EU and the Asia-Pacific: Opportunities/Challenges

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Re-emergence of the Asia-Pacific

History return to ‘norm’
- Accounting for half of world’s GDP until the 19th century
- High trade intensity and dependency
  - Asian trade dependency surpassing the US in the late 1960s (15%)
  - ... Reaching global average in 1987 (then 40%)
  - ... Declining since the ’06 crisis (from 80% to 65%)

Europe’s relative decline:
- Long-term: the EU share of global GDP halved in 15 years
- Assumption that 90% of world growth taking place outside the EU
- One-third assumed from China alone
- However, growth still induced by Western consumption rather than inner demand

A new economic architecture in the Asia-Pacific
- Highly specialised, flexible and competitive
- Asian economic integration different nature than Europe
  - ASEAN not a single market
  - Business, not policy-induced
  - Unilateral, preferential, closing fast
Competitive liberalisation: A new baseline for Europe

Competing and complementary geometries

- Trans-Pacific Partnership: Harmonisation of existing FTAs with P4 / the US
- Complementary Regional Trade Agreements (RTAs) – ASEAN+ (RCEP), CJK
- China’s bilaterals?

Security imperative: The pivot and the ‘America’s Pacific Century’

Overcoming trade diversion for EU

- Situation different than during creation of NAFTA

![Relative effects on EU GDP from FTAs](chart.png)
The new baseline?

Moving into big FTAs

- Little or no GDP impact from prior FTAs
  - EU-Korea FTA – max 0.08% of GDP
  - All EU preferential agreements prior to TTIP & EU-Japan cover only 5% of world GDP
- Only +$5 trillion economies could actually impact EU growth
  - First tier: US, China, Japan
  - Export-driven growth is unable to boost EU GDP

Internal pressure and restraints (examples)

- Relative change in factor productivity
  - Energy and other input costs
  - Cross-border data flows
- Political sensitivities
  - Often linked to industrial restructuring
  - Internal reform of CAP leading to forced export reorientation in agriculture
The EU-Japan FTA – the US dominance

Table 2: EU/US share of imports into Japan compared to their share of global trade

<table>
<thead>
<tr>
<th>Sector</th>
<th>EU Share</th>
<th>US Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods Import to Japan</td>
<td>9.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Global Goods Exports</td>
<td>13.4%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Services Imports</td>
<td>20.0%</td>
<td>30.3%</td>
</tr>
<tr>
<td>Global Services Exports</td>
<td>18.8%</td>
<td>13.9%</td>
</tr>
</tbody>
</table>
Trade sensitivities with Asia: the Automobiles market

» Our most offensive export interest and surplus
  » Europe exports 3.5 euro for every euro it imports in the car sector
  » Record profits despite market distortions
  » EU runs a trade surplus against Japan
  » Despite being sold at 90% mark-up in Asia; 30% higher cost of ownership against local competition

» To date only Japan, Korea has entered the automobile market from Asia
  » 60-80% of passenger cars built in Europe
  » Unable to export due to margins, transport/exchange rate issues
  » No visible impact from tariff reduction in our FTAs

Considerable loss of competitiveness amongst non-exporting EU MS
  » France, Italy have lower value-added per hour worked than in Brazil
  » Misallocation of R&D resulting in negative value-added (US, France, Italy)

Non-tariff barriers
  » EU FTAs to date designed to deal with inconsistent discriminatory regulations, ineffective on US, Japan.
  » Overlapping safety standards
    » Functional equivalence/mutual recognition between UNECE, FMVS, JASIC?
  » Fiscal measures – differences in taxation systems
  » Services being neglected – insurances, retail permits, maintenance
Public procurement and the high-speed train market

Principal importance, economic value

- Crisis stimulus packages, half trillion USD in the US and China – with buy local provisions
- Little de facto market access/entry – to/from Asia, and even intra-EU
- The level of market penetration by imported railway stock the same in Europe, US, China and Japan are identical, around 10%

Varying degree and models of liberalisation in the 1990s

- Still under state/regional monopolies, bundled exclusive licences to full unbundled privatisation
- The notion of putting private entities under public procurement disciplines

How will Europe deal with competition towards “superior” market players?

- Japan investments in R&D, patents equals to all of Europe
- Investing 9 times more than France; 18 times than the UK in R&D
A new European narrative to globalisation

A partial policy failure in external trade
- Europe’s export dependency is well above China’s
  - France (27%), Germany (52%)
  - Japan, US (14-15%)
- Failure to evolve into investment-led trade, get to the top of the value-chain pyramid
- Trade policy becoming extensions of Member States’ industrial policy
  - Commission’s ability to rein in outright protectionist interests of EUMS
  - Allowing offensive interests to become defensive interests

The grand map for China?

United States still the agenda-setting power
- US sets the sequencing (TPP, TISA and then TTIP)
- The template (superior drafting resources, market intelligence)
- EU lack of Initiatives, leverage and ideological leadership
- Failing to convince the universal economic value of some European concepts

The Single Market and trade agreements
- Dealing with regulatory divergences
  - Moving from deregulation and negative integration to positive standard-setting
- Single Market evolving into a Chinese model of “license to operate”
- Only 15 years left for Europe to shape the future model for global economic governance