Value Chains and the EU Experience: what implications for trade policy?

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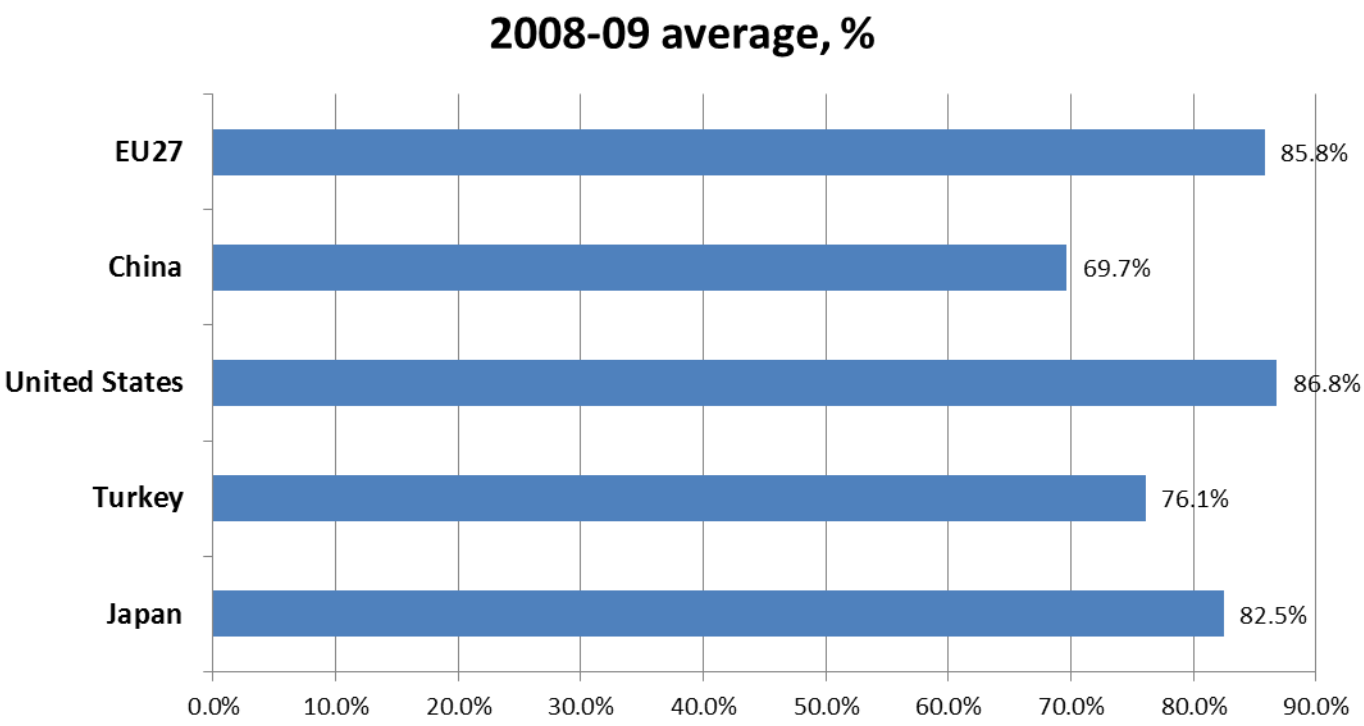
Outline

- Trade in value added and the regional organisation of GVCs
- FDI and Multinationals operations
- Further data needed?
- Discussion: implications for trade and investment policy

Domestic value added in gross exports

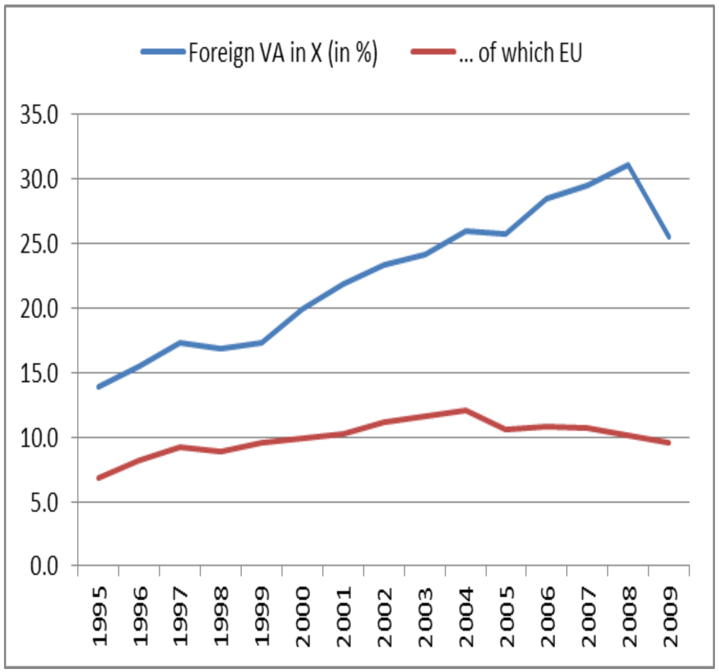


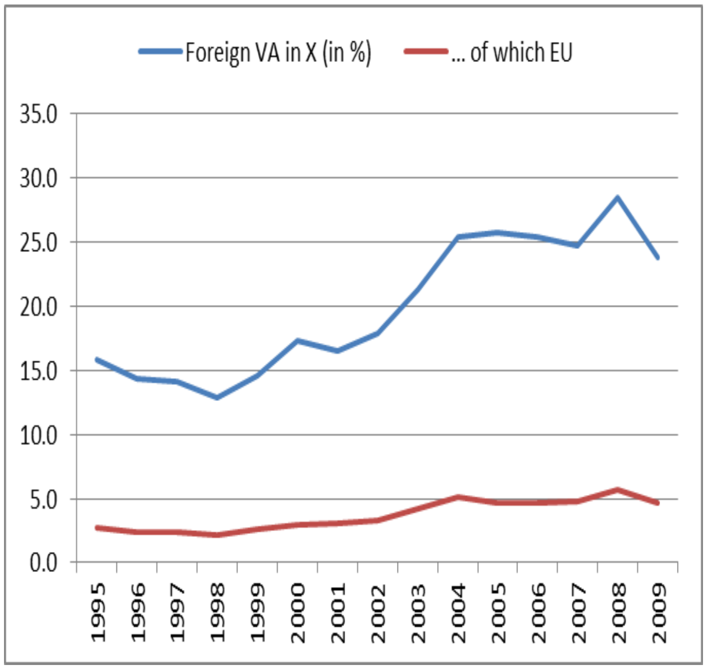
Source: OECD-WTO TiVA

Regional GVCs?

- Many of the GVCs involving EU firms are regional & DE is the main hub

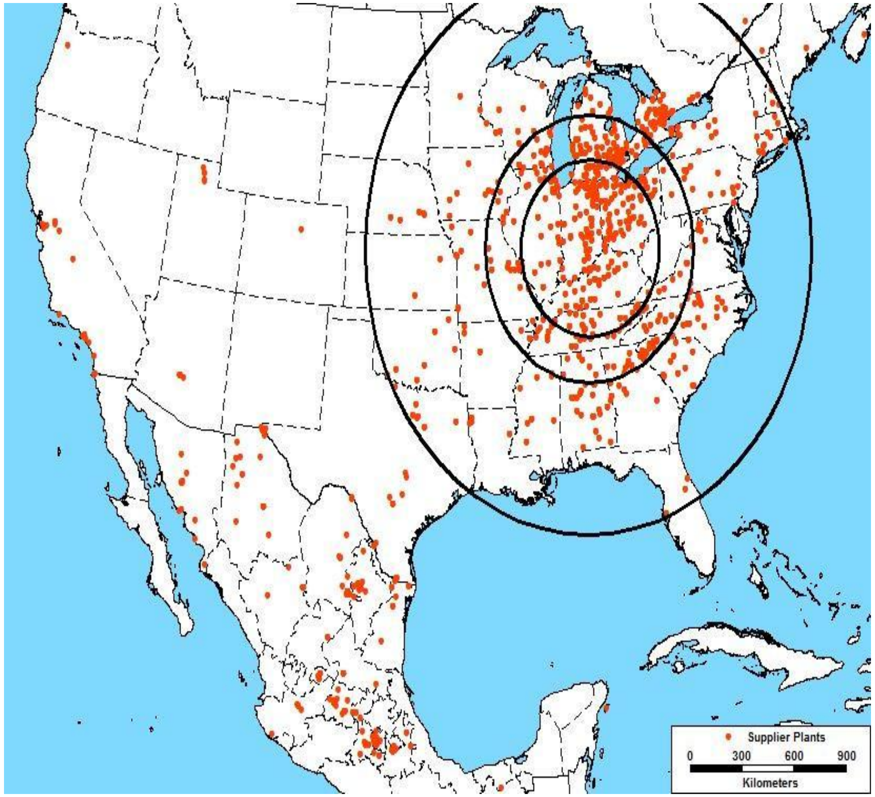
EU, Turkey and China: proximity matter

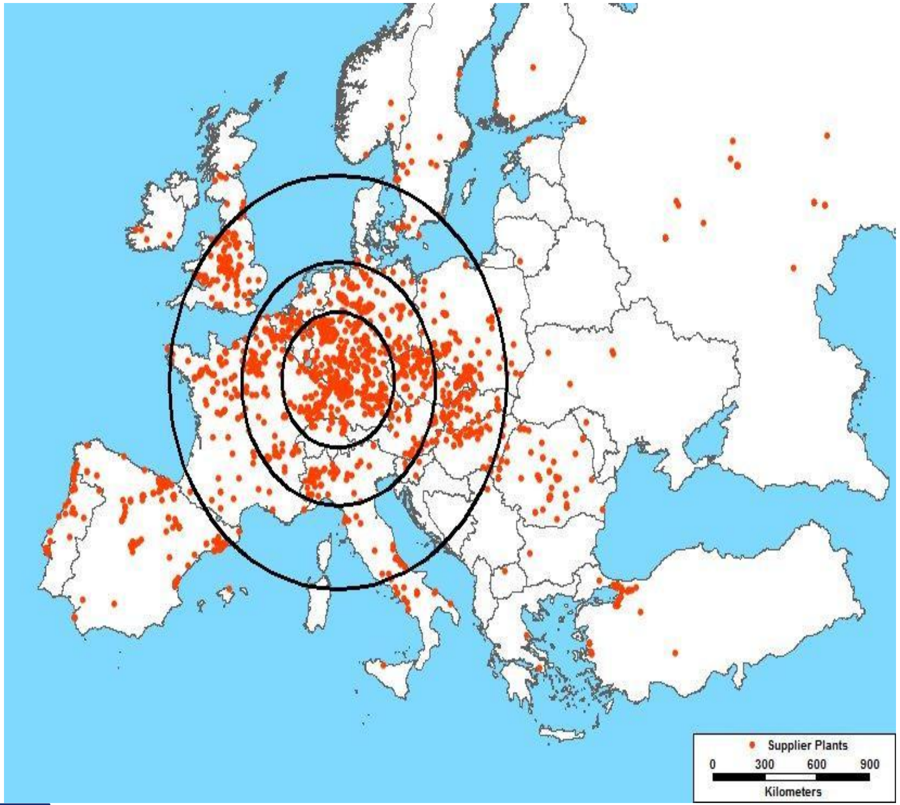




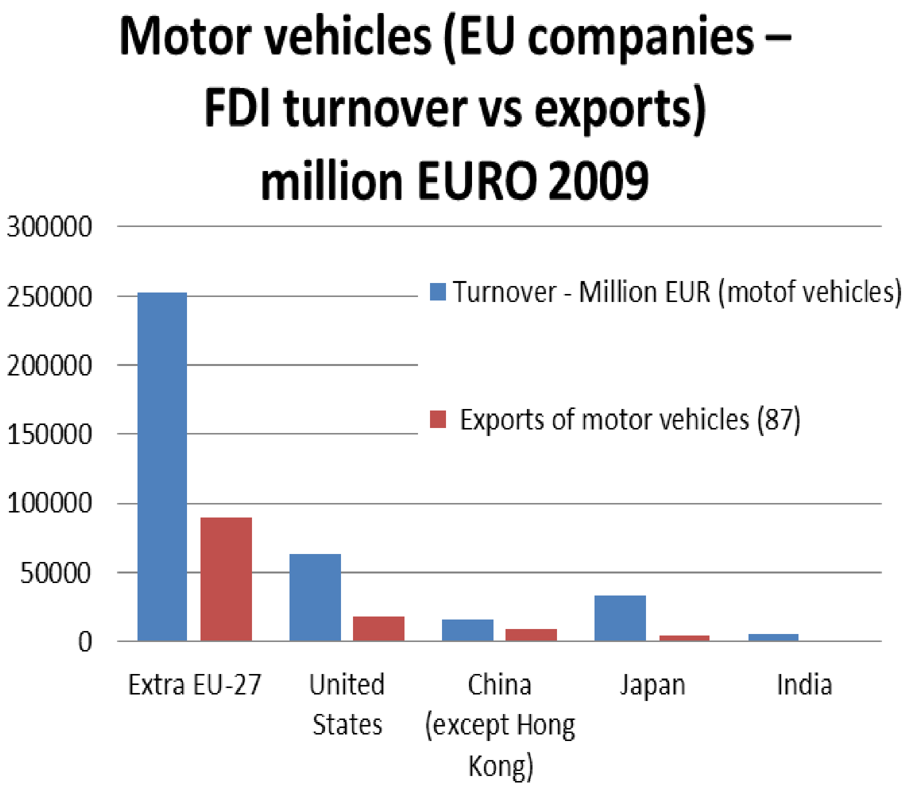
Proximity in production still plays a role

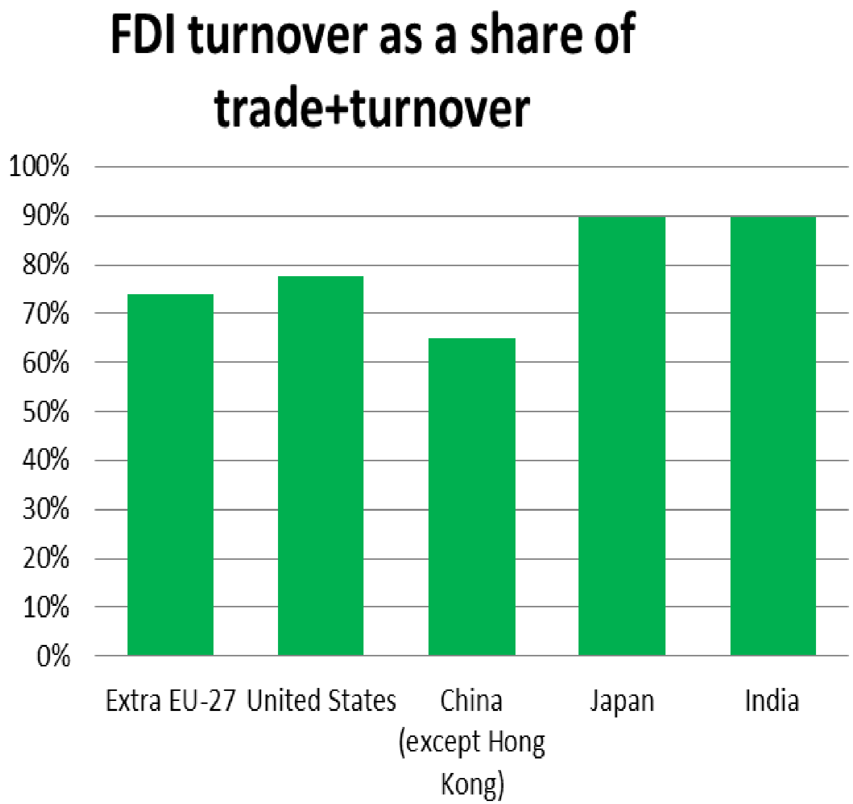
Production plants of the 100 largest car parts suppliers for EU and US





Motor vehicles: Trade or FDI?





Light Vehicle Sales by Production Region

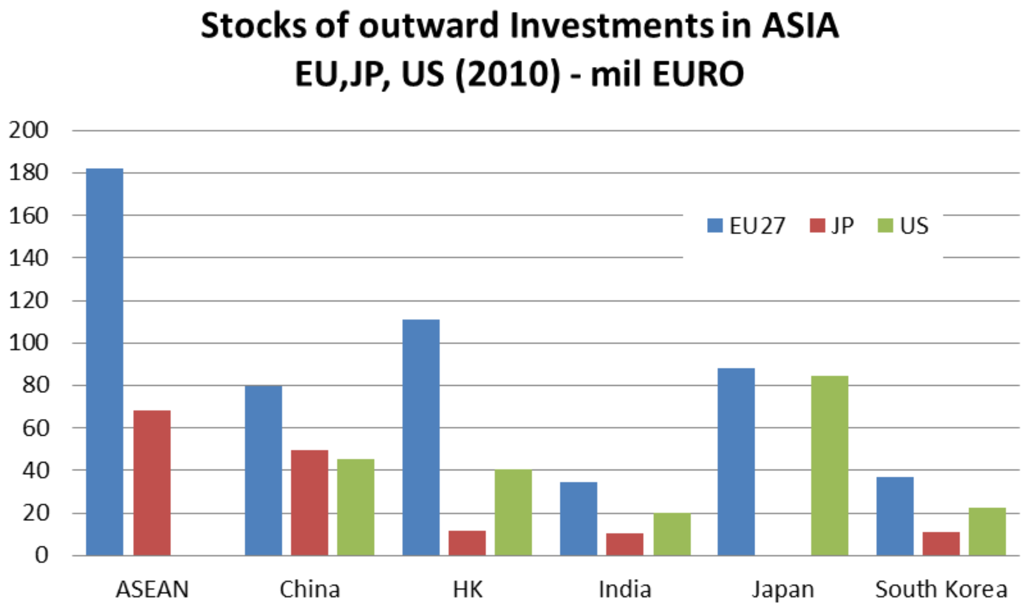
Low import penetration across regions…..

Sales Region	Year	EU	GC	JK	MEA	NA	SA	SEA
		Production Region						
Europe (EU)	2007	86.4%	0.3%	10.3%	0.4%	1.7%	0.3%	0.7%
	2013	87.0%	0.3%	7.7%	1.4%	2.2%	0.0%	1.5%
	2020	85.6%	0.5%	7.7%	1.6%	3.0%	0.0%	1.7%
Greater China (GC)	2007	1.3%	96.4%	1.9%	0.0%	0.3%	0.0%	0.0%
	2013	3.1%	93.8%	1.9%	0.0%	1.1%	0.0%	0.0%
	2020	2.8%	94.9%	1.4%	0.0%	0.9%	0.0%	0.0%
Japan/ Korea (JK)	2007	3.7%	0.0%	95.5%	0.3%	0.4%	0.0%	0.1%
	2013	4.4%	0.0%	92.4%	0.4%	1.1%	0.0%	1.6%
	2020	4.5%	0.0%	92.2%	0.3%	1.5%	0.0%	1.5%
Middle East/ Africa (MEA)	2007	11.3%	0.7%	28.2%	46.8%	5.3%	0.4%	7.3%
	2013	13.9%	1.5%	24.0%	42.1%	6.1%	0.2%	12.1%
	2020	15.9%	1.5%	20.6%	42.5%	7.1%	0.5%	11.8%
North America (NA)	2007	5.2%	0.0%	17.1%	0.3%	76.3%	0.9%	0.1%
	2013	6.1%	0.0%	15.5%	0.4%	77.1%	0.6%	0.2%
	2020	6.8%	0.0%	11.2%	0.2%	81.0%	0.7%	0.1%
South America (SA)	2007	2.2%	0.6%	8.4%	0.0%	3.9%	84.4%	0.6%
	2013	2.0%	2.6%	8.2%	0.0%	5.9%	79.4%	1.9%
	2020	2.2%	2.1%	6.6%	0.0%	7.7%	79.5%	2.0%
South Asia (SEA)	2007	4.1%	0.0%	12.2%	0.8%	0.6%	0.0%	82.4%
	2013	2.8%	0.2%	7.5%	0.2%	0.6%	0.1%	88.6%
	2020	2.2%	0.3%	5.1%	0.1%	0.7%	0.1%	91.6%

Source: HIS Global Insight

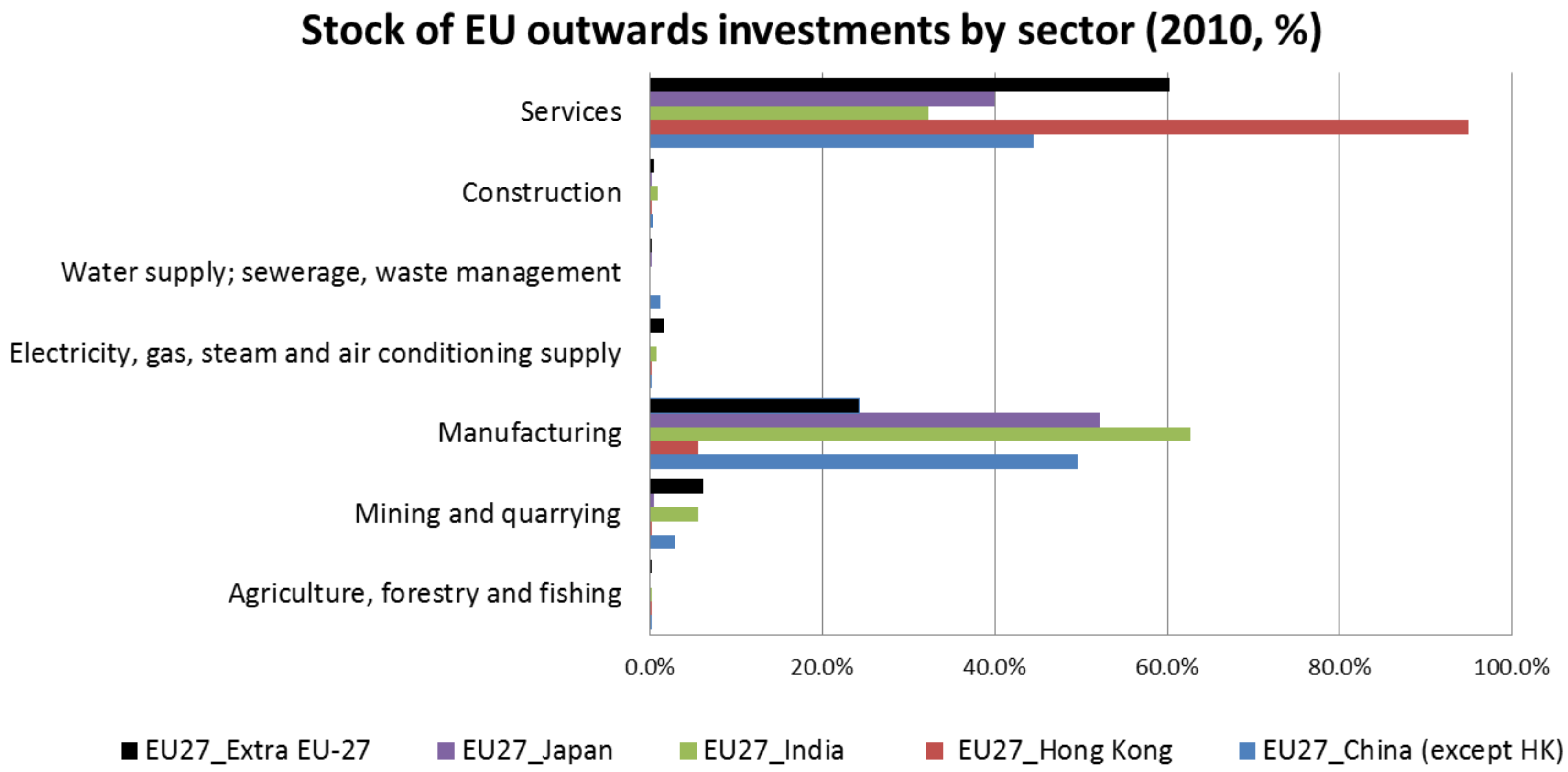
ASIA

EU is a big investor relative to US and Japan….



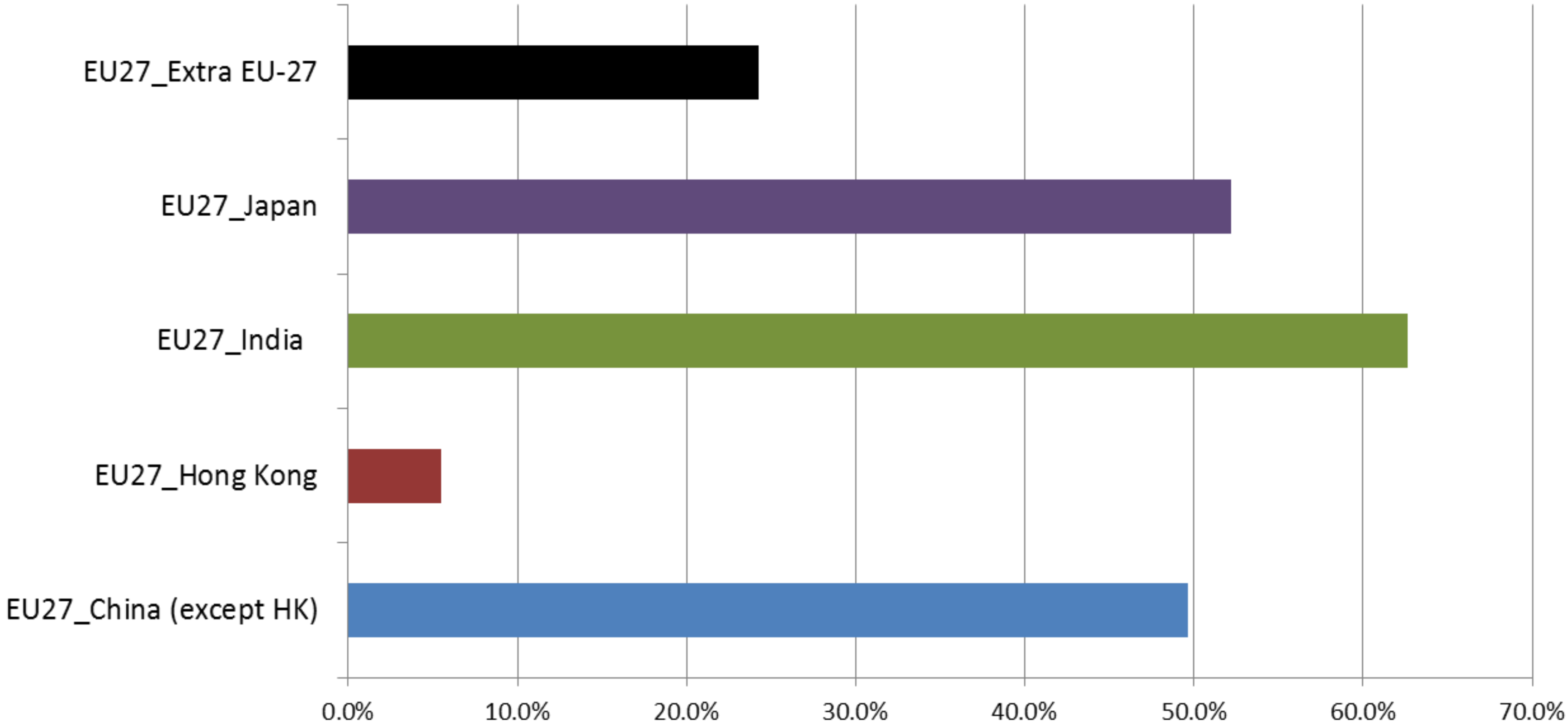
Note: US investments in ASEAN not available

Mostly services…



…but manufacturing share is higher than average extra-EU:GVCs?

Manufacturing shares of total inverstment stocks (2010, %)



- There is a limit to what you can ship from Europe: maybe more than we normally think?
- to serve far away markets you need to enter the regional value chains

More data?

- **Trade in VA by ownership?**

- Data on the ownership of domestic value added produced: how much of the 86% of EU value added is US owned? Asian owned?
    - *More important when looking at the single countries*

- Data on TNCs operations can shed light on this.

Some potential policy implications

- If to serve far away markets you need to enter the regional value chains
- Change of perspective: to be in (Asia) has potentially more value than to trade with (Asia)
- Defensive concerns are often exaggerated
- Trade facilitation is the single most important cross-cutting area that can boost or bust global value chain performance
- The untapped "GVC" value of FTAs lies in services and **investment** access

Third parties agreements

- If EU firms are part of the (Asia) value chain EU best interest lies in (Asian) regional integration
- We have a bigger stake in (Asian) regional integration than we normally think
- FTAs among "strategic partners" may fundamentally alter EU's position in GVCs
  - **TPP: a threat or an opportunity for EU companies in the region?**