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New Free Trade Agreements—A Cure for the Crisis?

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There has been a pronounced increase in the number of Free Trade Agreements (FTAs) in recent years. The EU is currently negotiating nine FTAs and has a further four in the pipeline. FTAs have important trade-boosting potential and are therefore seen as a possible cure for the stagnation that is racking the EU and other regions in the aftermath of the international financial crisis. But the unwanted consequences of a proliferation of FTAs could hinder their stimulating properties. The EU and Poland should therefore ensure that FTAs avoid imposing external barriers, and are ambitious and far-reaching.

The Rise of FTAs. More than 80 Free Trade Agreements (FTAs) have been signed and 12 announced early to the World Trade Organisation (WTO) in the five years since 2008. This is a marked increase compared to the 63 FTAs concluded in 2003–2007, and the 43 completed in 1998–2002. This upturn is partly a result of the global economic slowdown. According to the economic theory behind them, trade liberalisation through FTAs increases trade and boosts growth. This is vital at a time when the financial crisis has put economic recovery firmly at the top of the list of governments' priorities. Moreover, states are searching for an alternative to trade liberalisation, given the protraction of WTO talks. The growing number of WTO members and their lack of flexibility have made global negotiations on sensitive issues such as agriculture and services increasingly difficult. Finally, the FTA proliferation process is also subject to a feedback loop. The world's biggest economies are multiplying their FTAs: the EU and the U.S. have 28 and 20 FTAs in force, respectively, and both have begun or are launching negotiations for several more agreements. As countries left out of the agreements begin to feel at a disadvantage they have set up their own FTAs or joined others. China, which currently has just seven FTAs in force, is actively negotiating five further agreements and considering another four.

The EU and FTAs. For the EU, the potential benefit of FTAs is very attractive at this time of stagnation in its economy. According to Commission estimates, the completion of all the EU's ongoing trade talks would increase its GDP by 2.2% (€275 billion) and generate 2.2 million new jobs. Ongoing negotiations with Canada are predicted to boost annual bilateral trade by €25.7 billion. The much-hyped Transatlantic Trade and Investment Partnership (TTIP), talks for which are set to start in July, could increase annual EU income by €19 billion. FTA negotiations with Japan, launched in March, could increase EU exports to Japan by a third, boosting GDP by 0.6% and generating 400,000 new jobs.

Not all of the EU's upcoming FTAs involve key economic partners, but they have been undertaken with the promise of expanding them in the future and the bigger economic benefits they may bring. The Commission hopes that an FTA with Thailand, negotiations for which were launched in March, will lead to a region-to-region EU–ASEAN agreement. Similarly, it is expected that talks on a Deep and Comprehensive FTA (DCFTA) with Morocco, which also began in March, will be followed by negotiations with Egypt, Jordan and Tunisia. DCFTAs with Ukraine, Moldova and Georgia are due to be signed at the Eastern Partnership Summit in Vilnius in November. In the eyes of the EU, the more FTAs it has, the better, as the Commission predicts that 90% of world demand will be generated outside the EU in the next two years.

Despite this high level of activity, the EU has yet to broach the subject of FTA negotiations with several important economies. The EU and China are not currently considering entering into an FTA, even though EU–China trade exceeds €1 billion per day, and China is the fastest-growing market for EU exports. Neither is the EU contemplating an FTA with Australia, another important trading partner (bilateral trade exceeded €48 billion in 2012) and one with which it enjoys a positive trade balance.

FTAs as a Cure for the Crisis? Although FTAs in general vary in scope and ambition, most include elements such as tariff reductions, trade facilitation policies, dispute settlement mechanisms, and reductions in barriers to foreign investment. Taken together, these elements open up market opportunities for businesses, leading to increases in trade and investment flows between the parties. This in turn boosts production and stimulates crisis-struck economies without increasing budget deficits. These are highly desired effects at a time when countries are struggling with stagnation and the task of deficit reduction in the aftermath of the financial crisis.

But the emergence of multiple and overlapping FTAs could in fact hinder the proper functioning of businesses and reduce the growth-boosting properties of the agreements. A "noodle bowl" of FTAs can create high transaction costs for businesses, as the different agreements create incoherent trading conditions. For example, outsourcing decisions have been complicated for businesses in the Association of Southeast Asian Nations (ASEAN) Member States that have bilateral agreements with countries with which ASEAN has a separate agreement.

Moreover, the IMF has expressed fears that regional FTAs could turn into closed blocs that distort the pattern of international trade, especially if they are used as a substitute for multilateral liberalisation. Hermetic regional trading blocs could divert trade rather than boost it, and thus stymie the stimulating effect of FTAs. Already, China has raised concerns that the planned U.S.–EU FTA is a protectionist move by the transatlantic economies.

Conclusions and Recommendations. The proliferation of FTAs could potentially reduce their desirable and much-needed trade-boosting properties. Therefore, in order for FTAs to provide real economic benefits and assist states in overcoming the post-crisis slump, it is important that negotiators ensure that the agreements are optimised. Low external barriers and consistency across the various FTAs could prevent the emergence of obstacles to trade stemming from incoherence. It could also prevent allegations of protectionism and diversion of trade from non-members to members (for example, Turkey is pushing to be allowed to sit in on TTIP negotiations because it fears the consequences of an EU–U.S. FTA on its customs union with the EU.) Thus, FTAs with low external barriers and consistent rules are likely to provide their members with greater economic benefits, and so promote further trade liberalisation globally and help national economies complete their post-crisis exit strategies.

Moreover, the FTAs should be as ambitious and far-reaching as possible. The EU's deal with South Korea is an example of the huge benefits that can be derived from comprehensive FTAs. By going further than before in lifting barriers to trade, the EU–South Korea FTA has already created cash savings for European businesses, according to Commission data. This kind of comprehensive agreement is difficult to achieve, as various stakeholders often object to the inclusion of certain sectors in FTAs and exert pressure on negotiators to produce a more limited agreement. That is happening now with TTIP: France has ceded to its entertainment sector and is lobbying the Commission to exclude the audio-visual industry from the agreement, and in the U.S. there has been talk of completely excluding agriculture from the FTA because of demands by American farmers. (This is the problem that has most slowed WTO negotiations, although a change of leadership at the top of the organisation, with the arrival of new Director-General Roberto Azevedo, may yet re-ignite talks.)

Poland should follow the upcoming EU FTA negotiations closely. In the case of TTIP, Poland could help ensure that a far-reaching FTA is agreed and that agriculture is not set aside by providing the Commission and the European Parliament with its expertise as a leading food producer and exporter in the EU. Poland should also monitor the ongoing negotiations of the EU–Canada FTA, as Polish companies and consumers would gain from the removal of trade barriers (bilateral trade exceeded $1.4 billion in 2012). Poland also stands to gain from the EU–Japan FTA, given the increase in Japanese investment in Poland in recent years. Finally, Poland should lobby for the completion of the EU–India FTA, negotiations on which stalled near the finish line: Polish exports to India have been growing fast, and it could benefit further from reduced trade barriers. In order to better promote its interests at the EU level, Poland could coordinate a pro-FTA position with its fellow V4 states (Slovakia, Hungary, and the Czech Republic), with which it shares many interests, and with other EU Member States that support the EU's FTAs. Of Polish exports, 80% go to EU Member States, so measures that can boost the EU economy or facilitate Poland's trade with countries outside the EU are in its interest.