Does Europe still have a competitive advantage?

WIOD
WIOD

• Growing fragmentation and production hubs
• Means that
  – A focus on gross trade flows may be misleading
• Value-added measures provide better understanding of
  – Possible counter-productive protectionism
  – Who benefits
  – And risks in supply chains
• And a global IO table provides an essential tool for
  analysis in a number of other important policy areas
  – OECD- WTO initiative to mainstream the activity in the
    international statistical information system
WIOD “Value Added”

- **Congratulations** to the researchers (and the funders.) Very valuable work and will generate substantial knowledge spillovers. However much work remains on using the data base to generate policy relevant insights, and I’m sure the team knows this.
- **Main policy insight** – Advanced countries still lead the world in manufacturing output, when manufacturing is defined to include upstream activities.
  - But the summaries provided are really describing trends found in the data base, which often reflect what other more traditional measures already tell us – Emerging markets growing share of global GDP, employment growth vs. productivity growth
- What, if anything does this new data set tell us that we need to change, or be more aware of, in terms of policy influence on economic outcomes.
  - For instance – in examining sectoral GVCs in Textiles and Apparel one sees that the end of the MFA brought greater concentration of the value chain in a smaller number of countries – does this mean anything for ROO in FTAs?
  - Must use caution that policy makers in Developed and Developing Countries to blindly pursue “high value added” shares of global value chains as indicator of growth and development policy. What matters is how their participation in GVC compares with alternative use of those resources in other activities.
WIOD “Value Added” (continued)

- **Perspective of Europe as a competitive power** - This work helps us to better understand EU’s (and the US, and many other countries) trade structure and relations with other leading world trade powers. However the GVC measure gives a dramatically different picture of income gains by factors than focusing on value added trade.
  - We need to understand why and what are there direct and/or indirect policy implications.
  - And the lack of insights on retail and transport sectors and capital ownership might mean the WIOD streetlamp is a bit limited in providing new insights in critical areas of global value chains. The team recognizes this and I would be interested in their ideas of where to go next to better illuminate these issues.

- **How might the USITC use these insights?** This work will allow us to better examine income distribution issues central to the trade and domestic policy debate in the US.
  - Will help is better understand the extent of integration among countries, effects of trade policy on national competitiveness, Importantly, help us understand the increasing importance of economic and other policy changes in other countries.

- **For trade related calculations** – the current WIOD work does not link well with traditional trade statistics, and for many of the literature’s measures such vertical specialization, value added trade, and domestic content. More work among researchers is required to better understand these linkages and illustrates the importance of the profession reaching some agreement so policy makers can have confidence in the advice received from economists.
Global Value Chains and European Revealed Competitiveness

- **Emerging countries are emerging markets**: Main sources of trade dynamism are outside Europe
- **European competitiveness improved recently**: less anti-export bias towards the rest of the world
- Particularly true for European exports of intermediate goods since 2000 (green line, panel2)

**Key role of GVCs**

- **Improving competitiveness requires taking full account of the various GVC dimensions:**
  1. Innovation is important, but not a panacea
  2. Value added can be created at all stages of Value Chains
  3. The quality of supply is key for competitiveness: access to imports, linkages to domestic suppliers
  4. Indirect contribution to exported domestic value added is very relevant for Europe:
     1. Role of services (ex ‘Non Tradable’)
     2. Role of SMEs
     3. Job creation
  5. Levelling the playing field for these domestic suppliers is as important as investing in innovation:
     1. Multiplier effect of normative barriers on investment and production costs
     2. High Benefit/Cost ratio
- **Good policies require good data**: international efforts to provide Trade in Value Added information, at both macro and micro levels.
Historically, Europe has been inward-oriented, while Asia was outward oriented (panel 1). More recently, the situation is reversing (panel 2).
WIOD PROJECT

- **Insights are useful and aligned with ECFIN work/interests:**
  - New Macroeconomic Imbalances Procedure (external imbalances and competitiveness)
  - Trade and its relation with employment and productivity
  - Further insights into Single Market and adjustment capacity
  - Role of services and of specific sectors
  - Technological/skill content of exported goods vs in value added
  - Dynamic sectors and dynamic markets (economies)

- **Policy implications - these and further insights to be used for:**
  - Examining relative merits of various policies to address competitiveness
  - Results seem to lend further support to measures meant to improve market functioning and access in general and provides further evidence on the indirect role of services in exports and employment creation.

- **What next in the project? Suggestions:**
  - Next to the world input-output data, is a dataset combining derived indicators (such as exports of value added, bilateral net trade in value added, etc) foreseen?
  - Going beyond global manufacturing production and extending the analysis to cover also trade in service (other than through its role as activity into the manufacturing global chain)?
Main research findings in line with our EU trade policy
- Our open trade policy’s “intellectual mandate” is reinforced
- EU export performance remains strong, up to 30 million EU jobs depend on it

Export/import dichotomy demystified
- A large share of value-added exports depends critically on a “Single Market” effect, hence the need for mutual supportiveness

Sectoral issues: services vs manufacturing
- Services are more important for EU trade performance than we think
- Sectoral competitiveness indicators may differ in VA

Bilateral/multilateral/plurilateral issues
- WTO remains crucial. Who are EU’s strategic “value-added” partners?

Some rules may matter more for value-added and GVCs
- Several policy variables may get a new dimension if assessed against the “value-added” competitiveness test
Three questions

1. What is the most important technical achievement and the most important policy insight you obtain from this work?
2. Is this work changing your perspective on the role of Europe as a competitive power in the global economy and/or the role of Europe in the global climate debate?
3. How will your organization use the most important insight in your policy setting?