

Karel De Gucht

European Commissioner for Trade

Trading in Value and Europe's Economic Future

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

High-level conference on "Competitiveness, trade, environment and jobs in Europe: Insights from the new World Input Output Database (WIOD)"

Brussels, 16 April 2012

Ladies and gentlemen,

We are here today to launch the World Input-Output Database: A new tool that tells us more about the global value chains underlying our trade and their impact on our policies.

This is first and foremost an analytical matter but it involves the conduct of policy as well and also has implications for the politics of international trade.

I would like to talk to you about why research in this area is important,

how it will improve our understanding of the way trade works today,

how it may change our trade policy,

and how it will help us to communicate the benefits of trade to the people of Europe.

Why is this tool worth spending European taxpayers' money on?

Value chains have become an essential feature of our economic reality. Today's products and services are not produced in a single location or even by a single company.

Rather they are the end result of a highly coordinated series of steps carried out in many countries around the world by many people with many different skills.

Most of you will be familiar with the example of the Nokia smartphone. It is listed as being made in China, but in reality 54% of its value comes from tasks that are carried out in Europe. Key components are produced in other parts of Asia and only the assembly itself actually happens in China.

This is just one example. But if we look closely at the production process for everything from children's toys to passenger jets we will see the same pattern repeated over and over.

This is borne out by the figures. World trade grew 65% faster than world output from 1990 to 2008. It now amounts to nearly half the value of global income, compared to under 20% in 1960.

A third of that trade happens within firms. Two thirds of European imports are not of final products but of intermediate goods and raw materials, to which we add one or more layers of value before they are finally sold, often for export.

Being part of value chains is a growing reality for European production and therefore European jobs, of which close to 30 million depend on our ability to export. If we were to close our borders completely – to both imports and exports – we would lose 36 million jobs, just under one fifth of our workforce.

However, though we are aware of the rising importance of global value chains, we have so far been unable to properly measure their size, nature and effect. This is because our current statistical apparatus does not capture the domestic activity contained in a traded good or service.

Today, we measure trade by counting the total price of the good that is being exported or imported. But because we do this both for components and for final products we get a distorted picture of what is really happening, in two different ways:

If we look at the global level it means that components in traded products are often counted twice.

Imagine a car's wheels are produced in one country and its engine somewhere else. They are all then shipped to a third country for assembly, before the final product is sold to a consumer in a fourth.

This is a common scenario and one we should be able to account for. And yet, as far as global trade statistics are concerned, we have produced a car with eight wheels and two engines.

Not very accurate, I think you'll agree.

If we look at individual countries or regions we have another issue: The country that exports the final product is artificially credited with having created all of its value, even if in reality it only assembled ready-made parts. To go back to the example, the export statistics of the third country make it look like the car was built there from scratch.

This is a bit like the final runner in a relay team getting a gold medal while his teammates get silver and bronze. It doesn't take account of the fact that the final result is the product of a joint effort.

It is to address these consequences of the fragmentation of the supply chain that we are launching this new World Input Output Database.

This project has been put together by a broad consortium and has been funded, I am proud to say, by the European Union's Seventh Framework Programme for Research and Development. The consortium has also had the benefit of the advice and support of the WTO and the OECD, for which we are very grateful.

The database works by connecting up the advanced systems we use for measuring the different components of our GDP with our traditional trade statistics.

The benefit is that we can address the fact that components are resold as part of the final product, whether within an economy or on international markets.

The result is that our cars will now have four wheels and one engine and our relay runners will each get the medal they deserve.

That greater accuracy will contribute to a much more precise understanding of the role of trade in our economy and the extent of economic interdependence in today's world.

There is a lot of work for economists to do to build up this new picture but we are already learning some important things.

First, measuring our trade in net value terms does not change the fact that Europe remains a large force in world trade. 87% of the value of our gross exports is produced in Europe. That means that our economy is not just a bazaar or a market. It is a place where people create real value.

Second, it follows that a full 13% of the value of our exports comes from imports, meaning that sales we make outside of Europe are directly dependent on what we bring in, and at what price.

Third, 12% of our exports do not reach the final consumer until they have crossed two or more borders outside the European Union. If we want to make those sales there has to be a free flow of trade among our partners themselves.

Fourth, our trade relationships with key partners are different from what we previously thought. For example, when we look at trade in value as opposed to traditional statistics, our trade deficit with China is reduced by 36%. However, our overall trade balance does not change. Our deficits with other partners, such as Canada or Japan for example, will increase to offset these changes. We need to bear all these numbers in mind when thinking about our surpluses or deficits with our trading partners. China, for instance, starts to look like less of a problem.

Fifth, global supply chains change the impact of currency fluctuations on trade. When the euro rises in value our exports become more expensive. But there will also be a corresponding fall in the cost of imported inputs. This should allow

exporters to neutralise some of the impact of a stronger currency and reduce the effect of exchange rate changes overall.

Sixth, when looking at trade in supply chain terms we see that the classic distinction in trade policy between goods and services is increasingly artificial. Services represent almost 60% of the value we add to the products exported from Europe.

The last but certainly not the least interesting point is what is happening within Europe. The European Union itself is now a highly integrated value chain. About one third of the jobs we know to be related to European exports are part of the value chain of products which leave Europe through another Member State. This means that the Single Market is a crucial part of Europe's trade success.

So what, then, do these lessons mean for our policies?

The central implication is that Europe must stay deeply integrated in global value chains if we are to prosper.

In domestic policy terms this means that there must be mutual supportiveness between what we do within the Single Market and what we do on the trade policy front.

Removing the remaining barriers in the Single Market is obviously crucial, given the importance of intra-European trade for our exports.

On top of that, the value chain approach confirms that our focus in the Europe 2020 strategy on innovation, education and smart regulation is also correct. If we look at the structure of global value chains we can see that the tasks that create the most value are ones like research and development, design, distribution and marketing. Europe must continue to be a competitive location for these tasks so we need a flexible, innovative business environment and a skilled workforce.

Our main trade goal must continue to be to minimise disruptions to the free flow of goods, services and investment both into and out of our economy.

We are currently pursuing new liberalisation largely through a combination of free trade agreements and robust trade diplomacy. These are crucial steps forward in securing a more open trading environment and will facilitate our insertion in global value chains.

However, value chains also mean that we have a real interest in other countries and regions staying open and becoming more so. We need to be sure that the value we create can easily find its way to the eventual consumer. This argues in favour of multilateralism so as to avoid the complexities arising from different bilateral schemes.

As already pointed out, services make up a big share of the value of traded goods. Access to efficient services is therefore key, especially in developing countries, who need to have open and competitive services markets if they want to become part of global supply chains.

The fragmentation of the supply chain also makes it necessary to put more emphasis on our work on facilitating trade through smoother customs procedures. The more times a product or its components have to cross borders before it gets to the final consumer, the greater the cost imposed by unnecessary red tape. This is an area where we have a chance to make real progress in the WTO this year. We should seize it.

Finally, the fact that production is being sliced up into ever smaller steps raises questions about the how to determine the origin of products. In the European Union we already took account of this evolution when we updated our rules of origin under the Generalised System of Preferences. But this is a subject that deserves more attention in the WTO.

As we learn more about value chains and trade, we may need to adapt our policies further. But we also need to refine our political discourse on trade to communicate our policies better to the European people.

Our findings on global value chains show how interwoven economies are today. It is therefore vital that we convince Europeans that protectionism is not the answer to their concerns.

This is not always an easy task.

Because, we are saying that in buying something from a distant producer instead of from our neighbour we are actually doing the right thing for the neighbourhood.

However true that may be, it can be difficult for people to accept, logically and emotionally.

Because when you look at trade only briefly you may jump to the conclusion that imports are bad for jobs and so we should keep them out.

You might be willing to accept that we should allow in a few imports, but only in order to compensate our trading partners for letting in our exports.

But the insights from global value chains should help people to understand that imports are valuable in and of themselves.

Because today most people in their own daily work have experience of a supply chain, whether within a small company or a large multinational.

Few businesses make a product from start to finish and sell it to a consumer themselves. We might make a component, provide legal advice or support the product's sale through marketing. But we know that our work depends on many other people for it to succeed.

If we want to earn our living we have to be part of international teams that create wealth.

European workers are not solo athletes but relay runners. They need to receive the baton from partners in other parts of the world and then pass it on if they are to cross the finish line.

And European decision-makers need to put in place the right conditions to allow these teams to flourish.

That is why we need to maintain a policy of open trade if we wish to succeed.

Ladies and Gentlemen,

I have always been a believer in free trade.

The results of your work strengthen that belief.

I thank you for that and for your attention.