

CONFERENCE REPORT

- TRADING FREELY WITH EAST ASIA - CHALLENGES AND OPPORTUNITIES FOR EU FTAS IN THE REGION

Ifri, Paris, 13 November 2012

As the fastest growing region in the world, East Asia is an important partner for the European Union, particularly at a time of economic difficulty. Asian countries have weathered the recent financial and economic crisis much better than Europe and much better than initially anticipated, with China and several members of the Association of Southeast Asian Nations (ASEAN) recording relatively impressive growth rates. As a result, self confidence has been growing in Asia while European economies feel increasingly challenged. At the same time East Asia is now also seen as an important potential contributor to Europe's growth. But East Asian economies will not be in a position to maintain their impressive growth rates in the absence of economic recovery in Europe. As a result, there is a growing awareness of the two regions' interdependence, and in particular a deepening understanding in Europe of the importance of the Europe-Asia partnership, with preferential trading agreements (PTAs¹) as major means of enhancing the bilateral relationship.

The objective of this one-day conference entitled "Trading freely with East Asia" (agenda attached) was to take stock of the implementation of the Commission's PTA strategy as defined in the "Global Europe" vision put forward in 2006 and to examine the challenges associated with ongoing and future PTA negotiations between the EU and a sampling of East Asian partners. To this end, the conference brought together European and Asian representatives from government and business, as well as a number of independent observers.

The meetings began with a general discussion on the EU's Free Trade Strategy, before zeroing in on bilateral EU-East Asia relations, examining in turn existing agreements, ongoing negotiations and the opportunities and challenges associated with potential future agreements. The following is a set of general observations gleaned from these discussions.

¹ In this report, the term PTA is favored over FTA (Free Trade Agreements) and Regional Trade Agreements (RTAs) as it does not make any specific reference to the depth of the agreements nor to the geographical contiguity of the parties.

General considerations on PTAs

PTAs and the WTO

The recent proliferation of PTAs in all regions of the world is to a large extent due to the difficulties met by the WTO-led Doha round of trade negotiations but also to the experiences of European and American regional economic integration. The latter factor explains in particular why the trend has recently spread to East Asia.

Although PTAs may be seen as a response to the WTO's difficulties, they are more aimed at complementing rather than replacing the WTO. The role of the WTO is deemed to remain important as an instrument of dispute settlement, although not necessarily as a negotiating forum.

Moreover, most participants agreed that the WTO had proven its worth in the recent global financial crisis (GFC); in particular the mere existence of WTO rules undoubtedly helped to prevent the return of widespread protectionism. The major problem with the WTO is that it does not have an agenda for the 21st century because of a lack of consensus among the current key players in the trade area. In this context, while some analysts may interpret the rise of PTAs as a sign of policy fragmentation, such a position is not unanimously shared.

PTAs and domestic reform

A consensus emerged on the idea that trade liberalization through PTAs is not an end in itself but simply a means to support and lock in structural reform. The need for structural reform may be particularly clear in the case of the EU, but it can be found in other economies as well, including East Asian economies, with Japan as a case in point. In other words, PTAs are not only about trade but also about domestic economic reform.

As a corollary, however, it is not fully clear which of domestic reform or trade liberalization should come first. Although a minimum level of commitment to reform is probably a prerequisite, agreements also provide a clear picture to both local and foreign businesses of where a country aims to go, thus easing the acceptance of a potentially painful reform.

Lastly, most participants agreed that the prerequisite for a trade negotiation is the existence of a solid consensus on the negotiations, including the support of the private sector, as well as the existence of a minimum degree of like-mindedness among participating countries.

The EU's approach to PTAs

A reminder on the EU and PTAs

As well as being an active participant in the WTO and being highly committed to trade multilateralism, the EU has long been engaged in a wide array of preferential trade agreements and arrangements. The EU's penchant for PTAs has a deep tradition, but over time the EU's geographical focus has tended to change along with its motivations.

While the older generation of preferential trade deals – for instance with the Central and Eastern European Countries or the ACP (Africa, Caribbean, Pacific) – have been

concluded with a wide range of trading partners, encompassing developing, least developed, emerging, as well as transition economies, the more recent agreements are primarily targeting geographically distant trading partners and are economically motivated, with the importance of market size and growth potential ranking high among the selection criteria for PTA partners. Next to these economic considerations, however, strategic considerations (in the game theory sense of the word) also loom large. In particular, PTAs are seen as a means of mitigating the risk of trade diversion in the most dynamic countries, which would be detrimental to the EU. In this sense, the latter agreements can undoubtedly be seen as a response to the US strategy.

The rationale for the shift in strategy encapsulated in the “Global Europe” directive is the perceived need to enhance European competitiveness and growth, but also the fear of being left out. Also, the objective is to complement the multilateral approach and to fight persistent mercantilism. A number of Asian countries were initially identified as priority partners, but other such partners also include countries such as Columbia, Peru, or Ukraine as well as developed economies such as Canada.

In terms of substance, the general tendency is for recent EU PTAs to be increasingly comprehensive (i.e. going beyond tariff concessions). In particular, they tend to include efforts to agree to common disciplines for regulatory regimes covering “new subjects” and other rules and disciplines (so-called Singapore issues: services, investment, intellectual property rights, government procurement, competition, etc). As a result, these agreements can be said to reflect the EU’s willingness to influence the international agenda by extending the scope of negotiations to a number of issues such as labor and environmental regulations.

The EU’s Global Europe strategy and beyond

Since the launch of the “Global Europe” strategy, important institutional changes have taken place. In particular, the European Parliament is now closely associated with the definition of trade policy as a result of the Lisbon Treaty. Another important change brought about by the Lisbon Treaty is the inclusion of foreign direct investment (FDI) within the exclusive competence of the Commission, leading to the systematic inclusion of investment protection in PTA negotiations (as exemplified by the ongoing negotiations with Canada or Singapore).

As a result of the European Parliament’s involvement in the trade negotiations, trade policy is more openly debated, leading to a decline in the oft-criticized democratic deficit. At the same time, trade policy is made more visible but also more contentious. The parliament is under more pressure as a result, and anti-free-trade lobbies are more vocal and active than in the past. Lastly, trade negotiations are also made more complex because trade policy has to be consistent with other external policies.

The PTAs advocated for by the EU must match a high level of ambition, with trading partners ready to engage in reform and sharing the same values as EU member states. But they are also constrained by the limited availability of human resources, which makes it difficult, if not impossible to negotiate many agreements at the same time.

The EU’s new PTA strategy has met with limited success so far, with one single agreement (with Korea) being signed and implemented since 2006. As a result, there is a growing sense that more needs to be done to give new momentum to the strategy.

The East Asian approach to PTAs

An increasingly complex landscape

While East Asia was for a long time the only region in the world without any PTA, the situation has dramatically changed over the last decade with a proliferation of agreements involving East Asian economies.

As a result, East Asia is now home to a complex network of bilateral and plurilateral agreements. Next to a myriad of bilateral agreements – for example those negotiated by Singapore with partners within as well as outside the East Asian region – three apparently competing plurilateral schemes have recently emerged, namely the Trans-Pacific Partnership, (encompassing a group of nine countries on both sides of the Pacific), the trilateral trade agreement between China, Japan and Korea, and the broader Regional Comprehensive Economic Partnership (encompassing the 10 ASEAN member countries together with six other Asian economies - China, Japan, Korea, India, Australia and New Zealand). Although these agreements are often claimed to be indicative of a new trend towards government-led economic integration in East Asia, they should not be taken as a sign that East Asian countries are not willing to also tighten their economic links with non-Asian partners.

Specific objectives

The proliferation of PTAs in East Asia is usually said to result from a combination of factors, including the sluggish development of multilateral rules, the success of regional integration initiatives in the rest of the world, as well as pressure from local business fearing exclusion from regional and global trade networks. But these agreements are also usually perceived as a means of enhancing economic efficiency. Additional considerations may also play a role – as in the case of Singapore, whose outward orientation results from its small size.

Until recently, although all East Asian PTAs did not contain the same provisions, they tended to have a number of characteristics in common that definitely set them apart from those negotiated by the EU. Overall, East Asian PTAs have tended to be less ambitious (qualifying as so-called “shallow PTAs”). With the TPP, however, the degree of ambition has been raised and the negotiating parties aim to achieve a deeper, so-called WTO++ agreement. Moreover some Asian countries such as Japan are also willing to engage in more ambitious deals.

For the time being, the three major plurilateral agreements highlighted earlier are not yet in effect. The actual negotiations have not yet started or are still at the very preliminary stages. It thus remains to be seen whether these projects will materialize as planned in the coming years. However, the speed and magnitude of change taking place in East Asia constitute a major challenge for the EU and certainly call for a response. In this context, the need to go ahead with negotiations with Asian partners appears more compelling than ever.

The way forward for the EU and its East Asian partners

Lessons from concluded and ongoing negotiations

As recalled earlier, PTAs negotiated by the EU tend to be increasingly ambitious, with the inclusion of “Singapore issues”, sustainable development chapters, etc. In this respect, the Korea-EU FTA is generally seen as a template for further negotiations.

A major lesson to be drawn from the Korea-EU agreement is that a balance of benefits must be reached in order to achieve full success; in other words the agreement should be assessed in terms of shared success, not individual success. This implies that sensitive issues should be properly addressed and certainly not avoided.

Beyond the ratification of the agreement, an important challenge is to make the agreement fully operational and to make sure that firms make use of the preferential scheme. To that end, the key is not only to have all participating states and institutions on board, but also to get business more and better involved. Overall, however, the agreement is perceived by both parties as a success despite some persistent difficulties associated with non-tariff barriers.

A final lesson is that third-country effects should not to be underestimated when a PTA is negotiated; for instance FDI from the US and Japan was attracted to Korea as a result of the Korea-EU FTA. Also, the participation in a PTA is often associated with rising attractiveness, and this impact can be expected to be all the more substantial if the agreement is ambitious.

As was the case with the Korea-EU agreement, the negotiations with Singapore have gone longer than initially envisaged. Singapore’s experience of negotiating with the EU highlights the need to conduct a clear assessment of the respective offensive and defensive interests ahead of the negotiation, but also to fully understand the complex decision-making process in the EU and in particular to outreach to the European Parliament.

Japan and Taiwan as potential partners

All participants agreed that the EU has a clear and strong interest to tap into Asian growth. Moreover, as East Asia is getting increasingly integrated at the regional level, the EU cannot choose to remain isolated. As a result, the case for a better defined strategy vis-à-vis East Asia is made more compelling, and participants also agreed that Japan and Taiwan were potentially promising partners for future PTAs. Both are deemed to be in a better position than most ASEAN countries, be it only because of their higher level of development.

In the case of Japan, the reasons for engaging in negotiations with the EU are many. First of all, the two partners share a number of strategic challenges (such as the need to rekindle growth and fight unemployment) that could be substantially alleviated through PTA negotiations.

Moreover a number of reforms are already in place in Japan, paving the way to a successful negotiation. However, frictions may be expected on some points such as investment and non-tariff barriers. A concern was expressed by some European participants that Japan may not be ready to accept the constraints imposed by the EU. For instance, while Japan may be willing to accept strict provisions on investment, it may be less eager to accept full investment opening. In spite of such potential difficulties, all participants agreed that the time is ripe to start an ambitious and far-reaching negotiation.

The case of Taiwan is more complex, and slightly diverging views emerged from the discussion.

From Taiwan's perspective, the priority is to avoid being left out of the PTA wave currently prevailing in East Asia. To that end, Taiwan is targeting neighboring economies as well as geographically more distant partners, and the EU is an obvious candidate among the latter because of the already tight economic links connecting the two regions.

Most European participants also agreed that Taiwan has a wide range of assets (in particular as a gateway to the Mainland and as a reliable partner in the region). Moreover, oft-used criteria such as economic size and growth all point to Taiwan as a well-qualified candidate. Lastly, the recent entry into force of the Economic Comprehensive Framework Agreement (ECFA) between China and Taiwan provides an additional reason for the EU to engage in negotiations with Taiwan.

Despite these strong economic arguments for engaging in negotiations with Taiwan, some participants sounded a word of caution, arguing that the China factor could not be ignored and that it was essential to avoid underestimating Beijing's readiness to act in a manner that would appear counter to its own economic interests. If a cautious and gradual approach has to be privileged as a result, the building block approach championed by Taiwan – in which mutual trade liberalization is taken piece-by-piece rather than as a result of a broadly negotiated, formal agreement – may provide an appropriate answer.

Ultimately, these discussions highlighted the interest for the EU to further engage in ambitious trade liberalization with partners in East Asia, but also the underlying interest of various economies in the region to engage in freer trade with the EU. While the conference provided both a broad overview and a specific sampling of partners and issues, further such discussions organized by the Ifri Center for Asian Studies will continue to explore the myriad of challenges and opportunities of EU trade relations with Asia, (including specific relationships not included in the above discussions such as China and India).

Trading Freely with East Asia

Challenges and opportunities for EU FTAs in the region

Tuesday, 13 November 2012

08:45 – 17:30

Ifri conference hall

27 rue de la Procession, 75015 Paris, France

In 2006, the European Commission launched an ambitious plan to conclude a new generation of Free Trade Agreements (FTAs) with Asian markets as part of its Global Europe strategy. Today the use of such FTAs is all the more important since negotiations at the WTO are stalled, but also more contested as the state of the global economy remains volatile and uncertain. The objective of this one-day meeting is to take stock of the implementation of the Commission's FTA strategy and the positions of a sampling of Asian partners, highlighting both the opportunities and challenges from the perspective of government, business and independent observers.

8:45 – Welcome addresses

Dominique David, *Executive Vice-President, Ifri*

François Brotte, *President of the Commission on Economic Affairs, French National Assembly*

Ambassador Michel Ching-Long Lu, *Representative of the Taipei Representative Office in France*

9:15 – The evolution of “Global Europe” – analyzing shifts in the EU’s free trade strategy

Vital Moreira, *Chairman, International Trade Committee, European Parliament*

Mauro Petriccione, *Director for Asia and Latin America, DG Trade, European Commission*

Patrick Messerlin, *Professor of Economics, Sciences Po, Groupe d'économie mondiale*

Jan Wouters, *Jean Monnet Chair ad personam EU and Global Governance, University of Leuven*

Chair: **Françoise Nicolas**, *Director, Ifri Center for Asian Studies*

11:00 – Special Address: Lessons learned from the Korea-EU FTA (followed by Q&A)

H.E.M. Hye Min Lee, *Ambassador of the Republic of Korea to the French Republic (Former Chief Negotiator for the Korea-EU FTA)*

11:30 – Observations from concluded and ongoing FTA negotiations The cases of South Korea and Singapore

Etienne Oudot de Dainville, *Assistant Director for Commercial and Investment Policy,
Direction générale du Trésor, France*

Lay Hwee Yeo, *Director, EU Center in Singapore*

Raphael Leal-Arcas, *Professor, International Economic Law, Queen Mary, University of
London*

Chair: **Françoise Nicolas**, *Director, Ifri Center for Asian Studies*

14:00 – The way forward – Challenges and prospects of future agreements The cases of Japan and Taiwan

Mauro Petriccione, *Director for Asia and Latin America, DG Trade, European Commission*

Kenji Goto, *Deputy Director-General, Economic Affairs Bureau, MOFA, Japan*

Chun-fang Hsu, *Economic Counselor, Ministry of Economic Affairs, Taiwan*

Fredrik Erixon, *Director, European Center for International Political Economy*

Chair: **Patrick Messerlin**, *Professor, Sciences Po, Groupe d'économie mondiale*

15:45 – Economic impact of EU-Asia FTAs – consequences for business

Roland Verstappen, *Chairman of the International Relations Committee, BUSINESSEUROPE*

Erik Bergelin, *Director of Trade & Economics, European Automobile Manufacturers'
Association*

Koshi Noguchi, *Vice President - Corporate Government & External Relations Brussels
Representative – EU Relations Toshiba of Europe Ltd.*

Moonkoo Huh, *Head of the Europe Office, Korea International Trade Association*

Cosmas Yi-Hou Lu, *Managing Director, Barclays Bank PLC, CEO/Taiwan and Branch Manager,
Taipei*

Chair: **Françoise Nicolas**, *Director, Ifri Center for Asian Studies*

17:15 – Concluding remarks by Thierry de Montbrial, Founder and President, Ifri