FREE TRADE AND INVESTMENT: A KEY DRIVER OF GROWTH AND JOBS IN EUROPE

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Introduction

Last October the European Commission published *Trade for All*, a document which synthesises the EU's new position on trade. This document highlights the need to adopt an ambitious trade policy and explains the benefits foreign exchange of goods and services and foreign investments entail for the whole of society. The document also tries to respond to the demands of civil society by adopting a more comprehensive concept of trade that encompasses fundamental aspects such as sustainable development, corporate social responsibility, transparency and human rights.

The Confederation of Employers and Industries of Spain (CEOE) and BusinessEurope have followed the EU's new definition of trade policy with great interest since its inception. The CEOE has contributed to this process by stressing the key features that should constitute the core elements of trade policy in the 21st century. In this paper I will try to summarise what I consider should constitute the fundamental parts of a strong trade policy that is able to ensure the prosperity of Europe in a fast evolving globalised economy from whose opportunities and benefits we should not seclude ourselves.

The importance of Europe as a trade actor

First I would like to highlight that the European Union is the international actor that has benefited most from the open international trade system, by far. The European Union is today the world's largest trading power in terms of goods and services, as well as the leading international investor. It is currently the largest trading partner of 80 countries and the second largest of another 40. As a consequence, more than 30 million jobs are linked to foreign trade and 7.2 million are related to European investment abroad.

If we look back over the last fifteen years, the European Union has performed very well in this period in terms of trade and investment. Over that period, the EU's weight in world trade slightly diminished from 16% to 15%. But this is a very good result if we consider that in the same timeframe the United States of America has experienced a downward trend from 16% to 11% and that Japan has seen its presence in world trade shrink from 10% to 4.5%.

This figure is in stark contrast to the rise of China, which in the same period – and above all since joining the World Trade Organization (WTO) – saw its share rise from 5% to 10%. This shows that the performance of the European Union has been very good. However, it does not mean that our position in world trade and investments is guaranteed for the coming years. In this regard, the European Union faces a significant challenge if we bear in mind that 90% of future economic growth will take place outside its borders. The EU therefore needs to implement an ambitious trade policy able to ensure the access of European products, services and investments to third markets.

In the particular case of Spain, where trade represents 33% of GDP and the stock of foreign direct investment reached almost €408 billion in 2014, 1,300,00 jobs are linked to exports outside the European Union and another 294,000 are linked to exports from other countries outside the EU. But these outstanding results were not achieved through an open trade system, the main guiding principles of which were established in the Bretton Woods agreements, they were made possible by successive WTO trade rounds.

However, the existing international framework of trade and investment rules conceived after successive WTO trade rounds and numerous bilateral as well as plurilateral agreements have to adapt to the rapidly evolving nature of trade and investment resulting from the structural transformation of our economies and the industrial and logistical changes driven by technological innovation and new business models. It is therefore essential that the EU's trade policy has the vision and flexibility to cope with the new challenges European companies face in third markets today. While in the second half of the 20th century, tariffs represented the main hindrance to trade, today non-tariff barriers constitute the main obstacle to business expansion abroad. As a matter of fact, if we analyse the trade barriers introduced by the G20 countries since the 2008 crisis, most of them are non-tariff, which impede the trade of goods and services, as well as investment.

The growing role of the supply chains in international trade and the critical importance of services and public procurement for the activities of our companies abroad, require agreements which take into consideration a wide range of aspects such as non-tariff barriers, intellectual property rights, regulatory convergence and cooperation, across multiple economic sectors.

The entry into force of the trade agreement between the European Union and Korea several years ago constitutes a good example of how to overcome a series of obstacles, which was essential to boosting trade and investment. The case of Spain showcases the degree to which this agreement has propelled Spanish exports, which increased during the 2011-2015 period from €1.07 billion to €1.85 billion thanks to the healthy evolution of the export of industrial goods, such as car parts, to the Korean automobile industry, and meat products such as pork in the agribusiness sector.

Consequently, it is essential that the European Union continues with its multifaceted trade strategy at the multilateral, plurilateral and bilateral levels.

The EU's multifaceted trade strategy

As far as multilateral trade systems go, we consider it absolutely critical to defend the ruling framework and dispute settlement mechanism of the World Trade Organization, which is unique in the world. However, it is no less important that the WTO continues to deliver new practical results to the international community, as it did on the occasion of the last inter-ministerial conference of the Word Trade Organization held last December in Nairobi, with the conclusion of the second phase of the Information Technology Agreement (ITA) and the ban on agricultural subsidies.

The entry into force of the Trade Facilitation Agreement and the set up by the WTO's Director-General of a new work programme for making further progress in the multilateral negotiations are the two fundamental milestones to be accomplished by the WTO to deliver further concrete results in the near future.

As far as plurilateral negotiations are concerned, the progress and conclusion of the negotiations on the Trade in Services Agreement (TiSA), and the Environmental Goods Agreement (EGA) would give new impetus to world trade. In this regard, the initiation of new plurilateral agreements in new areas should be seriously envisaged in order to keep the trade rules system up-to-date and incorporated in the medium to long term into the multilateral trade system of trade rules.

As regards bilateral agreements, the European Union and its national governments must support an EU bilateral trade policy able to guarantee and improve the access of goods, services and investments to third markets. The renationalisation of trade policy, which looms behind the ratification of the Comprehensive Economic and Trade Agreement (CETA), is not a good sign and may threaten the effectiveness of one the most important policies of the European Union. This recent evolution, due to the increasing social pressure being exerted on the Commission and on certain national governments by anti-trade movements, is putting into serious danger the effectiveness of the EU's trade and investment policy and undermining in the medium and long term the competiveness of European business in third markets relative to non-European competitors.

The ratification of CETA and the conclusion of negotiations on the Transatlantic Trade and Investment Partnership (TTIP) and the Japan-EU free trade agreement (FTA) and economic partnership agreement (EPA), are key agreements that would help foster bilateral trade and investment and set a template on trade and investment rules for the rest of the world.

It is essential to recall that 90% of world trade growth will take place in the coming 15 years outside the European Union. Additionally, the European Union has been struggling to achieve high economic growth since the crisis of 2008. While the United States grew by more than 8% between 2008 and 2014, the EU's output dropped 0.2% below pre-crisis levels. This poor figure is in stark contrast with growth of 64% and 48% obtained by India and China, respectively, since 2008. Furthermore, that EU's share in the world's investment flow dropped from 40% to 13% in the 2000-2013 period.

It is therefore of utmost importance that the European Union disposes of a strong trade policy aimed at improving market access conditions and creating an equal playing field for our companies in third countries in order to encourage higher economic growth regardless of the domestic economic cycle and create highly qualified jobs in Europe. Growth and jobs must therefore be underlined as the primary reasons to support and defend a strong trade policy aimed at obtaining equal treatment for our businesses in third markets.

The importance of *Trade for All* for Spanish business

The new *Trade for All* strategy also mentions the importance of services, public procurement and investments as three fundamental pillars due to the growing interrelation of services, investments and goods, the high potential of trade in services, the elimination of barriers in the public procurement market and the need to guarantee to our investments free access to third markets and high levels of protection against discriminatory treatment.

For Spain, all these areas are of particular importance because of the significant role played by Spanish companies in public procurement in services. In fact, in 2014 Spain ranked as the eighth largest service provider, with an overall export volume of $134 billion and potential for growth. In a respected study which analyses the impact of the Transatlantic Trade and Investment Partnership on the Spanish economy, many service sectors show significant potential for growth in a free trade area between the US and the EU.

In relation to services which offer enormous potential for growth, the number of barriers in the emerging countries are still very high in a wide range of sectors according to the OECD's Service Trade Restrictiveness Index (STRI). In terms of public procurement, improved market access conditions are key for our companies and as far as investments are concerned, with an overall stock of direct investments which amounted in 2014 to more than €408 billion, Spanish companies need comprehensive provisions in terms of access and investment protection. Another no less important chapter relates to competition law, which is fundamental in order to guarantee an equal playing field for all actors and to impede disloyal competition by state-owned enterprises. Last but not least, I would like to highlight that the agreements do not interfere in the sovereignty space of the state when it comes to regulating public services, which are excluded by the provisions of GATS.

As the *Trade for All* strategy also mentions, foreign investments and imports play a fundamental role in boosting our exports. In Spain foreign companies contribute to more than 60% of the overall exports in the sectors of transport (cars, car parts) and plastics as well as significantly in other sectors such as metallurgy, electronics, paper and pharmaceutical products. Not less significant for the competiveness of our exporting companies is to enhance access to services, raw materials and intermediate products at competitive costs, which is fundamental for the manufacturing and delivery of final products.

According to the TiVA (Trade in Value Added) database published by the OECD, the average foreign value added in Spanish exported products was 26.88%. This figure, which was very similar to that of other trading partners such as Germany (25.54%), France (25.13%) and the United Kingdom (23.05%), shows the high level of integration of our economy in world trade and in global value chains.

The case of small and medium-sized companies

Apart from the aspects mentioned before, I would also like to highlight the extreme importance of free trade agreements for enabling our small and medium-sized companies to export goods and invest in third markets. Should our trade policy fail to deliver concrete results in the coming years, our small and medium-sized companies would take the brunt of this failure rather than the bigger companies. As we have stressed several times, large enterprises do not need trade agreements to expand their businesses abroad. They dispose of sufficient capital, knowhow and structure to adapt their business models to different business environments, which is not the case for small and medium-sized companies, which are unable to take on the costs stemming from different regulatory environments. The non-conclusion of new trade agreements such as the TTIP and CETA would, ultimately, be very damaging for our small and medium-sized companies.

The new situation we are facing also represents a clear paradox if we consider that the Spanish trade promotion policy seeks to diminish our trade dependency on the rest of the European Union by increasing our trade share outside the European Union. Countries like the United States of America, Mexico, Brazil, China, India, Indonesia, Japan, Australia, South Africa and the Gulf states, are in fact our priority markets where we are attempting to increase and diversify the presence of our companies.

This contradiction is even stronger if we bear in mind that the second main target of our trade promotion policy is to increase the number of Spanish small and medium-sized companies involved in foreign trade and investment as a means to enhancing them with more sustainable business models, which makes them less dependent on the evolution of internal demand.

As for human rights and corporate social responsibility, sustainable development and corruption, we have defended the inclusion of all these aspects in the new trade strategy. However, it must also be clearly underlined that they should not dilute the main objectives of the EU's trade policy, which are growth and jobs.

Contrary to the general belief, an important aspect which must be underlined is that free trade agreements benefit small and medium-sized companies more than big companies. Indeed, as we have insisted several times, big companies have the capacity and the resources to adapt to different business environments, which is not the case for the small and medium-sized companies. Big companies can overcome the additional costs caused by divergent or overlapping regulations without any significant impact on the final price. On the contrary, these same barriers are practically insurmountable for the majority of small and medium-sized companies. In this regard, one of the main objectives of agreements such as the TTIP and CETA is precisely to overcome redundancies, given that the standards are equivalent.

It is striking that cosmetic products manufactured in Spain, which have undergone a strict test and certification process, have to be submitted again to a second control before being commercialised in the United States. Therefore, it is key that 21st century trade agreements tackle such issues if we intend to involve small and medium-sized companies in world trade. These advantages do not only stem from the regulatory cooperation and the elimination of specific non-trade barriers, but also from a wide range of areas such as trade facilitation or specific provisions focused on small and medium-sized companies aimed at providing them, for example, with information.

Additionally, the lack of progress in trade negotiations and the rise of protectionism can also endanger a higher involvement of the small and medium-sized companies in world trade and international investment by disrupting global value chains. This last aspect contradicts the efforts made by the different trade and investment promotion agencies to insert the small and medium-sized companies into the global value chains. But beyond this important issue it basically imperils the efforts made for decades by the Spanish trade and investment promotion agencies and business organisations, which are committed to expanding and diversifying the export base and investments beyond the European Union in order to support growth and jobs, as well as to reduce our traditional overdependence on the rest of the European markets. A quick overview of the aforementioned aspects can give an idea of the important progress achieved so far in building up the resilience of our economy with regard to the evolution of the domestic economy and that of the European Union.

One of the main objectives is to widen our narrow export base as much as possible in order to increase the volume of our exports and to reduce one of the traditional imbalances of our economy, which is our trade deficit in goods. In less than ten years much has been achieved by increasing the total number of exporting companies from 97,000 to almost 150,000 in 2015, a significant rise that is also reflected in the growing number of regular export companies, which has risen from 39,125 to almost 47,782 companies. But as good as this evolution may seem, much remains to be done in order to broaden our export base. Especially as the average size of Spanish small and medium-sized companies is smaller by comparison than those of other trading partners such as Germany, whose higher number of medium-sized companies represent the backbone of German exports. Therefore today's strategy is not only focused on increasing the sheer number of companies but also on analysing the structural reasons underlying the smaller size of Spanish companies and identifying the necessary policies and tools to strengthen them in order to facilitate their involvement in international trade and investment.

This first objective runs parallel to the need to diversify our exports, which have been traditionally concentrated in the EU market. This overdependence, which is in part explainable by the fact that Europe is our natural destination market, can also represent a weakness if we bear in mind that 90% of global growth will be located outside the European Union in the coming years and that the evolution of our exports is very closely linked to the economic cycle of the European Union. Taking these circumstances into consideration, one of the key targets has been to increase the share of our exports outside the European Union. In fact this challenge led the Confederation of Employers and Industries of Spain and the Ministry of Industry, Trade and Tourism to sign an agreement in order to promote Spanish exports and investments in certain strategic markets, such as the United States of America, Brazil, Mexico, South Africa, Russia, Turkey, the Gulf states, India, China, Indonesia, Japan and Australia. As a result of this strategy conceived in the late nineties, we were able to reduce our dependency rate from 73.4% in 2000 to 64.8% in 2015. Although this is a quite satisfactory result, we still lag behind countries like the United Kingdom, Germany and France, the level of dependency of which are 53.6%, 57% and 59%, respectively.

This positive evolution has also taken place in regard to our strategic markets, where a significant portion of the world's GDP growth is confined. Today the percentage of trade with these markets is 21.25%, which is a good result. However, this figure is still too low if we really want to benefit from the economic dynamic of the emerging economies.

The strategy mentioned above not only requires the implementation of domestic policies to increase the competiveness of our companies and a vigorous trade promotion policy, but also active trade liberalisation in order to enhance the access of our products, services and investments to third markets and guarantee our companies equal treatment relative to local companies.

On transparency, European values and regulatory convergence

We welcome the efforts to bring more transparency to the definition and implementation of trade policy. The involvement from the beginning of all the stakeholders concerned is critical in order to streamline all the interests and concerns from the different parts of the society. However, trade policy cannot solve the European Union's governance problems by itself, which must be envisaged from a broader perspective far beyond the limits of trade. Furthermore, transparency cannot endanger the negotiations that must be necessarily held within the boundaries of confidentiality in order to allow the negotiators sufficient room to manoeuvre to broker a deal. On the other hand, the criticism of a lack of democracy in the process is not acceptable. First, the Commission negotiates within the limits of a mandate approved by the Council, which is formed largely of the representatives of democratically elected governments; second, once the Commission has reached an agreement it must submit it to the approval of the European Council and Parliament. The recent demand made by certain actors to request the approval of the twenty-eight parliaments would imply the end of an EU trade policy and a very serious setback to the credibility of the European Union in the world.

Trade policy is basically a tool to foster trade and investments with the final aim of driving growth and creating jobs. In this regard, trade policy is not the most appropriate way to transmit values, which must be considered at the level of the European Union's foreign trade policy. Moreover, trade can be a tool to promote human rights and business as long as the company does not take over the responsibility that corresponds to the national administrations and as long as the initiatives in this specific area are on a voluntary basis.

Trade agreements must enshrine an institutional framework able to facilitate the regulatory cooperation between counterparts. Trade agreements have to foresee an institutional framework which may adapt the text to the rapid evolution of the economy. In this context, regulatory cooperation plays a vital role in order to impede new barriers and to streamline common responses to new challenges. This is particularly the case when it comes to the application of new technologies. Such a framework would avoid divergences in the regulation of new technologies and business models. Regulatory cooperation by no means interferes in the sphere of decision-making of the countries which have the ultimate say on how to regulate on a particular issue. But an enhanced dialogue based on a pre-emptive mechanism that monitors and exchanges draft proposals would pave the way for the identification of common solutions, which is important for avoiding potential conflicts.

Conclusion

Aware of the need to improve access to third markets, which is key for the prosperity of countries like Spain, the Confederation of Employers and Industries in Spain clearly supports further steps in the liberalisation of trade and investment at multilateral, plurilateral and bilateral levels.

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