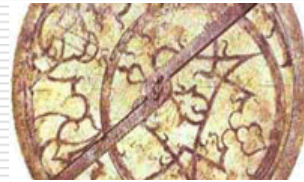


The EU: At the crossroad

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Overview

- Introduction
- **Challenge 1: Internal Market in goods and services.**
 - Results are disappointing, or obtained at a too high regulatory cost.
 - The EU is not the best enforcer of its own best ideas (for instance, mutual recognition, mutual evaluation).
 - There are better enforcers of EU ideas : Australia (other countries in Asia?)
- **Challenge 2: Trade and neighborhood policies.**
 - difficult because the EU has become a large and heterogeneous entity.
 - commercial policy: rushing to preferential trade agreements.
 - neighborhood policy: unable to be a regional “anchor”.
- **Challenge 3: The euro crisis.**
- Concluding remarks

Introduction

A long term perspective

Key points of the presentation

- **Basic mistakes in the 1980s-2000s: the EU looked for**
 - size instead of efficiency,
 - harmonization instead of dynamic diversity,
 - centralization instead of responsibility.
 - in short, the EU was looking to a 19th century ‘federal’ model, rather than to a 21st century ‘community’ model.
 - EU Member States (EUMS) are clearly responsible for these choices, but the Commission is even more responsible because it did not play its key constitutional role as a source of inspirations.

- **The 2010-12 (?) crisis is an opportunity...**
 - First moves towards responsibility: the Merkel-Sarkozy statement on debt breaks (16 August 2011)
 - But it will require courage and tenacity that do not seem to exist today.

Introduction

The 'competences' landscape

□ Sharing 'competences' between the Union and the EU Member States (EUMS)

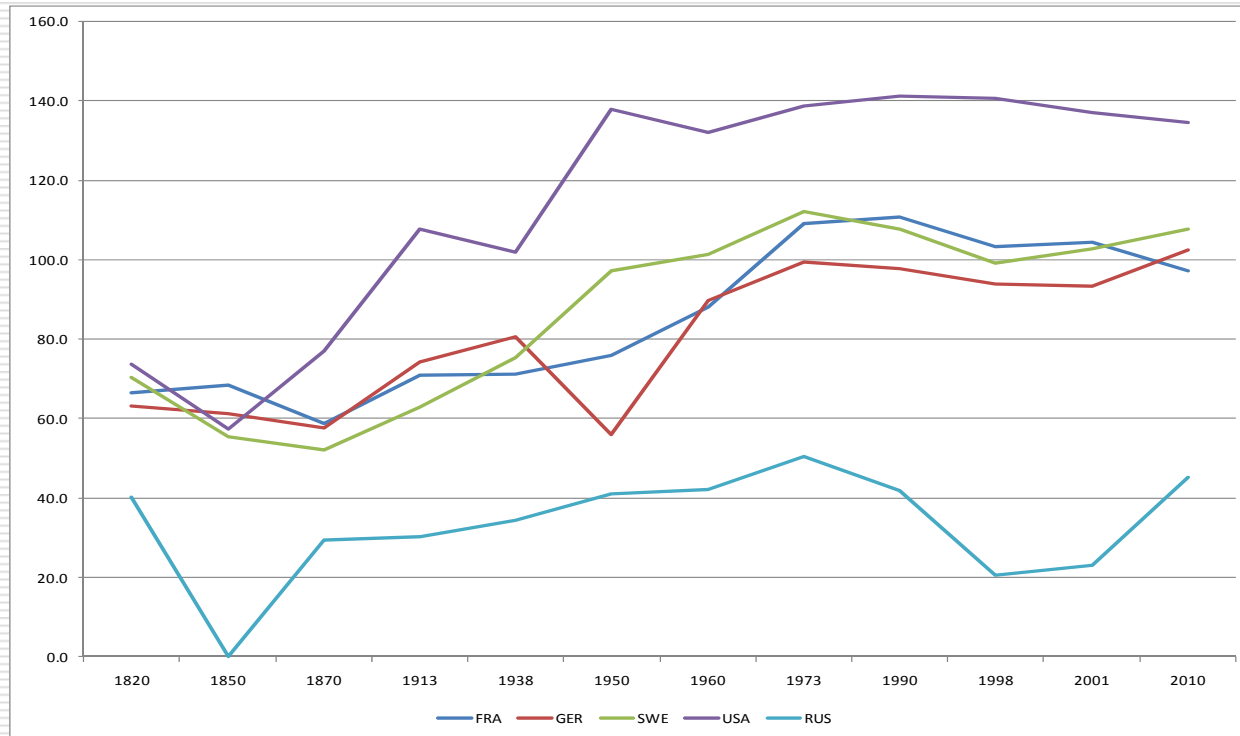
- The Union (not the Commission) has 'exclusive' competence only in few and unchanged areas (investment).
- It takes a long time to establish effective exclusive competence, and it can always be challenged: for instance, competence on quotas was fully effective only in mid-1980s (Poitiers and Japanese VCRs) and at the cost of antidumping measures.
- These areas are concentrated on topics which today are in trouble: monetary issues, trade.

Exclusive competence (TFEU Art. 3)	Shared competence (TFEU Art. 4)
customs union	internal market
common commercial policy	social policy, for the aspects defined in the Treaty
establishing the competition rules	economic, social and territorial cohesion
conservation of marine biological resources	agriculture and fisheries
monetary policy for the euro-zone members	environment
	consumer protection
	transport
	trans-European networks
	energy
	area of freedom, security and justice
	common safety concerns in public health matters

Introduction

The EU initial challenge

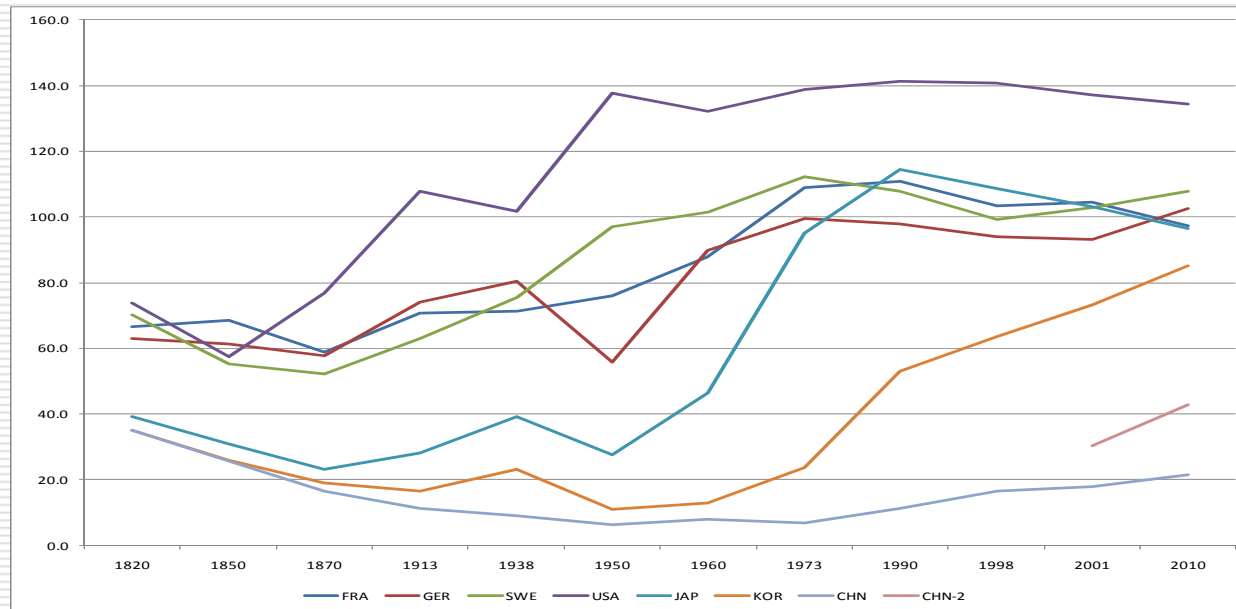
- ❑ The EU initial challenge: catching up with the US and creating a 'G2' with the US.
- ❑ Failure to achieve this goal: see below GDP per capita (Maddison 2003).
- ❑ This failure has made the EU obsessed with size: to be the 'largest' economy.



Introduction

The EU today challenge

- In terms of GDP per capita, Asia is (rapidly) catching up with the EU.
- Europe: smaller in 2030 than in the year 0 of our era (percent).
- A paradox: is this 'shrinkage' not the best heritage from Europe?



EU27/World	1820	1870	1913	1950	1973	2001	2010	2030
GDP	26.6	37.5	38.0	29.7	29.0	22.3	20.5	?
Population	16.3	19.0	19.0	15.6	12.0	7.9	7.3	6.2

Introduction

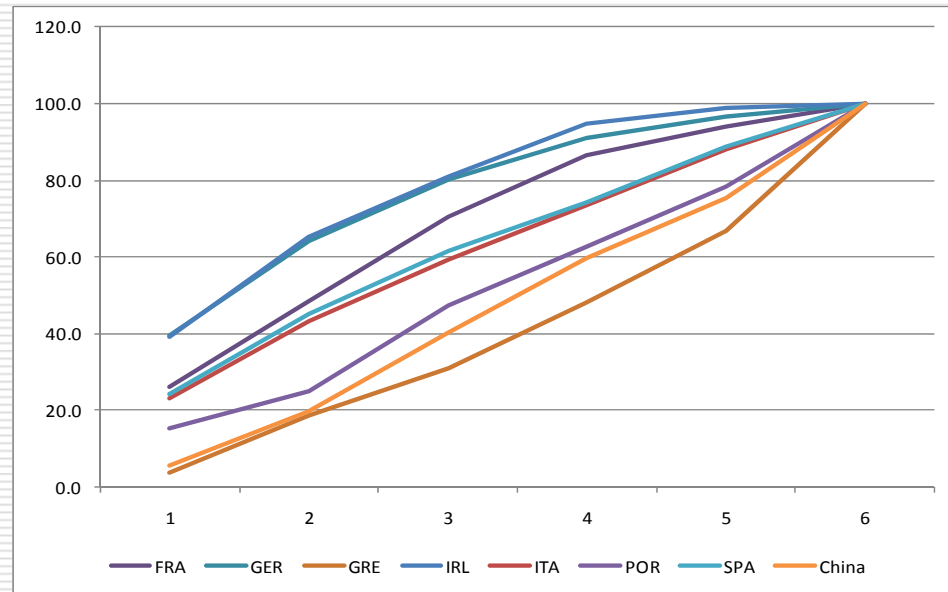
The EU focus on size has made it 'fragile'

- The EU has acquired size at the cost of heterogeneity that makes it much harder to govern (big differences in GDP per capita makes harder to have similar basic choices).

	EC	EC neighbours				U.S.	Chinese
	Member States	EFTA Turkey	West Balkans	Mediterranean Gulf countries	East Europe Central Asia	States	Provinces
	Richest	70014	47551	13232	68696	11861	67048
Poorest	9353	7786	2362	1691	1413	27290	1349
Ratio	7,5	6,1	5,6	40,6	8,4	2,5	10,2

**Trade (output) heterogeneity:
Shares of exports by level of technology (1=highest level, 6=lowest level) (Felipe & Kumar 2011).**

**Particular focus on:
Greece and China,
France and Germany,
Ireland and Germany.**



Section 1

Internal Market in goods and services

Internal Market in goods

A bright idea: mutual recognition...

- Very good initial successes in eliminating all intra-EU tariffs and quotas (1960s-1970s) thanks to the Court of Justice (1963 Van Gend & Loos ruling) stating that a dozen of Treaty provisions are of direct application: if individuals and firms want to go to courts, no need to go through EUMS.
 - That has left the EU with the problem of the technical norms (products and production process) as the key source of barriers to trade. A much more resilient problem not yet fully and satisfactorily (at an acceptable cost) solved. Businesses often complain that this problem is worsening.
 - In the 1970s-1980s, the Commission started to address this problem by designing harmonized norms (the 'Old' Approach) in four major industries (cars, chemicals, pharmaceuticals, processed food). This highly detailed Approach proved to be very burdensome and costly.
 - In 1979, a crucial regulatory innovation: the Court of Justice ruling on the 'Cassis de Dijon'.
 - Norms are potential measures having an 'equivalent effect' of quantitative restrictions.
 - Hence, the concept of 'mutual recognition' (MR): goods lawfully produced in one EUMS cannot be banned from sale in another EUMS, even if they are produced with different technical specifications.
 - Commission (and EUMS) interpretation: MR should be conditional to core 'essential requirements' (amount to a possibly large harmonization component) to be defined by negotiations among EUMS; then firms can choose freely their norms meeting these core requirements.
 - A paradox: the EU is not a good enforcer of its very innovative 'MR' concept.
-

Internal Market in goods

... increasingly badly enforced

- List New Approach Directives:
 - frequently reviewed
 - more constraining (average length of the Directives has increased by 25%).
- In other words, there is an increasing dose of harmonization in the New Approach which makes the EU regime increasingly much more costly.
- The ideal would seem to go in the other direction: more MR, because more trust.

Directive reference	Products covered
Directives with CE marking	
2009/105	<u>Simple pressure vessels (ex 87/404)</u>
2009/48	Toys safety (ex 88/378, ex 93/68)
89/686	Personal protective equipment (plus 93/68, 93/95, 96/58)
89/106	Construction products (plus 93/68)
2009/23	<u>Non-automatic weighing instruments (ex 90/384)</u>
2009/142	Appliances burning gaseous fuels (ex 90/396)
90/385	Active implantable medical devices (plus 93/42, 93/68, 2007/47)
92/42	Efficiency requirements for new hot-water boilers (plus 93/68, 2004/8, 2005/32)
93/15	<u>Explosives for civil uses</u>
93/42	Medical devices (plus 98/79, 2000/70, 2001/104, 2007/47)
94/25	Recreational craft (plus 2003/44)
94/9	<u>Equipment explosive atmospheres (ATEX)</u>
95/16	<u>Lifts</u>
97/23	<u>Pressure equipment</u>
98/79	In vitro diagnostic medical devices
1999/5	Radio and telecommunications terminal equipment
2000/9	Cableway installations designed to carry persons
2004/108	<u>Electromagnetic compatibility</u>
2006/95	<u>Low voltage equipment</u>
2004/22	<u>Measuring instruments</u>
2006/42	Machinery
Directives with no CE marking, based on the/some principles of the New Approach	
94/62	Packaging and packaging waste (plus 2005/20)
96/48	Interoperability of trans-European high-speed rail system (plus 2004/50)
96/98	Marine equipment (plus 2002/84)
2001/16	Interoperability of trans-European conventional rail system (plus 2004/50)
96/57	Energy efficiency requirements for household electric refrigerators
1999/36	Transportable pressure equipment
2000/14	Noise emission in the environment by equipment for use outdoors
2000/55	Energy efficiency requirements for ballasts for fluorescent lighting
86/594	Airborne noise emitted by household appliances
2001/95	General product safety
97/67	Community postal services (plus 2002/39)
79/769	Restrictions on marketing and use of certain dangerous substances and
92/75	Energy labelling of household appliances
2002/96	Waste electrical and electronic equipment (plus 2003/108, 2008/34)

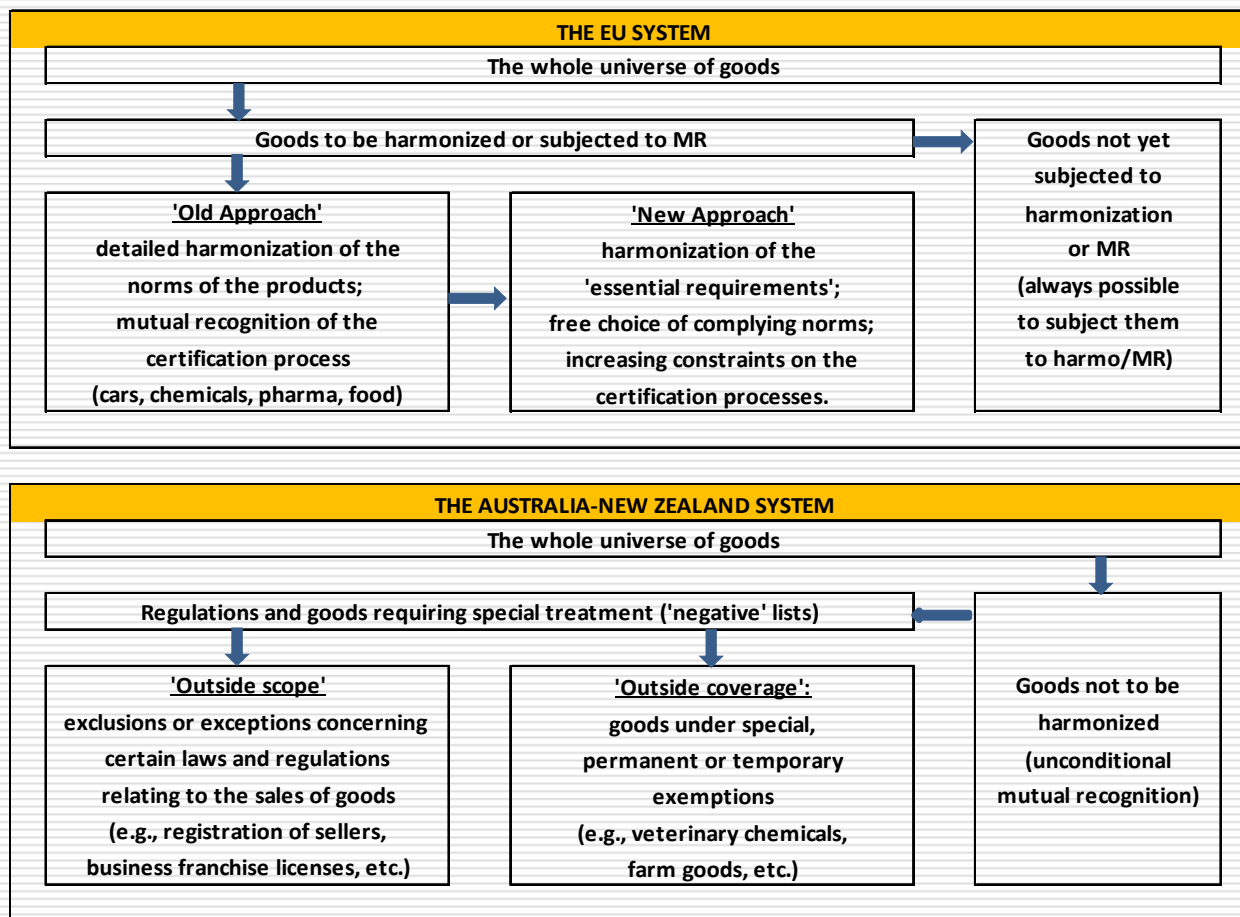
Internal Market in goods

Coverage of Old/New Approaches

- regulatory competition vs. regulatory harmonization: a debate that needs to be re-opened because of the evolution of the 'acquis communautaire' (and of the euro-crisis, see below):
 - growth: 3% per year (2% GDP growth) in 1990s, 5.4% per year (2.2% GDP growth).
 - acquis structure: 85% Directives set norms, 15% Directives support competition.
 - Central European Member States are increasingly reluctant: they feel this evolution is biased against their interests.

	Extra-EC trade share (in %)		Tariffs (in %) [a]			
	Import	Export	average	maximum	avg peak	nbr peak
Farm products	3.2	1.1	10.5	59.5	25.8	34
Old Approach	3.0	0.9	10.0	54.0	26.1	18
Food products	3.8	5.6	19.1	125.0	31.3	24.5
Old Approach	3.7	5.4	19.4	125.0	31.4	243
New Approach	0.1	0.2	7.9	24.4	22.9	2
Industrial products	93.0	93.3	5.7	85.4	25.4	48
Old Approach	16.2	29.6	5.5	35.0	19.2	32
New Approach	30.2	42.7	5.5	19.8	17.7	11
Non-harmonized	46.6	21.0	6.3	85.4	38.9	15

Internal Market in goods better ways to enforce MR? Yes



Internal Market in goods

The 'acquis': no convergence after 50 years...

- **A key problem:** if the *acquis communautaire* were a powerful framework, there should be some convergence among the EUMS, especially among the oldest ones.

	Ease of doing business G	Starting a Business S1	Dealing with Cons- truction Permits S2	Registering Property S3	Getting Credit S4	Protecting Investors S5	Paying Taxes S6	Trading Across Borders S7	Enforcing Contracts S8	Closing a Business S9
EU cohorts										
EU-1958	38	59	112	65	46	72	92	83	48	105
EU-1973	6	18	54	26	28	70	44	17	27	63
EU-1980s	63	118	21	43	11	14	12	14	30	7
EU-1995	20	65	102	77	11	44	118	78	71	93
EU-2004a	50	67	87	58	49	80	99	60	69	45
EU-2004b	21	59	53	109	60	79	64	31	37	29
EU-2007	51	44	70	79	75	97	73	55	55	30
Countries under accession negotiations										
Croatia	84	56	132	110	65	132	42	98	47	89
Turkey	65	63	137	38	72	59	75	76	26	115
Macedonia	38	5	136	69	46	20	33	66	65	116
Countries under DCFTA negotiations										
Ukraine	145	118	179	164	32	109	181	139	43	150
Countries willing to open DCFTA negotiations										
Armenia	48	22	78	5	46	93	159	82	63	54
Georgia	12	8	7	2	15	20	61	35	41	105
Moldova	90	94	159	18	89	109	106	141	20	92

Internal Market in goods

The 'acquis': no convergence after 50 years...

□ Restrictions on foreign investments (WB).

	Mining, oil and gas	Agriculture and forestry	Light manufac- turing	Telecom	Electricity	Banking	Insurance	Transport	Media	Construction, tourism, retail	Health care, waste man- agement
EU cohorts											
EU-1958	100	100	80	100	100	100	100	60	20	100	100
EU-1973	100	100	83	100	100	100	100	80	100	100	100
EU-1980s	100	100	100	100	50	100	100	45	50	100	100
EU-1995	100	100	100	100	71	100	100	80	75	100	100
EU-2004a	100	100	100	100	100	100	100	73	92	100	100
EU-2004b	--	--	--	--	--	--	--	--	--	--	--
EU-2007	100	100	100	100	100	100	100	80	100	100	100
Countries under accession negotiations											
Croatia	100	100	100	100	100	100	100	69	100	100	100
Turkey	100	100	100	100	79	100	100	69	63	100	100
Macedonia	100	100	100	100	100	100	100	80	100	100	100
Countries under DCFTA negotiations											
Ukraine	100	100	83	100	100	100	100	80	15	100	100
Countries willing to open DCFTA negotiations											
Armenia	75	50	100	100	100	100	100	56	100	100	100
Georgia	100	100	100	100	100	100	100	100	100	100	100
Moldova	100	100	100	100	100	100	100	100	75	100	100

Internal Market in goods

The 'acquis': no convergence after 50 years...

□ Corruption index (Transparency International)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/ 2002 [a]
EU cohorts										
EU-1958	18	18	20	20	20	19	21	23	25	36.1
EU-1973	12	11	10	11	11	10	11	11	12	0.0
EU-1980s	30	33	33	32	34	36	39	46	47	57.3
EU-1995	7	7	7	6	6	7	6	8	8	9.5
EU-2004a	42	46	47	45	44	43	43	43	43	2.9
EU-2004b	39	44	44	41	40	43	46	45	44	12.0
EU-2007	61	69	71	70	71	67	71	71	71	16.4
Countries under accession negotiations										
Croatia	51	59	67	70	69	64	62	66	62	21.6
Turkey	64	77	77	65	60	64	58	61	56	-12.5
Macedonia	--	106	97	103	105	84	72	71	62	-41.5
Countries under DCFTA negotiations										
Ukraine	85	106	122	107	99	118	134	146	134	57.6
Countries willing to open DCFTA negotiations										
Armenia	--	78	82	88	93	99	109	120	123	57.7
Georgia	85	124	133	130	99	79	67	66	68	-20.0
Moldova	93	100	114	88	79	111	109	89	105	12.9

Internal Market in goods

An option: regulatory competition

- ❑ Mutual recognition => regulatory competition
 - ❑ The key argument for regulatory competition: it can maximize consumers' welfare which increases with varieties of goods because varieties of goods tend to require varieties of regulations.
 - ❑ from price competition to variety-based competition (modern economies).
 - ❑ increased varieties ranked as number 1 gain by EU consumers already in the 1960s-70s.
 - ❑ caveat: possibility of excessive (hence sub-optimal) production of varieties.
 - ❑ additional arguments in favor of regulatory competition
 - it is generally assumed that harmonized regulations are better than the pre-existing non-harmonized ones => this assumption ignores the impact of the political process of harmonizing.
 - adopting harmonized regulations is a small part of the story: enforcing them in an harmonized way is the largest and most difficult part of the story.
 - By contrast, mutual recognition relies on impact assessments by independent bodies; this is the mark of trust-building societies (health issues, nuclear issues, etc.).
 - ❑ Decreasing trust among EUMS.
-

Internal Market in goods

Farm, food and fish products

- A few key points:
 - Common Agricultural Policy (CAP) (farm) is a key obstacle to EU attractiveness.
 - Strict sanitary and phytosanitary measures (food) are key barriers to exports to the EU of food products (Genetically Modified Organisms-GMOs).
 - They also tend to be key obstacles among EUMS (summer cucumber story GER-SPA).
 - Common Fisheries Policy even worse: the tuna case!
- Common Agricultural Policy
 - captured by large farmers.
 - the surprising case of France: not the largest beneficial of the CAP.
 - The surprising silence of the environmental groups: they do not strongly support CAP reforms, despite the costs of CAP on environment (forestry is one of the biggest losers of CAP).
 - The 'new' CAP (post-2013): many more instruments, much less subsidies.

Internal Market in goods

The CAP and France

			Etats membres	Protection globale (ESP) (%) 2002	Droits douane (%) 2004
			Irlande	99	26,2
			Luxembourg	75	25,6
			Finlande	72	26,5
			Grande Bretagne	72	25,5
			Suède	71	25,5
			Lithuanie	62	26,6
			Allemagne	61	24,5
			Lettonie	59	25,3
			Autriche	59	22,9
			France	59	21,6
			Rép. Tchèque	57	26,6
			Belgique	57	22,7
			Slovénie	57	21,2
			Estonie	55	27,2
			Danemark	54	26,1
			Slovaquie	54	25,2
			Pays-Bas	53	19,1
			Pologne	47	24,5
			Italie	45	19,1
			Hongrie	44	23,5
			Espagne	43	19,1
			Portugal	43	18,3
			Grèce	40	18,7
			Malte	37	18,6
			Chypre	n.a.	n.a.
			EC-15	55	21,9

Shares of French farmers (%)	Employment (2005) UTA	Production (2006) Mrds euros
benefiting from a Doha Round failure	22	27
"neutral" to the Doha Round	19	14
loosing from a Doha Round failure	59	59
All	100	100

Internal Market in goods

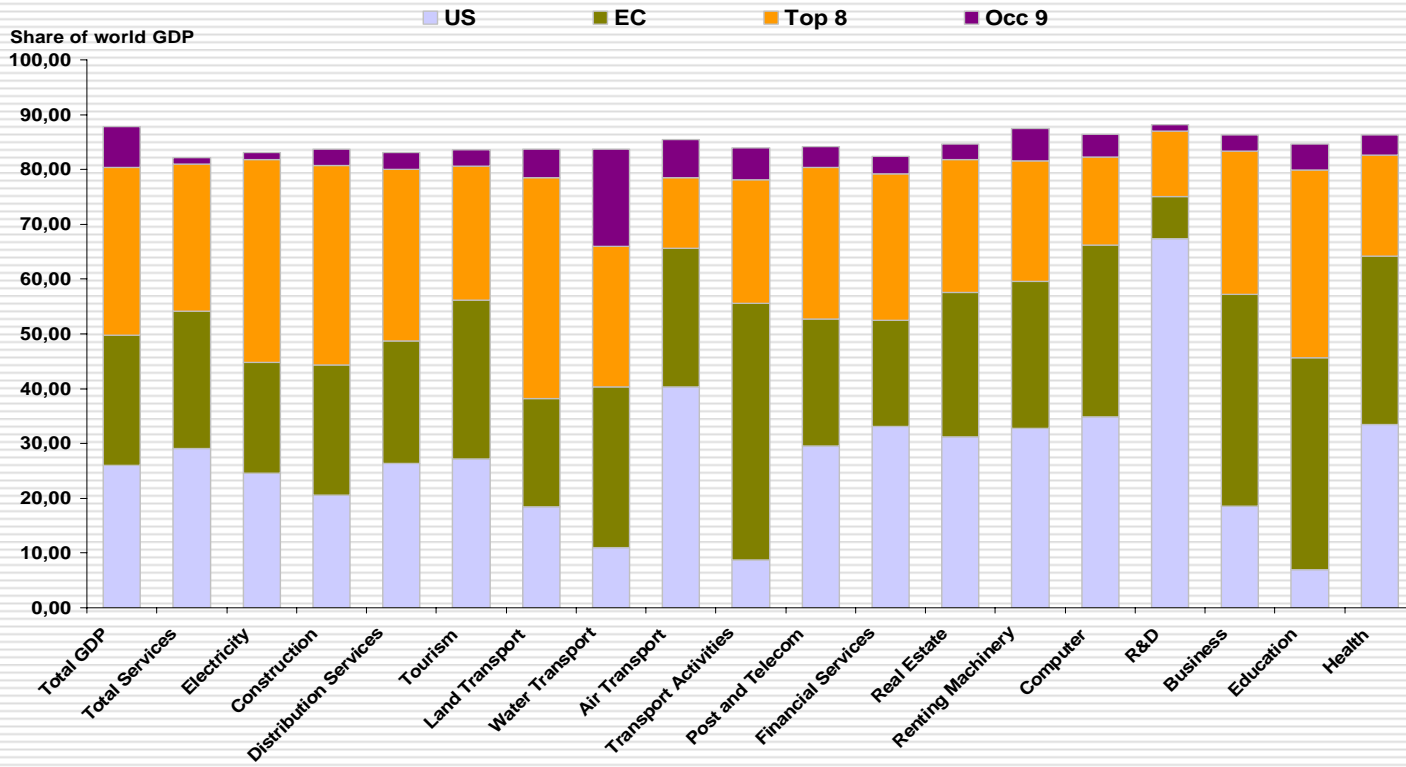
Potential CAP reforms post-2013

- The new CAP should rely on new instruments, much less on EU budget (grey cells: heavy reliance on budget, cells with underlined Yes: limited reliance).

Topic	Declining policies			Emerging policies						
Author	Market-rel. subsidies	Income support	Regulations	Targeted support	R&D Investment	Insurance	Regulations Evaluation	Public-Private	Competition policy	Open trade
Climate change					Yes	<u>Yes</u>				Yes
Nelson					R&D & infrastruct.	catastro- phic events				insurance role
Water	Yes				Yes	<u>Yes</u>		Yes		Yes
Schultz	waste				pricing & infrastruct.	catastro- phic events		property rights		insurance role
Le Vernoy										
Energy	Yes				<u>Yes</u>					Yes
Levi	biofuel 1st generation				biofuel 2nd generation					
Food security	Yes	Yes			Yes			<u>Yes</u>		Yes
Swinnen	supply based	supply based			productivity lag			demand based		
Food safety			Yes				Yes			Yes
Swinnen			limited evaluation				systematic evaluation			
Quality			Yes				Yes	Yes	Yes	Yes
Swinnen			private norms				mutual recognition			
Adjustment	Yes	Yes		<u>Yes</u>					Yes	Yes
Moreddu				limited and irrevocable						
Multifunctionality	Yes	Yes						<u>Yes</u>	Yes	Yes
Harvey								charities		
Risk management	Yes	Yes				<u>Yes</u>				Yes
Molander						catastro- phic events				
Competition Policy									Yes	Yes
Spector									retailers CMOs	

Internal Market in Services

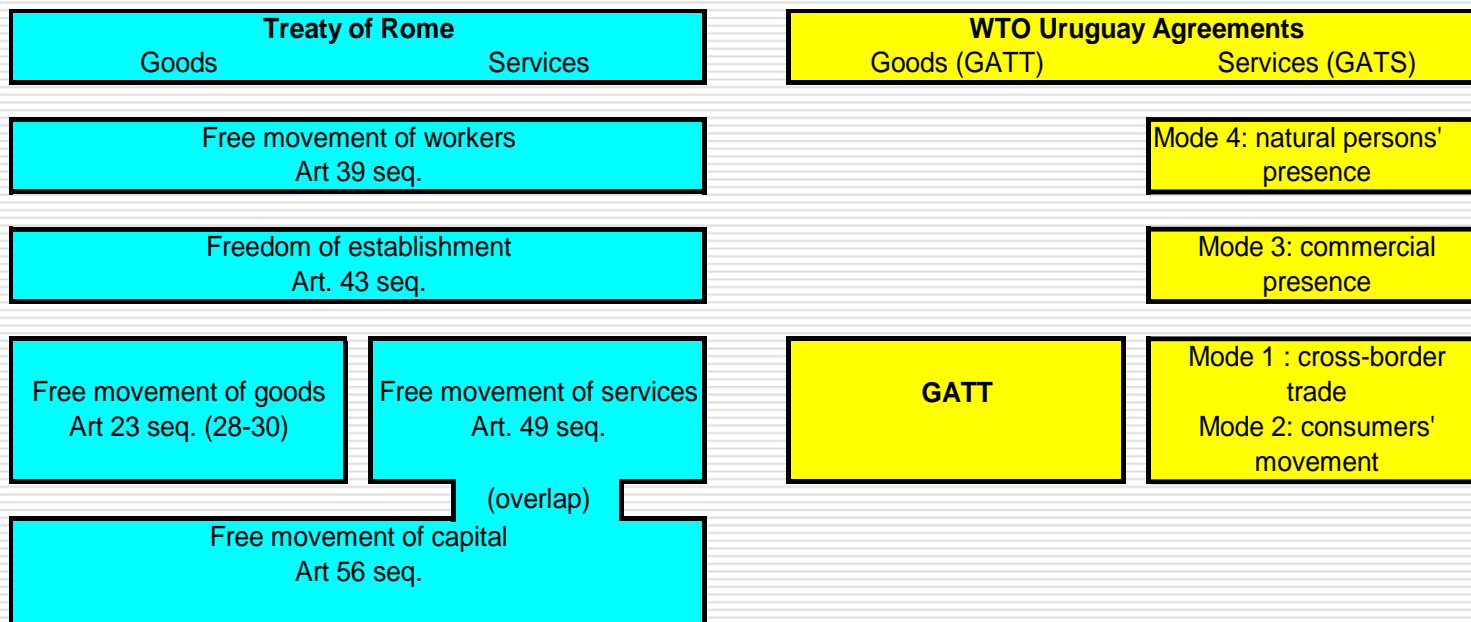
- The EU markets in services is still relatively large (20% to 40% of the world markets) because the emerging economies tend to have less developed services sectors.



Internal Market in Services

Other bright EU ideas...

- The Treaty of Rome (1957): services are defined as not being goods.
- Unilateral services liberalization started in a few EUMS (Britain, Ireland, Netherlands).
- Court of Justice rulings open the door to services liberalization at the EU level: Cassis de Dijon (mutual recognition 1979) and British Telecom ruling (state owned enterprises in commercial activities 1985).



Internal Market in Services

... badly enforced

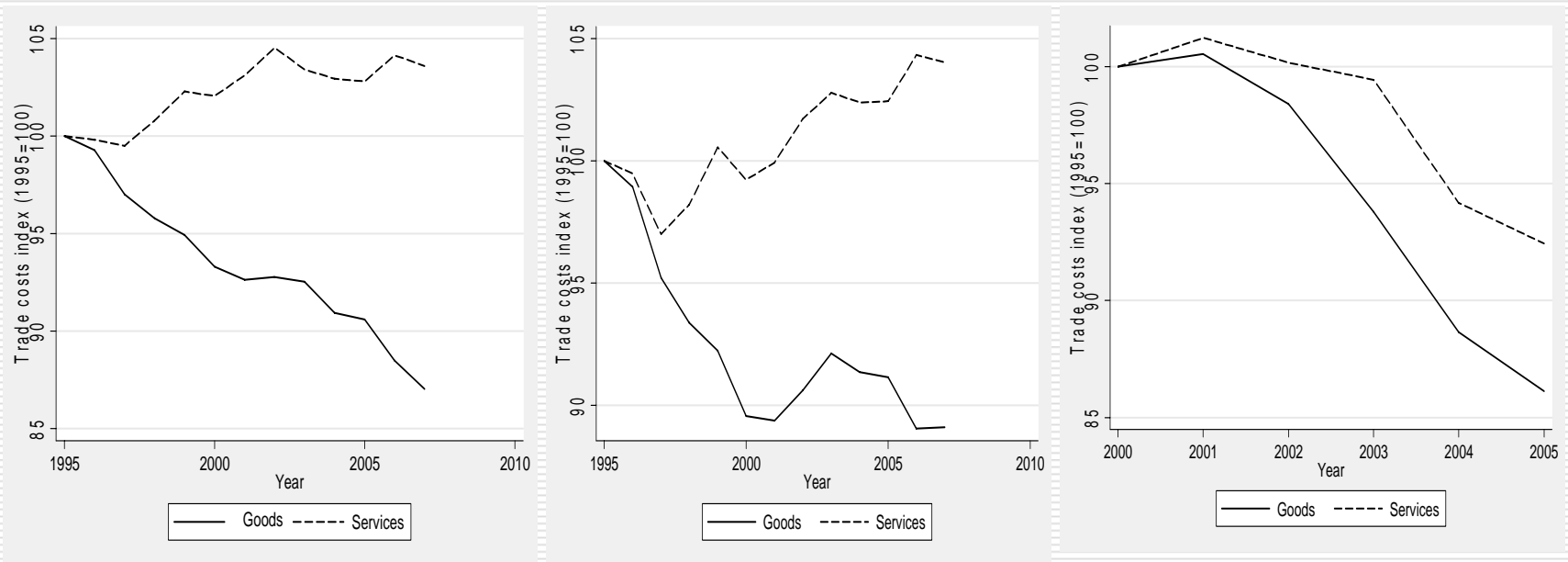
- Initially (mid-1980s), only 50 or so EU 'Directives' were thought to be sufficient for creating an Internal Market in services.
- Increasing number of Directives with negotiated 'harmonized cores' (conditional MR).

	Number of texts					All	All (shares) (%)
	1958 1985	1986 1990	1991 1995	1996 2000	2001 2005		
Freedom of workers	4			1	8	13	2,2
Right of establishment, freedom to provide services	5	1		3	1	10	1,7
Free movement of capital	1	2	1	5	4	13	2,2
Financial services							
Banking and financial conglomerates		1	2	5	2	10	1,7
Insurance and occupational pensions	10	5	7	4	11	37	6,3
Securities markets and investment services	1		1	2	9	13	2,2
Others				1	10	11	1,9
Information society and media							
Audiovisual Policy		2		3	3	8	1,4
Electronic communications		2	2	7	39	50	8,6
Information Society Directive				4	2	6	1,0
Transport Policy							
Land transport: road	6	5	16	25	27	79	13,6
Land transport: rail	1		3	6	25	35	6,0
Inland waterways	5	4	10	9	4	32	5,5
Maritime transport	5	6	8	20	50	89	15,3
Air transport		1	17	21	49	88	15,1
State aid	3	2	10	4	4	23	3,9
Energy							
Electricity					3	3	0,5
Gas					3	3	0,5
Hydrocarbons	4		2	1		7	1,2
Coal					2	2	0,3
New and renewable sources of energy	1		2	2	10	15	2,6
Nuclear energy	2	4	4	6	5	21	3,6
TransEuropean networks							
Transport			1	2	5	8	1,4
Energy			1	3	3	7	1,2
Acquis communautaire in services	48	35	87	134	279	583	100,0
in percent of total	8,2	6,0	14,9	23,0	47,9	100,0	

Internal Market in Services

Disappointing results (1/6)

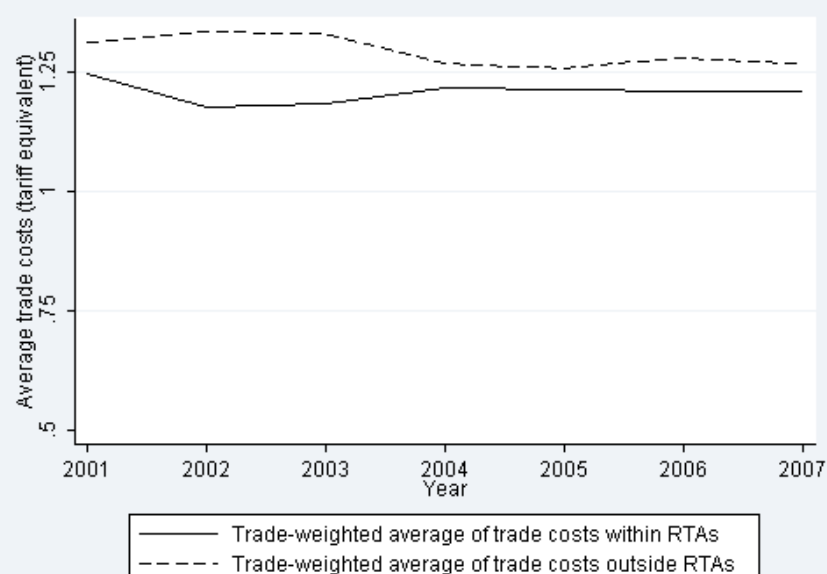
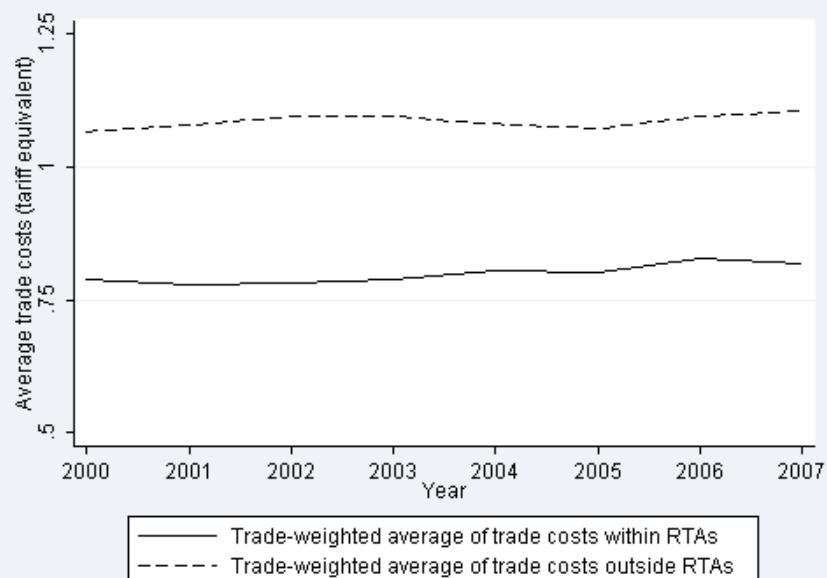
- Trade costs indices, 1995/2000-2007 (Miroudot, Sauvage, Shepherd 2010)
- Disappointing performances for the EU (left) and the US (middle), in particular compared to China (right)



Internal Market in Services

Disappointing results (2/6)

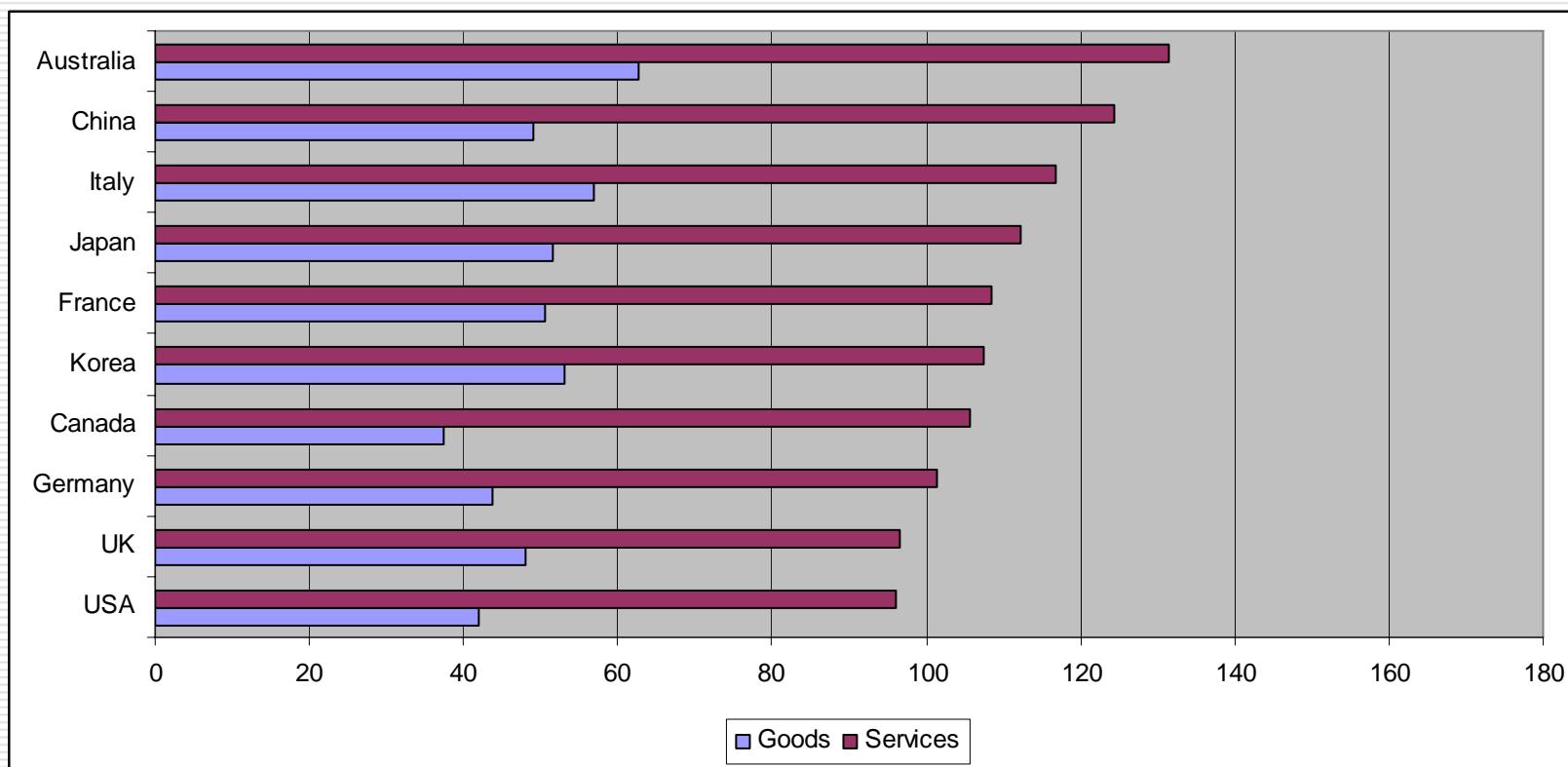
- Trade costs within and outside preferential trade agreements: goods (left) vs. services (right).



Internal Market in Services

Disappointing results (3/6)

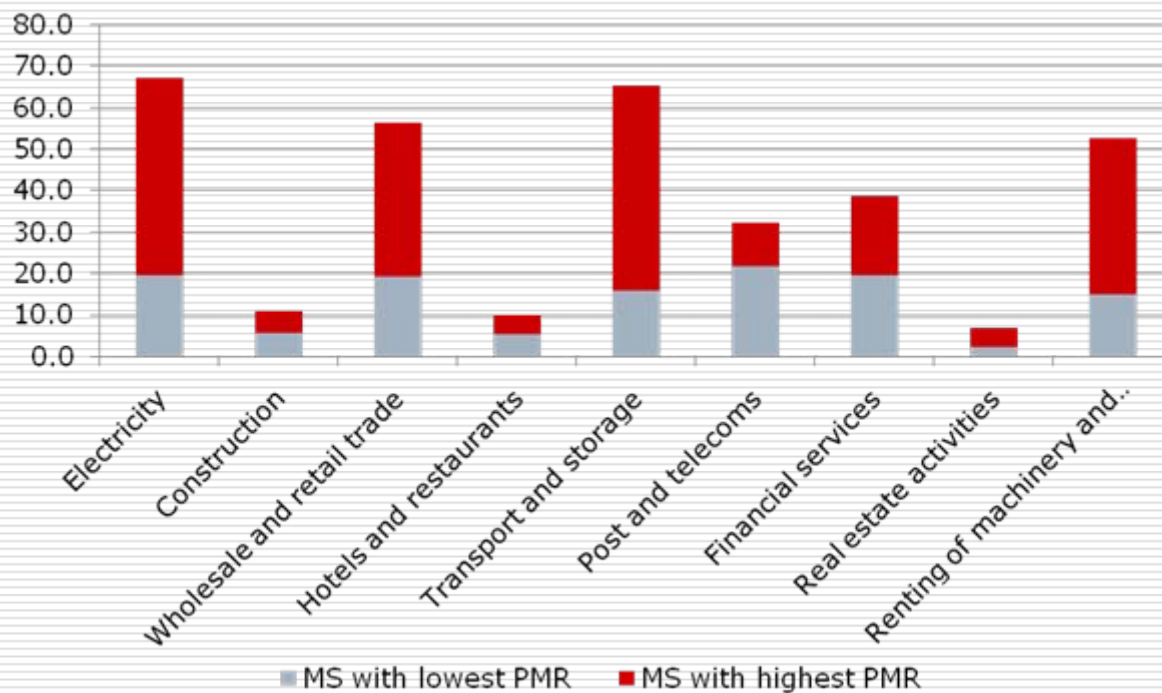
- Again no convergence in trade costs among EUMS (Miroudot, Sauvage & Shepherd).



Internal Market in Services

Disappointing results (4/6)

- Two first results (based on Product Market Regulation (PMR) indicators, OECD 2008):
 - huge differences between highest and lowest PMR indicators,
 - Hence wide “water in protection” within the EC (trans-border coalitions) opening the door to deeper liberalization.



Internal Market in Services

Disappointing results (5/6)

- Two other results from the PMR indicators:
 - the ECMS with the highest (second highest) PMR always a large ECMS (political economy).
 - the ECMS with the lowest PMR always a small ECMS (one exception for Britain—advantage to the first).

	Highest PMR		Second highest PMR		Lowest PMR	
	PMR	ECMS	PMR	ECMS	PMR	ECMS
Electricity	67.2	Italy	49.3	France	19.5	Denmark
Construction	10.8	Greece	10.7	France	5.8	Sweden
Distribution	56.2	France	51.8	Austria	19.4	Sweden
Hotels, restaurants	12.4	Austria	9.9	Italy	5.4	Sweden
Transpor, /storage	65.4	Greece	51.3	Italy	15.8	Britain
Post, telecoms	32.2	Belgium	29.7	Italy	21.8	Denmark
Financial services	43.9	Austria	38.6	Italy	19.6	Ireland
Real estate	7.6	Austria	6.9	Germany	2.4	Greece
Renting of machinery	53.8	Austria	52.7	Germany	15.0	Sweden
Business services	52.0	Austria	51.0	Germany	15.0	Sweden

Internal Market in Services

Disappointing results (6/6)

- Wide differences among trade investment restrictiveness indexes among the EUMS make difficult to believe that intra-EUMS barriers have been seriously eroded.

	1. Legal services	2. Accounting	3. Architecture	4. Engineering	5. Fixed telecoms	6. Mobile telecoms	7. Construction	8. Distribution	9. Insurance	10. Banking	11. Hotels/Resto	12. Air transport	13. Maritime transpoc	14. Road transport	15. Electricity
Belgium	22	22	22	22	72	72	22	22	44	44	22	122	248	72	22
France	233	33	33	33	72	72	22	22	138	94	22	198	198	72	322
Germany	22	22	22	22	122	122	22	22	116	72	22	248	198	22	122
Italy	22	22	22	22	72	72	22	22	88	144	22	494	66	22	122
Netherlands	11	11	11	11	11	11	11	11	55	33	11	411	355	11	611
Britain	17	17	17	17	17	17	17	17	83	67	17	267	361	17	17
Denmark	1000	562	22	22	72	72	22	22	44	22	22	422	22	122	122
Ireland	22	22	22	22	122	122	22	22	88	44	22	466	66	22	1000
Greece	462	506	462	462	122	122	22	22	88	88	22	522	254	22	1000
Portugal	22	66	22	22	122	122	22	22	116	172	22	1000	122	22	122
Spain	512	66	22	22	322	322	22	22	226	182	22	304	316	22	22
Austria	348	348	348	348	172	172	172	172	272	172	172	322	472	222	172
Finland	550	550	110	110	110	110	110	110	110	160	110	310	210	154	210
Sweden	556	292	66	66	166	166	66	66	116	116	66	316	266	166	166
Czech Rep.	125	375	50	50	50	50	100	50	150	150	50	450	100	100	450
Estonia	1000	22	22	22	22	22	22	22	122	22	22	322	366	22	622
Hungary	100	100	100	100	200	100	100	100	150	100	100	500	400	150	200
Latvia	0	0	0	0	0	0	0	0	0	0	0	132	0	100	1000
Lithuania	50	50	50	50	50	50	50	50	50	100	50	350	94	50	650
Poland	225	175	75	75	375	375	75	75	75	325	75	375	75	125	175
Romania	250	50	50	50	150	150	50	50	50	175	50	750	150	50	450
Slovakia	75	375	75	75	72	72	72	72	172	172	72	372	122	72	322
Slovenia	125	125	100	100	200	100	100	100	100	100	100	740	244	100	700
EU-27	157	75	42	42	106	105	29	29	115	102	29	319	227	47	188
China	300	425	100	100	550	450	150	450	350	550	150	550	550	150	750
India	1000	1000	1000	50	350	350	250	600	450	350	50	350	450	50	400
Japan	100	100	25	25	286	25	25	25	25	75	25	675	275	25	25
Korea	75	75	50	50	400	400	50	50	50	50	50	350	450	50	400
United States	75	25	25	25	25	25	25	25	175	275	25	650	275	25	125

Internal Market in Services

An alternative: the Services Directive?

- The initial draft: principle of the country of origin (Audiovisual Directive.)
- Article 14: 'prohibited requirements' (nationality, location, etc.)
- Article 15: 'requirements to be evaluated' (provisions in domestic laws on territorial restrictions, minimum number of employees, etc.) ==> concept of 'mutual evaluation'.

The Services Directive: services mentioned as...			Covered by the other Directives (see Table Directives)	Not yet covered by Directives
covered by the Directive	explicitly excluded			
Lightly regulated	Relatively regulated	Notaries Amateur sports Urban transports Taxis, ambulances Healthcare Housing, childcare Social services Taxation Port services Audiovisuals Gambling services	Financial services Audiovisuals Telecoms and IT Land transport Inland waterways Maritime services Air transport Electricity Gas Gambling services Other energy Post Water	Notaries * Amateur sports * Urban transports * Taxis, ambulances * Healthcare * Housing, childcare * Social services * Taxation * Education Government services
Management services Data processing Logistics Market research Single cleaning Software Tourism Voluntary certification Wholesale trade	Construction Engineering, architects Entertainment Hotels, cafes Mandatory certification Professional services Recruitment Repair, maintenance			

*: mentioned in the Services Directive

Section 2

Commercial and Neighbourhood Policies

Commercial Policy

Slow effective exclusive competence

- **Tariffs in goods: across the board cuts (not a “low hanging fruits” approach as often today) of intra-EC level tariffs, but there was the need of the Kennedy Round (1967) to cover all the goods (CET).**
- **Quotas in goods: achieved by the late 1980s:**
 - Article 115, VERs (Poitiers VCR case), then (regional) antidumping/safeguard cases.
- **TBTs (norms): still incomplete (New Regulations since January 2010).**
- **Trade in services and IPRs**
 - The ‘EU and its MS’ until the end of the Uruguay Round negotiations (1994).
 - 1994 Court’s ruling on competence. De facto EUMS still key via domestic regulations.
- **Investment (new under the TFEU)**
 - Bilateral Investment Treaties: staunch opposition of Germany, Netherlands, UK.
- **Consequences of this slow development:**
 - often (increasingly) lack of trust between the Commission and the MS,
 - last minutes crises in international negotiations (EU-Korea FTA).
 - The new role of the European Parliament: the EU-Korea safeguard.

Commercial Policy

'Global Europe' initiatives (2006/10)

- **Some more realism in de Gucht (2010) vs. Mandelson (2006)**
 - More focus on trade as pro-growth,
 - less focus on 'norms setting'.
- **But fails to take into account the EU fragility in a much tougher world (size # strength).**
- **Lip service to the Doha Round**
 - no sense of the "Doha value",
 - bad timing of the initiative launch,
 - Launches a race to FTAs that the EC may lose,
 - weakens the WTO—the shield of fragile countries, such as the EU.

A. Value based on additional market access

Tariff cuts in goods	100-150
Full market access in three sectors	100
Modest liberalization in services	100
Trade facilitation	350

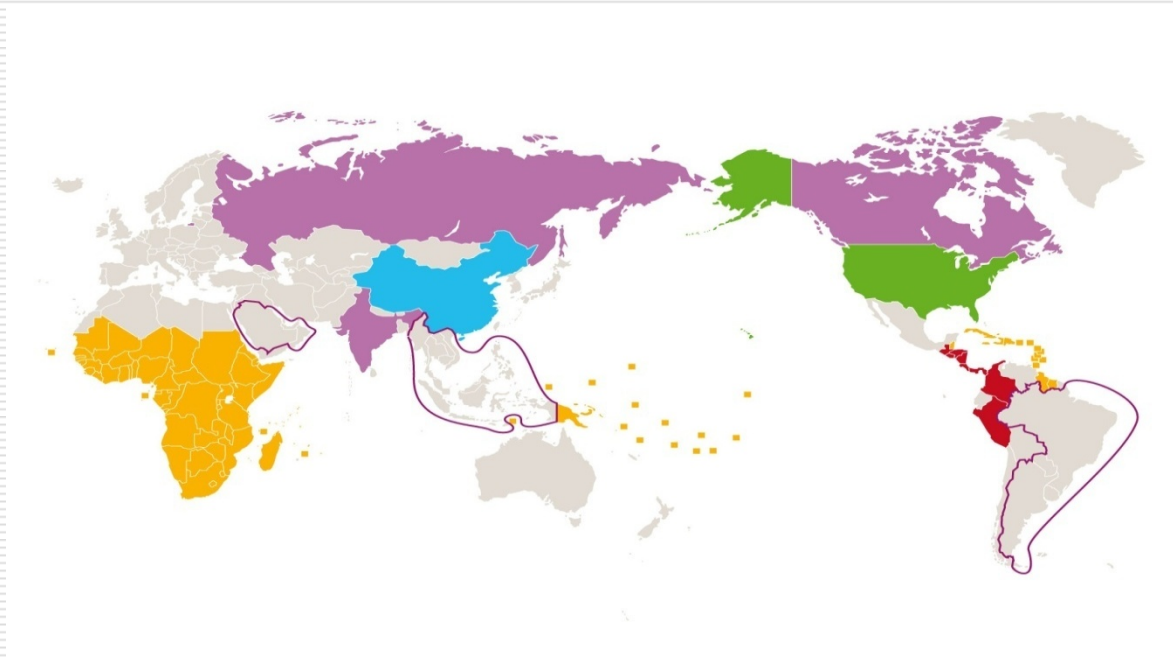
B. Value based on increased certainty

Cost of increasing applied tariffs to bound tariffs (when possible)	900
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Commercial Policy

'Global Europe' 2010: too ambitious?

- ❑ **Targets:** some form of preferential trade agreements (PTAs) with 34+ countries (purple), 9 countries (red) and 68 ACP countries (yellow) plus undefined initiatives for the US, Japan and China (though increasing talks of PTAs with Japan and the US).
- ❑ **Two problems:** under-estimates the role of the European Parliament; over-estimates FTAs impact (see above on trade costs).



Commercial Policy

EU vs. US approach to PTAs

- WTO topics: US PTAs are much more systematically 'legally enforceable' than EU PTAs (Horn, Mavroidis and Sapir 2009).

Area covered	Other EUR					N. Am				
	EU1	EU2	EU3	EU4	EU	US1	US2	US3	US4	US
FTA industrial goods	2.0	2.0	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
FTA agricultural goods	2.0	2.0	1.2	1.7	2.0	2.0	2.0	2.0	2.0	2.0
Customs administration	2.0	2.0	1.6	2.0	2.0	2.0	2.0	1.6	2.0	2.0
Export taxes			0.6			2.0	2.0	1.2	2.0	2.0
Sanitary and phytosanitary measures	0.8	0.4	1.0	1.3	2.0	2.0	1.0	1.0	0.7	1.0
Technical barriers to trade (TBT)	1.4	1.0	1.2	1.3	2.0	2.0	2.0	1.2	1.7	2.0
State trading enterprises (STE)	2.0	2.0	0.7	1.0	2.0	2.0	1.4	0.2	1.7	1.0
Antidumping (AD)	2.0	2.0	1.4	1.3	2.0	2.0	2.0	1.2	2.0	2.0
Countervailing measures (CVM)	2.0	2.0	1.4	1.3	2.0	2.0	2.0	1.2	2.0	2.0
Safeguard	--	--	--	--	2.0	--	--	--	--	--
State aid	2.0	2.0	0.7	1.0	2.0	2.0	2.0	1.6	0.7	
Public procurement	1.6	0.2	0.8	1.5	1.0	2.0	2.0	1.8	2.0	2.0
Trade-related investment measures				0.3		2.0	1.6	0.8	2.0	2.0
Trade in services agreement (GATS)	0.4		1.1	1.3	1.0	2.0	2.0	1.6	2.0	2.0
Trade-related intellectual property	2.0	2.0	1.1	1.7	2.0	2.0	2.0	2.0	2.0	2.0

Commercial Policy

EU vs. US approach to PTAs

□ Even truer for non-WTO topics

	Other EUR	MENA	Africa	RoW	Korea	N. Am	Latin A	MENA	Asia	Korea
	EU1	EU2	EU3	EU4	EU	US1	US2	US3	US4	US
Anti-corruption			0.3				1.6	1.2	1.3	2.0
Competition policy	2.0	2.0	0.9	1.2	2.0	1.0	0.6		1.0	1.0
Consumer protection	1.0	0.2	0.1	0.3					0.7	1.0
Data protection	0.8		0.7	1.0						
Environmental laws	1.0	1.0	0.6	0.3		2.0	2.0	1.6	2.0	2.0
Investment	1.6	1.0	0.7	0.7		2.0	2.0	0.8	2.0	2.0
Movement of capital	1.6	2.0	1.0	1.3	2.0	2.0	2.0	1.2	2.0	2.0
Labour market regulations	0.4		0.3	0.7	2.0	2.0	2.0	1.6	2.0	2.0
Intellectual Property Rights (IPR)	1.8	2.0	0.6	1.3	2.0	2.0	2.0	1.6	2.0	2.0
Agriculture	0.6	1.0	0.3	0.3						
Approximation of legislation	1.2	1.0								
Audiovisual	1.0	0.4	0.3	0.7	1.0					
Civil protection	0.4									
Innovation policies			0.4	0.7	2.0					
Cultural cooperation	1.0	1.0	0.3	1.0	2.0					
Economic policy dialogue	1.0		0.1	0.3						
Education and training	1.0	0.8	0.1	0.3						
Energy	1.0	1.0	0.4	0.3		2.0				
Financial assistance	1.0	0.8	0.4	0.3						

Commercial Policy

EU vs. US approach to PTAs

□ Cont'd.

	Other EUR									
	Other EUR	MENA	Africa	RoW	Korea	N. Am	Latin A	MENA	Asia	Korea
	EU1	EU2	EU3	EU4	EU	US1	US2	US3	US4	US
Health	0.4		0.4	0.0						
Human rights	0.6	1.0	0.7	1.3	1.0					
Illegal immigration	1.2	0.4		0.3						
Illicit drugs	0.6	1.0	0.1	0.3						
Industrial cooperation	0.6	1.0	0.3	0.3						
Information society	0.6	0.2	0.3	0.3						
Mining			0.3	0.7	1.0					
Money laundering	0.6	1.0	0.3							
Nuclear safety	0.4									
Political dialogue	0.6	1.0	0.3	0.3						
Public administration	0.6		0.3	0.3						
Regional cooperation	0.6	1.0	0.9	0.3						
Research and technology	1.0	0.8	0.4	0.3						
Small and medium enterprise	1.0		0.7	0.7	1.0					
Social matters	1.6	1.4	0.4	0.7	1.0					
Statistics	1.0	0.8	0.3	0.3						
Taxation	0.6									
Terrorism	0.8	0.2		0.3						
Visa and asylum	0.6	0.2								

How to 'value' a PTA?

- ❑ Focusing on 'preferences' or on the 'quality' of the trading partner?
- ❑ The opposite strategy of Japan/Korea and the EU: see table below (based on 2007 data).

	Number of partners	Market size [a]		Average industrial tariff [b]		Regulatory ranking [c]				
		at current USD	at PPP USD	applied	bound	trading across borders	dealing with licences	ease of doing business	regis- tering property	protec- ting investors
		2	3	4	5	6	7	8	9	10
A. Bilaterals signed										
Singapore	10	48.5	39.3	4.8	9.2	35.8	41.7	28.0	35.3	16.7
Chile	20	79.0	70.4	5.5	8.0	34.1	70.8	41.5	39.6	46.3
Korea	14	4.1	5.8	7.1	21.5	58.8	70.3	69.0	59.2	68.7
USA	15	7.6	6.5	7.5	19.6	42.9	41.9	29.2	50.1	34.0
China	14	2.9	5.9	8.0	25.4	63.1	77.3	72.8	66.7	55.4
EC	14 [d]	6.4	8.2	9.2	18.3	76.8	91.9	67.1	80.4	53.4
Japan	4	2.7	3.3	10.0	27.4	69.4	62.4	55.6	76.6	52.4
B. Bilaterals under negotiations or consideration										
Singapore	12	90.6	81.2	5.7	9.0	40.0	68.9	43.5	42.3	41.0
Chile	9 [e]	81.6	77.7	6.4	10.3	43.2	77.8	49.4	45.5	45.1
Korea	11	49.1	57.4	7.3	13.3	43.3	85.3	57.6	39.8	40.4
Japan	18	13.4	16.4	7.5	20.0	53.5	58.3	54.8	60.6	56.6
USA	14	14.9	16.5	8.8	21.3	54.1	69.7	52.2	64.7	44.2
China	12	10.4	17.0	10.1	25.5	83.1	96.4	83.5	76.1	47.2
EC	24	23.4	44.2	10.3	17.8	71.1	125.6	91.2	61.8	64.8

Commercial Policy

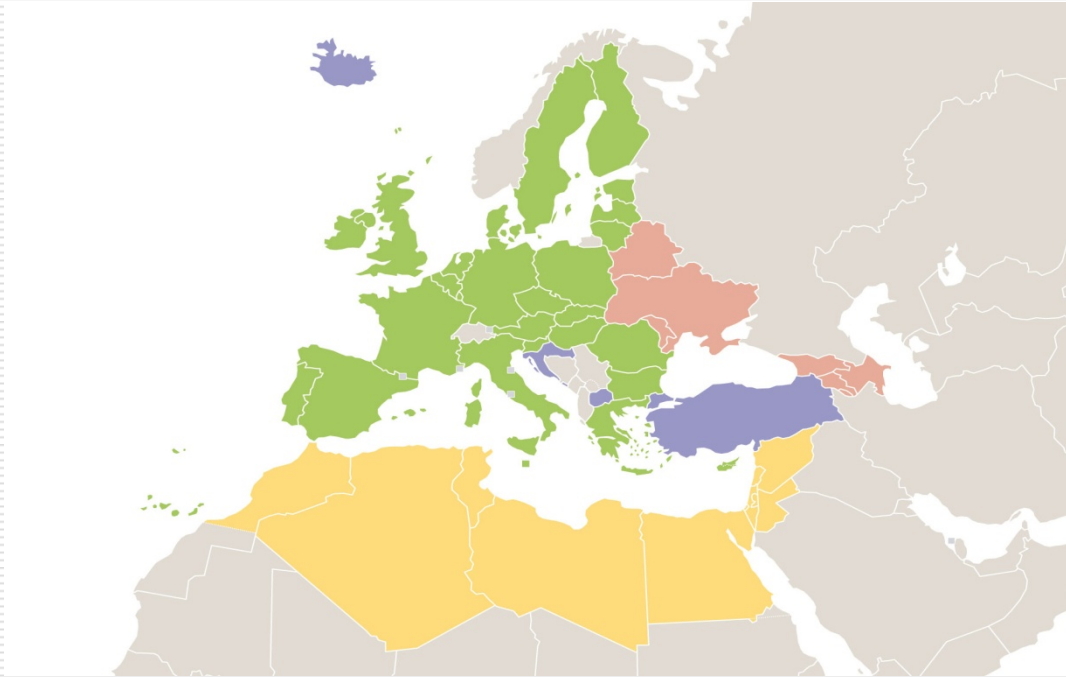
'Global Europe' 2010: too confrontational?

- Too many goals with too heavy political fights and too little domestic and foreign support:
 - Investment => fights with key EC Member States (hence no domestic EUMS support).
 - Intellectual property rights => fights with trading partners with no support from foreign consumers.
 - Public procurement => fights with foreign governments and with EUMS which sell them (France, Airbus, TGVs, nuclear plants, etc.), hence lack of foreign and some EUMS support.

- Global Europe pays no attention to the “dynamics” of PTAs: roller-coaster for EC firms since this policy consists in PTAs that create preferences to be eroded by the following PTAs.

Neighborhood policy

- EN policies have three main failures
 - Bad development policy: it hurts partners' growth with heavy regulatory costs.
 - Bad trade policy: often, it does not boost EU trade.
 - Bad foreign policy: hegemonic in nature.



Neighborhood policy

Which is the most open country?

- No more the EU. Differences between the Eastern Partners and the Meds.
- Georgia special case: 3 unilateral reforms: (i) very low (industry) or moderate (agriculture) tariffs, (ii) free foreign direct investment in all sectors, and (iii) “unconditional” mutual recognition of OECD norms (the most accomplished enforcer of the *Cassis de Dijon* ruling).

	Applied tariffs (%)			WTO notifications			Services under GATS
	all goods	agriculture	industry	antidumping	antisubsidy	safeguard	
European Union	5.9 [a]	13.5 [a]	4.6	144	10	0	115
Countries under accession negotiations							
Croatia	4.9	10.7	4.0	--	--	0	126
Turkey	9.7	42.9	4.8	110	1	9	77
Macedonia	7.3	13.4	6.4	--	--	0	115
Countries with signed or ongoing DCFTA negotiations							
Korea	12.1	48.6	6.6	43	--	0	98
Ukraine	4.6	9.7	3.8	19	0	1	137
Countries willing to open DCFTA negotiations							
Armenia	2.8	6.8	2.2	--	--	0	106
Georgia	1.3	7.7	0.3	--	--	0	125
Moldova	4.6	10.7	3.7	--	--	1	147

Commercial and neighbourhood policies

Which alternative strategies?

- A big push for the Doha Round, in particular by launching plurilateral exploratory talks in services as quickly as possible with a few large countries (a dozen) and a focus on a few sectors (business, communication and distribution which a value added equivalent to agriculture and manufacturing).
- A successful Doha Round will be:
 - a powerful contribution to macroeconomic imbalances,
 - support from foreign consumers (households and firms) and domestic producers (services providers and industrial firms),
 - could extract the Doha Round from its current impasse.
- A failed Doha Round?
 - The risk of PTAs among the largest countries of the world (for the while, only NAFTA, EU-Korea)
 - PTAs minus one (China) or two (China, the US)?
 - This prospect should push China and the US to be more careful.

Section 3

The Euro Crisis

The Euro crisis: 10 years of fantasies

□ Euro: the 'original sin'

- Euro would have required that Euro-Zone Members States (EZMS) behave as the German economy (export structure), hence introduce deep domestic regulatory reforms.
- Monetary policy: not powerful alone enough to push for such domestic reforms.

□ The European crisis from 2008 to 2010

- Two different situations: dominant public debt (Greece) vs. dominant private debt (Ireland).
- Two failures before 2008: the ECB (did not monitor enough private debt) and the Commission (did not monitor public debt).
- The 2008 crisis transformed all these situations in a huge public debt problem for the EZMS.

□ 'Euro' crisis since 2010

- The ECB has been hesitant to play the lender of last resort (LLR) for government bonds (was rapid to play this role for private funds in 2008). A recent move on Italian and Spanish bonds but the ECB choice does not seem fully confirmed.
- Meanwhile, a dramatic shift during the last year from:
 - a liquidity crisis (one bank's solvency problems leads deposit holders to withdraw their deposits: 'bank runs'). (This is the level at which the LLR can act).
 - to a solvency crisis (banks sell their assets, possibly to the point of depressing assets prices so that banks owe more than they own).
 - to confidence crisis (complete loss of confidence in the political decision-making system).

The Euro crisis: the situation

□ The situation

- Until summer 2011, complete focus on fiscal austerity which is the 'normal cure' in periods not characterized by a solvency/confidence crisis, but which is a recipe for failure in a solvency/confidence crisis.
- EU banks are fragile (stress tests not very convincing) and have heavily invested in EZ government bonds
- EZMS have no public resources left since 2008.

□ Deep misunderstanding of the size of the problem by policy-makers

- In a solvency crisis, what counts are debt stocks (the total debts) not flows (the fractions of the debts due in the coming months/year).
- Debt stock of Greece, Ireland, Portugal, Spain and Italy is roughly Euros 3.35 trillions => but, the European Financial Stability Facility has an access to Euros 0.44 trillion only.
- Debt stock of the whole EZ is estimated to Euros 6.7 trillions (out of which Euros 2 trillions for Germany and Euros 1.3 trillions for France).

The Euro crisis: options (1/2)

- Surrogates for the ECB (EFSF/ESM) ? No because of the amount of funds needed.**
- The ECB as the LLR of governments bonds.**
 - **Less expensive than being LLR of banks (ratio bank liabilities/GDP is 3 times bigger than ratio public debt/GDP).**
 - **Risk of inflation? No because LLR aims at expanding the monetary base, not the monetary stock (M3).**
 - **Fiscal consequences (if ECB makes losses, it commits future EU taxpayers)? Yes, but that is true of all open market operations (private as well).**
 - **Moral hazard? Yes => requires rules on debt breaks a la Merkel-Sarkozy**

The Euro crisis: options (2/2)

Eurobonds

- **Definition: bonds with joint-several guarantee (one EZMS may have to pay up for the Eurobond debt of another EZMS).**
- **Pros:**
 - Lower yield? Not sure, especially if Eurobonds cover a large share of the outstanding debt.
 - More liquidity? Yes, but not so much.
- **Cons:**
 - Same yield: differences in risk premia are justified by differences in EZMS fiscal policies (not panic as suggested by the supporters of Eurobonds).
 - Introducing Eurobonds could lead to a faster aggregate demand in debt.
 - Legal problem: Art. 125 Lisbon Treaty has a no bail-out clause.
 - Political problem: no taxation without representation, and weakness of the EU governance.

The Euro crisis: options (2/2) bis

□ World Bank Governance Indicators

	Government effectiveness	Rule of Law	Control of corruption
all EZMS	1.66	1.68	1.80
Portugal	1.21	1.04	1.08
Spain	0.94	1.13	1.01
Greece	0.61	0.64	0.12
Italy	0.52	0.39	0.05

Conclusion

Serious changes are needed

What does it mean to be an attractive soft power?

- ❑ Size has pluses and minuses in economics: it is not critical.
- ❑ Back to basics. Illustration with the climate change negotiations:
 - Fact: EU believed that it will shine at the 2009 Summit on climate change (COP 15). But, it was left aside by the US-China dialogue.
 - Lesson 1: Don't expect to reap diplomatic gains from unilateral achievements which are 'factored in' by partners. Gains are in terms of domestic welfare.
 - Lesson 2: Attractiveness comes from what you achieve, not what you say you achieved (doubts on the efficiency of the EU climate change policy with huge rents captured by polluting firms, etc.).
- ❑ Innovations in technology and regulations combined with efficiency in enforcement are critical for trust among EUMS.
 - We should not look at the 19th century-type of federalism.
 - The 21st century options: strong and responsible MS are key for a strong EU.
 - The Merkel-Sarkozy proposal on constitutional budgetary constraints seems the right approach.
 - The Commission: its deep failure requires a serious review of its role.

Thank You for Your Attention

