

# Trade, jobs and value-added: A new look at EU competitiveness



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*Disclaimer: The views expressed herein are those of the authors and not necessarily the views of the European Union or its Member States*

# The new EU trade and investment policy: eager to ink and ready to act



- **Eager to ink:**
  - Multilateral and bilateral negotiations: are top on our agenda
  - Strategic Partners: US - TEC, China - HED, Russia – WTO
  - if everything successful, trade policy alone can add some 1.5% to EU GDP annually
- **Ready to act:**
  - Enforce our rights and tackle barriers abroad, including on public procurement
  - Promote sustainable development around the world
  - New measures in support of export competitiveness of SMEs
  - Foster mutual supportiveness between Single Market and global economy
- **For all these objectives coherence between policies and global value chains is key**

# EU export competitiveness: a reality check

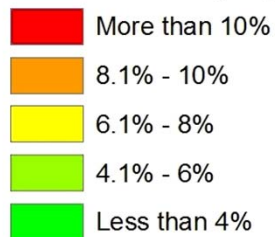


- The EU overall export performance remains strong, despite major shifts in global economy and domestic challenges
  - Good performance on up-market, high-quality products and major services sectors
- EU trade and investment policy needs to be in tune with
  - *new economic opportunities*
    - 90% of future economic growth will be generated outside EU
    - China will account for possibly one-third of it
  - *domestic priorities - job creation and economic growth*
    - Around 36 million jobs in Europe depend on extra-EU trade
    - In 2010, one 3<sup>rd</sup> of EU growth was generated by external trade
  - *increased global interdependence: global value chains*
    - Export performance depend on own openness and trade liberalization

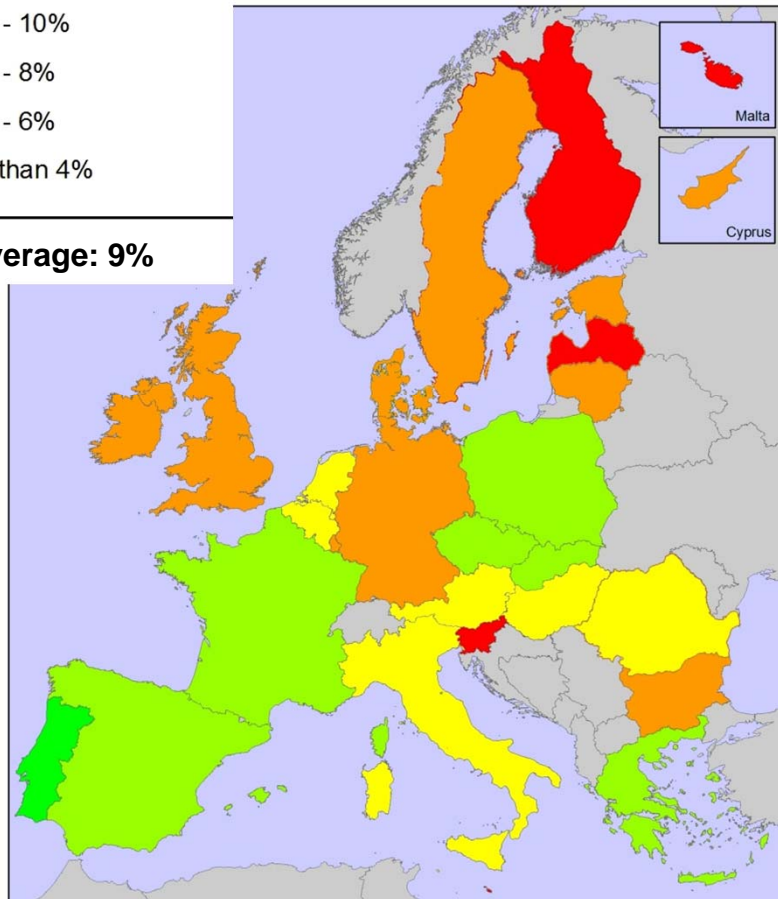
# Export competitiveness and job creation: a value-added analysis



Embodied Employment % of total employment (2005)



EU average: 9%



- Between 19-20 million jobs in Europe are directly dependent on our export competitiveness
- 36 million jobs dependent on overall trade performance (exports, imports, productivity gains, wage premium)
- 21% of these jobs were generated through a “Single Market” effect

Source: *European Commission IPTS-Sevilla (J. Rueda-Cantuche et al. forthcoming study)*



# EU trade in value added: preliminary results



- forthcoming report produced for European Commission by the CPB Netherlands Bureau for Economic Policy Analysis. Authors Arjan Lejour, Paul Veenendaal and Hugo Rojas-Romagosa. Uses GTAP data.
- Value-added in EU exports decomposed along five components:
  - VA in final exports
  - VA in intermediate exports – can be used for (i) production of a final good for consumption in the destination country, or (ii) re-exported by the destination country to a third country, or (iii) returned to the country of origin
  - VA in transport
- A similar exercise is done to identify the foreign value added in EU imports.

# EU trade in value added: preliminary results



- It finds that **on average 87% of EU exports in VA is absorbed in the destination country direct trading partner**). Out of that, about 50% are final goods imports in the destination country (the classic view of trade: producer to consumer) and 36% is embodied in intermediary goods absorbed into final goods produced in the destination country.
- **Around 11% of EU VA exports is re-exported to a third country**. This is EU VA that will appear indirectly in the exports of other countries. **A small proportion of EU exported VA is "re-imported" back to the EU**.
- Sectoral results (agriculture, raw materials, services, low-medium-high tech manufacturing, transport) reflect important heterogeneity compared to these aggregate numbers.
- The value-added bilateral trade balances show very different outcomes for most bilateral EU relations.
  - EU “net trade surplus” with the US is around 50% larger,
  - “net trade deficit” with China is around 40% smaller
  - Some gross bilateral trade deficits are turned into net trade surplus

# Some policy question marks....



- **Bilateral trade gaps:**
  - the magnitude (and political perception) of a bilateral deficit/surplus is likely to change. Identifying the value-added different countries add to global value chains produces new perspectives on specialisation and comparative advantages.

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- **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 as part of the current reflection on the future of the WTO?

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- **Trade volatility:**
  - Do global supply chains lead to trade collapse during economic shocks? Or do the fixed costs of establishing production linkages and the existence of long-term contracts associated with supply chains act as built-in stabilizers for the global economy?

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- **Protectionism:**
  - Do increasingly complex global supply chains (and the increase in vertical trade) deter protectionism? What lessons could be drawn from the great recession of 2009?

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- **Exchange rates:**
  - There may be new and important implications for the way we assess the impact of bilateral exchange rate movements.