

EU Trade Policy: at the Crossroads

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Listen to the people (1)

- A very strong and stable support for international trade
 - Two-third to more than three-quarter of Europeans and Americans support international trade (polls by the German Marshall Fund of the U.S.).
 - Such huge majorities are extremely rare in democracies.
 - Main reason: ever cheaper and more diverse goods (and services).

Listen to the people (2)

- But one-third to one-half of Europeans/Americans expressed fears about globalization, with globalization associated to labor and capital flows:
 - labor flows: a past-dependent fear largely caused by the labor flows of the 1950s-70s when trade was much less free than today (a fear in collision course with the need for new labor flows required by demographic decline).
 - capital flows: cyclical fear (outsourcing versus unbundling) leading to bursts of “economic patriotism”.
- The best way to alleviate these concerns about globalization is to make trade ever freer:
 - politically sustainable (consistent with the people’s view)
 - but, as perfect free trade is out of reach, labor and capital flows are here to stay, making crucial the use of sound domestic policies → interactions between trade and “behind-the-border” policies.

Looking for bilaterals? (1)

- “Bilaterals”, not regional trade agreements (maybe East Asia in the future?)
- Bilaterals: an economic perspective
 - poor performance in the past: credited for only 10% of market opening in the past (compared to 66% for unilateral, and 25% for WTO-based) [World Bank 05]
 - not such a surprise:
 - bilaterals generate substantial costs if partners keep high trade barriers (MFN tariffs) on imports from the rest of the world
 - probably less costly today because of lower (though unbound) MFN tariffs; but then new bilaterals will bring only limited “preferences” → less incentives to sign bilaterals?

Looking for bilaterals? (2)

- bilaterals: a political economy view based on trade liberalization seen as a domestic fight between:
 - support from domestic exporters (open domestic markets in order to get access to foreign markets)
 - opposition from domestic import-competing firms.
- this view suggests that bilaterals are:
 - doomed to be limited to small-large partners
 - doomed to be a source of disillusion/frictions in the long run → the spaghetti bowl becomes an electron collider (remember the collapse of the pyramid of EC preferences and the "1997 pause")
- all this leaves the WTO as key – if it is "de-rigidified" (see below).

The political economy of bilaterals

	Small partner	Large partner
Support from exporters	bilateral=WTO	bilateral<<WTO
Opposition from import-competitors	bilateral=WTO	bilateral<<WTO
Additional elements for a bilateral	foreign policy "easy negotiations"	foreign policy "neo-imperial" (WTO-Plus)
Net gains of bilateral vs WTO	positive in the short run negative in the long run	unnoticed, but subjected to unexpected opposition
Domestic forces		
	Bilateral between a "not so small" and a large country	
	"Not so small" partner	Large partner (EC)
Support from exporters	bilateral<WTO	bilateral<WTO
Opposition from import-competitors	bilateral=WTO	bilateral <or= WTO
Additional elements for a bilateral	foreign policy	foreign policy
	000	"neo-imperial" (WTO-Plus)
Net gains of bilateral vs WTO	???, especially if the WTO is more flexible (services)	???, especially if the WTO is more flexible (services)
The table assumes that both partners have relatively small MFN tariffs (ie, are not too much subjected to trade distortions, hence by the same token do not offer deep preferences).		

The bilaterals targeted by the EC

	Market size [a]		Average industrial		Regulatory ranking [c]				
	at	at	tariff [b]		ease of doing business	trading across borders	dealing with licences	registering property	protecting investors
	current USD	PPP USD	bound	applied					
ASEAN	1,9	4,5	--	--	--	--	--	--	--
Indonesia	0,6	1,6	35,0	8,3	135	60	131	120	60
Malaysia	0,3	0,5	11,2	8,6	25	46	137	66	4
Singapore	0,3	0,2	4,1	0,0	1	4	8	12	2
Thailand	0,4	0,9	20,2	13,4	18	103	3	18	33
Korea	1,6	1,6	10,2	6,7	23	28	28	67	60
Mercosur	1,9	3,6	--	--	--	--	--	--	--
Brazil	1,5	2,6	29,4	15,1	121	53	139	124	60
Argentina	0,4	0,8			101	71	125	74	99
India	1,6	5,8	37,0	~12.0	134	139	155	110	33
Russia	1,4	2,6	--		96	143	163	44	60
GulfCC	1,2	1,0	--	--	--	--	--	--	--
UAE	0,3	0,2		~5.1	77	10	79	8	60
S. Arabia	0,6	0,6			38	33	44	4	99
China	4,7	14,6	9,2	9,1	93	38	153	21	83
All countries	14,3	33,6	--	--	--	--	--	--	--

[a] GDP (in USD, 2004) as a share of world GDP. [b] Australian Productivity Commission. [c] Doing Business 2007.

The bilaterals ignored & done

	Market size [a]		Average industrial		Regulatory ranking [c]				
	at	at	tariff [b]		ease of	trading	dealing	registering	protecting
	current	PPP	bound	applied	doing	across	with	property	investors
	USD	USD			business	borders	licences		
Australia	1,5	1,1	11,0	3,5	8	23	29	27	46
Canada	2,4	1,8	5,3	3,3	4	8	32	22	5
Hong Kong	0,7	0,4		0,0	5	1	64	60	3
Japan	11,1	6,6	2,3	1,6	11	19	2	39	12
Taiwan	0,8	1,0	4,7	4,5	47	42	148	24	60
USA	28,4	20,3	3,4	2,6	3	11	22	10	5
All countries	45,0	31,1	--	--	--	--	--	--	--
Chile	0,2	0,3	~25.0	~6.0	28	44	40	30	19
Mexico	1,7	1,8	34,8	17,2	43	86	30	79	33
South Africa	0,5	0,9	11,0	8,3	29	67	45	69	9
Turkey	0,7	0,6		11,8	91	79	148	54	60
All countries	3,1	3,6	--	--	--	--	--	--	--

[a] GDP (in USD, 2004) as a share of world GDP. [b] Australian Productivity Commission. [c] Doing Business 2007.

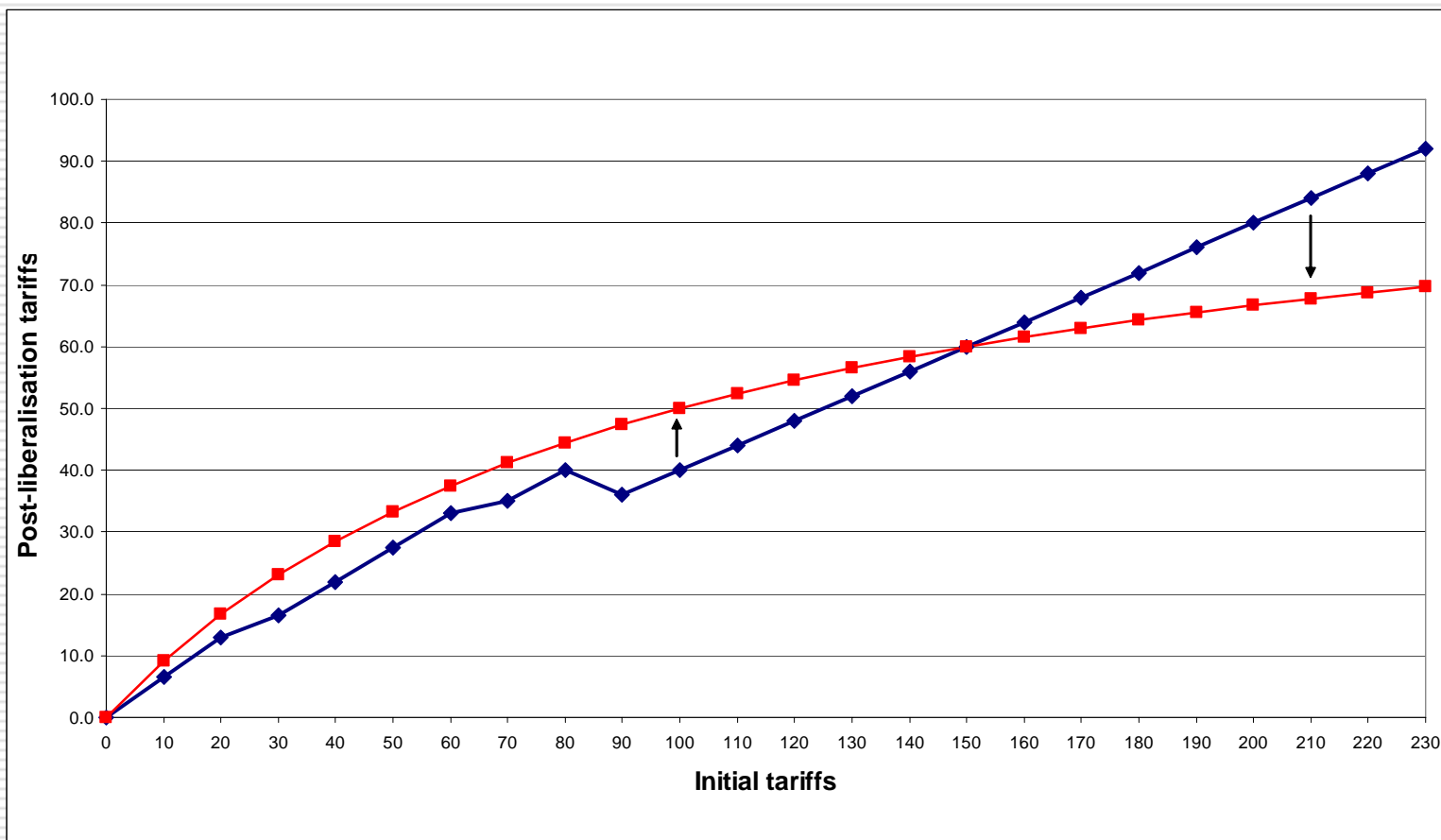
Go back to the WTO (1)

- ❑ The leadership problem: doomed to stay for a long time
- ❑ The U.S. leadership: many constitutional features (6 years for a U.S. President).
- ❑ The EC and the Member States.
- ❑ China, India are not yet ready to take over, though China has already had a key role in two respects:
 - has greatly contributed to “liberalizing” India,
 - has eliminated the “Round for free” option which was very costly for DCs.

Go back to the WTO (2)

- The EC 2003 reform is limited and unsustainable in the long run:
 - limited: 25 out of 105 billions of euros of support with no external liberalization [OECD 2004],
 - unsustainable: single farm payments are “illegitimate”.
- In the current agricultural negotiations, the EC farm tariff offer does not protect farmers because:
 - the post-Doha tariffs would protect food processors more than farmers,
 - tariff-rate quotas (TRQs) are largely biased against farmers.
- Looking for a EC tariff offer focusing on high tariffs:
 - can generate support among a large share of farmers,
 - may be supported by food processors,
 - provides the bulk of welfare gains (the EC will be the main beneficiary of its openness),
 - allows the EC to begin to tackle its own future problems in agriculture (“fairness” between the Member States).

“Rebalancing” the EC ag. tariff offer



Go back to the WTO (3)

- A better EC offer in farm tariffs can trigger dynamic forces in NAMA (since EC export subsidies and domestic support are “OK”):
 - more in line with the “comparably high level of ambition” collective commitment of the Hong Kong Ministerial,
 - Dynamics amplified if some flexibility is introduced in some WTO aspects:
 - for instance, tariff binding discipline (India)
 - prepare the next Round (refrain from early harvest, and look for more uniform protection)
- The services conundrum:
 - “compassion needed”: how to negotiate in services?
 - the Single Market in services, the Services Directive
 - the need to “de-rigidify” the WTO negotiations:
 - the principle of the Single Undertaking vs. its application
 - which flexibility to use in the short run?

Concluding remarks

- Suspension: 3 months, 3 years, 3 decades?

- If 3 years, deflating the “bilateral bubble” imposes two tasks to WTO negotiators (in addition to market access negotiations which are here to stay) :
 - “de-rigidify” the WTO negotiating pillar (binding, Single Undertaking enforcement, etc.),
 - work on an investment pillar?

- In case of 3 decades, dangerous times ahead:
 - the GATT was first and foremost an effort to discipline the bilaterals of the 1920s-1930s.

Thank you!

