



# The Case for an ASEAN-EU Free Trade Agreement

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## The Case for an ASEAN-EU Free Trade Agreement

By Dipinder S. Randhawa

### SYNOPSIS

*At a time when global supply chains are fragmenting, and economic nationalism is on the rise, a comprehensive Free Trade Agreement between the EU and ASEAN offers a chance to rewrite the rules of global commerce for the better – one that could reshape interregional commerce, fortify economic resilience, and signal a shared commitment to rules-based multilateralism that remains the surest path to shared prosperity.*

### COMMENTARY

ASEAN and the EU have benefited immensely from the rules-based multilateral order. The EU has long been well-regarded across ASEAN as a reliable and trustworthy partner. It has an established history of trade and investment with ASEAN. There is potential for collaboration in frontier fields, such as climate change and digitisation, between the two regional groupings.

The two regions share a rich history of economic exchanges defined by adherence to a rules-based multilateral trading system. They are each other's third-largest trading partners, after China and the US, with combined investments across their borders exceeding US\$700 billion.

Talks on an EU-ASEAN Free Trade Agreement (FTA) were launched in 2007 but failed to gain traction as the ASEAN member states' positions were too divergent to allow for a coherent position. Following a gradual restart in 2017, ASEAN and the EU agreed to proceed along two trajectories: one with the EU negotiating FTAs with individual ASEAN states and discussions on sectoral agreements, and concurrently, discussions on a broader EU-ASEAN FTA.

Bilateral deals between the EU and ASEAN member states are essential stepping stones, providing tailored solutions as a starting point and demonstrating mutual

benefits. The primary obstacles to a region-to-region deal are regulatory and economic disparities, divergent approaches to climate issues, and concerns over political issues.

The EU has since signed FTAs with Singapore and Vietnam. In July 2025, the EU and Indonesia reached a political agreement on a Comprehensive Economic Partnership Agreement (CEPA), while discussions on bilateral FTAs are ongoing with Malaysia, the Philippines, and Thailand.

In December 2020, the EU and ASEAN agreed to upgrade their relationship from dialogue partners to a strategic partnership. In 2022, they agreed on a landmark Air Transport Agreement, the first bloc-to-bloc agreement of its kind that consolidated over 140 bilateral agreements. A Digital Economy Framework Agreement (DEFA) within ASEAN can contribute to the digital chapter of an EU-ASEAN FTA, which will similarly lead to the first such agreement of its kind between the two regions. Business support surveys reveal strong backing among EU businesses in Southeast Asia for an FTA that will not only enhance their trade but also their competitiveness amid the crisis in the multilateral order.

The uncertainty wrought by US President Donald Trump's tariffs and the resultant erosion of the rules-based multilateral framework have lent greater urgency to bilateral FTAs between the EU and the remaining ASEAN states, as well as an ASEAN-EU FTA. There has been sustained high-level political engagement, with leaders' statements endorsing closer economic relations, regular ASEAN-EU ministerial meetings, and the establishment of a Joint Working Group focusing on digital, green, and supply chain cooperation.

The excellent relations and mutual trust between businesses add to the impetus for an FTA. Besides providing both blocs with a hedge against trade unpredictability and offering enhanced supply chain security, the FTA envisaged will be a benchmark for green and digital trade.

### **Why a Comprehensive FTA?**

An FTA between the EU and ASEAN, with chapters on Digital and Green Trade and sustainable development, will unlock clear benefits beyond bilateral FTAs by increasing the potential for trade and investment, creating a vast market covering 1.1 billion people and a combined GDP of nearly US\$22 trillion. The FTA envisaged could lay the foundations and catalyse growth in the frontier areas of trade in environmentally friendly products and digital goods. The DEFA, currently under negotiation, provides a framework for ASEAN's position on digital trade.

ASEAN and EU can align demand and supply in the market as ASEAN is producing goods needed in Europe while EU has a proven track record in making rules and regulating standards to maintain quality and safety. A robust EU-ASEAN FTA could anchor cooperation in critical green sectors, such as green hydrogen, clean steel, and green trade, supporting both regions' climate goals and enhancing their supply chain integration and resilience.

## **Challenges Facing a Comprehensive FTA**

Foremost among the challenges are differences in capabilities in the green trade. The EU's Green New Deal and environmental regulations, such as the European Union Deforestation Regulation (EUDR) and the Carbon Border Adjustment Mechanism (CBAM), set standards that challenge most ASEAN members.

The EU has responded by offering technical assistance, capacity building, and guidance to help ASEAN companies, for example, by assisting in measuring carbon footprints. For an FTA to succeed, the EU will need to offer flexibility through a phased implementation of carbon taxes, financial support, and technology transfer. The EU and ASEAN are moving toward a pragmatic and incremental approach in meeting mutually agreed-upon standards.

As for ASEAN, in addition to reducing trade barriers, it would benefit from further harmonising trade rules among its members, including rules of origin. While the region has made considerable progress under the ASEAN Trade in Goods Agreement (ATIGA) using Rules of Origin (RoO), there is potential for implementing unified business-friendly RoO across ASEAN FTAs, including harmonising value-added thresholds, simplifying product-specific rules and aligning RoO across regional FTAs.

Harmonisation of technical regulations and standards, along with the development of shared frameworks and regulatory practices, will help eliminate redundant and conflicting requirements. For instance, eliminating double testing of motor vehicles and electronics, as well as safety certifications, sustainability labelling, and digital trust frameworks, will contribute to building trust and creating a seamless market. Such measures will not only help boost trade but also enhance ASEAN's attractiveness as an investment destination and boost intra-ASEAN trade and investment, a vital step toward realising an ASEAN Economic Community.

## **Overcoming the Challenges**

Both sides recognise the need for compromise and pragmatism, and for striking a balance between regulatory sovereignty and facilitating trade. The path forward is to complete more bilateral FTAs to serve as a foundation for region-to-region talks, and pilot sectoral agreements in digital and green trade to build trust and demonstrate benefits, serving as templates for region-wide adoption.

ASEAN and the EU could consider providing an "open accession" clause for ASEAN members to join the FTA once they meet the agreement's requirements on green and digital rules. The adoption of cumulative rules of origin across bilateral deals will incentivise ASEAN-wide supply chains. This approach of flexible participation in implementing economic commitments is permitted under the ASEAN Charter. It has been employed in the form of an "ASEAN minus X" proposition during the implementation of the ASEAN Trade in Goods Agreement. In the ASEAN-Australia-New Zealand FTA signed in 2009, Cambodia, Lao PDR and Myanmar were allowed to join subsequently by the agreement's accession provisions, as they completed domestic requirements and ratification.

To enhance coordination, ASEAN should consider appointing a Special Envoy for EU Trade, supported by a dedicated secretariat to streamline negotiations and maintain political momentum. Additionally, the EU-ASEAN Joint Working Groups mandate could be expanded to focus on resolving technical barriers in the green and digital sectors, as well as on enhancing supply chain resilience.

## **Conclusion**

Both ASEAN and the EU are deeply engaged with each other, seeking to steer clear of great-power rivalry and maintain a stable, rules-based system. The EU's 2021 Indo-Pacific Strategy, advocating for “open strategic autonomy” and deeper ties with reliable partners, including ASEAN, reinforces the case for an agreement.

An ASEAN-EU FTA will serve as a strategic hedge in a world where WTO multilateralism is faltering, helping ASEAN bridge technical barriers to achieve its net-zero aspirations, while moving up the value-added chain. Such an FTA would provide an exemplar for other regions and perhaps give rise to an inclusive, fair, global trading system that is not only relevant for the times but also lays the groundwork for future expanded FTAs.

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