



GLOBAL IQ

IMPACT QUANTIFICATION OF GLOBAL CHANGES

Trade and competitiveness: Europe in the global economy



EUROPEAN COMMISSION
European Research Area



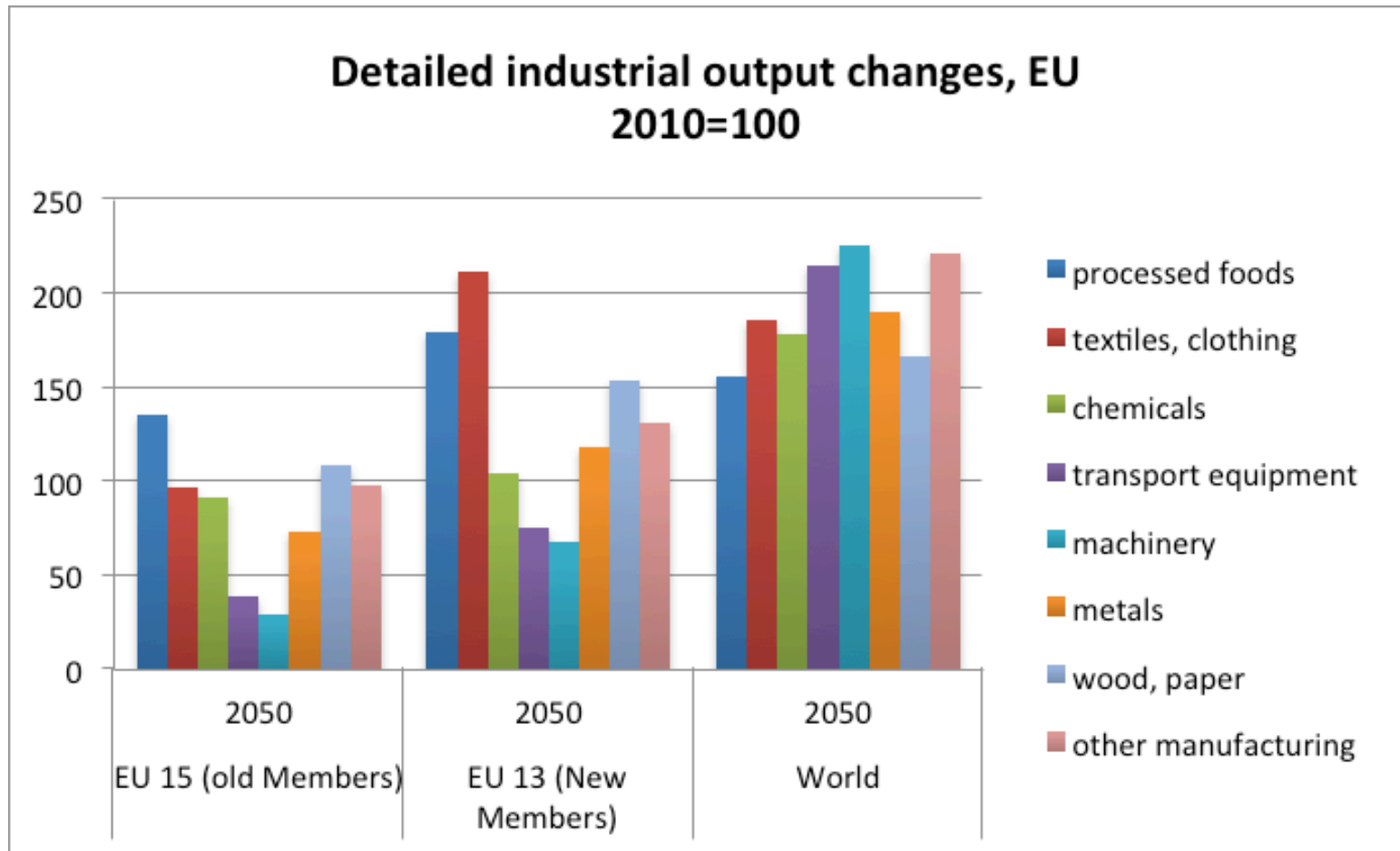
This research project has received funding from the European Union's Seventh Framework Programme (FP7/2007-2013) under the grant agreement n° 266992 (Global IQ)

1- Overview

- Trade-related Opportunity and Challenges
 - A basic transmission channel for all drivers
 - Industrial restructuring and competitiveness
 - Price transmission (food, energy, labor supply)
 - Trade policy, its role and drivers
 - Impact of warming on trade routing: North Sea Route
 - Asia-EU trade linkages
 - Further industrial restructuring
 - Geo-political, ecosystem impacts



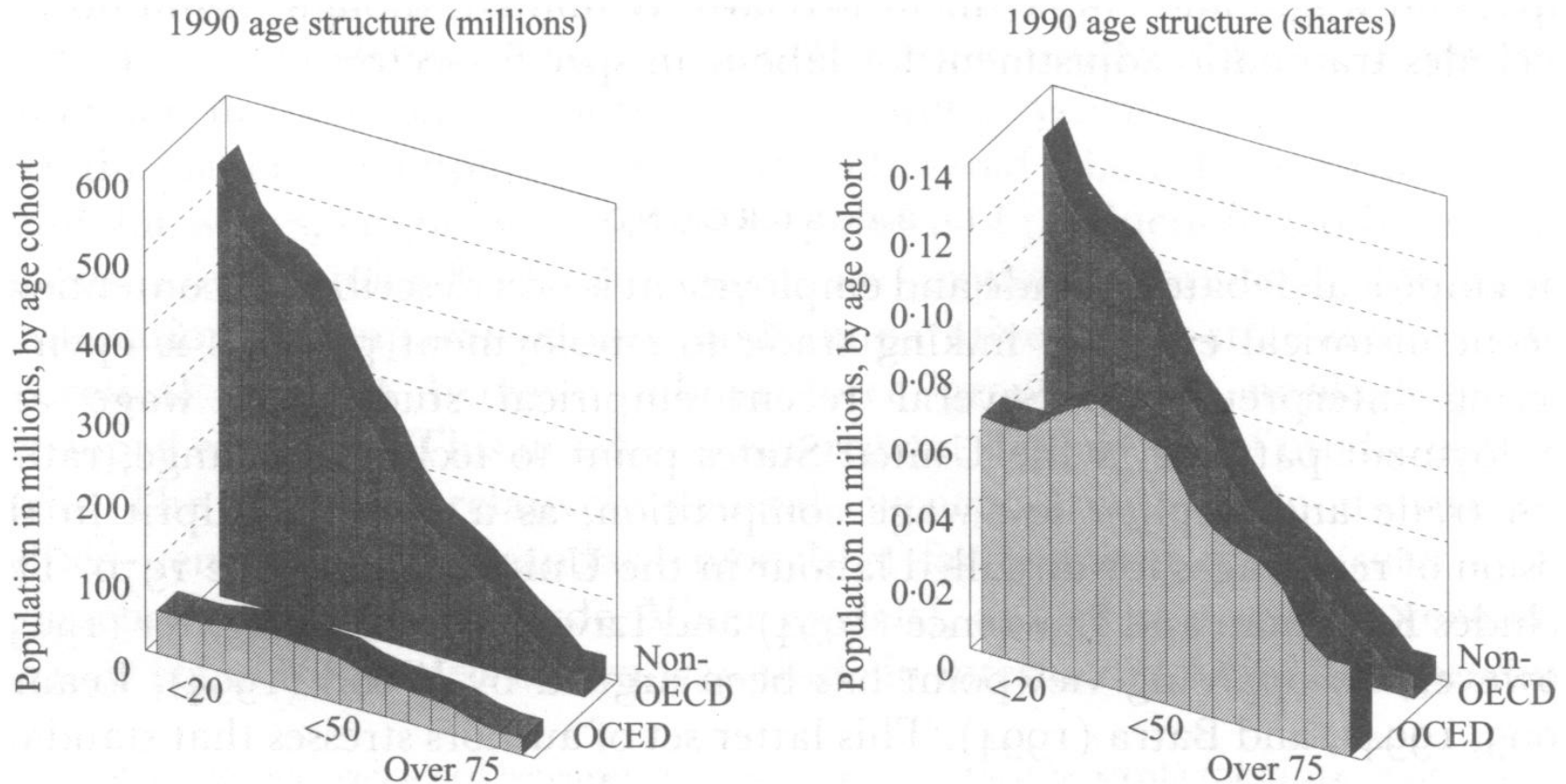
2- EU Industrial Competitiveness



Baseline projections point to challenges for EU industry, but the pressure is uneven between East and West. This reflects a further EU15 shift into services.



2- EU Industrial Competitiveness



source;: Francois, Economic Journal, 1992.

Population growth outside the OECD is not new, while age structure is important as it drives changes in global labor supply. Trade provides linkages between EU labor markets and global labor supply growth. Also important for competitiveness.

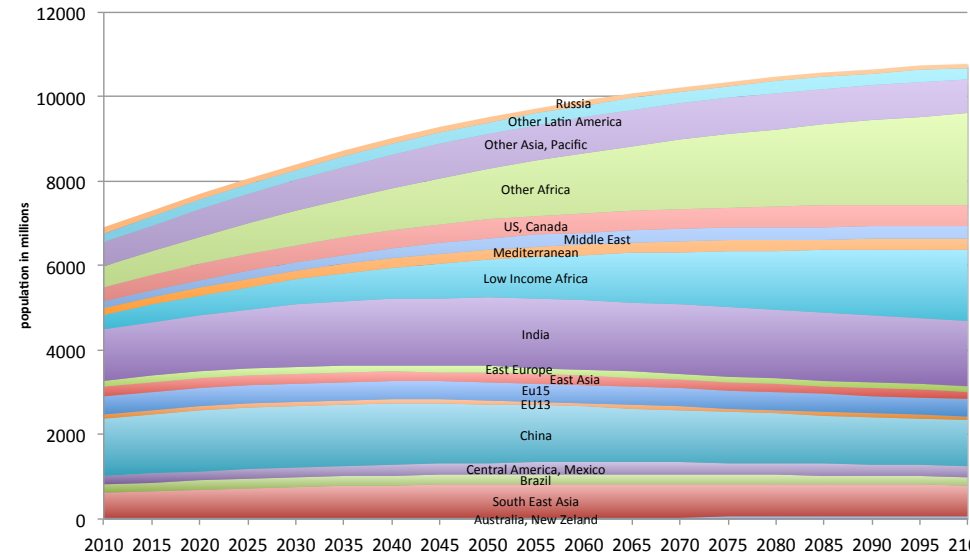


2- EU Industrial Competitiveness

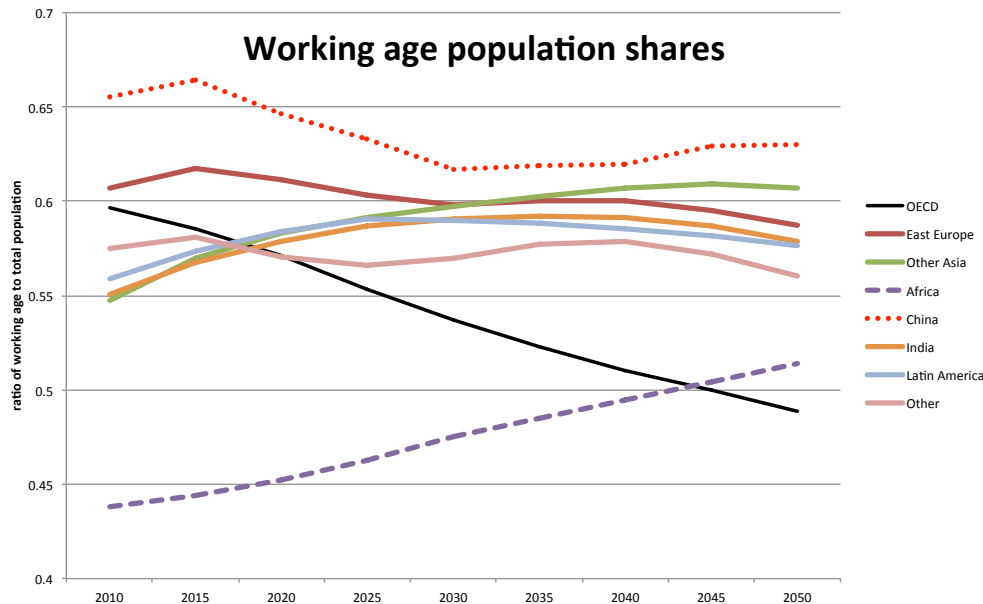
Global population: In 1990, the rapid growth of working age population was in Asia. From 2010-2100, 3.9 billion more people much of growth is in Africa.

- Important for trade & wages
- Important for migration as well

Baseline Population Projections



Working age population shares

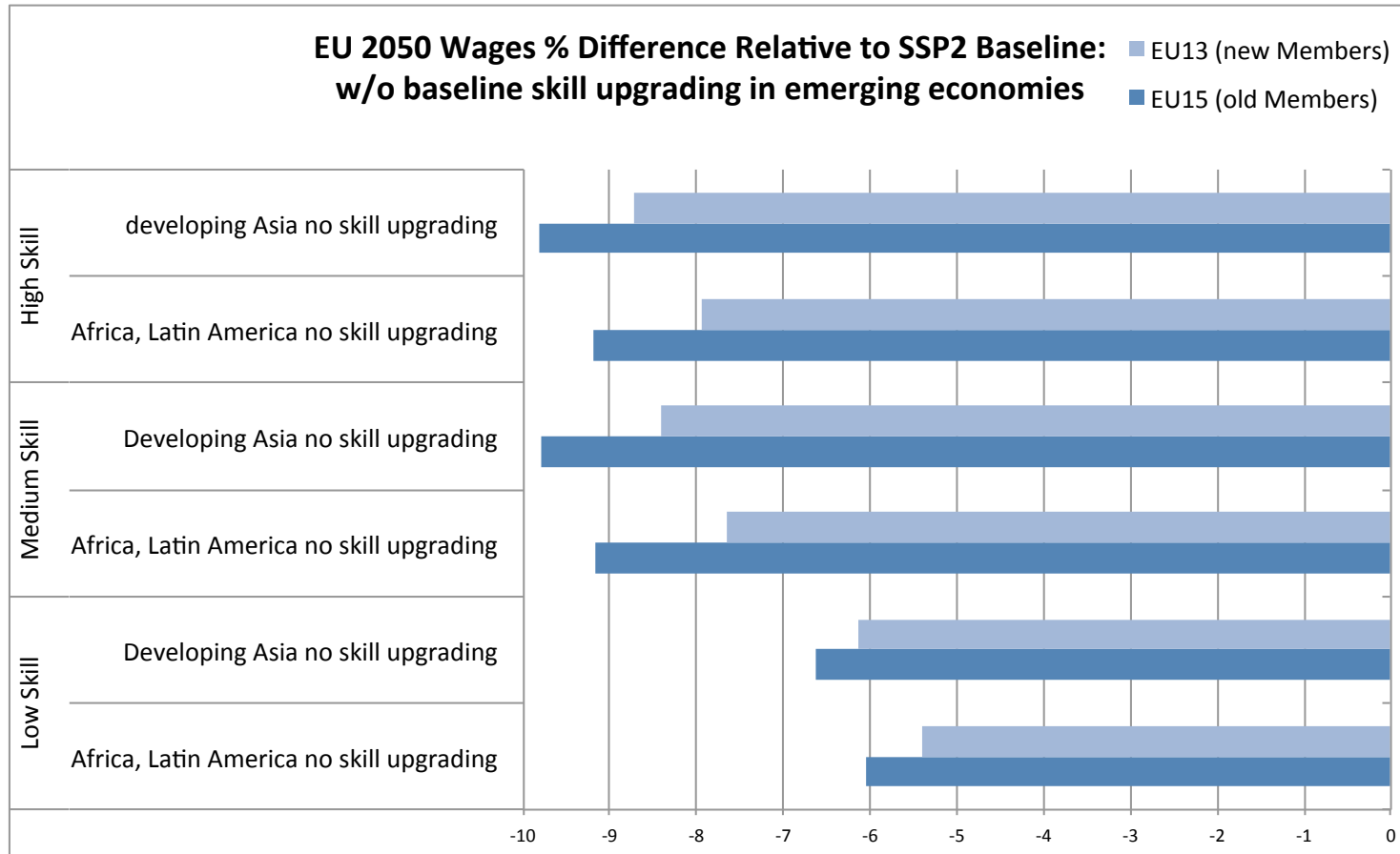


Different demographic drivers:

- In the mature economies, we are getting old.
- Africa, with relatively rapid growth, will have a growing share of population is of working age.



2- Trade – Skill Adaption and Trade-Related Transmission



With trade linkages, education policy (skills upgrading) in emerging markets with growing labor force are transmitted to the EU. The EU is more competitive (more demand for EU value added) with higher skill levels as a policy response in the emerging markets. Skill adaptation is critical to demographic challenges.

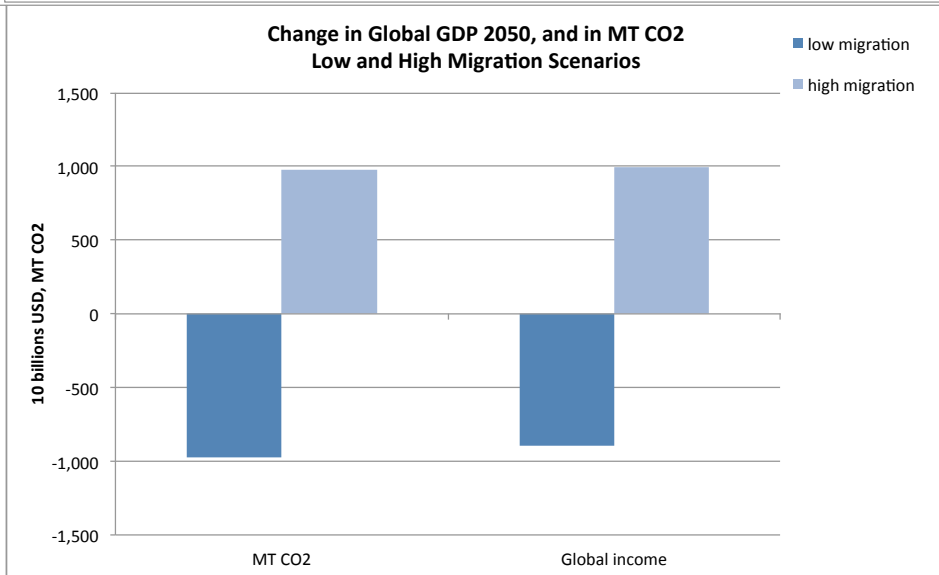
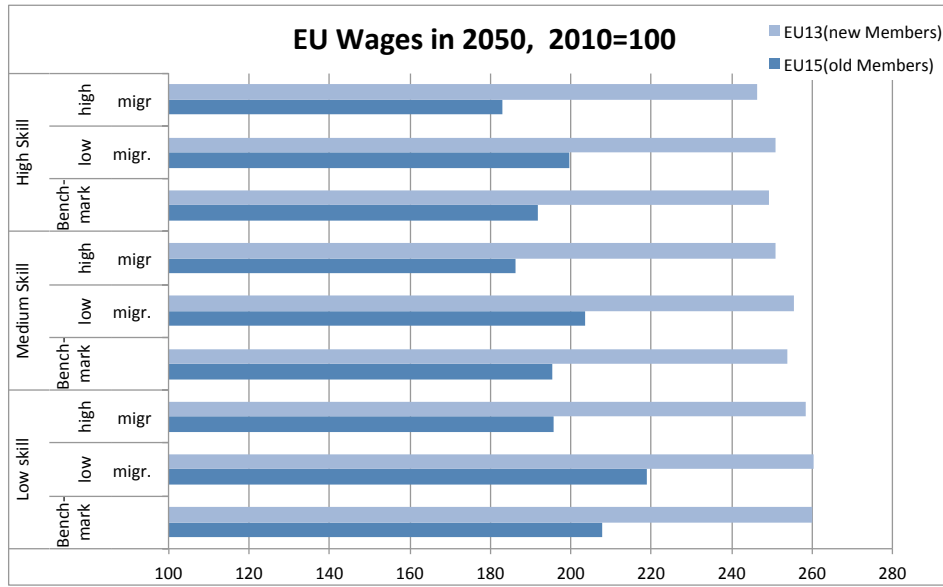
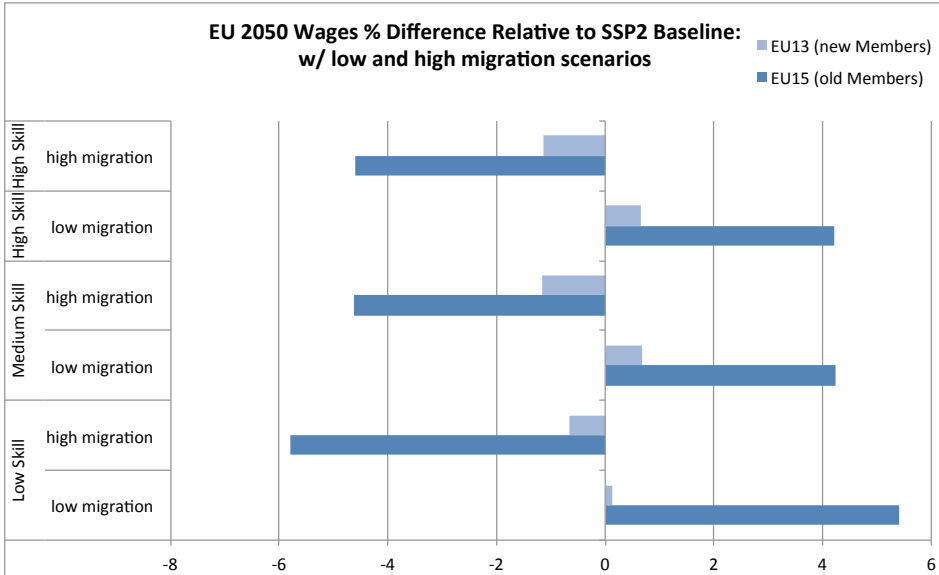


2- Migration: easing challenges, posing challenge

moving more workers from low-income regions to high-income countries

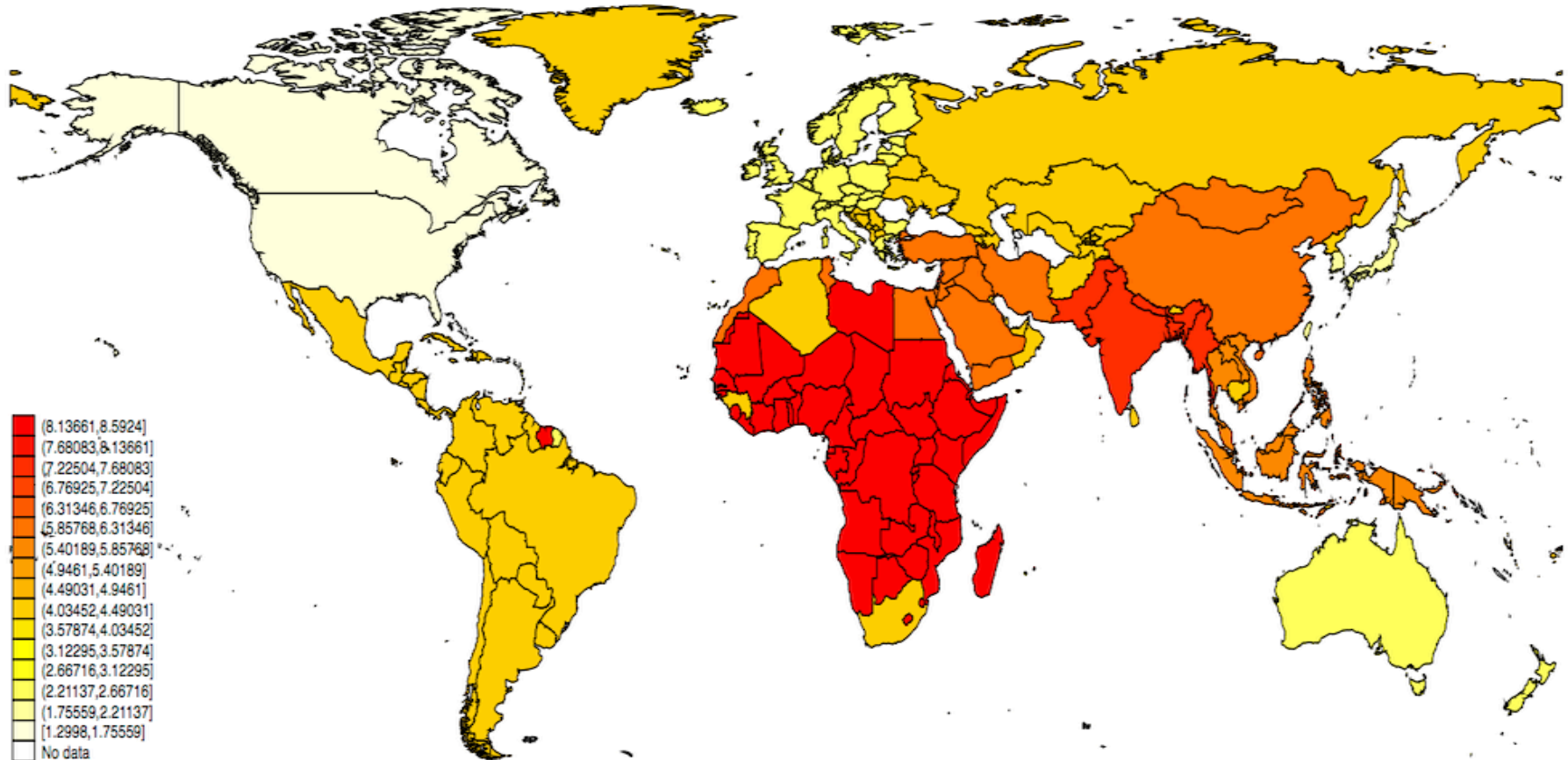
Expands the global resource envelope: It generates productivity gains that far outweigh rate of corresponding emission growth: 3.5% income growth per 1.0% MT CO2 growth.

Challenges to higher income labour markets: Wage pressure, but in a context of projected overall wage growth.



2- Trade – Price Transmission

Percent Change in Overall Consumer Prices (CPI) with 20% world food price increase



Trade links national markets – but with global markets, we can expect wide national variations when trade transmits shocks to the global economy – example here is local transmission of global food supply shocks.



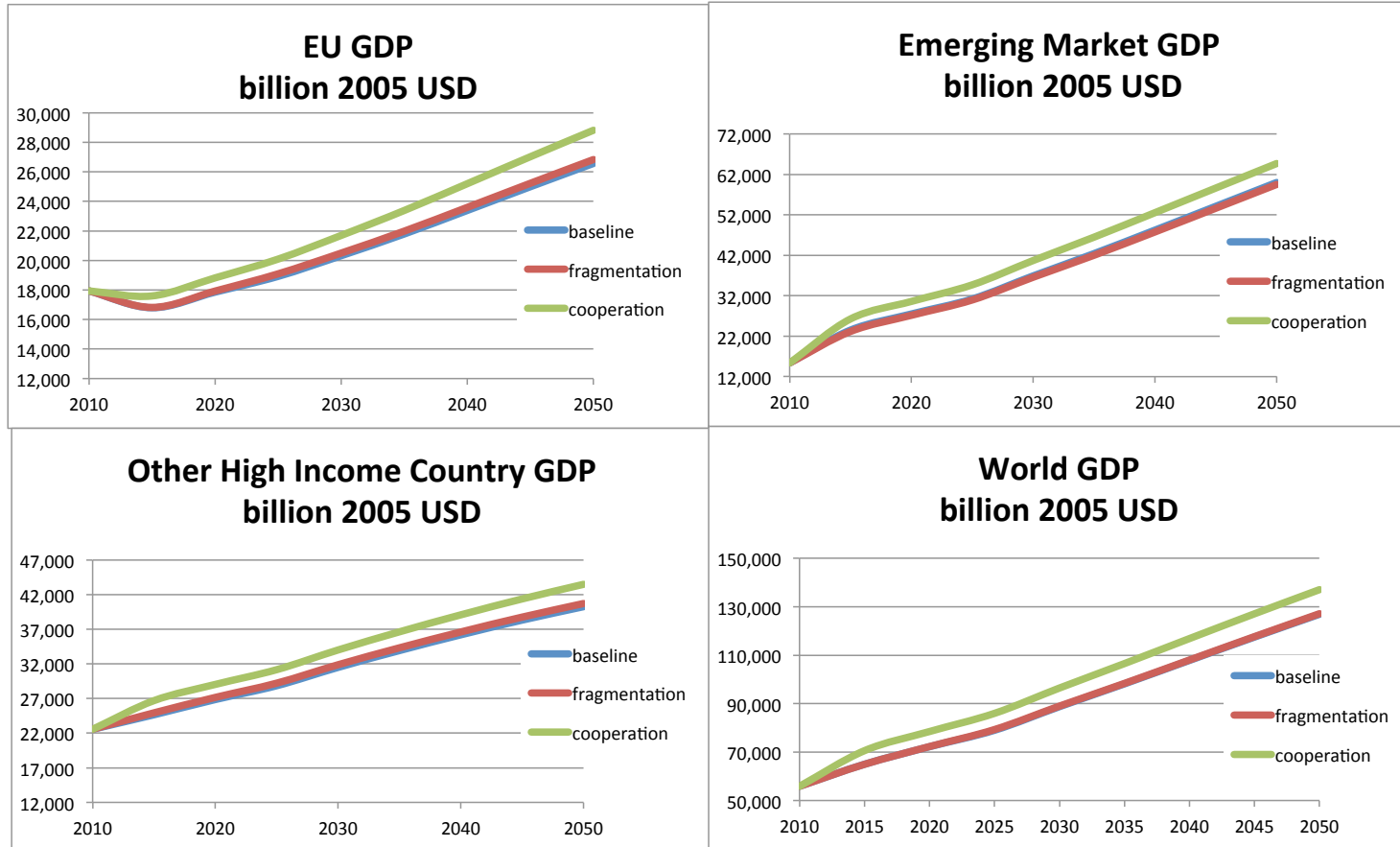
3- Trade Policy – regionalism



The EU is part of a global trend toward mega regionals, and is in the middle of a web of EU preferential trade agreements.



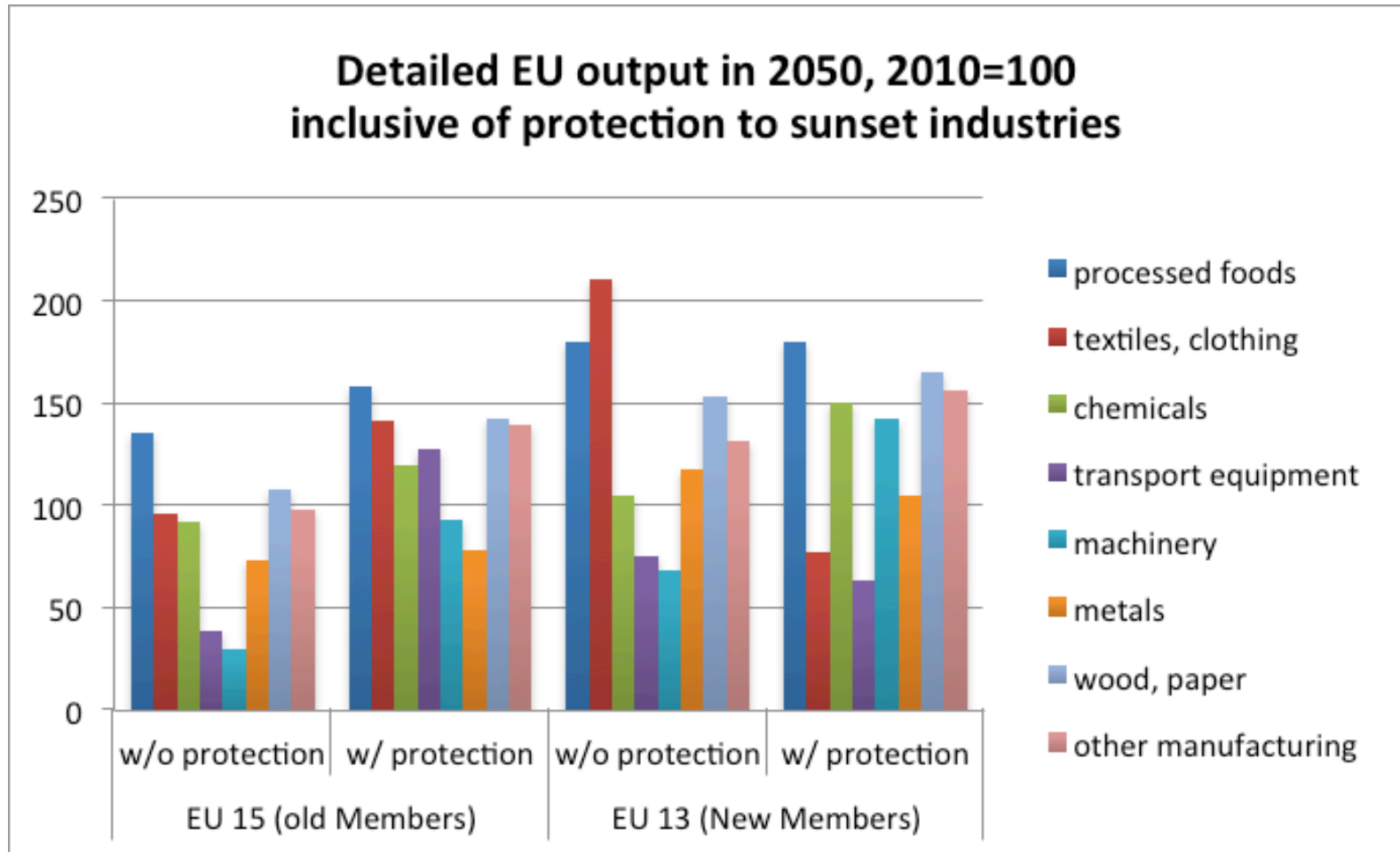
3- Trade Policy – regionalism and multilateralism



TRADE BLOCKS AND FRAGMENTATION: Global fragmentation means gains and losses – for example for the EU, so that on net though trade is re-oriented within blocks but there is little global gain on net. **MULTILATERAL LIBERALIZATION** yields substantial expansion of the global income/resource envelope.



3- Trade Policy – protection



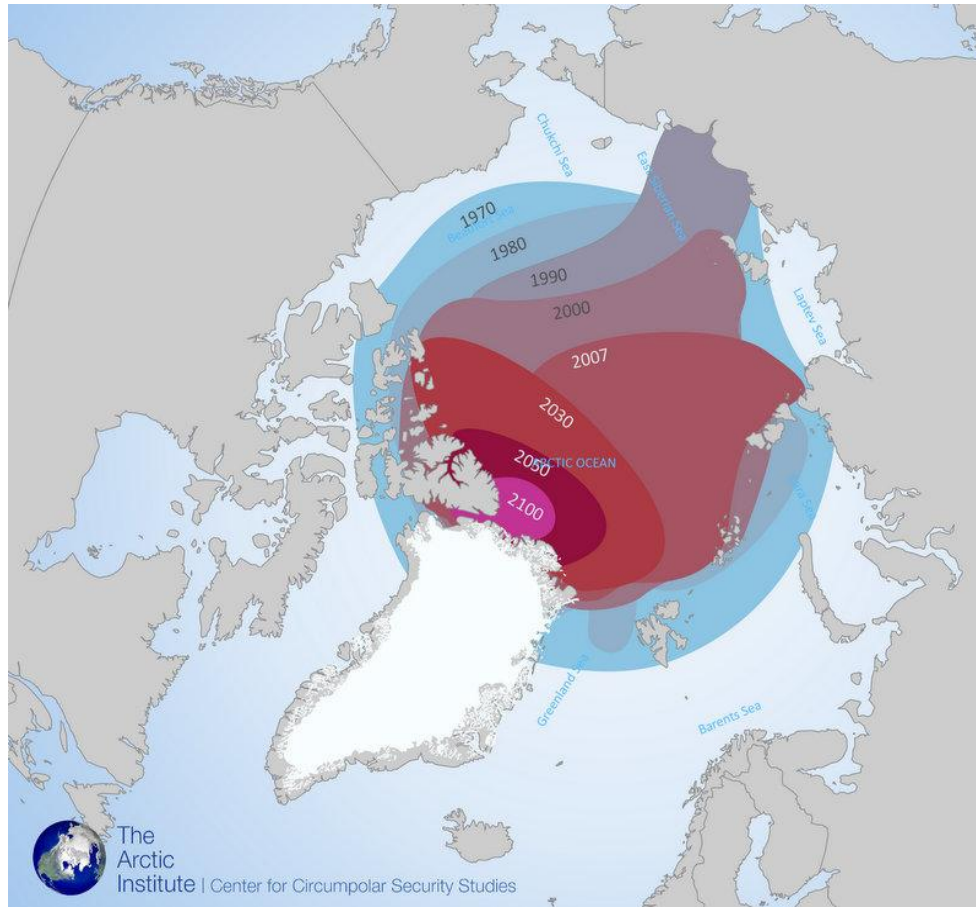
POLITICAL ECONOMY DRIVERS OF PROTECTION: Industrial rebalancing, a shift of further East to West within the EU. Protection would yield mixed effects.

UNWINDING TRADE shows its role in driving industrial restructuring.

PROTECTION IS EXPENSIVE as a response to industrial pressure.



4- Trade routing & polar ice

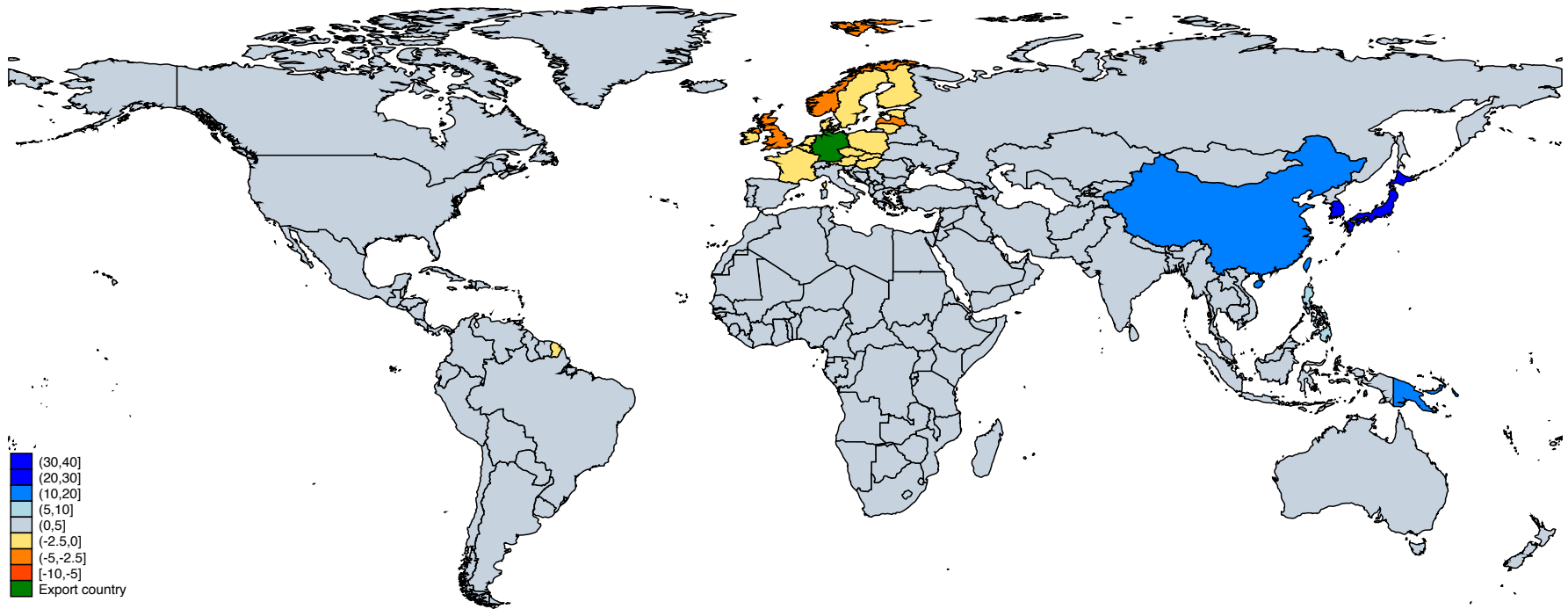


Source: NOAA GFDL model reproduced in Humpert and Raspotnik (2012) by The Arctic Institute.



4- Trade routing & polar ice

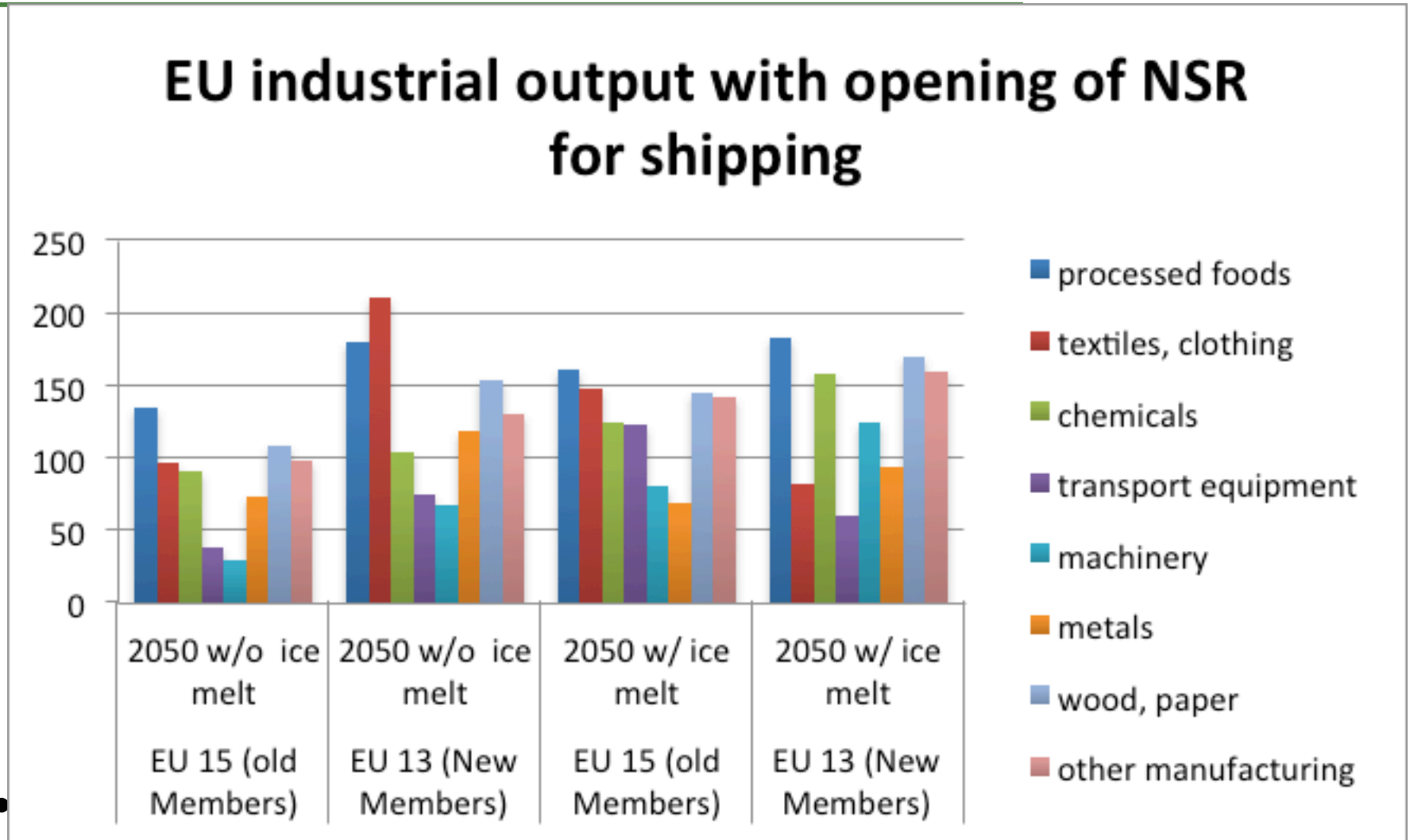
Germany: Percent Change in Merchandise Exports



- Scenarios:
 - Partial melt by 2060, Full melt by 2060
 - East Asia – Europe roughly 30% closer



4- Trade routing & polar ice



- European manufacturing is strongly impacted by change in access and linkages to East Asia.



4- Trade routing & polar ice

- Economic impacts in Europe
 - Benefit for West European EU Member States
 - Trade diversion away from Eastern Europe and Southern Europe Member States
- Geopolitical challenges
 - Large share of China, Japan trade over this new route
 - Dramatic drop in Suez global share of trade (perhaps by 2/3 of current share of 8%)
- Yet more pressure on the arctic -- Perhaps 10,000 transits per year over polar route



5- Closing comments

- Trade is an important transmission channel, posing opportunity for adaption, and challenges as well
 - Increased competition with the “rise of the other” or growth in emerging markets
 - Regional price and supply shocks (e.g food, also energy) will be felt globally through trade channels
 - Benefits from deeper global liberalization, but likely rising pressure for protection.
 - Geo-political challenges if/when the NSR opens.





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Thank you !

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