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## Transatlantic FTA would remake global trade rules<sup>①</sup>

After seven years, negotiations for the EU-Canada free trade deal, known as the Comprehensive Economic and Trade Agreement (CETA), were concluded on October 30. Like any free trade agreement (FTA), this one is believed to bring substantial benefits to both sides. In addition, it is of a high standard and will have a greater say in the making of international trade rules in the future. Many Chinese people won't be paying much attention to the EU-Canada deal, as it is transatlantic, and geographically speaking, unlikely to affect China's economic strategy in the Asia-Pacific area. But is that really the case?

The EU signed an FTA with Mexico in 1999, in part due to worries about trade diversions brought about by the North American FTA (NAFTA) that took effect in 1994. Although its standards were not as high as present deals, the EU was able to reduce the impact of trade diversion and Mexico was granted access to the EU market. In 2015, the EU and Mexico agreed to upgrade the EU-Mexico FTA to align with the

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standard of the EU-Canada deal as well as chapters in the US-EU Transatlantic Trade and Investment Partnership (TTIP).

CETA's standard is indeed high. For instance, apart from certain agricultural products, tariffs are close to zero for nearly all goods. More importantly, both the EU and Canada have agreed on bilateral investment measures, which are in line with the EU's value of seeking an appropriate balance between protecting investors while not weakening government power.

Even though the EU's FTA talks with Mexico and Canada were started before the ongoing TTIP negotiations, the two former negotiations didn't attract much attention in China. This is not surprising, as the strategic significance of Mexico and Canada is comparatively smaller than that of the US.

But it should be noted that the EU-Mexico FTA and CETA are transatlantic deals, just like the TTIP. Additionally, the EU is currently under free trade negotiations with the last NAFTA member country: the US. Thus, a bigger picture may be in front of us - a potential FTA between the EU and North America with a united standard.

If that picture becomes reality, even current mega trade pacts including the Trans-Pacific Partnership (TPP), the TTIP and the Regional Comprehensive



Economic Partnership (RCEP), which respectively represent 40 percent, 40 percent and 33 percent of world total output, would be overshadowed by the FTA between the EU and North America, which would account for 44 percent of the global economy. The possible trade deal would also boast the greatest trade volume, with the gap in its member countries' level of economic development smaller than those in the TPP, TTIP and RCEP.

If the EU-North America FTA were to take effect, an invigorated transatlantic economy would be unleashed as its member nations are highly competitive in innovation and in the services and manufacturing industries. Furthermore, investment across the region is already extremely active. This new market would compete with the trans-Pacific economy, especially the Asia-Pacific region. Even though at present the market scale and manufacturing development in the Asia-Pacific and transatlantic regions are neck and neck, the former still lags behind in innovation and the services industry which would make it even more difficult for less developed economies to catch up to developed economies.

Furthermore, an EU-North American FTA could pose challenges to the Belt and Road initiative and to global trade governance. Countries along the initiative's route are limited in economic development and need enormous investment for infrastructure and manufacturing projects. However, a future EU-North American FTA would draw



huge amounts of capital and trade into the transatlantic region, which would likely place added pressure on increasing investment in countries along the Belt and Road route. Further, the trade and investment standards of the future EU-North American FTA would be relatively higher and would exert greater influence on the making of global trade rules. Other countries would find it difficult to follow or come up with their own proposals of international trade rules, but would need to accept these higher standards.

To cope with possible challenges, China needs to think and act. First, China should invite the EU to participate in the Belt and Road initiative and integrate the EU economy with the Belt and Road initiative before the establishment of a EU-North American FTA deal.

Second, negotiations of bilateral investment treaties China has with the US and the EU need to be completed as soon as possible. Additionally, talks concerning China-US, China-EU and China-Canada FTA deals should be started as soon as appropriate.

Third, China has participated in only one mega trade pact at present - the RCEP. China needs to seize its window of opportunity and conclude the RCEP talks before the TPP is ratified or the hurdles in pushing forward with the TTIP are cleared.



The CETA between EU and Canada is likely to have an unnoticed butterfly effect on China in the Asia-Pacific region. If TTIP negotiations are concluded, an EU-North American FTA would naturally be established, which would exert profound influence on the world's economic and political landscape.

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