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### Training a Toothless Tiger

An Impact Assessment of EU Bi-Regional Integration  
Support to ASEAN

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## Abstract

This paper argues that EU bi-regional integration support towards ASEAN is only partly effective. EU assistance in the current partnership, the *Bandar Seri Begawan Plan of Action 2013-2017*, has had a limited impact on ASEAN economic integration. The paper compares two EU aims to the actual policy of deliberately selected ASEAN cases Indonesia and Vietnam and exposes a divergence. Over the period 2010-2015, the two countries adapted their policies to the common goal of regional economic integration only to a limited extent. First, market integration – especially intraregional trade – is not developing according to EU directives. The number of Non-Tariff Measures is growing, hampering trade integration, and investment remains limited. Second, market access also deviates from the EU's aims. Although the assistance programmes are promising, the ASEAN nations follow integration proposals selectively. The bilateral FTA strategy is working for Vietnam, but is likely to fail for Indonesia. Domestic preferences largely determine the impact and the workability of regional integration support. Vietnam generally follows EU directives and actually opens up towards the region and the world; Indonesia, by contrast, shields its markets. Thus, these cases show that the EU role of a builder of regions is questionable. The EU can assist regional integration elsewhere, but needs to further develop its strategy to do so. Through well-adapted, well-substantiated and locally accepted support, the EU could counsel an adept ASEAN, instead of training a toothless tiger.

## Contents

I.	List of recurring acronyms .....	1
II.	Introduction .....	2
III.	Methodology .....	3
IV.	The EU project.....	6
V.	The EU-ASEAN product.....	8
VI.	Analysis: the process .....	9
A.	Market integration .....	9
B.	Policy integration.....	12
C.	Market access .....	16
VII.	Conclusion.....	21
VIII.	Bibliography .....	24
IX.	Appendix.....	30

## I. List of recurring acronyms

AEC	-	ASEAN Economic Community
AFTA	-	ASEAN Free Trade Area
ARISE	-	ASEAN Regional Integration Support from the EU
ASEAN	-	Association of Southeast Asian Nations
ASEC	-	ASEAN Secretariat
CEPA	-	Comprehensive Economic Partnership Agreement
CLMV	-	Cambodia, Laos, Myanmar and Vietnam
EC	-	European Commission
EEAS	-	European External Action Service
EU	-	European Union
EVFTA	-	EU-Vietnam Free Trade Agreement
FDI	-	Foreign Direct Investment
FTA	-	Free Trade Agreement
NTB	-	Non-Trade Barrier
NTM	-	Non-Tariff Measure
PCA	-	Partnership and Cooperation Agreement
RCEP	-	Regional Comprehensive Economic Partnership
RIS	-	Regional Integration Support
SOE	-	State-Owned Enterprise
SPS	-	Sanitary and Phyto-sanitary Measures
TBT	-	Technical Barrier to Trade
TREATI	-	Trans-Regional EU ASEAN Trade Initiative
UNCTAD	-	United Nations Conference on Trade and Development
US	-	United States

## II. Introduction

'Will Europe still be able to conclude trade deals and shape economic, social and environmental standards for the world? (...) Or will Europe disappear from the international scene and leave it to others to shape the world?'

It was in this way that Jean-Claude Juncker, President of the European Commission, questioned Europe's external clout in his 2016 *State of the Union* speech (Juncker, 2016: p. 7). In turbulent times, he encourages the European Union (EU) to close ranks and reinforce its international influence. The EU's diplomatic apparatus prioritises bi-regional cooperation with 'strategic partners' to strengthen its challenged international position (EEAS, 2016: p. 38). This reflects a traditional strategy, as the EU has been cooperating with other regional blocs for decades (Smith, 2003). In accordance with this approach, the EU assists the development of regional integration projects elsewhere. Regional integration support (RIS) is the main EU policy in this regard (Jetschke, 2013). Various representations, programmes and action plans support integration initiatives globally. An impressive effort, but is EU RIS effective?

This paper analyses the effectiveness of EU RIS, with a focus on the Association of South East Asian Nations (ASEAN – Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam). I define regional integration broadly as 'the process and products of region building' (Murray and Warleigh-Lack, 2013: p. 111). The longstanding EU-ASEAN relationship is an example of bi-regional cooperation, illustrated by extensive trade and investment flows (EC, 2017; Camroux, 2008). In ASEAN, I focus on two cases: Indonesia and Vietnam.<sup>1</sup> Both comply with the theoretical requirements to pioneer integration (Mattli, 1999). Indonesia is a well-established hegemon with the biggest Gross Domestic Product and population among ASEAN countries; Vietnam is a fast-growing economy with increasing ties to the EU. Therefore, these possible pioneers are 'crucial cases': if they do not follow the EU directives, no country will (Gerring, 2008).

Following an earlier EU policy impact analysis, I compare the EU aims for RIS (input) with the policies of Vietnam and Indonesia (output). The extent to which these 'inputs, outputs and (...) second layer types of objectives or outcomes' match determines the effectiveness of EU RIS (St. Aubyn, Pina, Garcia and Pais, 2009: p. 11). My analysis follows Morgan's three phases of regional integration. This conceptual model distinguishes the vision (*project*), agreement (*product*) and actual policy (*process*) of regional integration (Murray and Warleigh-Lack, 2013: p. 113).

The motives and directives of EU RIS form the *project*. The *product* is the current common agreement, the *Bandar Seri Begawan Plan of Action to Strengthen the EU-ASEAN Enhanced*

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<sup>1</sup> This paper uses Western spelling ('Vietnam') and shortened country names.

*Partnership 2013-2017* (hereafter: *Bandar Seri*) (EEAS, 2013). Finally, I compare the EU directives to the Vietnamese and Indonesian policy, the *process*. My research period (2010-2015) slightly differs from the *Bandar Seri*-period owing to data availability and to allow for more profound analysis. The overarching research question is:

'Based on an assessment of the implementation of the EU's aims and directives in two crucial cases (Indonesia and Vietnam), has the EU's support to regional economic integration by ASEAN been effective during the period 2010-2015?'

The EU itself does not evaluate this policy. RIS impact on developing nations in external regional blocs – like Indonesia and Vietnam – is particularly unexamined (George, Iwanow and Kirkpatrick, 2013). The 'multi-method' approach and conceptual model can provide an instrument for this analysis and a useful tool for comparative regional integration studies (Fearon and Laitin, 2008: p. 757). The combined quantitative and qualitative methodology allows for an analysis of regional trends and the reasons behind these developments. Whereas the quantitative variables and analysis gauge *if* the ASEAN nations integrate economically and follow European directives, the qualitative analysis explains *why* they do or do not. This combination allows for an explanatory narrative on the impact of EU policy (Fearon and Laitin, 2008). That narrative adds to the discussion on EU international influence: can the EU 'build' another region (Lombaerde and Schulz, 2009: p. 1)? The paper addresses the effectiveness of the EU approach, but also discusses the limitations faced by the EU. In doing so, the analysis touches upon several flaws in the current approach. Since the *Bandar Seri* will be renegotiated this year, the paper concludes with policy recommendations for the next agreement.

The next section explains the methodology, data collection and analysis. Section IV outlines the EU's objectives (its *project*). The EU strives for open market access and further regional integration. It relies on a bi-regional approach, which resembles in the *product*, the *Bandar Seri*. Section V analyses this *product*. The agreement provides directives for market and regional integration and their indicators (*Table 1*). Section VI describes the *process*: the policies of ASEAN, Indonesia and Vietnam. ASEAN overall reluctantly follows the EU. Indonesian policy, on the contrary, deviates from its goals. Vietnam generally follows the EU directives. Section VII therefore concludes that EU RIS towards ASEAN is only partly effective and provides recommendations to enhance the impact of future RIS.

### III. Methodology

This section outlines my case selection, conceptual model and multi-method data selection and analysis. The common debate about regionalism, 'the formation of interstate associations or groupings on the basis of regions', discusses intraregional integration (Nye, 1968: p. vii). Beyond this interpretation, literature on RIS and EU policy papers suggest that Brussels can build another region (Telò, 2007; EEAS, 2016). This paper tests that idea by examining its impact on two actual cases. Hence, it contributes to providing greater clarity on the 'makeability of regions' (Lombaerde and Schulz, 2009).

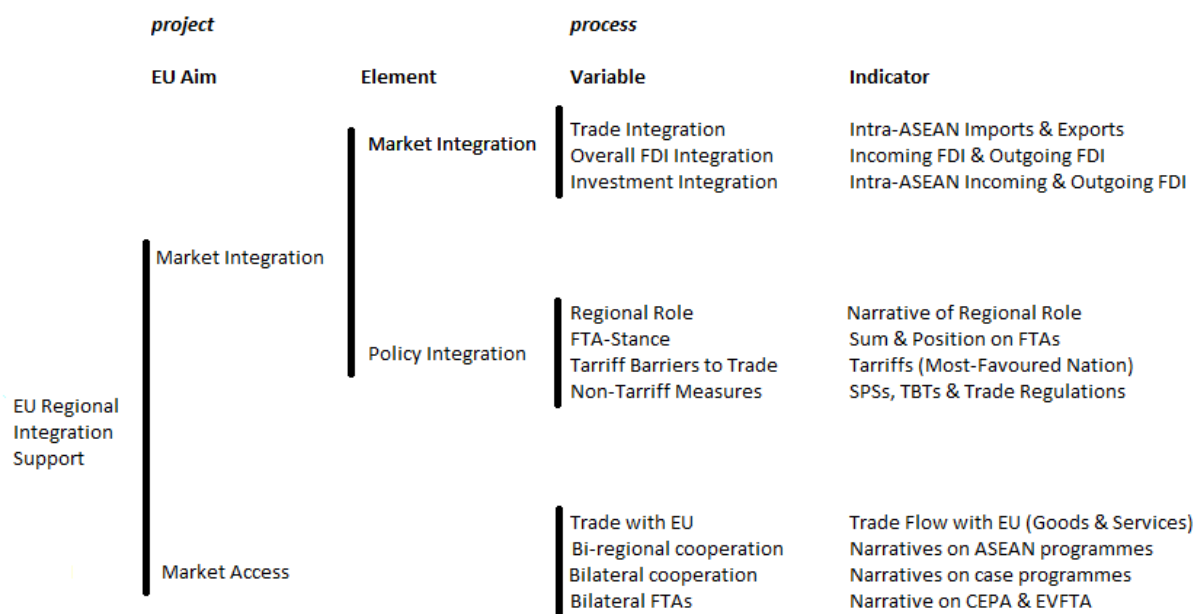
My research focuses on ASEAN. Building on academic literature, I assume that ASEAN members aspire to integrate by following EU objectives (Gerring, 2008). ASEAN is the second best-integrated regional entity in the world (Smith, 2003). Moreover, European academics have convincingly showed that ASEAN 'mimics' the EU model (Langenhove, 2011). Since the *Bandar Seri* is an example of bi-regional cooperation, EU impact should be substantive. These academic expectations make ASEAN a most-likely case for successful RIS (Camroux, 2008).

ASEAN's Indonesia and Vietnam meet Mattli's two conditions for pioneering economic integration. First, *demand-side conditions* concern the recognition of the benefits of regional integration (Mattli, 1999: p. 46). Both are large economies, eyeing economic development through (regional) expansion. Second, *supply-side conditions* concern the political willingness to integrate (Mattli, 1999: p. 50). The involvement and support for the ASEAN project underline that willingness. Aware of the benefits, the two cases follow the 'logic' of regional integration and are prone to follow EU directives (Mattli, 1999). The growing connection with the EU strengthens this compliance (Manea, 2013). Thus, my most-likely cases indicate that if Indonesia and Vietnam do not follow the EU directives, it is highly unlikely that any other country in the region will (Gerring, 2008).

The overall EU aims for RIS are market integration and market access. Capanelli et al. (2009) divide market integration into two elements: market integration and regional policy integration. Since the latter guides the former, both elements are required. These elements consist of multiple variables, extracted from earlier research on economic integration (Capanelli et al., 2009; Bo and Woo, 2009). Each variable has its own indicators with measurable benchmarks, which are both quantitative and qualitative. *Matrix 1* portrays this whole set of aims, elements, variables and indicators. This paper systematically follows *Matrix 1* to analyse the resemblance of the *project* and the *process*. Naturally, academic research provides more variables. Due to its limited scope, this paper only addresses the crucial variables that determine the Indonesian and Vietnamese policies. The research traces the progress over time with and without the cooperation in the framework of the *Bandar Seri*. This further exposes the role of the EU in the *process*.

*Matrix 1.* Oversight of the aims of EU RIS, divided over variables and their indicators. *Source:* Capanneli et al., 2009; Bo and Woo, 2009.





For the quantitative analysis, I used variable-based models of change to portray the development of the cases over time (Tuma, 2004: p. 310). *Graphs 1 – 8* clarify these models (see the Appendices). For market integration (*Graphs 1-6*), I used panel data from the databases of the United Nations Conference on Trade and Development (UNCTAD), the World Bank and ASEAN. Furthermore, I extracted information from CEIC (a Singaporean investment bank) for the graphs on intra-ASEAN investment. The quantification of tariffs and Non-Tariff Measures (NTMs) is based on data from *Global Trade Alert* and a comprehensive report from the Economic Research Institute for ASEAN and East Asia. The ASEAN Regional Integration Centre registers regional FTA and NTM developments (*Table 2, 3 and 4*). The EU Market Access Database is used to portray the development of market accessibility (EC, 2017a).

Academic and policy papers allow for understanding the meaning of the development of the models of change (Tuma, 2004). I analysed these qualitative sources thematically, extracting dominant themes following a coding scheme (Franzosi, 2004). This coding again uses the variables and indicators in *Matrix 1*. For example, I coded 'Vietnamese EU FTA' for information on the Vietnamese-EU FTA negotiations, the last parameter of the element market access.

The quantitative and qualitative data demonstrate the changes on the ten variable models (Tuma, 2004). Still, this does not sufficiently highlight the role of the EU, as many factors can potentially influence the integration process. To explore this discrepancy and the reasons behind differing policy choices, I added an extra qualitative method of data collection by interviewing related agents to expose the influence of EU directives and assistance on integration in ASEAN. These qualitative accounts help to explain policy deviations, and contribute to further understanding of the developments in the two countries and the EU's role therein (Fearon and Laitin, 2008).

The interviews highlight the subjective perceptions, motivations and actions of social actors (Rathbun, 2008). This helps to develop a qualitative narrative of the ASEAN-EU cooperation. Given that the interviewees belong to the political and economic elites managing this collaboration (Table 6), this completes the simple interpretation of quantitative trends. Moreover, I ended every interview by asking my interlocutor to grade the *Bandar Seri* collaboration on a scale from 1-10 (1 being very bad, 10 very good). Although approximate (N=23), this quantification system gives insight in internal perceptions of EU-ASEAN cooperation. The semi-structured interviews and their information were 'not for attribution': my sources are kept anonymous, as in Table 6 in the annex (Goldstein, 2002: p. 671). Although interviewees' identities remain protected, these forty elite interviews clarify the EU RIS decision-making process from different professional and geographic angles. Thus: the multi-method approach touches upon both the policies of the country cases and the role of the EU in that development. The next section explains the first stage of this EU integration support, the *EU project*.

#### IV. The *EU project*

This section discusses the motives and aims of RIS. First, I describe the overall origin and motives. Then, I move to the aims for ASEAN. Finally, I outline the specific EU connection with the two cases and demonstrate that their interests follow the overall aims.

The recent *EU Global Strategy* prioritises 'cooperative regional orders' as one of five pillars of EU foreign policy (EEAS, 2016: p. 32). This emphasis is far from new. Following its 'domestic analogy', the EU prefers collaboration with like-minded partners (Smith, 2002: p. 14). Thus, the EC assists integration elsewhere. Proud of its heritage of peace and welfare, the EU has promoted regional integration via RIS for several decades (Camroux, 2008). RIS strives to assist external integration processes in three ways: direct support, FTAs and bi-regional cooperation. This paper focuses on the latter, since it also encompasses direct financial support and FTAs. Through high-level dialogue, the EU enforces *a priori* coordination in other regions on standards and strategies. It thereby promotes both region-to-region cooperation and intra-regional cooperation (Smith, 2002).

The EU's motives to sponsor and support regional integration are twofold. The first is normative. The EU indeed strives to 'shape the world' (Juncker, 2016: p. 7). This normative influence encompasses a variety of domains, from human rights to a liberal market economy. Through RIS, the EU strives to create a rule-based international environment based on its own standards (Smith, 2003). The second motive is economic: the EU expects to prosper from interregional cooperation. When nations follow the same rules, this will increase welfare for all (Kubo, 2013). RIS strengthens (prospective) trade connections. Bolstering its international position and influence through regional integration projects elsewhere is therefore conceived a 'fundamental rationale' for the EU (EEAS, 2016: p. 10).

RIS targets different policy areas based on regional potential (Jetschke, 2013). The *Guidelines on the EU's Foreign and Security Policy in East Asia* (2003) outline the priorities for East Asia and ASEAN. EU activities in the wider region mainly serve economic interests (EU Council, 2012). In the 2015 *Joint Communication*, the EC reiterated ASEAN's economic importance as a market for EU goods and services (EC, 2015). The two main aims for EU RIS might be summarised as follows:

1. Enhance market integration. The EU pushes market integration with region-to-region cooperation. Although ASEAN is developing differently to the EU, deeper market integration will benefit both ASEAN and its partners (ASEAN, 2015). If both blocs enhance their internal trade, a deepened bi-regional connection becomes more profitable. Further market integration also strengthens the second and most important goal of RIS.
2. Stabilise and increase market access. The EC uses RIS to secure trade relations with ASEAN, as it does with the rest of the world (Table 6: 9 and 23). EU prosperity is 'directly connected' to stable ASEAN market access (EEAS, 2016: p. 37). As competition for access to Southeast Asian markets is fierce, the EU is trying to expand and secure its foothold by supporting integration and development. A bi-regional FTA would enhance this cooperation but, given that earlier negotiations failed, the EU has opted to focus on bilateral FTAs as a first step leading to a bi-regional FTA (EC, 2015). Thus, EU RIS forms an insurance policy for regional market access (George et al., 2013).

These aims correspond to the EU's objectives for the two cases considered here. The Indonesian-EU connection started with development cooperation. Development is still an important pillar of EU assistance to Indonesia: the EU provided over €350 million of development aid during the research period (EEAS, 2016b). Yet Indonesia's size and population also make it a valuable trade partner, leading the EU to move beyond development cooperation. In 2009, then-EC President Barroso and then-Indonesian President Yudoyono set up the Vision Group, a common think-tank to deepen cooperation. Their *Vision Group Report* (2011) underlines the need for further Indonesian integration into ASEAN. Beyond traditional commodity trade, Indonesia should broaden intra-regional trade and increase investment. Furthermore, the document emphasises the need for lower tariffs and NTMs to guarantee market access (EEAS, 2011). With the Partnership and Cooperation Agreement of May 2014 (PCA), the EU-Indonesian partnership moved to full cooperation on security, economic, and political matters (EEAS, 2016b). Indonesia was the first ASEAN member to conclude a PCA with the EU. Now, the EU and Indonesia are even negotiating an FTA, strengthening market access. The interests in Indonesia follow its aims for ASEAN: the EU eyes market integration and market access.

The EU-Vietnamese connection has developed similarly. After decades of development cooperation, the EU established a representation in Hanoi in 1996, but only the recent PCA (2012) concretised cooperation. This PCA served as a stepping-stone towards the now

concluded (but not yet implemented) EU-Vietnam FTA (EVFTA) (EEAS, 2017). Two reports outline the EU's objectives during my research period. The *Vietnam European Community Strategy Paper 2007-2013* mainly supported socio-economic development, and encouraged reforms of the Vietnamese bureaucracy and health sector. Further, it focused on widening access into the banking system and State-Owned Enterprises (SOEs) (European Community, 2006). The successive *Multiannual Indicative Programme for Vietnam 2014-2020* aims more specifically at investment. It focuses on *equitisation*: enlarging the permissible stock sale of SOEs and other closed sectors to attract external investment for Vietnam.<sup>2</sup> Furthermore, the EU supports further integration of the ASEAN Economic Community (AEC) (EEAS, 2013). Thus, market integration and market access are key among the interests for Vietnam, too.

The next chapter outlines the bi-regional *product*, transforming these goals into practical objectives.

## V. The EU-ASEAN *product*

The *Bandar Seri* is the most recent and concrete form of bi-regional cooperation, here identified as the *product* of regional integration. This chapter shortly outlines EU-ASEAN overall collaboration and describes the main *Bandar Seri* programmes.

The EU was first to welcome the new-born Southeast Asian integration attempt in 1972. This amity was of great value to ASEAN. Ever since, the EU, as the global example of regional integration, has supported ASEAN with counselling and development assistance (*Table 6: 11*). The Trans-Regional EU ASEAN Trade Initiative (TREATI, 2003) forms the first specific EU assistance to the ASEAN integration process. With TREATI, EU bi-regional counselling on regulatory cooperation and integration in ASEAN commenced. TREATI led to better communication and understanding on procedures and standards, by organising workshops and meetings (EU Council, 2007). EU-ASEAN cooperation intensified with the Nuremberg Declaration in 2007. This document elevated the connection beyond development cooperation, with a 'conducive environment for trade' high on the common wish list (EU Council, 2007: p. 4). The *Bandar Seri* elaborates on this agreement. Naturally, it is updated to match the current situation, but the essence remains the same: broad cooperation to stabilise ties and trade (*Table 6: 3*).

The *Bandar Seri* comprises sections on security, political and economic cooperation. This paper elaborates on the economic objectives, emphasising further ASEAN integration. It contains several initiatives and policies that support this process. Most important is the ASEAN Regional Integration Support from the EU (ARISE), which assisted ASEAN integration with €15 million between 2013 and 2016. This 'key instrument' follows TREATI, but it is more

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<sup>2</sup> I use the term 'equitisation', extracted from interviews and literature.

comprehensive (EEAS, 2013: p. 4). The emphasis lies on cooperation with the ASEAN Secretariat (ASEC), which already receives around €1 million a year in funding. ARISE+ follows that course, positioning ASEC as the centre of gravity of EU-ASEAN cooperation (EC, 2016). The EC strives to build ASEC as its equal to enhance cooperation (EC, 2016 and *Table 6: 3*), even though it is the ASEAN Summit with the Heads of State that is the supreme policy-making body in ASEAN (ASEC, 2008), not the ASEC. In addition, the EC aims to enhance high-level capacity-building, for which it contributed €8.5 million in expertise, travel arrangements and overhead costs as part of the overall technical support project to ASEAN (EEAS, 2013). It comprises a wide range of issues, from border protection to SPS-regulations. Finally, to support the integration of the ASEAN Single Market, the EU has invested €3 million in an ASEAN Customs Protection System. Strengthening the AEC following the AEC Blueprint - the ASEAN roadmap to economic integration - is an important directive (EEAS, 2013).

The *Bandar Seri* economic objectives can be dissected broadly into the variables and indicators of regional economic integration. (*Table 1*) provides an oversight of this divide, allowing systematic analysis. This paper compares the *Bandar Seri* common *product* directives to the final *process*, the policy and position of Indonesia and Vietnam. The next chapter elaborates on this comparison and exposes the effectiveness and RIS impact in practice.

## VI. Analysis: the *process*

This section compares the EU aims to the actual policy of Indonesia and Vietnam. The analysis covers three subsections. A structural study of the concerned representative indicators (*Matrix 1*) analyses whether my cases develop in line with the EU aims and *Bandar Seri* directives (*Table 1*).

### A. Market integration

Market integration comprises pure market integration, but also policy integration. This subsection discusses the first, based on two variables: trade and investment. Intra-regional imports and exports indicate trade. Overall and intraregional FDI indicate investment. *Graphs 1-5* portray my cases, the ASEAN and CMLV averages to clarify the relative positions of Indonesia and Vietnam.<sup>3</sup>

#### Trade integration

Intra-ASEAN trade exposes the degree of regional interconnection. In terms of intra-regional exports ASEAN falls short: they rose only 2% over the last decade (*Graph 1*). A disappointing result for an integrating region (Sally, 2010). Moreover, the level of development points at a divide. ASEAN-wide exports are rising slightly, but CLMV exports are falling. Poor members do not profit the market integration, whereas Singapore, Thailand and Malaysia do (UNCTAD, 2017). For example, Thai automotive exports to Vietnam have skyrocketed. Within the AEC,

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<sup>3</sup> The CLMV-group consists of less-developed members Cambodia, Lao, Myanmar and Vietnam.

these cars are \$10,000 cheaper: an excellent deal for the growing Vietnamese middle class (*Table 6: 29*).

My cases confirm this separation. Indonesian intra-regional exports grew by 7%, over my research period, but are still below the ASEAN average. Indonesia cannot yet compete with its more developed neighbours (*Table 6: 17 and 18*). The level of Vietnamese intra-ASEAN exports even lowered to 10% in 2015, far below CLMV and ASEAN averages (*Graph 1*). The trading nation is apparently relatively independent of regional markets, preferring to ship its products to markets further afield, like the United States (US) and China (Zveglic and Lavina, 2016). Of note is that Vietnamese industries mainly comprise of assembly, which adds only little value to these products. Too little to label them as 'Vietnamese' when traded, so truly Vietnamese exports stay behind the economic growth (*Table 6: 26*). International diplomats and business representatives in Hanoi unanimously warn of this economic trap. Vietnam has to attract knowledge and high-end industries to secure continuous development.

Intra-ASEAN imports are shrinking, the regional average declined since 2010. The CMLV average fell the furthest, dropping 10% over the last decade (*Graph 2*). Indonesia was a big ASEAN-importer, but its numbers fell below the ASEAN average in 2015. President Widodo strives to develop Indonesian self-sufficiency to increase the country's independence. He has implemented rather nationalistic economic policies to promote the internal development of the archipelago. Imports do not fit the picture of a self-sustainable Indonesia (*Table 6: 16*). This policy might hurt Indonesia, as it challenges its position as the biggest economy in the region. Furthermore, it could stagnate economic development: 'self-sufficiency is politically rational, but economically irrational' (*Table 6: 38*).

Vietnamese imports are declining even further, performing just above the CLMV average. Historically, Vietnam is very dependent on China (26%) for its imports. It ships in more goods from Asian economies beyond the ASEAN market (Hwee and Mirza, 2016). Although Vietnamese government officials emphasise the shift towards the ASEAN market and diversification from its long-standing import partners, this is not yet reflected in the data. Overall, intra-ASEAN trade shares are unsatisfactory. My cases do not boost ASEAN market integration and do not follow the directive for increasing intraregional trade (*Bandar Seri 2.1.4*).

#### Overall Investment

Incoming ASEAN foreign direct investment (FDI) rises slightly, but decreased in 2015 (Hwee and Mirza, 2016). Again, the stronger economies dominate. The volatile FDI flows follow the likes of investment havens like Singapore and Thailand (*Graph 3*). Overall investment to the CLMV countries rises steadily. The EU is the biggest external investor in ASEAN. However, ASEAN academics warn of a fallacy: the EU-28 compete with single nations (*Graph 5*). Per country, EU investments in the region are surprisingly small (*Table 6: 5 and 17*). European representatives in the region emphasise the need to increase investment. Although the EU itself and several big corporations are regionally active, the investment possibilities are relatively unknown and insufficiently communicated in Europe. Long-term business-

investments can help the EU to become a more highly regarded and reliable partner (*Table 6: 33*). Currently, the EU does not follow its directives itself (*Bandar Seri 2.1.8 and 2.1.9*).

Outgoing ASEAN FDI tripled over the last decade. The global financial crisis caused disruptions, leading to lower investment. The position and development of Singaporean FDI is again important and even inflicted an ASEAN-wide dip in 2012 (*Graph 6*). Naturally, the CLMV countries invest less than the more developed nations, as their financial possibilities are limited. Overall, ASEAN FDI flows are promising.

### Investment Integration

Intra-ASEAN investment has grown. ASEAN overtook the EU in 2015, becoming the biggest investor in its own markets (Hwee and Mirza, 2016). CLMV-countries are a fast-growing market for this intra-ASEAN FDI. This is an interesting development, since both intra-ASEAN investment and equal development are objectives of the AEC (ASEC, 2015). Moreover, diminishing investment barriers is an explicit goal (*Bandar Seri 2.2.2 and 2.2.3*).

Indonesia traditionally has weak investment ties to the ASEAN market (Bo and Woo, 2009). Over the last decade, the government has tried to enhance its image as an investment destination. Although incoming FDI has to an extent tracked economic growth, it dropped again in 2015 (*Graph 3*). Possibilities are still limited and protectionist measures abundant. New regulations are insufficient to convince international investors, especially from outside ASEAN (*Table 6: 18*). EU FDI to Indonesia is small; the slight growth depends on intra-ASEAN investment, with Singapore and Malaysia major financiers for the archipelago state (*Table 6: 16*). Indonesia is one of the few ASEAN nations with a negative intra-ASEAN FDI: the nation receives far more than it invests abroad (*Graph 4*). Thus, for investment too, Indonesia struggles to keep up with its wealthy neighbours. A meagre result for the regional giant.

Vietnamese inflow of FDI is increasing, and is now just above regional average (*Graph 3*). These investments flow to its manufacturing industries, attracted by low labour costs – almost 22% lower than other ASEAN nations – and an increasingly attractive business climate. New activities in turn attract parts and components production (*Table 6: 31*). EU investment is also growing, albeit very modestly. Attracting FDI is a key objective of Vietnamese governmental policy. With the process of *equitisation*, the government strives to attract (international) investment for its SOEs. An increasing part of SOE shares is open for investment and the government restructures corporate supervision: whereas the Ministry of Industry used to both finance and manage the SOEs, it will now only focus on the latter (*Table 6: 30*). Vietnam does not have the financial capacity to support the debts of its uncompetitive enterprises (*Table 6: 32*), and the government has therefore reduced the number of SOEs. However, it has done so by enlarging the remaining enterprises; EU representatives warn that the *equitisation* process is considerably behind schedule. Vietnam receives a lot of FDI, but does not yet invest much abroad. Its outflow has increased only slightly over my research period but it targets its

investment at other CLMV markets (Hwee and Mirza, 2016). This investment strategy resembles its policy to narrow the development gap within the AEC (*Table 6: 30*).

For market integration, my cases show mixed results. Trade development disappoints, since both cases are relatively unconnected to ASEAN markets. Yet investment has grown, and ASEAN is becoming an attractive investment destination. Indonesia however remains insignificant, as government regulations continue to harm investment. Vietnam, by contrast, is a growing investment destination (like its CLMV peers). Although *equitisation* shows mixed results and outward FDI is small, its progress is promising. In short, while Vietnam largely follows the EU directives on trade and investment, Indonesia is developing in a different direction (*Bandar Seri 2.2.3*).

## B. Policy integration

Policy coordination facilitates market integration and shapes trade and investment. This section discusses policy coordination and its indicators: the regional role, FTA stance and trade obstructions (tariffs and Non-Tariff Measures).

### Regional role

Based on its economic potential, Indonesia could play a decisive role in ASEAN (Mattli, 1999). At first sight, Indonesia follows this prescription and acts as a regional hegemon. It plays a constructive role in the regional dialogue and adjusts policies to ASEAN development (*Table 6: 19-21*). Under Yudhyono, Indonesia even actively pushed for regional integration (Heiduk, 2016). However, President Widodo emphasises domestic development, stating that Indonesia is not ready for integration (*Table 6: 20*). On the one hand, Indonesia cannot keep up with rich traders like Malaysia, Thailand and Singapore; on the other, it cannot compete with low-cost producers like Vietnam and Myanmar. To get out of this blind alley, Indonesia needs international cooperation. Knowledge transfers and a raise of standards will help it catch up with further developed ASEAN nations. The AEC and ASEAN are considered as a kind of health club: it will hurt in the beginning, but will make Indonesia stronger in the end, an ASEAN academic explained (*Table 6: 15*).

The Indonesian government is well aware of its position, but faces tough domestic challenges. Widodo's democratic support was for a long time insecure, with political elites and pressure groups pushing their domestic agendas (*Table 6: 16*). Meanwhile, local politicians still enjoy substantial political autonomy (*Table 6: 38*). Given his difficulties mustering support for a progressive and open foreign policy agenda, Widodo's shift to inward-looking domestic development is politically more attractive and realisable. This has resulted in a slow and selective integration policy (Heiduk, 2016). Indonesia chooses its fields of cooperation in the AEC carefully; integration of its uncompetitive labour and aviation markets with the rest of ASEAN remains a zenith on the horizon (Heiduk, 2016). By contrast, Indonesia is pushing cooperation on maritime and military issues. This selective integration and domestic development-based policy make Indonesia a whimsical ASEAN partner, instead of a pioneer



of integration. In this way, it moves against the common directive for more co-regulation and cooperation (*Bandar Seri 2.1.12*).

Vietnam is an increasingly important actor in ASEAN. At first, Vietnam distrusted the bloc and refused membership. The communist government felt threatened by cooperation with the capitalistic regional powers, and intra-regional tension increased when Vietnam occupied parts of Cambodia in the Kampuchean war. Only after the stabilisation of the Indochinese region in 1995 did Vietnam join ASEAN. Once a member, underdeveloped Vietnam set regional equality firmly on the agenda, pursuing its own interests. During the Vietnamese presidencies of ASEAN, two Hanoi plans (1998 and 2001) were implemented to narrow the regional development gap (Amer, 2015).

Now, as the 'best of the rest', Vietnam continues to support CLMV development (*Table 6: 28*). Its growing FDI outflow and equalisation efforts underline this positive stance, and its importance is increasing (*Table 6: 12*). Regional military developments compel Vietnam to counterbalance China in times of unstable American and Filipino policy, and indeed Hanoi regards ASEAN as a framework for support against China (Clark, 2016). Vietnamese policy-makers envision a multi-level ASEAN, with Vietnam, the Philippines and Indonesia in the middle-developed group (*Table 6: 30*). Vietnam has increased its credibility together with its economic attractiveness; it has manifested itself as a supporter of the poor and a stable partner in an unstable region: its regional role resembles its position and the common directive (*Bandar Seri 2.1.12*).

#### FTA-stance

FTAs enhance policy integration through *a priori* adjustment (Jetschke, 2013). ASEAN has a difficult history with FTAs. Since its establishment, it searched for policy equalisation, lower tariffs and NTMs (Jones, 2015). Only in 1994 was the ASEAN Free Trade Area (AFTA) implemented. Although the AFTA did in the end prompt the ASEAN nations to lower tariffs, its results for NTMs are ambiguous (Sally, 2010). In the new AEC, members strive to tackle this. The implementation of the AEC came as a surprise. After lengthy discussions, the AEC was set up in December 2015 just before the internal deadline. However, its ambitious plans still have to be executed in practice (Jones, 2015). The AEC follows the ASEAN way: agreements on paper are solely a direction for later implementation (*Table 6: 24*). The AEC is more a concretisation of the AFTA agreement and a first step towards the harmonisation of NTMs (*Table 6: 18*).

Besides the AFTA, ASEAN has concluded (and implemented) seven FTAs with its so-called Dialogue Partners (ARIC, 2015). There is not yet a FTA with the EU. Two recent developments on FTAs stand out. First, the withdrawal of US President Donald Trump from the Trans-Pacific Partnership, which he branded the 'worst trade deal ever', but which would have improved American influence in the region, binding many ASEAN nations – all ten are at least candidate members – to the US and other big pacific traders (Trump, in Panda, 2017: p. 1). Second, the ongoing negotiation of Beijing's' Regional Comprehensive Economic Partnership (RCEP),

which will bind the ASEAN countries to their Dialogue Partners. China and Japan both suggested this idea a decade ago, leading to a stalemate. ASEAN reintroduced the proposal, presenting itself as a negotiating platform between the big powers. Still, progress is slow, since national positions on FTAs differ significantly.

Singapore (33 FTAs) is the champion of ASEAN free trade. Indonesia (16) is just above the ASEAN average of 15 FTAs (*Table 4*). It has a difficult history with FTAs, mainly due to its uncompetitive position. Indonesia vetoed an overall ASEAN agreement as far back as the 1970s (*Table 6: 15*). Moreover, the implementation of the ASEAN-Chinese FTA (2005) flooded Indonesian markets with Chinese products. The result is that Indonesia has experienced 'FTA fatigue' and was very suspicious of the EU-ASEAN FTA (*Table 6: 16*). Still, six negotiations were launched during my research period. Indonesia strives to diversify trade by broadening its group of trading partners with these agreements. The negotiations with the EU and Australia exemplify this diversification policy (*Table 6: 18*). Indonesia also joined negotiations for the RCEP (*Table 6: 39*). The RCEP negotiations will probably be successful, as the drafts contain nothing new. Other international FTAs (including the EU-Indonesian CEPA) could be more problematic. Jakarta holds on to its protectionist measures and is opposed to concessions on government procurement. Indonesia positions itself as a patron of free trade, but its practical implementation is dubious (*Table 6: 15*).

Vietnam handles fifteen FTAs, one of which is awaiting approval (the EVFTA). In addition, it also launched four new negotiations over the research period (ARIC, 2015). With these plans, Vietnam strives to diversify its trade from China. Vietnam's dependence on trade and its internal reforms point towards a true opening up. This is part of the government's endeavour to become a leading trading partner in the ASEAN region, the new hub of ASEAN (*Table 6: 30*). Thus, while the evidence contradicts the wish for free trade expressed by the Indonesian government, Vietnam again follows the EU directives (*Bandar Seri 2.2.1*).

### Tariffs

ASEAN tariffs are in decline, indicating that member states are following the AFTA guidelines (Ing, Fernandez de Cordoba and Cadot, 2016). The AEC also requires a reduction in tariffs (ASEAN, 2015). Indonesia follows this trend. Average tariffs within ASEAN dropped from 15% to just below 6% in 2013 (Patunru and Rahardja, 2015). An impressive effort, but Widodo raised them again since 2015 to shield Indonesian markets (Heiduk, 2016). Indonesia seems to be shifting gears. By contrast, Vietnam is following the AFTA and AEC rules. Its average tariffs fell even further, towards 3% in 2015 (WITS, 2017). Lowering tariffs is an economic necessity, as Vietnam needs stable and smooth trade connections with regional and external partners (*Table 6: 31*).

### Non-Tariff Measures

Tariffs are decreasing. Still, intra-ASEAN trade is barely growing. This implies that we are missing a piece of this puzzle. Trade diversification beyond ASEAN is a part of this explanation.

Moreover, both my quantitative and qualitative sources emphasised the impact of undisclosed trade obstructions: Non-Tariff Measures. Beyond tariffs, a framework of rules regulates trade. Governments can deploy these measures for protectionist policies, to shield their markets and restrict trade (Oatley, 2008). Whereas the WTO controls tariffs, NTMs largely fall outside its scope. They are important but under-researched factors affecting trade flows, falling 'under the radar screen' and depending on the goodwill of policymakers (Ing et al., 2016: p. 14).

NTMs are 'policy measures affecting international trade, changing quantities, prices or both' (UNCTAD, 2012). This covers a wide range of measures. Sanitary and phytosanitary (SPS) regulations, technical barriers to trade (TBTs) and trade regulations (export and import regulations and non-trade barriers (NTBs)) are important for this research. NTBs are thus a subgroup of NTMs, restricting imports and exports (Thanh, Duong and Minh, 2016: p. 157).

Overall NTMs in ASEAN surged from 1634 in 2000 to almost 6000 in 2015 (Ing et al., 2016). The region has a high coverage (85%), based on the 100% coverage of most ASEAN countries. These have one or more NTMs that concern all product lines. The proliferation of NTMs could be a substitute for the falling tariffs; another way for policy makers to maintain a grip on their economies. This is the political economic hypothesis: policy-makers benefit politically from these measures. In this case, they use NTBs and state measures that regulate exports and imports. An alternative explanation is that the increase is a result of economic modernisation, with consumers advocating more variety and safety of their products. This is the institutional economic hypothesis: policy-makers implement NTMs to guarantee product safety. In this case, the nations should show an increase in SPS measures (Ing et al., 2016). An exploration of these hypotheses exposes how my cases develop concerning NTMs and for what reasons. As NTMs influence both EU aims and form a 'crucial link' in trade integration, I elaborate extensively on this variable (*Table 6: 18*). As not all NTMs are necessarily harming market access and integration, we especially need to focus on NTMs that restrict trade (*Table 6: 17*). To determine the NTM impact, I analyse four sub-indicators: the total number, the coverage, the division by type, and the number of NTMs that are harmful to trade (Ing et al., 2016; Patunru and Rahardja, 2016).

The total number of NTMs in Indonesia is just above the ASEAN average (*Table 2*), and compared to other regional economies is relatively small. The product coverage of Indonesian NTMs (75%) is also modest. Indonesian diplomats attest that this underlines the openness of the Indonesian economy. However, research shows that Indonesia stands out for the number of NTMs 'harmful' to international trade (Patunru and Rahardja, 2016): *Global Trade Alert* shows that Indonesia outnumbers its ASEAN peers on this metric (*Table 3*). The majority of Indonesian NTMs do not relate to product-safety (SPS). Over half of Indonesian NTMs are TBTs and over 30% concern export subsidies and other (political) policies (Ing et al., 2016). Indonesian diplomats claim that the NTMs effectively comply with Islamic dietary laws and protect religious food safety, but non-governmental agents painted a different picture.

Indonesian academics explained that these NTMs are political-economic instead of religious (*Table 6: 15, 17 and 18*). Malaysia for example – with which Indonesia shares both an island and a religion – handles a smaller and different set of rules. Politicians have used the religious argument for years to shield Indonesian markets, and Widodo’s domestic turn has strengthened this trend. These NTMs disguise a lack of competitiveness (*Table 6: 15*). According to the political economic hypothesis, Widodo substitutes the decreasing tariffs for NTMs. The high number of harmful NTMs, based on political economic market protection, makes Indonesia ‘one of the worst offenders’ concerning NTMs (Patunru and Rahardja, 2015). For NTMs, Indonesian market integration is far from increasing (*Bandar Seri 2.2.6 and 2.2.8*).

Vietnam has relatively few NTMs (379 in 2015), far below the ASEAN average (*Table 2*). Still, these measures cover all product lines, with two overall NTMs concerning trade legislation and registration (Thanh et al., 2016). Analysis of the different types of measures point at food and product safety. SPS and TBT measures make up almost three quarters of all NTMs (*Table 3*). However, the number of harmful NTMs to trade is high and above the ASEAN average. Most of these influence trade with state aid or restrictions: Vietnam is a mixed case.

Vietnamese interlocutors pointed out three reasons for this ambiguous stance. First, the Vietnamese economy is closely tied to the Chinese economy. To protect its markets from cheap Chinese exports, the government acts as a gatekeeper (*Table 6: 29*), with the effect that most NTMs concern trade regulations (*Table 3*). Second, although Vietnam is transforming its economy and is attempting to phase out NTMs – as confirmed by both international and Vietnamese diplomats – giant SOEs still dominate the economy, compelling protective measures. Financial responsibility increases that pressure: the government has to finance possible debts (*Table 6: 32*). Third, many Vietnamese NTMs are unspecified; more in-depth research should expose the true origin and influence of Vietnamese NTMs (Thanh et al., 2016). In conclusion, Vietnam does have a relatively high number of harmful trade regulations, but these guard quality and are restructured. Vietnam confirms the institutional economic hypothesis and follows the EU prescriptions (*Bandar Seri 2.2.3 and 2.2.8*).

Policy integration again shows mixed results. Indonesia does not live up to its position as a regional hegemon and focuses on domestic development. It integrates and cooperates selectively. Widodo shields his markets – beyond the falling tariffs – with an increasing number of NTMs. Vietnam plays an increasingly important role and is actively working to reduce its NTMs. Again, evidence suggests that Vietnam generally follows the EU directives, whereas Indonesian policy deviates.

### C. Market access

Market access is the foremost objective of EU RIS, as a ‘prosperous Union hinges on sustainable access to global commons’ (EEAS, 2016: p. 8). This last subsection discusses market access, based on four variables: the EU trade flow, bi-regional cooperation, bilateral cooperation and the bilateral EU FTA of my cases.

### EU trade flow

ASEAN is the third largest trading partner of the EU (EC, 2017), and the EU is the second largest trading partner of ASEAN. The markets are complementary, and trade is growing: EU imports from ASEAN rose by 40% over my research period (EC, 2017). Today, imports in goods (mainly machinery and garments) from ASEAN count for more than 7% of all EU imports from third countries (EC, 2017). Exports are smaller – the EU has a growing trade deficit with ASEAN – but are on the rise too. These exports concern mainly services.

The trade flow with Indonesia grew over the last decade (*Graph 7*). Although the EU has a trade deficit with ASEAN, exports to Indonesia are on the rise – this is especially the case for services. By contrast, Indonesia mainly exports agricultural and manufactured products to the EU (EC, 2016a). This expanding trade flow shows that EU market access towards Indonesia improved. Still, the biggest ASEAN economy counts for only around 10% of ASEAN's total exports to the EU (EC, 2017). By contrast, trade with Vietnam skyrocketed (*Graph 8*), with EU imports tripling over the research period, largely made up of manufactured products and electronics. The EU again mainly exports services (EC, 2017b). Within the ASEAN trade flow, Vietnam expanded its market share: its imports now reach almost 25% of overall ASEAN imports. Exports count for 10% of overall exports to ASEAN. Thus, the trade flow with the EU grew for both cases, although Indonesia again lags behind (*Bandar Seri 2.2.6, 2.2.7 and 2.2.8*).

### Bi-regional Cooperation

The growing trade flow highlights the improving EU-ASEAN connection, but this growth is not necessarily thanks to the *Bandar Seri* and RIS alone (*Table 6: 29*). This makes it necessary to look into bi-regional cooperation. The EU-ASEAN connection was formalised with the Nuremberg Declaration. Still, according to EU officials, the EC was slow with its cooperative stance. Only in September 2015, did the EU accredit an Ambassador to ASEAN. The EU was only the eighth Dialogue Partner to do so; it perhaps 'missed the train' (*Table 6: 11*).

Nowadays, the EU positions itself as an important partner for ASEAN regional integration, and RIS plays a major role in that process. To expose the added value of RIS, all interviews in the ASEAN region were concluded with an inquiry on the *Bandar Seri*. To quantify the effectiveness of the bi-regional agreement, interlocutors were asked to rank this collaboration. Overall, EU-ASEAN cooperation received an average score of 7/10. European officials in the region were generally more negative on the EU contribution than their ASEAN colleagues were (*Table 5*). Socially desirable answers from the ASEAN side might blur this picture, as they (incorrectly) viewed me as an EU representative. Moreover, EU officials denounce the limited visibility of their work, both in Brussels and the region (*Table 6: 11 and 31*). Several comments on EU-ASEAN RIS recurred, which deserve more attention.

The Secretariat (ASEC) is the first point of contact for bi-regional cooperation. The EC is an indispensable partner for ASEC. With limited personal and budget (\$19 million per year), ASEC does not have the means to cover and steer the full integration process (*Table 6: 12*). EU support towards ASEC is therefore important, especially with the multi-year programs.

These uphold ASEC financially and strengthen the image of the EU as reliable partner for ASEC and the ASEAN members (*Table 6: 11*). This distinction is important, as true power still lies with the different capitals. ASEC is not an EC, guiding the bloc. A European diplomat strikingly named ASEC a 'toothless tiger' (*Table 6: 32*). It is hard to strengthen ASEAN integration effectively from that weak point. More attention for the member states is recommended, instead of being engrossed in assistance for the powerless ASEC (*Table 6: 15*).

The EU supports regional integration with financial and technical support. First, ASEC and the members lack the absorption capacity to channel European funding (*Table 6: 5 and 12*). The unanimous ASEAN voting challenges swift decision-making. When Japan created an investment fund for ASEAN development, it took ASEAN members years to find a unanimous project and purpose (*Table 6: 11*). Besides, the financial assistance is often supply- instead of demand-based. The EC or European Parliament pledges money for unnecessary or impractical projects. ASEAN sources recounted costly projects without follow-up, of which the benefits were unclear to ASEAN members and which did not address regional needs (*Table 6: 15, 16 and 18*). Other organisations such as the Food and Agricultural Organisation and Papal Cor Unum – the oldest development provider – focus on demand. Local information is key to adjust to needs for food, shelter or education (*Table 6: 38 and 40*). The EU Directorate General for Development Cooperation implements a form of this strategy: only if plans are executed are funds transferred (*Table 6: 10*). These alternatives could inspire the EC to create demand-based RIS.

ASEAN prefers technical support, as the nations strive to develop their technical and professional standards in the long run. The EU is an attractive partner because of its substantial knowledge and expertise. ARISE proves this added value of EU assistance. The programme, consisting of workshops on a variety of integrational issues, is evaluated positively by regional actors (*Table 6: 23*). Best practices from the EC or member states are particularly appreciated (*Table 6: 13 and 15*). The EC already has already commenced the ARISE + programme, investing another €40 million up to 2020 (EC, 2016). Still, the programme could be enhanced. ARISE + rightfully announced frequent evaluation and adaptation. Moreover, the Brussels-organised programmes depend on expensive international consultants. Locals are often better adapted to the situation and are much less costly (*Table 6: 18 and 31*). The EU representations and business chambers have the knowledge and network to arrange this.

Finally, a prudent tone of conversation towards ASEAN is required. ASEAN representatives reiterated that the EU is solely a reference point for integration. They see Brexit as a big loss of face for the EU, damaging the EU negotiation position. ASEAN will not develop towards the EU blueprint and will remain a weak model of regionalisation (*Table 6: 13 and 18*). True power remains with the governments and decision-making takes place on the basis of unanimity. Nevertheless, another system would not work at all: there is still too much distrust and discord in the region (*Table 6: 24*). Technical support might shape the world to EU standards. However, RIS towards ASEAN is often more a 'missionary task' than a supportive

role, as a European representative explained (Table 6: 11). These frictions recur in the EU's cooperation with Vietnam and Indonesia.

### Bilateral cooperation

EU cooperation with Indonesia and Vietnam mainly concerns trade standards. Both countries protect their economies with NTMs, as these are perceived as vital for fair, regulated trade (Table 6: 17). The EU itself maintains the highest set of standards worldwide, and strives to export them. The *Bandar Seri* promotes this development, by advocating understanding and cooperation on regulations and standards (*Bandar Seri* 2.2.3 and 2.2.8).

Indonesian product safety is a key objective of the Widodo government. Due to a historical lack of standards, Indonesia has a bad reputation when it comes to product quality for fishing, timber logging and palm oil production (Table 6: 38). Jakarta now collaborates with international partners to develop standards for these products. Indonesia recently joined the EU programme on timber, the Forest Law Enforcement, Governance and Trade (FLEGT). FLEGT is a framework of technical assistance on production, standards and customs to prevent illegal logging and exports to the EU (European Forest Institute, 2014). Indonesia is the first Asian member of the initiative. Both EU and Indonesian policy makers trumpeted this as an example of external RIS and cooperation.

Despite FLEGT, Indonesia has indeed returned to a protectionist policy. Indonesia accepts EU support selectively on standards that enlarge its export possibilities and 'open' its economy (Table 6: 14). This policy works, in part: Indonesia's score on the Ease of Doing Business Index improved over my research period from place 126 to place 91 (World Bank, 2017). Opportunities for trade and investment have grown. Still, Widodo chooses a distinct path towards economic development, in line with his selective integration policy. Moreover, tensions have risen recently between Indonesia and the EU. The EU is eyeing membership of the East Asia Summit as a way to enhance its regional influence, but has been blocked in this goal by Indonesia (Table 6: 19 and 20). Although a small diplomatic irritation, the example nevertheless illustrates Indonesian intractability. In conclusion, Indonesia only partly follows the EU directives for cooperation on standards (*Bandar Seri* 2.2.6 and 2.2.8).

Vietnam is a different story. It too has numerous NTMs, but it works to actively reduce them and strives to develop its standards. Communist Vietnam had a strict and unwelcoming trading and investment regime. Now Hanoi recognises the value of opening, and is actively improving its business climate. The MUTRAP programme with the EU supports this. MUTRAP is preparing Vietnam for the EVFTA by raising standards to the EU level and increasing Vietnam's trade and investment accessibility (MUTRAP, 2017). Both EU and Vietnamese officials applauded this programme, and the results have been recognised by the World Bank, leading to Indonesia's position on the Ease of Doing Business Index rising from 90<sup>th</sup> to 82<sup>nd</sup> place (World Bank, 2017b). Business representatives stressed the positive Vietnamese standards development and *equitisation* (Table 6: 26 and 27). On the other hand, Vietnam also has a striking case of supply-based assistance. The EU has implemented a €400 million project to promote the use of sustainable energy in Vietnam; in a country with an energy market

dominated by the SOE Vietnam Electricity, this will be a tough nut to crack (Park, 2015). Although multiple regional EU representatives signalled that the idea was unrealistic, the EC pushed forward (Table 6: 31 and 32). Nevertheless, Vietnam generally cooperates successfully with the EU.

#### Bilateral Free Trade Agreements

Negotiations on the EU-ASEAN FTA ran aground in 2009 (ARIC, 2017). The blocs were too far apart to reach an agreement, with procurement and diverging standards forming the principal bottleneck (Table 6: 3, 11 and 13). The EU has not lowered its ambition on these demands. Moreover, ASEAN members could not reach a common stance among themselves (Table 6: 11 and 18). After the failure of negotiations, then-EU Trade Commissioner de Gucht changed course. Bilateral FTAs should serve as a 'foundation' for bi-regional FTAs, to prepare the possible partner for a comprehensive agreement (Laursen, 2016: p. 112). This strategy is still being pursued for ASEAN (EC, 2015). Mogherini's *Global Strategy* also pushes bilateral FTAs as harbingers for a bi-regional connection (EEAS, 2016).

Both Indonesia and Vietnam are currently working on an FTA with the EU. Indonesia launched official negotiations on CEPA in July 2016. After months of preparatory talks, both sides acknowledged the added value and saw common ground to build on. Negotiations are in the third round, and the EU has released an official document on rules of origin that 'takes into consideration the recent FTAs with Singapore and Vietnam' (EC, 2017c). The EC wants another high-standard FTA, following its own rules and measures, in line with the blueprint of the EVFTA, which current EU Trade Commissioner Malmström has named a 'modern model for trade agreements' (Malmström, in Free Trade Association, 2016, p. 1). Insiders stated that this framework would hinder the negotiations. Whereas Singapore and Vietnam were willing and able to accept the EU blueprint, Indonesia is probably not that progressive. Jakarta is unwilling to raise its standards and denounces procurement. As the EU does not bargain, a common result might be far-fetched. Although negotiations continue and the official dialogue is optimistic, insiders fear an impasse. Indonesian academics posit that the negotiations only demonstrate a desire for open trade (Table 6: 15 and 18). Hence, I conclude that Indonesia partly follows the directives on bilateral trade (*Bandar Seri* 2.2.1).

The EVFTA, on the contrary, looks promising. Negotiations have already concluded, and Vietnam has accepted the ambitious EU standards. The document awaits approval by national and regional parliaments, which might prove problematic. German Chancellor Merkel and French President Hollande did not dare to take any risk after the Trans-Atlantic Trade and Investment Partnership debacle. Therefore, they named the EVFTA a political economic agreement, which needs the approval of over forty national and regional parliaments. In that manner, both politicians either ensure popular support or could not be personally blamed for the trade agreement in times of elections (Table 6: 36). This vote will be difficult, and is expected only as of late 2017, following the elections in France and Germany (Foreign Trade Association, 2016). Nevertheless, the EVFTA is very ambitious. Its implementation should skyrocket Vietnamese market access for the EU. With the EVFTA, 99% of tariffs will be



eliminated, of which 65% immediately (EuroCham, 2016). Because Vietnam is still a developing country, the EU has allowed staging for more challenging product lines. More important is the raising of Vietnamese NTMs to EU standards, allowing for a potential expansion of exports not only to the EU, but also to global markets. As Vietnam is then the only developing country to have a bilateral FTA with the EU, it can become a cheap export hub to ASEAN (Table 6: 29 and 30). Besides, it helps both Vietnam and the EU to diversify trade from China. Again, domestic reasons push the Vietnamese opening.

In sum, market access has increased, even more towards the EU than to ASEAN (*Bandar Seri* 2.2.1 and 2.2.3). The EU-ASEAN trade flow has expanded. Bi-regional cooperation is partly successful, but could be improved by sharpening policies and programmes. The bilateral EU cooperation in both cases is also relatively successful. Lastly, the bilateral FTA negotiations are ambiguous. CEPA could be a farce; the promising EVFTA awaits ratification by Member States. Overall, Vietnam again performs better than Indonesia does.

## VII. Conclusion

This paper researched the effectiveness of bi-regional EU RIS with a specific analysis of Indonesia and Vietnam in ASEAN during the period 2010-2015. The results for my variables show that their positions and policies divert from the *Bandar Seri* directives (Table 7). The *process* (output) does not fully resemble the *project* (input). This section discusses these results and their implications, and concludes with recommendations to enhance RIS.

RIS towards ASEAN is only partly effective. ASEAN follows the EU's objectives on some policy areas, but national courses differ. EU RIS is more effective for Vietnam than for Indonesia (Table 7), and Vietnam performed better on the variables, often above ASEAN average. This substantive influence of domestic preferences shows that the increased market access and the perception of integration depends on the willingness of the receiving country. Mattli's logic stands. Since Widodo's Indonesia prioritises domestic development over regional integration, its *supply-side conditions* do not hold in reality. The outlook for the EU-Indonesian FTA is therefore questionable. The EU is an important partner for trade and technical assistance, but cannot (yet) convince the Indonesian political establishment of the need for regional integration. For Indonesia, RIS is generally ineffective.

Vietnam, by contrast, follows the EU and BS directives: the EU input and Vietnamese output generally resemble each other. This too depends on the ASEAN country's domestic course. Qualitative interviews demonstrated that the Vietnamese government aims at development and opening up towards international markets: it meets Mattli's conditions. The EU backs this process. Technical support and (former) financial support have proven largely effective to raise Vietnamese standards and development, and the EVFTA is likely to concretise that success. For Vietnam, RIS is generally effective.

Following the diverging development of my most-likely cases and the important role of domestic policy, I argue that the EU is not exactly a builder of regions in the ASEAN case. Still, EU RIS is not completely ineffective. Even Indonesia follows the EU on some directives (Table 7). Morgan's conceptual model exposes the policy impact, and the interviewees lauded the EU's contribution to the region. The expected (domestic) circumstances differed in reality, and explain this divergence from EU objectives. Overall, RIS does have an – albeit limited – impact on the regional integration process in ASEAN. Both my quantitative and qualitative sources highlight that even Indonesia selectively uses EU assistance, like the successful FLEGT programme. RIS is more of a missionary task: convincing ASEAN members of the need for (institutional) integration.

Regions are only makeable when their members agree. If a country is willing, RIS can effectively assist its development and integration process, as the Vietnamese case shows. Therefore, attention for these domestic conditions is of crucial importance. Further research in this area is required, both for academia as for the sake of EU policy-makers. For instance, in-depth interview research is needed to grasp local developments and positions. These particularly exposed the flaws in the workability of RIS. Furthermore, if RIS already proves challenging in relatively-developed and willing ASEAN, challenges in other regions will probably be even greater. As the EU level of development proved attractive for developing nations for knowledge transfer (as Vietnam shows), research of other bi-regional projects should particularly address this issue.

Based on the findings of this research, several recommendations can be given. First, the forms of assistance should be evaluated. EU financial support backed ASEAN economic development, necessary for the needy ASEC and CLMV nations. Nevertheless, ASEAN will have to stand on its own feet one day. Real FDI instead of financial assistance may be better in the end. Moreover, this financial support is often too much supply- instead of demand-based. It does not follow the needs of ASEAN, but political utility in Brussels.

The EU's technical support, by contrast, seems to be very effective. ASEAN sources favoured technical assistance over financial support. ASEAN sources underline the necessity of this project, as it enhances the possibilities of ASEAN-based development. Still, this support also has its downsides. Technical support is usually organised with EU or even Brussels-based knowledge and consultancy. Local representatives and academics are often cheaper and better adapted to local circumstances.

Second, the EU should mind its tone and focus. The EC promotes institutional integration following its own model, but ASEAN policy-makers, on the contrary, see the EU model solely as a point of inspiration. Brexit strengthened that conviction. ASEAN will not follow the EU blueprint any time soon. It is developing at its own pace, towards its own goals. The focus on collaboration with the ASEC is therefore especially inconvenient for effective bi-regional support. Logically, the EC regards the ASEC as its partner. However, this focal point has deficient financial means and power. These remain with the ASEAN members. For that reason,

the EU should focus more on the powerful states and governments to convince ASEAN of further integration, trade and investment.

In conclusion, EU bi-regional integration support has proved partly effective. Market integration, especially following the EU model, is still meagre. Market access has improved, following domestic preferences. Despite the rhetoric and ambitious charters and frameworks, ASEAN integration continues to develop slowly. The ASEC is a logical point of entry, but does not lead the region. Therefore, bi-regional RIS should be a combination of different, tailor-made national policies, embedded in the overall framework. Bilateral FTAs form an excellent example, separating the willing from the unwilling or incapable. The local EU delegations can and should play a bigger role in that process. Through this adaptive RIS, the EU can shape a strategic partner in a challenging region. If this can be done successfully, the EU will counsel a supported and integrated ASEAN, instead of trying to train a toothless tiger.

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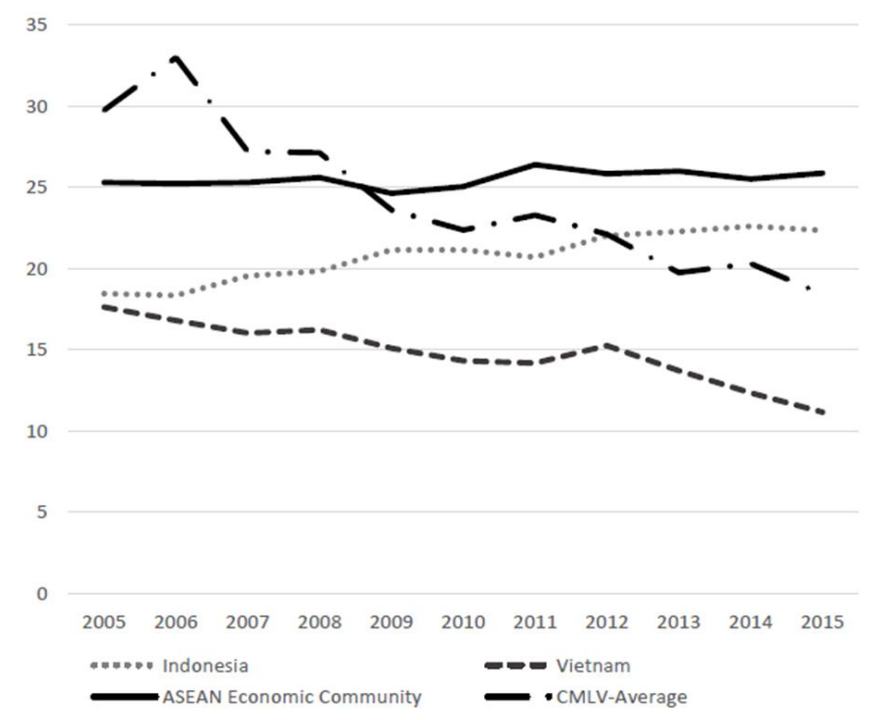
## IX. Appendix

Table 1. Bandar Seri directives divided over the elements 'market integration', 'policy

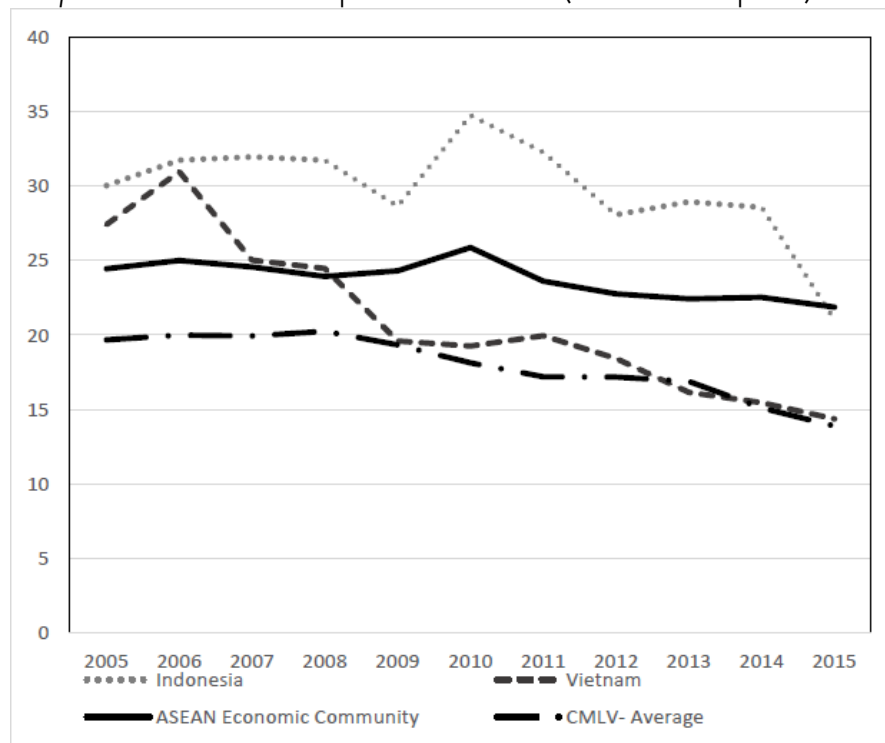
Variable	Article	Purpose	Aim	Instrument	Indicator(s)
Market Integration	2.1.1 and 2.1.4	Further market integration by Trade	Connect markets and create a free flow of Goods	ARISE and AEC Blueprint	<ul style="list-style-type: none"> <li>- Trade/GDP ratio</li> <li>- Intraregional trade</li> </ul>
Market Integration	2.1.4 and 2.2.2.	Further market integration by Investment	Growth in intraregional FDI	ARISE, EU-ASEAN Trade and Investment Work Programme	<ul style="list-style-type: none"> <li>- FDI</li> <li>- Intraregional FDI</li> </ul>
Policy Integration	2.1.4, 2.2.3 and 4.2	Enhanced policy integration	Create free flow of goods	Strengthen ASEAN Secretariat to enhance AEC Blueprint to lower trade barriers	Trade Tariffs
Policy Integration	2.2.3 and 2.2.6	Smoothening trade	Enhancing convergence of non-tariff measures	Technical EU assistance to standards and Conformity	NTMs: TBT and SPS
Policy Integration	2.2.1	Effective FTA	Create an ASEAN-EU FTA	Enhance effectiveness of ASEAN FTA and AEC	Success of the AFTA and AEC
Policy Integration	2.1.2.and 2.2.2	Strengthen intra- and interregional dialogue	Continuity in consulting platforms	Progressive consultancy within ASEAN platforms	Narrative of the ASEAN regional dialogue and Indonesian Vietnamese role
Market Access	2.1.8, 2.2.1, 2.2.3., 2.2.6, 2.2.7, 2.2.8	Enhance the accessibility of the ASEAN market	Enlarge and smoothen the trade flow with the EU	FTA with the EU, assistance programme on standardisation	<ul style="list-style-type: none"> <li>- Trade flow with the EU</li> <li>- Cooperation with EU</li> <li>- EVFTA, CEPA</li> </ul>

integration' and 'market access'. Source: EEAS, 2013.

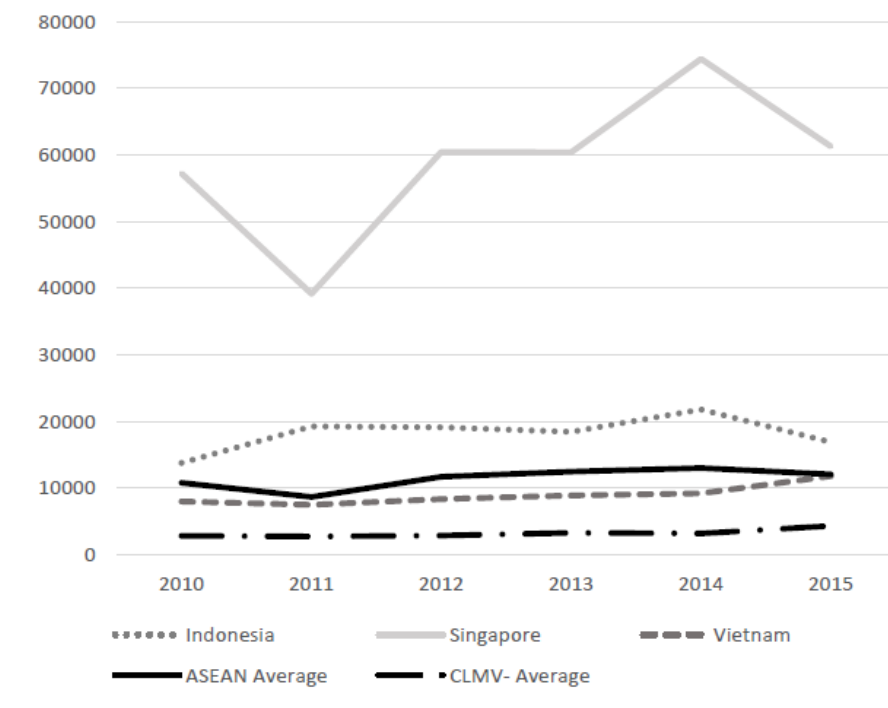
Graph 1. Intra-ASEAN exports 2005-2015 (% of total exports). Source: UNCTAD, 2017.



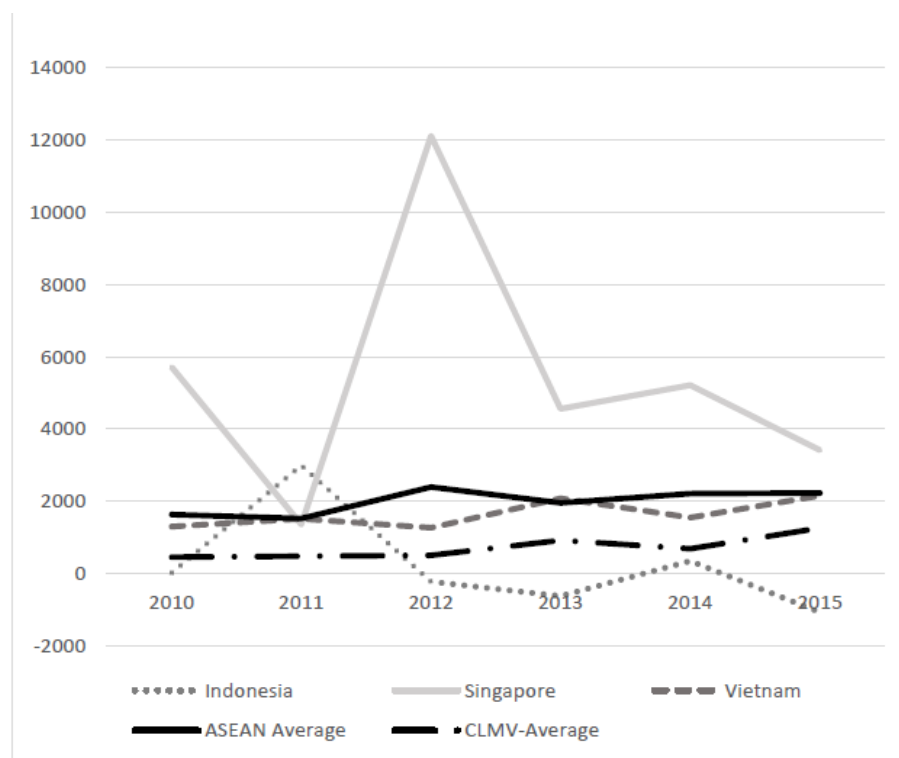
Graph 2. Intra-ASEAN imports 2005-2015 (% of total imports). Source: UNCTAD, 2017.



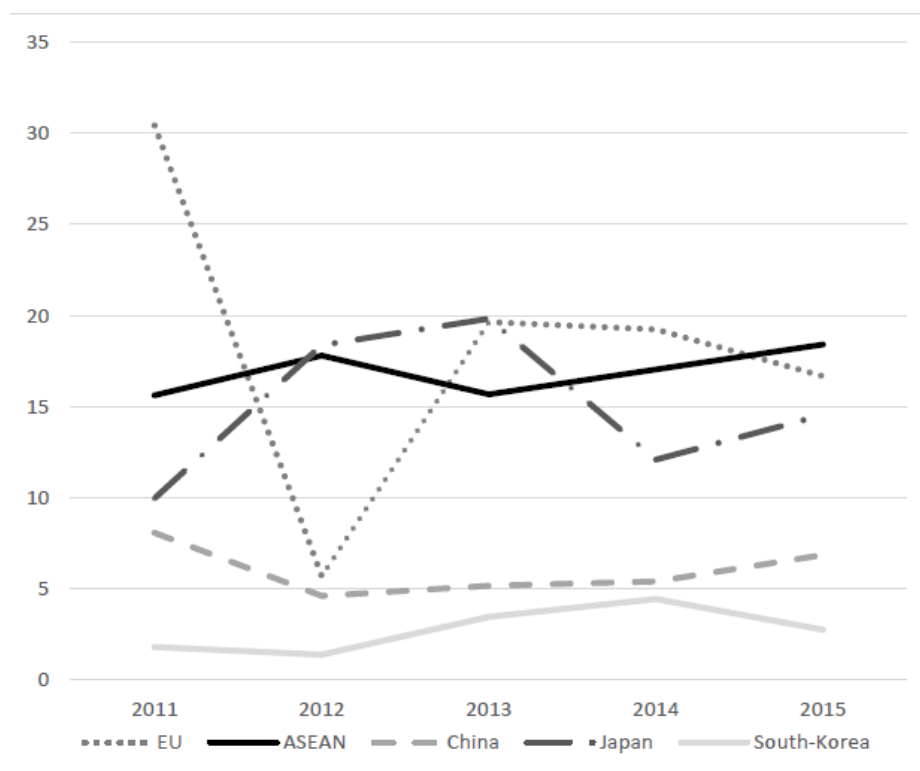
Graph 3. Overall FDI in ASEAN 2011-2015 (US \$ millions). Source: CEIC, 2017.



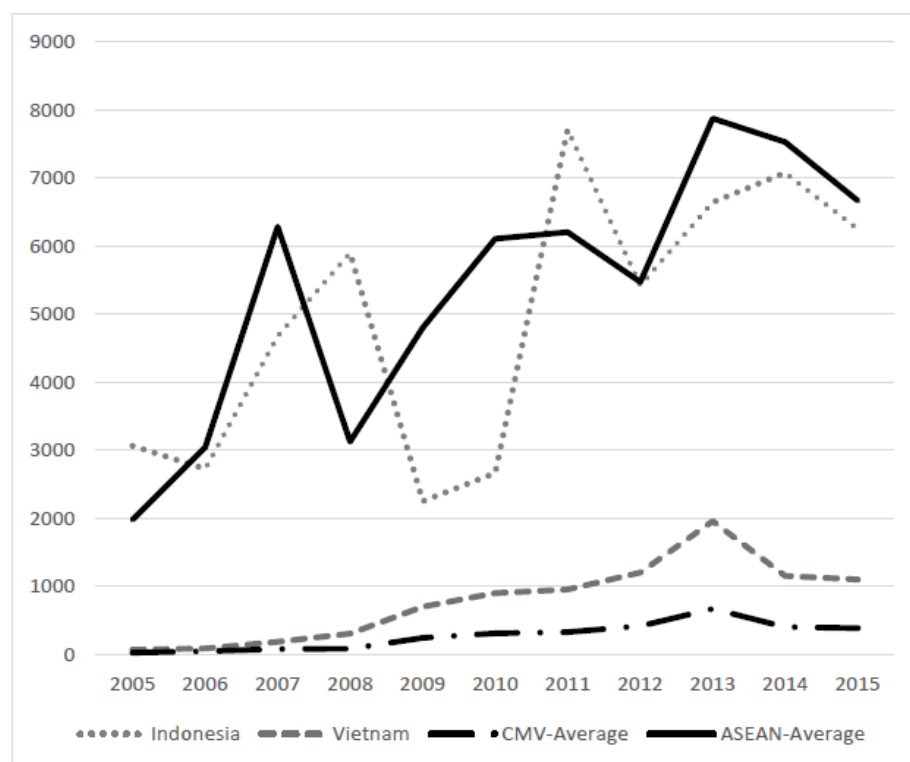
Graph 4. Intra-ASEAN FDI 2010-2015 (US \$ millions). Source: CEIC, 2017.



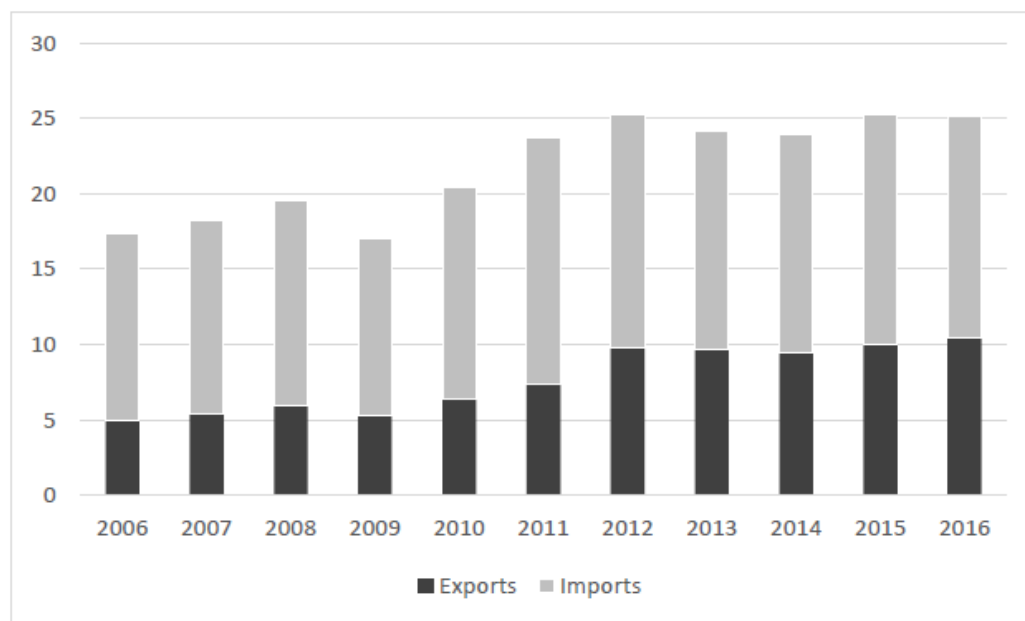
Graph 5. Largest investors in ASEAN 2011-2015 (US \$ billions). Source: ASEAN Statistics, 2016.



Graph 6. FDI Outflow of selected countries 2005-2015 (US \$ millions). Source: UNCTAD, 2017.



Graph 7. Trade flow of the EU and Indonesia 2006-2016 (€ millions). Source: EU Commission, 2016a.



Graph 8. Trade flow of the EU and Vietnam 2006-2016 (€ millions). Source: EU Commission, 2017b.

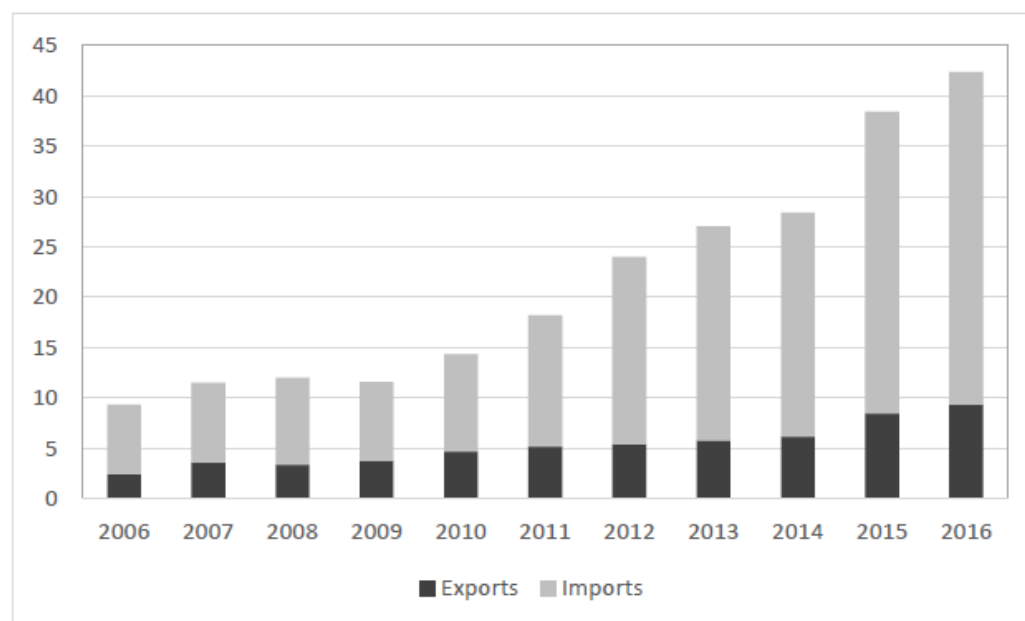


Table 2. Total number of NTMs in ASEAN per category. Source: Ing et al., 2016.

Overall NTMs per category	ASEAN Average	Cambodia	Indonesia	Malaysia	Singapore	Thailand	Vietnam
Total NTMs	598	234	638	713	529	1630	379
Coverage (%)	85	100	75	69	100	100	100
SPSs (%)	29	15	20	36	24	48	37
TBTs (%)	43	50	51	47	59	34	37
Trade regulations (%)	16	29	20	10	9	8	17
Others (%)	12	7	18	7	7	9	8

Table 3. Actual harmful NTMs in ASEAN. Source: Global Trade Alert, 2017 and Ramm, 2017a.

NTM per (relevant) Category <sup>8</sup>	ASEAN Average	Cambodia	Indonesia	Malaysia	Thailand	Singapore	Vietnam
State Aid	4	1	21	5	3	6	6
Export restriction	4	1	26	2	1	0	9
Import tariff	5	0	17	4	2	2	25
Investment measure	4	0	23	4	4	4	9
NTB (not defined otherwise)	5	0	32	7	1	1	9
SPS	0	0	3	0	0	0	4
Total	34	2	172	30	30	23	69

<sup>8</sup> The Philippines implemented restrictions on trade defence (absent from table), Thailand and Singapore too.

Table 4. FTAs per selected country. Source: Asian Development Bank, 2015.

Country	Number of FTAs
ASEAN-Average	16
CLMV-Average	11
Indonesia	17
Singapore	33
Vietnam	16

Table 5. Interlocutors in different professional categories.

Category	Elaboration	Number of Interviewees	Geographical Location	Average perception of EU-ASEAN cooperation (1-10)
EU Brussels Representative	EU Diplomats and representatives, based in Brussels	8	Brussels	-
EU regional representative	EU Diplomats and representatives, based in the ASEAN-region	3	ASEAN-region	6,8
ASEAN representative	ASEAN diplomats and representatives	2	Jakarta	7
Independent International Representative	Representatives for international organisations	2	Jakarta, Rome	-
National representatives ASEAN region	Diplomats, policy makers and representatives of Indonesia and Vietnam	6	Brussels and ASEAN-region	7,5
National representatives EU	European diplomats	2	ASEAN-region	6,5
ASEAN Business Representatives	ASEAN Importers and exporters, Multinational Corporation representatives	5	Brussels, Jakarta, Hanoi and Singapore	8
EU Business Representatives	European Business Chamber representatives, MNC representatives	5	Brussels, Singapore and Hanoi	6
ASEAN Academics	ASEAN Researchers and think tankers	5	Brussels, Jakarta, Hanoi, and Singapore	7
EU Academics	European Researchers and think tankers	2	Brussels	-



Table 6. Oversight of interlocutors used in Working Paper.

Interviewee Number	Function	Category	Location	Period
3	EEAS representative for ASEAN-region	EU Brussels representative	Brussels	January 2017
5	Vietnamese representative in EU	National representative ASEAN region	Brussels	January 2017
9	DG Trade representative for ASEAN	EU Brussels representative	Brussels	February 2017
10	DG DevCo representative for ASEAN	EU Brussels representative	Brussels	February 2017
11	EEAS Representative for ASEAN-region	EU Regional representative	Jakarta	February 2017
12	ASEAN-representative for regional integration	ASEAN Regional representative	Jakarta	February 2017
13	ASEAN-representative towards EU	ASEAN Regional representative	Jakarta	February 2017
14	European representative for Indonesia	National representative EU	Jakarta	February 2017
15	ASEAN Academic	ASEAN Academic	Jakarta	February 2017
16	Indonesian business representative	ASEAN Business representative	Jakarta	February 2017
17	ASEAN Academic	ASEAN Academic	Jakarta	February 2017
18	ASEAN Academic	ASEAN Academic	Jakarta	February 2017
19	Indonesian government representative	National representative ASEAN region	Jakarta	February 2017
20	Indonesian government representative	National representative ASEAN region	Jakarta	February 2017
21	Indonesian government	National representative	Jakarta	February 2017

	representative	ASEAN region		
23	EU business representative	EU Business representative	Singapore	February 2017
24	ASEAN Academic	ASEAN Academic	Singapore	February 2017
26	EU MNC representative	EU Business representative	Singapore	February 2017
27	EU MNC representative	EU Business representative	Singapore	February 2017
29	Vietnamese business representative	ASEAN Business representative	Hanoi	February 2017
30	Vietnamese government representative	National representative ASEAN region	Hanoi	February 2017
31	EU business representative	EU Business representative	Hanoi	February 2017
32	European representative for Vietnam	National representative EU region	Hanoi	February 2017
33	Vietnamese business representative	ASEAN Business representative	Ho Chi Minh (Skype)	February 2017
36	EU Parliament representative	EU Brussels representative	Brussels	April 2017
38	FAO representative	International representative	Jakarta (Skype)	April 2017
39	Former-EU representative for ASEAN	EU regional representative	Amsterdam	May 2017
40	Cor Unum Representative	International representative	Rome	May 2017

Table 7. Performance of Indonesia and Vietnam on variables of regional integration.

Variable of Regional Integration	ASEAN Average	Indonesia	Vietnam
Trade/GDP Ratio	-	+/-	+
Intra-regional trade	+/-	+/-	-
FDI	+	+/-	+/-
Role in regional dialogue	+/-	-	+
FTA activities	+	+/-	+
Tariffs	+	+/-	+
NTMs	-	-	+/-
Trade flow with EU	+	+/-	+
Technical cooperation with the EU	+	+	+/-
FTA with EU	-	+/-	+