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The EU's Trade with Emerging Markets: Climbing the Value-added Chain and Growing IP Intensity?

Brussels, Belgium, 22 April 2016 - International trade is a powerful force of societal transformation. Trade agreements not only stimulated trade; they have improved the quality and integrity of domestic economic and political institutions. This view on trade as a force of institutional development and societal transformation has been reinforced in the recent decade when the routes to the world market for developing countries have been through global supply and value chains of multinational firms. In this paper, we examine whether the trade profile of fast-growing emerging economies reflects the broader theory that has underlined thinking about trade: when these countries grow, do they expand their import from developed countries in the direction of high value-added goods in order to get access to technology and knowledge that they cannot produce as efficiently at home?

We find that the EU has seen strong growth in patent-intensive sector exports. Europe's aggregate trade performance with key emerging economies has confirmed the expectation about the composition trade between an advanced economy and an emerging economy. Accordingly, the EU has by a high degree of certainty been able to climb the value-added chain through trade with emerging economies. However, the pattern of trade is not always as expected, or predicted by theories of comparative advantage. Trade in the EU's major patent-intensive sectors – chemicals, pharmaceuticals, and motor vehicles – has generally evolved in a positive fashion in the period studied. However, recent years have witnessed a deterioration of EU exports in these sectors.

In many instances, these deteriorations are not the result of the EU's industrial mix. The under-performance in EU exports can be ascribed to local factors that artificially depress EU corporate competitiveness in those markets. In countries like Brazil, India and South Africa, these factors tend to be very strong and show a clear upward potential for the EU in improving the gains it can reap from trade in patent-intensive sectors. As a consequence, EU trade policy should focus on those sectors that show a strong potential export and import performance, but where other factors than economic competitiveness have caused trade under-performance in the past.

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