

The EU's Strategy for Trans-Pacific Partnership

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Abstract

This paper attempts to assess the discriminatory impact that the *Trans-Pacific Partnership* (TPP) agreement could have on the EU economy. It gives robust evidence that the discriminatory impact will be dramatic if the TPP is successful in reducing or abolishing “behind the border” barriers among member countries. This situation leaves the EU with only two options. First option consists in doing nothing. It is costly from the beginning, as East Asian economies are already quite large. More importantly, the cost of this option will keep rising because EU's weight will decline whereas the East Asian weight will keep rising. In such a context, threatening to close the EU markets as a leverage to open non-EU markets damages credibility. The second option consists in insuring the EU against a successful TPP by reaching a preferential trade agreement (PTA) with Japan, and then with Taiwan. Concluding PTAs with Japan and Taiwan is not only an *insurance* policy against the TPP, but it also allows the EU to boost the development of Europe, East Asia, and global trade.

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I. Introduction

This paper first tries to assess the discriminatory impact the “Trans-Pacific Partnership” (TPP) agreement could have on the EU economy. It gives robust evidence that the impact will be dramatic if the TPP is successful in reducing or abolishing “behind the border” barriers. This situation leaves the EU with only two options.

First option consists in doing nothing. It is a very costly option from the very beginning, as East Asian economies are already quite large, particularly thanks to Japan. More importantly, the cost of this option will keep rising because EU’s weight will drop dramatically worldwide possibly by half during the next two decades, while the East Asian weight will keep rising. To refuse opening EU markets to East Asian products today will deprive the access to the world’s most important markets in twenty years from now of the EU. Threatening to close the EU markets as a leverage to open non-EU markets—as was recently suggested in the public procurement sector—lacks credibility because the relative magnitude of public procurement markets is determined by GDP’s, So it could inspire the East Asian partners that would gain strength every day to make a similar threat.

The second option consists in insuring the EU against a successful TPP by reaching rapidly a Preferential Trade Agreement (PTA) with Japan, and then with Taiwan. Japan is the only country (except the US) to be large enough now to boost the EU’s debt ridden economy in a dire need for growth—offering what neither of Brazil, India, Russia could offer. Taiwan is a much more larger economy than it first seems, if one takes into account its massive activities in China’s mainland—Taiwan is another possibility in that she is not reluctant to open its economy. Concluding PTAs with Japan and Taiwan is not only an insurance policy against the TPP or a possible China-Korea-Japan trade agreement but it also allows the EU to boost the development of Europe, East Asia, and global trade.

This paper aims at assessing the possible discriminatory impact of a Trans-Pacific Partnership (TPP) agreement on the European Union (EU) economy. It also defines an East Asian EU policy that would contribute positively to the development of the EU, the East Asian region and world trade.

II. National and International Causes of the TPP

The TPP arose from the quite unexpected extension of the “Pacific 4” (P4) agreement, negotiated from 2003 to 2006 between four small countries (Chile, New Zealand and Singapore, joined by Brunei in 2005) and implemented since 2006. The four founding countries have two strong features in common:

- they all have chosen a “unilateral liberalization” policy by opening widely their economy to international competition through preferential trade agreements (PTAs)—without waiting for the completion of the Doha Round;
- manufacturing is not their main activity: Brunei and Chile export commodities, Chile, New Zealand export agricultural products, Singapore exports services all activities that meet strong demand from the rest of the world.

The decision of Australia, Peru, Vietnam (2008) and Malaysia (2010) to join the P4 has not drastically changed these features.

In 2006, P4 looked a strange endeavour, focusing either on ASEAN countries, or on the three major economies, (China, Japan and Korea). Then, they gave birth to half hearted efforts to combine them: ASEAN plus 3 (ASEAN plus China, Japan and Korea), ASEAN plus 6 (ASEAN plus 3 plus Australia, India and New Zealand), Free Trade Area of the Asia Pacific (FTAAP/APEC).

In September 2008, the situation changed dramatically when USTR Susan Schwab (2006~2008) notified formally to the Congress that the Bush Administration is willing to start negotiations with P4 countries and the other candidate countries to P4 membership (Barfield 2011, Fergusson and Vaughn 2011, Petri, Plummer and Zhai 2011, Schott and Muir 2012). Three main reasons were behind Susan Schwab’s initiative:

- the first reason lies in the failure of Doha negotiations at the WTO. According to well informed sources, Susan Schwab had the authority to strike a deal during the July 2008 WTO meeting. But she did not wish to or dare make use of this authority for fear of failure at the Congress. TPP was a means to regain the initiative on trade policy with three strategic interesting features:
 - it operates in East Asia, and therefore is a direct challenge to China’s growing influence at the WTO;
 - it is the first signal of the US foreign policy’s willingness to regain a foothold in this key part of the world—the concept of “pivoting” developed since then by the Obama administration;
 - it is a preferential trade agreement, which was meant, at that time, to benefit from a deeper support from the US business community.
- Bush administration’s second reason was domestic, but no less important than its international aspect. It aimed at compelling the Democrats to take a position on trade issues during the 2008 presidential elections, when trade policy was a source of great conflicts within the Democratic Party.
- lastly, the US had to take a position on the Europe’s decline so much evidenced by the EU’s absence in Asia. The disastrous 2006 ASEM Summit where so few European leaders condescended to attend despite its being held in Helsinki in contrast with the presence of many Asian top political leaders. It was an outstanding example of European decline and its inability to become a world power.

These three reasons still weigh heavily on the current TPP development as shown by the evolution of the events related to each of these reasons:

- the last three years (2009~2011) have witnessed the Doha Round sinking into a deep coma. During these years, the gap between the US and China has deepened.
 - on the one hand, the US refused to hear anything about any kind of “special and differential treatment” for China. In the view of some US officials, the TPP is the forerunner of a new multilateral trade institution—a WTO “version 2.0”. A successful TPP would compel China to join this WTO version 2.0 and accept all its rules established prior to China’s membership, hence preventing any special treatment to China.¹ In order to maximize the chances of getting such a result, the US is insisting on negotiating among the nine initial members (the P4 countries, Australia, Malaysia, Peru, Vietnam and the US) with a last minute opening to Canada and Mexico (in June 2012), leaving then less choice to Japan, and China being the “third” wave.² Such a “maximalist” strategy is not without risk: it may draw a split between the US business community that focuses on the liberalisation of TPP members’ economy and the US officials community that heavily considers geo-political aspects about China).
 - on the other hand, China does not understand why being forced to comply with more drastic conditions for WTO accession than those applied to the existing WTO Members is not better acknowledged in the concessions requested from her at the Doha Round negotiations.
- the TPP looks increasingly the economic echo of the US foreign policy, a fact illustrated by President Obama’s quick trip from Honolulu where he was attending the 2011 APEC Summit to Canberra where he signed an agreement for US troops to station in Northern Australia, very close to territorial waters claimed by China, thus provoking the latter’s anger.
- The EU is trapped in the Euro crisis, and it is stuck in unpromising trade negotiations with Brazil, India and Russia. In contrast, The EU Member the US have given up the dream of a Free Trade Area of the Americas a long time ago States are unable to design the required domestic reforms, and unable to understand the urgent need for a real East Asian policy as a pro-growth strategy. In these circumstances, the US believes that the EU will not move and that they should definitely take note of this situation and act as energetically as possible in East Asia.

¹ These officials may have in mind the precedent shift from GATT to the WTO in 1995.

² It is worth noting that the US is hosting two TPP meetings in a row, Dallas in May and San Diego in July 2012.

III. The Markets at Stake: Japan at the heart of the TPP

How can the TPP strategically hinder the EU if the latter does not rapidly design a well-conceived East Asian policy? Answer to this question lies in examining which markets the TPP will open to its candidate members including the US in a more favourable way than they would be for the EU.

Tables 1 and 2 list the eleven candidates in TPP membership, their GDP alongside with the existing PTAs between these countries and the US and the EU. Table 1 covers years 2009~2010 while Table 2 covers projections for 2030 (Buitter and Rahbari, 2011). They also provide US, EU, China and India GDPs for a better understanding of forces involved in the long run.

Table 1 allows two observations:

- the only new market of importance that the TPP will open to US products is Japan. Japan emerges as the heart of the TPP as it amounts to half the GDP of all East-Asia TPP countries. As the EU has also Preferential Trade Agreements (PTAs) with most of the East Asian countries except Japan. Thus, Japan is the core market in which the TPP could inflict discriminatory effect on EU exports if the EU does not conclude quickly a PTA with Japan. For the EU, Japan's GDP is roughly a third of EU's GDP.

Table 1. TPP Impact in terms of market access, 2009~2010

(Unit: Million US Dollar)

Years 2009~2010	US preferential agreements				EU preferential agreements			
	GDP	concluded	negotiated	future	GDP	concluded	negotiated	future
<i>Australia</i>	924.8	924.8			924.8			924.8
<i>Brunei</i>	10.7			10.7	10.7			
<i>Chile</i>	203.4	203.4			203.4	203.4		
<i>Malaysia</i>	237.8		237.8		237.8		237.8	
<i>N.Zealand</i>	126.7		126.7		126.7			
<i>Peru</i>	153.8	153.8			153.8	153.8		
<i>Singapore</i>	222.7	222.7			222.7		222.7	
<i>Vietnam</i>	103.6			103.6	103.6			103.6
<i>Canada</i>	1574.1	1574.1			1574.1		1574.1	
<i>Japan</i>	5497.8			5497.8	5497.8			5497.8
<i>Mexico</i>	1039.7	1039.7			1039.7	1039.7		
Total	10095.1	4118.5	364.5	5612.1	10095.1	1396.9	2034.6	5601.4
Total (%)	100.0	40.8	3.6	55.6	100.0	13.8	20.2	55.5
<i>US, EU</i>	14582.0 (US GDP)				16222.2 (EU GDP)			
<i>China, India</i>	5878.0 (China GDP)				1729.0 (India GDP)			

(Source) WTO Trade Profiles, at <http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E>.

- Except for Japan, Brunei and Vietnam, the TPP covers countries which already or are close to have a PTA with the US. This aspect is essential as it makes the TPP both less attractive and more challenging to the US and its current PTA partners.

Hence TPP negotiators must thus find new sources of trade gains, those related to the dismantling of barriers that is known to be notoriously difficult to negotiate, such as industrial and agricultural products, market regulations in services, international investment, public procurement and Intellectual Property Rights (IPR), mentioning the most important chapters of the TPP negotiations.

Table 2. TPP Impact in terms of market access, projection 2030

(Unit: Million US Dollar)

Projection 2030	US preferential agreements				EU preferential agreements			
	GDP	concluded	negotiated	future	GDP	concluded	negotiated	future
<i>Australia</i>	2376.7	2376.7			2376.7			2376.7
<i>Brunei</i>	50.8			50.8	50.8			
<i>Chile</i>	876.7	876.7			876.7	876.7		
<i>Malaysia</i>	2618.2		2618.2		2618.2		2618.2	
<i>N.Zealand</i>	325.6		325.6		325.6			
<i>Peru</i>	662.9	662.9			662.9	662.9		
<i>Singapore</i>	561.2	561.2			561.2		561.2	
<i>Vietnam</i>	1140.6			1140.6	1140.6			1140.6
<i>Canada</i>	3966.7	3966.7			3966.7		3966.7	
<i>Japan</i>	13854.5			13854.5	13854.5			13854.5
<i>Mexico</i>	2620.0	2620.0			2620.0	2620.0		
Total	29054.0	11064.2	2943.8	15045.9	29054.0	4159.6	7146.1	14995.1
Total (%)	100.0	38.1	10.1	51.8	100.0	14.3	24.6	51.6
<i>US, EU</i>	36746.6 (US GDP)				34715.5 (EU GDP)			
<i>China, India</i>	64716.8 (China GDP)				19036.3 (India GDP)			

(Source) WTO Trade Profiles, at <http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E>. Buitier and Rhabari (2011). GDP in 2030 are GDP in 2010 times the growth rates of the regions. It is available from Buitier and Rhabari.

Table 2 offers a long term perspective for 2030. Of course, such projections must be used with caution. For instance, they do not take into account the evolutions of production factor prices—labour costs, capital returns and land rents—which are very likely to generate drastic changes in China, with an inescapable strong impact on the pace and structure of Chinese growth. That said, though the timing of these projections is questionable, their trends are not.

Table 2 provides three results showing the ongoing economic rebalancing. Firstly, it shows that the relative importance among TPP members hardly varies between 2010 and 2030. The TPP (US excluded) represents two-third of US GDP in 2010, three-quarter in 2030. Secondly, the relative situation of the non-TPP Asian countries is radically different in 2030. In 2030, China’s GDP would be twice the East Asian TPP’s one whereas it amounted to half of it in 2010. Lastly, India is still lagging much behind. This situation reflects its late take-off com-

pared to China. It suggests that the trade dynamics in East and South Asia could still remain significantly different in the 2030s.

The EU should learn three lessons from all these observations:

- signing soon a PTA with Japan is essential to prevent EU from being discriminated—because of its own inertia—on the most important world markets for the next two decades (Messerlin 2012a). As argued below, using a bilateral PTA is advantageous for the EU.
- the TPP cannot include Taiwan for some time because of all the negative TPP connotations towards China mainland, making Beijing very unlikely to allow Taiwan to join the TPP. In sharp contrast, as the EU-Japan agreement bears less anti-Chinese connotation, the EU East-Asian policy could expand with a Taiwan-EU PTA which would be beneficial for the EU, Taiwan and China mainland (Messerlin 2012a).
- The EU-Taiwan PTA would raise the issue of Beijing's standing. In this perspective, the EU would be wise to consider the prospect that the Doha Round remains comatose for a very long time. In such a case, Table 2 shows that fostering EU's and China's growth in the years 2025~2035 and requires an EU-China PTA. In other words, the TPP raises now the issue of revising thoroughly EU's trade relations with China.

IV. Intrinsic Nature of the TPP

The TPP has two effects, like any PTA. The first one consists in generating greater trade flows among its members thanks to the elimination of their trade barriers. Trade creation generally improves the welfare of the consumers of TPP countries but, as shown by PTA economic analysis, it may also damage the welfare of these same consumers under some conditions. The second effect of any PTA is to reduce trade between the TPP countries and the rest of the world because non-TPP producers are penalized by the fact that their barriers with TPP countries will remain unchanged while those between the TPP countries will be lifted. Such trade diversion is discriminatory and detrimental to the rest of the world economies, therefore to the EU as well.

The importance of such TPP discriminatory impacts on EU depends on three key components of trade policy that change artificially the comparative advantages of TPP and EU countries.

- the initial protection of the TPP countries,
- the TPP negotiating ability to implement a “deep” liberalization, for example the wide opening of services markets.
- the long term competition dynamics.

The more important each of these three factors, the lower the intra-TPP trade barriers

compared to barriers between TPP countries and the EU, hence the larger trade diversion against th EU, and the higher the discriminatory impacts on the EU economies.

The second of these three factors, the TPP ability to generate deep liberalization is particularly important for two reasons. First of all, it will be much more difficult for the EU to take actions aiming at eliminating or reducing discriminatory impacts generated by a TPP deep liberalization. It is related to a very specific problem faced by TPP negotiators.

Table 3. Existing PTAs among TPP countries, April 2012

	Australia	Brunei	Chile	Malaysia	N.Zealand	Peru	Singapore	Vietnam	Canada	Japan	Mexico	USA	PTA under TPP
Australia	---		X	X	X		X	X		X		X	8
Brunei		---	X		X		X			X			5
Chile	X	X	---		X	X	X		X	X	X	X	10
Malaysia	X			---	X		X	X		X			6
N.Zealand	X	X	X	X	---		X	X					7
Peru			X			---	X		X	X	X	X	7
Singapore	X	X	X	X	X	X	---	X		X		X	10
Vietnam	X			X	X		X	---		X			6
Canada			X			X			---		X	X	5
Japan	X	X	X	X		X	X	X		---	X		9
Mexico			X			X			X	X	---	X	6
USA	X		X			X	X		X		X	---	7
PTA under TPP	8	5	10	6	7	7	10	6	5	9	6	7	86
Chinae	X		X	X	X	X	X	X					7
Korea			X	X		X	X	X	[a]	[a]	[a]	X	9

(Note) [a] Announced PTAs.

(Source) PTAs database, WTO at <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

As Table 3 shows, TPP includes countries having no less than 86 PTAs signed or applied among them, that is roughly two-third of all the possible PTAs (12 times 11, that is 132).

The question faced by the TPP negotiators is whether the negotiations should merely address filling in of the existing PTAs framework, or whether they should aim at merging all existing PTAs with the missing ones in one single agreement, or lastly whether they should partly fill in the existing PTAs, or partly replace them, i.e., hybrid approach. Currently, there does not seem to be one single approach. The US appears willing to negotiate bilaterally the conditions of industrial tariffs elimination with TPP countries with which they currently have no PTA, whereas Australia, Brunei and New Zealand seem willing to make a common offer to all TPP countries.

At first glance, this issue seems negligible when assessing the TPP discriminatory impacts

on EU. However, it is essential for two reasons.

- creating a “single TPP” may have a stronger discriminatory impact on EU because it should generate more liberalization or generate the implementation of stronger disciplines on norms and regulations than would a TPP which would be merely added to existing PTAs. Indeed, it is unlikely that a single TPP would generate less liberalization than the existing PTAs though this occurrence may happen in the field of intellectual property rights.
- the more a TPP deal will rely on a single agreement, the more it will deprive the EU of its current negotiating power in East Asia. The smaller TPP countries will be tied by common rules rooted in the US economy which has the size of the EU's, therefore offering the same opportunities in terms of scale economies or of range of products as the EU would. The EU negotiating power with these countries is thus reduced to the one the EU has vis-à-vis the US.

It would be interesting to know in what fields the US will prefer a complementary TPP to PTAs in order to have a more refined understanding of this problem. Currently, it seems to be where the US has defensive interests industrial goods such as textiles.

V. Impacts on the EU economy

This section aims at giving a sense of the magnitude of the possible TPP discriminatory impacts on EU economy. It does so by focusing on the first factor, the initial protection in TPP member countries because it is too early to assess the second, The current stage of the negotiations does not give enough information on the TPP ability to implement a deep liberalization. For the third factor, several years after the effectivation of the TPP implementation will be needed to get a sense of the long term dynamics of competition for TPP newly adopted rules. It is limited to barriers on product markets, on service markets, and on international investment since there are still a lot of uncertainties on the issues of intellectual property rights and on public procurement.

In Table 4 a high protection criterion is defined for each type of barriers. For example, tariff rates exceeding 10 percent are considered high trade barriers. The magnitude of possible discriminatory risks is calculated by adding the GDPs of the eleven East-Asian TPP countries fulfilling high protection criteria.

Table 4. The magnitude of discriminatory impacts against the EU

	Magnitude of risks [a]	Criteria used to classify a TPP country as highly protected [b]
Border barriers		
Tariffs		
agriculture		
applied	73.4	Non-US TPP countries with average tariff higher than 10 percent
bound	75.7	Non-US TPP countries with average tariff higher than 10 percent
manufacturing		
applied	0.0	Non-US TPP countries with average tariff higher than 10 percent
bound	13.9	Non-US TPP countries with average tariff higher than 10 percent
high	29.5	Non-US TPP countries with high bound tariffs lines > 25% all tariff lines
Trans-border trade	43.3	Non-US TPP countries not included in the 18 top countries [c]
	30.5	Non-US TPP countries not included in the 36 top countries [d]
Behind the borders barriers		
Agriculture and Manufacturing		no systematic information available
Services	89.9	Non-US TPP countries with an index > 20 [e]
	11.3	Non-US TPP countries with an index > 30 [e]
International investment		
transport	100.0	Non-US TPP countries with an index > 20 [f]
telecoms	96.2	Non-US TPP countries with an index > 20 [f]
media	40.9	Non-US TPP countries with an index > 20 [f]
financial services	12.3	Non-US TPP countries with an index > 20 [f]
real estate	11.3	Non-US TPP countries with an index > 20 [f]
all others	0.0	Non-US TPP countries with an index > 20 [f]

(Notes) [a] the magnitude of the discriminatory impacts is calculated as the share of the GDP of the highly protected East Asian TPP members in the GDP of all the East Asian TPP members. [b] This column presents the criteria qualifying highly protected TPP countries. [c] The indicator is the rank of the Doing Business indicator on trans-border trade. Only Japan is among the 18 top countries. [d] The indicator is the rank of the Doing Business indicator on trans-border trade. Only Japan and Australia are among the 36 top countries. [e] OECD PMR (Product Market Regulations) indicators (0 means a totally open country, 100 a totally closed). [f] OECD foreign direct investment restrictiveness indicators (0 means a totally open country, 100 a totally closed).

(Source) OECD at <http://www.oecd.org/economy/growth/indicatorsofproductmarketregulationhomepage.htm>, Doing Business at <http://www.doingbusiness.org>.

Table 4 shows that there are many sources of important risks. In the tariff case, distinction must be made between agriculture and Manufacturing. In agriculture, three-fourth of the eleven East Asian TPP countries will discriminate against the EU. As TPP includes five of the most efficient and important world exporters for many agricultural products, Australia, Canada, Chile, New Zealand and the US, the agreement will obviously constitute a deadly threat to European exporters of agricultural products. As for manufacturing, risks seem near to nil, as far as applied tariff averages are considered. However, low tariff averages could co-exist with high tariffs on products of key interests to European firms. Table 4 shows that there are many such high tariffs, i.e., over a quarter of the lines in the Community Customs Code of these countries. Also, a lot of the eleven East Asian TPP countries have not consolidated yet their customs du-

ties at the WTO.

Cross-border trade barriers are part of the many non tariff measures. One third to half of the eleven East Asian TPP countries rank poorly in this field. These countries may thus discriminate against European exporters, either by applying the discriminatory rules which could be generated by the TPP, or by enforcing discriminatorily rules that are not discriminatory *per se*.

For the same reasons, a vast majority of the eleven East Asian TPP countries show important risks of discriminatory impacts towards the EU in services and international investment – with a strong concentration of risks on services crucial for international trade such as transportation, telecoms. As France is a large exporter of services, she will face strong discriminatory impacts.

Finally, it is difficult, at the present stage of negotiation, to estimate the risks of discriminatory impacts in terms of intellectual property because TPP candidate countries have positions at quite opposite ends.

VI. Which Initiatives shall the EU Take?

Should the Doha Round negotiations not resume rapidly, the EU has only two alternatives for dealing with a TPP initiative the agenda of which it cannot influence as it is driven by the US.

A. The inertia option: Doing nothing

The first alternative consists in doing nothing, and passively suffering from the discriminatory impacts because the EU defensive interests prevail. The cost of this alternative is astronomical for the EU, particularly for France which is a strong exporter of farm products and services. These impacts involve East Asian TPP economies of a considerable size. Appendix 2 summarizes the available calculations of these large costs, and shows how these calculations reinforce the policy lessons of this section.

In addition, one must add the costs related to the US that is another source of powerful discriminatory impacts if the Transatlantic Agreement is not negotiated successfully. Indeed, it should be stressed that, on both geopolitical and economic levels, not reacting to the TPP leaves the EU in a mediocre position in its negotiations on the Transatlantic Agreement with the US.

It is essential to underline that the inertia option will be all the more costly to the EU as its economic weight will drop dramatically worldwide. It is expected to decline by half according to Buitter and Rhabari. Two examples show the extent of this problem.

- to refuse the competition of Japanese car manufacturers on the European market by block-

ing the Japan-EU PTA can only result in pushing Japan to join the TPP that will improve the position of the Japanese manufacturers in the vast and dynamic East Asian market.

- threatening to shut EU public procurements as an instrument for opening public procurements in Asia, like the Commission has recently suggested, is not a credible threat. As the relative weight of European public procurements will follow the diminishing trend of the EU GDP Rather it could induce EU Asian partners to use a similar threat which will gain momentum as Asian economies will become larger. East Asian partners may be induced to take the hard-line approach all the more easily because available data show that EU public procurement markets are less open than those of its major partners (Messerlin 2012b).

The frequently mentioned answer to such examples is that “one should strike before being too small”. This argument is even weaker in the economic domain than in military strategy where it had led to numerous stinging defeats.

B. The insurance option

The second option consists in taking measures to both protect the EU economy from TPP discriminatory impacts, but also allows the EU to benefit from the TPP dynamics while reinforcing the integrity of the world trade system. This insurance policy can be achieved by following three principles combining liberalization, progressivity, and flexibility.

Bilateral approach seems better for the following reasons:

- Japan is the East Asian heart of the TPP and signing a PTA with this country as soon as possible is a top priority for a debt ridden EU which has a dire need to boost its growth through all means (Messerlin 2012a).
- The EU does not have the same presence in Asia as the US. This is a limit but also an asset, as the EU is not engulfed in the geopolitical dimension between the US and China which taints the TPP. It should also allow the EU to negotiate as rapidly as possible a PTA with Taiwan. Taiwan is as important an economy as those of the largest East Asian candidate countries to TPP once taken into account Taiwanese firms’ activities in continental China (Messerlin 2012a). It is worth stressing that Taiwan is in a situation quite similar to the EU’s. It will face the same risks of discrimination as the EU, because it cannot join the TPP rapidly—in so far as it actually succeeds some day, which depends on the anti-Chinese dimension of the final TPP agreement.
- The list and priority of issues to negotiate are not the same because the comparative advantages underlying the EU and US are not the same.

Such an insurance policy deserves two final remarks:

- it is necessary all the more because the TPP is clearly re-energizing East Asian efforts to build an East Asian free trade area. This is best illustrated by the re-launch of the discussions on a China-Japan-Korea (CJK) trade agreement. Such a CJK will generate severe risks of discriminatory impacts for the EU exporters. Once again, the Japan-EU agreement and Taiwan-EU agreement are the best insurance against the CJK discriminatory impacts on the EU exporters.
- it should be stressed that any insurance policy should be taken early. As too often, the EU may be tempted to wait till last minute for acting, that is, to wait a TPP success. At the late stage, however the EU negotiating leverage will be almost nil, both in economic terms and in the much wider foreign policy terms: such a late move of the EU will be seen by all the major countries as a surrender.

Finally, it remains to be seen how all these PTAs will interact to each others. The famous “spaghetti bowl” problem are already noted by the TPP negotiations. However, there is no evidence that this problem, substantial source of trade distortions and inefficiencies is taken seriously by the current TPP negotiations. What follows below suggests some instruments to address such a problem in the context of the PTAs to be negotiated with East Asian partners by the EU.

Initiatives in terms of *classic* trade barriers

While negotiating, the EU should take great care to minimize exceptions to the elimination of tariffs.

There is a promising procedure to minimize these exceptions. Every agreement negotiated by the EU shall, be based on two elements:

- a general rule abolishing all tariffs, import or export quotas and all measures having equivalent effect, as stated in the Treaty of Rome,
- detailed negative lists of exceptions for as few as possible products to the above general rule with precise modalities: gradual liberalisation, partial one, conditional one, no liberalization.

A negative list allows highlighting the products benefitting from an exception, therefore creating a permanent pressure to review the legitimacy of the exceptions in the light of the public interest. This negative list should be coupled with mandatory “reviews” every 2 or 3 years in order to strengthen the pressures for eliminating exceptions.

Initiatives in terms of regulatory barriers to trade

These barriers include industrial and agricultural norms which were mentioned previously,

but they also cover regulations in the field of services, international investment, public procurement, etc. They have often hindered PTAs providing two lessons:

- trying to harmonize the regulations is not an option as it proved nearly always too complicated, too slow and too costly a process. The EU tried it for years, in vain.
- the process of mutual recognition was deceiving every time the recognition was submitted to some conditions. Intra-EU experience showed that such conditional mutual recognitions rapidly evolved towards a near-harmonization process, with all the usual difficulties it generates. This results from the ever stricter conditions of the mutual recognition process, under the pressure of both governments willing to protect their firms, and the latter willing to limit the access of new competitors to the markets.

The only really promising option is that of the unconditional mutual recognition (UMR) of their respective regulations by both countries. UMR is only possible after a mutual assessment of their regulations by the two countries. This is the process finally adopted by the EU with the Service Directive (2006) after over twenty years of fruitless efforts with conditional mutual recognition in other services. There is no reason why UMR could not be enforced with non-European countries having a similar level of development as the EU such as Japan, Australia, Canada or Taiwan.

The negotiation of an EU PTA with Japan or Taiwan based on the UMR principle would then involve two main steps:

- the elaboration of negative lists of exceptions,
- for the non-listed activities, mutual assessment of each other's regulations (when necessary) should be made by both parties in order to lead to unconditional mutual recognition. This process may appear cumbersome and time-consuming in terms of negotiations, but it has two major advantages which make it attractive:
 - it is the only one that brings real benefits as it is the only one to ensure both countries a real boost to competition—the driving force of a stronger growth in Europe. Without it, PTAs could easily end up being legal texts with no significant economic impacts.
 - The agreement may state specific measures for the very first steps, those well understood by negotiators, and state that further negotiations will be led on other activities, when and if the previous steps are achieved successfully.

This strategy of time fragmentation of commitments in the implementation of the Treaty of Rome.

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Appendix 1

The available estimates of the TPP impact: a brief summary

The paper relies voluntarily on facts as simple and robust as possible. So far, it did not mention the available estimates of real GDP gains and losses associated to the TPP [Kawasaki 2011, Pietri, Plummer and Zhai 2011, Li and Whalley 2012] because such estimates depend on a host of assumptions that make them often hard to interpret by non-economists. At this stage, it is useful to check whether such estimates corroborate the main conclusions of the paper.

Table 1A. Estimates of the gains/losses from the TPP and alternative trade agreements in Asia

	TPP	CJK	FTAAP	TPP	Asian [a]	FTAAP	TPP [b]	TPP [c]
	Kawasaki			Petri & alii			Li & Whalley	
Japan	0.54	0.74	1.36	0.58	0.80	1.38	-0.015	-0.002
US	0.09	-0.05	0.26	0.07	0.02	0.31	0.224	0.004
China	-0.30	2.27	5.83	-0.09	0.50	1.89	-0.056	-0.011
Korea	-0.33	4.53	7.10	0.73	1.63	2.34	--	--
Taiwan	-0.33	-1.18	6.44	-0.20	-0.95	3.77	--	--
EU [d]	-0.14	-0.09	-0.31	0.01	0.03	-0.01	-0.022	-0.004

(Note) [a] Asian track covers PTAs involving only East Asian economies. [b] scenario based on the elimination of all trade costs. [c] scenario based on the elimination of only import tariffs. [d] Li & Whalley don't have specific estimates for the EU: the results on this row are for the rest of the world. CJK: China-Japan-Korea agreement. FTAAP (Free Trade Area of Asia Pacific) cover the APEC countries.

(Source) Kawasaki, Li and Whalley, Pietri, Plummer and Zhai.

Table B1 provides the changes (in percentage terms) in real GDP (Kawasaki and Pietri & al.) or in welfare (Li and Whalley). What is interesting are the directions of the changes (absolute figures are not comparable between the two first and the last studies). Such directions suggest five results, all of them reinforcing the conclusions of the paper:

- Japan gains with the TPP, but even more so with CJK and FTAAP (APEC countries). It emerges as the core country.
- The EU unambiguously loses substantially (Kawasaki, Li & Whalley) or, at best, may suffer slightly in relative terms (Pietri & al.). It needs an insurance policy to eliminate such unfavorable evolutions.
- Taiwan loses with the TPP and CJK, hence shares EU concerns. But, it gains with the FTAAP, hence joins Japan as a strong supporter of FTAAP.
- China and Korea lose with the TPP (though the Korean case is unclear), but gain a lot with the CJK and FTAAP.
- The US gain with the TPP and even more with FTAAP, but lose with CJK. In the TPP case, it gains less than Japan (it is a bigger economy) and its gains depend crucially on

the TPP ability to achieve “deep” integration, that is, to eliminate all the trade costs (TPP tariff cuts have a minor impact).

The global picture emerging from these various calculations strongly support the choice of an “insurance” option by the EU relying primarily on Japan and Taiwan in the coming years.

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Appendix 2

Countries with *comparable* level of development

This paper stresses the fact that the level of development should be judged not only in GDP terms but also in terms of “regulatory quality”. In this perspective, Table C1 presents the relative ranks of the various cohorts of EUMS (cohorts are constituted by EUMS having acceded to the EU the same year) and of the main countries with which the EU has, or could have, PTAs. The table is based on the World Bank Doing Business global indicator (Ease to do business). But, one should stress that very similar results are obtained with the indicators provided by the World Economic Forum or by the Fraser Institute, despite the fact that these indicators rely on totally different methodologies.

Table C1 shows that Japan and Taiwan are, on average, better regulated than most of the EUMS and that the current trading partners with whom the EU is negotiating are very much behind in these crucial matters for buttressing and boosting EU growth.

Table 2A. Comparing regulatory quality among EUMS cohorts and EU partners

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

(Note) EC2004a: all EUMS having acceded to the EU in 2004, except the Baltic EUMS. EC2004b: the Baltic EUMS having acceded to the EU in 2004.

(Source) Doing Business, at <http://www.doingbusiness.org>.