

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

# **EU-Asia trade and investment relations:**

## **Prospects for bilateral FTAs**

**Last month, the EU Commission initialed a bilateral Free Trade Agreement between the EU and South Korea – the first such bilateral FTA by the EU for nearly ten years! In sharp contrast to other major trading partners, why did the EU refrain from such bilateral deals for such a long time and what can the EU-South Korea deal mean for EU trade policy, especially towards ASEAN and Malaysia?**

### **EU belief in Multilateralism**

- EU largest trading entity in the world. 17% total world trade in goods (US 14%, China 10.4%, ASEAN 7.8% in 2008); 26% trade in services (US 17%, ASEAN 7%); EU has world's largest stock of inward FDI (29%, US 18%, ASEAN 5%) and by far the world's largest stock of outward FDI (38%, USA 23%, Japan 5%, ASEAN 2%)

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

- Multilateralism is part of EU “creed”. Support for UN. Support for WTO. Belief in multilateral rules.
- DDA: unqualified support.
- Spaghetti bowl of bilateral FTA’s not comparable in effect to good multilateral deal.
- So for nearly 6 years there was a de facto moratorium on new FTA’s by the EU. Last major bilaterals were Mexico, Chile and South Africa – 10 years ago!

## **GLOBAL EUROPE Communication**

- 2006, re-think by the Commission
- Proliferation of bilateral FTA’s around the world – WTO Secretariat counted over 300 new agreements in just 3 years – risk of putting EU exporters and investors at a disadvantage.

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

- DDA remains priority. So no FTA's which could risk compromising DDA and no shallow FTA's
- So, not the US, not Japan, not China too important for the Round
- BUT key partners where EU has a strong economic interest and which support the DDA. Ambitious FTA's because EU far more interested in non-tariff barriers, government procurement, services, investment protection and intellectual property than in classic tariffs.
- Global Europe identified priority countries for a first round of new generation FTA's: Korea, India and ASEAN. Economic interest, high entry barriers
- A second round of even more ambitious FTA's now envisaged, beginning with Canada launched this year, which will attempt to achieve a level of economic integration comparable to that between the EU and its closest neighbours such as Switzerland or Norway.

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

## EU trade and investment relations with Asia

- China has become EU's largest source of imports (16%) and overall, EU's second largest trading partner after the US
- ASEAN is EU fifth largest trading partner = 4.7 % trade with world
- Japan is 6<sup>th</sup> (4.1%)
- South Korea 8<sup>th</sup> (2.3%)
- India coming up fast and overtaking Canada at 2%
- EU runs huge trade deficits with nearly all of these countries in Asia. China (180bn), Japan (30bn), ASEAN (15bn), Korea (14bn), except for India more or less balanced
- Asia increasingly important. EU number one FDI in Asia. EU investment stock - euro 100 bn in ASEAN, euro 31bn Korea

## State of play in ongoing EU FTA's with Asia

- **Korea – initialled.** We hope to sign beginning 2010 and to implement during second half of the year.
- Most ambitious FTA concluded by EU with a non-European country

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

- Focus is on non-tariff barriers. Based on exhaustive inventory prepared by EU businesses. Regulatory issues number one
- Services – DDA plus and in some respects going beyond KORUS FTA. Especially, banking and insurance
- Investment. EU stock of FDI in Korea 31 bn Euro
- Korea to open up government procurement even at local level
- The recently published EU-Korea agreement will be the benchmark and will help other partners in Asia assess the practical possibilities of FTA's with the EU.

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

- **INDIA** – after 7 rounds of negotiations, prospects look good for conclusion in 2010. Level of ambition of Korea difficult for India but still do-able. Different non-tariff barriers. India stronger in services than Korea. India – decentralized unlike Korea.
- **ASEAN** – no progress on region to region agreement over last 2 years
- ASEAN insisting that all 10 ASEAN members be included while the Commission's negotiating mandate only covers original 7 ASEAN members. Myanmar not possible for EU politically at this stage.
- Wide divergence in level of economic development among ASEAN members makes level of ambition too low for EU. EU not prepared to accept level of ambition of ASEAN's agreements with Australia, New Zealand, Japan, Korea and China

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

- So progress with ASEAN as a bloc is slow: pause for reflection since last March
- EU now seeking to make more rapid progress with some individual ASEAN members, starting with Singapore, Thailand and Vietnam
- Probably easier for Singapore to meet level of EU-Korea FTA than for Thailand or for Vietnam BUT EU prepared to take into account differing level of development.
- Even if we discuss bilateral agreements with individual ASEAN member countries, EU's objective is still to reach agreement with ASEAN as a whole; any bilateral FTA's with individual ASEAN members would be building blocks for an EU-ASEAN agreement later.
- What about **Malaysia**? As far as the EU is concerned, the door is always open and we would welcome an opportunity to discuss with Malaysia the way to

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

achieving an FTA with Malaysia or with ASEAN as a whole.

- The EU is very encouraged by recent measures announced by the Malaysian government to liberalize the Malaysian economy. The Prime Minister's remarks at this forum earlier today about removing certain *bumiputra* restrictions affecting access to services are most welcome. Such measures would certainly facilitate a bilateral EU trade agreement with Malaysia.
- Malaysia and the EU enjoy a healthy trade and investment relationship. Bilateral trade is roughly Euro 30 bn.
- However, if you compare these levels with the EU's trade and investment with other comparable partners, it is clear that there is huge untapped potential for increasing trade - and especially investment - between the EU and Malaysia. Indeed, studies carried out prior to the launch of the EU-

Presentation by Dorian Prince, EU Fellow, Lee Kuan Yew School of Public Policy, Singapore

ASEAN negotiations indicated that Malaysia was the ASEAN country which stood to make the greatest gains from an ambitious trade deal with the EU.

- To date, the discussions between the EU and ASEAN have been bogged down by issues of principle. I hope that the publication of the new EU FTA with Korea will encourage Malaysia and other ASEAN partners to assess the level of the trade liberalization sought by the EU and to concentrate on what is doable.