

The TPP and the EU policy in East Asia (China Mainland excluded)

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Executive summary

This paper first tries to assess the discriminatory impact the “Trans-Pacific Partnership” (TPP) agreement could have on the EU economy. It demonstrates that the impact will be dramatic if the TPP agreement reaches its priority goal—to reduce or abolish “behind the border” barriers.

This situation leaves the EU with only two options.

First option consists in doing nothing. It is a very costly option from the very beginning, as East Asian economies are already quite large, particularly thanks to Japan. More importantly, the cost of this option will keep rising because EU’s weight will drop dramatically worldwide (it shall be cut by half during the next two decades) while the East Asian weight will keep rising. To refuse opening EU markets to East Asian products today will only cut the EU from what will be the world most important markets in twenty years from now. And threatening to close the EU markets as a leverage to open non-EU markets—as was recently suggested in the public procurement sector—lacks credibility because the relative magnitude of public procurement markets follows GDP’s. As a result, the EU threat gets weaker everyday, whereas it could inspire EU East Asian partners to make a similar threat, which would gain strength every day.

The second option consists in reaching rapidly a preferential trade agreement (PTA), first with Japan and then with Taiwan. Japan is the only country (except the US) to be large enough to boost the EU’s debt ridden economy in a dire need for growth. As a result, it offers what neither Brazil, nor India or Russia could offer. Taiwan is a more important economy than it first seems, if one takes into account its massive activities in China’s mainland—Taiwan then “weighs” half of India, is much better regulated and is not reluctant to open its economy. Last but not least, concluding PTAs with Japan and Taiwan is not only an “insurance” policy against the TPP, but it also allows the EU to boost the development of Europe, East Asia, and global trade.

This paper finally presents the key principles on which these two PTAs should be negotiated in order to ensure the best possible compromises between these agreements’ ambition to have a real economic impact on the EU economy and the required flexibility to implement them gradually and harmoniously.

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This paper aims at assessing the possible discriminatory impact of a Trans-Pacific Partnership (TPP) agreement on the European Union (EU) economy. It also suggests an East Asian EU policy that would both be up to the challenges raised by the TPP while contributing positively to the development of EU, East Asia and global trade.

This paper is organized in five sections. First, it briefly presents the forces behind the TPP endeavour, particularly the various objectives pursued by the US. It then examines the TPP impact from three complementary perspectives: (i) the present and future importance of markets involved, (ii) the TPP nature and its consequences for Europe, and (iii) the trade barriers constituting the main sources of potential discrimination against the EU. A last section suggests the EU policies most appropriate to eliminate these discriminatory effects, while reinforcing the world trade system so crucial for Europe. The paper does not address the TPP collateral impact on EU policy towards China Mainland.

Section 1. Birth of the TPP: national and international causes

The TPP arose from the quite unexpected extension of the “Pacific 4” (P4) agreement, negotiated from 2003 to 2006 between four small countries (Chile, New Zealand and Singapore, joined by Brunei in 2005) and implemented since 2006. The four founding countries have two strong features in common:

- they all have chosen a “unilateral liberalization” policy by opening widely their economy to international competition through preferential trade agreements (PTAs)—without waiting for the completion of the Doha Round;
- manufacturing industrial products is not their main activity: they export commodities (Brunei, Chile) agricultural products (Chile, New Zealand) or services (Singapore), all

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activities that meet strong demand in the rest of the world, particularly from the Chinese industrial machine.

Australia's, Peru's and Vietnam's willingness (2008) to join P4 have not drastically changed these features.

In 2006, P4 looked a strange endeavour, without much future within East Asia's efforts for regional liberalisation. These efforts focused either on ASEAN countries, or on the major world economies of the area (China, South Korea and Japan). To a large extent, these efforts have first neutralized each other. Then, they gave birth to half hearted efforts to combine them: ASEAN plus 3 (ASEAN plus China, South Korea and Japan), ASEAN plus 6 (ASEAN plus 3 plus Australia, India and New Zealand).

In September 2008, the situation changed dramatically when USTR Susan Schwab (2006-2008) notified formally to Congress the Bush Administration's willingness to start negotiations with P4 countries and the other candidate countries to membership. Three main reasons are behind Susan Schwab's initiative:

- the first reason lies in the failure of Doha negotiations at the WTO. According to well informed sources, Susan Schwab had the authority to strike a deal during the July 2008 WTO meeting. But she did not wish or dare make use of this authority for fear of failure at the Congress. TPP appears thus as a means to regain the initiative on trade policy with three strategic interesting features:
 - ❖ it operates in East Asia, and therefore is a challenge to China's growing influence that was (still is) ill-perceived by the US at the WTO since 2005;
 - ❖ it is the first signal of the US foreign policy's willingness to regain a foothold in this part of the world—the key concept of “pivoting” developed since then by the Obama administration;
 - ❖ it is a preferential trade agreement, which was meant, at that time, to benefit from a deeper support from the US business community than the WTO negotiations.
- Bush administration's second reason was openly domestic, but no less important than its international aspect. It aimed at compelling the Democrats (during the 2008 presidential elections) to take a position on trade issues, when trade policy (and more generally the

whole issue of the openness of American economy) was a source of great conflict within the Democratic Party.

- lastly, the US had to draw the consequences of Europe's decline so much evidenced by EU absence in Asia. The disastrous 2006 ASEM Summit which so few European leaders condescended to attend despite its being held in Helsinki and the presence of many Asian top political leaders was an outstanding example of European decline and inability to become a world power.

These three reasons still weigh heavily on the current TPP development as shown by the evolution of the events related to each of these reasons:

- the last three years (2009-2011) have witnessed the Doha Round sinking into a deep coma. During these years, the gap between the US and China has deepened.
 - ❖ on the one hand, the US refused to hear anything about any kind of “special and differential treatment” for China. In the view of some US officials, the TPP is the forerunner of a new multilateral trade institution—a kind of WTO-II. A successful TPP would compel China to join this WTO-II and accept all its constitutional rules, established prior to China's membership, hence denying it any special treatment to China.³ In this perspective, the TPP may draw a split between the US business community (which focus on the liberalisation of TPP members' economy) and the US officials' community (which focus on geo-political considerations about China).
 - ❖ on the other hand, China does not understand—to say the least—why being forced to comply with (much) more drastic conditions for WTO accession than those applied to the existing WTO Members is not better acknowledged in the concessions requested from her in the Doha Round negotiations.
- the TPP looks increasingly the economic echo of the US “pivot” foreign policy, a fact illustrated (willingly or not) by President Obama's quick trip from Honolulu where he was attending the 2011 APEC Summit to Canberra where he signed an agreement for US troops to station in Northern Australia, very close to territorial waters claimed by China, thus provoking the latter's anger.

³ These officials may have in mind the precedent of the shift from GATT to the WTO in 1995.

- last, the EU is trapped in an ill-sorted Euro crisis, and is stuck in unpromising trade negotiations with Brazil (while the US have given up the dream of a Free Trade Area of the Americas, FTAA, a long time ago) or with India and Russia. Its Member States are unable to design the required domestic reforms, or even understand how necessary those are, and they are unable to understand the urgent need for a real East Asian policy as a pro-growth strategy. In these circumstances, the US is all too reinforced in the belief that the EU will not move and that they should definitely take note of this situation and act as energetically as possible in East Asia.

Section 2. The markets at stake: Japan at the heart of the TPP

How can the TPP strategically hinder the EU if the latter does not rapidly design a well-conceived East Asian policy? Answer to this question lies in examining which markets the TPP will open to its candidate members (including the US) in a more favourable way than they would be for the EU.

Tables 1 and 2 list the eleven candidates (US is set apart) to TPP membership, their GDP and the existing PTAs between these countries and the US on the one hand, and the UE on the other hand. Table 1 covers years 2009-2010 while Table 2 covers projections for 2030 [Buitier and Rahbari 2011]. They also provide US, EU, China and India GDPs for a better understanding of forces involved in the long run. The GDP indicator is chosen because it is less volatile than the exports' or imports' ones, hence is more appropriate to the risky exercise of long term projections. Exports and imports are the mere differences between domestic production and consumption of goods and services (exports when production is higher than consumption, imports when it is the opposite). They are thus the results of many variables, such as the existing levels of protection, on which it is better not to depend while designing a long term strategy which can precisely alter these variables—such as liberalization policies.

Table 1 allows two observations:

- the only new market of some importance that the TPP will open to US products is Japan (left side of Table 1). Japan emerges as the heart of the TPP as it amounts to half the

GDP of all East-Asia TPP countries (in what follows, East Asia TPP countries means all the TPP countries except the US). As the EU has also (or is in the process to get) preferential trade agreements (PTAs) with most of the East Asian countries except Japan, Japan is the core market in which the TPP could inflict discriminatory effect on EU exports if the EU does not conclude quickly a PTA with Japan. For the EU, the stakes are huge since Japan's GDP is roughly a third of EU's GDP. That said, the existence of PTAs between the EU and East Asian TPP countries is far to fully protect the EU, as shown below.

Table 1. TPP Impact in terms of discriminations to market access, 2010

Years 2009-2010	US preferential agreements				EU preferential agreements			
	GDP	concluded	negotiated	future	GDP	concluded	negotiated	future
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		

Source: WTO Trade Profiles, website.

- Except for Japan, Brunei and Vietnam, the TPP covers countries which already (or are close to) have a PTA with the US. This aspect is essential as it makes the TPP both less attractive and more challenging to the US and its current PTA partners:
 - ❖ less attractive because the existing PTAs give already trade gains that, as a result, could no more be delivered by the TPP.
 - ❖ more challenging because TPP negotiators must thus find new sources of trade gains. As a result, the TPP must dismantle barriers notoriously difficult to negotiate, such as norms imposed on industrial and agricultural products, market regulations in services,

international investment, public procurement and intellectual property rights (IPR), for mentioning the most important chapters of the TPP negotiations.

Table 2. TPP Impact in terms of discriminations to market access: projection 2030

Projection 2030	US preferential agreements				EU preferential agreements			
	GDP	concluded	negotiated	future	GDP	concluded	negotiated	future
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		

Source: WTO Trade Profiles, website. Buiter and Rhabari [2011]. 2030 GDP are 2010 GDP times the growth rates of the regions at stake made available by Buiter and Rhabari.

Table 2 offers a long term perspective for 2030. Of course, such projections must be used with caution. For instance, they do not take into account the evolutions of production factor prices—labour costs, capital returns and land rents—which are very likely to experience drastic changes in China, with an inescapable strong impact on the pace and structure of Chinese growth. That said, though the timing of these projections is questionable, their trends are not.

Table 2 shows that the relative importance among TPP members hardly varies between 2010 and 2030. The TPP (US excluded) represents two-third of US GDP in 2010, three-quarter in 2030. But the situation of non-TPP Asian countries is radically different in 2030. In 2030, China's GDP would be twice the East Asian TPP's one whereas it amounted to half of it in 2010.

The EU should learn three lessons from all these observations:

- signing soon a PTA with Japan is essential to prevent EU from being discriminated—because of its own inertia—on the most important world markets for the next two

decades [Messerlin 2012]. As argued below, using a bilateral PTA is advantageous for the EU.

- the TPP cannot include Taiwan's key economy for some time because of all the negative connotations (conscious or not) towards China mainland, making Beijing very unlikely to allow Taiwan to join the TPP. In sharp contrast, as the EU-Japan agreement bears no anti-Chinese connotation, the EU East-Asian policy could expand with a Taiwan-EU PTA which would be beneficial for the EU, Taiwan and—that is essential—China mainland [Messerlin 2012].
- of course, it remains that an EU-Taiwan PTA would raise the issue of where Beijing would stand. In this perspective, the EU would be wise to consider the prospect that the Doha Round remains comatose for a very long time. In such a case, Table 2 shows that fostering EU (and Chinese) growth in the years 2025-2035 and later requires signing a PTA with China mainland. In other words, the TPP raises now the issue of revising thoroughly EU's trade relations with China. This issue will not be addressed in detail in this paper (since its terms of reference exclude China mainland).

Section 3. The TPP nature and risks of trade diversion

The TPP has two effects, like any PTA. The first one consists in generating greater trade flows among its members thanks to the elimination of their trade barriers. Trade creation generally improves the welfare of the consumers of TPP countries but, as shown by PTA economic analysis, may also damage the welfare of these same consumers under some conditions that can exist within the TPP framework. The second effect of any PTA is to reduce trade between the TPP countries and the rest of the world (which includes the EU) because non-TPP producers are penalized by the fact that their barriers with TPP countries will remain unchanged while those between the TPP countries will decline. Such trade diversion is discriminatory and detrimental to the rest of the world economies, therefore to the EU as well.

The importance of such TPP discriminatory impacts on EU depends on three key components of trade policy that change artificially—distort—TPP and EU countries' comparative advantages:

- the initial protection of the TPP member states,

- the TPP negotiating ability to implement a “deep” liberalization, through the elimination of all the tariffs and barriers to trade in goods behind the borders, the wide opening of services markets, etc.
- the long term competition dynamics that common rules adopted by TPP countries will set off within their markets.

The more important each of these three factors, the lower the intra-TPP trade barriers compared to barriers between TPP countries and the EU. Hence, the larger trade diversion against Europe, and the higher the discriminatory impacts on the EU economy.

The second of these three factors—the TPP ability to generate deep liberalization—is particularly important for two reasons. First of all, it will be much more difficult for the EU to take actions aiming at eliminating or reducing discriminatory impacts generated by a TPP deep liberalization, as suggested by the two following examples.

- a complete elimination of tariffs between TPP countries would only be discriminatory to the EU if this latter does nothing to cope with the situation. If the EU negotiates PTAs with TPP members generating tariff cuts equivalent to those among TPP countries, the TPP discriminatory impact against the EU would be eliminated.
- adopting common TPP norms on industrial (technical barriers to trade, TBT) or agricultural (Sanitary and Phytosanitary Measures, SPS) goods, common regulations in terms of liberalization of services, international investment or public procurement raises challenges much harder to meet for the EU. Yet, these norms and regulations concern the biggest share of TPP countries’ GDP (services generally represent 70 percent of these GDPs). And these norms and regulations are the most subjected to pro-competitive dynamic developments, hence able to generate important and increasing discriminatory effects in the long run.

The second reason is related to a very specific problem faced by TPP negotiators. As Table 3 shows, TPP includes countries having no less than 86 PTAs signed or applied among them, that is roughly two-third of all the possible PTAs (12 times 11, that is 132) which could exist among the twelve TPP candidates.

Table 3. Existing PTAs among TPP countries, April 2012

	Australia	Brunei	Chile	Malaysia	N.Zealand	Peru	Singapore	Vietnam	Canada	Japan	Mexico	USA	PTA under TPP
Australia	---		X	X	X		X	X		X		X	8
Brunei		---	X		X		X			X			5
Chile	X	X	---		X	X	X		X	X	X	X	10
Malaysia	X			---	X		X	X		X			6
N.Zealand	X	X	X	X	---		X	X					7
Peru			X			---	X		X	X	X	X	7
Singapore	X	X	X	X	X	X	---	X		X		X	10
Vietnam	X			X	X		X	---		X			6
Canada			X			X			---		X	X	5
Japan	X	X	X	X		X	X	X		---	X		9
Mexico			X			X			X	X	---	X	6
USA	X		X			X	X		X		X	---	7
PTA under Tf	8	5	10	6	7	7	10	6	5	9	6	7	86
Chinae	X		X	X	X	X	X	X					7
Korea			X	X		X	X	X	[a]	[a]	[a]	X	9

Source : PTAs database. WTO website. Note : [a] Announced PTAs.

The question faced by the TPP negotiators is whether the negotiations should merely address the filling in of the existing PTAs, or whether they should aim at merging all existing PTAs with the missing ones in one single agreement, or lastly whether they should partly fill in the existing PTAs, or partly replace them (“hybrid” approach). Currently, there does not seem to be one single approach. The US appears willing to negotiate bilaterally the conditions of industrial tariffs elimination with TPP countries with which they currently have no PTA, whereas Australia, Brunei and New Zealand seem willing to make a common offer to all TPP countries

At first glance, this issue seems negligible when assessing the TPP discriminatory impacts on EU. However, it is essential for two reasons.

- creating a “single TPP” may have a (much) stronger discriminatory impact on EU because it should generate (much) more liberalization and/or generate the implementation of (much) stronger disciplines on norms and regulations than would a TPP which would be added to existing PTAs. Indeed, it is unlikely that a single TPP would generate less liberalization and/or disciplines than the existing PTAs (though this occurrence may happen in the field of intellectual property rights).

- the more a TPP deal will rely on a single agreement, the more it will deprive EU of its current negotiating power in East Asia. The smaller TPP countries will be tied by common rules rooted in the US economy which has the size of the EU's, therefore offering the same opportunities in terms of scale economies or of range of products as the EU would. The EU negotiating power with these countries is thus reduced to the one the EU has vis-à-vis the US.

It would be interesting to know in what fields the US will prefer a complementary TPP to PTAs in order to have a more refined understanding of this problem. Currently, it seems to be where the US has defensive interests (industrial goods such as textiles). Where the US thinks it has offensive interests, it tends to prefer a TPP as “single” as possible.

Section 4. Impact in terms of trade barriers

This section aims at giving a sense of the magnitude of the possible TPP discriminatory impacts on EU economy. It does so by focusing on the first factor—the initial protection in TPP member countries—because it is too early to assess the second (TPP ability to implement a deep liberalization) and third factors (long term dynamics of competition for TPP newly adopted rules). It is limited to barriers on product markets, on service markets and on international investment since there are still a lot of uncertainties on the issues of intellectual property rights and on public procurement.

Table 4 summarizes the more detailed results provided in Annex 1. A “high protection” criterion is defined for each type of barriers. For example, tariff rates exceeding 10 percent are considered high trade barriers. The magnitude of possible discriminatory risks is calculated by adding the GDPs of the East-Asian TPP countries fulfilling high protection criteria.

Table 4 shows that there are many sources of important risks. In the tariff case, distinction must be made between agriculture and industry. In agriculture, three-fourth of the East Asian TPP countries will discriminate against the EU. As TPP includes five of the most efficient and important world exporters for many agricultural products (Australia, Canada, Chile, New Zealand and the US) the agreement will obviously constitute a deadly threat to European

exporters of agricultural products—the French in particular. As for manufacturing, risks seem near to nil, as far as applied tariff averages are considered. However, low tariff averages could co-exist with high tariffs on products of key interest to European firms. Table 4 shows that there are many such high tariffs (over a quarter of the lines in the Community Customs Code of these countries). Also, a lot of the East Asian TPP countries have not consolidated yet their customs duties at the WTO. Should imports from other TPP countries increase strongly, the East Asian TPP countries with no PTA with the EU could increase their applied tariffs up to their consolidated level without any infringement of WTO rules. There is no risk of such occurrence with the East Asian TPP countries that already have a PTA with the EU, provided the PTA between those countries has eliminated these high tariffs, a feature to be checked.

Table 4. The magnitude of the risks of discriminatory impacts against the EU

	Magnitude of the risks [a]	Criteria used to classify a TPP country as "highly protected" [b]
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 countries [c]
	34.2	Non-US TPP c'tries not included in the 36 top countries [d]
Behind the borders barriers		
Norms (agriculture, industry)		no systematic information available
Services	89.9	Non-US TPP c'tries with an index > 20 [e]
	11.3	Non-US TPP c'tries with an index > 30 [e]
International investment		
transport	100.0	Non-US TPP c'tries with an index > 20 [f]
telecoms	96.2	Non-US TPP c'tries with an index > 20 [f]
media	40.9	Non-US TPP c'tries with an index > 20 [f]
financial services	12.3	Non-US TPP c'tries with an index > 20 [f]
real estate	11.3	Non-US TPP c'tries with an index > 20 [f]
all others	0.0	Non-US TPP c'tries with an index > 20 [f]

Source : Annex 1. Notes : [a] the magnitude of the discriminatory impacts is calculated as the share of the GDP of the "highly protected" East Asian TPP members in the GDP of all the East Asian TPP members. [b] This column presents the criteria qualifying "highly protected" TPP countries. [c] The indicator is the rank of the Doing Business indicator on trans-border trade. Only Japan is among the 18 top countries. [d] The indicator is the rank of the Doing Business indicator on trans-border trade. Only Japan and Australia are among the 36 top countries. [e] OECD PMR (Product Market Regulations) indicators (0 means a totally open country, 100 a totally closed). [d] OECD foreign direct investment restrictiveness indicators (0 means a totally open country, 100 a totally closed).

Cross-border trade barriers are part of the many non tariff measures. One third to half of the East Asian TPP countries rank poorly in this field. These countries may therefore discriminate against European exporters, either by applying the discriminatory rules which could be generated by the TPP, or by enforcing discriminatorily rules that are not discriminatory *per se*.

For the same reasons, a vast majority of East Asian TPP countries show important risks of discriminatory impacts towards the EU in services and international investment – with a strong concentration of risks on services crucial for international trade (transportation, telecoms, etc.). As France is a large exporter of services, she will face strong discriminatory impacts.

Finally, it is difficult, at the present stage of negotiation, to estimate the risks of discriminatory impacts in terms of intellectual property because TPP candidate countries have positions at quite opposite ends.

Section 5. Which initiatives shall the EU take?

Leaving aside the possibility that the Doha Round negotiations will resume, the EU faces only two alternatives for dealing with a TPP initiative the agenda of which it cannot influence as it is driven by the US—a similar economic and much higher political power than EU's in East Asia.

Option 1. Do nothing

The first alternative consists in doing nothing, and passively suffering from the discriminatory impacts previously described because EU defensive interests prevail. The cost of this alternative is astronomical as these impacts involve East Asian TPP economies of a considerable size (Japan) to which one must add the US—another source of powerful discriminatory impacts if the Transatlantic Agreement is not negotiated and signed successfully. Indeed, it is clear that, on both geopolitical and economic levels, not reacting to the TPP leaves the EU in a very weak position in its negotiations of a Transatlantic Agreement with the US.

It is essential to stress that this option will be all the more costly to the EU as its economic weight will drop dramatically worldwide (it is expected to be cut by half according to Buiters and Rhabari). Two examples show the extent of this problem.

- to refuse the competition of Japanese car manufacturers on the European market by blocking the Japan-EU PTA can only result in convincing Japan to join (against its will and/or more rapidly) the TPP that will improve the position of the Japanese manufacturers in the vast and dynamic East Asian market (leaving aside the US market) that will stay closed to the EU (if the EU does not choose Option 2).
- threatening to shut EU public procurements as an instrument for opening public procurements in Asia, like the Commission has recently suggested, is not a credible threat as the relative weight of European public procurements will follow the EU GDP decline. And while the EU threat will keep losing its power, it could induce EU Asian partners to use a similar threat which will gain momentum as Asian economies will become larger.

The frequently mentioned answer to such examples is that “one should strike before being too small”. This argument is even weaker in the economic domain than in military strategy where it had led to numerous stinging defeats.

Option 2. Move for the benefit of the EU, East Asia and the world trade

The second option consists in taking measures to both protect the EU economy from TPP discriminatory impacts but also allows it to benefit from the TPP dynamics while reinforcing the integrity of the world trade system. This can be achieved by following three principles combining liberalization, progressivity and flexibility.

Initiative on what the EU-TPP countries' agreements should be

Shall the EU approach TPP countries through bilateral (or plurilateral) agreements or shall it apply to join the TPP itself, through negotiations? The bilateral agreements approach seems better for the following reasons:

- the EU keeps a better control on the agenda. As stressed in section 1, Japan is the East Asian heart of the TPP and signing a PTA with this country as soon as possible is a top

priority for a debt ridden EU which has a dire need to boost its growth through all means [Messerlin 2012a].

- The EU keeps a better control of the geographic coverage of its strategy. EU does not have the same presence in Asia as the US. This is both a limit and an asset, as EU is not submitted to the geopolitical dimension of show of strength between the US and China which taints the TPP. It should also allow the EU to negotiate as rapidly as possible a PTA with Taiwan, an economy which is essential to a debt ridden EU in dire need to boost its growth—if only because Taiwan is as important an economy as those of the largest East Asian candidate countries to TPP (Japan excepted) once taken into account Taiwanese firms' activities in continental China [Messerlin 2012a].
- The EU keeps a better control of the sectoral coverage of its trade policy. The list and priority of issues to negotiate are not the same depending of the point of view—US' or EU's—if only because the comparative advantages underlying the EU and US offensive interests (and the comparative disadvantages that underlie their defensive interests) are not the same.

Finally, it is important to stress that Taiwan is in a situation quite similar to the EU's. It will face the same risks of discrimination as the EU, because it cannot join the TPP rapidly—in so far as it actually succeeds some day, which depends on the anti-Chinese dimension of the final TPP agreement.

Initiatives in terms of “classic” trade barriers

The EU obvious answer to “classic” trade barriers (tariffs, quotas, etc.) consists in negotiating PTAs with the various TPP member countries in order to eliminate these barriers between the EU and these countries.

As already mentioned, the EU-Japan PTA is a priority: Japan itself represents the biggest risk of discriminatory impacts linked to East Asian TPP countries.

While negotiating, the EU should take great care to minimize exceptions to the elimination of tariffs, especially the highest, in all these future agreements. Indeed, these exceptions could lead

to major discriminatory impacts if TPP negotiations succeed in eliminating those tariffs on the same products within the TPP area.

There is a promising procedure to minimize these exceptions. Every agreement negotiated by the EU shall, in the future, be based on two elements:

- a general rule abolishing all tariffs, import or export quotas and all measures having “equivalent effect”, as stated in the Treaty of Rome,
- detailed “negative” lists of exceptions for as few as possible products to the above general rule with precise modalities: gradual liberalisation, or partial one, or conditional one, or even no liberalization in the extreme case.

A negative list allows highlighting the products benefitting from an exception, therefore creating a permanent pressure to review the legitimacy of the exceptions in the light of the public interest. This negative list should be coupled with mandatory “reviews” every 2 or 3 years in order to strengthen the pressures for eliminating exceptions.

An approach through negative lists could allow the Japan-EU agreement to overcome the asymmetry problem of the protection structure for industrial goods in Japan and the EU. For instance, it is often said that (for instance in the car sector):

- Japan has nearly no high tariffs in manufacturing, whereas the EU has a large number of them in various relevant sectors, and
- whereas according to some European vested interests, Japan has non tariff measures (norms and regulations) which are protectionist barriers compensating its low tariffs.

In such a case, the negative list of the Japan EU agreement (say on cars) should combine cuts of EU tariffs to mutually agreed changes in Japanese norms and regulations for the products involved. This combination could be implemented gradually (in two to three steps) so that the two partners learn progressively to trust one another.

Initiatives in terms of “regulatory” barriers to trade

These barriers include industrial (TBT) and agricultural (SPS) norms which were mentioned previously, but they also cover regulations in the field of services, international investment,

public procurement, etc. They have often hindered PTAs (including the Single Market agreement) providing two lessons:

- trying to harmonize the regulations is not an option as it proved nearly always too complicated, too slow and too costly a process. (The EU tried it for years, in vain).
- the process of “mutual recognition” was deceiving every time the recognition was submitted to some conditions. Intra-UE experience showed that such “conditional” mutual recognitions rapidly evolved towards a near-harmonization process, with all the usual difficulties it generates. This results from the ever stricter conditions of the mutual recognition process, under the pressure of both governments willing to protect their firms, and the latter willing to limit the access of new competitors to the markets.

The only really promising option is that of the unconditional mutual recognition (UMR) of their respective regulations by both countries. UMR is only possible after a mutual assessment of their regulations by the two countries. This is the process finally adopted by the EU with the Service Directive (2006) after over twenty years of deceiving efforts with conditional mutual recognition in other services. There is no reason why UMR could not be enforced with non European countries having a similar level of development as the EU such as Japan, Australia, Canada or Taiwan, as shown in the table of Annex 2.

The negotiation of an EU PTA with Japan or Taiwan based on the UMR principle would then involve two main steps:

- the elaboration of negative lists of exceptions, implying that all activities not mentioned on these lists are fully open to international competition,
- for the non-listed activities, mutual assessment of each other’s regulations (when necessary) should be made by both parties in order to lead to unconditional mutual recognition in norms and services.

This process may appear cumbersome and time consuming in terms of negotiations, but it has two major advantages which make it very attractive:

- it is the only one that brings real benefits as it is the only one to ensure to both countries a real boost to competition—the driving force of a stronger growth in Europe. Without it,

PTAs could easily end up being legal texts with no significant economic impact on the parties.

- its cost could be dramatically reduced because its implementation could be made gradually, the success of one step allowing the implementation of the next one.

Therefore, the agreement may state specific measures for the very first steps, those well understood by negotiators, and state that further negotiations will be led on other activities, when and if the previous steps are achieved successfully.

This strategy of time “fragmentation” of commitments was used in the implementation of the Treaty of Rome. No other Treaty went that far into liberalization between countries. But its extreme ambition was dealt through gradual pragmatic steps of implementations: the initial success of industrial products liberalization led to the conclusion of negotiations on agricultural products, which allowed the completion of the industrial products liberalization remaining to be done, which then allowed to address the much more complex issue of all the other measures “having equivalent effect”, such as norms and regulation, in goods and services, etc. [Messerlin 2012b].

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Annex 1

More details on the risks of the discriminatory impacts of the TPP

This Annex presents the detailed information allowing the risk assessment of the TPP discriminatory impacts on the European economy which are related to barriers on goods, services and international investment.

Product markets

Table A1 gives a sense of the risks of discriminatory impacts related to tariffs and some non tariff measures. Tariffs over 10 percent are considered a high trade barrier.⁴ Table A1 does not include quantitative restrictions (import and export quotas) anti-dumping and anti-subsidy duties, safeguard measures which are particularly actively used by Mexico, Australia, The US, the EU and China and which are, by nature, discriminatory measures against the targeted exports. Non tariff measures include obstacles to facilitate cross-border operations, industrial norms (technical barriers to trade, TBT) and Sanitary and Phytosanitary Measures (SPS). Due to lack of reliable data on TBT and SPS, Table 4 deals only with cross border trade facilitation using the specific index of World Bank “Doing Business” database (annual survey on costs in terms of time and money to cross a border).

Table A1 splits TPP countries into two groups: those with which the EU already has a PTA, and those with which it has none. It also covers three East Asian key countries that are not part of the current TPP (Korea, China, Taiwan) but which the EU must absolutely take into account when designing its East Asian trade strategy. Finally, for comparison sake, it gives the same information on EU (when relevant) and France.

Countries with an existing PTA with the EU. These countries do not represent an important share of the East Asian TPP GDP (East Asia means that the US GDP is excluded) since their aggregated GDP amounts only to 13.8 percent of East Asian TPP GDP (or 8.6 percent of EU GDP). Table A1 allows two observations:

⁴ WTO literature rather uses the notion of “peak tariff” (tariffs higher than 15 percent). However, PTA negotiations suggest a lower threshold (10-12 percent) as significant.

- risks of discriminatory impacts related to tariff reduction between TPP countries are nil or minimal if no tariffs apply between the EU and three countries (Chile, Mexico and Peru). However, it is not sure that this condition is always fulfilled, despite the existing PTAs. This is because PTAs are often unable of eliminating all the tariffs between the signatories [WTO Report 2011]. Moreover, the remaining tariffs are often those which protect activities that have managed to obtain and maintain the highest tariffs, despite the high costs for the domestic economy in terms of loss of both efficiency for domestic producers and welfare for domestic consumers. Checking whether PTAs between the EU and these three countries have really eliminated all the tariffs (and similar measures such as quotas for example) among those signatories is therefore essential. Each time a tariff or an equivalent measure remains, there are risks of discriminatory impacts. This is almost certainly the case for agricultural products, a key element of French interests.

Table A1. Risks of trade diversion on product markets

	Average tariffs [a]				"High"tariffs [b]		Trans-border trade [c]
	applied		bound		lines	lines	
	agri	ind	agri	ind	cons. %	appl. %	
A. Countries with whom the UE has a PTA							
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. Countries with whom the UE has not yet a PTA							
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
C. Other key East Asian countries outside TPP							
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
D. European Union [d]							
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

Sources: Tariff Profiles, site web OMC. Doing Business, Doing Business website.

- Risks of discriminatory impacts related to cross-border trade facilitation are high if the TPP manages to address trade facilitation issues thoroughly. Chile, Mexico and Peru rank from 42 to 59 in these matters, a poor rank revealing substantial problems at the borders. However, this conclusion depends on the TPP's ability to create discriminatory procedures in trade facilitation. There will be no discriminatory impact against the EU if TPP members adopt non discriminatory procedures or if they do not enforce in a discriminatory way procedures which may have discriminatory features.

Countries having no PTA with the EU. This situation deserves a separate analysis for agricultural tariffs and industrial ones. Block B of Table A1 suggests three observations.

- Agricultural tariffs. TPP countries protected by average applied tariffs higher than 10 percent on these products represent 73.4 percent of the East Asian TPP GDP (or 45.7 percent of the EU GDP). Any TPP advance in this field would generate important discriminatory impacts for the EU agricultural interests (in addition to those with the three countries with which EU already signed a PTA). Moreover, bound tariffs (those WTO member countries have committed themselves never to exceed) are (very) high for TPP countries representing 75.7 percent of East Asian TPP GDP (or 47.1 percent of EU GDP). Bound tariffs are crucial for the following reason: if the countries involved face a massive rise of agricultural product imports due to the implementation of the TPP, they would be allowed to increase, in full compliance with WTO rules, the applied tariffs up to the level of the bound tariffs on imports of similar products from non TPP member countries, such as the EU. As these bound tariffs are so high, they would basically condemn similar imports from Europe.
- Industrial tariffs. No TPP country has an average applied industrial tariff exceeding 10 percent for industrial products. Yet, once again, an increase of industrial tariffs to the bound level in case of massive imports from other TPP countries is a serious threat for the EU for five TPP countries representing 14 percent of the East Asian TPP GDP (or 8.7 percent of the EU GDP). Table A1 gives a sense of the importance of these high tariffs in terms of tariff lines concerned (frequency of these high tariffs among all tariffs) and shares in global imports. East Asian TPP countries for which these tariffs represent an important share of tariff lines amount to 29.5 percent of the East Asian TPP GDP (or 18.4

percent of the EU GDP). Japan is the remarkable exception as it has very few tariffs exceeding 10 percent, unlike the EU which is much more protected by high tariffs.

- Cross-border trade facilitation. What follows is based on the assumption that all countries beyond the 18th rank (top decile) have maintained significant barriers in this area. TPP countries in this situation represent 43.3 percent of the East Asian TPP GDP (or 27.1 percent of the EU GDP), with only Singapore and Japan as exceptions. If the TPP could lower such barriers, it could clearly have a significant discriminatory impact on EU interests.

Services markets

Services represent 70 percent of East Asian TPP GDP. A large majority of them could be open to international competition, either directly through cross-border movements of services, or indirectly by international investments (cf. below) and by cross-border movements of services consumers. Until now, liberalization of services largely resulted from unilateral liberalizations—thus *a priori* with little discriminatory impacts.

Services liberalization has also resulted from PTAs. Observers are hotly debating on the possibility to open the service markets discriminatorily within PTAs framework. Discriminatory openings seem not only possible but also frequent, according to two examples. First, the EU single market (to date, the most achieved PTA in the services area) has many blatantly discriminatory elements, such as the definition and treatment of “European airlines”. Second, the OECD indexes on regulatory restrictiveness in various EU Member States (EUMS) show such differences within the EU that it makes obvious that the EU “Single Market” in services has severe limits. A similar situation is also likely to be found in the case of the US States, Australian States, Chinese provinces, Indian States, etc.

Table A2 presents available information on the level of restrictions in services as given by the OECD indexes of “Product Market Regulation” (PMR). They constitute a comprehensive set of internationally-comparable indexes, measuring in which extent public policies promote or hinder competition on markets concerned [OECD 2008]. An index of 0 refers to regulations opening

without restriction the domestic service market to international competition. An index of 100 points to regulations closing the domestic service market to international competition.

On top of TPP countries, Table A2 covers the two essential East Asian countries (China and Korea) for which the OECD provides data, and the EU countries. It does not provide an average index for the whole EU because the highest (EU-max) and lowest (EU-min) indexes for the 21 EUMS covered by the OECD are so different that they reveal that EU averages make no sense. Rather, table A2 focuses on the highest and the lowest indexes recorded within the EU, for each service addressed, whatever the EUMS. This presentation suggests two preliminary observations about the EU that prove useful for the EU East-Asian policy:

- the huge variations between the EUMS individual indexes create a specific dynamics of negotiations. The most open EUMS have close objective interests in common with the most open TPP countries: they all wish to open not only the closest TPP markets, but also the closest EU markets. This dynamics is shared by the EU, but also by every country where “sub-federal” frameworks benefit from a wide autonomy, like in most TPP and EU countries.
- France ranks in EUMS “average”. Interestingly, its average level of protection (for the whole set of services) is roughly similar to Japan’s.

Table A2 stresses three facts regarding TPP countries, all based on the assumption that the country’s average index (for all services) points to a significant level of protection when it exceeds 20 (and then 30).

- TPP countries can be split into three groups: two countries have an index exceeding 25 (Mexico and Canada), two countries have an index nearing 25 (Japan and New Zealand) and finally, two countries have indexes well under 25 (Australia and the US).
- this breakdown suggests that less protected candidate countries (Australia and US) will try to impose a high level of liberalization in the TPP. If these countries succeed, the TPP most protected countries (Mexico, Canada and in a lesser way Japan and New Zealand) will significantly liberalize services included in the TPP (financial services and telecoms among others) generating high risks of discriminatory impacts on the EU economy. These relatively protected countries represent 29 percent (Mexico, Canada) to

89 percent (with Japan and New Zealand in addition to the other two countries) of East Asian TPP GDP.

Table A2. Risks of trade diversion on service markets

	TPP countries						Others		EU, France		
	Mexico	Australia	Canada	Japan	N.Zeland	US	China	Korea	EU-max	France	EU-mini
Indicators for 7 non-industrial sectors											
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
Regulatory impact indicators											
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
Professional services											
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

Source: OECD, Product Market Regulations (PMR) indicators, website.

- the non industrial sector of services (transportation, energy, telecom and mail) is where the risks of discriminatory impacts are on average the highest of the East Asian TPP region. These sectors have also the highest indexes in the EU. This similarity suggests high risks of strong discriminatory impacts if TPP negotiations allow significant progress

in these sectors. It is still too early to determine whether the US will remain reluctant to negotiate some of these activities, such as air transportation.

Once again, as France is an important services exporter, she should be particularly concerned by these risks of discriminatory impacts.

International investment

In the 21st century, international investment flows play as important a part as goods and services. Yet, it seems that some of the most controversial aspects in TPP negotiations are to decide which disciplines are to be implemented in terms of international investment. That said, how can TPP impact discriminate against EU interests in international investment matters?

Like for goods and services, the answer varies first according to the initial level of protection in the TPP candidate countries. Then it depends on whether a country can implement a discriminatory policy with respect to foreign direct investment, favouring investments from given countries and penalizing those coming from the other countries. Here again, opinions diverge, some observers believing that discriminatory measures are possible, others not.

This paper gives the same answer to this question as for the services: discriminatory market access is possible and indeed likely, both through intrinsically discriminatory regulations and through discriminatory enforcement of regulations with no discriminatory content.

Unfortunately, the OECD most recent study on investment restrictions [Kalinova et al. 2010] does not allow to reveal discriminatory bias in the EU case (unlike for services) because it does not provide explicit information on extra- and intra-EU liberalization, despite the fact that the authors acknowledge that “*..the more systematic accounting for intra-regional liberalisation in the 2010 update has reduced country scores for EU countries..*” [Kalinova et al., page 16].⁵ This recognition raises the question of why the EUMS keep higher restrictive measures on investment

⁵ Applied to the goods sector, this approach would consist in calculating the EU degree of openness to global trade by taking into account the intra-EU trade—an approach that comes to nobody’s mind.

from non EU countries. When they do so, is it not reasonable to think that EUMS expect some effects from such specific measures—or shall one consider that the EUMS behaves irrationally?

Table A3 presents the OECD indexes for foreign investment restrictiveness by major economic activities. Again, an index of 0 indicates a country totally open to foreign investment, and an index of 100 indicates a country with regulations closed to foreign investment. Results for EUMS are not mentioned because they are systematically flawed by the aggregation of intra-EU and extra-EU restrictions.

Table A3. Risks of trade diversions in foreign investment

	Manufacturing	Electricity	Construction	Distribution	Transport	Media	Telecom	Financial services	Business services	Real estate
A. Countries with which the EU has a PTA										
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. Countries with which the EU has not yet a PTA										
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	--	--	--	--	--	--	--	--	--	--
C. Other key East Asia countries outside TPP										
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	--	--	--	--	--	--	--	--	--	--

Source: OECD FDI restrictiveness, website.

In what follows, an index exceeding 20 indicates already significant existing barriers. Table A3 shows that East Asian TPP countries that are highly protected represent 100, 42 and 96 percent of the East Asian TPP GDP (respectively 59, 25 and 57 percent of the EU GDP) in three sectors (transportation, medias and telecoms) which all are essential economic activities in a modern

economy. There are therefore serious reasons to believe that a TPP with deep liberalisation of international investment in these sectors can generate important discriminatory impacts to the EU.

Reference

Kalinova, Blanka, Angel Palerm et Stephen Thonsem, 2010, OECD's FDI restrictiveness index 2010 update. OECD, Working paper on international investment, No. 2010/3.

Annex 2

Countries with “comparable” level of development

This paper stresses the fact that the level of development should be judged not only in GDP terms but also in terms of “regulatory quality”. In this perspective, the table below presents the relative ranks of the various cohorts of EUMS (cohorts are constituted by EUMS having acceded to the EU the same year) and of the main countries with which the EU has, or could have, PTAs. The table is based on the World Bank Doing Business global indicator (Ease to do business). But, one should stress that very similar results are obtained with the indicators provided by the World Economic Forum or by the Fraser Institute, despite the fact that these indicators rely on totally different methodologies.

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

Source: Doing Business, site web. Notes. EC2004a: all EUMS having acceded to the EU in 2004, except the Baltic EUMS. EC2004b: the Baltic EUMS having acceded to the EU in 2004.