



# EU FTAs in the context of EU trade policy and the Internal Market

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# Structure of presentation

- EU bilateral strategy and EU-India FTA in broad context of recent developments in EU commercial policy.
- Discuss the factors behind Global Europe and interpret them in the EU-India context.
- Overall comments on the EU-India FTA

# EU bilateral strategy

## Trade patterns and fundamentals

- EU is the number one trade bloc in the world: *enlargements and increasing trade ration.*
- EU trade is largely a story of industrial capitalism; services an increasing share; take-off in last ten years (one third of total trade).
- Yet recent surge in trade dominated by manufacture export (*Germany*) and import (*China*).



# EU bilateral strategy

- Export highly dominated by MNF' s
- Sophisticated supply chains based on fragmented trade.
- Probably more so than in other developed countries: *country size, lower labour productivity, higher employment cost.*
- Trade complimentarity vs. Trade *pattern* complimentarity.
- Untapped opportunities for supply chain fragmentation?

# EU bilateral strategy

## Policy – multilateral

- EU initiator of the Doha Round and protagonist of an all-inclusive, grand-bargain development round.
- Yet defensive from day one in non-NAMA market access issues
- Not ambitious offers on services, defensive on agriculture and TDI' s, et cetera.



# EU bilateral strategy

## Policy – regional

- Moratorium on new FTAs since 1999
- Global Europe

## Policy – unilateral

- Everything But Arms
- GSP Plus
  - Not affected trade volumes or patterns noticeably

# EU bilateral strategy

- Enlargements – 2004 and 2007; pre-accession Association agreements
- Internal market: unfinished businesses still unfinished (e.g. subsidies, patents).
- Failed attempt to create a single market for services:
  - Sectoral carve outs
  - No country-of-origin principle
  - Limited mutual recognition



# EU bilateral strategy

- No common market for services adversely affects EU external policy
  - Institutional aspects: not centralised EU policy
  - Political momentum for trade liberalisation
- Lisbon agenda: external dimensions
  - Financial services
  - Community patent





# EU bilateral strategy

## Politics

- Uneasy move from industrial capitalism to services and innovation based trade and production.
- Growing frustration over emerging Asia – especially China:
  - Soaring bilateral trade deficit
  - Exchange rate concerns (U.S.)



# Factors behind strategy

- Touted strategy: Commercial criteria; strong, WTO-plus FTAs; offensive market-access strategy in the context of the Lisbon Agenda.
- Yes – but:
  - Finishing unfinished business (GCC, Mercosur)
  - S. Korea – avoid disadvantages to U.S. exporters
  - ASEAN – politically difficult
  - Where is China and Japan?

# Factors behind strategy

- Yes – but:
- No unilateral or multilateral movement on the part of the EU for market opening.
- Market *opening* strategy not there.
- Market *preference* strategy:
  - Avoid far-reaching openings demanding adjustments
  - Soft openings in a preferential style
  - EU-India FTA fits in this pattern

# EU-India FTA

- Commercially meaningful only if there are deep integration provisions going beyond tariffs
- Little risk of trade diversion in goods for the EU, but big risk for India.
- Small overall gains on the production/supply side due to lack of similarity
- Small gains in the view of fragmented trade/supply chains.
- Considerable risk for trade diversion for India
- Net trade creation or trade diversion? Not clear.



# EU-India FTA

- Deep integration FTA has commercial potential.
- Focus on services and investments.
- Risk of trade diversion in services and investments, but can be mitigated.
- Political economy effect on Lisbon Agenda targets: productivity and growth.

# EU-India FTA

- But is such an agreement possible?
- Services:
  - No clear EU mandate on services and disintegrated internal market policy
  - Disintegrated EU prohibits ambitious positions
- Investments:
  - Not part of EU policy
  - Recourse to Bilateral Investment Treaties (BITs)
  - But European BITs insufficient:
    - No Pre-establishment (entry and establishment)
    - Restrictions on performance requirements
    - Investor personnel



# EU-India FTA

- Overriding concern:
  - *Is Europe equipped with the right set of tools to negotiate an ambitious deep-integration FTA focused on services and investments?*