

Positioning of EU Trade Policy

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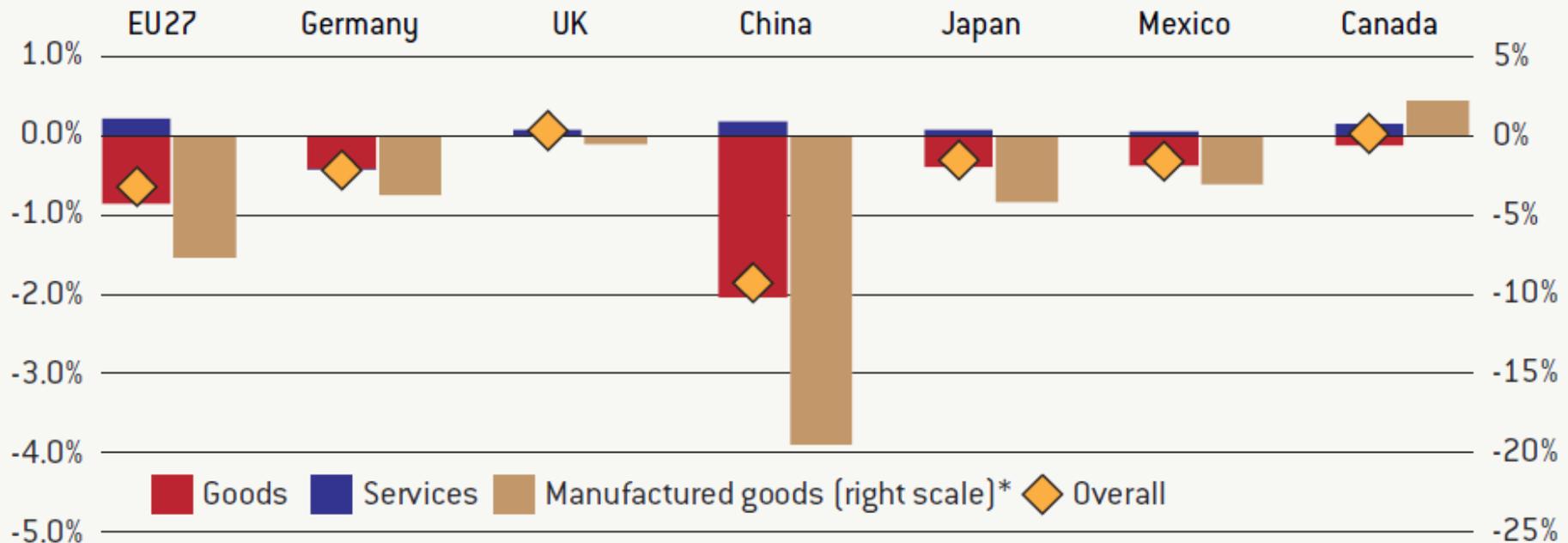
Introduction – three major challenges

- A changed United States that puts explicitly “America first”
- A stronger and more assertive China
- A changing domestic landscape that grows wary of “globalization” and “technical change”

The US textbook example of how not to teach international trade

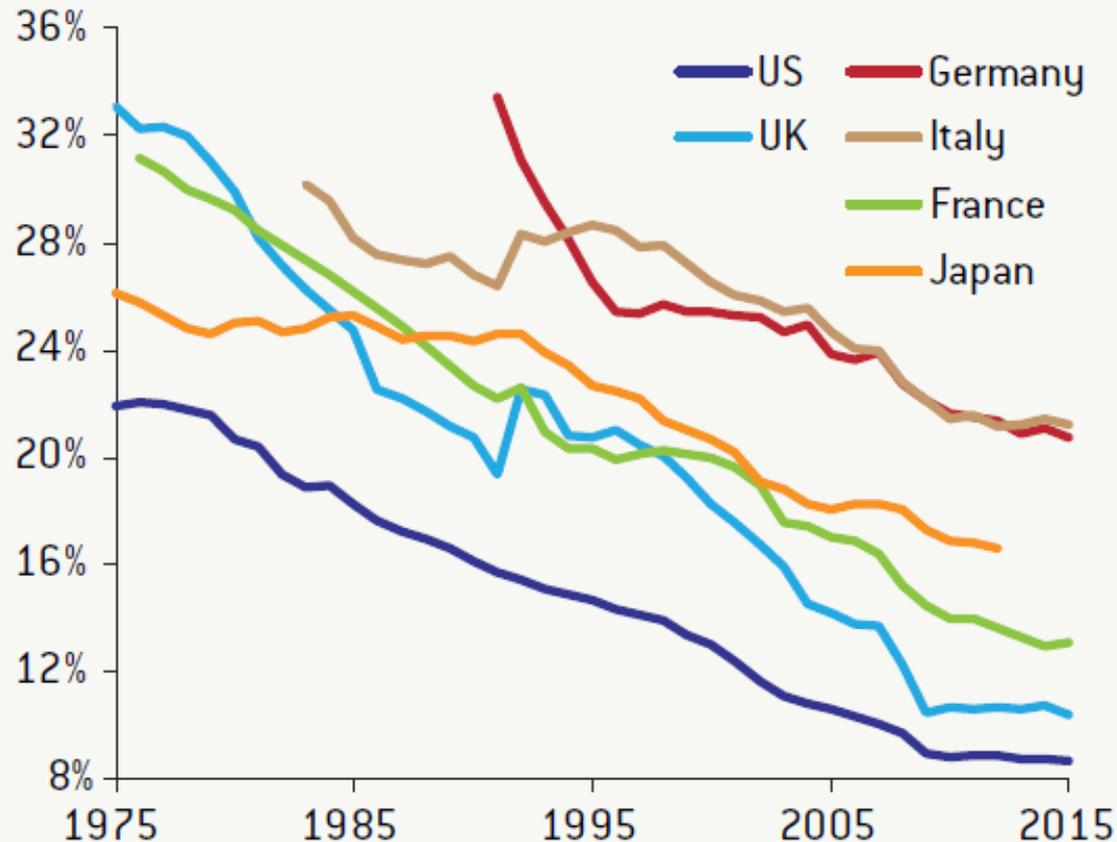
- Bilateral trade balances should be targeted
- Donald Trump and his playboy interview – or why Japanese investment and Daimler cars in the US are a problem
- Wilbur Ross and Peter Navarro's solution:
 - Renegotiate bad bilateral trade deals
 - Give up on multilateralism: play the US strength in bilateral negotiations
- The start: renegotiation of NAFTA
- Why? Bring back manufacturing jobs
- Older debate: the diminishing giants (Baghwati)

US Bilateral Trade Balance, % US GDP



Source: Bruegel. * manufactured goods as % of manufactured value added (rhs)

Employment in manufacturing, % of total employment



Sources: ILOSTAT, FRED. Notes: Total activity is from LFS where available, and from official estimates otherwise. Manufacturing is measured with Rev.4, otherwise Rev.3 or Rev.2 measures are used upon availability.

Bilateral imports (goods) in 2015 for selected partners, USD billion

	US	EU27	UK	China	Japan	Mexico	Canada
From US	.	249.4	58.1	150.5	68.3	187.3	223.2
EU27	376.5	.	340.0	190.4	64.8	41.4	40.9
UK	58.7	188.5	.	18.9	6.5	2.3	7.2
China	502.6	366.3	63.0	.	160.6	70.0	51.4
Japan	134.8	72.3	10.2	143.1	.	17.4	11.6
Mexico	297.5	21.2	2.1	10.1	4.8	.	24.4
Canada	301.0	18.7	10.7	26.3	9.2	9.9	.
World	2306.8	1978.8	630.3	1681.7	625.6	395.2	419.2

Source: Bruegel based on UN Comtrade data (available here: <https://comtrade.un.org/data/>). Note: Bilateral trade relies on import statistics, which are considered more accurate given the customs system in place to collect tariff revenues.

Bilateral imports (services) in 2014 for selected partners, USD billion

	US	EU27	UK	China	Japan	Mexico	Canada
From US	.	214.1	38.5	n.a.	57.9	n.a.	62.0
From EU27	119.0	.	105.6	n.a.	23.2	n.a.	13.3
From UK	49.8	160.0	.	n.a.	12.6	n.a.	5.8
From China	14.4	28.7	1.7	.	11.9	n.a.	2.1
From Japan	31.2	15.9	4.3	n.a.	.	n.a.	2.0
From Mexico	19.5	4.2	0.9	n.a.	0.3	.	2.4
From Canada	30.1	12.4	2.8	n.a.	2.1	n.a.	.
From World	477.4	849.3	214.9	452.8	192.1	33.5	110.3

Source: Bruegel based on ITC Trade Map and OECD Statistics on International Trade in Services by partner country. Both sources follow the Extended Balance of Payments Services Classification (EBOPS 2010). Note: data on EU27 estimated by subtracting UK imports from all the bilateral import flows of EU28. In particular, EU27 (EU without the UK) total imports are equal to (EU28 total imports – UK total imports from ExtraEU28 + EU27 imports from UK).

Why all of this is so significant for EU

- The renegotiation of US bilateral trade deals will unlikely change the US trade deficit
- Meanwhile the tax “reform” (i.e. fiscal stimulus) will drive up US demand and the trade deficit
- The EU is not only directly exposed but also indirectly through value changes
- Massive bilateral investments.

FDI Stocks 2015, USD billion

	US	EU27	UK	China*	Japan	Mexico	Canada
From US	.	2156.3	433	116.6	51.6	222	280
EU27	1382.3	.	679.9	257.9	58.4	184.1	150
UK	484	1248.6	.	42.3	13.2	20.5	24.8
China*	25.9	97.1	20.6	.	8.4	3.8	26.7
Japan	411	115.3	67.7	180.7	.	13.4	15.9
Mexico	16.6	43.4	n.a.	0.1	0	.	1
Canada	269	214.3	34.4	15.8	1.2	28.1	.
World	3130	6863.6	1550	2580	171	509	555

Source: CDIS (Coordinated Direct Investment Survey), IMF. Note: * including Hong Kong.

The China opportunity and challenge

- EU-China trade is well developed and exceeds bilateral relation with the US
- EU-China investment stocks around 1/8th – 1/20th of EU-US
- The EU does not have a bilateral investment treaty with China. Several member states do.
- Investments will likely increase, can a sensible investment treaty be drafted that ensures high standards?
- Huge challenge, however:
 - Lack of reciprocity, EU investment into China now falling
 - Prevalence of SOE, lack of competition in significant segments of Chinese markets, massive access to government financing
 - Strong industrial policy and strategic investments abroad
 - 16+1?

The domestic challenge

- Popular discontent
 - Effects on inequality
 - Deeper questions of sovereignty as regards dispute settlement mechanisms
- Fragility of EU trade policy as witnessed in Walonia
 - Lack of trust in Brussel's based negotiators – Canada!
- Varying impacts on different EU countries

What strategic response? – US (Demertzis, Sapir, Wolff 2017)

- The US is EU's most important trade and bilateral investment partner, and EU depends on US security guarantee.
- Collaborate with international partners in the framework of multilateral settings to preserve the multilateral rules-based system (G20 Hamburg conclusions on climate is an example)
- Trade with Asia already more important than with US. Reinforce collaboration in ASEM
- Don't escalate but prepare tools that could be deployed bilaterally against the US, including WTO-compatible anti-subsidy measures and possible tax measures

What strategic response? - China

- It is useful to discuss BIT with China....
- ...but one has to be hard on core principles: reciprocity, market access, intellectual property rights
- “Une Europe qui protège”
 - a European CIFIUS (Röller, Véron 2008)
 - rigorous application of competition policy and state aid framework (Garcia-Herrero, Sapir, 2017)
- Reinforce cooperation with partners across all of Asia. End of TPP is also an opportunity for Europe

The domestic challenge

- Increase transparency of trade negotiations
- Commission should not negotiate mixed agreements. Singapore ruling clarified that 95% of trade agreement can be done under European rules (avoiding CETA disaster)
- Eventually, should EU treaties be changed so that trade and investment policy full EU competency?
- Welfare state is an asset not a liability!
- Address euro area imbalances to increase external credibility

Concluding remarks

- The EU needs to speak with one voice to be able to shape global trade and set standards rather than being a rules taker.
- Strong and vigorous action needed.