

ECIPE PRESENTATION »

## EU and the Asia-Pacific: Opportunities/Challenges

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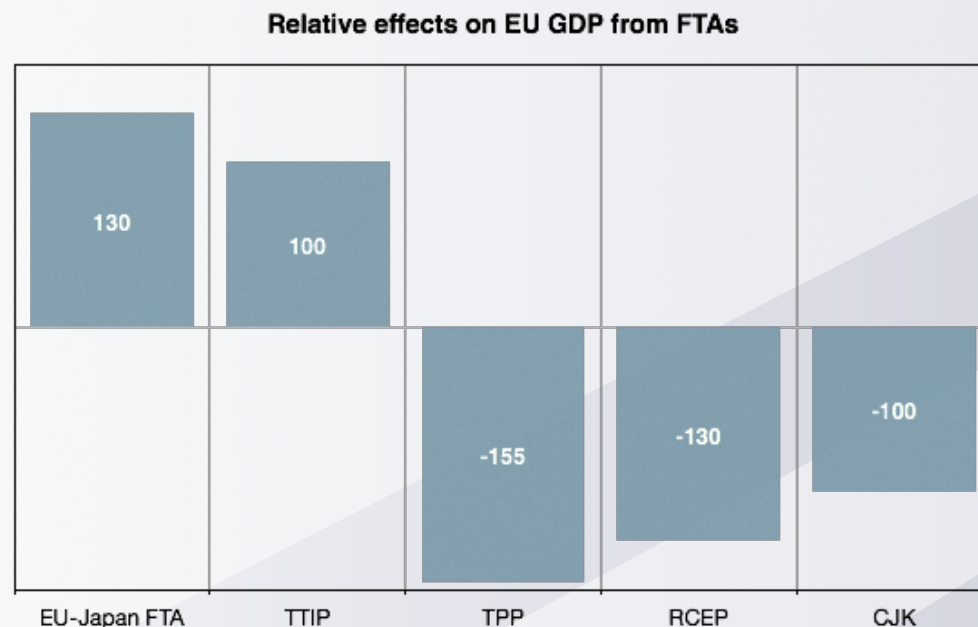


## » Re-emergence of the Asia-Pacific

- » 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

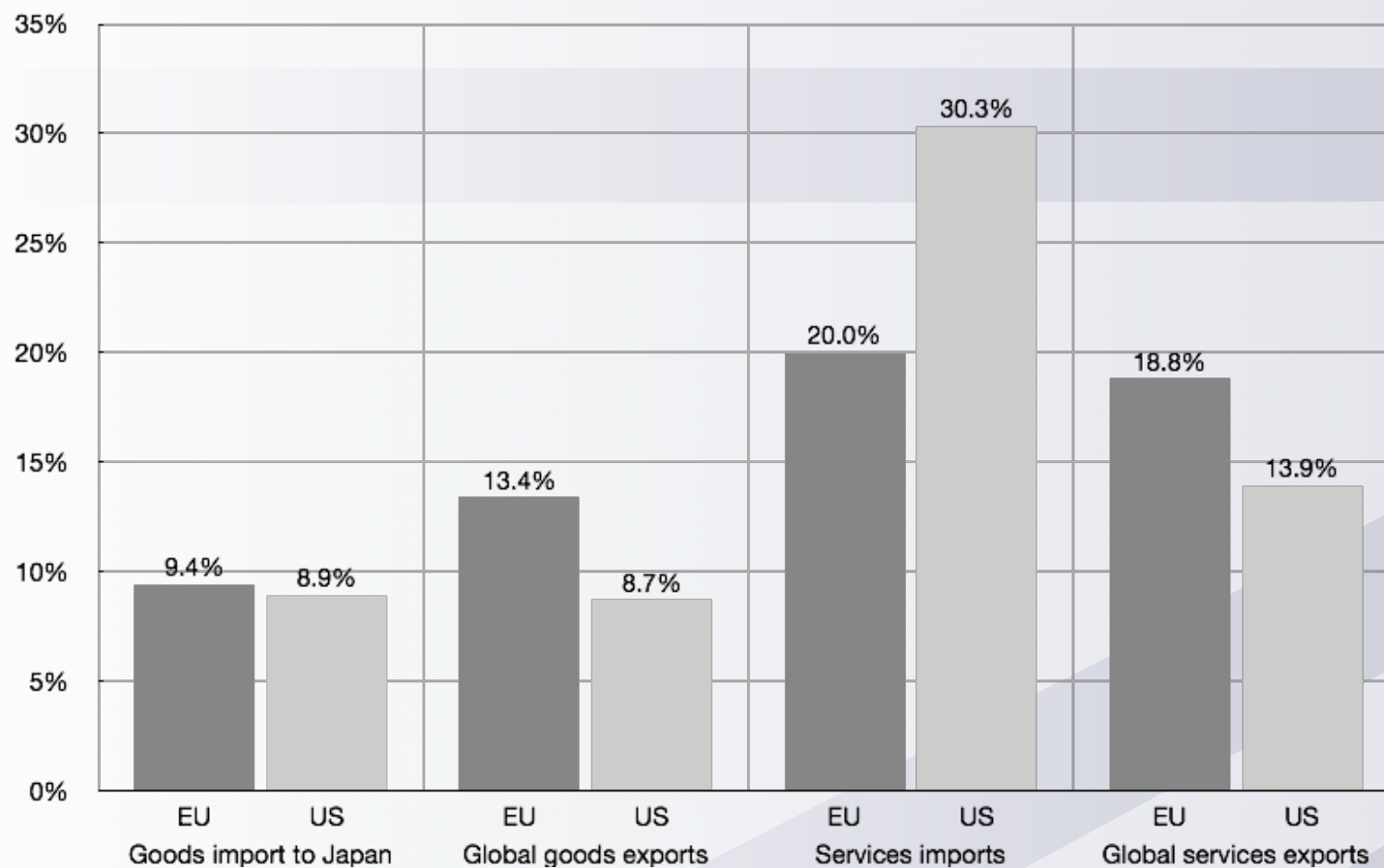


## » The new baseline?

- » 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**





## » 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