Brussels Looks East

By Razeen Sally

BRUSSELS—The European Union has finally jumped on the free trade agreement bandwagon in Asia. This year, Brussels has started negotiations with three key regional partners: India, South Korea and the 10-member Association of Southeast Asian Nations. But, with the possible exception of South Korea, it is highly unlikely that Europe will strike deals that make economic sense.

> The EU jumps on the FTA bandwagon, but to what end?

The message from Brussels is that there are plenty of good reasons to ink "new generation" bilateral trade agreements that are commercially meaningful. Many Asian markets hinder access to European exporters, particularly through nontariff trade barriers—opaque and discriminatory domestic regulations that pose a far bigger obstacle than tariffs or quotas. These barriers raise prices for Asian consumers and prevent European companies from fully tapping some of the world's fastest-growing markets.

The EU's goal is to eliminate these barriers and encourage a transparent regulatory environment for trade and investment in goods and services. Brussels also agitates for "far-reaching" services-sector liberalization, easier rules for foreign direct investment, reasonably strong competition law, fair government procurement and transparent customs procedures. For the EU, bilateral FTAs should go well beyond the World Trade Organization standards; they should be "WTO plus."

Europe's deals with Asian countries will put this rhetoric to the test. Historically, FTAs in Asia are "trade lite"; at best, they eliminate tariffs on 90% or more of goods trade. While that sounds impressive, most Asian bilateral FTAs have significant exemptions for agricultural products, in addition to complex, trade-restricting rules of origin, which are hard to comply with when companies have global supply chains. Worst of all, they barely tackle the nontariff, domestic regulatory barriers that really throttle trade and investment.

Brussels has the best chance of concluding a meaningful FTA with South Korea. Seoul has proved itself the most commercially minded of FTA players in the region, as demonstrated by its wide-ranging, comprehensive agreement with the United States. In those talks, Seoul agreed to eliminate nearly all tariffs on bilateral goods trade, and to fully open most of its services markets to American exporters and foreign investors. The latter will enjoy significant new business opportunities in financial services, telecommunications, express delivery and professional services, such as law and accounting. The EU can use the U.S. deal as a floor for its own negotiations with Korea.

After four rounds of negotiations, the EU has made it clear that it expects as much, and more. Brussels wants the removal of all Korean tariffs on industrial goods, including automobiles, the removal of most agricultural tariffs, major services liberalization, the removal of ownership, establishment and operating restrictions on EU investors—especially in core services sectors like banking, insurance and telecoms—the opening up of government procurement, better competition enforcement, disciplines on state subsidies, and less restrictive Korean product and food-safety standards. In return, the EU has offered to abolish all tariffs on bilateral goods trade—its most ambitious offer in an FTA to date.

There are still problems to work out. It's unlikely that Korea will fully liberalize its heavily protected and politically sensitive agricultural sector. Government procurement, competition rules and assorted regulatory barriers may not be covered strongly enough. And rules-of-origin requirements may end up being too messy. Still, the chances of concluding an EU-Korea FTA by next year are good. The probable result will be a relatively strong deal, though it will leave significant gaps.

FTA negotiations with India make far less commercial sense. India has an exceedingly "trade lite" approach: Its trade pacts are mostly about feel-good foreign policy, and almost totally lacking in commercial substance. Even before negotiations were launched in June 2007, New Delhi made it clear that it wants to carve out most of its farm sector from any agreement. Brussels is happy to oblige, given its own agricultural protectionism. Manufacturing and services liberalization are better prospects, given India's unilateral liberalization since the 1990s. But Delhi has stalled on further liberalization in recent years, and it will be very difficult to tackle India's huge regulatory barriers through an FTA. A stronger framework agreement on regulatory cooperation would be preferable to a weak FTA.

Similarly, the EU will find a strong FTA with the Association of Southeast Asian Nations almost impossible to negotiate. With the exception of Singapore, Asean countries' existing and planned FTAs are also trade lite: They carve out much of the agricultural sector and barely touch regulatory barriers in manufacturing, services and investment. Furthermore, Asean is an unwieldly collection of 10 members who lack a common negotiating machinery, and find it almost impossible to collectively tackle the most sensitive trade barriers. A dual-track approach would be better: a stronger regulatory-cooperation agreement—rather than a weak FTA—with Asean as a group, and a strong FTA with Singapore, which is strongly pro free-trade. Strong bilateral trade deals with other Asean countries will prove elusive, as the U.S. has found with Malaysia and Thailand.


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More generally, Brussels should rethink its flawed FTA strategy in the region. Japan and China alone comprise 55% of the EU's potential Asian export market, according to the EU Commission's own figures. The EU doesn't have to negotiate bilateral FTAs with these countries—whose FTAs are pretty weak, anyway—to increase trade and investment. The EU and China could, for instance, set up a regular high-level Strategic Economic Dialogue, with strong business input, to focus on tackling concrete trade and investment barriers.

There's work to be done, at home, too. The EU still favors blatantly protectionist antidumping and other trade-defense measures against imports from developing countries. These are now heavily weighted against Chinese imports in particular, which do not benefit from the "market-economy status" the EU confers on nearly all other developing countries. The EU should grant China market economy status—a symbolic move that would improve bilateral relations overnight—as well as agree to exercise restraint in future antidumping and safeguard actions. In return, it could probably secure better Chinese enforcement of its WTO obligations, such as those covering intellectual property rights, and achieve a further opening of Chinese services markets.

The bulk of emerging-market liberalization—especially in Asia—has taken place unilaterally, not through the WTO and FTAs. The challenge is to find creative ways to encourage further unilateral liberalization in China, India and elsewhere, reinforced by bilateral regulatory cooperation on sensitive issues such as services, investment, government procurement, competition rules, customs administration and subsidies. Business input will be crucial to make this effort work. This tack could prove to be a more practical, bottom-up, fruitful alternative than the top-down, politicized, bureaucratic haggling of trade negotiations.

A fixation with FTAs is also a convenient distraction from essential domestic homework. If European firms are not sufficiently competitive in Asia, it is not primarily because of Asian market barriers. After all, these have been coming down gradually and are much lower than they used to be. Rather, the main problem is with the lack of competition in the European internal market, which hampers the global competitiveness of European firms. The primary solution is further liberalization at home, including more exposure to foreign competition. That requires a more liberal import policy.

EU-Asia trade relations require serious strategic thinking. Stronger bilateral frameworks of cooperation, not necessarily FTAs, are needed. More importantly, the EU needs to shift from narrow mercantilism—seeking preferential access for selected sectors in Asian markets—to a trade policy that is firmly hitched to Europe's policy for its own internal market. But ultimately, a more competitive internal market will do more to make European firms more competitive in Asian markets than any trade deal.

Mr. Sally is director of the European Center for International Political Economy in Brussels.

A Damaged Brand

By Duy Hoang

Founded in 1930, the Vietnamese Communist Party is struggling with its identity—and role. Take the current debate over whether to change the party's name. This rebranding exercise stems from a recognition that the communist label is anachronistic, and reflects poorly on officials who travel abroad to pitch trade and investment. And it's not mere semantics—the party's name says a lot about the party's perception of itself and the image it wants to project at home and abroad.

Reports of a possible name change began floating early last year, prior to the 10th Party Congress. The articles, which appeared in Vietnamese-language, state-run Web sites, were probably meant as a trial balloon to gauge public opinion. Like the tough talk on corruption, discussion of the name change ceased right after the party conclave, with no further official action.

Recently, however, Singapore's Straits Times and local Vietnamese bloggers have reported that party cadres have been instructed to study the issue further. Hanoi-based sources further suggest that two potential names under consideration are the "Labor Party" and "People's Party."

Owing to the party's murky decision-making process it's far too soon to say whether this speculation will become reality. But in many ways, the party has already practically embraced such a change. For most of its life, the Vietnamese Communist Party was of the Marxist-Leninist mold in terms of ideology and organization. Though not officially saying so, it has ditched Marxism in recent years. First for its own survival and then to enrich its members, this ostensibly Leninist party has started to embrace capitalism.

> Vietnam's Communists consider using a new name.

But the challenge for the communist leadership is more serious than finding a new bottle for the old wine. Article 4 of the current constitution enshrines the Communist Party as "the force leading the state and society." So the constitution would probably have to be amended in the event of a name change, with references to "communist party" swapped with a successor name.

If the Party is going to go to that kind of trouble, then what about the name of the country itself? If "Communist Party of Vietnam" is out-dated, the country's name—"Socialist Republic of Vietnam"—is just as much so. That raises a broader, more uncomfortable question for the party: What is the point of a socialist republic if there is no longer a communist party serving as its vanguard? One solution could be to revert to the former name of the North before 1975, the Democratic Republic of Vietnam. But that would raise even more difficult questions on what a "democratic republic" really means. For instance, should there be democratic elections in such a political regime?

At a more fundamental level, how can this new entity justify why it should have the automatic right to lead the country? The Communist Party says "history" has bestowed upon it the responsibility of monopoly power. This tenuous claim would appear even more absurd coming from a successor party to the communists.

That is an inconvenient truth that the leadership in Hanoi have tied themselves in knots to rationalize. By discarding a damaged brand, the party would like to renew its supposed mandate. Because the foremost goal is to maintain power, there is no ideological dimension to the internal debate. It is not a question of reformers versus conservatives, but rather how to prolong the party's control in a post-communist era. In a sign that the party feels threatened by the small but determined democracy movement, a name change would also be an effort to institutionalize power in the face of growing domestic opposition.

Within Vietnam, the communist label no longer makes party membership attractive for young people. While an older generation may have enlisted out of idealism, many twenty-something professionals joining today do so to advance their careers. For many young Vietnamese, especially those who studied abroad, affiliation with communism is an embarrassment.

It's too soon to say whether the name change will be approved, although it looks possible. Regardless of whether the ruling party in Vietnam is de jure communist or de facto fascist, however, the ultimate impediment for the country's 85 million people is the one-party dictatorship. The Vietnamese Communist Party can call itself whatever it likes, but the Vietnamese people must have the right to choose the leaders of their country and participate in its political life. Without democracy, Vietnam will never develop to its potential.

Mr. Hoang is a U.S.-based leader of Viet Tan, a pro-democracy, unsanctioned political party active in Vietnam.