



EU FTAs in the context of EU trade policy and the Internal Market

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Structure of presentation

- EU bilateral strategy and EU-India FTA in broad context of recent developments in EU commercial policy.
- Discuss the factors behind Global Europe and interpret them in the EU-India context.
- Overall comments on the EU-India FTA

EU bilateral strategy

Trade patterns and fundamentals

- EU is the number one trade bloc in the world: *enlargements and increasing trade ration.*
- EU trade is largely a story of industrial capitalism; services an increasing share; take-off in last ten years (one third of total trade).
- Yet recent surge in trade dominated by manufacture export (*Germany*) and import (*China*).



EU bilateral strategy

- Export highly dominated by MNF's
- Sophisticated supply chains based on fragmented trade.
- Probably more so than in other developed countries: *country size, lower labour productivity, higher employment cost.*
- Trade complementarity vs. Trade *pattern* complementarity.
- Untapped opportunities for supply chain fragmentation?

EU bilateral strategy

Policy – multilateral

- EU initiator of the Doha Round and protagonist of an all-inclusive, grand-bargain development round.
- Yet defensive from day one in non-NAMA market access issues
- Not ambitious offers on services, defensive on agriculture and TDI's, et cetera.



EU bilateral strategy

Policy – regional

- Moratorium on new FTAs since 1999
- Global Europe

Policy – unilateral

- Everything But Arms
- GSP Plus
 - Not affected trade volumes or patterns noticeably

EU bilateral strategy

- Enlargements – 2004 and 2007; pre-accession Association agreements
- Internal market: unfinished businesses still unfinished (e.g. subsidies, patents).
- Failed attempt to create a single market for services:
 - Sectoral carve outs
 - No country-of-origin principle
 - Limited mutual recognition



EU bilateral strategy

- No common market for services adversely affects EU external policy
 - Institutional aspects: not centralised EU policy
 - Political momentum for trade liberalisation
- Lisbon agenda: external dimensions
 - Financial services
 - Community patent



EU bilateral strategy

Politics

- Uneasy move from industrial capitalism to services and innovation based trade and production.
- Growing frustration over emerging Asia – especially China:
 - Soaring bilateral trade deficit
 - Exchange rate concerns (U.S.)

Factors behind strategy

- Touted strategy: Commercial criteria; strong, WTO-plus FTAs; offensive market-access strategy in the context of the Lisbon Agenda.
- Yes – but:
 - Finishing unfinished business (GCC, Mercosur)
 - S. Korea – avoid disadvantages to U.S. exporters
 - ASEAN – politically difficult
 - Where is China and Japan?

Factors behind strategy

- Yes – but:
- No unilateral or multilateral movement on the part of the EU for market opening.
- Market *opening* strategy not there.
- Market *preference* strategy:
 - Avoid far-reaching openings demanding adjustments
 - Soft openings in a preferential style
 - EU-India FTA fits in this pattern

EU-India FTA

- Commercially meaningful only if there are deep integration provisions going beyond tariffs
- Little risk of trade diversion in goods for the EU, but big risk for India.
- Small overall gains on the production/supply side due to lack of similarity
- Small gains in the view of fragmented trade/supply chains.
- Considerable risk for trade diversion for India
- Net trade creation or trade diversion? Not clear.



EU-India FTA

- Deep integration FTA has commercial potential.
- Focus on services and investments.
- Risk of trade diversion in services and investments, but can be mitigated.
- Political economy effect on Lisbon Agenda targets: productivity and growth.

EU-India FTA

- But is such an agreement possible?
- Services:
 - No clear EU mandate on services and disintegrated internal market policy
 - Disintegrated EU prohibits ambitious positions
- Investments:
 - Not part of EU policy
 - Recourse to Bilateral Investment Treaties (BITs)
 - But European BITs insufficient:
 - No Pre-establishment (entry and establishment)
 - Restrictions on performance requirements
 - Investor personnel



EU-India FTA

- Overriding concern:
 - *Is Europe equipped with the right set of tools to negotiate an ambitious deep-integration FTA focused on services and investments?*