

Tariff heat sees Europe heighten focus on Vietnam and Indonesia

Trade and geopolitical tensions are prompting European companies to plough more investment and trade into South-east Asia; business expansion and landmark FTAs are being inked

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- Allianz Trade surveys before and after the US' "Liberation Day" tariffs on Apr 2 find that European export interest towards South and South-east Asia doubled from 7% to 14%.
PHOTO: AFP

[HO CHI MINH CITY / JAKARTA] Europe's engagement with South-east Asia is ramping up, from the recent 150 million euro (S\$224.5 million) investment in a new Vietnam engineering hub by German software giant SAP to the UK's removal of barriers for pharmaceutical exports to Vietnam and the European Union's landmark trade deal with Indonesia.

The push is being fuelled by geopolitical tensions and US President Donald Trump's Aug 7 tariff package – a flat rate of 15 per cent on most EU imports, in addition to existing steep duties on EU steel and vehicles – which has made selling to the US market costlier and less predictable for European exporters.

Ian Betts, chair of the British Chamber of Commerce in Indonesia, said that South-east Asian markets such as Indonesia and Vietnam are now viewed as a "strategic hedge" against over-reliance on traditional Western markets as they offer dynamic consumer bases, expanding middle classes and improving regulatory frameworks.

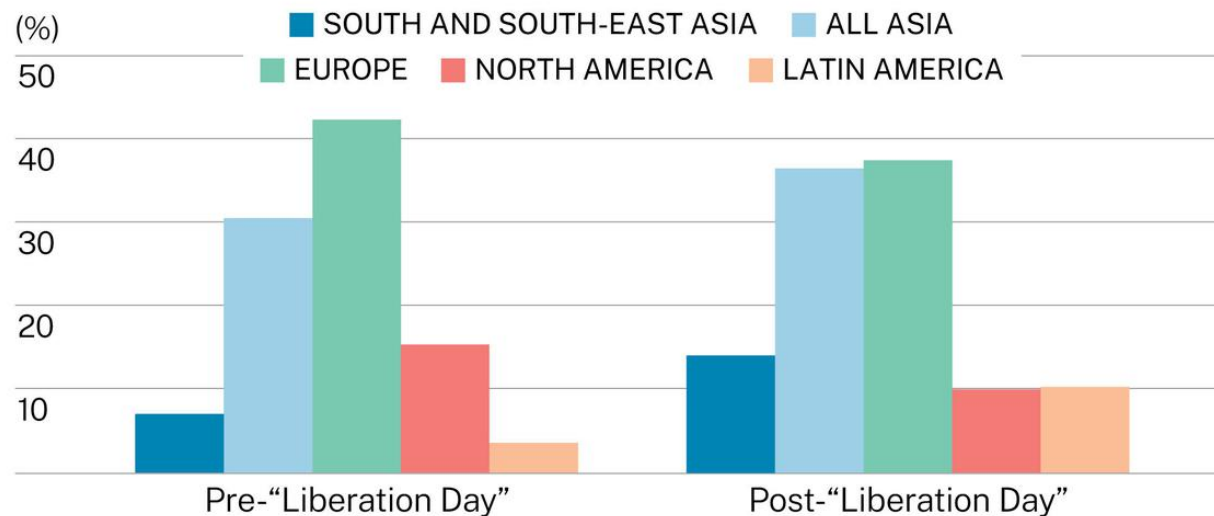
Stephen Olson, former US trade negotiator and visiting senior fellow at Iseas-Yusof Ishak Institute, echoed the sentiment: "The EU is clearly attempting to diversify its trade relations away from the US, and Asean is a key focal point."

Recent developments, including the breakthrough Indonesia-EU Comprehensive Economic Partnership Agreement (Cepa) and sector-specific pacts such as the UK-Vietnam pharmaceutical deal, underscore this structural shift.

The pivot is evident from recent Allianz Trade surveys before and after the US' "Liberation Day" tariffs on Apr 2, which found that European export interest towards South and South-east Asia doubled from 7 per cent to 14 per cent as trade links between the regions are intensifying with more free-trade agreements (FTAs).

Post-tariff shift: European exporters turn more towards South and South-east Asia

Export market interest before and after the US' "Liberation Day"



Note: The US' "Liberation Day" tariffs, announced on Apr 2, 2025, introduced a broad 10 per cent baseline and higher reciprocal duties on imports from dozens of US trade partners. Surveys were conducted in two waves over March and April 2025.

SOURCE: ALLIANZ TRADE GLOBAL SURVEY GRAPHIC: CHARMAINE MARTIN, BT

The shifting sentiments were more evident when it came to supply-chain exposures. "The trade war is creating opportunistic friendshoring (with) the Europe-Asia rapprochement," Allianz analysts wrote.

They pointed out that the Asia-Pacific has now become the preferred relocation destination for German companies with current links to North American supply chains – with 43 per cent opting for this, rising sharply from 28 per cent.

"We see a lot of manufacturing and industrial companies leveraging Vietnam as an expansion, and it creates opportunities for wider exchange (between Vietnam and Europe)," said Thomas Saueressig, member of the executive board of SAP, during a press briefing on Aug 7 to launch its new [SAP Labs](#) in Ho Chi Minh City.

The German enterprise software giant plans to invest more than 150 million euros over the next five years to strengthen its engineering hub in Vietnam, the second in South-east Asia following the one established in Singapore in 2022.

"(How we try to boost SAP Labs here) is also a great next signal for more and further increased collaborations and partnerships across industries from Germany, Europe, to South-east Asia, specifically in Vietnam," he added.

Europe is not stopping at Indonesia, Vietnam, or Singapore, which have already concluded free trade deals with the EU.

The Philippines embarked on a fresh round of FTA talks with the 27-nation bloc in June, with the next one scheduled in October.

Negotiations with Malaysia and Thailand are also ongoing, and are at various stages.

“Once (the Indonesia-EU Ceps) is signed, I believe it opens the way for further conclusions and negotiations with other Asean member states,” said Edison Bako, executive director at the European Business Chamber of Commerce (EuroCham) in Indonesia.

One of the key challenges for these countries, according to Olson, will be navigating differing perspectives on values-driven social issues and climate change – areas that the EU increasingly intertwines with its trade policies.



Indonesian President Prabowo Subianto meeting European Commission President Ursula von der Leyen in Brussels on Jul 13. PHOTO: INDONESIA PRESIDENTIAL SECRETARIAT

Indonesia-EU Ceps: Catalyst for broader engagement

Politically concluded on Jul 14, 2025, the Indonesia-EU Ceps is set for legal finalisation by September and is poised to serve as a template for Europe’s wider strategy in Asean.

Under the Ceps, approximately 80 per cent of Indonesia’s exports to the EU – including textiles, footwear, fisheries, palm oil and electric vehicle (EV)-related components – will benefit from immediate or gradual tariff elimination, boosting export competitiveness and improving market access.

In return, EU companies will gain wider access to Indonesia's rapidly growing market of 280 million consumers, with key export opportunities in meat, dairy products and green technologies.

Trade between the two sides is projected to grow by 50 per cent or more in the coming years under the new framework.

"(The deal) would also open the floodgates in terms of the prospects for environmental sustainability and governance standards here in Asean," added Bako.

Europe has emerged as one of the top seven sources of foreign investment in Indonesia, with inflows reaching US\$4.59 billion in 2024, up 52 per cent from US\$3.02 billion in the previous year, driven by growing interest in the EV, healthcare and resource sectors.

"The ongoing uncertainty in EU-US trade relations is prompting many to look more seriously at Asean," said Fabian Kieble, chairman of EuroCham in Indonesia.

"Indonesia's EV battery and mining sectors are key areas of interest. The country's push for EVs aligns well with European expertise," he added.

Vietnam-UK sectoral strategy

Vietnam has been playing a key role in Europe's Asia strategy, with the UK-Vietnam pharmaceutical agreement – confirmed on the same day as the announcement of the Ceta between the EU and Indonesia – symbolising deeper engagement.

"We expect the diversification of trade partners this agreement provides to enhance the UK's resilience against global trade uncertainties while creating new growth opportunities in emerging markets across Asia," Rachel Finlay, healthcare analyst at BMI, a unit of Fitch Solutions, wrote in a note last month.

The deal removes non-tariff barriers for UK pharmaceutical exports and reinforces the Medicines and Healthcare products Regulatory Agency's standards as an internationally recognised benchmark – a move that could ripple through other Asean markets.

Sakshi Sikka, associate director of pharmaceuticals at BMI, added: "This agreement also strengthens Vietnam's broader trade relationship with the UK, which could lead to expanded cooperation in other sectors such as finance and clean energy."

Clarence Hoe, executive director of Americas and Europe at Enterprise Singapore, also observed increased interest from European companies to participate in renewable energy infrastructure projects in South-east Asian markets due to the latter's vast potential and commitment to net-zero targets, as well as pro-energy transition policies.



Pha Lai thermal power plant in Hai Duong province, Vietnam. The UK and EU are the co-leads of the International Partners Group, which has been working with Hanoi to implement Vietnam's Just Energy Transition Partnership since December 2022. PHOTO: AFP

Singapore: Asean's entry point for European firms

While emerging South-east Asian economies present huge growth potential, Singapore remains Europe's launch pad into the region, with more than 19,000 European companies operating in the city-state.

Recent manufacturing investments by Sanofi, Biotronik, Siltronic and NTS in Singapore highlight the "queen bee" effect – where global firms cluster their suppliers and partners around the South-east Asian region, said Dino Tan, senior vice-president and head of Europe at Singapore Economic Development Board.

Following the Europe-Singapore Digital Trade Agreement, which was finalised last year, London-headquartered fintech Wise expanded its Asia-Pacific hub in Singapore in April to better serve markets in the region. Norwegian gamified learning platform Kahoot launched its Asia-Pacific hub in the Republic in July, using Singapore as a gateway for its regional growth.

"Singapore is deepening regional economic integration within South-east Asia, which will make it easier for companies to do business in our region," Tan noted.

He highlighted initiatives such as the Johor-Singapore Special Economic Zone, announced earlier this year, as a strategic location that enables European companies to leverage the combined strengths of both Malaysia and Singapore to diversify their supply chains and continue scaling.