'The cheapest stimulus package you can imagine' – the EU's ambitious trade agenda

Karel De Gucht is the EU Trade Commissioner

Over the next ten to 15 years, 90% of world demand will be generated outside Europe. That is why it is a key priority for the EU to tap into this growth potential by opening up market opportunities for European businesses. Indeed trade is already one of the most important sources of our growth. The small contraction of the European economy in 2012 would have been four times larger if it were not for the money brought in by our trade.

One of Europe's main assets is that it remains one of the most open economies in the world, despite the crisis. The crisis has created public anxiety, which is in turn fuelling a critique of open trade policies. Families, workers, and even some companies, are seeking protection, which in turn prompts them to demand protectionism. Such a viewpoint is right about one thing. Trade has an important role to play in getting us out of the current situation. But closing down trade and investment is most certainly not the answer.

On the contrary: the European Union depends on trade in order to survive and prosper. Compared to others we have not reacted to the crisis by closing markets – on the contrary, we feel committed to further open them. Protectionism is not the answer if two thirds of EU imports are raw materials and components necessary for EU production process. We need imports to export. Raising the cost of imports would reduce competitiveness of EU production inside and outside the EU leading directly to a loss of European production and jobs.

That's why we want to keep our market open for imports and foreign investment. But we also want to make sure other economies open up for European services and investment. One way of ensuring this is through negotiating free trade agreements (FTAs) with our key partners.

In recent years, despite difficulties in moving forward in the multilateral context, we have not stood still in the face of rapid changes in the global economy. We have developed a trade policy agenda of an unprecedented scale: while less than a quarter of EU trade was covered by Free Trade Agreements before 2006, concluding on-going negotiations would bring this figure up to half of our trade and we are now accelerating and deepening this agenda with the opening of negotiations for an agreement on a far bigger scale with Japan and the US. Completing this agenda would bring the coverage of our trade by FTAs to two-thirds of EU external trade. This is by far the most ambitious trade agenda in the world today.

An ambitious trade agenda

So, what's on our plate? We have already successfully implemented a new-generation FTA with Korea. A similar agreement with Peru kicked into effect in March this year, and the deals concluded with Colombia and Central America are expected to start working during the summer of 2013, which is a great success for us and for the region.

We also recently concluded free trade talks with Singapore. Singapore is a gateway for the rest of South East Asia, in which we are also negotiating trade agreements with Malaysia and Vietnam, and have just started with Thailand. In wider Asia, we also hope to soon open talks on an investment agreement with China. Negotiations on a trade deal with Canada are close to finalisation. This deal would actually go beyond NAFTA, for example on government procurement.

FTA negotiations between the EU and Mercosur were re-launched in May 2010 and are of particular interest to the EU. As for India, an EU-India Free Trade Agreement would lay the foundations of our trade relations for the long term, bringing together a quarter of the world's population and 30% of its GDP. It has the potential to be a real game changer for global trade.

In parallel, we are also enhancing our engagement in our neighbourhood, where economic gains can be expected from deep integration and regulatory convergence. Deep and comprehensive FTA negotiations have been concluded with Ukraine and are on-going or soon to be launched with Georgia, Moldova and Armenia, as well as with Egypt, Jordan, and Tunisia. We recently launched talks with Morocco. The targeted level of integration is remarkable, and the EU's neighbourhood policy builds on the strong relation and synergy between trade policy and foreign policy, thus contributing to an area of peace and prosperity.

For development purposes, we have also concluded a comprehensive Economic Partnership Agreement (EPA) with the CARIFORUM group of States in the Caribbean and are pursuing negotiations with other African, Caribbean and Pacific (ACP) countries and regions.

All this shows that even in difficult times, we are able to deliver ambitious trade deals that provide concrete benefits for the European economy.

EU-Korea: a landmark FTA which is already starting to produce results

In force since 1 July 2011, the EU-Korea FTA is the most ambitious trade deal ever concluded and implemented by the EU — and our first in Asia. It has led to an unprecedented level of tariff dismantling - starting with almost 99% of duties within five years - and some ground-breaking provisions on non-tariff barriers. EU exporters should save up to €1.6 billion a year in duties once the FTA is fully implemented. While it may be too early to draw final conclusions, there was a 37% increase in our exports during the first year of implementation of the agreement (against a rise of 1% in our imports). Our trade deficit has come down to just over €3.5 billion in 2011, from more than €11 billion in 2010 and well over €16bn in 2007.

Trade agreements with the US and Japan – negotiating with 'equals'

More than two thirds of the economic gains from our agenda would come from potential agreements with the US and Japan.

The EU's economic relationship with the US is its most important, unrivalled in scope and intensity, as illustrated in particular by the unique levels of mutual investment stocks (€2.4 trillion). Total US investment in the EU is three times higher than in all of Asia while EU investment in the US is around eight times the amount of EU investment in India and China put together. More than 15 million people are employed by European companies in the US or US companies in Europe. The transatlantic relationship has enormous potential which is far from being fully exploited.

Though the tariffs we impose on imports are low - around 4% on average - the volume of our trade is enormous. As a result every tariff we remove – even the lowest ones – will result in millions of euros of savings to companies, savings which can be reinvested for growth. But tariffs will only be a small piece of the deal. We are aiming for an even bigger package, which will include opening of markets for services and – very importantly – in public procurement. The most effort, however, will go into addressing those barriers that lie behind the customs border – such as differences in technical regulations, standards and certification requirements. These technical barriers to trade are estimated to have the same effect as if we had extra tariffs of between 10 and 20 per cent per product.

So I believe that it's certainly not exaggerated to say that such a 'transatlantic economic alliance' will be ground-breaking. In short: it moves beyond anything we have done before. It could boost our economies by between 0.5% and 1% of GDP and the real beauty of this deal is the fact that the increased trade between the EU and the US will offer real returns to every household - expected 545 euros per average household in Europe - for next to no investment. Given that both Europe and America are recovering from the biggest economic crisis in living memory, we cannot afford to ignore these gains now. The deal will create jobs and growth simply by opening up trade and investment flows. We hope such talks with the US can start in summer 2013.

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A similar rationale lies behind our negotiations with Japan, which started in April 2013. Together the European Union and Japan account for more than one third of world GDP. Hence, an ambitious agreement between the two economic giants is expected to boost Europe's economy by 0.6 to 0.8% of its GDP and will result in growth and the creation of 400,000 jobs. It is expected that EU exports to Japan could increase by 32.7%, while Japanese exports to the EU would increase by 23.5%.

The Japanese market is huge but EU companies currently come up against serious non-tariff barriers. The result is that Japan has one of the lowest import penetration rates of any country in the OECD (6%, one fifth of the OECD average.) Likewise, it has the lowest level of inward foreign direct investment (FDI) in the OECD. Only 3% of global European FDI is in Japan. The EU-Japan trade and investment relationship is clearly underperforming and could be greatly enhanced.

Hence, the negotiations with Japan will address a number of these EU concerns, including non-tariff barriers and the further opening of the Japanese public procurement market. Both sides aim at concluding an agreement covering the progressive and reciprocal liberalisation of trade in goods, services and investment, as well as rules on trade-related issues. The negotiations will be based on the outcome of a joint scoping exercise, which the EU and Japan completed in May 2012. The Commission has agreed with Japan on specific roadmaps for the removal, in the context of the negotiations, of non-tariff barriers as well as on the opening up of public procurement for Japan's railways and urban transport market.

Given the importance that the elimination of non-tariff barriers has for achieving a level playing field for European businesses on the Japanese market, the negotiating directives adopted by the Council foresee a parallelism between the elimination of EU duties and of non-tariff barriers in Japan. They also authorise the suspension of the negotiations after one year, if Japan does not live up to its commitments on removing non-tariff barriers. In short: Europe can pull the plug on negotiations without penalty after one year if Japan doesn't show real evidence of removing certain non-tariff barriers in that 12 month period. And to protect sensitive European sectors there is also a robust safeguard clause.

Europe is still a key player in world markets

With all the doom and gloom about the euro crisis it can sometimes be easy to forget our strengths: the European

Union is still the world's largest market, with 500 million affluent consumers. Our GDP of over 12 and a half trillion euro is rivalled only by the United States at 11 trillion. China and Japan, the next biggest economies, are considerably smaller, at around 4 trillion. The EU also remains the world's largest exporter, importer, source and recipient of foreign direct investment. We have managed to hold on to our 20% share of total world exports despite the rise of China, while Japan and the US have seen clear declines in their respective shares.

In short: those economies that do not have preferential access to our market stand to see their competitive position eroded if they do not take action by negotiating free trade agreements with the EU. At the same time, open markets are essential to kick-start growth and jobs in Europe. If we were to complete all our current free trade talks tomorrow, we would add 2.2% to the EU's GDP or €275 billion. This is equivalent to adding a country as big as Austria or Denmark to the EU economy. In terms of employment, these agreements could generate 2.2 million new jobs or additional 1% of the EU total workforce.

Truly, this is the cheapest stimulus package you can imagine. Trade is a key part of the solution to the current crisis and the EU is moving full steam ahead. ■

ABOUT THE AUTHOR

Karel De Gucht is European Commissioner for Trade since February 2010. A lawyer by training and a Belgian liberal (Open-VLD), he has held numerous political offices at both national and European level. He was first elected as a Member of the European Parliament at the age of 26 and has more recently been both Belgium's Deputy Prime Minister and Minister of Foreign Affairs (2004-2009) before first joining the European Commission as Commissioner for Development and Humanitarian Aid (2009-2010).