

Prospects for the EU's New Generation of FTAs

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Last year the European Union began negotiating free trade agreements (FTAs) with South Korea, India and ASEAN. Each negotiation process has taken a course of its own with different speeds and depths, as would be expected, since each FTA partner has its own very distinct character. Negotiations with South Korea have progressed faster than with the other two partners and the parties have reached general agreement on a majority of the issues, with only the most difficult ones remaining to resolve. Negotiations with India are also progressing although more slowly. Finally, with ASEAN the EU negotiators met in mid-April for a third round to discuss a general roadmap.

The FTAs with these trading partners are important for two reasons. First, they are among the EU's first round of new generation FTAs as called for in the *Global Europe: Competing in the World* communiqué, which spells out the EU's external agenda for improving its competitiveness in the global economy. Second, if and when they are signed, they will be the EU's first bilateral FTAs in the region.

Global Europe declared that the choice of the new generation FTAs is based solely on economic motivations. Two economic criteria were used to prioritise the EU's new-generation FTA partners: market potential (market size multiplied by growth rate) and protected markets (both tariff and non-tariff barriers). Indeed, this makes economic sense. All three partners have high market potential. Korea is among the top 10 largest economies in the world and is expected to grow by 4.7% per annum on average over 2005-25. India and member countries of ASEAN are among the emerging markets with strong annual growth rates expected at 5.5% and 4.9% respectively over the next two decades. However, despite their having liberalised trade, the average MFN tariff rates for non-agricultural goods are 6.6% for Korea, 16.4% for India, and range between 0% for Singapore and 15.7% for Vietnam, versus 3.8% for the EU-27. Moreover, it is the non-tariff barriers, more so than tariffs, that hamper market access in these countries.

As the EU is relatively open compared to these countries, the optimal policy strategy for the EU is to negotiate deep FTAs including liberalisation of services and investment and removal of non-tariff barriers to maximise its gains. In particular, tackling IPR issues, harmonising anti-dumping rules, removing technical barriers to trade (TBTs) and setting sanitary and phytosanitary standards lie at the heart of the EU's gains. However, the question is whether the so-called 'deep' FTA framework is feasible with these Asian

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partners or not. The answer is not at all clear especially for ASEAN, nor for India. Although all these countries are involved in many bilateral FTAs themselves, they lack experience in negotiating deep FTAs and especially with major trading blocs or developed countries (with the exception of the ASEAN-Japan FTA signed last week). Even the US-Korea FTA signed last year, but is not yet ratified, is being questioned as to whether it has successfully tackled non-tariff barriers in automobiles.

It is likely that the negotiations with Korea will be completed by the end of this year and a deep FTA is feasible. However, India and ASEAN will present a greater challenge. Since these countries have preferential access to the EU market through the Generalised System of Preferences (GSP), the respective FTAs have to dismantle both tariffs and non-tariff barriers not only for the sake of competitiveness but also to ensure a level playing field for EU firms. Much remains in the hands of the negotiators.