Rethinking Taiwan-EU Trade Relations : Economic reforms underway in 2012

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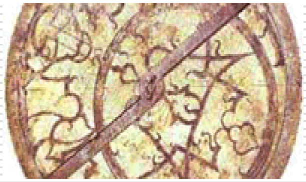

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Overview

- Debt-ridden Europe requires growth, and growth requires wide-ranging domestic reform agendas with an heavy focus on regulations: norms in goods, market regulations in services.
- Trade liberalization is a powerful way to boost/buttress such agendas.
- The world trade scene: from 2012 to 2030 and beyond.
- The growth argument for a change in the current EU strategy:
  - getting the right trade partners for boosting EU growth …
  - … means “pivoting” to Japan and Taiwan.
- The TPP argument for a change in the current EU strategy:
  - a successful TPP will discriminate heavily against EU (Taiwan) exporters;
  - an EU approach based on bilateral trade agreements offers an adequate solution;
  - again the Japan-EU and Taiwan-EU trade agreements emerge as the key and most urgent ones.

Growth, domestic reforms, trade

- EU growth is badly needed for politically sustainable macroeconomic adjustments.
- Growth requires domestic regulatory reforms in EU Member States.
- Trade liberalization: a booster of domestic regulatory reforms.

	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	Doing Business	World Economic Forum All	World Economic Forum Goods	World Economic Forum Labor	Fraser Inst.
	Debt as a percentage of GDP					Deficit as percentage GDP					Regulatory quality				
Greece	133,5	149,1	165,1	181,2	183,9	-15,8	-10,8	-9,0	-7,0	-5,3	100	83	94	125	81
Ireland	71,1	98,5	112,6	118,8	122,4	-14,2	-31,3	-10,3	-8,7	-7,6	10	29	14	20	25
Italy	127,1	126,1	127,7	128,1	126,6	-5,4	-4,5	-3,6	-1,6	-0,1	87	48	68	118	70
Portugal	93,3	103,6	111,9	121,9	123,7	-10,2	-9,8	-5,9	-4,5	-3,0	30	46	52	117	59
Spain	62,9	67,1	74,1	77,2	79,0	-11,2	-9,3	-6,2	-4,4	-3,0	44	42	47	104	54
Belgium	100,0	100,2	100,3	101,5	101,0	-5,9	-4,2	-3,5	-3,2	-2,2	28	19	16	43	43
France	90,8	95,2	98,6	102,4	104,1	-7,6	-7,1	-5,7	-4,5	-3,0	29	15	32	60	42
Germany	77,4	87,1	86,9	87,3	86,4	-3,2	-4,3	-1,2	-1,1	0,6	19	5	21	70	21
Netherlands	67,7	70,6	72,5	75,3	76,9	-5,5	-5,0	-4,2	-3,2	-2,8	31	8	8	23	30
Britain	72,4	82,2	90,0	97,2	102,3	-11,0	-11,4	-9,4	-8,7	-7,3	6	12	22	8	8
Sweden	52,0	49,1	46,2	45,3	43,1	-0,9	-0,1	0,1	0,0	0,7	14	2	5	18	39
Switzerland	43,7	42,6	42,0	41,2	40,7	1,0	0,6	0,8	0,5	0,6	26	1	4	2	4
Japan	194,1	200,0	211,7	219,1	226,8	-8,7	-7,8	-8,9	-8,9	-9,5	20	6	17	13	22
US	85,0	94,2	97,6	103,6	108,5	-11,6	-10,7	-10,0	-9,3	-8,3	4	4	26	4	10

World trade situation, May 2012

- Comatose Doha leave preferential trade agreements (PTAs) as the only option...
- ... including for the largest countries. Problems at the top: EU, US Japan and China.
- Korea is a game-changer (50 times its GDP, 70% Doha equivalent). Is Taiwan joining the group?

G20 Members [a]	Share (%) of world GDP	EU27	USA	China	Japan	PTAs of Emerging/developing countries with other G20 Members
Mammoth economies						
EU27	26.6	---	*Transatlantic*		*JEU*	
USA	23.9	*Transatlantic*	---		*TPP*	
China	9.6			---	*CKJ*	
Japan	9.0	*JEU*	*TPP*	*CKJ*	---	
Emerging and developing G20 members						
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***
Industrial G20 members						
Canada	2.6	ongoing	concluded		*ongoing*	Mexico, *EU, Korea*
Korea	1.7	concluded	concluded	*initial step*	*CKJ*	Indonesia, EU, US, India, *Japan, Canada, Mexico, China, Turkey*
Australia	1.5		concluded	ongoing	ongoing	Indonesia, US, *China*

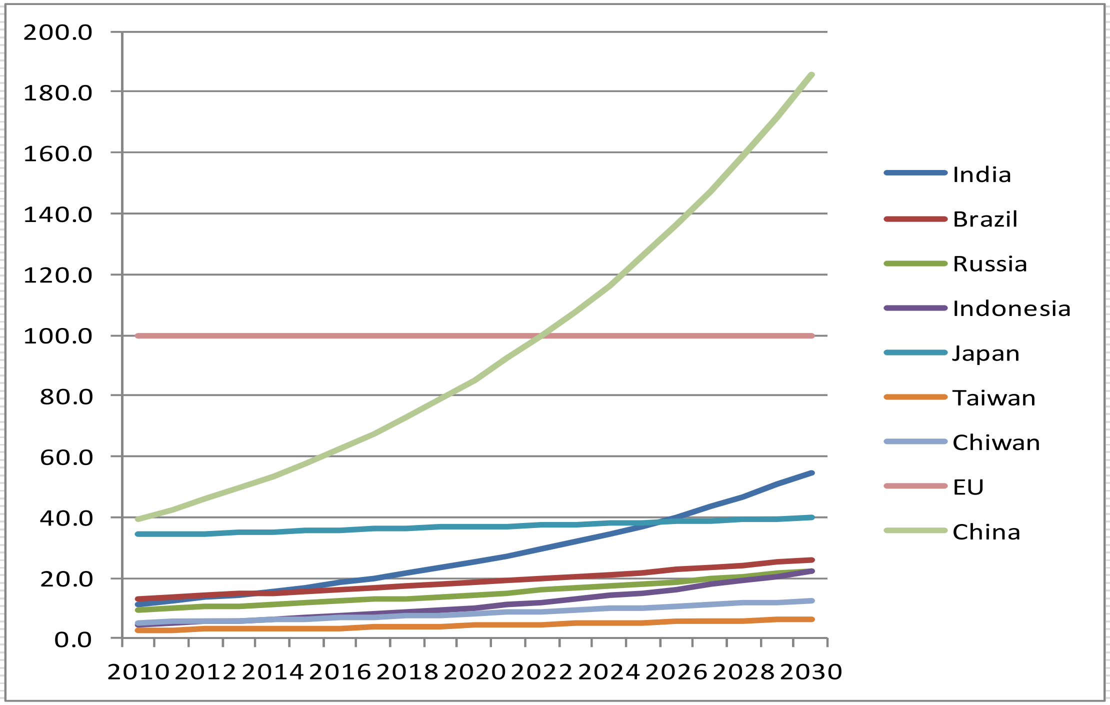
A long term view: 2030 and beyond

- EU: no more the "*world largest economy*" in a few years (2020-2025).
- Filling up the room left by the EU and US: Emerging Asia and Africa (not Latin America, Middle East and CIS) : income increase in Emerging Asia, population and income increases in Africa.

	2000	2010	2015	2030	2050	2030/10	2050/10
Gross Domestic Product	Shares in world GDP, in %					Changes in shares	
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

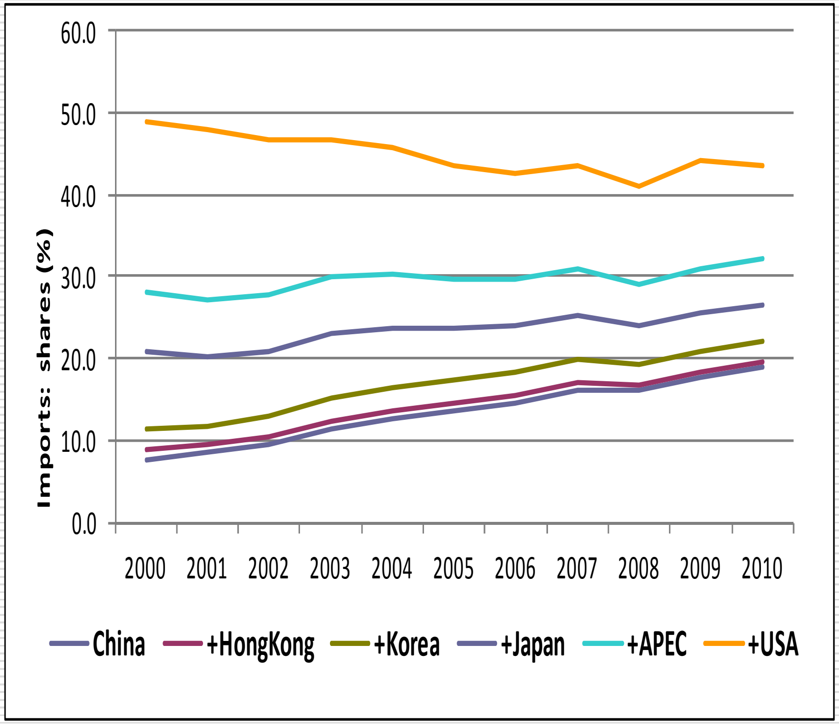
The EU: getting the right locomotive (1)

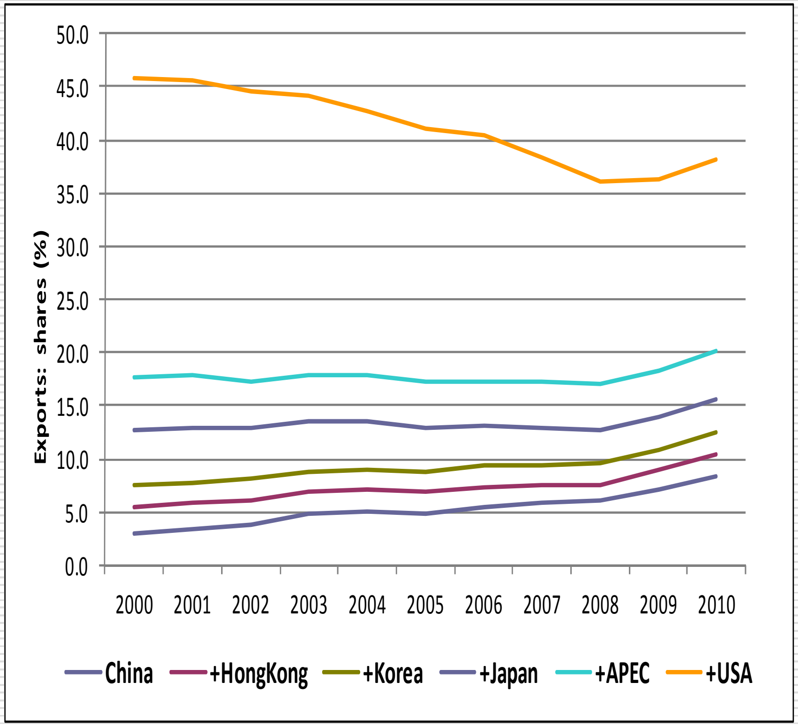
- partner needs to be big enough to exert growth-traction on the huge EU economy,
- it needs to be big enough now, not in a few decades,
- it has to have a regulatory framework good enough to push for better regulations in the EU.
- First choices: Japan, Taiwan (Chiwan).



The EU: getting the right locomotive (2)

- If the Doha Round continues to be in a coma, then there will be no way to avoid the “unthinkable” China-EU PTA.
- The key role of the Taiwan-EU PTA in such a perspective.





Fixing the EU strategic mistake

- The current EU PTA plan misses the right countries, both in terms of economic size and willingness to negotiate (left table) and regulatory quality (right table based on Doing Business ranks).

Countries	EU market expansion (% EU GDP)		WTO approximation (% Word GDP)	
	2010	2030	2010	2030
	3	4	5	6
A. Negotiations launched by the EU since 2006, selected				
India	10,7	49,7	3,8	8,7
Brazil	12,9	23,5	4,6	4,1
Russia	9,1	20,2	3,3	3,5
Total	32,7	93,3	11,8	16,3
B. A pro-growth EU PTA policy				
Japan	33,9	36,1	12,2	6,3
Taiwan	2,7	7,6	1,0	1,3
Total	36,5	43,7	13,2	7,6
C. Long term perspective: China, Taiwan, Chaiwan				
China	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

EU Members States by cohort		EU Partners	
EUMS	Rank	Partner	Rank
		Singapore	1
EC-1973	7		
		Korea	8
		Canada	13
		Malaysia	18
EC-1995	19		
		Japan	20
EC-2004b	24		
		Taiwan	25
EC-1958	41		
EC-2004a	50		
EC-1980s	58		
EC-2007	66		
		China	91
		Argentina	113
		Russia	120
		Brazil	126
		India	132

The TPP approach: Japan and China

- Japan seen as a “demandeur” by the EU.
- The TPP changes the situation: Japan at the core.
- Anti-China aspect of the TPP.
- Taiwan-EU PTA: an option which would benefit Taiwan, the EU … and China.

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		

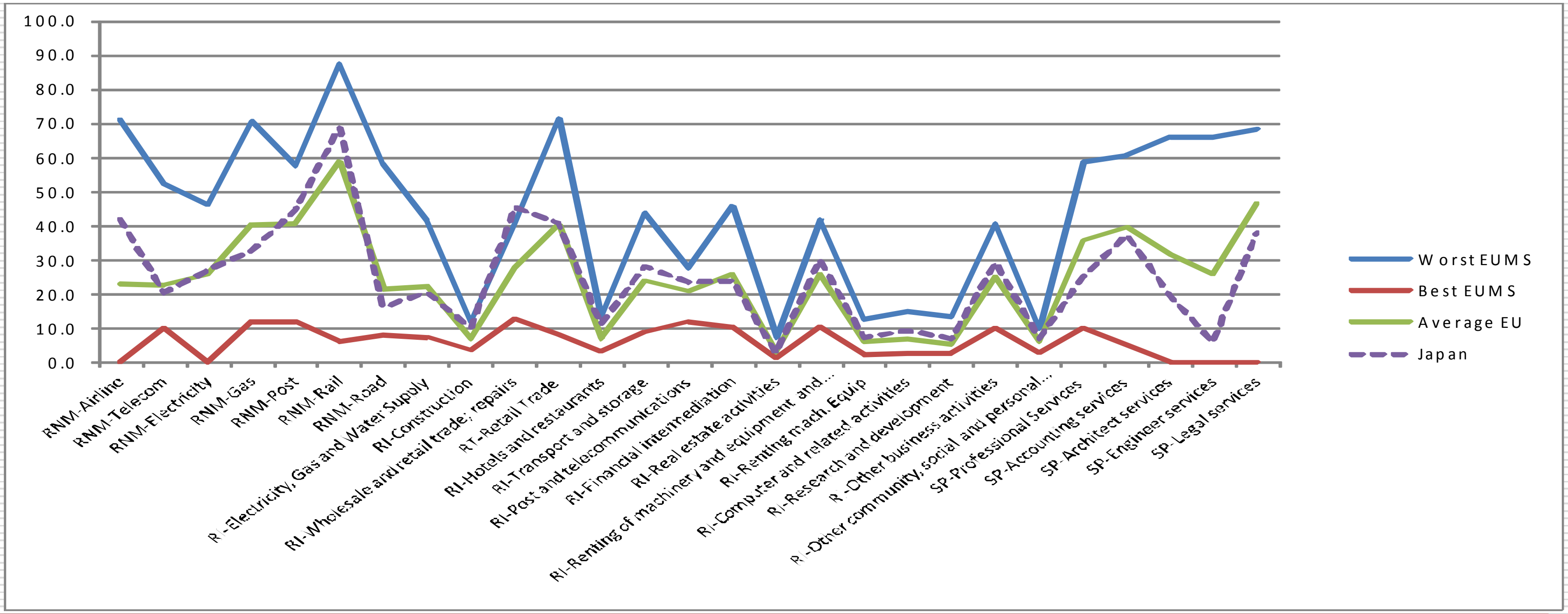
The EU: coping with the TPP capacity to discriminate

- The TPP has definitively the capacity to discriminate heavily against the EU, with the EU excluded from markets pertaining to the world 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
Border barriers		
Tariffs		
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)
Borders behind the borders		
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
Intern'l investment		
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)

Concluding remarks: negotiating issues (1)

- **Main negotiating problems (case of Japan-EU)**
  - **"Down-payments": a bad US tradition adopted by the EU Commission.**
  - **EU average does not make sense in many cases => dynamics of the negotiations.**
  - **Intra-EU dynamics: the EUMS are back. No EUMS President or Prime Minister could let the Commission alone negotiate with countries as large as Japan and Taiwan.**



Concluding remarks: negotiating issues (2)

- Another key negotiating problem
  - Addressing the consequences of "sequential negotiations":
    - "backward": how to make the Japan-EU PTA "consistent" with the Korea-EU PTA? "Pluri-lateralization" of PTAs: for instance generate a Japan-Korea-EU. This option would be much facilitated by the use of negative lists (see below).
    - "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 included in a negative list is fully liberalized,
    - Negative lists could be of different types in order to increase the agreement flexibility: no liberalization at all (exception for a limited or for an infinite duration), liberalization conditional to some criteria, etc.
  - <u>Un</u>conditional mutual recognition is much preferable: but it requires mutual evaluation of their regulations by the two parties.
  - All that takes time, hence a key question: how to fragment the PTA Treaty (liberalization process) in <u>progressive</u> and <u>balanced</u> phases which generate trust (the Treaty of Rome as the best illustration).

Thank You for Your Attention

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