

POSITION PAPER

Priorities on the FTAs with Southeast Asian Countries

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EURATEX, as the voice of textiles and apparel manufacturers in Europe, supports an ambitious EU trade agenda, that puts effective market access, free and fair trade at the centre of its action. Free trade negotiations with partner countries need to remain embedded in the rules-based multilateral trading system of the WTO, but also include strong provisions of compliance.

This applies, among other EU trading partners, also to Indonesia, Thailand, the Philippines, and Malaysia. The European textiles and clothing sector is highly globalised, with annual exports exceeding €60 billion and imports well over €100 billion. 38% of the industry's turnover is sold on world markets, with SMEs covering more than half of those sales, making the sector intensely interconnected with other segments of the global economy and society.

EURATEX warmly welcomes the European Commission's renewed political focus on free trade agreements which must create new opportunities for market access in a fair and mutually beneficial manner.

In this context, EURATEX **calls for the swift conclusion of the FTAs with Indonesia, Thailand, the Philippines, and Malaysia.** The European textiles and apparel industry needs:

- open and efficient markets with reduced tariffs and fewer trade barriers, combined with effective controls where necessary;
- legal certainty for investments and protection of intellectual property;
- promotion of sustainable development, including meaningful progress on international social and environmental standards, as part of the FTAs;
- complementarity between the EU's Trade and Industrial Policy, leading to increased resilience, through better access to raw materials and stockpiling of strategic goods;
- a trading system based on rules which are effectively respected by all;
- multilateral efforts, supporting WTO efforts to work on subsidies, public procurement, IPR, amongst others.

These principles also apply to the possible free-trade agreements between the European Union and Indonesia, Thailand, the Philippines, and Malaysia, whose negotiations are currently ongoing.

In view of China's dominant position, a successful conclusion of FTAs with these four countries will contribute to the strongly needed diversification of trade.

While, under other circumstances, it would be preferable to conclude the negotiations with all ten ASEAN countries soon, the priority now must be to secure the conclusion of the ongoing negotiations with individual countries – including Indonesia, Thailand, the Philippines, and Malaysia – as soon as possible.

The Philippines and Indonesia today profit from reduced customs duties due to their GSP+/GSP status. An FTA would allow better market access for European companies, paving the way for a more balanced and mutually beneficial trade relationship.

All four FTAs should fulfil these general conditions to be mutually beneficial:

- **Rules of Origin and the Double Transformation as guiding principle:** rules of origin must be modern and effective. Double transformation must remain the guiding principle when it comes to rules of origin. EURATEX strongly recommends using the revised PEM-rules as a basis for Thailand, Malaysia and the Philippines. As negotiations on rules of origin with Indonesia concluded before the adoption of the revised PEM-rules, EURATEX supports the currently negotiated agreement. We are confident that their textiles value chains have all the necessary means to comply with the double transformation principle, which is key to ensuring fair competition.
- **Cumulation:** EURATEX strongly recommends using bilateral cumulation for all four agreements to ensure that the competitiveness of our textile and clothing industry is maintained. Bilateral cumulation guarantees that European fabric and yarn producers also benefit from export opportunities in fair and mutually beneficial agreements. Türkiye should be included in the cumulation with Malaysia, considering that it already has an FTA with Malaysia, as well as with other partners once FTAs are concluded with them.
- **GSP/GSP+:** Indonesia has reduced tariff access to the European market due to its inclusion in GSP, allowing its textile and clothing exports to enter the EU market with a 20% reduction in tariff rates, while the Philippines enjoy duty free access through GSP+. The negotiations must lead to an effective bilateralisation of preferences, focusing on eliminating existing trade barriers and creating new opportunities for access to these countries' markets.
- **Non-tariff Barriers:** Besides tariff trade barriers, the agreements should also address non-tariff trade barriers to maximise market access. This point is especially relevant for Indonesia as an important textile and apparel producer with an established value chain. The most important non-tariff barriers for the textile industry have been added to the Access2Market database. EURATEX calls on the negotiations to focus on the removal of such obstacles before the agreement enters into force, and for all parties to find long-term solutions to prevent the emergence of future non-tariff barriers, ensuring a level playing field for all textile companies.
- **Public Procurement:** Indonesia, Thailand, the Philippines, and Malaysia have not ratified the WTO's Agreement on Government Procurement, thereby allowing restrictions on the participation of foreign firms. More access for EU companies to the public procurement markets of these countries is needed. As part of public procurement, state aid should also be addressed, with the FTA EU-Singapore providing an excellent template (Art. 9.14 of the agreement) on how to deal with such issues.

- **Enforcement:** Given the four countries' proximity to China, the world's largest producer of man-made fibres and largest contributor to overcapacity in the textile sector, we are concerned that the agreements could be exploited to falsely claim preferential origin. To prevent this, proper customs enforcement applied to goods entering the EU is needed. The establishment of a trade settlement dispute mechanism would also contribute to a fair and enforceable agreement.
- **Involvement of all levels of governance:** The agreements should not only address customs duties at national but also at regional level. It is important to consider that Indonesia, as a federal state, has multiple levels of governance. Trade barriers (especially non-tariff barriers) may also be issued by local authorities. Therefore, it is important that all the relevant levels of governance are involved in the negotiations, to avoid any inconsistencies in the implementation of the deal.
- **Intellectual Property Rights:** All parties in the FTA should respect the provisions of the "TRIPS" WTO-Agreement to respect Intellectual Property Rights, which are essential to a fair-trading relationship.

Country-specific provisions

I. Indonesia

For the EU, Indonesia as a major economy in South-East Asia is an important strategic and commercial partner. A bilateral FTA offers an exceptional opportunity to strengthen economic ties and to deliver mutual benefits for businesses and communities in both regions.

By reducing trade barriers (high tariffs and cumbersome bureaucracy), enhancing intellectual property protection, promoting a sustainable and inclusive agenda, and fostering innovation, the agreement can unlock significant mutual benefits, drive investment, create jobs, and support sustainable economic growth on both sides. Crucially, it must also ensure meaningful and tangible market access benefits for our sector. This agreement is also an opportunity for EU standards to be agreed on a bilateral basis. A stable and predictable environment for investment is key, also with a view to sustainable industrialisation.

Regarding non-tariff barriers, EURATEX has brought to the Commission's attention through Access2Markets multiple cases of protectionist non-tariff barriers introduced by Indonesia, which remain significant issues, and should be resolved before the agreement enters into force. More specifically for the textile and apparel industry, EURATEX highlights non-automatic import licensing and import restrictions on finished textile products, including burdensome pre-shipment inspections (ID 18282 and 11101), restrictive testing requirements, especially on children's clothing (ID 10206), and excessive safeguard duties on imported carpets and clothing.

Considering the significant opportunities, a swift conclusion of the agreement with Indonesia is particularly important. The country's application to join the Comprehensive and Progressive

Agreement for Trans-Pacific Partnership (CPTPP) further underscores the urgency of finalising these negotiations. A speedily concluded deal with Indonesia will allow the EU to secure a first-mover advantage and solidify its economic presence in the country. A timely resolution would also send a strong signal to the global business community, demonstrating the EU's commitment to open, rules-based trade.

II. Thailand

EURATEX welcomes the resumption of trade negotiations with Thailand, a major hub for production and trade in Southeast Asia. A bilateral FTA can also contribute to enhancing the resilience of supply chains. EU companies stand to benefit from transparent rules for the protection of intellectual property and for customs procedures. Resumed in 2023, the negotiations with Thailand should now be concluded speedily.

III. Philippines

The Philippines are an emerging market characterised by a positively developing consumption climate. The European textile and fashion industry stands to gain significantly from an FTA with this country. Furthermore, the potential benefits of this agreement include enhanced opportunities for investment and for the recognition of EU standards. After negotiations were resumed in March 2024, they should now be concluded without any further delay.

IV. Malaysia

Malaysia is a growing market in the ASEAN region, a comprehensive FTA between the EU and Malaysia presents a timely opportunity to deepen bilateral trade relations and promote exports of the European textile and apparel industry. Negotiations between the EU and Malaysia were launched in 2010 and put on hold in 2012. Resumed in January 2025, negotiations with Malaysia should be concluded without delay.

Malaysia already has strong regional integration, including its participation in the CPTPP and RCEP, and positioning it as a strategic gateway to wider Asian markets. For the EU textile and apparel sector, an FTA would mean improved access to a growing consumer pool and a chance to strengthen investment ties in high-value manufacturing. A swift and ambitious conclusion of the EU-Malaysia FTA would help diversify trade, promote the recognition of EU standards, and strengthen the EU's presence in an important Southeast Asian market.