The Much Needed EU Pivoting to East Asia*

PATRICK A. MESSERLIN**
ECIPE, Belgium and Seoul National University, Korea

The EU macroeconomic and budgetary policies will be politically sustainable only if the EU increases its anemic growth by making the necessary domestic regulatory reforms. In the absence of a Doha deal, preferential trade agreements (PTAs) are the only instrument left for buttressing EU domestic reforms and boosting EU growth. But PTAs could achieve such goals only if the PTA partners of the EU are big economies, well regulated and well connected to the rest of the world. Japan and Taiwan are the only economies in the world (except the US) meeting these three conditions—hence the need for an EU resolute pivoting to East Asia based on concluding ambitious PTAs with these two economies as quickly as possible.

Another consequence of the Doha failure is to induce other large economies to create “mega” PTAs—the Trans Pacific Partnership (TPP) led by the US and the China-Japan-Korea (CJK) agreement. For the EU, the only way to insure its firms against the risks of discriminations from these mega-PTAs is also to conclude a PTA with Japan (insuring against the TPP) and with Taiwan (insuring against the CJK).

Finally, managing a resolute EU pivoting to East Asia raises a series of problems. Those involving a few major EU trading partners—the US, China, Korea, Brazil and India—are examined.

**Keywords:** World Trade System, EU Trade Policy, Preferential Trade Agreements, Trans-Pacific Partnership, Trade, Growth and Domestic Regulatory Reforms

I. INTRODUCTION

November 29\textsuperscript{th}, 2012, the Council of Ministers of the European Union (EU) gave a mandate to the Commission for negotiating a preferential trade agreement (PTA) with Japan. Of course, launching negotiations is

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** ECIPE, Belgium and Visiting Professor at GSIS, Seoul National University, Korea; E-mail: patrick.messerlin@free.fr
not concluding them. But, this decision contrasts so much with two very
difficult years of preparatory discussions, and it has been taken so much
more rapidly than expected that it may indicate a key turning point in the
EU trade policy. In this context, this paper has two main goals.

First, it summarizes the economic arguments justifying such a choice.
Marshalling these arguments will be necessary during the coming years of
negotiations if the few but powerful vested interests which have been
fiercely opposed to the mandate will try to torpedo the negotiations--at
the detriment of the interests of the many other EU producers of goods
and services which have shown up for supporting the mandate.

Second, the paper puts the Japan-EU relations in the much broader
perspective of the trade and economic relations between the EU and all
the East Asian economies. It is urgent for the EU to fully recognize the
central role of East Asia in the world economy, hence to undertake a
global “pivoting” to East Asia by starting to work on a PTA with Taiwan,
by taking great care of not jeopardizing the existing PTA with Korea, and
by preparing, in the longer term, a PTA with China if the Doha Round
continues to remain stuck.

The current failure of the Doha Round leaves the PTAs as the only in-
strument for the EU to boost its growth. More growth is absolutely neces-
sary for making sustainable the current monetary and fiscal policies im-
plemented in the EU Member States (EUMS), including Germany. The
euro-crisis seems to calm down, but it is far from being over, with the
“debt walls” that budgetary cuts are leaving in many EUMS being higher
than those predicted a year ago. The much hailed institutional change
(Banking Union) will take years before having a noticeable impact. Less
visible, but much more pernicious and damaging, is the attrition of com-
petition generated in many sectors by the past several years of crisis--in
the EU Member States as well as in the rest of the world. Far to be condu-
cive to growth, such an attrition of competition favors rents for the most
powerful, increasingly entrenched vested interests, hence a sure recipe for
increased inequalities and ultimately serious political turmoil.

Relying on PTAs raises two questions to the EU. First, which are the
PTAs likely to provide the biggest and fastest boost to EU growth? Sec-
ond, PTAs have an intrinsic flaw: they favor trade among the signatories
at the detriment of trade between the signatories and the rest of the world.
Such a flaw raises the following question: which are the PTAs ensuring
EU firms best against the discriminatory effects of the PTAs concluded
among non-EU economies? The paper shows that, remarkably, these two
questions end up with the same set of preferable PTAs for the EU--those
with Japan and Taiwan--since the Korea-EU PTA is already in force.