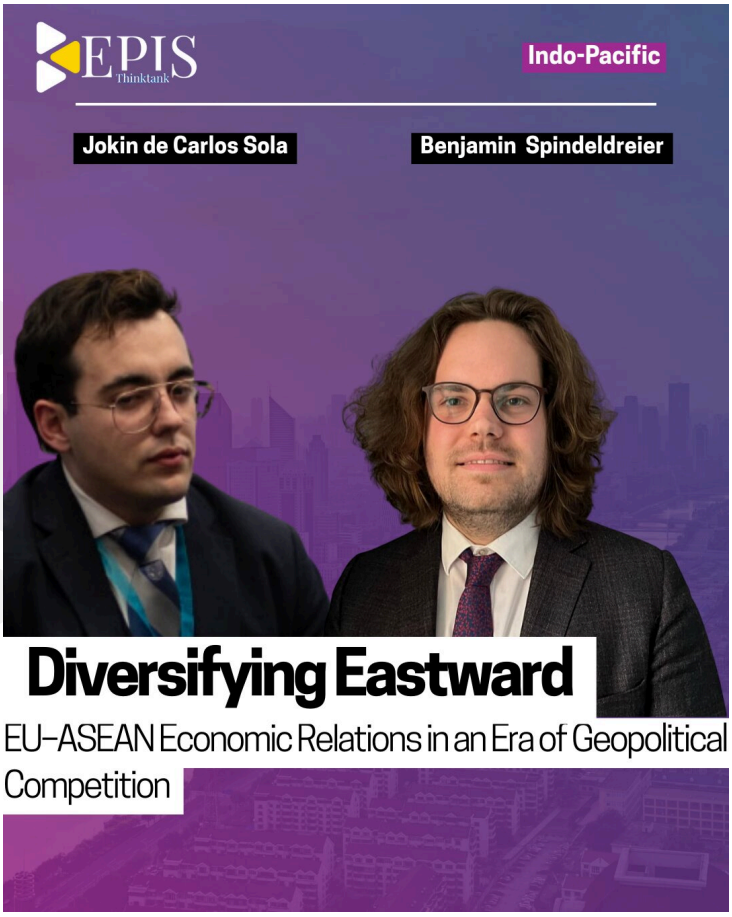
Diversifying Eastward

29 DECEMBER 2025

Jokin de Carlos Sola and Benjamin Spindeldreier



by Jokin de Carlos Sola and Benjamin Spindeldreier

Introduction

In recent years, the European Union has been forced to reassess the foundations of its external economic relations. Growing geopolitical tensions, supply-chain disruptions following the COVID-19 pandemic, Russia's full invasion against Ukraine, and increasing economic rivalry between the United States and China have exposed the risks of excessive trade concentration and strategic dependencies. In response, the EU has elevated trade diversification from a primarily economic objective to a core pillar of its broader geopolitical and strategic autonomy agenda.

Within this context, Southeast Asia and the Association of Southeast Asian Nations (ASEAN) have gained renewed relevance for European policymakers. The region combines dynamic economic growth, demographic expansion, and increasing integration into global value chains, making it a promising partner for both import diversification and export expansion. The EU's long-standing external relations with ASEAN were elevated into a Strategic Partnership in December 2020, underscoring the importance Brussels attaches to political cooperation and economic engagement with Southeast Asia.

This paper examines EU-ASEAN trade interdependence with a particular focus on how the EU can strategically leverage its economic relations with Southeast Asia to advance trade diversification under current geopolitical conditions. After outlining the broader background of EU-ASEAN economic relations, the analysis focuses on trade patterns within the region, the significance of recent and prospective trade agreements, most notably with Indonesia, and the implications for the EU's pursuit of strategic autonomy.

The Structure of EU-ASEAN Trade Relations

The relationship between the EU and ASEAN has evolved incrementally over several decades and is characterized by a high degree of institutionalization but limited economic integration at the regional level. While the EU and ASEAN have maintained relations since 1977, their cooperation has historically focused on political dialogue, development cooperation, and regulatory exchange rather than comprehensive trade liberalization.

A defining feature of EU-ASEAN economic relations is the absence of a region-to-region free trade agreement. Negotiations for such an agreement were launched in 2007 but stalled due to diverging levels of economic development among ASEAN member states, regulatory asymmetries, and disagreements over sustainability and market access. As a result, the EU shifted toward a bilateral approach, negotiating individual free trade agreements with selected ASEAN countries as building blocks toward deeper regional engagement.

This strategy has produced differentiated outcomes across Southeast Asia. The EU has concluded comprehensive free trade agreements with Singapore and Vietnam, while negotiations with other ASEAN members have proceeded at varying speeds or remain ongoing. These agreements coexist with a broader institutional framework that governs EU-ASEAN trade relations, including sectoral dialogues on connectivity, digital cooperation, and sustainable development, as laid out in the EU-ASEAN Strategic Partnership.

EU and Southeast Asian Trade

Something quite remarkable when examining the data on EU-ASEAN trade is the fact that Indonesia plays a smaller role compared to other countries in the region, despite having a much bigger population and GDP. For instance, the biggest trading partner in the region for the EU is the

City-State of Singapore. This trade is by far the biggest between the EU and a nation of Southeast Asia, amounting to a total of around 130 billion euros. This is mostly based on services (80 billion euros), such as transport, telecommunications and the remaining (50 billion euros) is done in goods. When it comes to services, both the EU and Singapore have a somewhat balanced trade relationship, with the EU overall importing more services than the Asian city. However, the latter imports more goods from the EU, mainly manufactured goods such as machinery and chemicals.

Then goes Vietnam, which, with over 100 million inhabitants, is the second biggest trading partner. However, in terms of total numbers, it trades less with the EU than Singapore, amounting to a total of 67 billion euros in 2023. In this case, the EU holds an imbalance position, importing more from Vietnam, mainly goods. Meanwhile, other nations such as Thailand and Malaysia occupy a similar level when it comes to trade to that of Indonesia.

As can be seen, Indonesia, despite being the biggest country of the ASEAN in population and GDP, has played a small role in the overall trade strategy of the European Union in the region, something that recent trade agreements have the intention to address. The reason for that is two-sided, as Indonesia intended to protect its industrial sector from foreign manufacturing; however, the new agreement will cut all tariff rates between the two by about 80-98% depending on the product.

EU and Indonesia Agreement

The introduction of the Trade Agreements with Indonesia is expected to severely increase the amount of exports from the EU to Indonesia, as well as the Overseas Direct Investment. The last two years of EU trade policy have highlighted a strong need for expansion into additional markets, which can help maintain the European manufacturing sector. The removal of the Indonesian tariffs is estimated to yield annual tariff savings of €600 million for EU exporters, particularly benefiting sectors such as machinery, automotive, chemicals, and electrical equipment.

Trade projections suggest a potential doubling of bilateral trade within five years, with Indonesian exports to the EU growing by around 50% in the short term. EU industrial exports are expected to rise by 36-44% by 2032 relative to a no-agreement scenario, highlighting significant opportunities for European manufacturers. Key sectors poised to benefit include high-value machinery, automotive components, chemicals, and pharmaceuticals, all benefiting from improved market access and reduced costs.

CEPA also supports a surge in foreign direct investment (FDI). EU investment in Indonesia, currently around €25 billion, could grow at 18-20% annually, compared with 15% historically, particularly in renewable energy, electronics, downstream processing, and electric vehicle supply chains. This aligns with Europe's strategic aim of securing critical materials and diversifying supply chains away from China.

Non-tariff barriers, including Sanitary and Phytosanitary (SPS) regulations, and compliance with EU environmental standards, could constrain

some trade, however. Nevertheless, unlike the Agreement between Mercosur and the EU, there is not much strife caused by competition with the European farmers. The reason for this is that, unlike Brazil or Argentina, many of the agri-products that the EU imports from Indonesia, such as palm oil, coffee or cocoa, are generally not produced in the EU, so it would not cause conflict with farmers in the EU and therefore internal political opposition, a trend that is similar to other Southeast Asian nations. The EU maintains tariffs on sensitive products (rice, sugar, eggs, fresh bananas), and applies quota limits on others (like garlic, mushrooms, sweetcorn). This protects EU farmers from a sudden import surge.

EU and Strategic Autonomy

The success of this partnership could prompt further trade agreements with countries such as Thailand, the Philippines or even further agreements with Vietnam. The trend now seems that the EU is not only seeking to achieve cheap commodities from these countries but also to expand the export of European manufactured products and reduce the reliance on American and Chinese markets that have been greatly damaged due to geopolitical reasons. By building a strong network on trade and diplomacy in a region as important as Southeast Asia, the EU is guaranteeing its own strategic autonomy.

This new partnership is not free of potential tensions. One of the key objectives of European strategic autonomy is to reduce the threat to the Continent by Russia. This is important not only to seek other partners for economic relations but also to deter Putin from using diplomatic means against the EU. Recently, Indonesia's President Prawobo Subianto met with President Putin in the Kremlin to discuss further ties between their two nations, in none other than military aspects. They also discussed potential partnerships on the development of nuclear energy for the Island nation as well as other major projects. However, the main asset that Moscow is leveraging is that of wheat. As an archipelago nation of over 250 million people, Indonesia is one of the world's largest importers of wheat to feed its population, and Russia knows how to leverage this for its diplomatic action.

In the event of a potential entry of Ukraine to the Bloc, the usage of the grain strategically would be of great importance for the EU's strategy in Southeast Asia. In the Middle Ages, Island Kingdoms such as Srivijaya or Majapahit would exchange the much desired species of the Islands in exchange for wheat and rice brought in from nations such as China, Vietnam or Thailand to feed their island population. For further agreements with Indonesia and other nations, the usage of basic commodities such as grain could be of strategic importance. Russia is using it as leverage for its presence in the region, and in an effort to counter it, the EU should try to find a similar strategy.

Conclusion