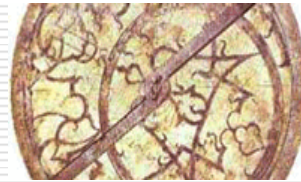


# The EU: Struggling for Remaining Relevant in East Asia

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# Overview

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- **The EU is in the corner (same for Japan?):**
  - **debt-ridden Europe is embarked in an urgent quest of growth.**
  - **EUMS need domestic pro-growth reform agendas which will inevitably focus on regulations: norms in goods, market regulations in services.**
  - **opening to foreign competitors is not a substitute to such agendas, but it is the best way to buttress and boost them.**
  - **“Comatose Doha” leaves only the option of preferential trade agreements (PTAs). May be not so bad since regulatory divergences are difficult to negotiate.**
- **The presentation**
  - **The world trade in 2012: the situation for the main players.**
  - **The growth approach (centered on EU domestic interests) approach: a long term view (2030) and what it means for the EU (Japan?) => the EU strategic mistake, and how to fix it.**
  - **The TPP approach (centered on the international arena): the TPP and what it means for the EU => its discriminatory impact and how to fix it.**
  - **Conclusion for the EU PTA policy: focus on Japan and Taiwan in East Asia.**

# Macroeconomic basics

- ❑ The EU (colors for Maastricht criteria: deficit <3% GDP, debt < 60% GDP; 60 breaches before the crisis!)
- ❑ Fiscal austerity may lead to a vicious circle between EU Member States. More debt not an option. Hopeless?
- ❑ The forgotten component: the regulatory quality of the economies → this is where trade dimension is useful.
- ❑ Non-eurozone countries, Japan, US: not in a much better macroeconomic shape, but better regulations (and currency flexibility).

	2006	2007	2008	2009	2010	2011	2012	2013	2006	2007	2008	2009	2010	2011	2012	2013	WB	WEF-A	WEF-G	WEF-L	Fraser
	Debt as a percentage of GDP								Deficit as percentage GDP								Regulatory quality				
Greece	116.9	115.0	118.1	133.5	149.1	165.1	181.2	183.9	-6.0	-6.8	-9.9	-15.8	-10.8	-9.0	-7.0	-5.3	100	83	94	125	81
Ireland	29.2	28.7	49.6	71.1	98.5	112.6	118.8	122.4	2.9	0.1	-7.3	-14.2	-31.3	-10.3	-8.7	-7.6	10	29	14	20	25
Italy	116.9	112.1	114.7	127.1	126.1	127.7	128.1	126.6	-3.4	-1.6	-2.7	-5.4	-4.5	-3.6	-1.6	-0.1	87	48	68	118	70
Portugal	77.6	75.4	80.7	93.3	103.6	111.9	121.9	123.7	-4.1	-3.2	-3.7	-10.2	-9.8	-5.9	-4.5	-3.0	30	46	52	117	59
Spain	46.2	42.3	47.7	62.9	67.1	74.1	77.2	79.0	2.4	1.9	-4.5	-11.2	-9.3	-6.2	-4.4	-3.0	44	42	47	104	54
Belgium	91.6	88.0	93.0	100.0	100.2	100.3	101.5	101.0	0.1	-0.3	-1.3	-5.9	-4.2	-3.5	-3.2	-2.2	28	19	16	43	43
France	72.1	73.0	79.3	90.8	95.2	98.6	102.4	104.1	-2.4	-2.7	-3.3	-7.6	-7.1	-5.7	-4.5	-3.0	29	15	32	60	42
Germany	69.8	65.6	69.7	77.4	87.1	86.9	87.3	86.4	-1.7	0.2	-0.1	-3.2	-4.3	-1.2	-1.1	0.6	19	5	21	70	21
Netherlands	54.5	51.5	64.8	67.7	70.6	72.5	75.3	76.9	0.5	0.2	0.5	-5.5	-5.0	-4.2	-3.2	-2.8	31	8	8	23	30
Britain	46.0	47.2	57.4	72.4	82.2	90.0	97.2	102.3	-2.7	-2.8	-5.0	-11.0	-11.4	-9.4	-8.7	-7.3	6	12	22	8	8
Sweden	53.9	49.3	49.6	52.0	49.1	46.2	45.3	43.1	2.2	3.6	2.2	-0.9	-0.1	0.1	0.0	0.7	14	2	5	18	39
Switzerland	50.2	46.8	43.6	43.7	42.6	42.0	41.2	40.7	0.8	1.7	2.3	1.0	0.6	0.8	0.5	0.6	26	1	4	2	4
Japan	172.1	167.0	174.1	194.1	200.0	211.7	219.1	226.8	-1.6	-2.4	-2.2	-8.7	-7.8	-8.9	-8.9	-9.5	20	6	17	13	22
US	60.9	62.1	71.4	85.0	94.2	97.6	103.6	108.5	-2.2	-2.9	-6.6	-11.6	-10.7	-10.0	-9.3	-8.3	4	4	26	4	10

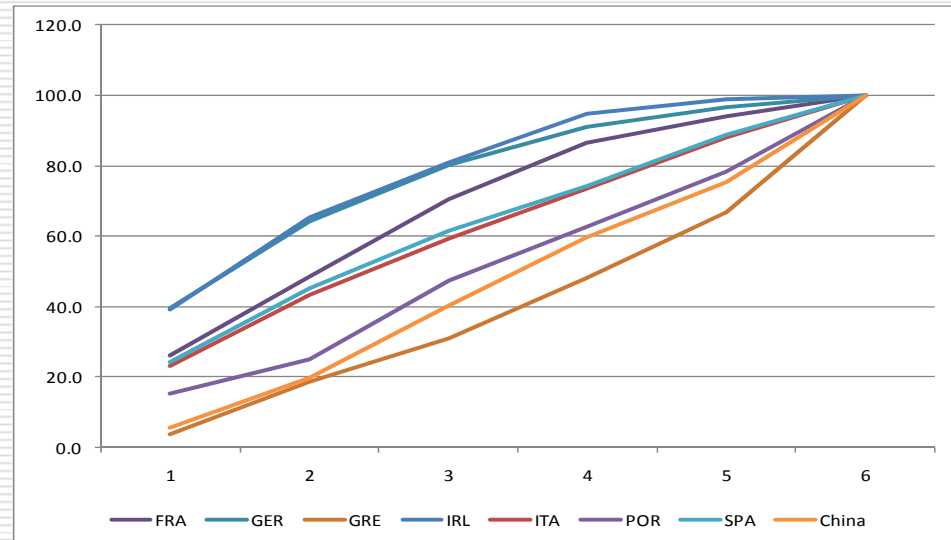
# Macroeconomic basics

- The euro launch has ignored key economic and political realities.
  - Economics #1: single monetary policy requires some unified fiscal policy. Hidden transfers via ECB (cars).
  - Politics: a strongly unified fiscal policy (huge transfers among EUMS) is out of reach.
    - “Fiscal compact”: EUMS to adopt national rules limiting their structural deficit to 0.5 percent of GDP. Preferably in the EUMS Constitutions. No strong fines at the EU level (maximum = 0.1% of GDP. Spain and its provinces (Argentina).
  - Economics #2: no exchange rate adjustment is workable if similar economic structures: not the case!
  - Economics #3: monetary policy is not powerful alone enough to push for domestic reforms.

Trade (output) heterogeneity:  
Shares of exports by level of  
technology (1=highest level,  
6=lowest level) (Felipe & Kumar  
2011).

Focus particularly on:

Greece and China,  
France and Germany,  
Ireland and Germany.



# The world trade situation early 2012

- “Comatose Doha”: now PTAs between mammoth economies are becoming possible.
- Asymmetry between the four mammoths: Japan, US and EU, China.
- Role of some medium size economies: Korea, Singapore, Chile.

G20 Members [a]	Share (%) of world GDP	EU27	USA	China	Japan	PTAs of Emerging/developing countries with other G20 Members
<b>Mammoth economies</b>						
EU27	26.6	---	<i>Transatlantic</i>		<i>JEU</i>	
USA	23.9	<i>Transatlantic</i>	---		<i>TPP</i>	
China	9.6			---	<i>CKJ</i>	
Japan	9.0	<i>JEU</i>	<i>TPP</i>	<i>CKJ</i>	---	
<b>Emerging and developing G20 members</b>						
Brazil	3.4	ongoing				Argentina, India
India	2.8	ongoing		concluded	concluded	Argentina, Brazil, Indonesia, Korea
Russia	2.4					
Mexico	1.7	concluded	concluded		concluded	Argentina, Brazil, Canada, Korea
Turkey	1.2	concluded				
Indonesia	1.2	[c]		concluded	concluded	India, Korea
Saudi Arabia	0.7	[d]			ongoing	
Taiwan [b]	0.7			concluded	[e]	
Argentina	0.6	ongoing				Brazil
South Africa	0.6	concluded				India
<b>Industrial G20 members</b>						
Canada	2.6	ongoing	concluded		ongoing	Mexico, EU, Korea
Korea	1.7	concluded	concluded	<i>initial step</i>	<i>CKJ</i>	Indonesia, EU, US, India, Japan, Canada, Mexico, China, Turkey
Australia	1.5		concluded	ongoing	ongoing	Indonesia, US, China

# The “game-changers”: Korea

- A few countries have adopted a systematic PTA policy. Some of them based on economics: Korea (Chile, Singapore). Other based on politics: Turkey.
  - Traditional gains from trade: market expansion capacity (partners’ GDP as % domestic GDP).
  - Insurance against Doha failure: WTO approximation (partners’ GDP in % world GDP).
- Striking differences with US and EU PTA policies (no strategy).
- Korea is running ahead: China and Turkey (WTO approximation = 77%). But, there is a downside: being the first mover may be costly in a sequential game of PTAs (see below).

Country	Number of		PTA market		WTO	
	PTAs	Part- ners	expansion capacity ratio [a]	productivity index [b] per PTA per partner		approximation [c]
<b>All the negotiated PTAs</b>						
EU27	32	58	0.40	0.01	0.00	14.2
USA	16	29	0.37	0.02	0.00	10.7
Korea	12	29	50.22	4.19	0.14	67.2
Turkey	19	30	31.81	1.67	0.06	31.3

# Trade policy basics

- ❑ “Comatose Doha” => shift to « preferential trade agreements » (PTAs)
- ❑ But very different environment from previous PTAs (under massive unilateral /multilateral liberalization)
- ❑ Domestic “political economy” of PTAs.

Objectives	Facts	Who will be interested in pushing (fighting) the PTA?	Asymmetry	
			small partner	large partner
PTAs faster to negotiate than WTO deals	no evidence that it is the case	Officials from the Trade Ministry	yes	possible
address the unfinished tariff cuts agenda left by unilateral and multilateral liberalizations: a lot of liberalization by focused on low or moderate tariffs	peak tariffs are still prevalent; but the PTAs are not specially good at eliminating them (one-third on average)	Officials from the Trade, Agriculture, Industry Ministries	yes	possible
address the 21st century agenda consisting in regulatory issues: norms (technical barriers to trade, sanitary and phytosanitary measures), regulations of services markets; IPR, competition policy, etc.	not so much evidence, except for a few PTAs on narrow issues (IPRs, public procurement, etc.).	Officials from the Trade, Agriculture, Industry Ministries; Regulatory agencies of all kinds	yes	possible
support a domestic reform agenda (unilateral trade liberalisation) which has been behind unilateral trade liberalisation 1980s-2000s (responsible of 60% of tariff cuts).	focus on regulations prevailing in markets of goods/services and factor markets (capital, labor, land)	<u>Presidents, Prime Ministers</u> , all previous officials	<u>yes</u>	<b>NO =&gt; problems for ratification</b>
achieve foreign (development) policy objectives	Most US PTAs (9-11 aftermath) and EU PTAs (Mediterranean, African, Carribbean, Pacific)	Ministries of Foreign Affairs	yes	possible

# The growth approach: a view to 2030 and 2050

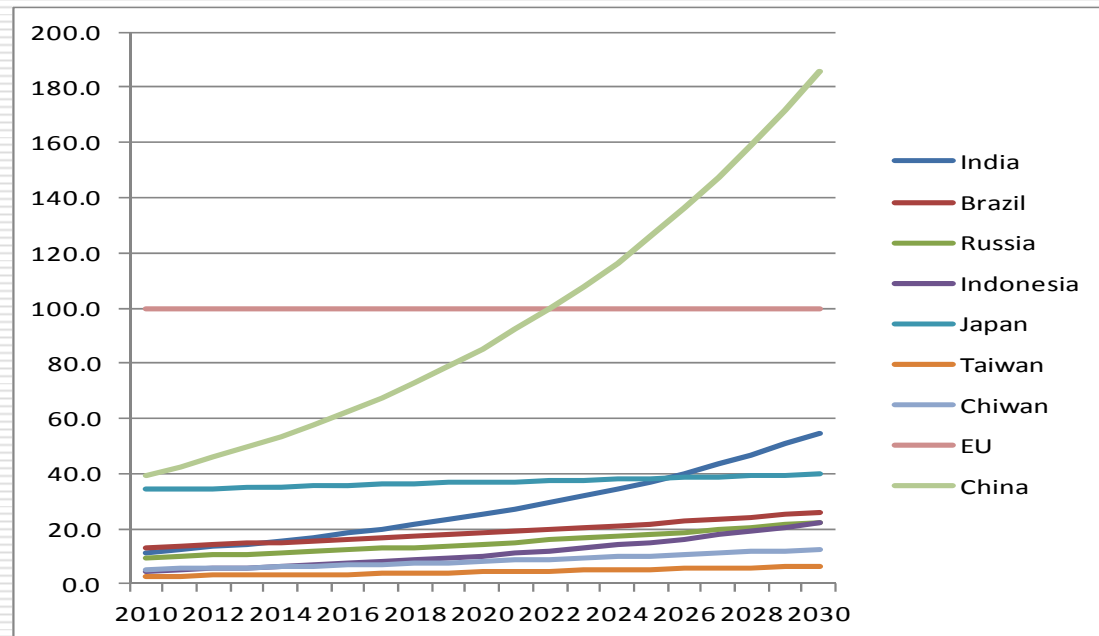
- Projections 2030-2050: be careful! But doubts are about the dates, not the trends.
- EU: no more the “*largest world economy*” within a decade (2020-2025): loses a lot of leverage since it is not a military power (different from US in this respect – by this can also be an advantage).
- Who is filling up the room left by the EU and US? Emerging Asia and Africa (not Latin America, Middle East and CIS) but for very different reasons: income increase in Emerging Asia, population and income increases in Africa.

	2000	2010	2015	2030	2050	2030/10	2050/10
<b>Gross Domestic Product</b>	<b>Shares in world GDP, in %</b>					<b>Changes in shares</b>	
Western Europe	26.4	25.4	21.8	13.5	8.6	53.1	33.9
Central Europe [a]	2.2	2.8	3.0	2.7	2.2	96.4	78.6
North America	33.0	26.5	24.0	16.5	10.3	62.3	38.9
Advanced Asia	17.0	11.8	10.5	7.3	3.8	61.9	32.2
Australia+NZ	1.5	2.2	1.8	1.4	1.0	63.6	45.5
Emerging Asia	7.0	15.0	22.0	38.0	46.0	253.3	306.7
China [b]	3.8	8.2	10.1	18.8	20.2	230.9	247.9
India [c]	1.4	2.1	2.8	6.5	9.3	301.6	435.8
Latin America	6.6	7.7	8.1	7.9	7.9	102.6	102.6
Middle East	2.3	2.8	2.6	3.2	3.6	114.3	128.6
CIS [d]	1.1	3.2	3.7	3.9	3.2	121.9	100.0
Africa	1.8	2.6	2.7	6.0	13.0	230.8	500.0



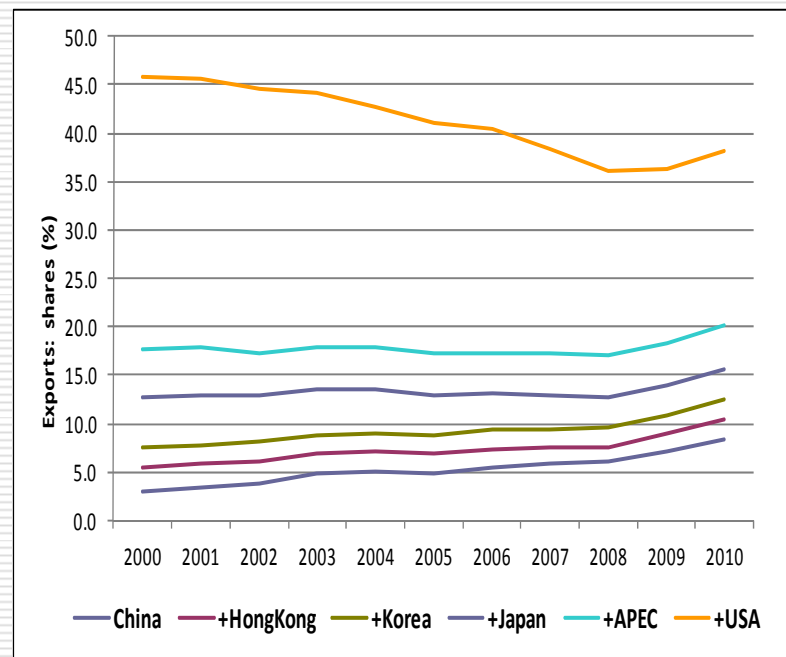
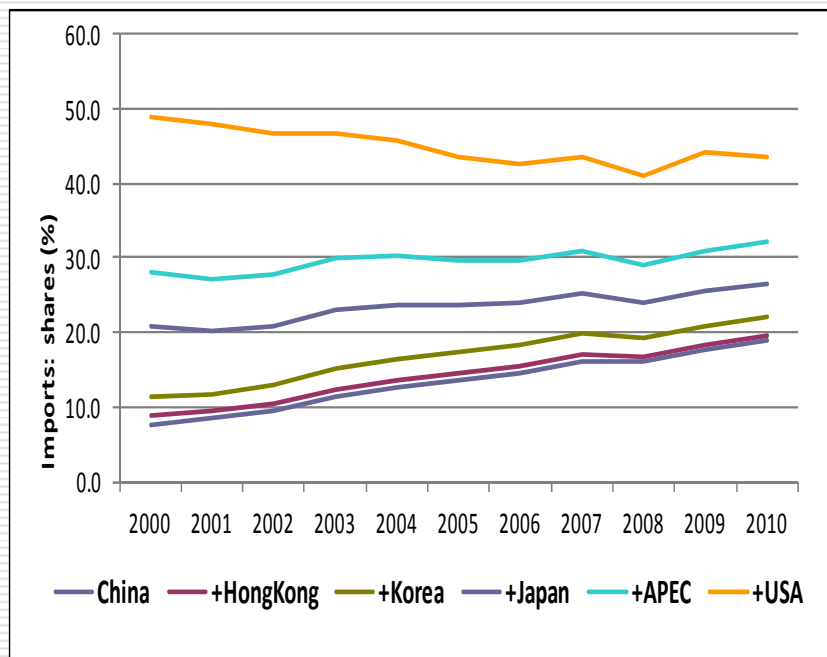
# The growth approach: a view to 2030 and 2050

- **Growth-thirsty EU: any EU PTA needs to fulfill three conditions:**
  - partner needs to be big enough to exert growth-traction on the huge EU economy,
  - it needs to be big enough to do so in the immediate future, not in a few decades,
  - it has to have a regulatory framework good enough to push for better regulations in the EU and to generate growth-generating regulatory competition.
- **Japan is the first choice, after China – but China not a political option. Taiwan is a good choice preparing for China.**



# The growth approach: the unthinkable China-EU PTA?

- What if the Comatose Doha lasts a couple of decades?
- Then, EU trade structure requires to consider a China-EU PTA as an option for more growth.
- Not a question of trade balance (saving-investment macroeconomic issue). For information: the EU net trade deficit with China would be around 40% smaller a “value-added” basis.
- Same picture for the US, Japan, Korea, Taiwan, etc.



# The growth approach: convergence with economic modelling

- “Computable General Equilibrium” model: Kawasaki [2011]
- Index 100 = most welfare enhancing PTA (~ 1 percent GDP, but only tariffs).

Rank	EU		USA		China		Japan		Korea	
	Partner	Index	Partner	Index	Partner	Index	Partner	Index	Partner	Index
1	China	100	EU	100	EU	100	China	100	China	100
2	Japan	57	China	92	USA	76	USA	60	USA	43
3	Russia	48	Japan	62	Japan	67	Thailand	57	EU	41
4	India	38	Korea	27	Korea	4	EU	47	Japan	38
5	USA	38	Taiwan	19	Taiwan	4	Australia	25	Thailand	2
6	Thailand	33	Thailand	17	Thailand	2	Korea	23	Vietnam	2
7	Korea	33	India	15	Hong Kong	2	Taiwan	13	India	1
8	Taiwan	19	Malaysia	14	Malaysia	1	Malaysia	13	Malaysia	1

# The growth approach: fixing the EU strategic mistakes

## □ Block B: The EU current PTA plan: too many countries, too hesitant and too small

- Market expansion (partner's GDP as a percent of EU GDP): a sense of additional scale economies and width in terms of product varieties.
- WTO approximation (partner's GDP as a percent of world GDP minus EU GDP): a sense of how close from what would have been a successful Doha Round.

## □ Block C: A better PTA plan: two countries, willing to open, and larger than the current plan.

- The case for "Chiwan" (Taiwan plus GDP generated by Taiwanese firms in China Mainland).

## □ Block A: Should take care of Korea. PTAs dark side: sequential negotiation discriminates against first movers.

Countries	Number		EU market expansion (% EU GDP)		WTO approximation	
	PTA	Partners	2010	2030	2010	2030
	1	2	3	4	5	6
<b>A. Negotiations already concluded by the EU</b>						
Korea	1	1	6.3	6.7	2.2	1.2
<b>B. Negotiations launched by the EU since 2006</b>						
Canada	1	1	9.7	10.3	3.5	1.8
ASEAN	1	10	11.4	53.2	4.1	9.3
Indonesia			4.4	20.3	1.6	3.5
Malaysia			1.5	6.8	0.5	1.2
Singapore			1.4	6.4	0.5	1.1
India	1	1	10.7	49.7	3.8	8.7
Mercosur	1	4	15.5	28.3	5.6	4.9
Brazil			12.9	23.5	4.6	4.1
Russia	1	1	9.1	20.2	3.3	3.5
GCC [a]	1	6	5.8	11.6	2.1	2.0
Subtotal "IBR"			32.7	93.3	11.8	16.3
<b>C. A pro-growth EU PTA policy</b>						
Japan	1	1	33.9	36.1	12.2	6.3
Taiwan	1	1	2.7	7.6	1.0	1.3
Subtotal C	2	2	36.5	43.7	13.2	7.6
<b>D. Long term perspective: China, Taiwan, Chiwan</b>						
China	1	1	36.2	168.6	13.1	29.4
Chiwan (low)	--	--	3.6	10.4	1.3	1.8
Chiwan (high)	--	--	5.1	14.6	1.8	2.5

# The growth approach: fixing the EU strategic mistakes

- Focus on regulations and their dynamics: differences in regulations are often seen as bad. But they are opportunities for more choices for the consumers.
- World Bank Doing Business indicators: ranks (top 10 = 18)
- EUMS “cohorts”: heterogeneity means a lot of work remains to be done at the EUMS level.
- Bad choices in the EU current PTA plan for the large countries.
- Once again Japan and Taiwan emerge as a much better choice.
- Same results with World Economic Forum, etc.

	Ease of doing business	Starting a Business	Dealing with Construction Permits	Getting electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving insolvency
	G	S1	S2	S3	S4	S5	S6	S7	S8	S9	S10
<b>EC cohorts</b>											
EC-1958	41	66	54	65	111	69	82	70	30	37	29
EC-1973	7	21	20	41	53	11	15	14	14	38	8
EC-1980s	58	98	59	60	79	84	99	70	55	55	33
EC-1995	19	73	48	18	26	37	76	53	13	25	15
EC-2004a	50	73	82	90	63	51	72	103	59	67	47
EC-2004b	24	65	83	71	17	31	65	60	15	20	48
EC-2007	66	56	126	149	68	8	46	112	82	72	94
<b>A. Negotiations already concluded by the EU</b>											
Korea	8	24	26	11	71	8	79	38	4	2	13
<b>B. Negotiations launched by the EU since 2006</b>											
Canada	13	3	25	156	41	24	5	8	42	59	3
Malaysia	18	50	113	59	59	1	4	41	29	31	47
Singapore	1	4	3	5	14	8	2	4	1	12	2
Argentina	113	146	169	58	139	67	111	144	102	45	85
Brazil	126	120	127	51	114	98	79	150	121	118	136
India	132	166	181	98	97	40	46	147	109	182	128
Russia	120	111	178	183	45	98	111	105	160	13	60
<b>C. The most promising pro-growth EU-PTA partners</b>											
Japan	20	107	63	26	58	24	17	120	16	34	1
Taiwan	25	16	87	3	33	67	79	71	23	88	14
<b>D. Looking ahead</b>											
China	91	151	179	115	40	67	97	122	60	16	75
Chiwan [b]	--	(3.3)	--	(3.7)	(3.1)	--	--	--	(3.1)	--	--

# The TPP approach: basic structure

Chapters	Conflicts between TPP members		Conflicts intra-US [a]	
	US official position	Main opponents to the US position	More liberalization, easier rules	Less liberalization, stricter rules
<b>A. Chapters with discriminatory impact easy to solve by the EU</b>				
1 Industrial goods				
2 Textiles	defensive	offensive (ASEAN, ME)	retailers	producers
3 Agriculture	offensive/defensive	defensive: CA (**) JA (riz); offensive: NZ (boeuf, lait)	agro-business	sugar, milk farmers
4 Rules of origin	defensive (protectionnist)	easier RoO, cumulation within TPP	retailers	producers
5 Customs rules				
6 Services	offensive			
7 Telecoms				
8 Public procurement	?			
9 Concurrence				
<b>B. Chapters with discriminatory impact more difficult to solve by the EU</b>				
10 Technical barriers to trade (TBT)	harmonization and/or conditional mutual recognition			
11 Sanitary and phyto-sanitary measures (SPS)	harmonization and/or conditional mutual recognition		farmers and agro-bus., particularly sugar, milk	
12 Financial services	offensive (investments)	JA (Post)		
13 Investment	national treatment, MFN, expropriation, State-firms dispute settlement	AU (State-firm dispute settlement)		
14 Labor	signature 5 BIT agreements		AFL-CIO (Democrats) NGOs (Nader)	business (Republicans)
15 Intellectual property rights (IPRs)	TPP rules stricter than WTO rules	AU, NZ (keep WTO rules)	Hollywood (Democrats)	NOGs (Internet), Google
16 Pharmaceuticals	patents, drugs distribution	AU, NZ, JA (generics, public health, drugs distribution)	Big pharmaceutical firms	NGOs (patents)
17 Environment	signature of 6 agreements	ASEAN, ME		
18 Development				
19 SMEs				
20 State enterprises	offensive (but Fannie Mae/Freddie Mac)	ASEAN (Vietnam)		
<b>C. Chapters with unknown discriminatory impact, as of today</b>				
21 Value chains	new chapter			
22 Reglementary convergence	new chapter			
23 Competitiveness				
24 Transparency				
25 Trade capacity building				

# The TPP approach: Japan on a par

- Japan often seen as a “demandeur” by the EU.
- The TPP changes the situation: Japan on a par with the EU/US – or “pivot” if no EU-US PTA.
- Anti-China aspect of the TPP: not an issue for the EU if the EU relies on bilateral PTAs.

years 2009-2010	US preferential agreements				EU preferential agreements			
	GDP	concluded	negotiated	futur	GDP	concluded	negotiated	futur
Australia	924.8	924.8			924.8			[b]
Brunei	10.7			10.7	10.7			
Chile	203.4	203.4			203.4	203.4		
Malaysia	237.8		237.8		237.8		237.8	
N.Zealand	126.7		126.7		126.7			
Peru	153.8	153.8			153.8	153.8		
Singapore	222.7	222.7			222.7		222.7	
Vietnam	103.6			103.6	103.6			103.6
Canada	1574.1	1574.1			1574.1		1574.1	
Japan	5497.8			5497.8	5497.8			5497.8
Mexico	1039.7	1039.7			1039.7	1039.7		
Total (Mrd USD)	10095.1	4118.5	364.5	5612.1	10095.1	1396.9	2034.6	5601.4
Total (%)	100.0	40.8	3.6	55.6	100.0	13.8	20.2	55.5
GDP US et EU	14582.0	<== US GDP			16222.2	<== EU GDP		
GDP China & India	5878.0	<== China GDP			1729.0	<== India GDP		

Projection 2030	US preferential agreements				EU preferential agreements			
	GDP	concluded	negotiated	futur	GDP	concluded	negotiated	futur
Australia	2376.7	2376.7			2376.7			[b]
Brunei	50.8			50.8	50.8			
Chile	876.7	876.7			876.7	876.7		
Malaysia	2618.2		2618.2		2618.2		2618.2	
N.Zealand	325.6		325.6		325.6			
Peru	662.9	662.9			662.9	662.9		
Singapore	561.2	561.2			561.2		561.2	
Vietnam	1140.6			1140.6	1140.6			1140.6
Canada	3966.7	3966.7			3966.7		3966.7	
Japan	13854.5			13854.5	13854.5			13854.5
Mexico	2620.0	2620.0			2620.0	2620.0		
Total (Mrd USD)	29054.0	11064.2	2943.8	15045.9	29054.0	4159.6	7146.1	14995.1
Total (%)	100.0	38.1	10.1	51.8	100.0	14.3	24.6	51.6
GDP US et EU	36746.6	<== US GDP			34715.5	<== EU GDP		
GDP China & India	64716.8	<== China GDP			19036.3	<== India GDP		

# The TPP as an additional incentive for the EU to conclude a PTA with Japan

- Economics of preferential trade agreements (PTAs)
- For given comparative advantages of the partners:
  - the higher initial MFN protection is,
  - the deeper intra-PTA liberalization is,
  - the stronger the intra-PTA competitive dynamics is,
  - then the stronger the discrimination is.

Case 1: The partner is MORE efficient than the rest of the world

	Free trade	WTO non discrimination		Preferential TA	
		tariff rate (%)	price	tariff rate (%)	price
Partner	100.0	10	110.0	0	100.0
Rest World	108.0	10	118.8	10	118.8

Case 2: The partner is LESS efficient than the rest of the world

	Free trade	WTO non discrimination		Preferential TA	
		tariff rate (%)	price	tariff rate (%)	price
Partner	108.0	10	118.8	0	108.0
Rest World	100.0	10	110.0	10	110.0
Partner	108.0	5	113.4	0	108.0
Rest World	100.0	5	105.0	5	105.0
Partner	112.0	15	128.8	0	112.0
Rest World	100.0	15	115.0	15	115.0



# TPP: discriminating against the EU

- The TPP has definitively the capacity to discriminate heavily against the EU, with the EU excluded from markets very close to the growth center of the next 20 years.

	GDP of non-US TPPs highly protected % total GDP all TPPs	Criteria used to classify a TPP country as highly protected
<b>Border barriers</b>		
<b>Tariffs</b>		
agriculture		
applied	73.4	Non-US TPP c'tries with average tariff higher than 10 percent
bound	75.7	Non-US TPP c'tries with average tariff higher than 10 percent
manufacturing		
applied	0,0	Non-US TPP c'tries with average tariff higher than 10 percent
bound	14,0	Non-US TPP c'tries with average tariff higher than 10 percent
"high"	29.5	Non-US TPP c'tries with high bound tariffs lines > 25% all tariff lines
Trans-border trade	43.3	Non-US TPP c'tries not included in the 18 top ten countries (Japan)
	34.2	Non-US TPP c'tries not included in the 36 top ten (Japan, Australia)
<b>Borders behind the borders</b>		
Norms (ag and ind)		no systematic information available
Services	89.9	Non-US TPP c'tries not included in the 18 top ten countries
	0.0	Non-US TPP c'tries not included in the 36 top ten
<b>Intern'l investment</b>		
transport	100.0	Non-US TPP c'tries with an index > 20 (max is 100)
telecoms	96.2	Non-US TPP c'tries with an index > 20 (max is 100)
media	40.9	Non-US TPP c'tries with an index > 20 (max is 100)
financial services	12.3	Non-US TPP c'tries with an index > 20 (max is 100)
real estate	11.3	Non-US TPP c'tries with an index > 20 (max is 100)
all others	0.0	Non-US TPP c'tries with an index > 20 (max is 100)

# TPP and Japan-EU PTA: tariffs

- **Block A: discrimination in principle impossible; in fact, still possible for the tariffs left intact by the EU PTAs (agriculture).**
- **Block B: a lot of discrimination, especially if one looks at bound tariffs (crucial aspect in case of import surge from TPP sources).**
- **Trans-border trade: a lot of discrimination possible not so much in terms of regulations per se than in terms of their implementation.**

	Average tariffs [a]				"High"tariffs [b]		Trans-border trade [c]
	applied		bound		lines cons. %	lines appl. %	
	agri	ind	agri	ind			
<b>A. Countries with whom the UE has a PTA</b>							
Chile	6.0	6.0	26.0	25.0	100.0	0.0	42
Mexico	21.5	7.1	44.2	34.9	99.2	31.8	59
Peru	6.3	5.2	30.8	29.1	97.0	13.6	56
<b>B. Countries with whom the UE has not yet a PTA</b>							
Australia	1.3	3.0	3.4	11.0	32.6	0.0	30
Brunei	0.1	2.9	31.6	24.5	100.0	11.8	35
Canada	11.3	1.6	16.7	5.3	15.3	8.1	42
Japan	17.3	2.5	20.9	2.5	2.7	2.7	16
Malaysia	10.9	7.6	67.6	14.9	39.4	26.7	29
N.Zealand	1.5	2.2	5.9	10.8	36.9	0.0	27
Singapore	0.2	0.0	24.6	6.4	0.0	0.0	1
US	4.9	3.3	4.8	3.3	7.4	7.3	20
Vietnam	17.0	8.7	18.5	10.4	33.7	33.8	68
<b>C. Other key East Asian countries outside TPP</b>							
Korea	48.5	6.6	55.9	10.2	47.1	8.7	4
China	15.6	8.7	15.7	9.2	27.9	26.0	60
Taiwan	16.5	4.5	16.9	4.7	9.5	9.3	23
<b>D. European Union [d]</b>							
EU maximum	--	--	--	--	--	--	82
Cohort							2007
EU average	12.8	4.0	12.3	3.9	7.8	7.6	--
France							24
EU minimum	--	--	--	--	--	--	13
Cohort							1995

# TPP and Japan-EU PTA: services

- OECD product market regulation (PMR) index.
- Assume PMR > 25 as high protection (100=close market).
- Is discriminatory liberalization possible? Yes: see the wide variation among EU PMRs.
- This variation implies very imperfect Internal Market => interesting negotiating dynamics (see below).

	TPP countries					Others		EU, France			
	Mexico	Australia	Canada	Japan	N.Zeland	US	China	Korea	EU-max	France	EU-mini
<b>Indicators for 7 non-industrial sectors</b>											
Airline	42	21	21	42	38	21	79	21	71	9	0
Telecom	38	21	24	20	22	2	68	18	52	22	10
Electricity	100	25	56	27	25	31	91	56	46	33	0
Gas	74	12	4	33	38	20	71	72	71	35	12
Post	57	53	70	45	41	57	74	65	58	53	12
Rail	63	31	56	69	56	69	100	88	88	63	6
Road	21	0	8	16	0	8	87	41	58	37	8
<b>Regulatory impact indicators</b>											
Electricity, Gas and Water Supply	51	14	16	20	27	14	--	36	41	21	7
Construction	5	4	7	10	7	5	--	6	12	7	4
Wholesale and retail trade; repairs	20	16	24	45	22	22	--	14	41	41	13
Hotels and restaurants	5	6	6	11	7	4	--	5	13	5	3
Transport and storage	24	14	24	28	22	19	--	31	44	26	9
Post and telecommunications	28	21	27	24	20	19	--	26	28	24	12
Financial intermediation	29	30	30	24	15	25	--	30	46	19	11
Real estate activities	2	3	4	3	4	3	--	4	8	2	1
Renting of machinery and equipmen	21	22	31	30	25	17	--	22	42	21	11
Renting mach. Equip	2	--	7	8	6	5	--	4	13	4	2
Computer and related activities	9	6	7	9	6	3	--	10	15	5	3
Research and development	--	--	--	7	5	3	--	3	13	5	3
Other business activities	22	20	30	29	24	15	--	22	41	20	10
Other community, social and persor	0	0	0	7	0	0	--	5	10	6	3
Retail Trade [a]	40	27	51	41	35	43	76	17	71	52	8
<b>Professional services</b>											
: Professional Services	30	20	52	25	31	18	73	38	59	35	10
: Accounting services	30	35	58	37	59	28	82	34	61	47	5
: Architect services	30	0	52	19	0	6	67	42	66	46	0
: Engineer services	30	10	48	6	0	6	54	35	66	0	0
: Legal services	30	37	49	38	64	32	90	40	68	47	0
AVERAGE	31	18	29	25	22	18	# 78	29	# 45	25	6

# TPP and Japan-EU PTA: FDI

- ❑ OECD foreign direct investment (FDI) restrictiveness indicators.
- ❑ Assume >25 high protection (100 = close market).
- ❑ Same debate on the possibility of discriminatory protection.
- ❑ Same sectors protected, hence prone to discrimination.

	Manufacturing	Electricity	Construction	Distribution	Transport	Media	Telecom	Financial services	Business services	Real estate
<b>A. Countries with which the EU has a PTA</b>										
Chile	0.0	0.0	0.0	0.0	41.3	22.5	0.0	4.2	1.3	0.0
Mexico	10.0	10.0	10.0	15.0	50.0	62.5	35.0	43.3	10.0	16.7
Peru	8.3	8.3	8.3	8.3	46.7	33.3	8.3	8.3	8.3	36.7
<b>B. Countries with which the EU has not yet a PTA</b>										
Australia	10.0	10.0	10.0	10.0	24.3	21.0	30.0	15.0	12.8	30.0
Brunei	--	--	--	--	--	--	--	--	--	--
Canada	10.0	10.0	10.0	10.0	26.7	70.0	35.0	6.7	10.0	0.0
Japan	7.0	0.0	0.0	0.0	55.0	0.0	30.0	0.0	0.0	10.0
Malaysia	--	--	--	--	--	--	--	--	--	--
N.Zealand	20.0	20.0	20.0	20.0	38.3	20.0	40.0	23.3	20.0	20.0
Singapore	--	--	--	--	--	--	--	--	--	--
US	0.0	24.7	0.0	0.0	55.3	30.0	2.3	4.2	0.0	0.0
Vietnam	--	--	--	--	--	--	--	--	--	--
<b>C. Other key East Asia countries outside TPP</b>										
Korea	0.0	41.7	0.0	0.0	50.0	40.0	50.0	2.0	0.0	0.0
China	25.2	60.8	26.5	23.8	66.5	100.0	80.0	61.0	13.8	27.5
Taiwan	--	--	--	--	--	--	--	--	--	--

# Concluding remarks: negotiating issues

□ Negotiating problems should be examined with a crucial point in mind: the EU is losing leverage for internal (growth) and external (share) reasons. (same for Japan?).

□ The scope of the PTA: core vs. periphery (foreign policy dimension). Focus on core for growth engine and use other agreements for the “periphery” topics.

□ The Treaty of Rome experience:

- Most ambitious treaty since 1945.
- But manageable thanks to progressivity embedded in well defined trust-building phases.

Chapters	WTO: C or X	WTO: C or X						Chapters	WTO: C or X	WTO: C or X					
		All PTA's	All - EEA	NEU	NM	ACP	Others			All PTA's	All - EEA	NEU	NM	ACP	Others
The core provisions							The unsustainable periphery								
Income independent															
1 Industrial tariffs & equivalents	C	1.0	1.0	1.0	1.0	1.0	1.0	21 Anti-corruption	X						
2 Agricultural tariffs & equivalents	C	1.0	1.0	1.0	1.0	1.0	1.0	22 Consumer protection	X	0.3	0.2	0.4	0.1		0.2
3 Export taxes & equivalents	C							23 Data protection	X	0.3	0.3	0.3		1.0	0.7
4 Customs administration	C	1.0	1.0	1.0	1.0	1.0	0.8	24 Labour market regulations	X	0.1	0.1			1.0	0.3
5 Antidumping, Safeguard	C	1.0	1.0	1.0	1.0	0.8	0.8	25 Agriculture	X	0.4	0.4	0.4	0.5		0.3
6 Countervailing measures	C	1.0	1.0	1.0	1.0	0.8	0.8	26 Approximation of legislation	X	0.4	0.3	0.5	0.5		
7 Trade in services agreement	C	0.3	0.2			1.0	0.7	27 Audiovisual	X	0.4	0.3	0.4	0.2		0.3
8 Trade-related investment measures	C							28 Civil protection	X	0.1					
9 Investment	X	0.7	0.7	0.8	0.5	1.0	0.8	29 Innovation policies	X					0.5	0.2
10 Movement of capital	X	0.9	0.9	0.8	1.0	1.0	1.0	30 Cultural cooperation	X	0.5	0.4	0.4	0.5	0.5	0.3
Income dependent															
11 Sanitary & phytosanitary measures	C	0.4	0.4	0.3	0.2	1.0	0.6	31 Economic policy dialogue	X	0.3	0.2	0.4			0.2
12 Technical barriers to trade	C	0.7	0.7	0.6	0.5	1.0	0.8	32 Education and training	X	0.4	0.3	0.4	0.4		0.2
13 Public procurement	C	0.7	0.7	0.9	0.4	1.0	0.8	33 Energy	X	0.5	0.5	0.4	0.5	0.5	0.5
14 Trade-related intellectual property	C	1.0	1.0	1.0	1.0	1.0	1.0	34 Health	X	0.1	0.1				0.3
15 Intellectual Property Rights	X	0.9	0.9	0.9	1.0	1.0	0.8	35 Human rights	X	0.4	0.5	0.4	0.5	0.5	0.5
Size dependent															
16 State trading enterprises	C	0.9	0.9	1.0	1.0	1.0	0.7	36 Illegal immigration	X	0.3	0.3	0.8	0.2		
17 State aid	C	0.9	0.9	1.0	1.0	1.0	0.7	37 Illicit drugs	X	0.4	0.4	0.4	0.5		0.2
18 Competition policy	X	1.0	1.0	1.0	1.0	1.0	1.0	38 Industrial cooperation	X	0.4	0.4	0.4	0.5		0.3
19 Environmental laws	X	0.5	0.5	0.4	0.5	1.0	0.7	39 Information society	X	0.3	0.3	0.4	0.1		0.3
20 Financial assistance	X	0.5	0.5	0.4	0.5	0.5	0.5	40 Mining	X	0.1	0.1				0.3
								41 Money laundering	X	0.4	0.4	0.4	0.5		0.3
								42 Nuclear safety	X	0.1	0.1	0.3			
								43 Political dialogue	X	0.4	0.4	0.4	0.5		0.3
								44 Public administration	X	0.2	0.2	0.1			0.3
								45 Regional cooperation	X	0.4	0.4	0.4	0.5	0.5	0.3
								46 Research and technology	X	0.5	0.4	0.4	0.4	0.5	0.5
								47 Small and medium enterprise	X	0.3	0.2	0.4			0.3
								48 Social matters	X	0.7	0.7	0.8	0.8	0.5	0.5
								49 Statistics	X	0.4	0.4	0.4	0.4		0.3
								50 Taxation	X	0.1	0.1	0.4			
								51 Terrorism	X	0.2	0.2	0.3	0.1		
								52 Visa and asylum	X	0.1	0.2	0.4	0.1		

# Concluding remarks: negotiating issues

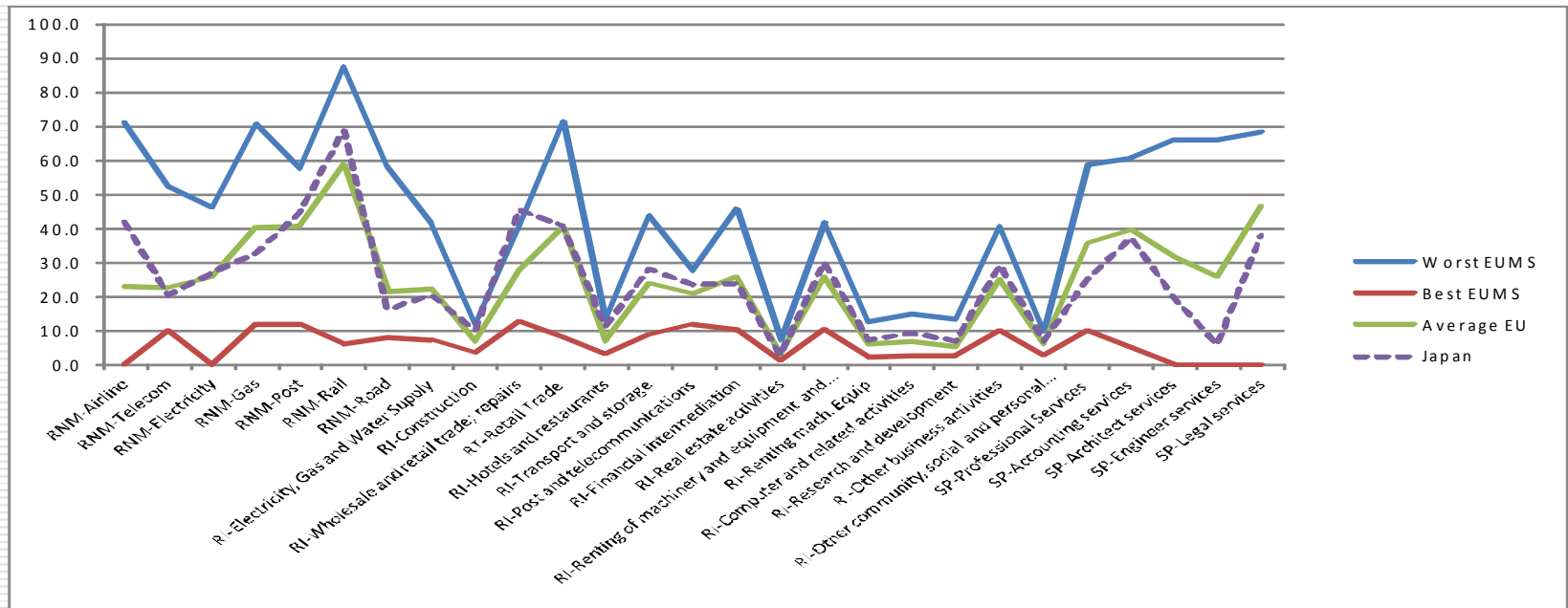
## The case of the Korea-EU PTA

- **2A: complex tariff cuts (Treaty of Rome used less than 1000 words).**
- **3. Safeguards crucial, especially in agriculture.**
- **TBT surface in several instances: 4, 2C, even Customs cooperation.**
- **SPS small: because of Korean limited export capacities?**
- **Rules of origin: not longer than usually.**
- **Services: raises the issue of investment, hence EU internal fights: Germany, Netherlands.**
- **TRIPs: key role of geographical indications (Italy, France).**

Chapters		Annexes	
	Nb words		Nb words
1 Objectives	395	none	0
2 NT and MA in goods	2123	2A Elimination customs duty	250366
		2B Electronics	4214
		2C Motor vehicles and parts	4671
		2D Pharmaceuticals & medicals	2254
		2E Chemicals	340
3 Trade remedies	2631	3 Agricultural safeguard measures	1507
4 TBT	2040	4 TBT coordination	60
5 SPS	965	none	0
6 Customs and trade facilitation	2737	none (see Protocols below)	0
7 Services, establishment, electronic commerce	11858	7A lists of commitments	43834
		7B MFN treatment exceptin	404
		7C list of MFN exemptions	4019
		7D additional commitment on financial services	743
8 Payments and capital movement	820	none	0
9 Government procurement	524	9 BOT contracts and public works concessions	1074
10 Intellectual property	10036	10A Geographical indications for farm and food	2138
		10B Geographical indications for wines and spirits	1446
11 Competition	1784	none	0
12 Transparency	1034	none	0
13 Trade and sustainable development	2230	13 Cooperation	380
14 Dispute settlement	3280	14A Mediation mechanisms for NTMs	1329
		14B Rules of procedures for arbitration	2550
		14C Code of conduct for members of panels	835
15 Institutional and final provisions	2942	none	0
		Protocol on Rules of Origin	31885
		Protocol on Customs Cooperation	2267
		Protocol on Cultural Cooperation	3523
All chapters	45399	All Annexes and Protocols	359839
		All the Treaty	405238

# Concluding remarks: negotiating issues

- Main negotiating problems (case of Japan-EU)
  - “Down-payment” (EU-France).
  - Behind the border (btb) protection: norms (cars), services, public procurement.
  - EU average does not make sense in many chapters of the negotiations (services, public procurement, etc.) => interesting dynamics of the negotiations. Japan’s Prefectures?



# Concluding remarks: negotiating issues

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## □ Other key points

- Intra-EU dynamics: the EUMS are back. No EUMS President or Prime Minister could let the Commission negotiate with such a large country.
- Addressing the consequences of “sequential negotiations”:
  - “backward”: how to make the Japan-EU PTA “consistent” with the Korea-EU PTA?
  - “forward”: how to shape the Taiwan-EU PTA in a perspective open to a China-EU PTA.

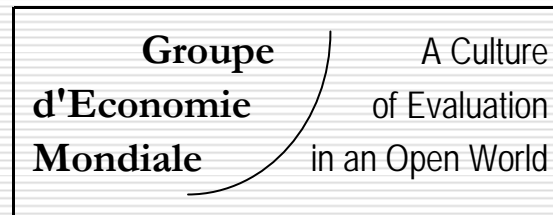
## □ Elements for possible solutions

- Negative lists for behind-the-borders issues:
  - Every item (good, service, etc.) not in a negative list is fully liberalized,
  - Negative lists of different types: no liberalization (for a given duration or no), conditional liberalization where meeting the conditions opens fully the markets.
- Unconditional mutual recognition is much preferable: but it requires mutual evaluation.
- All that takes time: how to fragment the “EPA” Treaty (liberalization process) in progressive and balanced phases which generate trust (Treaty of Rome ).
- “Pluri-lateralization” of PTAs: for instance generate a Japan-Korea-EU. This option would be much facilitated by the use of negative lists.



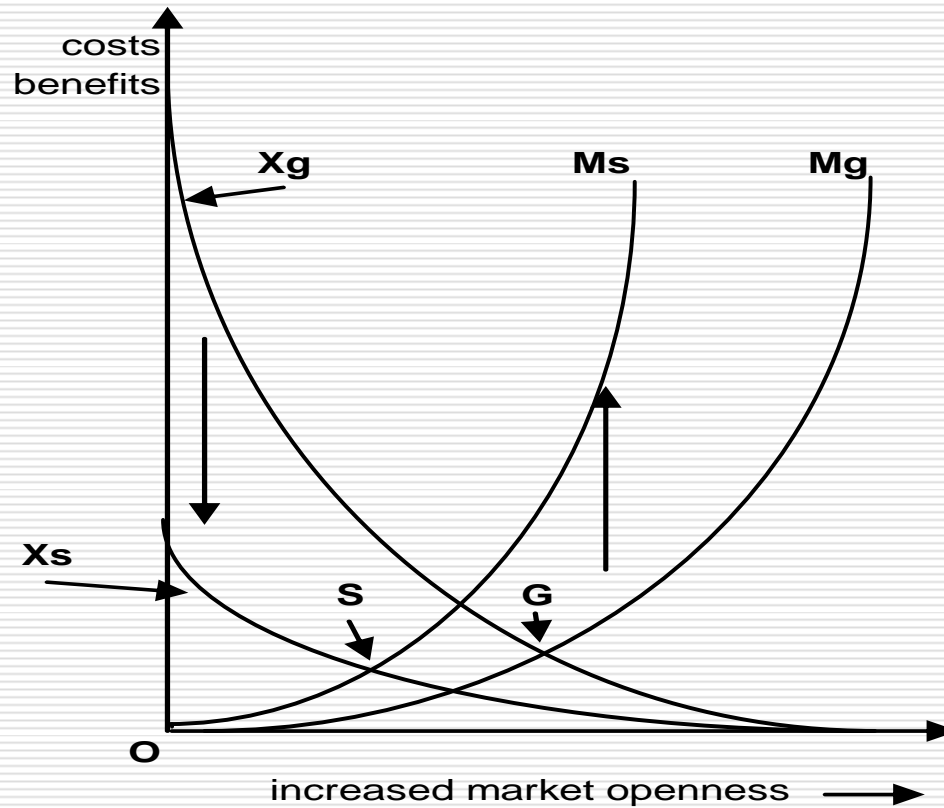
# Thank You for Your Attention

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# Political economy of trade liberalization in services vs. goods

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# Time to re-look at regulatory competition

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- regulatory competition triggers two opposite views:
    - ‘negative’ view => harmonization => clash with variety-based competition (from screws to Starbucks).
    - “positive” way: maximizing gains (consumers’ welfare increases with varieties of goods that may require varieties of regulations).
      - from price competition to variety-based competition.
      - possibility of excessive (hence sub-optimal) production of varieties.
  - additional arguments in favor of regulatory competition
    - assumption that harmonized regulations are better than pre-existing non-harmonized ones ignores the political process of harmonizing.
    - adopting harmonized regulations is only a small part of the story: enforcing them in an harmonized way is the largest and most difficult part of the story (case of EU Customs).
    - by contrast, unconditional mutual recognition relies on impact assessments by independent bodies. This is the mark of trust-building societies (health issues, nuclear issues, etc.).
    - Flexibility and progressivity may be easier with the unconditional MR.
-