

China, Australia and the EU

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Issues of the year(s)

□ The “ghost”

- Granting the market economy status (2016): will make anti-dumping measures much less easy to show and much lower.
- If the EU tries to negotiate, it could lead to serious problems.

□ Ongoing negotiations on a BIT. Very complex and flammable:

- Complex because internal and external negotiations—probably for both economies, but certainly for the EU. This flows from the fact that Germany has already a BIT with China—hence needs more concessions for accepting to lose its de facto “preferential” status.
- Flammable because the dispute settlement issue is a source of huge problems in the TTIP (and TPP?), especially from Germany.

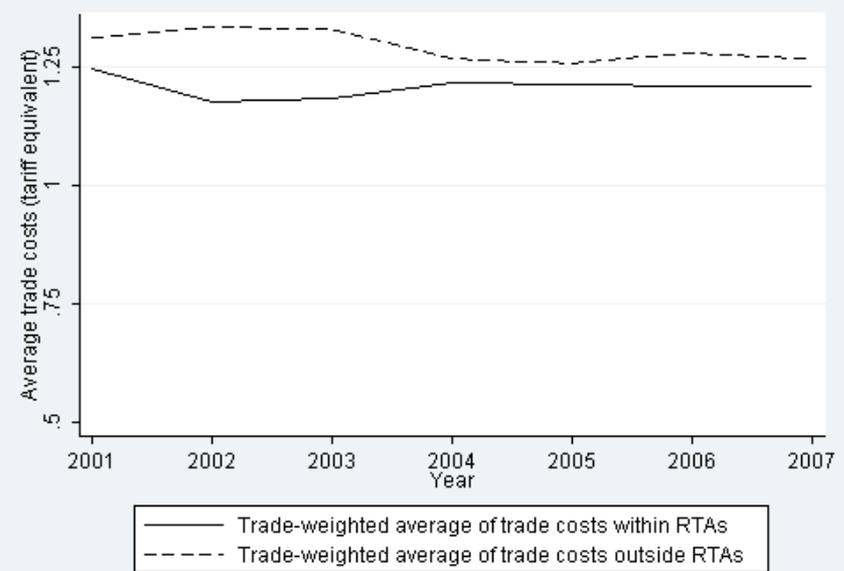
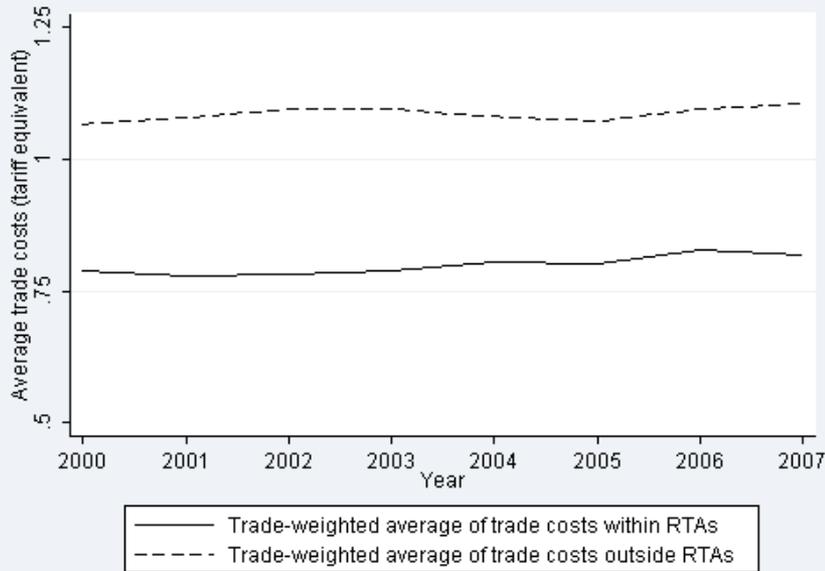
The negotiations on a China-EU FTA

- Of course, it makes sense if the Doha Round (WTO) negotiations continue to fail. But, not easy:
 - On the one hand, if negotiators start to talk about an “ambitious FTA to be quickly delivered”, the impasse is certain: see TTIP.
 - On the other hand, outcomes of existing FTAs are far to be attractive (Productivity Commission): see next slide.

- The FTA negotiations should be based on “small steps”
 - if only because the Chinese economy is evolving so quickly that signing a treaty with today Chinese economy means that it will be implemented with quite a different Chinese economy.
 - More than ever the concept of a “living agreement” makes sense.

FTAs: goods vs. services

- ❑ FTAs not so efficient in dismantling barriers, based on trade costs [Miroudot Shepherd 2012]
- ❑ A major difference between goods (left panel) and services (right panel). Services are what counts in modern economies.

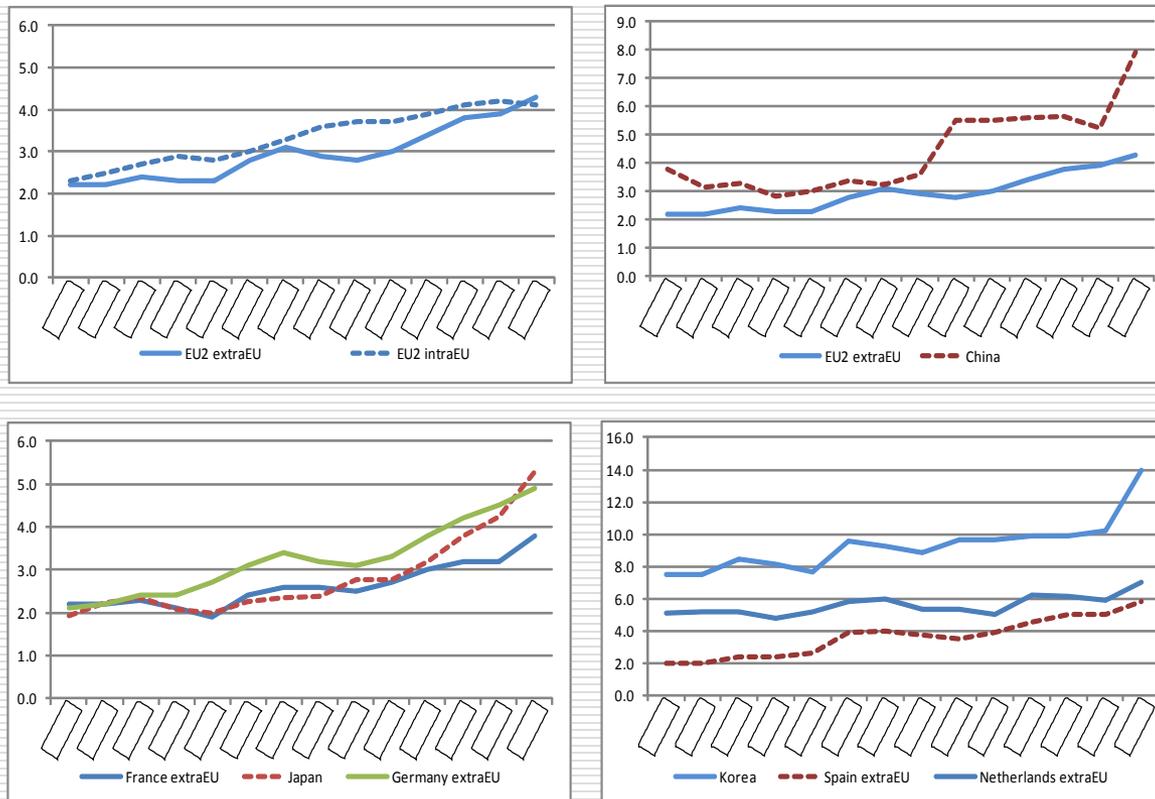


The negotiations on a China-EU FTA

- What could be the sequence of the issues to be included:
 - Industrial and agricultural tariffs: be pragmatic and honest.
 - Issues on some simple norms: those involving well accepted international standards, or those which could deliver the first cases of mutual recognition and/or mutual equivalence.
 - Market access & regulatory issues on key services: transportation (maritime, air), tourism, health, climate change-related services.
 - Cooperation on other topics with large economic benefits/costs: disaster relief, health security (disease outbreaks), etc.
- The role of Australia:
 - promotes better governance (Productivity Commission)
 - XXXXX

Focus on public procurement

- Two results based on World Input-Output Data: [1] Intra-EU openness not much better than extra-EU openness, particularly since the mid-2000s. [2] EU not as open as it claims to be.



Thank you for your attention



Focus on implementation

- The often neglected/forgotten but key aspect: implementation and its cost (based on ranks for “Ease of doing business” [Doing Business]).

EU Members States by cohort		EU Partners	
EUMS	Rank	Partner	Rank
EU-1973	7	Singapore	1
		Korea	8
		Canada	13
		Malaysia	18
EU-1995	19	Japan	20
EU-2004b	24	C. Taipei	25
EU-1958	41		
EU-2004a	50		
EU-1980s	58		
EU-2007	66		
		China	91
		Argentina	113
		Russia	120
		Brazil	126
		India	132

II. Negotiating instruments

- From the mid 1800s to today, trade policy in goods has progressively improved negotiating instruments.
- Basic questions on regulations.
- The quest of an efficient instrument for negotiating on regulations
 - Harmonization: relies on unfounded assumptions.
 - Mutual recognition: unstable and disappointing.
 - The promising instrument: “Mutual equivalence” and its preliminary step of mutual evaluation

Basic questions

- Two opposite views on the value of regulatory differences. They are:
 - “bad” → minimizing costs of foreign producers is the goal targetted. This is a producer-driven view.
 - “good” → maximizing gains of domestic consumers becomes then the preferred choice of regulators. This is a consumer-driven view which focuses on welfare generated by both price and variety competition.
 - Cassis de Dijon ruling (1979) echoes the public perception of increased varieties as the #1 gain from EC (1960s-70s).

- Regulations in modern economies should take into account that modern economies are based on varieties
 - two-way dynamic interactions between varieties of goods or services and varieties of regulations.
 - absolutely key role of trust.

Harmonization and mutual recognition

□ Harmonization: the preferred option of trade negotiators, but relies on four unfounded assumptions:

- There is always a norm unambiguously superior to the others (Daimler case)
- Harmonization decisions are based on unbiased negotiations.
- Harmonized norms will be implemented in a harmonized way at no cost.
- Harmonization is possible in sequential PTA negotiations.
- Regulatory convergence: a “weak” and unlikely form of harmonization.

□ Mutual recognition: an unstable and disappointing hybrid

- A “core” of harmonized provisions. Only the rest is recognized.
- Hence its progressive drift to harmonization as the core expands over time.

	Number words		Increase
	initial	revised	(%)
Simple pressure vessels	4374	7678	75.5
Safety of toys	9744	24948	156.0
Non-automatic weighting instr.	6815	7921	16.2
Appliances burning gaseous fuels	6646	6658	0.2

III. East Asia and the EU: Comparative advantages

- Which could be the mega-PTAs the most ready to face the challenges of delivering “serious” integration?
- Have negotiations among East Asia and the EU some comparative advantages in this respect?
- If yes, how could East Asia and the EU use these advantages for improving the welfare of the whole world?

Political will

- **Political will from top-politicians (Heads of State/Government) is absolutely needed for getting economically meaningful PTAs.**
 - Illustration of Korea-US and Korea-EU.
- **Relative size of the negotiating partners is a key factor in the attractiveness of a bilateral trade agreement: a larger negotiating partner ensures changes in the domestic relative prices—hence gains from trade—of its smaller partner. The converse is (much) more questionable.**
- **Two remarks in the context of the current mega-PTA negotiations:**
 - Hard to achieve better results than those of Korea-US/Korea-EU if one does not improve the negotiating instruments.
 - East Asia and the EU have different sensitivities to size, but a window of opportunity for the decades to come:
 - China's growing size will make it less interested in bilateral PTA (but more in WTO or plurilateral) in the long term future.
 - The EU: the political will is at the EU Member States level, and the EUMS are realizing their relatively small size (FRA+GER=Japan; FRA+GER+BRI=China today).

A bilateral or plurilateral approach?

- ❑ **Trust:**
 - easier among economies at the same level of development.
 - hence easier in case of bilateral PTA than in case of plurilateral PTA.
- ❑ **East Asia-EU PTAs should thus continue on their current bilateral track**
 - it gives flexibility → notion of “living agreement”: a basic framework combined with a sequence of detailed but focused agreements as time goes on.
- ❑ **Conditions for a well working bilateral track:**
 - The EU should abandon its approach (adopted in the 1990s) of a gigantic, all-encompassing, once-for-all trade agreements. In fact, it should return to its roots: the Treaty of Rome is a perfect example of a living agreement.
 - The issue of making consistent PTAs negotiated over time with different partners should be addressed. However, it may not be such a problem in the regulatory case (norms and services) for two converging reasons:
 - ❑ Regulations often very country specific.
 - ❑ Mutual equivalence requires systematic reviews.

“Norm-setting” vs. “norm-attracting”

- ❑ The dangerous notion of “norm-setting” (TTIP) → risks for the very similar US-EU to act as a duopoly increasing regulatory barriers, hence magnifying trade diversion.
- ❑ The much better notion of “norm attracting” which can be satisfied by the Mutual Equivalence approach (not by harmonization or mutual recognition).
- ❑ This is because mutual equivalence stirs competition among the regulators of the PTA members: each PTA member is induced to find the “best” (less costly) regulation while still remaining equivalent to the regulation of the other partner.
- ❑ By stirring competition among regulators, mutual equivalence induces them:
 - To improve the welfare of the consumers of their respective jurisdictions.
 - To induce third countries to adopt the regulations of the signatory which has been able to design the most attractive regulations—meaning achieving at lower costs the regulatory objectives considered as equivalent by its mega-PTA partner(s).