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NEW POLICY BRIEF:

A EU-Taiwan Trade Accord from EU Member States Perspective: Rebalancing regional trade

by Michal Krol and Hosuk Lee-Makiyama

Following an FTA with Korea, the EU now takes up the ambitious task of negotiating an FTA with Japan. Inarguably, 'big' FTAs are the way forward in the search for growth, but in parallel, the EU should aim to diversify its regional outreach to rebalance regional trade. In this sense, Taiwan has the potential to 'repair' some of the effects from other Asian FTAs on EU's sensitive areas and distribute the gains beyond traditional export-driven Member States. Despite its relatively small size, Taiwan can also spur EU growth provided by indirect market access to China. This review aims to disaggregate these potential gains, as there are reasons to suspect that a free trade accord with Taiwan would impact the economy of the Member States in a vastly different way than agreements currently under negotiation.

This policy paper briefly scrutinises distribution of FTA gains between the key EU Member States of Germany, France, the UK, the Netherlands and Sweden, exemplifying various degrees of export dependency, manufacturing and services. Unlike other Asian FTAs, Taiwan lacks its own exports of automobiles, a sector where Asian exports are increasingly a political impediment to FTA negotiations for the EU. In theory, other traditionally sensitive area of trade, namely agriculture, should not be an obstacle because of Taiwan's agricultural products import-dependency.

It concludes that the expected benefits from such agreement would be equally distributed across key EU Member States - including sectors and countries that are deemed to be on the paying side of EU's FTAs, such as agriculture or cars. Both France and the UK can move from a current motor vehicle deficit to a surplus by doubling its export and improving their surpluses on agricultural products by €200-€400 million each. Individual Member State can increase their overall export by at least 50% on sectors where its primary specialization lies – Germany on machinery and cars, France on miscellaneous goods, agriculture and services, whereas the UK foremost on services.

Furthermore, ECFA openings across the Strait provide indirect market access to China aligned with European interests – covering almost 50% of EU's export to Taiwan. Taiwanese businesses run a substantial share of the Mainland's economy thanks to its entrepreneurial, cultural and linguistic similarities with combined value of their operations in China providing twice as much of market expansion for the EU as Korea does. However, EU investment in services and manufacturing hasn't been of critical mass to benefit from long-term cross-Strait development. This is particularly true for European services providers, who could count on increasing Mainland demand for capital and know-how of modern services, such as healthcare, ICT, finance or R&D.

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