commerce. This is a success story which mainly is driven by Micro, Small and Medium Enterprises (MSMEs) and is driving their growth in the region. Many of the policy amendments are put forth to encourage e-Commerce. Double digit economic growth is felt and predicted to continue

in the coming years in this key sector. It becomes imperative, therefore, that ASEAN continues to focus on trade facilitation in assisting the growth of this area. The recommendations presented in this paper will not only help more traditional cross border trade, but will also assist e-Commerce and foster the growth of ASEAN's MSMEs.

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

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

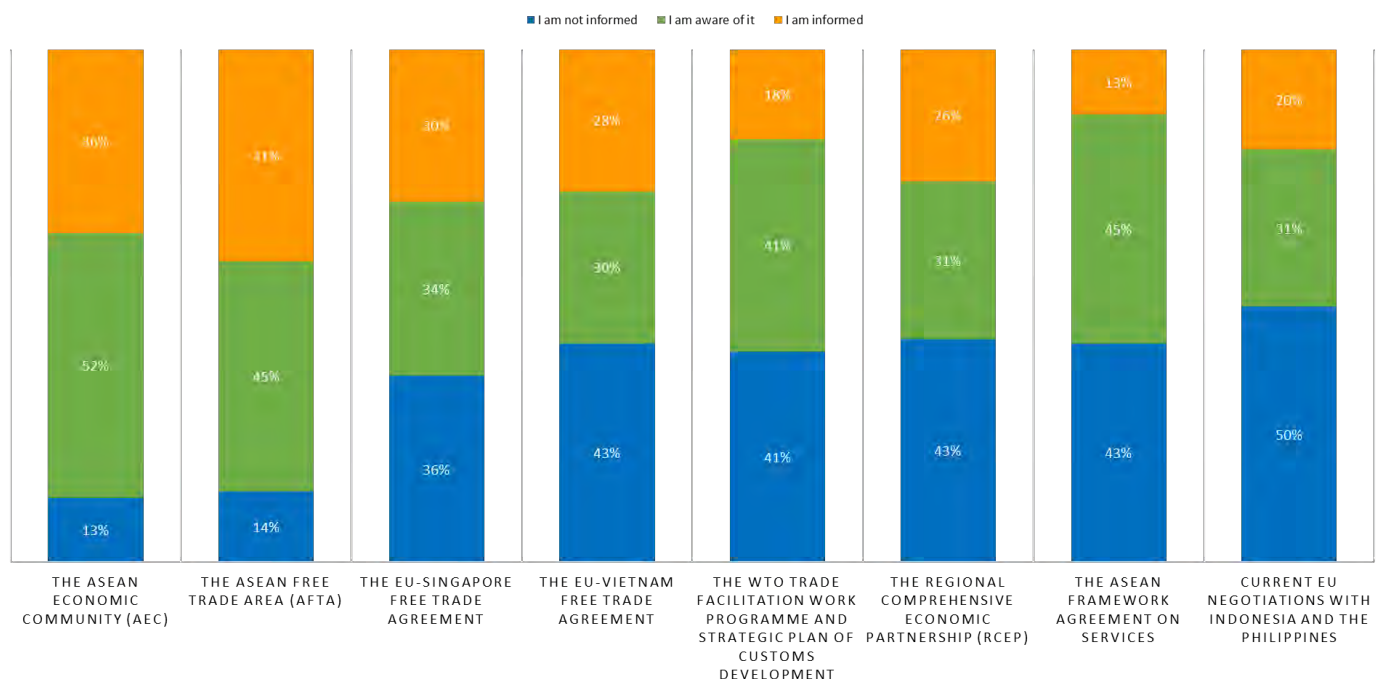
We urge ASEAN and its Member States to put in place the necessary programmes, legislation and guidelines as soon as possible in order that these measures can be fully implemented within the suggested timelines.

Low awareness of current and proposed trade deals in the region remains...

As reported above, the majority of our respondents again have stated that increased regional economic integration is important to their operations in the ASEAN region and would help to stimulate more trade and investment in the region. However, as can be seen below, awareness of various regional trade pacts, including the AEC itself, remains very low and indeed lower than last year. In 2016, 49% of respondents said they were “informed” of the AEC, whereas in 2017 only 39% said the same. This

may be a reflection of the lower profile that the AEC has had in recent months compared to 2016 survey period which was immediately after the formal launch of the AEC. Similarly, a fifth of respondents (20%) said that they were “informed” of the EU’s negotiations with Indonesia and the Philippines. Overall, it would appear that a lot more communication is required from various governments and authorities on the trade deals.

AWARENESS OF ASEAN & GLOBAL TRADE AGREEMENTS

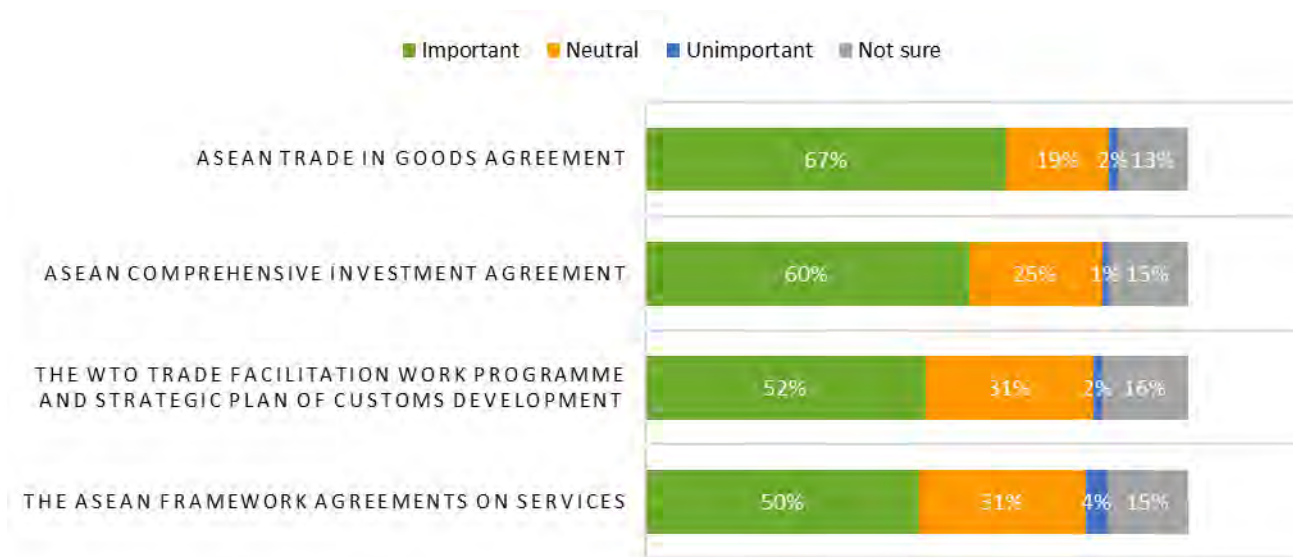


...but there is more awareness of intra-ASEAN arrangements

There would appear, however, to be more understanding and appreciation of various intra-ASEAN trade and investment agreements and, pleasingly, an increased understanding of the importance of the ASEAN Comprehensive Investment Agreement

(ACIA) and the ASEAN Trade in Goods Agreement (ATIGA). In 2016, 37% and 61% of respondents respectively said that these Agreements were important. In 2017, the corresponding numbers are 60% and 67%.

IMPORTANCE OF ASEAN & GLOBAL TRADE AGREEMENTS

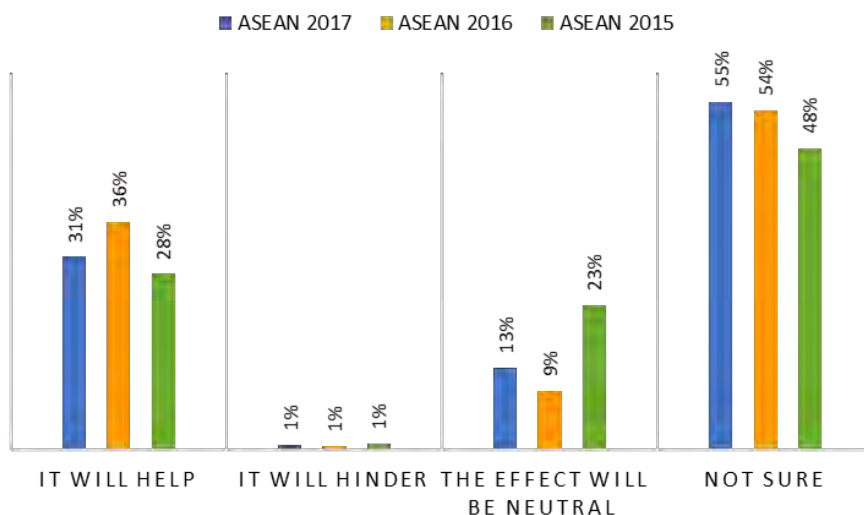


Uncertainty over the importance of RCEP persists

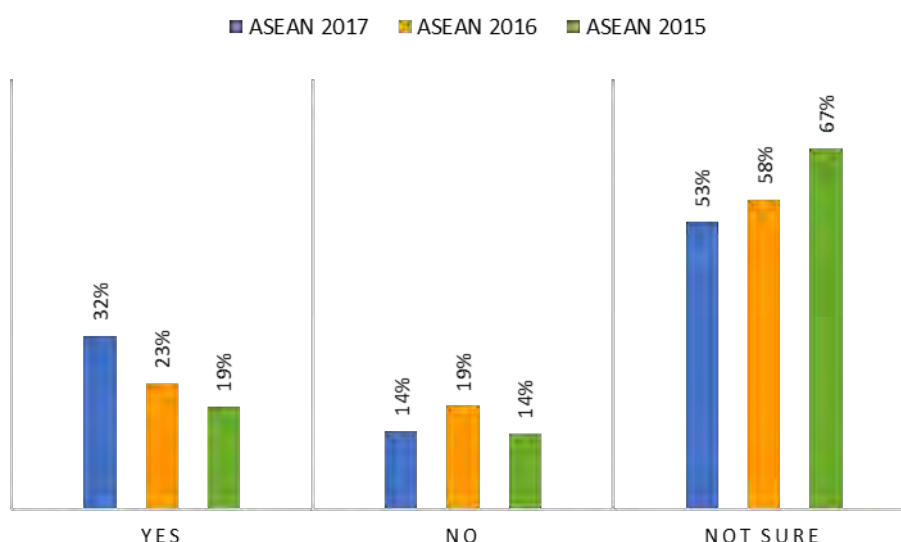
RCEP (the Regional Comprehensive Economic Partnership) is a proposed mega-FTA between ASEAN and the region's existing FTA partners (Australia/New Zealand, Japan, Korea, China, and India). Negotiations on the potential deal are ongoing, with some doubt as to when they might be concluded though many in ASEAN say RCEP will be concluded before the end of 2017. We asked again this year about the potential impact of RCEP on trade and

investment and also on future investment decisions. Again there were high percentages in both cases saying they were unsure of the impact, reflecting the low understanding or lack of certainty around the deal. The numbers saying that RCEP would help with trade and investment fell slightly in 2017 compared to last year, whilst the numbers saying that it might impact on future investment decisions increased.

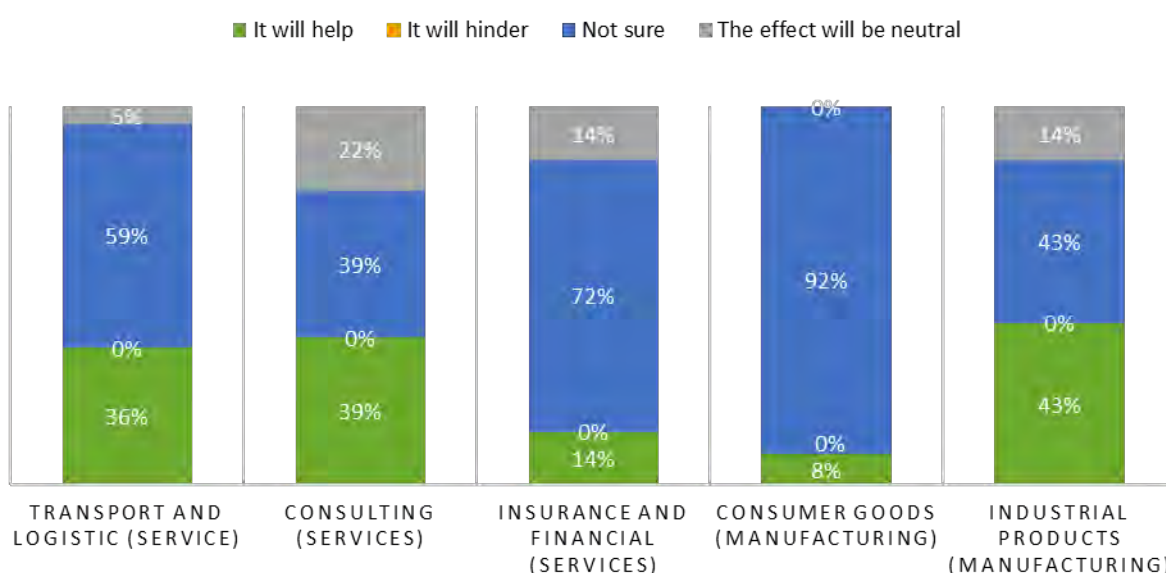
IMPACT OF RCEP ON TRADE & INVESTMENT IN ASEAN



RCEP TO IMPACT ON FUTURE INVESTMENT DECISIONS IN ASEAN



IMPACT OF RCEP ON ASEAN TRADE & INVESTMENT (BY INDUSTRY)



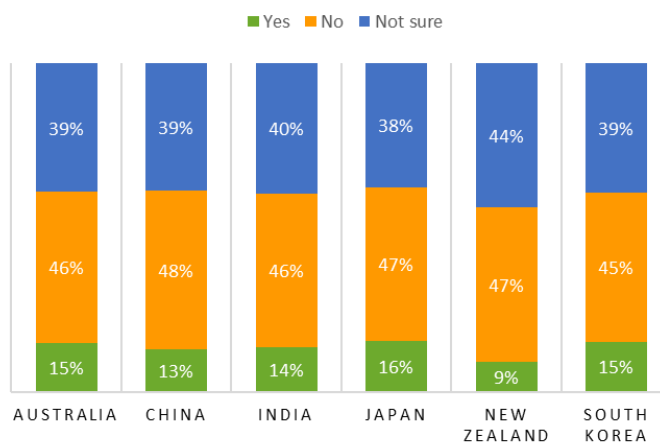
Usage of ASEAN+1 Trade Deals remains low

Despite the many trade deals that ASEAN has put in place with the +1 partners, usage of them by European companies remains low, and indeed lower than in 2016. However, they remain broadly in line with usage levels for FTAs globally as reported previously by various studies (e.g. HSBC's 2014 report on the usage of FTAs). Unlike in previous years of the Survey, where around a third of respondents said that would likely make use of the ASEAN+1

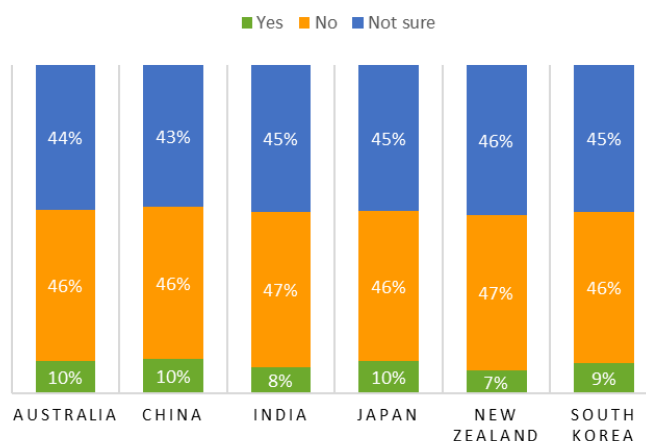
trade deals in the future, this year less than a fifth of respondents (17%) said they would make future use of them.

The level of usage of the ASEAN+1 FTAs for the export of services seems to have increased. In 2016, for instance, only 2% of respondents said that they made use of the ASEAN-South Korea FTA for the export of services, whereas in 2017 the number is 9%.

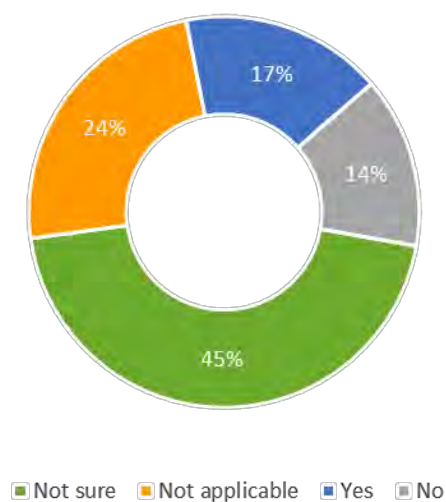
USAGE OF ASEAN+1 FTAs TO EXPORT GOODS



USAGE OF ASEAN+1 FTAs TO EXPORT SERVICES



FUTURE UTILISATION OF ASEAN+1 FTAs



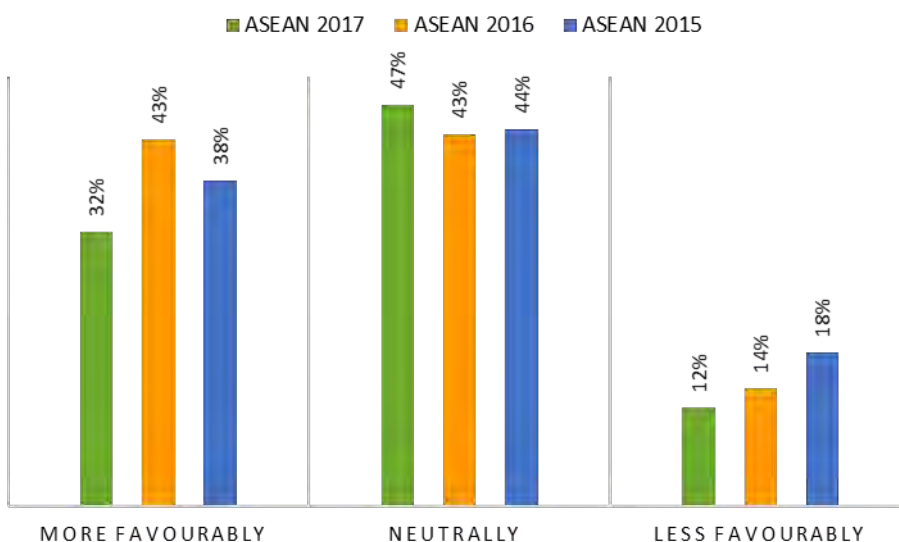
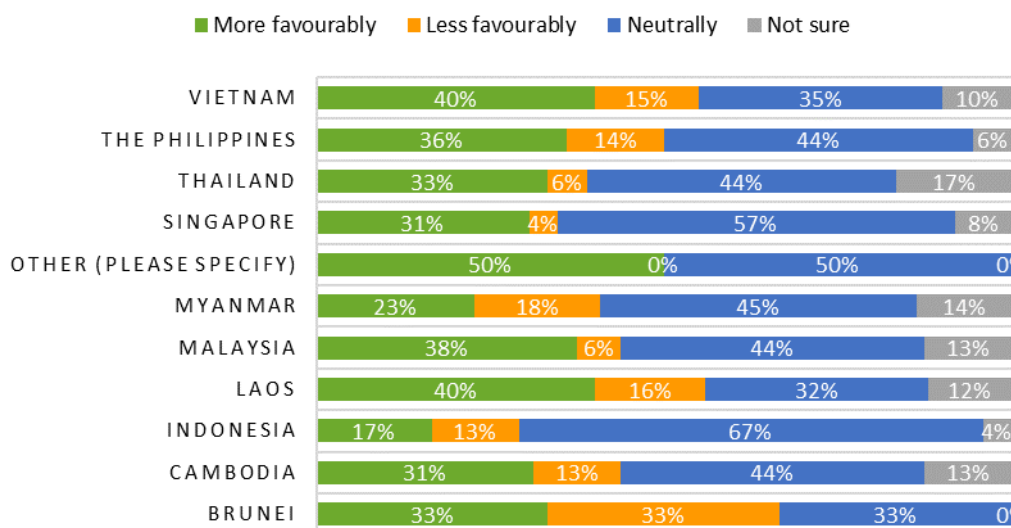
When we asked respondents for the reasons for not making more use of the ASEAN+1 FTAs, three reasons came clearly to the fore:

1	Little government support and guidance
2	Lack of information
3	Complexity of the rules of origin

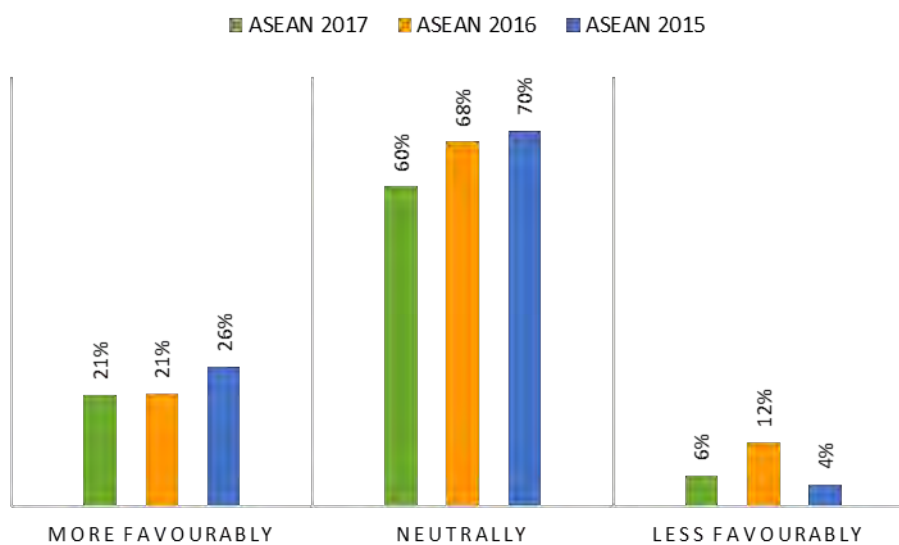
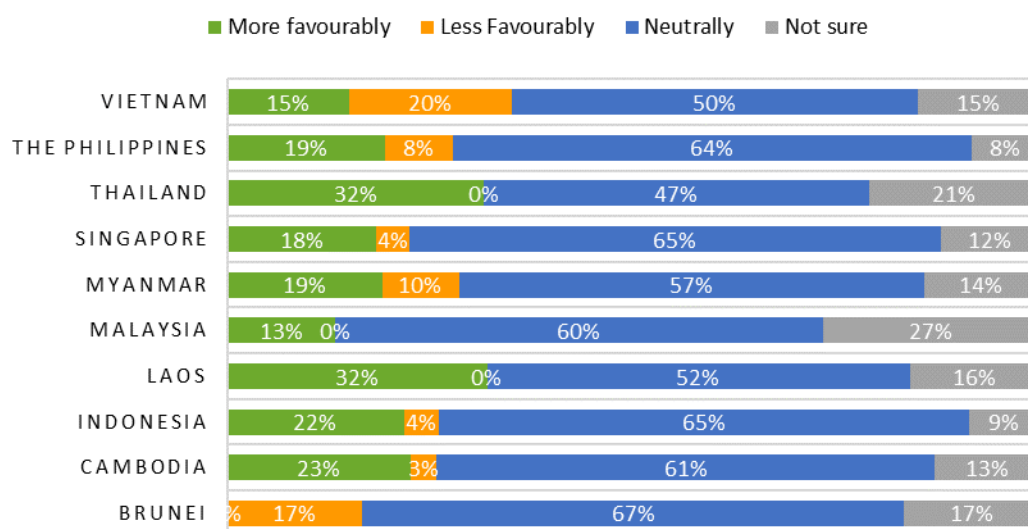
Perception of European companies remains on a par with their US and Asian counterparts in ASEAN

European companies continue to feel that they are generally perceived in a similar way to their Asian and American counterparts within Southeast Asia, though the 2017 score was slightly lower than in previous years.

PERCEPTION OF EUROPEAN BUSINESSES COMPARED TO ASIAN COUNTERPARTS IN THE REGION



PERCEPTION OF EUROPEAN BUSINESSES COMPARED TO AMERICAN COUNTERPARTS IN THE REGION

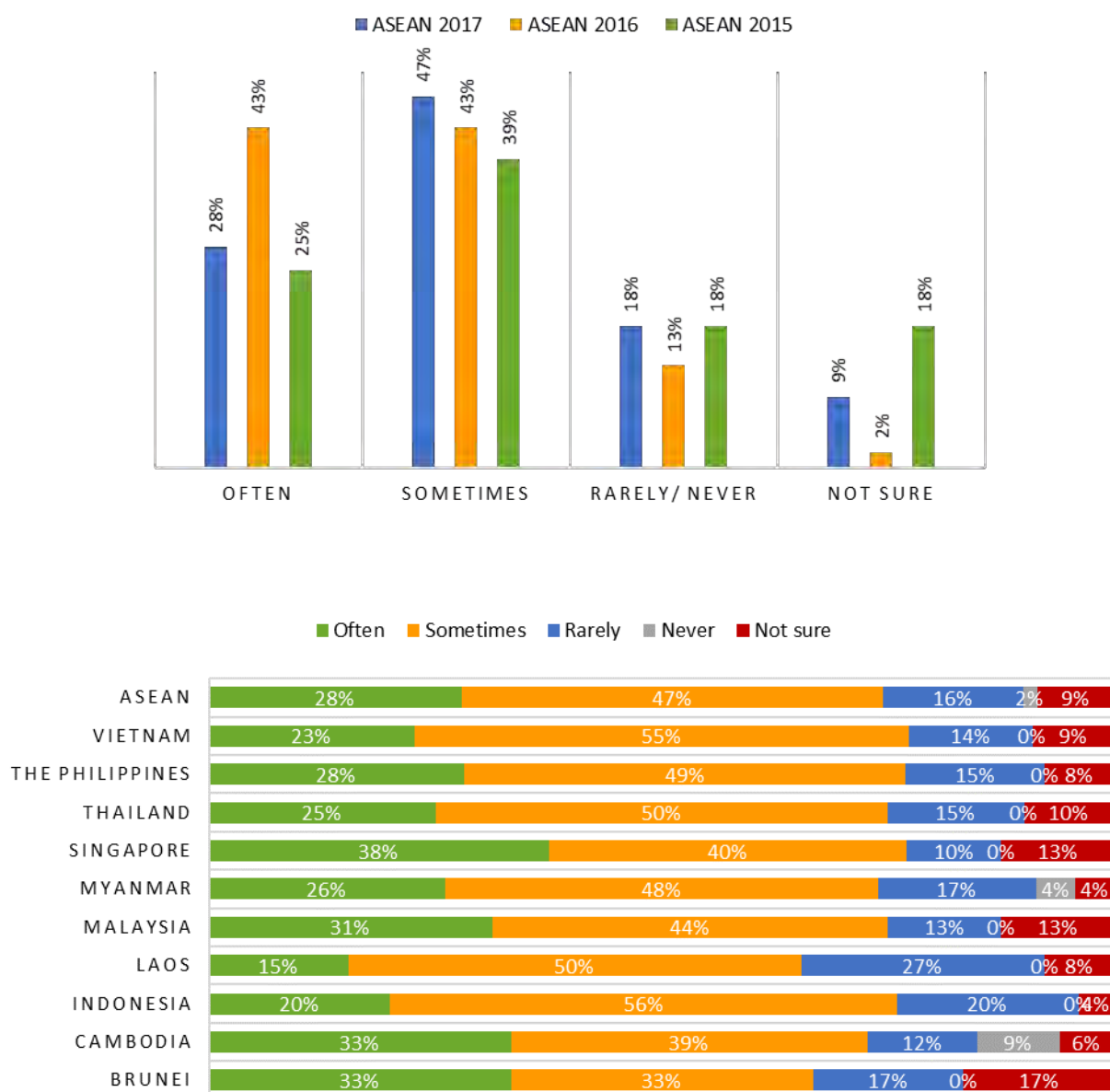


Government consultation shows a slight downturn versus 2016

Overall, 75% of respondents said they were consulted often or sometimes by national governments on policies and regulatory changes. This is slightly down from 86% in 2016. 28% of respondents across the region as a whole reported that they were often consulted by governments in 2017,

compared to 43% in 2016. This decline is despite the emphasis on the need for more private sector consultation and improved governance. Across the region, Indonesia, Singapore, the Philippines and Vietnam continued to lead the way on consultation.

FREQUENCY OF CONSULTATION BY ASEAN GOVERNMENTS

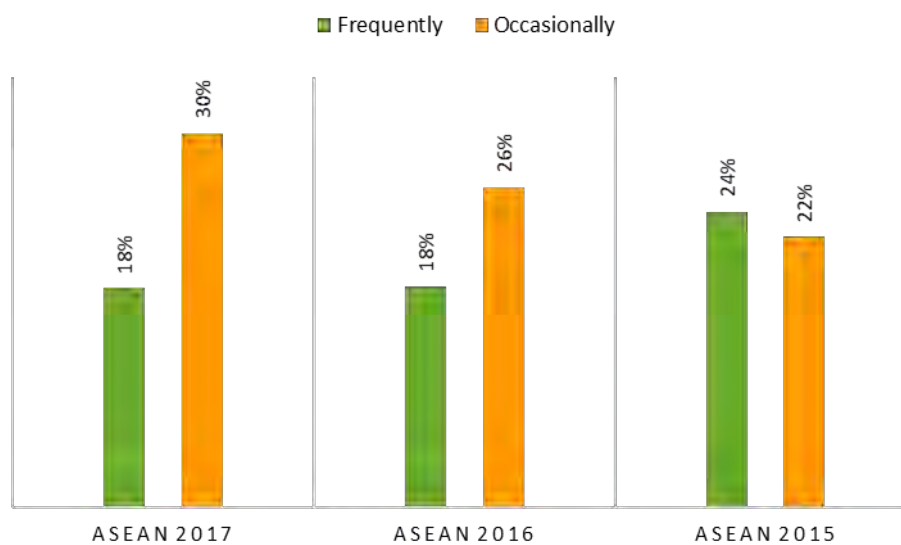
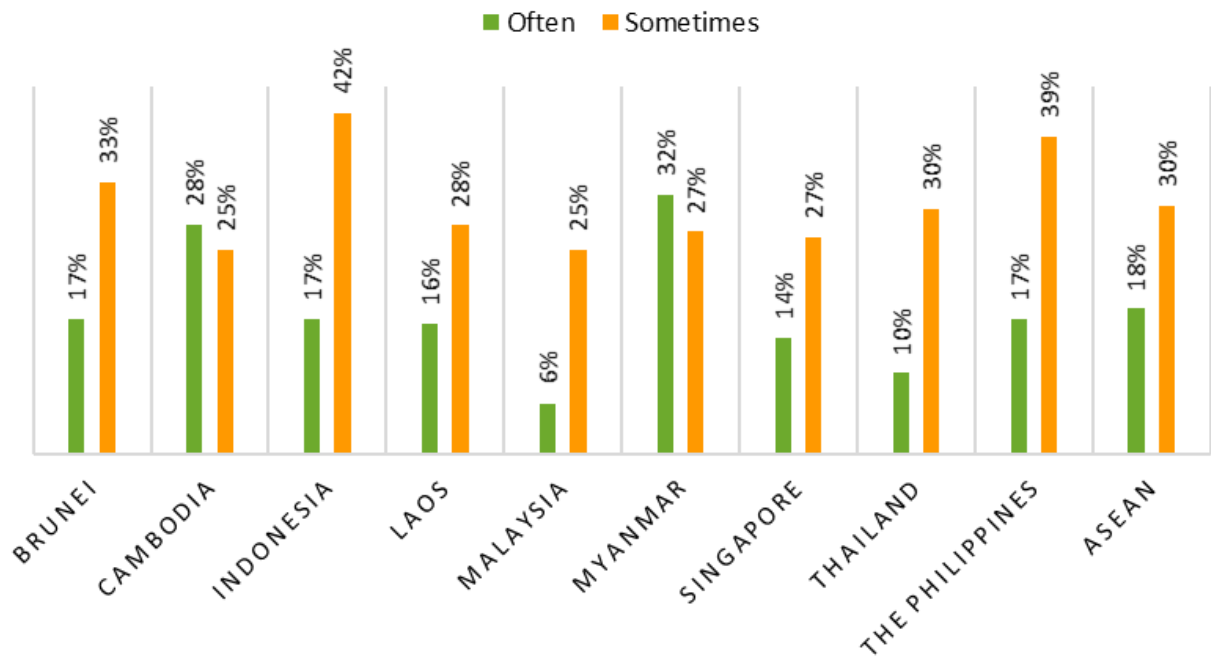


ASEAN-wide, nearly half of companies face unfair competition

Unfair competitive practices in the region as a whole continue to be a concern for European businesses with 48% of respondents reporting that they either often or sometimes face unfair competition from local or state-owned enterprises. The

numbers do vary significantly however from country to country across the region with Indonesia, Myanmar, the Philippines, Cambodia and Brunei as the countries that above the ASEAN-wide average.

FREQUENCY OF BUSINESSES FACING UNFAIR COMPETITION





EU-ABC Insurance Position Paper

Prosperity, Protection and Partnership:

The Role of the Insurance Sector in Driving Sustained Growth in ASEAN

April 2017—Executive Summary

Over the medium to long term, ASEAN is expected to remain as one of the fastest growing regions in the world, with an average growth rate exceeding 5% for the next five years. The trade and investment relationship between EU and ASEAN remains deep – the EU is still the largest source of foreign direct investment in ASEAN and is the second largest trading partner of ASEAN. By some projections, if the region were to be viewed as a single economic entity, ASEAN is heading to being the world's fifth largest economy. With full implementation of the ASEAN Economic Community, the region has the potential to grow even further. The EU-ABC sees strong added value for the ASEAN Region from the full implementation of the AEC Blueprint 2025. We welcome the publication of the Consolidated Strategic Action Plan for the delivery of the Blueprint.

A strong insurance sector is critical to economic growth and to the AEC's success. It supports trade and commerce, accumulates investible funds and facilitates investment in the wider economy such as in infrastructure projects. As a risk management tool, insurance promotes resilience of countries in the face of disasters and provides protection, financial security and proper pensions to people.

The EU-ABC Insurance Working group was set up with the objective to develop recommendations to allow the insurance industry to make a greater contribution to economic growth, social well-being and financial inclusion in the region. Since the In-

surance Working Group was established, we have published two papers – “The Insurance Industry in ASEAN: Engine for Growth and Social Cohesiveness” in 2015 and “Partnering ASEAN to Close the Insurance Protection Gap” in 2016.

Today, more than 25 European insurance companies operate in ASEAN, with total assets in excess of US\$80 billion. However, European insurers can and want to contribute more, as shown by the findings of the 2016 EU-ASEAN Business Sentiment Survey. Penetration rates in ASEAN remained low at just over three percent, well below the global average of over six percent. The protection gap is increasing, as people accumulate more assets and do not increase their insurance cover accordingly.

This paper builds on the recommendations of our previous papers, reporting on progress so far, and what more needs to be done to meet ASEAN's ambitions. In order for international insurance companies to be able to contribute fully to the economic growth and success of the AEC, the priority issues are: Shareholding; Data; Disaster Risk Finance; Long-term Investments; Investment-linked Products. The paper also takes a first look at the increasing introduction by insurers of digital products and services. The EU-ABC looks forward to partnering with regulators to support the fintech ecosystem.

Read the full paper at <http://www.eu-asean.eu/publications>.

CONCLUSION

Optimism remains strong, but governments need to guard against complacency

European companies in Southeast Asia remain highly optimistic about the trade and investment climate in the region, and the prospects for increasing profitability and expanding their businesses. **The clear outcome from this year's survey is that ASEAN is seen as a dynamic region with plenty of potential upsides for European businesses.**

With FDI from Europe to ASEAN at a record high, trade increasing year on year, and the underlying positive economic indicators in the region, it is not perhaps unsurprising that European companies in Southeast Asia have such a positive outlook. But the survey also highlighted some concerns in the areas of the development of the AEC, the pace of FTA negotiations, distortions in the competitive environment and the level of consultation from governments across Southeast Asia.

It is clear that some further enhancements to the AEC are needed if more use is to be made of regional supply chains, with non-tariff barrier removal being a priority area. More work also needs to be done by governments to promote the use of the plethora of existing Free Trade Agreements, including the ASEAN Trade in Goods Agreement. Simplifying customs and related processes, including rules of origin which can often be very complex, to help companies take advantage of these Agreements would be a good place to start, and we are pleased to note that there are some positive moves in ASEAN in this area.

Moving quicker on removing the non-tariff barriers in ASEAN and further deepening the AEC will help to maintain the level of optimism as this will tackle many of the concerns of businesses. Failing to do so might dampen it.

European businesses want to see faster movement on EU-ASEAN FTAs, both bilaterally and,

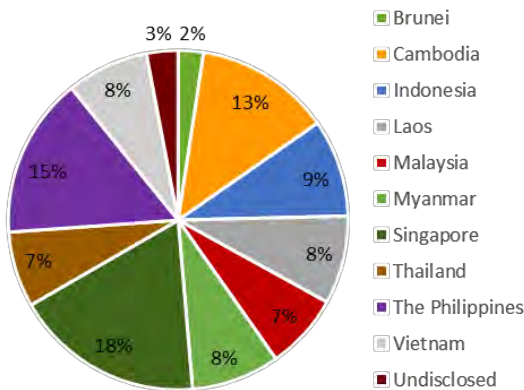
more importantly, on a region-to-region deal where they see more benefits for business. Increased impetus from the European Commission on trade deals with ASEAN and the ASEAN Member States will further enhance the positivity felt towards the region by European businesses and help deal with the feeling that many European businesses have that they operate at a competitive disadvantage compared to their peers from places like Japan, Korea and China as a result of the lack of a region-to-region deal.

There is no doubt that ASEAN remains a very dynamic and growing region. It is a region that can be a future driver of global economic growth, especially if regional economic integration continues in the right direction. There is also no doubt that **European businesses remain committed to Southeast Asia** (well over half of our respondents have been in the region for 25 years or more), and see a bright future for ASEAN.

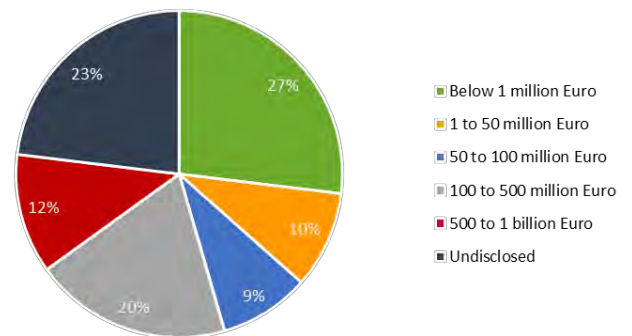
The EU-ASEAN Business Council.

ANNEX: RESPONDENTS' PROFILE & METHODOLOGY

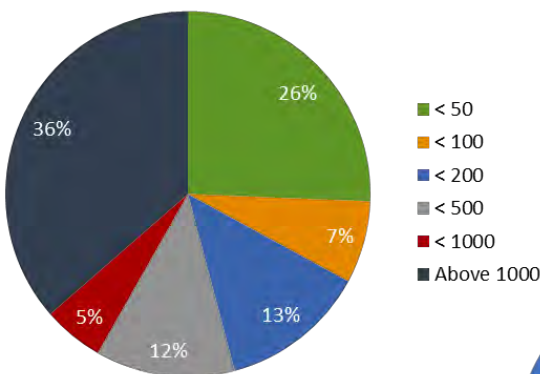
RESPONSE LOCATION



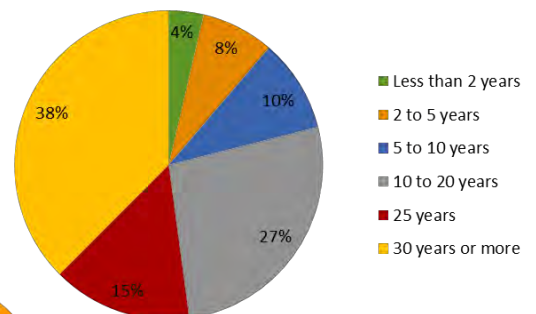
TURNOVER IN RESPONSE LOCATION



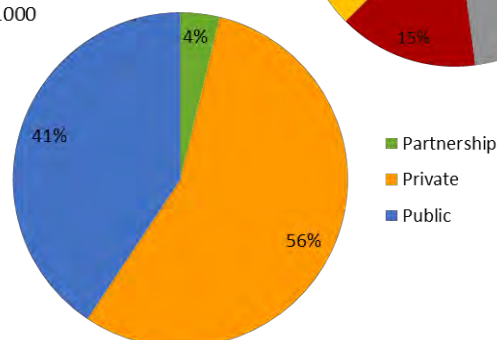
NUMBER OF EMPLOYEES



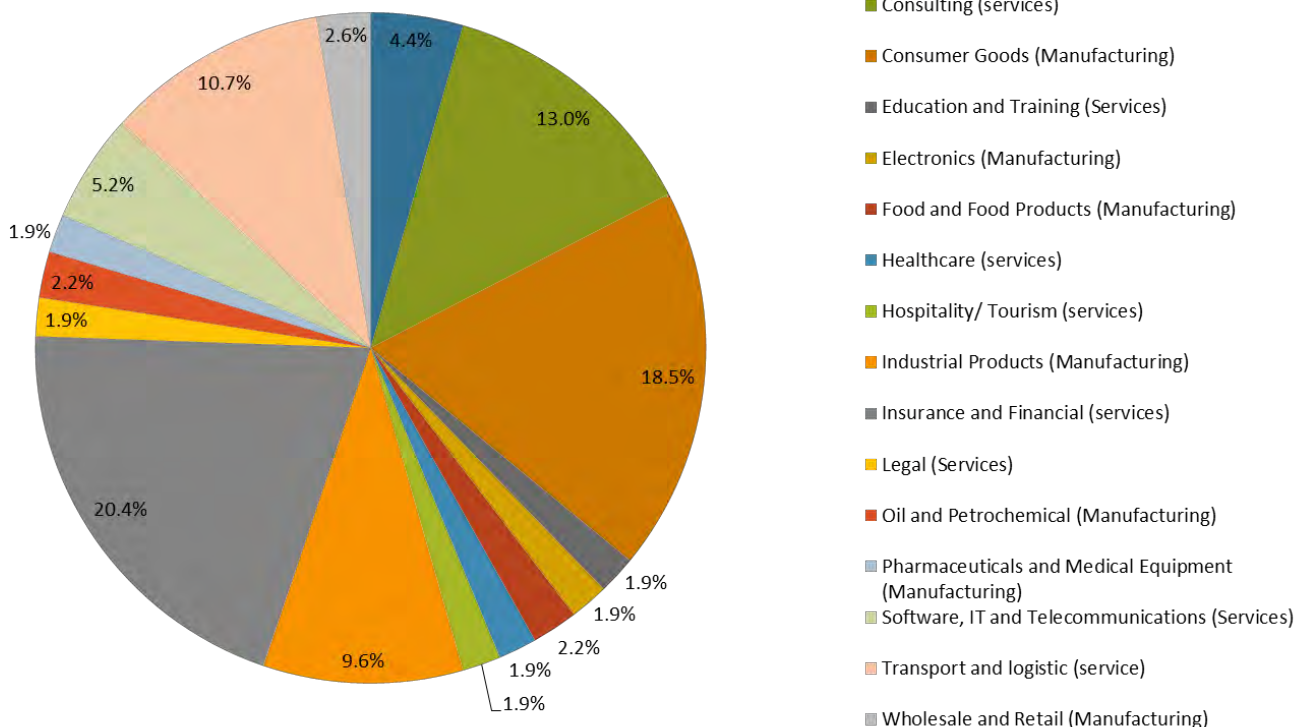
PRESENCE IN ASEAN



OWNERSHIP STRUCTURE



INDUSTRY



Responses to this Survey were collected from March through to July 2017. All responses were made confidentially and on line.

As with previous years, respondents came from every country in the region and covered a broad range of industries, ownership models, longevity in the region, and size of company.

In total, this year, we had 333 respondees, a significant increase of 2016. Some highlights from the respondent profiles are:

- ◆ 53% of respondents have been operating in ASEAN for 25 years or more.
- ◆ 16 different industry sectors were covered by the Survey
- ◆ Over a third of respondents employ more than 1,000 staff in the region.

ESTIN & Co

STRATEGY CONSULTING

Estin & Co is an international strategy consulting firm based in Paris, London, Zurich, New York and Shanghai. The firm assists CEOs and senior executives of European, North American and Asian corporations in the formulation and implementation of growth strategies, as well as managers of private equity funds in the analysis and valuation of their investments.

Estin & Co celebrates its twentieth anniversary in 2017. It appears regularly in European rankings of the best consulting firms. In 2016, it was ranked for the third year in a row by Décideurs as one of the very top firms in strategy consulting and as the n°1 boutique in strategy consulting in France. Over the past ten years, we have worked in most Asian countries across most industries. In Asia, Estin & Co is present with its Shanghai office since 2004. Clients are Western companies and their local subsidiaries, Chinese SOEs, Chinese diversified family groups, other diversified Asian groups and private equity funds. We work on a various types of assignments including:

- growth strategies,
- acquisition strategies,
- manufacturing strategies,
- redefinitions of business models and go-to-market strategies,
- corporate organizations

Find out more at: <http://www.estin.com/>

EUROPEAN BUSINESS AT THE HEART OF ASEAN



EU-ASEAN Business Council (EU-ABC)

The EU-ASEAN Business Council (EU-ABC) is the primary voice for European businesses within the ASEAN region, being endorsed as it is by the European Commission and recognised as such by ASEAN. Independent of both bodies, the Council has been established to help promote the interests of European businesses operating within ASEAN and to advocate for changes in policies and regulations which would help promote trade and investment between Europe and the ASEAN region.

Our Members

The EU-ABC's membership consists of large European multinational corporations and all of the officially recognised European Chambers of Commerce from around South East Asia. As such, the EU-ABC represents a diverse range of European industries cutting across almost every commercial sphere from car manufacturing through to financial services and including fast moving consumer goods, high-end electronics and communications. Our members all have a vested interest in enhancing trade, commerce and investment between Europe and ASEAN.

Mission Statement

- ★ Advocate on behalf of European business in ASEAN
- ★ To facilitate trade and tackle its barriers
- ★ To collaborate and interact with the ASEAN secretariat
- ★ To be a dialogue partner with ASEAN governments
- ★ To contribute to and promote ASEAN integration
- ★ To support the establishment of an EU-ASEAN FTA

Member Benefits

- ★ Meaningful dialogue with policy makers and key stakeholders.
- ★ Receive regular business-focused information.
- ★ The EU-ABC provides sustained strong advocacy support and advice.
- ★ The EU-ABC can provide sustained efforts to influence policy and decision makers.
- ★ High-level engagement opportunities to engage with ASEAN policy makers.
- ★ Networking sessions with members to exchange information & ideas.



ABOUT THE EU-ASEAN BUSINESS SENTIMENT SURVEY

This is the third edition of the annual EU-ASEAN Business Sentiment Survey. The Survey aims to serve as a barometer for European business sentiment and outlook in South-east Asian regarding key issues such as macro-economic conditions, the policy and regulatory environment, and the development of bilateral and plurilateral free trade agreements in the region. The Survey is produced with the cooperation of European Chambers of Commerce throughout the ASEAN member states. The Survey, along with previous editions, may be viewed at www.eu-asean.eu/publications.