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Asia-Europe Trade Relations: Can New Free Trade Agreements Make them Alive Again?

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Europe in the 'Asian century': the aspirational chord

- Historical ties important despite colonialism
- Common interest to foster stronger economies ties
- Both regions run on 'Smithian' growth models
- Common interest in broaching a multipolar world; beyond U.S. hegemony or Great Power leadership
- Soft power rather than hard power

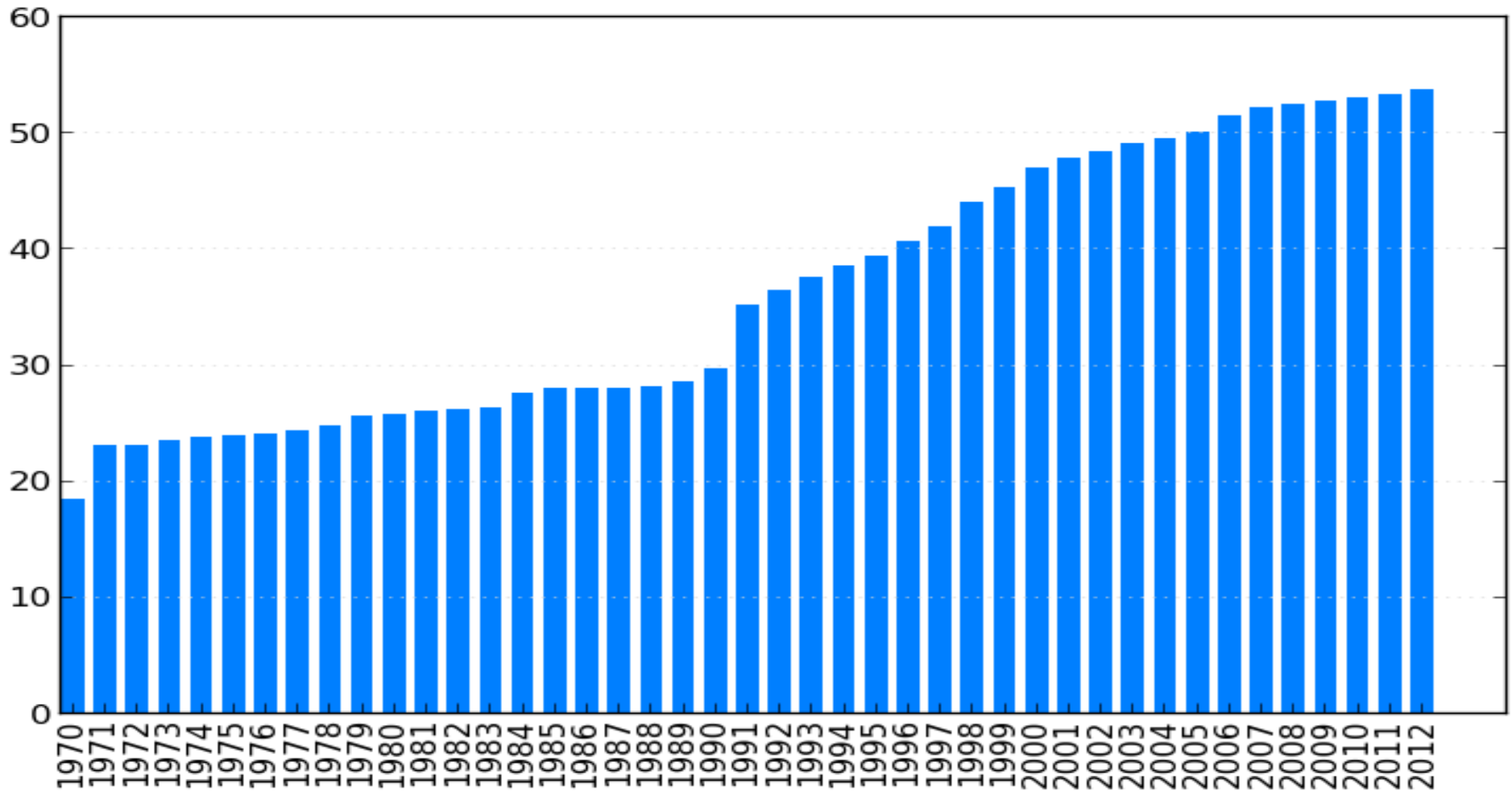
Europe in the 'Asian century': the realist chord

- No real geostrategic interest in each other
- Source of neither inspiration nor irritation
- Trade growth weakened substantially
- Little convergence in areas such as energy, environment and global governance
- Sulky Europe, but its relative economic decline has yet to really hit home
- Asia's economic power is growing, but no idea how to deploy it

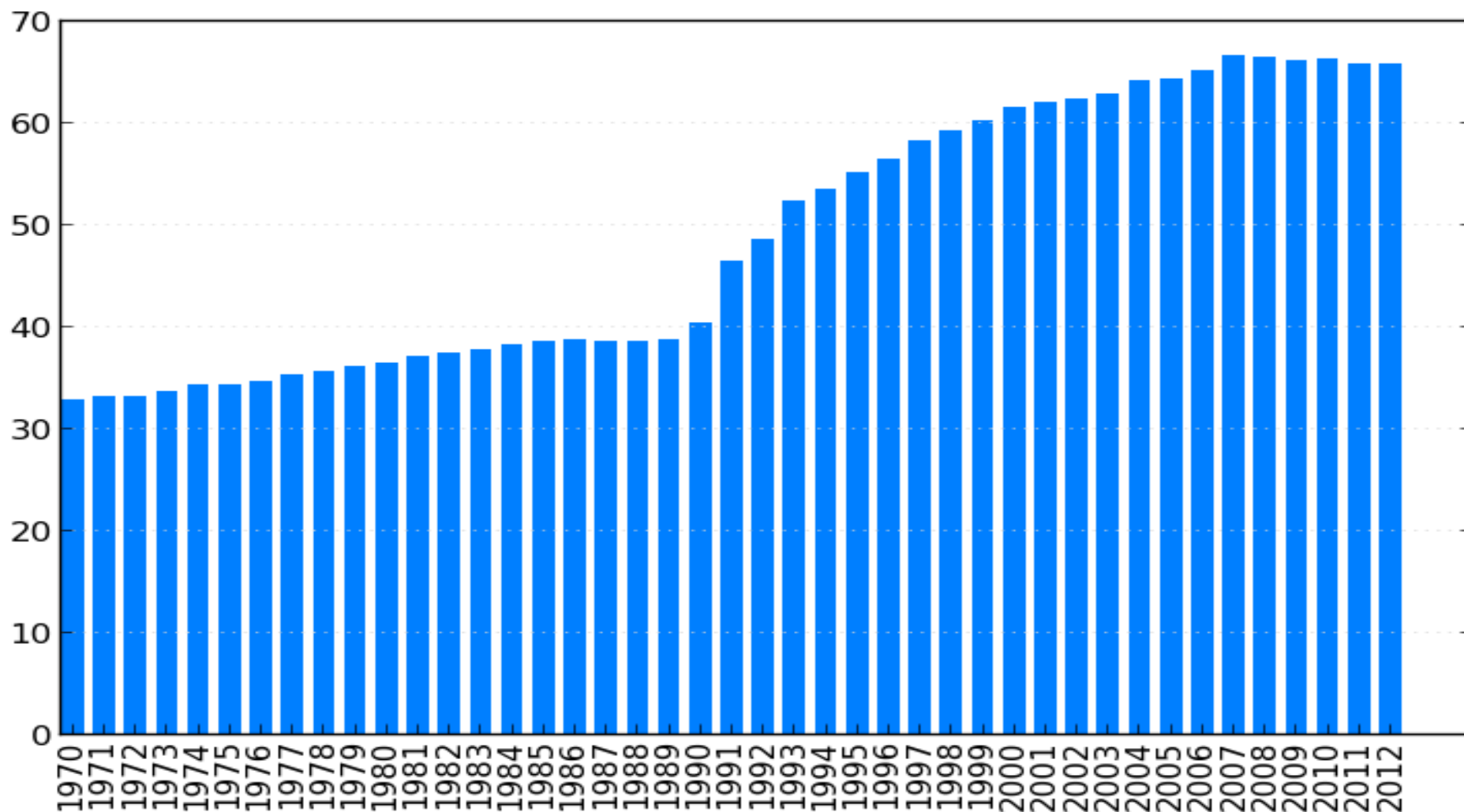
Trade and commercial policy

- The real nerve in Asia-Europe political relations
- But where is it heading?
- Asia keeps globalising – Europe is deglobalising

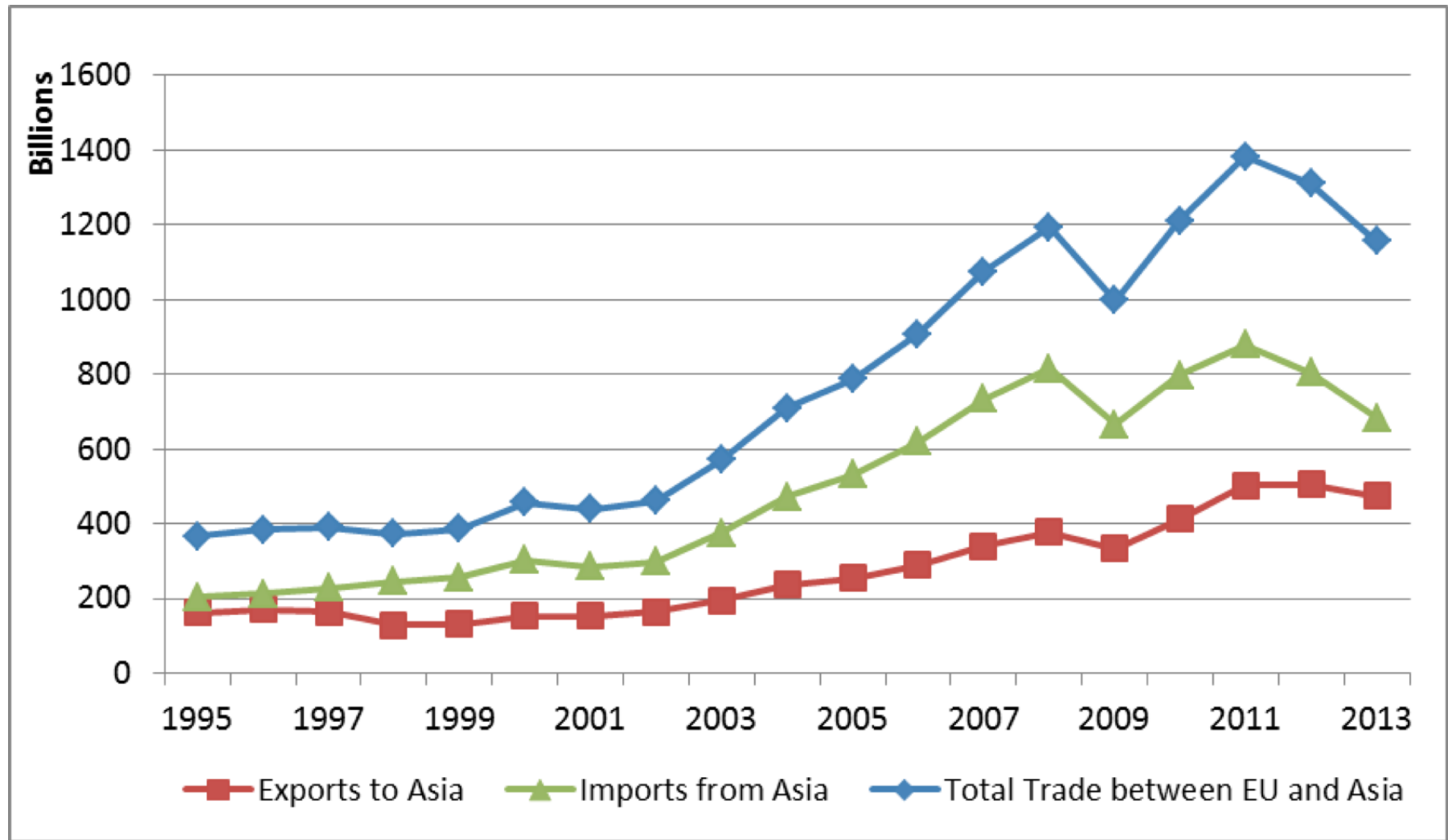
KOF Index of globalisation - Asia



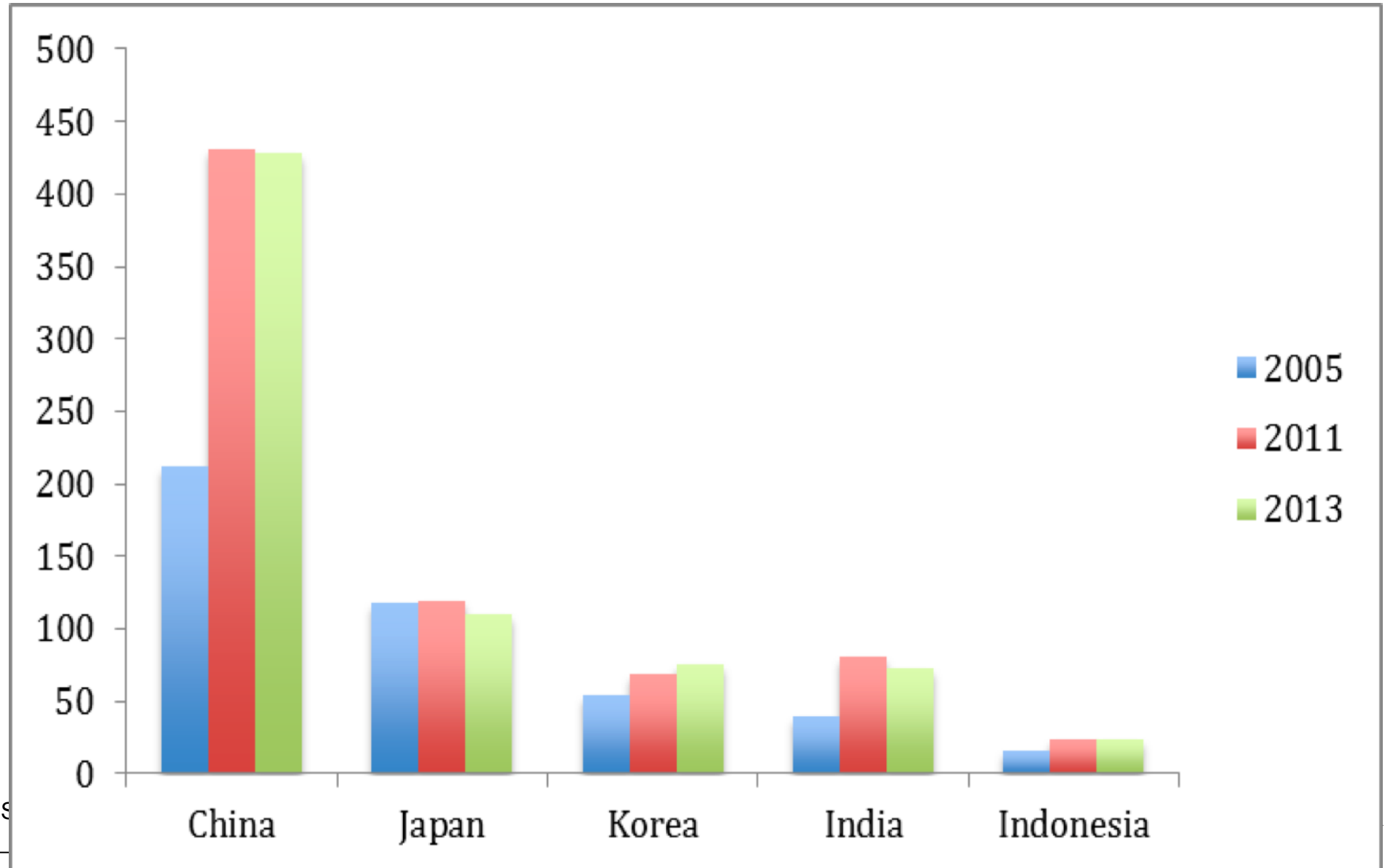
KOF Index of globalisation - Europe



Trade between Asia and Europe (1)



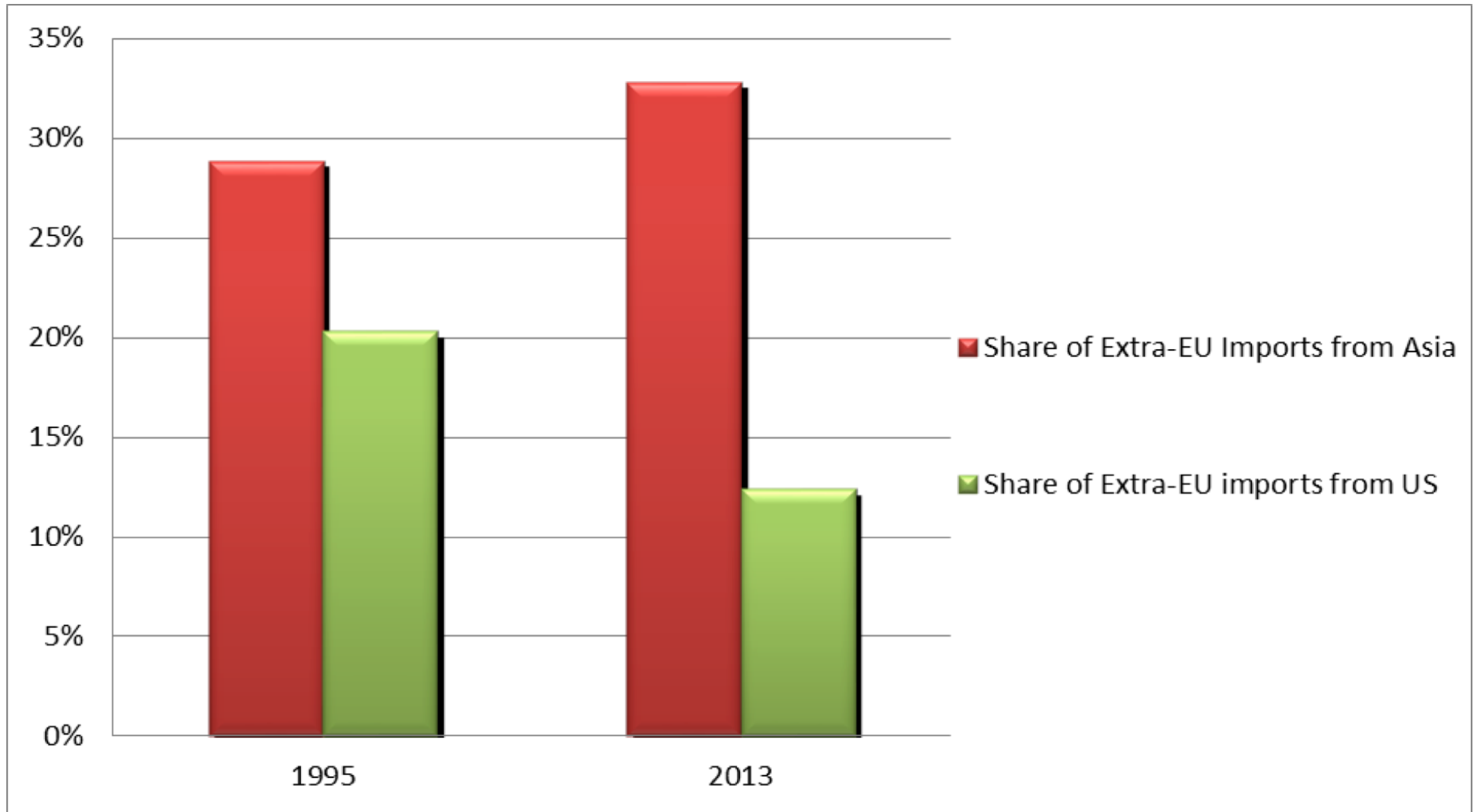
Trade between Asia and Europe (2)



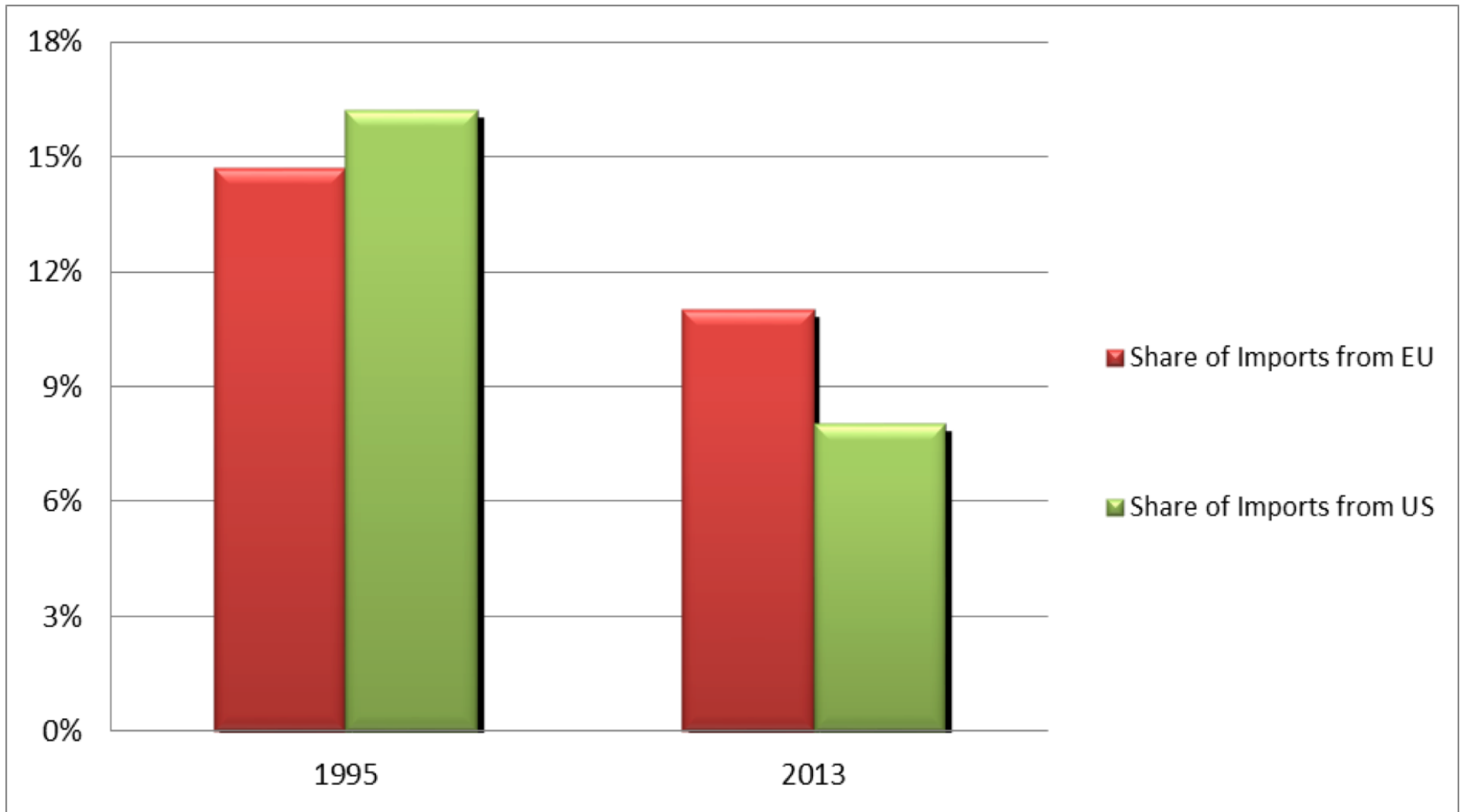
Trade between Asia and Europe

- Cyclical factors behind trade stagnation?
- Yes! But: doesn't 1) explain decline in EU exports to Asia, and 2) cyclical factors will not recover
- A. Low growth and aging population in Europe mute demand for imports
- B. Asia is going through a growth deceleration
- Important structural shift in Asia's trade: growing pattern of proximity

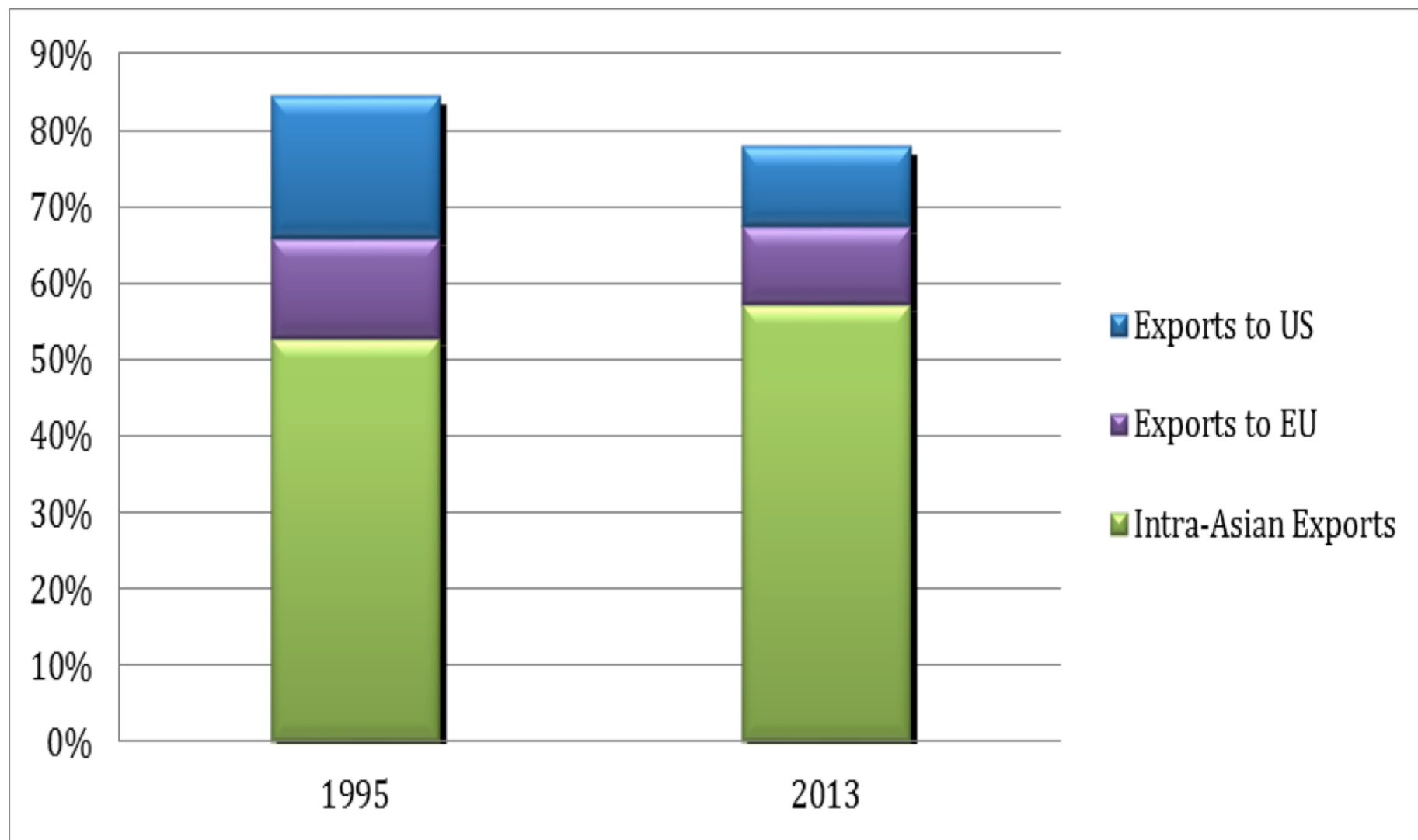
Share of EU imports



Share of Asia's imports



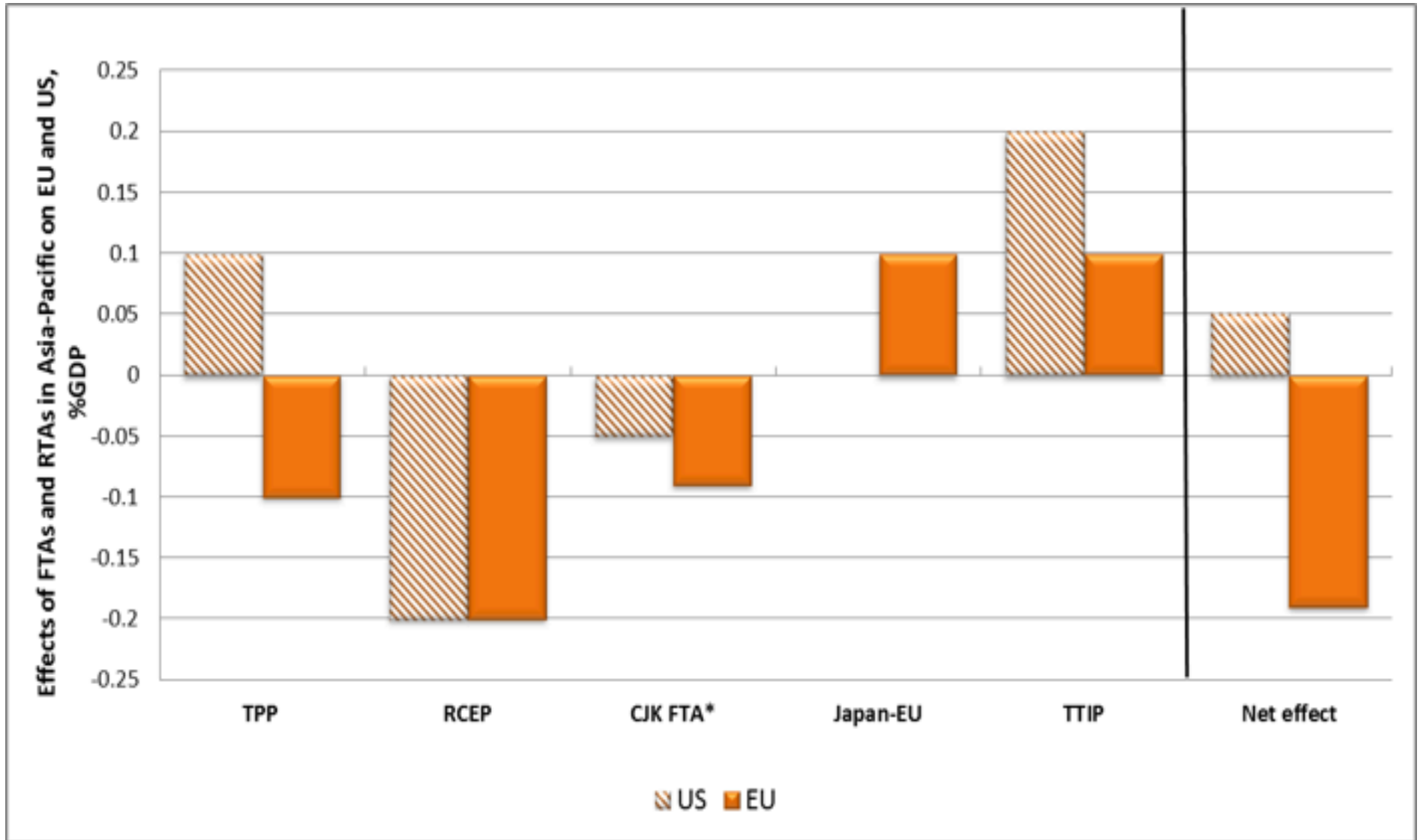
Destination of Asia's exports



Asia-Europe trade policy

- Asia/Asia-Pacific initiatives like the TPP: no comparable initiative involving Europe
- EU does not currently have a strategy that realistically can defend its trade position in Asia

Costs and benefits from regionalism



Asia-Europe FTAs

- Asia/Asia-Pacific initiatives like the TPP: no comparable initiative involving Europe
- EU FTAs with Korea and Singapore: insignificant effect
- EU-ASEAN: dead
- EU-Malaysia: dormant
- EU-India: dormant
- EU-Japan: struggling
- (EU-China): aspirational

Why initiatives are failing

- Reform complacency in many Asian and European countries
- Climate of ideas turning against markets in Europe
- Modern trade agreements require improvements in institutions
- Diverging interests in Europe

Conclusion

- No intimacy in Asia-Europe political relations
- Trade is central to the relation, but trade is stalling
- Structural factors will keep trade growth weak
- FTAs can help – but only at the margin
- Prospects of concluding FTAs are grim
- TPP will have trade-divertive effects on Europe