European Union Trade Policy Towards China, Japan and South Korea

Introduction

An analysis of contemporary trends in the development of international trade shows a systematic increase in the role of countries in East Asia in the global trade of goods, and to a lesser extent also in services. Among the countries of the region, China is the undisputed leader in this process, steadily building its position in the ranking of the major trading powers in the world. Other countries in the region have also been steadily increasing their share in world trade. The countries of East Asia are on the one hand an increasingly important competitor for the European Union in global markets, while on the other hand, they are also the second largest trading partner for the European Union (EU), following North America. The steadily growing trade deficit with this group of countries is a significant challenge for the EU. Reflecting on the cause of this situation, it should be noted that the imbalance of the EU in trade with the Asian countries is a consequence of the increasing level of development of these economies, lower production costs and the growing participation of Asian countries in world trade. One may therefore assert that increased competition from Asian emerging markets is an important challenge for the European Union, which presently and in the future will determine EU trade policy towards the region.

The paper will analyse the new trade strategy of the European Union, which is based on the increasing role of bilateralism. It should confirm the hypothesis according to which the European Union has started using bilateral trade agreements as a tool for achieving their economic goals,
mainly as a means of opening new selling markets or improving access to the existing ones. The analysis of the paper will focus on relations with the Republic of Korea, Japan and the People’s Republic of China (PRC).

The European Union strategy towards Asia

Until the mid 1990s the cooperation between the European Union and the region of East Asia was based only on bilateral relations with individual countries of the region. In 1996, the Asia-Europe Meeting (ASEM) was held in Bangkok. As a result, current EU cooperation with countries of East Asia takes place in parallel at the bilateral level, and in the framework of ASEM.

An analysis of the European Union’s strategy towards Asia, including its strategy towards the countries of the East, should cover the basic documents containing guidelines for the development of interregional cooperation, which constitute the legal basis for actions pursued by European institutions. The EU policy towards Asia was set out for the first time in the 1994 Commission Communication *Towards a New Asia Strategy*. The communication formulated the basic objectives of this policy. The top EU priority in Asia was the strengthening of its economic presence, as this was a period when the booming Asian market was becoming increasingly important for determining the position of the European Community in the global economy. In formulating the objectives for the economic presence of the EU in Asia, it was stressed that the main activities in this area should be undertaken by entrepreneurs, while EU institutions should, in turn, provide easier access to the Asian market by promoting the liberalisation of trade in goods and services and the elimination of barriers to investment flows ("Towards a New Asia Strategy", 1994).

Apart from economic cooperation, the new strategy of the European Commission towards Asia also stressed the importance of political relations. Attention was drawn to the fact that the end of the Cold War created new conditions for political dialogue with Asia. In these new circumstances the EU should take measures to promote greater involvement of Asian countries in international affairs, in order to enhance the dialogue between the two regions on security matters, including issues of arms control and nuclear non-proliferation, regional conflicts (for example, Kashmir) and the security of sea routes. In addition, the relations
between the EU and Asia should promote democracy, the rule of law and standards of human rights protection.

These general political goals of the EU with respect to Asia were further developed in subsequent communications concerning various areas of cooperation or the development of relations with selected Asian countries. For example, in the second half of the 1990s, sectorial strategies were adopted focusing on cooperation in the field of environmental protection and energy cooperation. Separate documents were also published, devoted to strengthening cooperation with ASEAN (1996), China (1998, 2001) and Indonesia (2000).

The strategy of the EU towards Asia was updated and further elaborated in 2001, when the European Commission published a Communication by the title of Europe and Asia: A Strategic Framework for Enhanced Partnerships. This document provided a much more detailed specification of EU priorities related to development cooperation with Asia and its various regions. The general objectives of the cooperation listed in the Communication included: the strengthening of EU involvement in Asia within the areas of political and security issues (strengthening of EU involvement in regional and global security, strengthening dialogue and cooperation on conflict prevention, improved cooperation in the field of justice and home affairs); the further development of trade and investment ties (strengthening bilateral economic relations, reducing non-tariff barriers to trade, facilitating investment, helping to build a pro-development climate policy, promoting cooperation between business entities from both regions; strengthening dialogue on economic and financial policies, including promoting the euro as an international currency); providing favourable market access for the poorest developing countries, drawing attention to the role of transport and the energy sector for the development of mutual trade relations; promoting regional economic development (measures to reduce poverty in the poorest countries in Asia, strengthen dialogue on social policy, completing the reform of the EU system of development assistance); building alliances with key Asian countries to tackle global problems (strengthening cooperation within the UN system, strengthening the multilateral trading system under the World Trade Organisation [WTO], environmental protection, cooperation on combating global challenges and threats, while also maximising global opportunities); increasing the awareness of the EU in Asia (strengthening and expanding the network of EC Delegations in the region, strengthening scientific cooperation
and cultural exchanges, contributing to the development of civil society partnerships and the exchange of ideas; and as earlier, promoting human rights, democracy and the rule of law ("Europe and Asia: A Strategic Framework for Enhanced Partnerships").

With regard to the countries of East Asia, the Commission identified priorities for EU action in relation to individual countries and regional cooperation forums. In particular, in order to improve relations with the countries of the region, the EU declared it would work towards:

− strengthening the involvement of China, supporting the integration of the Chinese economy into the world economy and China’s transformation into an open society;
− building global and regional partnerships with Japan covering political, economic and social issues;
− enhancing cooperation with the Republic of Korea, while supporting the inter-Korean reconciliation process;
− strengthening economic relations with the entire region, while supporting the reforms taking place there;
− further developing dialogue in the framework of ASEM, as an example of building a successful partnership between regions, encompassing political, as well as economic and social issues;
− increasing the capacity to contribute through ASEM to regional stability and the development of multilateral cooperation.

The above-mentioned goals were subsequently confirmed in the 2003 European Commission Communication, New Partnership with South East Asia, and in the 2007 Regional Program for Asia for the years 2007–2013. The EU Asia Strategy for 2007–2013 once again highlighted the need to promote regional integration and dialogue within ASEM, and with individual Asian countries. The document also focused on the following specific areas of cooperation: the environment, energy and climate change, higher education and support for research institutes, cross-border cooperation on animal and human health, support for refugees, internally displaced persons (IDPs), returnees and demobilised ex-soldiers and other combatants, including child soldiers, to return and settle in their country of origin or a third country.

Reviewing the communications and other documents concerning the development of the European Union – Asia dialogue, as well as specific actions in this regard, one may conclude that the European strategy towards the region places the strongest emphasis on economic issues re-
lated to supporting and strengthening the EU position in trade and capital flows. The strategy assigns a special place to the rapidly growing economies of the East, and to trade relations with these countries (C. Portela, 2010, p. 149–160; Li Zhang, 2010, p. 161–175). It is apparent that political relations are subordinated to the major economic interests of the EU in the region. Confirmation of this premise can be found when considering the realisation of objectives concerning democracy and human rights included in each of the aforementioned documents (P. Kotzian, M. Knodt, S. Urdze, 2011, p. 995). Although these traditional European values are the subject of interregional dialogue, in practice they are not among the most significant issues in mutual relations and are not vigorously advanced by the EU in Asian countries. The predominant position is that the democratisation process in Asia should take place through internal measures introduced by individual states, while political dialogue between the EU and Asia should rather focus on the major challenges of the modern world and serve as a platform for developing a global partnership with key Asian countries and strengthening joint efforts to resolve global problems (J. Holslag, 2011, p. 295–309).

Trade relations between the European Union and the Republic of Korea

Considering the pyramid of preferences, and the absence of an agreement establishing a customs union between the EU and the Asian countries in question, a discussion on the treaty relations between the European Union and the countries of East and South-East Asia should begin with the agreement concluded with the Republic of Korea, which provides for the establishment of a free trade area.

Negotiations on the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part commenced in May 2007. The new agreement was to supersede the Framework Agreement on Trade and Co-operation between the EU and South Korea concluded on March 19, 2001 in Brussels, and negotiations proceeded very quickly. Initially, the conclusion of the talks was planned during the Czech presidency in the EU, though they were in fact concluded in October 2009. Subsequently, on September 16, 2010 the EU Council gave its approval and the ceremonial signing of the agreement
by the Belgian presidency, the EU and the Republic of Korea took place on October 6, 2010 during the EU-Korea summit. At the same time, it was settled that the Agreement would enter into force on July 1, 2011 (F. Nicolas, 2010, p. 23–42).

The parties of the agreement stated that it was concluded in order to further strengthen the close economic relationship of the parties involved as part of and in a manner coherent with their overall relations. The parties also expressed the belief that it would reduce or eliminate the barriers to mutual trade and investment, create an expanded and secure market for goods and services and contribute to a stable and predictable environment for investment, thus enhancing the competitiveness of their firms in global markets. Moreover, the agreement was to become a factor supporting the expansion and development of world trade within the international WTO framework and through other multilateral, regional and bilateral agreements and arrangements in which both parties participate. The contracting parties also declared their commitment to priorities such as sustainable development, the reduction of poverty, full and productive employment and decent work for all as well as the protection and preservation of the environment and natural resources.

The agreement calls for the establishment of a free trade area on goods, services, establishment and associated rules. According to Article 1.2, the objective of the agreement is:

− to liberalise and facilitate trade in goods between the Parties, in conformity with Article XXIV of the General Agreement on Tariffs and Trade 1994;
− to liberalise trade in services and investment between the Parties, in conformity with Article V of the General Agreement on Trade in Services;
− to promote competition in their economies, particularly as it relates to economic relations between the Parties;
− to further liberalise, on a mutual basis, the government procurement markets of the Parties;
− to adequately and effectively protect intellectual property rights;
− to contribute, by removing barriers to trade and by developing an environment conducive to increased investment flows, to the harmonious development and expansion of world trade;
− to commit, in the recognition that sustainable development is an overarching objective, to the development of international trade in such a way as to contribute to the objective of sustainable development and
strive to ensure that this objective is integrated and reflected at every level of the Parties’ trade relationship; and

– to promote foreign direct investment without lowering or reducing environmental, labour or occupational health and safety standards in the application and enforcement of environmental and labour laws of the Parties.

According to European Commission estimates, the agreement will bring benefits to the EU amounting to 19 billion Euro per year in the form of new trade exchange. EU exporters will feel the direct effects of the agreement, as it will remove Korean tariffs worth 1.6 billion Euro per year.

The then EU trade commissioner, Catherine Ashton, in a speech delivered in October 2009 following the initialisation of the agreement stated that: “This is the first free trade agreement for the EU in the 21st century, and it will contribute to establishing strong economic ties with another developed country. It will open new market opportunities for European firms in the service, manufacturing and agricultural sector. This agreement is particularly significant in the current economic situation, as it helps to overcome the economic downturn and to create new jobs”.

**Trade relations between the European Union and Japan**

Among the major trading partners of the EU in East Asia, relations with Japan deserve particular attention. The rules on which these relations are based were largely developed in the framework of the WTO, thus trade relations between the European Union and Japan take place on the basis of the most favoured nation clause. The relations are therefore non-preferential. However, given the scale of mutual trade and the position of both economies in the world, an intensive dialogue between the EU and Japan is being carried out on economic issues, as well as political relations and security issues. This dialogue includes annual Japan-EU summits, high-level consultations in the field of finance, environmental protection, economic consultations, meetings in the area of telecommunications, high-level meetings on transport, competition policy discussions, round table business talks and exchanges of views on policy and industrial cooperation. Moreover, every two years, bilateral meetings are held concerning science and technology, and twice a year consultations take place focusing on the trade in fish products.
Another example of bilateral cooperation is the Centre for Industrial Cooperation, founded in 1987 in Tokyo and 1996 in Brussels, whose purpose is to promote and support industrial cooperation between entrepreneurs from the EU and Japan. In order to increase its export capacity to the Japanese market, the EU is also conducting unilateral activities involving training courses for managers from European countries interested in developing contacts with Japanese business partners such as the Executive Training Programme to Japan (ETP) and campaigns aimed at promoting exports (EU Gateway Programme).

An important component of bilateral economic cooperation between the EU and Japan is dialogue on regulatory matters, which in particular is to contribute to changes in legislation enabling the facilitation of the flow of investments and the intensification of trade (see Copenhagen Economics, 2009). The Regulatory Reform Dialogue (RRD), as it is known, was initiated in 1994. The current priorities for regulatory dialogue were set out by the EU in October 2009. In its proposals for regulatory reform in Japan, the EU focused on issues regarding inadequate access to the Japanese market for EU companies and aspects such as: investment, government procurement, communication and information technologies, air transport, motor vehicles, health care, food safety and agricultural products. Within these areas a number of barriers were identified as adversely affecting economic cooperation, which the EU proposed to be eliminated by the Japanese (“EU Proposals for Regulatory Reform in Japan”, 2009). The elimination of these barriers and the further development of mutually beneficial trade cooperation is also the aim of dialogue on establishing Free Trade Agreement between the EU and Japan. During the 20th EU-Japan summit (28 May 2011), both parties agreed to start parallel negotiations for:

- a deep and comprehensive Free Trade Agreement (FTA)/Economic Partnership Agreement (EPA), addressing all issues of shared interest to both sides including tariffs, non-tariff measures, services, investment, Intellectual Property Rights, competition and public procurement; a binding agreement, covering political, global and other sectorial cooperation in a comprehensive manner, and underpinned by their shared commitment to fundamental values and principles.

The summit participants also agreed that both parties would begin discussions aimed at determining the scope and priorities of negotiations on the conclusion of both of these agreements. When considering the pos-
sible course of negotiations concerning the establishment of an extensive and comprehensive free trade area between the EU and Japan, it is clear that these negotiations will certainly not be easy. This is because difficulties had emerged during earlier negotiations in achieving a joint position of Japanese and European business representatives on a possible agreement. For the Japanese, one of the main priorities of the negotiations is to eliminate tariff barriers with respect to trade in auto vehicles and electronics, while Europeans have not expressed any interest in this issue. For European companies, the most important issues include the convergence of standards and regulations (for example in accounting and pharmaceuticals) and the abolition of non-tariff barriers to market access.

On the 29th of November 2012 the Council decided to give the European Commission “the green light” to start trade negotiations with Japan. On the 25th of March 2013, the EU and Japan officially launched the negotiations for a Free Trade Agreement.

**Trade relations between the European Union and China**

The European Union has been undertaking efforts to develop its trade relations with other countries of East and South-East Asia, particularly those countries that are or could become major markets for European products. One of those countries is China, an important EU partner with regard to trade as well as capital flows. EU relations with China have undergone considerable evolution, due to the political and economic changes which have taken place in that country. China belongs to the group of countries that had been treated in the past in a discriminatory manner. Following the reforms that it has carried out, the relations between the EU and China have improved greatly, especially since the 1990s.

The first trade agreement between the European Economic Community (EEC) and the PRC was concluded on April 3, 1978. It outlined a general framework only in the area of mutual trade cooperation. The agreement stressed the determination of the parties to create favourable conditions for mutual trade, improving its structure and highlighted the need to consider the position of the other party in the facilitation of mutual trade. Both parties agreed to grant each other a limited most favoured nation clause. Under the agreement an EEC-China Joint Committee for Trade
was established with the goal of resolving problems related to mutual trade. The Committee met once a year alternately in Beijing and Brussels (F. Snyder ed., 2010, p. 58–62).

The trade agreement of 1978 was replaced in 1985 by the Agreement on Trade and Economic Cooperation. This agreement included a much broader range of issues besides trade, which included mutual economic cooperation in the following areas: industry, mining, agriculture, science and technology, energy, transport and communication, environmental protection, and cooperation in third countries. The parties also declared, within the limits imposed by internal regulations, to undertake measures that would contribute to the intensification of mutual investment. The agreement was also to provide a basis for the conclusion of more detailed agreements on specific aspects of economic relations between the EEC, its Member States and the PRC. Under the agreement, the parties were to continue their annual meetings in the form of a Joint Committee, comprising a number of sectorial working groups, focusing on matters such as the environment, energy, social communication and industrial policy. Additional working groups were established, dealing with human resources development, competition policy, sanitary and phytosanitary standards as well as intellectual property rights.

Since the late 1970s, trade in textiles has been a special area in EEC-China relations. In this sector, given its high labour intensity and low capital intensity, China has maintained a significant advantage over European countries. For this reason, agreements regulating the mutual trade in textiles were largely aimed at protecting the EEC market by limiting the sale of Chinese products. In 1979 the EEC and China signed the first agreement regulating the mutual trade in textiles. This agreement was concluded according to the rules of the Multi-Fibre Arrangement (MFA), that is, outside the General Agreement on Tariffs and Trade (GATT) framework, to which China was not a party. The agreement established a system of annual export quotas. In 1988, the agreement expired and was replaced by a successive textile agreement. In later years the agreement contract was renewed twice, first in 1990, and then in 1992, when its term was extended until 31 December 1995.

In 1995 the EU concluded another textile agreement with China, which covered products not included in the agreement of 1988. These were mainly silk products and other textiles, with the exception of cotton, wool, fine animal hair and synthetic fibres. It provided for a quota system
and double-checking. The agreement was concluded for two years with the possibility of an automatic extension for one-year periods. Towards the end of negotiations on China’s accession to the WTO in 1999, an agreement was reached on products not covered by the MFA Agreement, which was applied on a provisional basis from January 1, 2000. A similar agreement was signed once again in December 2000. It introduced the requirement to notify quantitative restrictions maintained under the MFA agreement for this group of products. Since January 1, 2005, upon the completion of the ten-year transition period specified in the MFA with regard to WTO members, including the EU and China, the rules applied to trade in textiles and clothing would be identical to those applied to other industrial goods. However, a certain level of protection remained possible under the Chinese Protocol of Accession to the WTO. The EU was allowed to apply a special safeguard clause on the import of textiles and clothing from China until the end of 2008. In addition, the EU agreed to handle the import of 10 categories of textile and clothing products according to the Memorandum of Understanding (Shanghai Agreement) of June 12, 2005 with China.

The process of strengthening bilateral economic relations between the EEC and China that had been continuing since the mid-1970s was halted following the brutal suppression of demonstrations that took place in June 1989 in Tiananmen Square. In response to these events, European countries imposed economic sanctions on China. It was not until the situation in China normalised during the early 1990s that the EU resumed talks on the development of mutual trade and investment. As a result, in 2000 China signed an agreement with the EU, in which it agreed to open its market to European suppliers of goods and services by 2005. During this period, specific agreements regulating many different aspects of bilateral economic relations were also signed. These included maritime transport (2002), science and technology (1999), satellite navigation (2003) and tourism (2004).

China’s accession to the World Trade Organisation in 2001 represented a major change in its economic relations with the EU. China obtained easier access for its products to the global market, and thus also to the EU market. This does not imply, however, that China is treated by the EU in the same way as other WTO members. Differences are particularly salient in the case of anti-dumping and countervailing duties. Under the Chinese Protocol of accession to the WTO, members of the organisation may, in
anti-dumping and anti-subsidy proceedings, treat China as a non-market economy country for 15 years, that is, until the end of 2016 (WTO, 2010). Such an approach provides a fairly large level of discretion in the treatment of trade partners in anti-dumping proceedings, as in this case the normal value is not a set based on actual sales prices or production costs but on the basis of prices or production costs in a selected third country.

As a result, China is the country most frequently accused of dumping in the world and the main subject of dumping accusations formulated by the EU. Although China agreed to the aforementioned conditions for accession to the WTO, less than two years later it started making diplomatic efforts to achieve market economy status. This has been a recurring issue in relations between China and the European Union. China requested that the European Commission grant it market economy status in September 2003. Since then, the Chinese economy, as well as other non-market economies, have been subject to a bi-annual reviews. However, talks with the Chinese have to date not affected the position of the EU.

In January 2007 the EU opened negotiations with China on the conclusion of the Partnership and Economic Cooperation Agreement (PCA), aimed at creating a framework for the mutual development of trade and investment. The PCA is not a preferential agreement and does not constitute a compendium of existing bilateral commitments or concessions. The aim of the negotiations is to strengthen the commitments, transparency and trade policies of China, especially in the context of WTO commitments. The first draft agreement comprised of seven chapters on general standards, the movement of capital, intellectual property protection, technology transfer, technical barriers to trade, consumer protection and economic cooperation. In a later draft, chapters were added concerning investment, services, e-commerce, internal market, sanitary and phytosanitary measures as well as raw materials.

In parallel to the negotiations on the PCA, talks have also focused on the creation of a new framework for mutual economic cooperation. For example, since March 2008, High Level Economic and Trade Dialogue has been conducted. This dialogue has taken the form of periodic consultations during which key issues in mutual trade relations are discussed. The consultations are also intended to identify areas of potential cooperation. Through annual Dialogue meetings, the EU seeks to stimulate discussion on issues such as the conditions of access to the Chinese market, technology transfer to China, intellectual property protection, measures
to improve quality and safety of goods sold by China, the Chinese Yuan exchange rate, the environment, energy and market economy status.

A major difficulty for the current EU-China negotiations is the attitude of the Chinese side. The Chinese are only intent upon updating the 1985 agreement and adapting it to the changed economic situation, rather than replacing it with a new and more extended document. As a result, mutual relations continue to be based on the agreement concluded in the mid-1980s.

When examining the relations between the European Union and China, attention should also be drawn to its relations with Hong Kong and Taiwan. In both cases, trade relations are conducted according to WTO principles. It should also be noted that some Chinese products on the EU market benefit from the preferences provided under the Generalised System of Preferences of the EU. Chinese products first obtained preferential access to European market in 1980. In subsequent years, however, the list of products benefiting from these preferences has gradually been reduced.

Conclusions

The European Union common commercial policy is based on the political concept which implies the existence of a competitive European economy in an open global trading system based on multilateral rules, complemented by the principles elaborated in the framework of bilateral and regional trade agreements. The stance taken by the EU at the WTO and under bilateral trade agreements is to promote solutions that will contribute to prosperity by strengthening internal stability and economic development of countries in different regions.

In conclusion, it should be noted that the European Union attaches a great importance to economic relations with the countries of East Asia, as evidenced by the trade agreements concluded with these countries. These agreements differ in terms of preferences granting access to the European market. These agreements or unilateral decisions of the European Union can be arranged as follows:

- a free trade area (for example with the Republic of Korea), which entails the abolition of trade barriers (tariffs, quantitative and other restrictions) between the parties to the agreement;
- the unilateral granting of trade preferences (for example, for selected Chinese products covered by the Generalised System of Preferences or GSP);
– no preferences (the most favoured nation status is ensured – such trade agreements often only provide for the confirmation of GATT/WTO rules). These include agreements with Japan, Hong Kong and other countries not granted any trade preferences.

One pattern that can be recognised in these relations is that the higher the level of economic development by the Asian partners of the EU, the closer the relations are to the existing rules in the WTO, and concluded agreements are non-preferential [such as the ones with Japan]. In turn, for partners classified as developing countries, preferential rules based on the GSP apply [as for selected Chinese products].

The EU trade policy towards the countries of East Asia on the one hand features actions aimed at entering new markets or enhancing its presence in existing ones, as exemplified by negotiations for the establishment of free trade areas with the countries of the region. On the other hand, when Asian products compete with European products, protective measures are undertaken by the EU.

References

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