

COLLEGE OF EUROPE
BRUGES
ECONOMICS DEPARTMENT



INDUSTRY IN EU FREE TRADE AGREEMENTS
Examining the Potential Impact of a EU-JAPAN FTA on the European
Automotive Industry

Supervisor: Robert Hine

Thesis presented by **Julia WAHL**

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Abstract

The purpose of this thesis is to assess the potential impact of the currently negotiated Free Trade Agreement between the European Union (EU) and Japan on the competitiveness of the European automotive industry on the European and Japanese market. Based on the newest developments in international trade theory on the link between international trade patterns and product quality, as well as on the theoretical discussions determinants of trade costs and the FDI versus export decision by companies, the thesis discusses the possible changes that an EU-Japan FTA might introduce with respect to automotive trade flows between the EU and Japan and the performance of European automotive producers on the two markets. In Chapter One, the evolution of international trade theory in describing trade patterns is reviewed, from the old and new trade theory to “new” new trade theory and the role of product quality in international trade, complemented by the emanation of the role of trade costs, FDI decisions and trade policy in determining bilateral trade flows. In Chapter two, the Yu and Kneller (2008) model of product quality and trade is applied to European automotive exports in order to determine the way in which automotive producers select into export markets. On the basis of these theoretical and empirical findings, Chapter Three analyses automotive trade between the EU and Japan with respect to the status quo of their automotive industry and markets as well as trade barriers. In Chapter Four the possible quantitative and qualitative effects of the EU-Japan FTA on the automotive industry will be discussed, based on a critical review of ex-ante simulation models as well as the possibility of quantifying NTBs.

This thesis finds that European automotive exports are characterized by “quality selection”, where only firms producing higher quality goods can overcome the trade costs inherent in serving larger and more distant markets. A qualitative study of NTMs and individual companies’ strategies show that Japanese non-tariff measures (NTMs) impose considerable costs on European automotive manufacturers, but are not “prohibitive” for market entry, while the quantitative part demonstrates that the fear of an overall negative effect on the European automotive sector has to be relativized: European car exports to Japan have been increasing and a reduction in Japanese NTMs will lower trade costs for European producers, while Japanese imports are not expected to increase a lot given a general shift of production by Japanese automotive manufacturers to Europe.

Keywords

Free Trade Agreement, EU-Japan, European automotive industry, Quality Heterogeneous Firm Trade (QHFT) Models, Non-tariff barriers