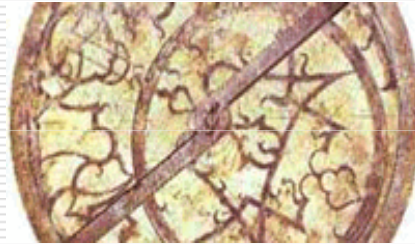


Free Trade Agreements and the future of global trade

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The Commission's initiative

- More realistic analysis of the economic environment
 - more focus on trade as pro-growth,
 - less focus on “norms setting”.
- But fails to take into account the EC 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,
 - takes the risk of launching a race to FTAs that the EC will loose,
 - weakens the WTO which is the shield of fragile countries.

A. Value based on additional market access

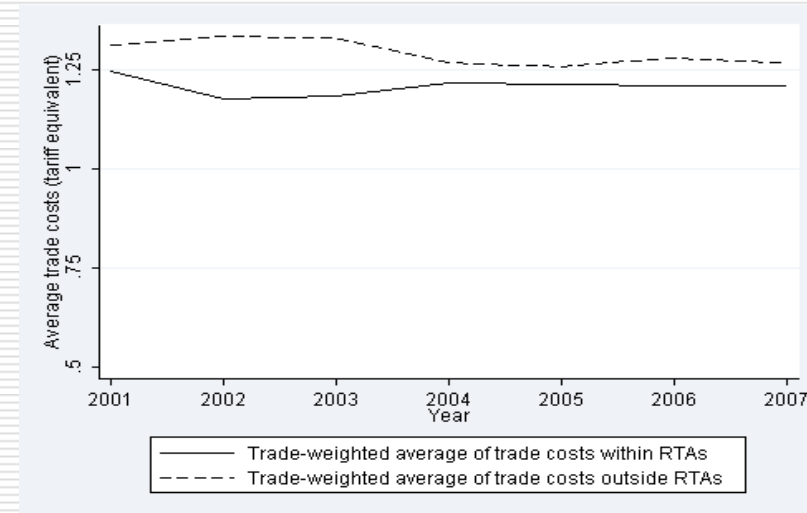
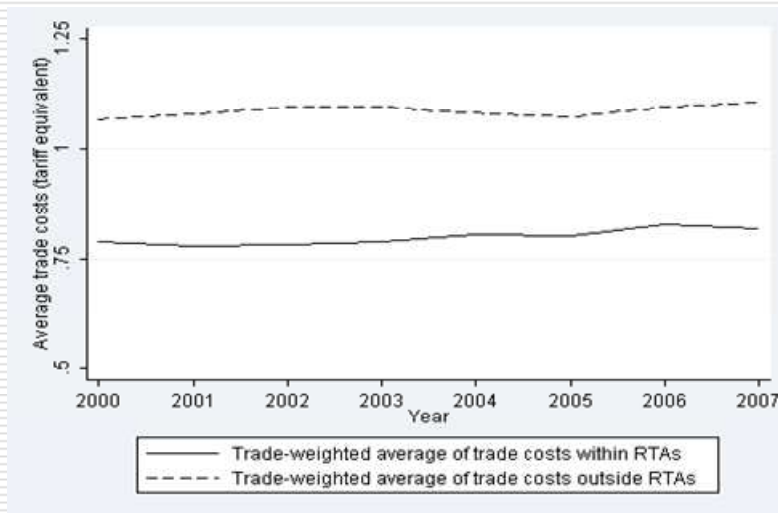
Tariff cuts in goods	100-150
Full market access in three sectors	100
Modest liberalization in services	100
Trade facilitation	350

B. Value based on increased certainty

Cost of increasing applied tariffs to bound tariffs (when possible)	900
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Reality check: FTAs #1

- A race to conclude/implement FTAs with 35+ countries plus an undefined program with U.S., China, Japan, Russia.
 - under-estimates the role of the European Parliament.
 - over-estimates FTAs impact: trade costs within & outside PTAs: goods (left panel) and services (right panel) [Miroudot, Sauvage & Shepherd 2010]



Reality check: FTAs #2

- Pays little attention to the “quality” of the FTAs: decreases with higher MFN tariffs (goods) & higher regulatory rankings (services).
- Pays little attention to the “dynamics” of FTAs: roller-coaster for EC firms (to be hurt by erosion of preferences).

	World GDP share		Avg industrial		Regulatory ranking	
	at	at	tariff		trading	ease of
	current	PPP	bound	applied	across	doing
	USD	USD			borders	business
OPERATIONAL FTAs						
22 countries	6.3	7.6	21.0	8.0	67.1	55.2
ONGOING AND PLANNED FTAs						
37 countries	14.9	20.2	24.6	8.5	71.8	84.9

Confrontational strategy(?)

- Too many goals with heavy political fights and too little support (domestic and foreign):
 - Investment => fight with key EC Member States.
 - Intellectual property rights => no support from foreign consumers.
 - Public procurement => fights with foreign governments which buy EC exports (Airbuses, TGVs, nuclear plants, etc.).
 - Technical/regulatory barriers => no mention of “mutual evaluation” despite the need to combine internal/external policies.
 - DCFTAs => full membership without being a Member state?
- Confrontational tones (rare earth, public proc.) not adapted to the new international relations
 - Trade and competition are “insurance mechanisms” (oil).

An alternative strategy?

- Launch plurilateral exploratory talks in services as quickly as possible with a few large countries (a dozen) and a focus on a few sectors (~ three, courtesy of Doha).

Services	Signalling Conference 2008		2005 offers: market opening moves		Size of sectors (US\$ bn)	Crisis resilience
	Nbr WTO Members	GATS mode underlined	EC	US		
	1	2	3	4		
Business Services	Virtually all	4	yes	no	4918	High
Communication Services	Substantial	3	yes	yes	737	High
Distribution Services	Substantial	3	yes	no	3809	--
Environmental Services	Substantial	3	some	no	--	--
Construction & Related Engineering	Substantial	3 & 4	some	no	1715	High
Transport Services	Substantial	3	some	some	1282	Low
Financial Services	Notable	3	yes	small	1770	Low to High
Educational Services	Notable	3 & 4	no	yes	1444	--
Tourism and Travel Related Services	A few		yes	no	774	Low
Health and Social Services	A few	3 & 4	no	no	1483	--
Recreational, Cultural & Sporting	--	--	small	no	1217	--
Energy	Substantial	3	--	some	--	--

- If successful,
 - 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.

Thank You for Your Attention

