

# TRADE AND ECONOMIC GROWTH

## POWERFUL RELATIONSHIP, AND... INCLUSIVE..?

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ALPBACH: International trade: past, present , future



CEPS\_thinktank



# Trade and economic growth

## Structure

- 1. How economists struggle with 'trade & growth'
- 2. EU is all about trade and growth
- 3. EU trade policy: source of growth ?



# Talking to the convinced?

- Many or all of us are long convinced that trade is good for economic growth
- We all remember Venice, Bruges, Amsterdam..
- Or Japan, South Korea, Singapore, China today
- Or the boom of Central Europe after communism
- Or the 'golden 15 years' of the EEC (1958 – 1973) with very high intra-EEC trade growth rates
- Or the obverse (e.g. India in 1991 ; Uruguay 1992)



# How economists struggle with trade and growth

- trade and economic growth often coincide, sure
- But can we empirically demonstrate that more trade of an economy “generates” higher growth?
- In economics, this has been a painful struggle
- With battles on the specification of equations; the measures of (i) trade, (ii) trade policy [reducing barriers], (iii) trade or economic ‘openness’ ; data ; countries samples [e.g. rich, poor, very poor]

# How economists struggle ? (2)

- Can trade (e.g. in simple, labour intensive goods) lead to immiserising growth? [yes]
- Can trade openness be 'too much' early in development ? [depends but yes]
- Can trade (in goods) be too narrow an approach ? [possibly, think of services, not just goods ; foreign direct investment ; knowledge flows and absorption]
- Would trade not induce growth much more effectively if 'accompanying policies' [education, infrastructure, efficient customs, etc.] are succesful ? [yes, for 'catching up']

# Where are we now on analytics ?

- If trade is measured in volume (so, prices do not influence) and the GDP effect comes with a time lag (seems obvious)
- Trade is a powerful stimulant of economic growth
- If trade in goods measures incorporate 'quality' and 'variety' of goods, trade-induced growth is higher
- also, if quality and especially variety of exports is very low, growth can even fall, and LDCs get 'stuck'
- For developing countries, if policy complementarities are incorporated, growth effects improve significantly [educational investment, financial depth, inflation stabilisation, infrastructure, governance, labour market flex.y, ease of firm entry and exit]

# But there is more....

- What is **not** in yet also helps economic growth
- Services trade is (usually) not in; grown forcefully
- capital goods imports and (arm's length) technology in upgrading export capacities
- Foreign direct investment ; links with upgrading, variety, quality, broadening range and innovation
- Global value chains (cf. all 3 above) link with leading technology and OECD final demand - note, two-thirds of world goods trade are intermediates ! Note, freer imports helps export competitiveness ! But growth potential of LDCs depends on one's position in the global value chain i.e. how much or little of value added?

# Why being against globalisation?

- If simple observation, from Venice to China, **and** rigorous analysis show that trade is good for growth
- lifting a billion people out of poverty (1995 -2009 alone)
- Why are there anti-globalists?
- Apart from radical ideologists, this has to do with (little) 'inclusiveness' and negative fall-out from the absence of serious domestic policies (LDCs) which should accompany trade strategies ; some is anti big business, some is anti-US
- But also about (rising) inequality / job losses in weak regions (few prospects) > mid-England and some US regions (China)



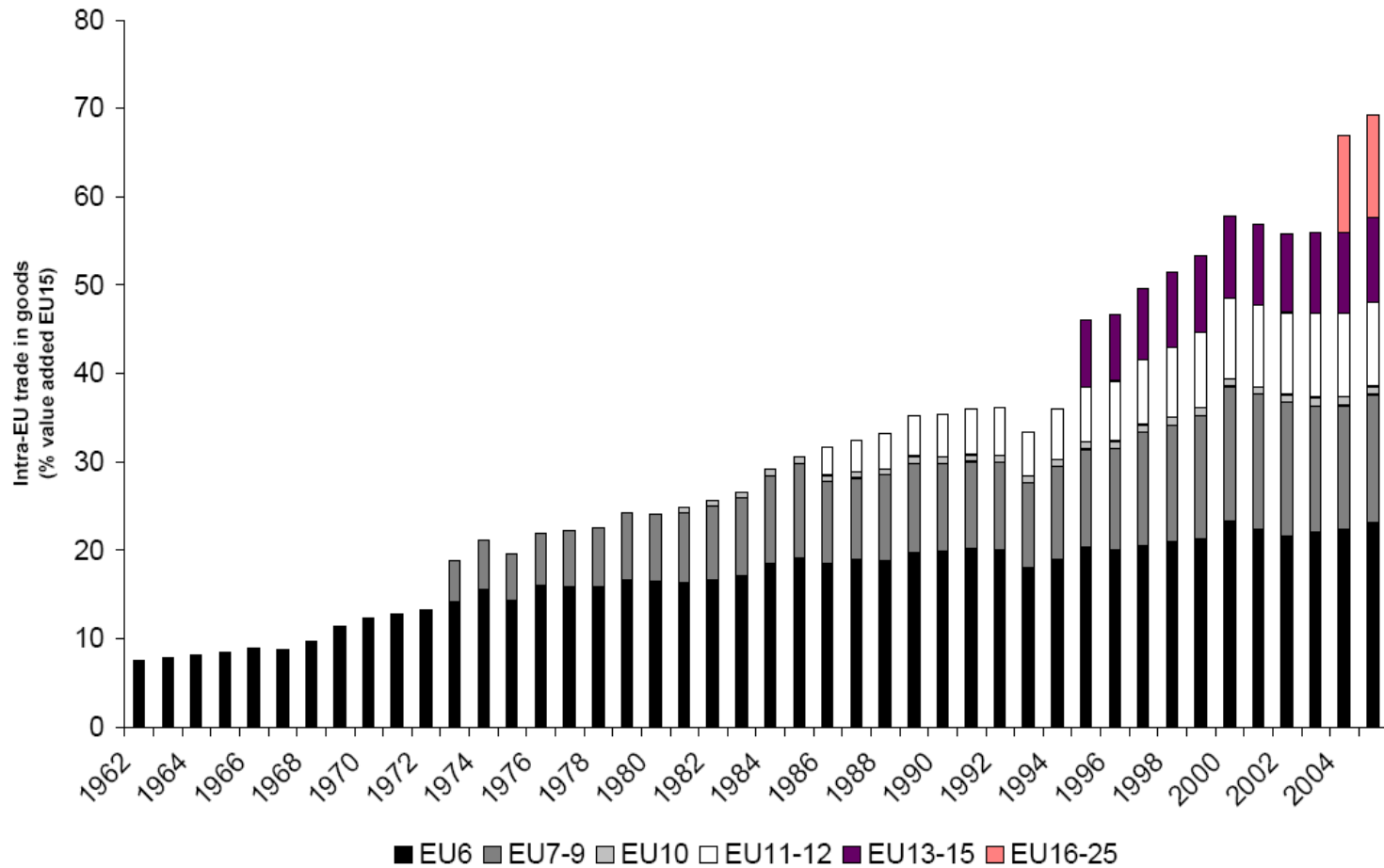


# EU is all about trade & growth

- The old EEC was all about (balanced) growth induced by market integration ; it worked well
- Essentially, that is still the case
- Market integration is deepened all the time, and more and more (regulatory) policy domains are in
- And the EU grew from 6 to 28 (27 ?)
- EU is successful in market integration (even if could be much deeper and capture extra GDP gains, 7 %)



# Intra-EU trade in goods also driven by accession



Source: CPB Memorandum, Trends in European Integration, May 2007

# EU nevertheless discredited ?

- Macro-economically, the eurozone, for all its advantages, comprises flaws, with high costs
- It disrupted trends of convergence and the hysteresis in e.g. South Europe is serious
- Migration, first seen as beneficial (e.g. UK), is suddenly a culprit – (potential) losers revolt
- Extra-EU migration (not due to the EU itself) a mess, due to sheer volumes and the suddenness
- Yet, even the UK wants the single market !!



# EU trade policy: source of growth ?

- Although deepening the single market – in earnest – would yield another 7 % EU GDP, eventually,
- EU trade policy should ‘deliver’ trade-driven growth
- A little, may-be, in so-called plurilaterals in services
- But primarily in bilateral or regional FTAs
- That is, ‘deep and comprehensive’ FTAs
- With selected countries /regions which are either growing fast or – due to sheer size – would yield substantial growth and job effects

# Three FTAs as sources of growth

- Let us zoom in on two EU FTAs: TTIP and a possible FTA with China
- Empirical estimates of the economic effects of TTIP have a range of results (slide 15) : between 1 ½ % and 2 % of GDP is possible for a successful outcome
- An EU/China FTA CGE analysis (CEPS/WTI '16) is largely on our exports (as EU import barriers low) and yields 0.76 % for the EU and 1.87 % for China

# What is TTIP ?

## Market Access

goods trade/  
customs duties

services trade

public procurement

rules of origin

## Regulatory Cooperation

regulatory coherence

technical barriers to trade

SPS – food safety; animal &  
plant health

Specific sectors:  
chemicals      ICT  
engineering    medicines  
med devices    text & clot  
vehicles

chapeau/objectives/  
principles

Rules  
(facilitating im/ex, FDI)

sustainable devel.

energy & raw matls.

customs / trade faciln.

SMEs (no real rules)

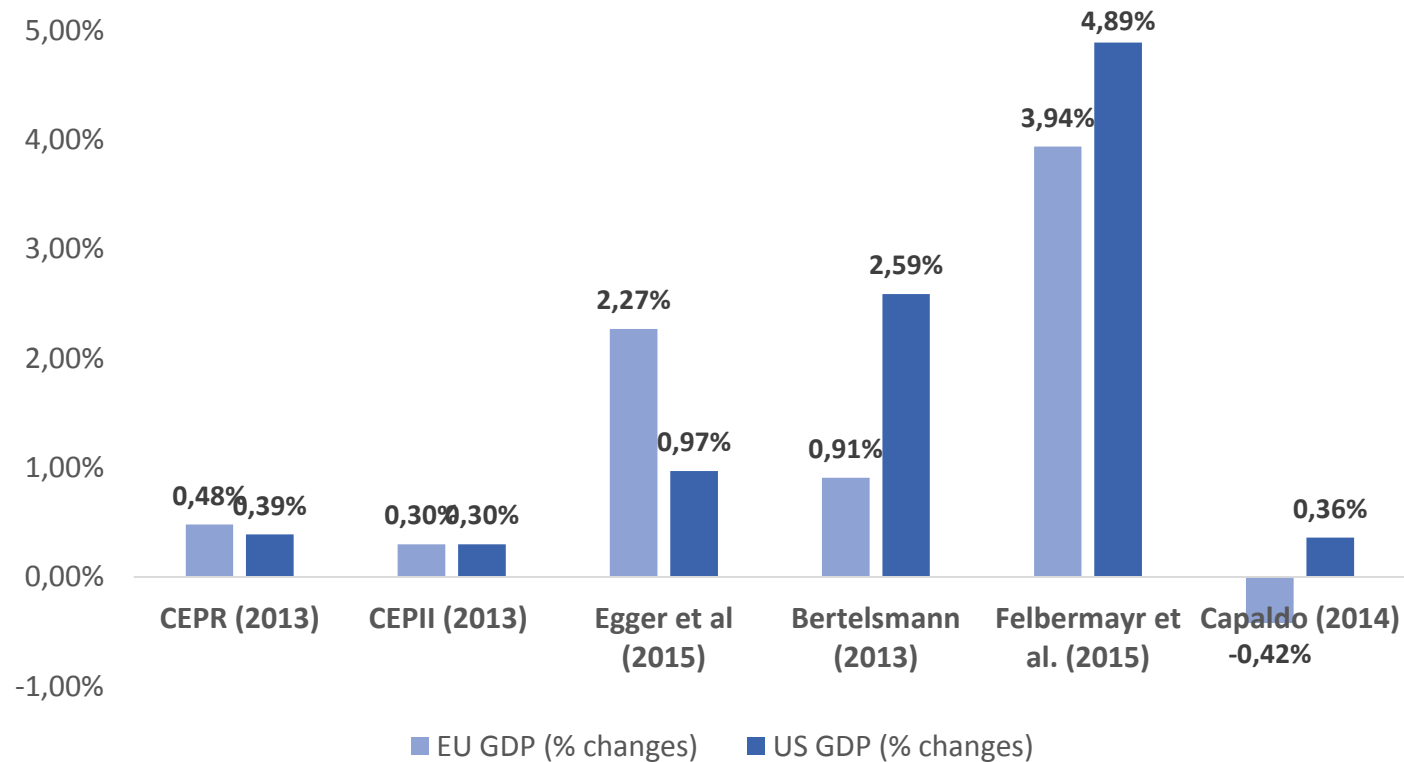
invest. protection + ISDS

competition rules

IPRs & G.I.

overall (Gov-to-Gov)  
dispute settlement

## TTIP: Differences in EU-US Economic Gains



# EU-China FTA: economic impact and adjustment issues

Percent Change in GDP	modest experiment				ambitious experiment			
	A: Total B+C+D	B: tariffs	C: goods NTBs	D: services NTBs	E: Total F+G+H	F: tariffs	G: goods NTBs	H: services NTBs
China	1.16	0.56	0.57	0.04	1.87	0.60	1.19	0.08
European Union	0.43	0.13	0.28	0.02	0.76	0.14	0.58	0.04

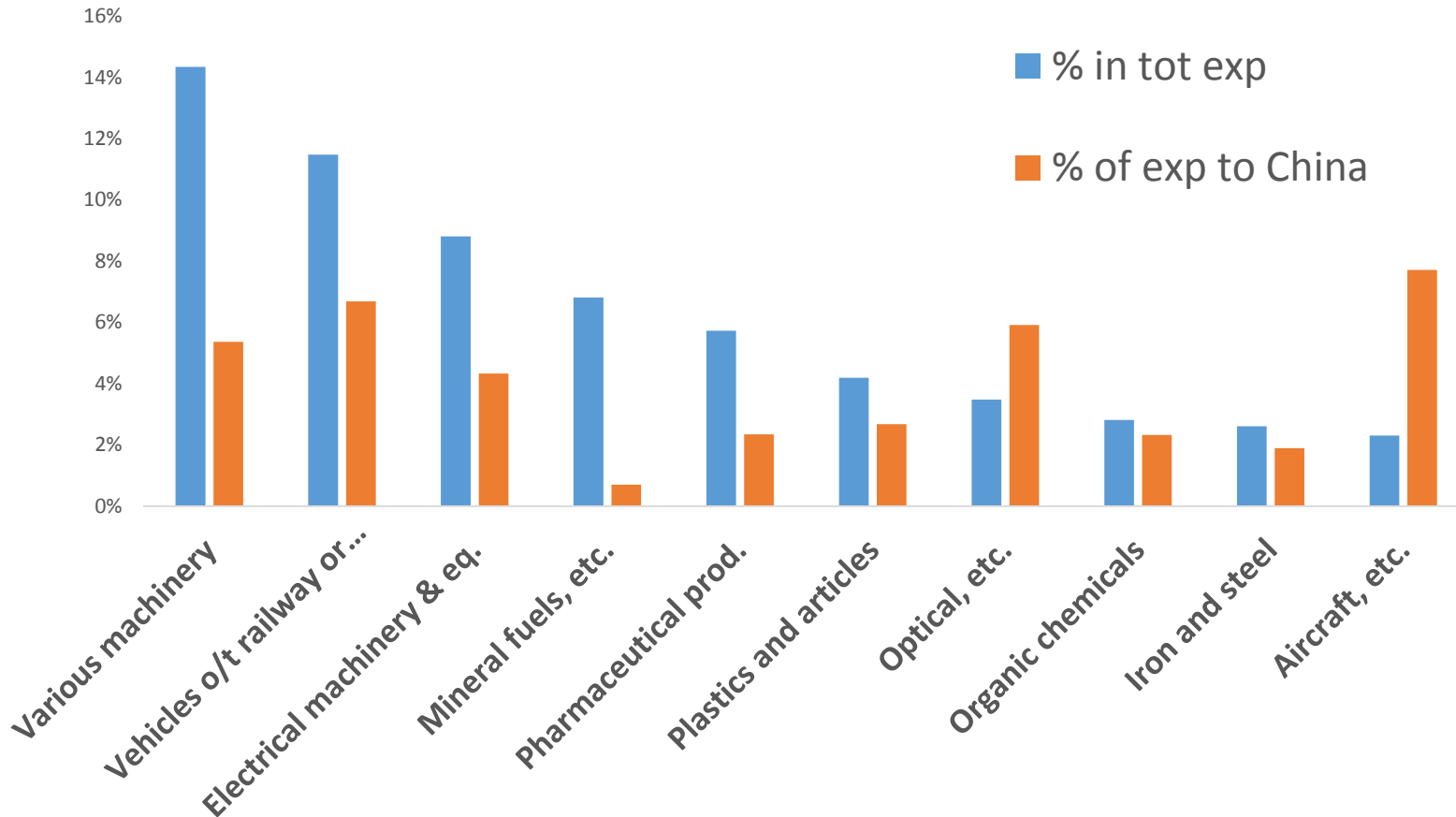
National Income Change (in million USD)	modest experiment				ambitious experiment			
	A: Total B+C+D	B: tariffs	C: goods NTBs	D: services NTBs	E: Total F+G+H	F: tariffs	G: goods NTBs	H: services NTBs
China	62,521	31,021	29,892	1,609	99,724	33,066	63,480	3,416
European Union	54,364	21,585	30,522	2,250	93,215	23,633	64,926	4,654



## EU-China FTA: economic impact and adjustment issues

- Real wages increase in all member states, ranging from 0.24% for Greece to 1.66% for Slovakia
- For three skill levels, greatest gains for low-skilled workers (1.13%) variation EU countries.
- These are pure model exercises
- Adjustment neither perfect and immediate, nor absent
  - EU member states: accompany FTA with *active labour market policies*, including up-skilling and (effective) re-training of low-skilled workers, social partners involved.

# Top 10 European exports to the world (shares in total exports and shares directed to China, 2014)



# And many more EU FTAs

- ASEAN countries come to the EU now, one by one
- Singapore is under ratification, so is Vietnam ;  
Philippines, Thailand, Malaysia and Indonesia talk
- There is EU /Japan, if the regulatory part is well done, can be of significance
- CETA is under ratification ; GDP effects small
- New FTA upgrade with Mexico ongoing
- India hopeless case, too protectionist even in FTA





# Thank you!

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