

**APEC study Center Consortium conference 2005  
PECC Trade forum 2005**

**22-25 May**

**Jeju**

**"Building an Asia-Pacific Economic Community"**

**Session VII APEC's leadership and world trading system**

**"Trade relations between EU and Asia, the views of Europe"**

**Professor Jean Luc LE BIDEAU**

**Vice Chair FPTPECC**

**Ministers, Ambassadors, Ladies and Gentlemen,**

**It's my great pleasure to address today this very important gathering.**

**I have been asked to present an European view of the rapidly increasing regional trade relations between the European Union and Asia.**

**Accounting for more than 25% of the overall trade of the EU, and with a strong potential for growth (9% for China only) Asia as a whole is being seen as a priority zone for the economic development of the EU.**

**Despite these very encouraging figures, the EU strategy vis à vis Asia needs to be made more clear to the benefit of the Asian economies and the EU Member states.**

**It is the purpose of my presentation today.**

The existing fora where the EU and Asia meet and discuss cannot compensate the absence of a clear identification and definition of a set of issues of common interest which would mobilize the energy from both sides to strengthening trade and economic relations between our two regions.

That being said I would like to approach and update the EU/ Asia economic and trade relations from the four following points of view:

- 1- What are the main challenges for EU and Asia at the multilateral and at the bilateral level?
- 2- What are the main challenges vis a vis North East Asia?
- 3- South East Asia: a call for free trade with Europe
- 4- South Asia: economic relations to be strengthen and developped.

Let me turn now to my first item:

#### **I) WHAT ARE THE MAIN CHALLENGES AT THE MULTILATERAL AND BILATERAL LEVEL?**

The support to the Multilateral trading system its a priority for the EU.

The EU supports the anchoring of the Asian countries to the multilateral trading system and the efforts made by them to join the WTO.

Europe has been very active in that regards in using all the possibilities offered:

- the multilateral trading system,
- the bilateral framework through agreements signed with the Asian countries
- the unilateral instruments for official development assistance
- and, in using a tailor-made approach for developping its economic relations with Asia on a regional basis.

The challenge for Europe is multifaceted:

- Firstly to alleviate the burden of the transition to a market economy for the less developped economies. This task is carried out namely with the support of the EU assistance programmes for the less developped countries:  
55% of imports benefiting from the european SPG came from the Asian countries in 2003: China (accounting for 32%), India, Thailand and Indonesia.  
Less developped countries from Asia (Cambodia, Nepal, Bangladesh) benefit from special entry rights at zero level for their products, as the ACP countries. This zone will benefit from tariffs advantages under the new SPG for 2006/ 2016.  
Pressure from the less developped Asian countries are strong to encourage the EU to concentrate its aid on the poorest and more vulnerable ones. In particular, the end of textile quotas has put pressure on countries where trade used to rely on this type on export (Pakistan, Bangladesh, Cambodia).

- Secondly, to make sure that emerging and transition countries from Asia meet their obligations once they have joined the WTO.

- Finally, the EU recognizes that Asian countries have become major players in the Doha cycle. They do not constitute a single negotiating block, nevertheless several Asian countries (China, India, Indonesia, Pakistan, Philippines) have recently started to play a very active role within the G20.

### Asia: the regional approach as a support to the multilateral trading system

Most Asian countries recognize the value of a multilateral framework for their trade relations. China membership to WTO in december 2001 can be considered in this regard as the willingness of the country to benefit from the multilateral trading system .

Nevertheless, South Asian countries have entered since a long time into a process for regional economic cooperation; but at the same time, as illustrated by the work of the PECC Trade Forum and APEC, they have brought a continuous support to the WTO process, and have demonstrated the obvious complementarity between the two approaches. For example, Singapore has always declared its intention to use bilateral agreements to push forward the multilateral negotiations.

Similarly APEC countries have noted that the regional free trade agreements, to which they are members, would be of major assistance to reach a multilateral agreement under WTO, given a bridge between the two approaches would be found. Even if the possibility for such a scenario is limited for the moment, the willingness of Asian countries to achieve a multilateral framework for international trade is real.

### A common sharing

Along with the Asian countries, the EU and the United States have entered since a long time into regional arrangement and at the same time they bring an effective support to the multilateral negotiations.

Between January and August 2004, 21 regional arrangement have been signed worldwide, bringing to 206 the total number of regional arrangements. 30 have been signed in 2003 and 60 are being negotiated since January 2005. Preferential trade relations seem to be the typical feature for the development of the trade system.

The Asia-Pacific economies, the United States and the EU are responsible for the inflation of these agreements. A US Government representative have declared

recently in Geneva "the United States open their market globally within the Doha framework, regionally with APEC and the FTAA, and bilaterally with the free trade agreements."

In 2004, the EU has consolidated and expanded its regional agreements (discussions with Mercosur and with the ACP countries).

Observers of the WTO process tend to consider that the increase in the number of treaties may create confusion in the international trade and when economies are signing into regional agreements it is because they lack confidence in the WTO process. This confirms the concern of Dr. Supachai

" Preferential and discriminatory trade relations tend to become the natural way to handle international trade and is detrimental to the multilateral trading system".

Pascal Lamy, the newly elected Director general of the WTO is a different opinion. In his view, the signing of regional arrangements allows for the recognition of the regional specificities: " A regional arrangement may constitute an economic space likely to reconcile the collective preferences and to limit the destabilizing effects of a too rapid opening of the emerging markets" .

The economic relations between our two regions have grown significantly.

The Eu has a well developed network of bilateral cooperation agreements with Asian countries that offers a stable framework for a constructive dialogue and for the settlement of trade and investment disputes.

In addition the ASEM process (Asia Europe Meeting) since it was initiated in 96 has permitted to conduct a formal dialogue on a regular basis:

- between the Finance Ministers and the Ministers in charge of trade;
- between experts in the field of trade and investment and,
- between business representatives (the Asia Europe Business Forum).

As a formal forum for discussion, ASEM is:

- mostly a public policy discussion oriented forum,
- is not a negotiating body
- and, for some observers and members of the European business circles, ASEM is not likely under its present formula, to strengthen the economic and trade relations between our two regions.

One can also wonder whether the ASEM process can survive its ongoing bureaucratic development associated with the difficulty to make the process work with 38 members (25 EU plus Asean plus 3) because of the existing asymmetry between participating countries.

Accordingly, the EU would wish to renew the dialogue and make it more informal, for example, through the creation of specialized working groups which would meet at the Ministerial level.

In addition, with a view to go beyond the present dialogue on the issues raised by globalisation and the ways and means to strengthening the trade and economic relations between the two regions, several Asian countries are willing to enter into negotiation with the EU on a possible free trade agreement.

No such discussions have been launched yet namely because the EU has given priority to multilateral discussions within the Doha cycle both for political reasons (economies of scale, settlement of rules with multilateral bearing) and for practical reasons (limited available resources).

## **2) Second issue: The ongoing challenges with North East-Asia**

### **How can the EU strengthen its partnership with China ?**

The rapid expansion of trade between China and the EU is the most prominent element of the economic relations between the EU and North-East Asia (China, Taiwan, Japan, Korea), which accounts for more than 18% in the external trade from the EU.

Trade between Europe and North-East Asia has been multiplied by a factor of 5 in the last 20 years.

In 2003, China has become the second trade partner of Europe, immediately after the United States. This rapid growth of trade has induced and increased deficit of over 55 billion Euros in 2004.

The European Commission had maintained until now a very moderate approach on this question (the European deficit deriving mainly from intra-firm trade is half of the US deficit with China).

But ongoing difficulties by China to meet its obligations under the WTO, have forced the EU to take a more active stance on several issues: access to raw materials, construction services, financial services, telecommunications, distribution services, recognition of intellectual property rights).

From its part China emphasises some bilateral discussions ( animal products, consequences of the enlargement of the EU to 25 members, granting of the status of a market economy to China), from the EU side it is considered that these bilateral issues are of an unbalanced importance compared with multilateral issues.

Since September 2003 the EU has intensified contacts at high level with the Chinese authorities and extended his dialogue on issues of major importance:

competition policy, intellectual property, industrial policy, trade policy).

The partnership with China, dedicated to be extended to all issues in relation with "global governance" (growth and environment, raw materials, exchange rate), is still in a preliminary phase. The EU Commission, as demonstrated by the recent crisis derived from the booming of textile exports to Europe since January 2005 ( on which the Commission has decided to launch a preliminary evaluation of the potential negative effects on the European textile industry and employment) is still hesitating between a good will attitude and a firm position vis a vis its relations with the Chinese authorities. But it should be kept in mind that an increase in textile imports to Europe may at the same time be partly compensated by an increase in exports to China in the high tech field.

### Strong trade relations with Japan.

Trade relations between the EU and Japan are strong and not recent. Japan is the 3rd trading partner of the EU (7.5% of its imports and 4% of its exports). Despite the slow economic growth in Japan over the 90's, bilateral trade has grown significantly (plus 40% between 1992 and 2003, for Japanese exports, while trade flows from Europe doubled). Priority has been given to the development of bilateral investments and to enhance cooperation with a view to reduce obstacles to trade and investment ( dialogue on competition policy, agreement on mutual recognition).

Korea accounts for only 2% of the EU trade. Affected by the issues of subsidies by the Korean Government to the shipyard industry and to the chip industry trade relations have been decreasing significantly since 2001.

### 3) TRADE RELATIONS WITH SOUTH EAST ASIA "A CALL FOR FREE TRADE WITH EUROPE"

Trade relations between the EU and the ASEAN are not recent (the EU/ASEAN agreement was signed in 1980). South East Asia accounts for over 5% of the outward trade from the EU.

But, sadly to say, trade relations between the two regions are losing part of their closeness for 3 main reasons:

- firstly, the integration of new members to the ASEAN process has been perceived by the EU as a loss of homogeneity of the zone.
- second, the financial crisis of 97 has badly affected the investment flows from the EU,
- and finally, political sanctions against Burma, have jointly conducted to a weakening of the economic and trade relations between our two regions.

**The EU is aware of the new and important development of the ASEAN process with the ASEAN plus 3, ASEAN plus 1 and ASEAN plus 2 proposals.**

**Within this new proposed framework the EU is urged to respond to pressure from some ASEAN countries to start discussions on a possible free trade agreement with Europe.**

**Before entering into such negotiations, the EU has proposed a strengthening of the existing cooperation between the two regions under the TREATI initiative signed under the proposal of the former EU trade Commissioner of the EU, Pascal Lamy.**

**Under that initiative, 8 priority issues were set forward: trade facilitation, investment promotion, standards, new SPS arrangements, intellectual property, tourism, tropical woods, environmental standards.**

**But it is not obvious that the two parties share the same views about the modalities of the proposed free trade. ASEAN countries are in favor of a lowering of tariffs while the EU favors discussions on non-tariffs barriers.**

**In addition, the geographical coverage of the proposed free trade area is still unclear. The EU is in favor of opening negotiations with " a single ASEAN market" with its 600 millions inhabitants, while countries such as Singapour, and Thailand would favor negotiations between the EU and a limited number of ASEAN countries better prepared and more motivated for participating in such an agreement.**

#### **4) TRADE RELATION WITH SOUTH ASIA**

**Trade relations between Europe and South Asia are less developed than with East Asia. This zone accounts for only 2 % of the exrternal EU trade. Trade between the Europe and India is four times less important than trade with China.**

**Legal framework is still rather new: cooperation agreement with India started in 96, while the cooperation agreement with Pakistan was set aside for quite a long period mainly for political reasons.**

**The weakness of the regional integration in South East Asia, both from an economic point of view ( intra regional trade accounts for less than 4% of total trade), and institutional reasons ( weakness of the SAARC "South Asian Association for Regional Cooperation" largely because of the armed conflict between India and Pakistan).**

**The rigid attitude of India in the WTO has led the EU to consider India as a "difficult" trade partner. Nevertheless the rate of growth of India in the 90's, the economic reforms of 99, the rapid growth in services activities in India, namely in data processing and computer design, have pushed the EU to reconsider its position**

**and, consequently the newly elected Commission has taken a more positive approach towards India. Intra regional trade is still limited, and accounts for only 4% of the total trade of the region and less than 3 % for India. Therefore the impact of a possible free trade zone in South East Asia should not have a decisive bearing on the Indian economy.**

**To conclude I would like to emphasize, as I have attempted to demonstrate, that the EU is strongly committed to pursue and strengthen its trade relations with its Asian partners under the most appropriate framework that would encompass a clear set of rules compatible with the multilateral trading system under the WTO.**

**I am grateful to you for having followed me in this friendly visit from Europe to its Asian partners.**

**Thank you for your attention.**

**Professor Jean Luc Le Bideau  
Vice Chair FPTPECC**

**Paris 17 May 2005. 5PM version**