

Research shows big potential gains from new EU FTAs. Memo - Brussels, 23 April 2007

Independent research commissioned by the European Commission has illustrated the likely economic benefits of the new generation of bilateral trade agreements proposed by the European Commission under the Global Europe Framework. The initial results of analysis, undertaken by CEPII and Copenhagen Economics, confirm Commission analysis that new EU FTAs with India, ASEAN and South Korea will create significant new trade for all sides and give a valuable boost to global trade, especially in services.

The studies, based on realistic liberalisation outcomes, suggest:

- The agreements will boost EU exports to ASEAN by 24.2%, to India by 56.8% and to Korea by 47.8%. The three deals combined could increase total EU exports (1.3 trillion euros in 2005) by 3.23%. They offer an increase of GDP of 0.13% for the EU.
- ASEAN would see an increase of its exports to the EU of 18.5%, Korea would see exports to the EU rise by 36% and India by 18.7%
- By going beyond what is possible in the WTO, particularly in areas such as services and investment, the three FTAs could add as much as 40% to the benefits of a successful Doha Round for the EU.
- Further gains are to be expected from liberalisation of non tariff barriers, which cannot be captured by such studies due to methodological difficulties but which account for a great deal of actual obstacles faced by EU companies and will be properly dealt with in upcoming FTAs.

Liberalisation of goods and services leads to big new gains

In addition to the figures quoted above the models suggest the following potential benefits:

- Biggest gains for the EU would include: business services to ASEAN (a 29% increase worth 7.9 billion euros); industrial and manufactured goods to India (a 50% increase worth 5.1 billion euros); business services to Korea (a 22% increase worth 4.2 billion euros).
- Biggest gains for EU partners would include: business services from ASEAN (an 80% increase worth 14 billion euros); textiles and clothing from India (an increase of 46% worth 3.6 billion euros); vehicles from Korea (an increase of 40% worth 5.2 billion euros).

FTA	Export growth to FTA partner	Total increase in EU exports	Import growth from FTA partner	Total increase in EU imports
ASEAN	+24.2%	+1.98%	+18.5%	1.72%
India	+56.8%	+0.72%	+18.7%	0.68%
South Korea	+47.8%	+0.53%	+36%	-
Total	-	+3.23%	-	-

Note: The research is based on studies that modelled the following realistic scenarios: ASEAN: full liberalisation of trade in goods with some sensitive products excluded and a 50% cut in barriers to services markets; India: 95% of all trade barriers removed and a 25% reduction in barriers to services markets; Korea: full liberalisation in non-food sectors, 40% reduction in food tariffs and a 25% reduction in barriers to services markets.

A valuable boost to global trade

The three agreements will result in large net additions to global trade, with trade diversion effects from the three agreements likely to be minimal. An agreement with ASEAN would see some trade diversion from China and India, and Gulf states may see some trade diversion by an EU-India FTA. There are likely to be no trade diversion effects for third parties from an EU-Korea FTA. By focussing on areas currently outside the WTO such as business services, the three agreements will complement the multilateral system well.

Possible further benefits from productivity gains and removal of non-tariff barriers

The results of the studies probably understate the potential benefits of the new Global Europe FTAs as none of the models takes into account the likely productivity gains from new commercial competition. As indicated above, neither do they model the effects of new trade created by the removal of non-tariff barriers such as discriminatory rules and regulations - an important focus of all Global Europe FTAs.