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Reflections on the current state of the European economy

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

Chamber of Commerce of Belgium and Luxemburg to Spain

Madrid, 17 September 2010

Señor Embajador,

Damas y caballeros,

Es un gran placer para mi estar hoy en Madrid, precisamente cuando vuelvo de un viaje a Brasil y Argentina donde tuve reuniones a alto nivel destinadas a promover nuestras negociaciones comerciales con los países del Mercosur.

Me han solicitado que presente hoy mi perspectiva sobre la economía Europea.

In mijn hoedanigheid van Europese handelscommissaris zal ik u, zakenmensen uit Spanje en de Benelux, ook mijn visie uitleggen over hoe ons Europees handelsbeleid kan bijdragen tot onze economische groei, vandaag en morgen.

Mr Ambassador,

Ladies and gentlemen,

It is timely to exchange views on the state of our European economy as it is entering a new stage. The worst seems to be over: we have avoided a Great Depression, the meltdown of our economies. People tend to forget rather quickly, but catastrophe was really close. We are now sailing back into much calmer waters, but major challenges remain: high public debts and high unemployment, to name just two.

Let me start by saying I am rather optimistic about our economic prospects for this year and next.

Europe is clearly recovering from the crisis. Its recovery, while still fragile, has been progressing at a much faster pace than expected.

The latest economic data which the European Commission published this week bear this out. The EU and the euro-area economy grew by 1% between April and June, from the previous quarter. This is a considerable acceleration when compared to the meagre 0.3% GDP expansion in the first quarter 2010.

For 2010, GDP growth is now expected to end up between 1.4 and 1.8%. But this growth prediction hides significant differences: the German and Polish economies will grow this year at a rate of 3.4%; Belgium and Luxemburg are expected to grow at a promising rate of 1.8% but, regrettably, the Spanish economy will not grow this year: GDP is expected to decline by 0.3%. We are now going through a period that inevitably causes stress in a monetary union: a two-speed European economy.

For 2011, the horizon is brightening up further but growth is probably not going to accelerate. This should not come as a surprise. We know from history that climbing out of a recession caused by a financial crisis takes a lot of time as households and companies reduce their debts by saving more.

Anyway, growth is back and built on more solid foundations than the previous boom fuelled by cheap credit.

It results, first, from an export-driven industrial rebound stimulated by robust global growth. We have seen continued strong economic activity in most emerging economies. China and India, for example, are expected to grow respectively 10 and 8 % this year.

Moreover, in what I might call the Northern part of Europe and Poland, where indebtedness of families and companies is much lower, private demand is picking up, confidence is returning and money is being spent rather than kept on savings accounts.

Public support to prop up the economy is winding down. For example, the cash incentives for new cars are disappearing.

The fact that the private economy is gradually flying again on its own wings is to be welcomed because we have to be frank: governments have largely exhausted their available macro-economic instruments:

The central banks have loosened monetary policies up to a point where it is difficult to see which additional measures can be taken to stimulate the economy.

Having pursued, and rightly so, very expansionist fiscal policies, in a pure Keynesian demand push, which has increased public debt levels in the euro area from 60% to above 80%, they have to start reducing public spending and consolidating their public finances.

Bond markets have reminded governments that they ask a risk premium from countries which they fear will have difficulties servicing their debts. Our governments must do everything that is needed to demonstrate that public debt is under control.

These debates and concerns are far from theoretical. I have just flown in from Argentina, a country that defaulted on part of its debt in 2002 and that is still cut off from international financial markets.

Brought down to its essentials, we are confronted in the EU with a double economic challenge, which we need to tackle simultaneously.

We have, on the one hand, to address our structural weaknesses on the supply side in order to increase our growth potential and on the other hand, as I said to consolidate our public finances. To do so, the European Union has developed its 2020 Strategy.

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Mr Ambassador,

Ladies and gentlemen,

That is where trade and trade policy come in because trade is an engine of efficiency, and hence prosperity.

International trade has already played a major part in the current recovery. The growth of the German economy in 2010, export-driven as it is, provides the best example. Countries, like the Benelux, which have many companies supplying German manufacturers are following suit.

Trade will continue to play that role.

In this regard, too, the latest forecasts are reassuring. They show that global trade continues to regain momentum after the sharp fall of last year. In June global trade volumes climbed 24% above their lowest point of May 2009 and are only 2% below the April 2008 peak. And this expansion is set to continue. The July IMF forecast points to a growth rate of world trade of 9% in 2010 and 6.3% in 2011.

The recovery of EU trade flows is also swift. Both exports and imports are up by about one third against last year. Moreover, export growth is now more broad-based across sectors and it is becoming less dependent on sales to China, which last year was the main source of demand. Overall this shows that our specialisation in high value-added, up-market products puts the EU in a good position to benefit from the pick up of world demand.

The crucial challenge for me as Trade Commissioner in the years to come is to tap into the growth potential outside Europe.

Our strategy to tap into this growth potential takes the form of a very active negotiating agenda, both at the global level with all WTO member countries and individually with a dozen countries or groups of countries.

At the global level, we continue to push for a deal at the WTO in what is called the Doha Round of negotiations, which started in 2001.

We are also negotiating free trade agreements with regions and countries such as, for example, the Mercosur countries, Canada, Ukraine, the Gulf countries, India, Singapore and soon Vietnam and Malaysia.

We just concluded negotiations with Columbia, Peru and with the Central American countries and are in the process of ratifying our free trade agreement with Korea. This week we took a major step in this regard as the Council decided to sign the Korea deal, which is one of the most far-reaching trade agreements ever concluded across the globe.

Taken together, these trade negotiations will contribute between 0.5 and 1% of GDP, should they all be implemented at the same time. This is our contribution to economic growth.

The purposes of these agreements are to open markets for European companies and ensure that our European market remains open. The latter is equally important. Indeed, two thirds of our imports are inputs used in the manufacturing process of products that are sold in Europe and abroad. We have therefore a strong interest to ensure that our companies have access to inputs at competitive prices. The lower they pay their inputs, the more competitive they can be.

Besides access to goods markets, in these negotiations we are also broadening the scope of our negotiations to cover services, public procurement, and investment protection.

- services are a key part of our economy: transport, telecom, financial, business and professional services represent 80% of our GDP and about 70% of world economic output, but only one fifth of world trade. We will push for more liberalisation in these sectors;
- investment policy is another priority: about half of world trade takes place between affiliates of multinational enterprises trading intermediate goods and services. This point is often forgotten when we talk about world trade. To safeguard our place at the centre of increasingly global supply chains, we need to pursue both the liberalisation of investment and investment protection. The Lisbon Treaty has granted the Commission the exclusive competence to negotiate investment protection treaties. Our Member States have more than 1200 investment protection treaties with third countries, with certain Member States like Germany having 100 treaties in place. Therefore, we shall exercise our competence at European level in a gradual and focused way. We will integrate investment protection chapters in our on-going FTA-negotiations with Canada, Singapore, and India. These will thus be test cases. We are also considering stand-alone investment protection agreements with other major trade partners, such as China and Russia.
- a third area which I would like to mention is public procurement. We see and hear from business representatives that some key foreign markets are particularly reticent to allow outside competition. But public procurement markets already account for over 10% of GDP in large industrialised countries and are on the rise in emerging economies. Therefore, the potential for our experienced and competitive companies is huge. While the EU market is largely open, those of our major partners are much less so. We are studying how to shape a new European instrument to help reduce this asymmetry in openness and redress that balance, so that we can unleash that potential.

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Ladies and gentlemen,

Do not think that achieving this ambitious agenda is politically simple. Trade negotiations always have winners and losers, and losers are often politically vocal. Trade liberalisation is fundamentally about a big long term gain and a smaller short term pain. After the entry into force of the Lisbon Treaty, the European Parliament has to approve all our free trade agreements, just like the Council of the EU has to approve them.

While the *economic* argument for increased trade may be rather straightforward, trade policy does not and cannot operate in a political vacuum, and the *political* case for trade has become much more difficult because of the economic crisis.

For behind the macro trends is often micro sorrow.

Globally, as reminded at the joint meeting of the IMF and ILO this week in Oslo, 30 million persons have lost their jobs in the crisis.

Since 2008, over 6.3 million Europeans have lost their jobs.

In Spain, earlier this year the unemployment rate hit 20% for the first time in nearly 13 years, and youth unemployment is sky high.

Now, the reasons for this are very complex, many of them unrelated to international integration as such, but the effects on the trade liberalisation agenda are obvious. Though the EU and the world at large have been able to resist protectionist pressure so far, the threat most certainly remains.

That pressure is aggravated by geopolitical tension. As the centre of gravity is shifting to emerging economies, especially to China, many people in developed countries fear they are not only losing jobs and income but influence as well. They are losing faith in international integration, which they see as less beneficial and even as less *fair* than it was in the past.

At the same time, the tight budgetary situation is starting to weaken governments' power to remedy some of these fears, to provide a safety net for those who lose out from globalisation and to help people and companies adapt to changes that international economic integration forces on them.

Let my reasonable optimism about our economy and my determination to make trade policy play its full part, not give you the idea that I underestimate the social problems connected to trade.

In this regard, let me point out that it is not just older, unskilled workers and traditional industrial companies facing strong foreign low cost competition that suffer. People are exposed to the effects of globalisation whenever their goods and services are internationally tradable. Before, we saw skilled workers as more protected from foreign competition than unskilled workers. This dichotomy no longer applies like before. For example, car engineers or IT experts are more affected than taxi drivers, cleaners or hairdressers.

Two weeks ago, I received a disconcerting letter from a Flemish company that produces titanium-clad machinery for the chemical industry. Before the crisis, they tell me, a lack of skilled employees was their main concern. Since the crisis, their business is now blown away by competition from the East.

For companies such as this one, the seismic shift of the world economy is both tangible and frightening. For them, the supply of raw materials at fair prices is increasingly problematic. Unclear procedures in foreign markets make life hard. Possibly distorting subsidies by a number of governments undermine their competitiveness.

Though saying "no" to trade would be the worst possible response, we have to answer to their concerns and provide the support they need.

Not only do we have to make trade work, we have to make sure it is seen to work to the benefit of our citizens, workers and companies.

Ladies and gentlemen,

In his *State of the Union* speech for the European Parliament last week, President Barroso said that Europe's 27 Member States will 'either swim together, or sink separately.'

In trade policy, we are already acting as one bloc. And at a time when other economic blocs are gaining momentum and confidence, we need to do so more than ever.

To help companies like the one I mentioned, to gain better access to raw materials and energy, to tackle non-tariff barriers and force market openings in public procurement or investment... we need to act as one – so as to use our full weight.

And on that, too, I am rather optimistic.

There is a rule in politics, saying that you should 'never let a good crisis go to waste'. European politics has always lived by this rule, it has always had a tendency to rise above itself in times of trouble.

And we will do so again this time around.

The recent agreement between Parliament, Council and Commission on the creation of European financial supervisors illustrates this. Five years ago, it was unthinkable in London, Paris or Berlin to agree to European supervision of the single market in financial services. It will soon be a reality.

In trade and investment, I am confident as well that we will deliver on the agenda I briefly sketched out, which will fit the needs of the world's largest economy. For that, ladies and gentlemen, is still what we are, and hopefully will stay.

Thank you very much.