

# Trade, Growth and World Affairs: hard facts and policy priorities

Dr. Lucian Cernat  
Chief Economist  
DG TRADE



@Lucian\_Cernat

The views expressed are those of the author and should not be interpreted as an official position of the European Commission

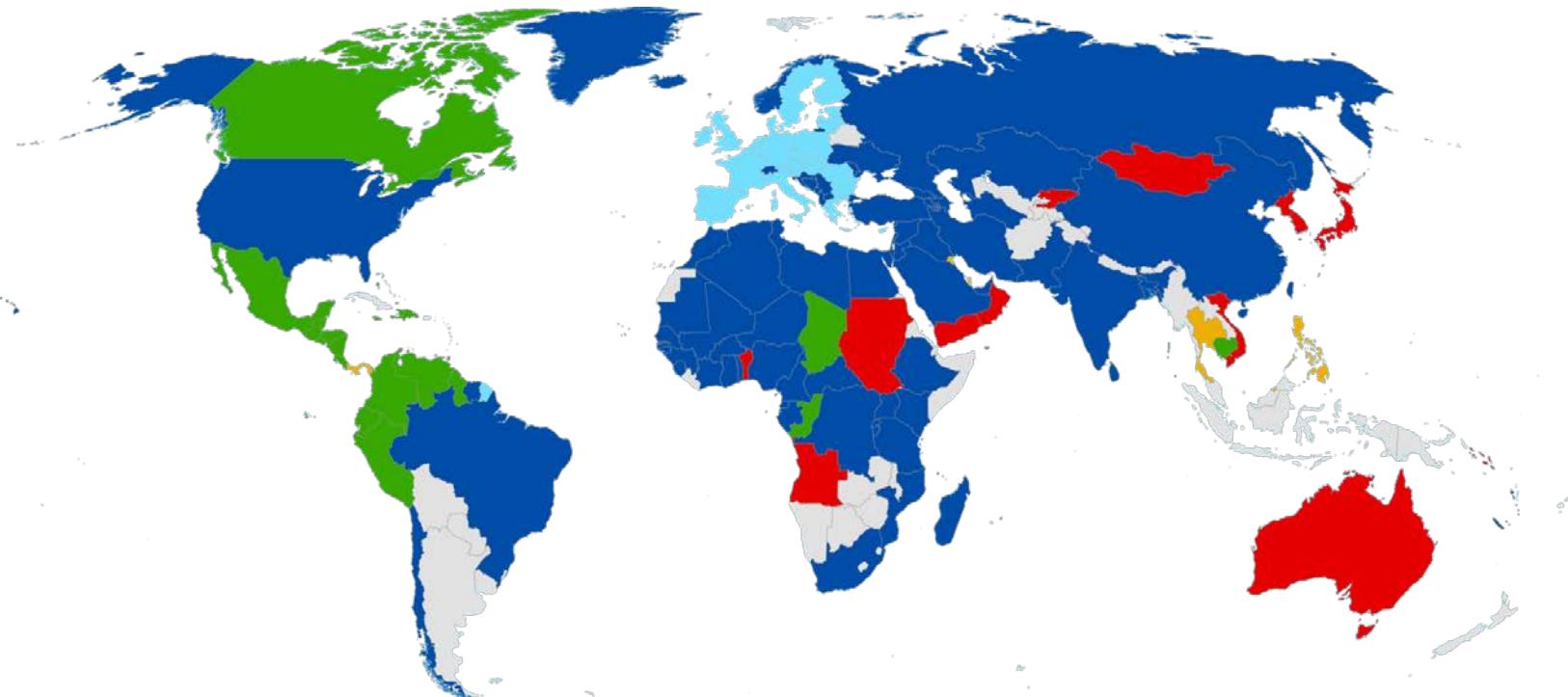


**Europe is still good at trade...**

# The EU is the world's biggest trading power

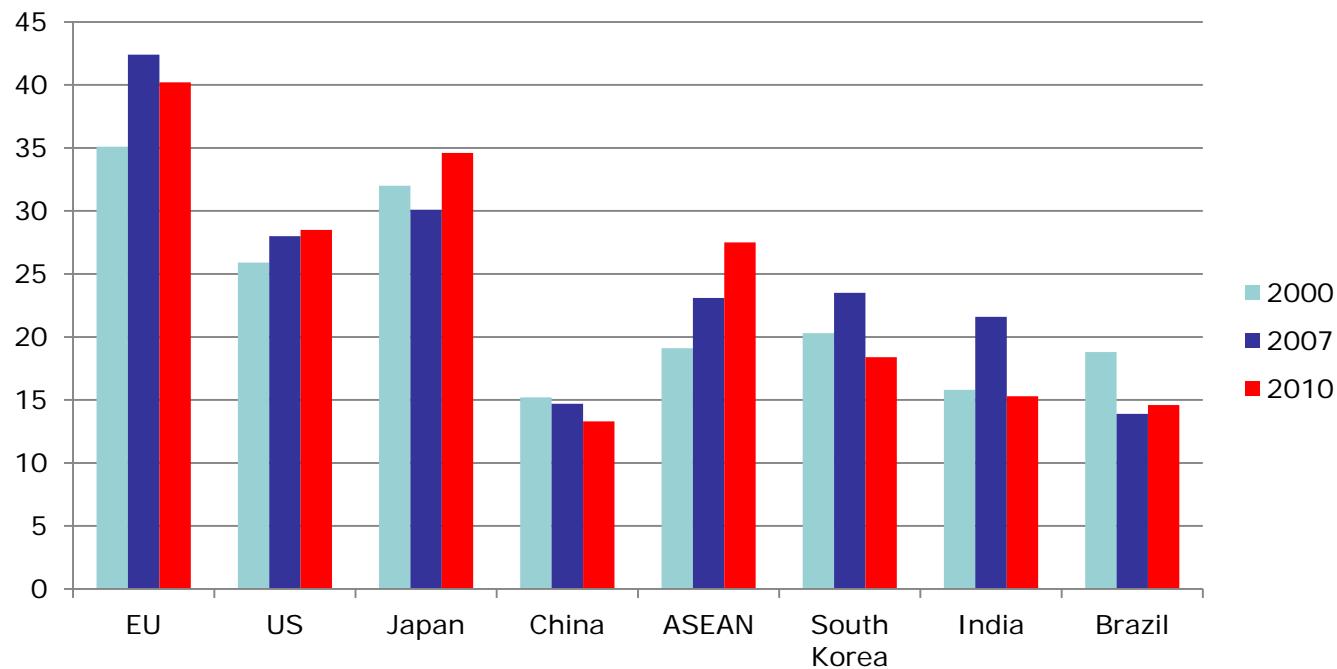
**Countries who have the EU, the US, China or Japan as their most important trade partner**

■ EU as first trade partner ■ US as first trade partner ■ China as first trade partner ■ Japan as first trade partner



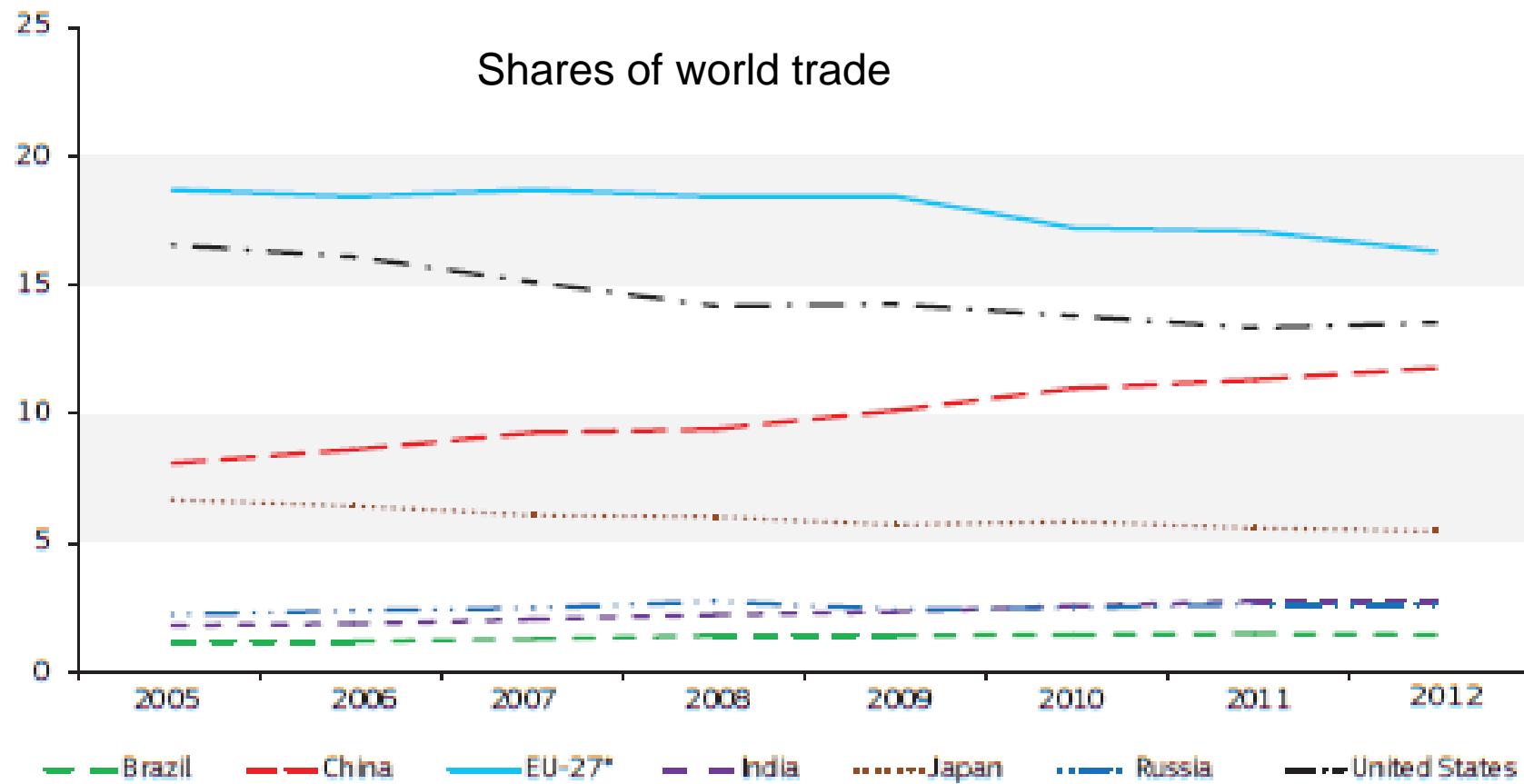
# EU products and services: high price but also top quality

40 % of EU exports are in the top range of their category





# Mid- and longer term trade performance

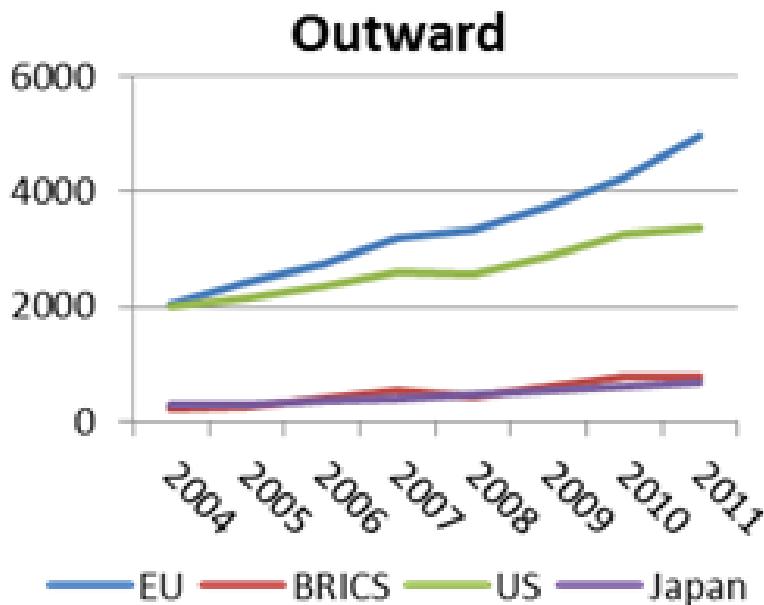




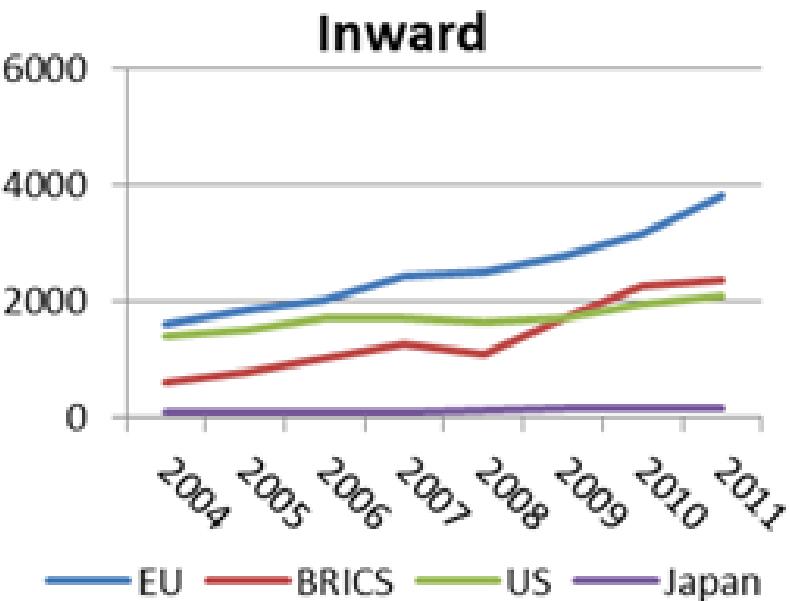
# EU remains a strong FDI player

# EU - leader of inward and outward FDI

EU investors are far ahead their competitors



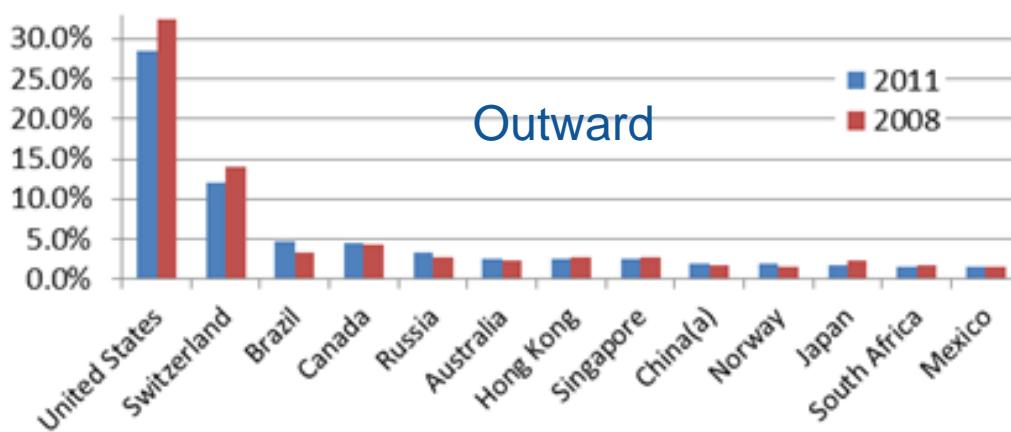
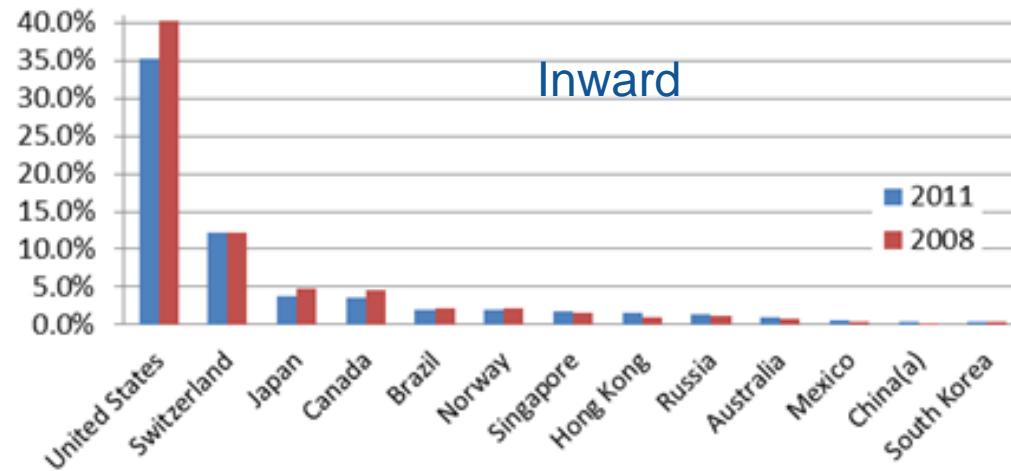
EU still the most attractive destination for FDI



Source: EUROSTAT (bop\_fdi\_main ) and OECD Foreign Direct Investment Statistics,

Notes: BRICS include Brazil, Russia, India, China, South Africa; the EU investments exclude the intra-EU

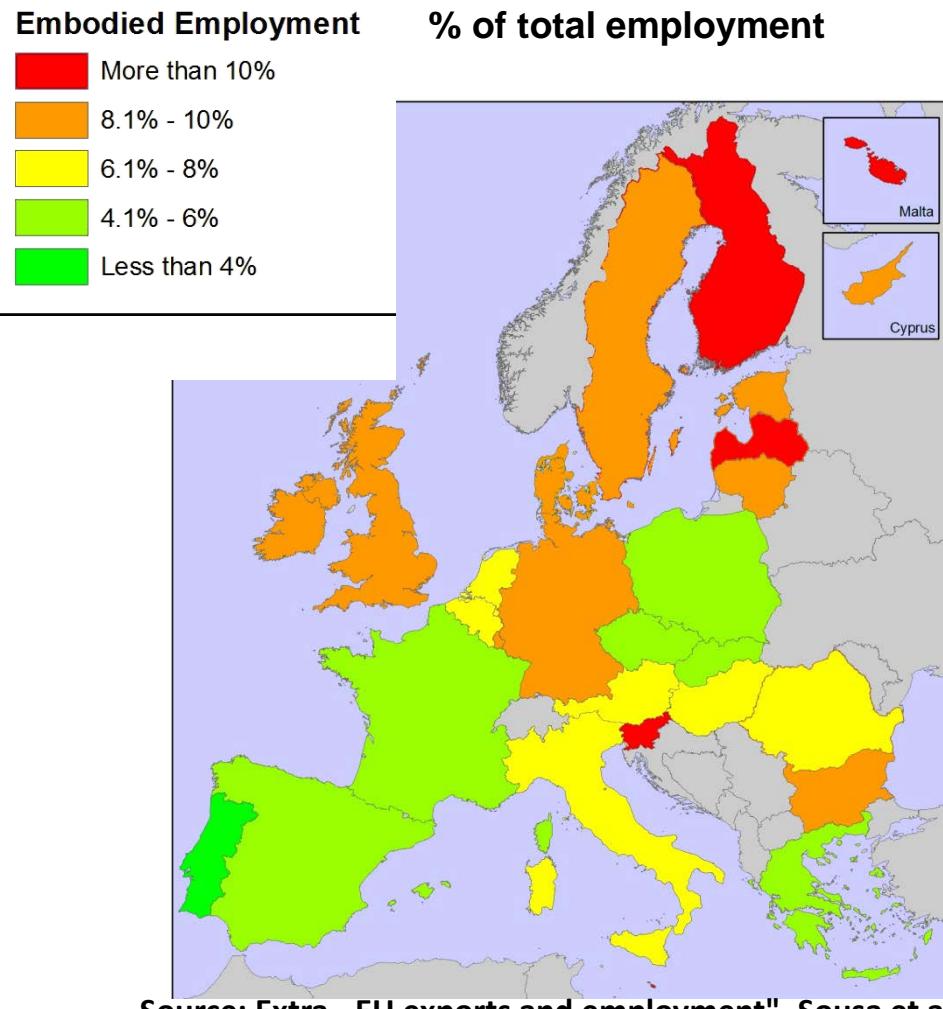
# EU FDI – mostly a transatlantic affair





# Trade creates jobs...

# Export competitiveness and job creation



- 33 million jobs in Europe are directly dependent on our export competitiveness – growing over time
- one fifth of these jobs were generated through a “Single Market” effect
- 6.6 million jobs alone linked to EU-China supply chains
- But trade as an engine for recovery varies across Europe

Source: see the latest studies on Chief Economist website

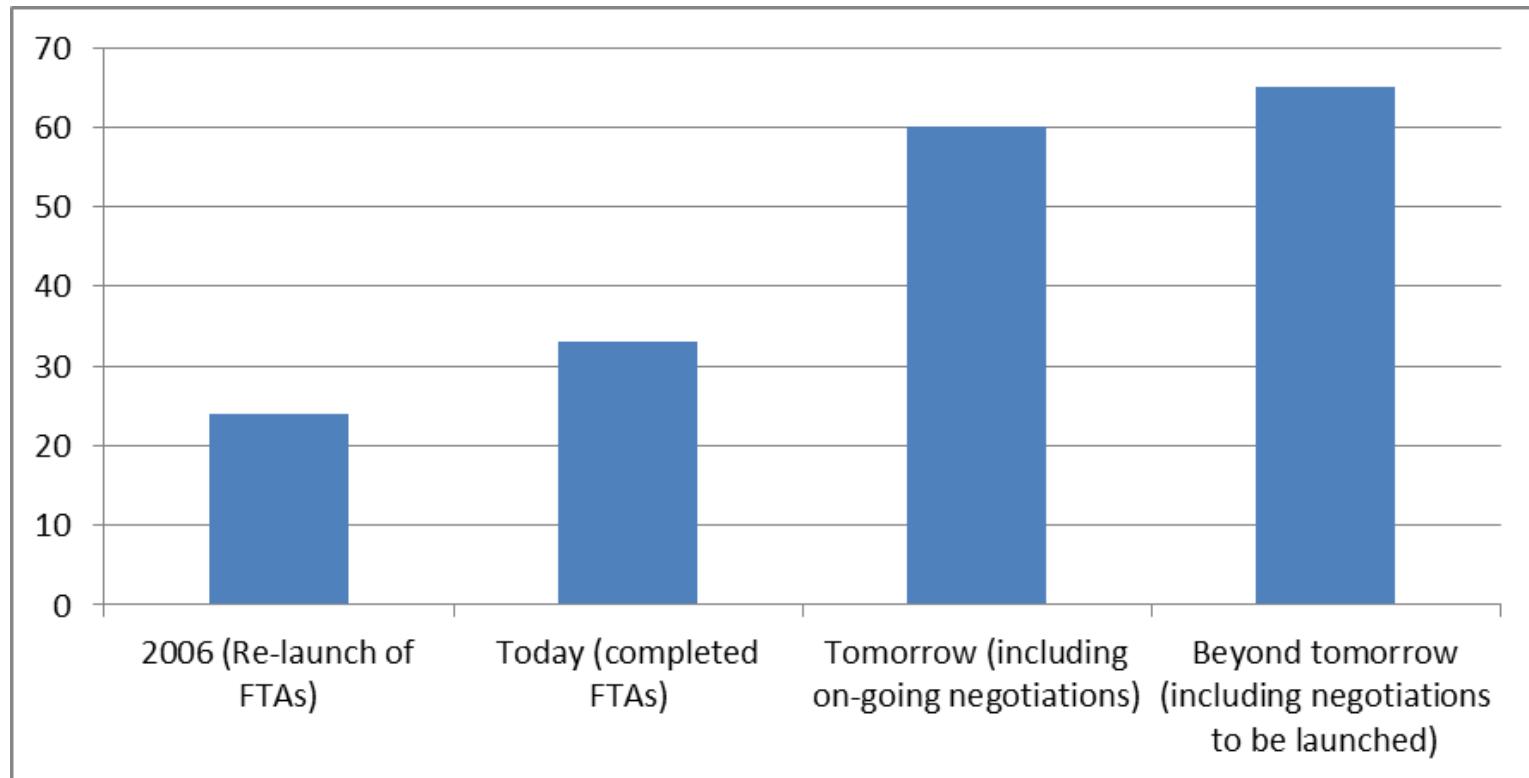


# **What can trade policy do for European recovery?**

**Current policy priorities**

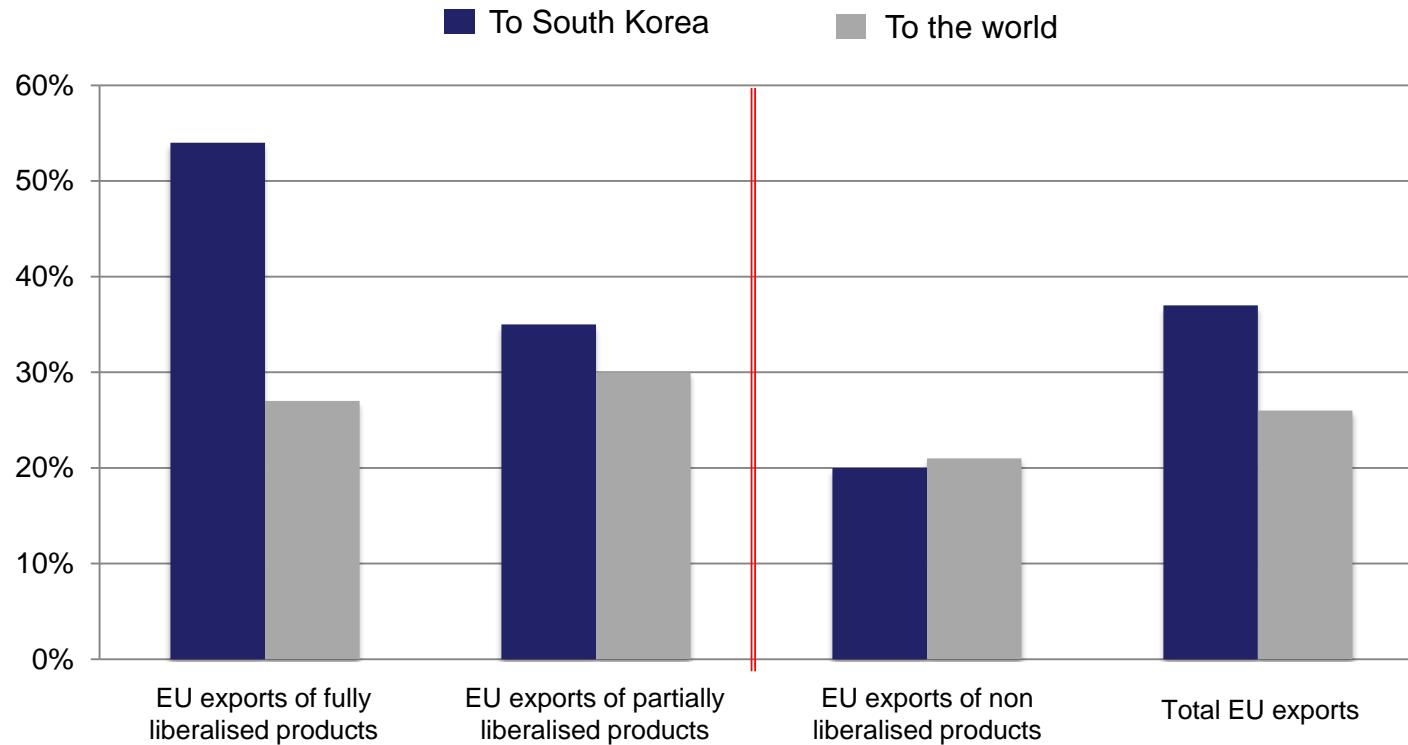
# The EU has an ambitious bilateral trade agenda

## Share of EU trade covered by Free Trade Agreements (FTAs)



# FTAs pay off quickly – the example of South Korea

## Evolution of EU exports to South Korea: one year after FTA\*

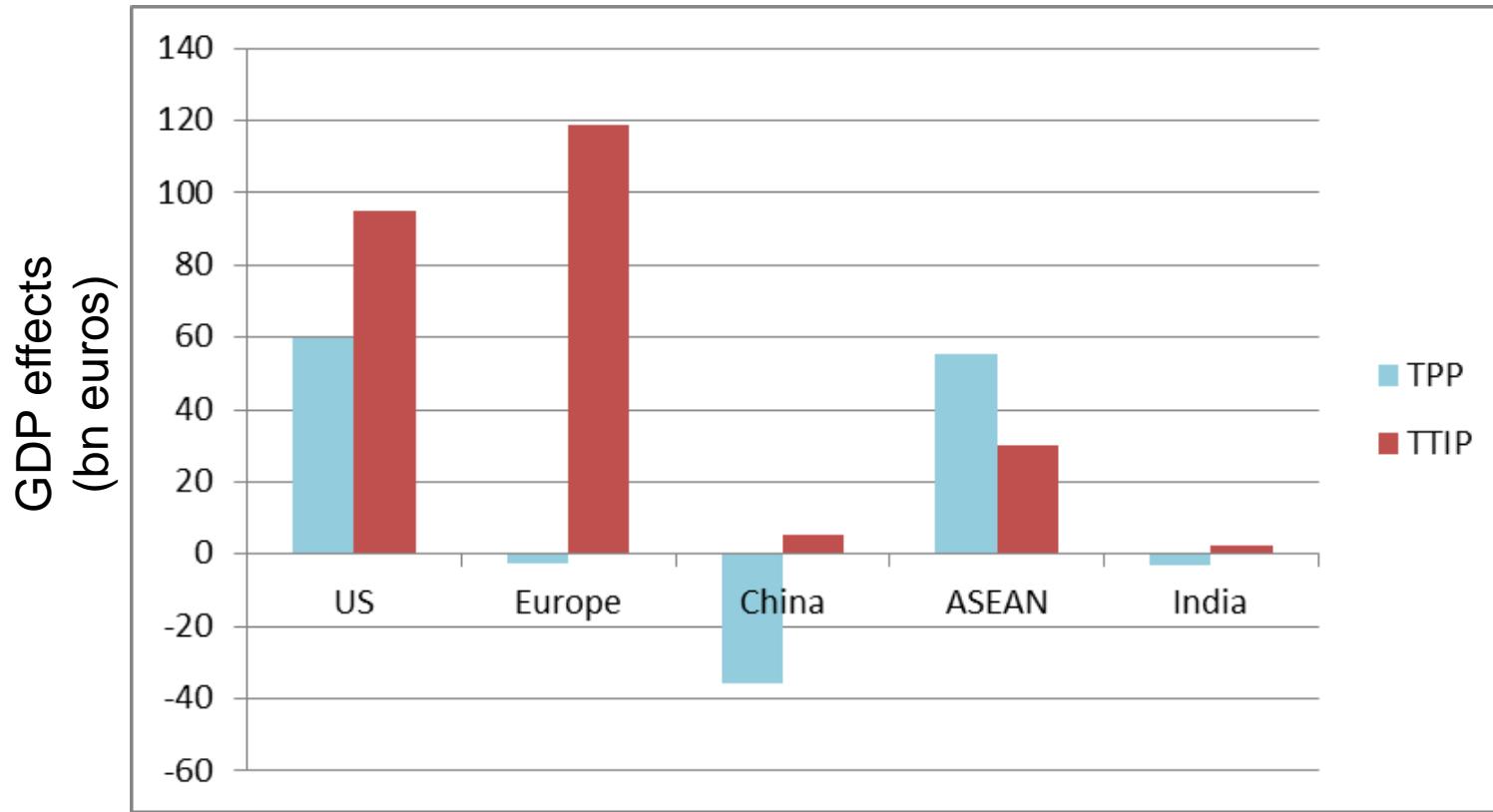


# Engaging with developed economies: the examples of the US and Japan



- Most integrated and largest economic relationship in the world
  - Massive levels of mutual investment stocks and million jobs by EU and US foreign affiliates
  - TTIP: potential to boost EU GDP in the long run
  - Major driver: reduction in regulatory costs, not deregulation
- 
- Unique opportunity to open up a major economy and boost our presence in Asia
  - Very ambitious preparation and mandate for negotiation
  - Non-tariff barriers and regulatory aspects also important:
    - Public procurement
    - Asian GVC

# "Mega-FTAs" in the making: TTIP vs TPP



Source: Cernat (2013) *TPP, TTIP and multilateralism: stepping stones or oceans apart?*  
VoxEU, November.

# Shifting policy gears – Russia

*WTO accession – a decade-long process, but gains still to come*

*Russia – a major but difficult trading partner*

- **List of challenges not getting shorter (raw materials, TRIMs, TRIPS, protectionism, etc)**

*WTO membership – good enough “policy anchor” ?*

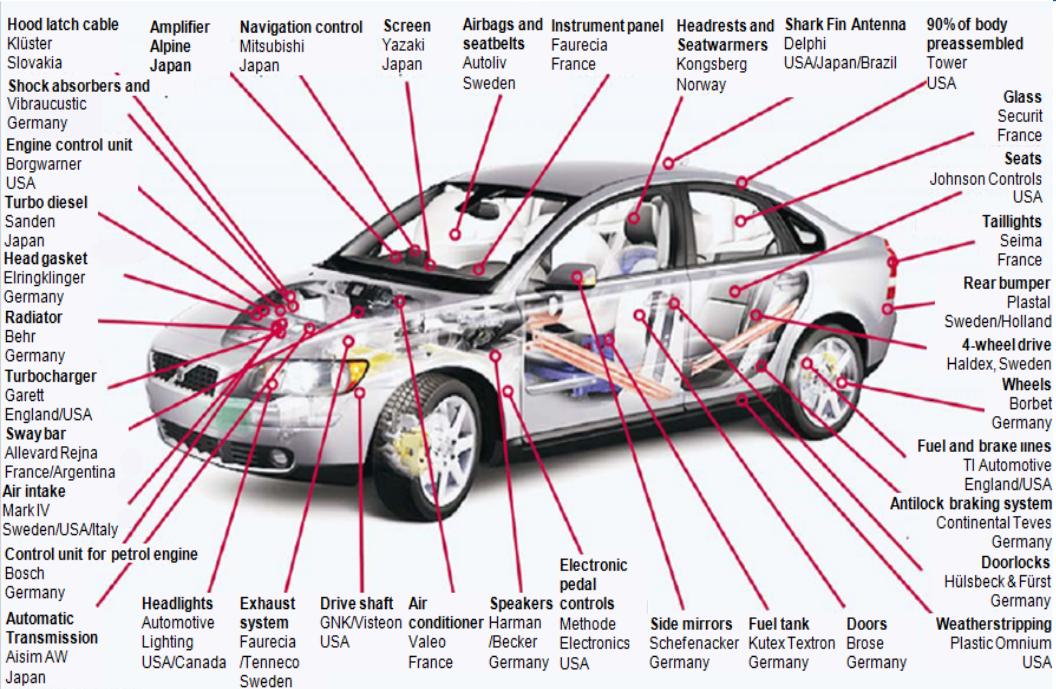
- **Russia – one of few countries that resorted to widespread border protectionism**
- **75% of the total value of EU global exports affected by new protectionist measures (15% of EU exports to Russia)**



# **Game changers and future challenges:**

## **what policy response?**

# Global value chains: the "new reality" of trade in value added

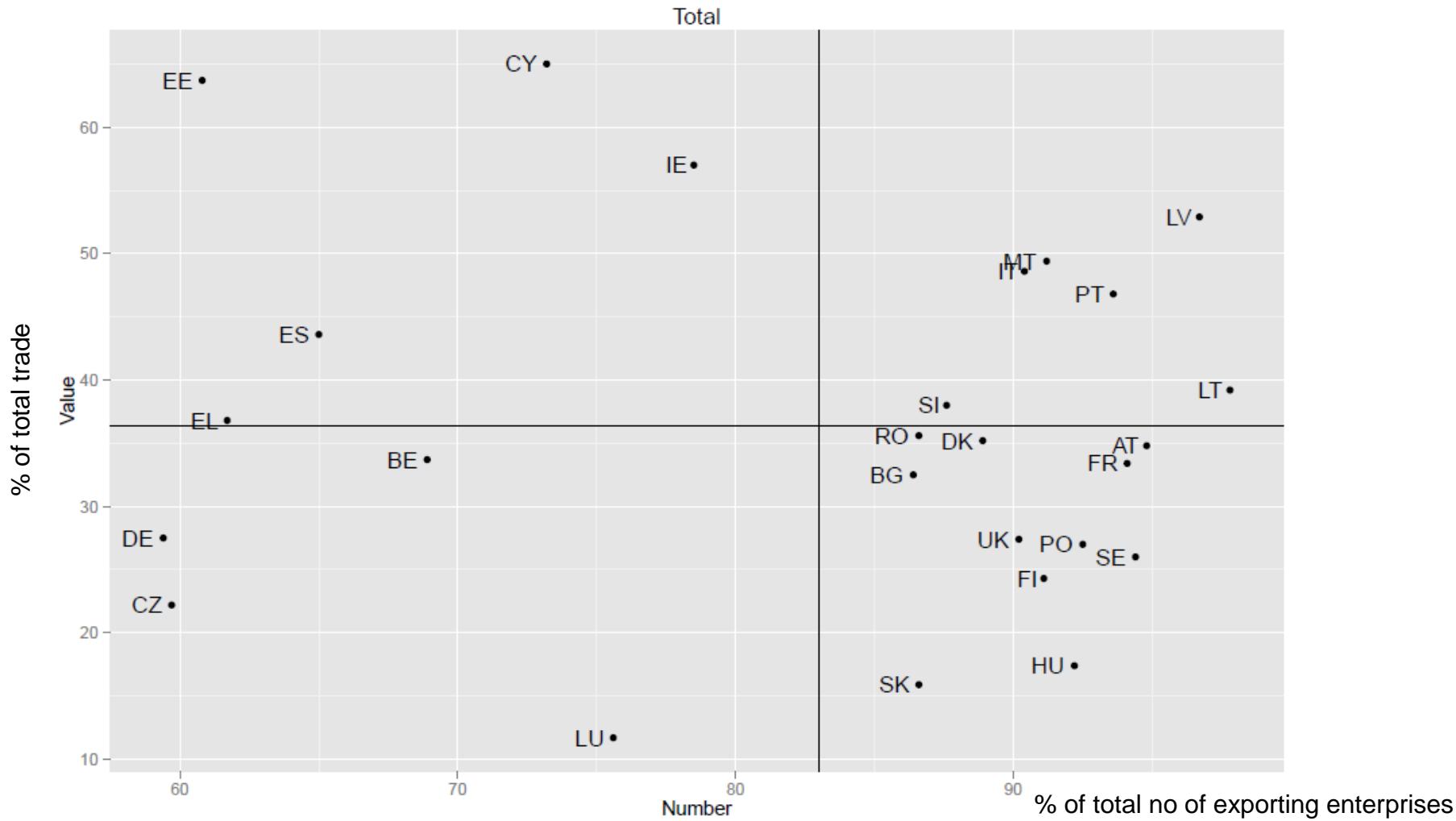


- Volvo: “Made in...” China, EU or the world?
- EU trade surplus with the US is increased by around 50 percent
- EU trade deficit with China is reduced by around 40 percent
- gross trade deficit with India is changed into a small value-added trade surplus
- trade gaps with other major partners become wider

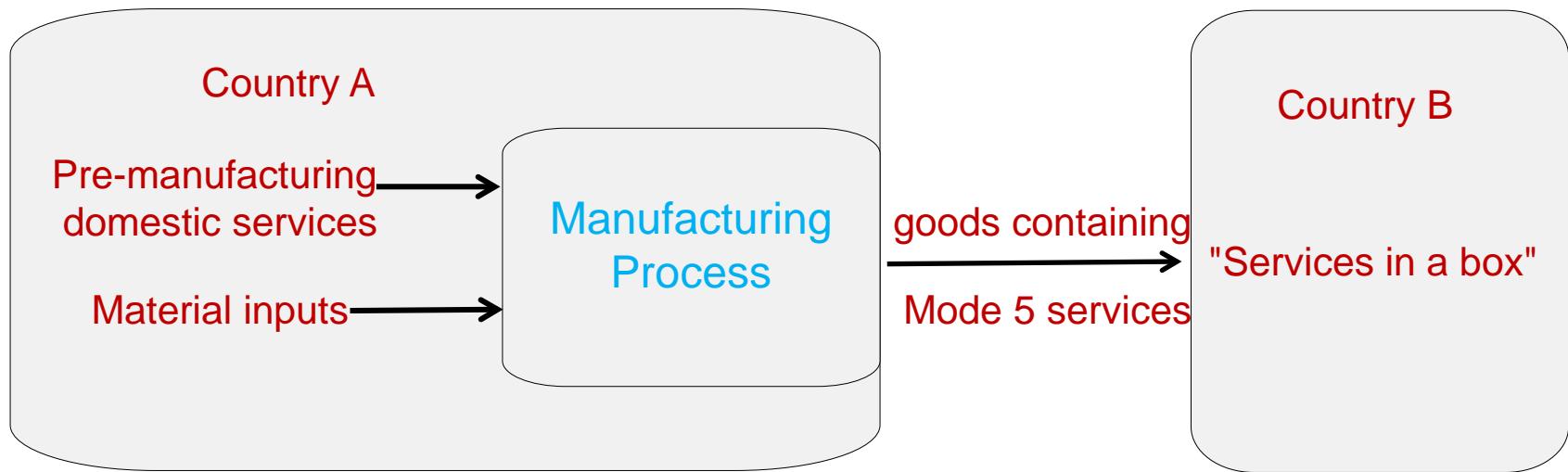
*But globalization remains small: global output uses only 8% of imported supplies, 92% is domestic value-added*



# Trade is not just about big companies



# The role of services in EU competitiveness– "mode 5" exports



**GM's Volt: 10 Million Lines of Code**

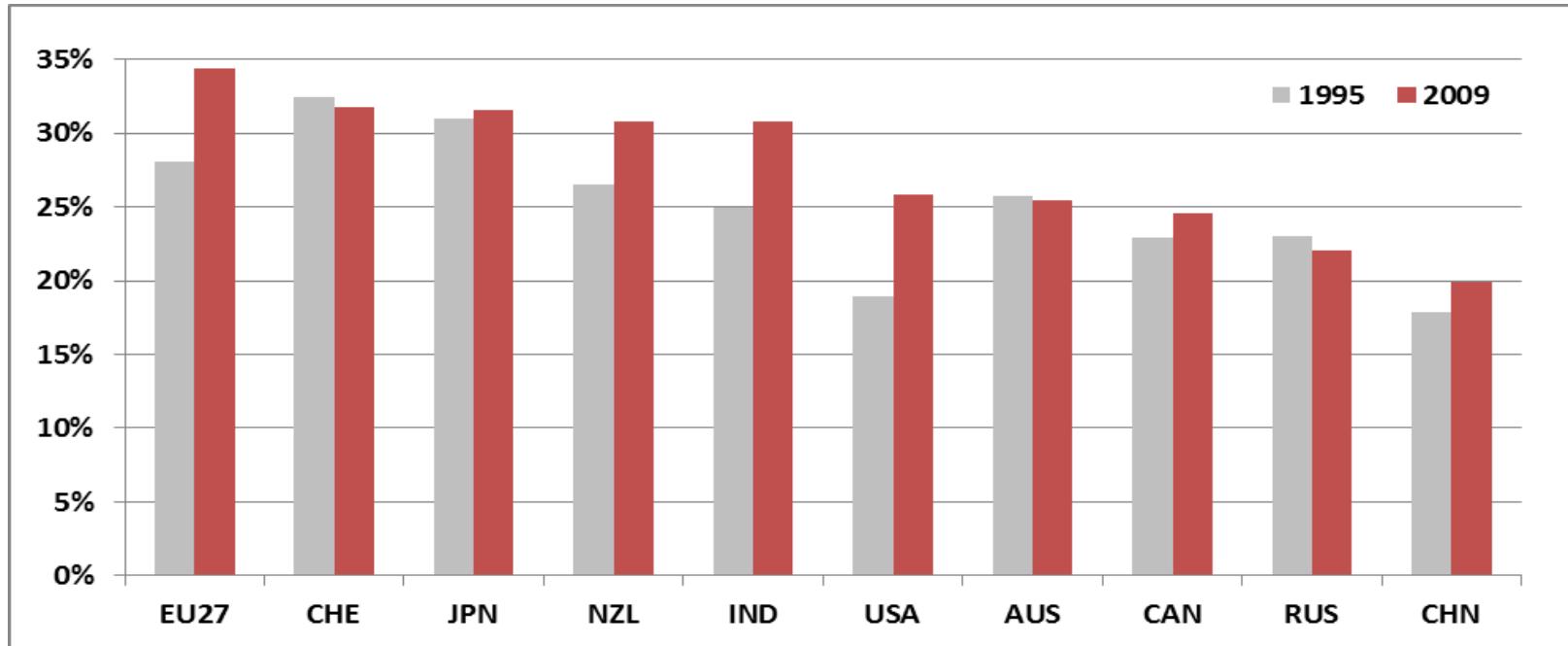


Some examples



# The role of services in EU competitiveness

**€300bn – the EU27 'mode 5' services exports**  
(based on latest available TiVA data)



**Source:** Cernat and Kutlina-Dimitrova (2014)



## Some immediate policy implications

- Trade facilitation is still the single most important cross-cutting area that can boost global value chain performance
- we need to change perspectives: the untapped "GVC" value of FTAs lies in services and **investment** access
- FTAs among "strategic partners" may fundamentally alter EU's position in GVCs
  - TPP: a threat or an opportunity for EU companies in the region?

# Some bigger policy question marks....

## *Bilateral trade balances:*

- the magnitude (and political perception) of a bilateral deficit/surplus is likely to change

## *Rules of origin:*

- To what extent does the complexity of rules of origin in bilateral trade agreements thwart the development of production supply chains? Can we devise better RoO?

## *Regulatory issues:*

- Do complex GVCs lead to more ambitious FTAs? And positive global spillovers?

## *Exchange rates:*

- There may be new and important implications for the way we assess the impact of bilateral exchange rate movements

## *Servicification and technological revolution:*

- The interface between goods and services trade: mode 5 services, IPR, customs valuation, 3D printing, Internet of things