



CCMI/175
**Fostering competitiveness,
innovation, growth and job creation
by reducing market distortion**

OPINION

European Economic and Social Committee

**Fostering competitiveness, innovation, growth and job creation by advancing in global regulatory cooperation, by supporting a renewed multilateral trading scheme and by reducing market-distorting subsidies
(own-initiative opinion)**

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1. Conclusions and recommendations

- 1.1 Disruptions like coronavirus (COVID-19) threaten to bring the world economy and social life to a standstill. Its impacts include recessions in the USA, the EU, Japan and other regions of the world, extremely slow growth in China and huge losses in terms of output. Governments have to offset economic damage with fiscal and monetary policies and cope with the expected changes of the economic paradigm. The EESC stresses the need for efficient business models and trade defence mechanisms, in particular with regard to Asia, and notes that 36 million jobs in the EU depend on the EU's exporting potential, and that the share of EU employment supported by sales of goods and services to the rest of the world in relation to total employment increased from 10.1% in 2000 to 15.3% in 2017¹. The fiscal, economic and social response to the crisis is necessary for preventing its negative impact on these and other sectors.
- 1.2 The coronavirus crisis should lead the EU, as part of the general reformulation of industrial policy imposed by environmental sustainability and digitalisation, to boost the health equipment and pharmaceutical sectors, with a view to ensuring the EU's shared sovereignty and self-sufficiency in these sectors. The drafting of this opinion started before the outbreak of an unpredictable health and economic crisis bound to change our economies and globalisation patterns in the short- medium- and long-term. While this crisis is not the core topic of the opinion, it has and will have a huge impact on the sectors and topics discussed in the next points. It is already evident that this crisis is pushing some areas of the planet towards a new wave of protectionism and economic nationalism, both worldwide and inside the EU. All these factors are taken into account, as much as possible to the present date, in a horizontal manner within this opinion.
- 1.3 The EESC shares the view that international businesses and trade have the potential to contribute to global growth, resulting from a higher degree of specialisation, economies of scale, advanced global value chains and the spread of research and technologies. The shift from value chains to value creation networks, from linear to circular and from tangible to intangible, which will require agility from the industry to adapt, should be also indicated.
- 1.4 The EESC stresses that EU policy has to ensure that participants in industrial development do not become victims of unfair economic, social and environmental dumping. Regarding the urgent policies to be enacted, the EU faces the following challenges: the USA's market for EU exports, potential collaboration between the EU and the USA, the future role of China, and the need to reshape the WTO. Industries should become a solution enabler for societal and environmental challenges, creating new value for society.
- 1.5 The EESC agrees that globalisation without regulation leads to increased inequality, downward pressure on companies, wages and labour conditions and weakened social security. This could become a real threat for the European social models. Unregulated globalisation also has negative effects on environmental standards. The EESC is concerned that European companies and jobs are coming under pressure from unfair non-market trading practices that do not respect

¹ http://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157516.pdf

international social and environmental agreements. EU industry should build on its unique advantage by combining European values, new technologies and a future-oriented approach. The Single Market is crucial for European industry and for diffusing innovation – not only with regard to digital technologies, but also other Key Enabling Technologies, such as biotech. The role of social and regional cohesion and social dialogue in ensuring social acceptance of industrial transformation can be also underlined.

- 1.6 The EU's industrial strategy and trade policy should not undermine its efforts to provide development assistance to third countries, and the EESC recommends adopting a balanced approach, better coordinating and combining national development aid, when it comes to more fragile economies. The EESC is concerned that the escalation of WTO non-compliance measures and new discriminatory non-tariff arrangements risk imposing excessive reciprocal regulatory burdens in a way that is becoming the new norm in global trade. The existing EU support programmes and monitoring should be re-evaluated, in line with EU competition rules, to support EU Member States, partners, companies and employees adversely affected by the economic crisis and trade wars and to reduce the burden on them.
- 1.7 The EESC believes that in order to deal with external challenges, the EU's internal market should become "the best place to invest in". The new industrial strategy and all other leverages should be assessed with regard to their capacity to promote and support investments in industrial, energy, transport and digital infrastructure through an enlarged connectivity approach. Reviewing mergers and acquisitions and State aid rules could place the EU on a more equal footing vis-à-vis global competition. All levels of governance should ensure that the benefits of globalisation are fairly distributed and negative impacts at global, regional and local level are mitigated

A common foreign direct investment scheme would help ensure that interests could be seized in strategic assets, such as critical infrastructure, critical technologies and security of supply of critical inputs. Making use of the procurement directives, effective trade defence instruments and a sound network of free trade agreements (FTAs) are needed more than ever to counter illicit practices, deepen regulatory convergence and promote sustainability standards, thus reducing market distortions.

- 1.8 The EESC is concerned about the recent negativity regarding international trade and globalisation, and the rise of populist movements that call for increased nationalism. It feels that protectionism and nationalism cannot provide the right answers to economic and social problems. Medium-term reform and investment priorities are necessary to put economies back on track to sustainable and inclusive growth, integrating the green transition and the digital transformation. The EU should take all possible measures to preserve full democracy despite pandemic circumstances.
- 1.9 The EESC believes that the Green Deal should integrate new industrial strategy and trade policy together with economic, regulatory and competition policy in a comprehensive effort to help the environment, without creating a threat to the single market and European companies and jobs, and should set high environmental ambitions for industry as a whole.

1.10 The EESC shares the view that one of the key messages on economic stability is that Member States should pay appropriate attention to the quality of public finances, promoting necessary and future-oriented investments.

2. **General comments**

2.1 With the multilateral system under constant pressure, EU companies operating globally face increasing friction and uncertainty along with rising protectionism and the ongoing tensions between the EU's trading partners. Global value chains are shrinking and a generalised trend towards a return to regionalisation is occurring worldwide. The EU, together with the US and China, is at the centre of such dynamics and a number of key industry sectors are under considerable pressure. Fundamental decisions have to be taken to increase the possibility of avoiding the risk of marginalisation, and to preserve the global role of the EU. There is an urgent need to reconsider investments in the EU's territory and focus on supporting businesses, especially SMEs, ensuring liquidity provision and stability in the financial sector, preserving the Single Market and ensuring the flow of critical goods. Such an objective can only be achieved through a mix of measures such as: regulations and policies applicable also to third country companies when working in the EU, infrastructure, investment in public goods (i.a. health, education, digital infrastructure), reciprocity in public procurement, effective trade policy, digital independence.

2.2 EU industry's global competitiveness is hindered by the return to unilateralism and by the lack of effective global governance on economic and trade issues, as well as market asymmetries and disruptions caused by subsidised competitors in particular state-owned enterprises and by the crisis. EU companies' investments in research and innovation aim to combine competitiveness and sustainability, but these investments and bold risks could be rendered ineffective by the reduced access to international markets and by unfair competition. In this framework, SMEs are more vulnerable than ever.

2.3 Under these circumstances, the alliances that the EU fosters could help to promote its interests in multilateral organisations, such as the World Trade Organization (WTO) and the United Nations (UN). Therefore, the recently adopted industrial strategy and the Commission's annual report on the implementation of FTAs represent a move towards increased transparency, but also provide an effective instrument for supplying objective background information to civil society about trade agreements negotiated by the EU.

Despite containing some positive elements, the overall package of the recently adopted industrial strategy has not yet convinced everyone that it will make a perceptible difference for businesses, labour and civil society, which are striving to increase Europe's competitiveness and economic growth.

2.4 The adoption of a strong European industrial policy and the defence of the EU's commercial interests are compatible with the priority objective of its foreign policy: strengthening multilateralism around the institutions of the UN system. Their necessary reforms should make it possible to move towards a world governed by fair rules with democratic principles.

3. Realising the potential of business perspectives

- 3.1 The EESC agrees with the Commission's view that EU companies can only benefit from the EU's industrial strategy and trade agreements if they have pertinent information on the contents of these strategies and agreements and understand how they function in practice.
- 3.2 The EESC notes with concern that the complexity of rules of origin and of administrative forms required by EU trade partners for granting preferences to EU companies, as well as the efforts involved in proving preferential origin, seem to be disproportionate for EU SMEs as compared to the size of their concluded contracts.
- 3.3 The EESC proposes that in the event of countries engaging in unfair competition, labour conditions or sustainability standards, provisions should also be made for exploring key issues on the development of alternative dispute settlements and implementing UN online dispute resolution mechanisms. The EESC welcomes the Multi-Party Interim Arbitration Arrangement recently announced by the EC as a stopgap to maintaining an independent, two-step dispute settlement function.
- 3.4 The EESC recalls that most SMEs' business activity takes place primarily within the Single Market², with only about half of SMEs selling their goods outside the EU-28³ and also notes that SMEs' exporting activity is highly concentrated in some Member States and regions, with six Member States⁴ accounting for more than two thirds of total SME business and trade in the EU.
- 3.5 The EESC welcomes the Commission's advanced work on the online portal that will integrate two databases, the Market Access Database and the Trade Helpdesk, and which is addressing the complexity and lack of coherence of the rules of origin and customs procedures and implementing a free, online rules of origin calculator to provide additional support for EU SMEs.
- 3.6 The EESC believes that the Commission and the European External Action Service as well as the Member States' diplomatic and consular representations, could play an important role in promoting EU strategy, services and trade with third countries to facilitate both inward investment and export opportunities for European businesses and labour.
- 3.7 The EESC furthermore welcomes the initiatives of the European Commission to promote and support EU SMEs in their internationalisation efforts so that they become competitive globally, and highlights the need to ensure that these initiatives are also bottom-up in their application. Along with these initiatives, the new paradigm may bring more opportunities for SMEs and other regional players.

² EPRS, *CETA implementation: SMEs and regions in focus*, study conducted at the request of the CoR, 18 November 2019, available at [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_IDA\(2019\)644179](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_IDA(2019)644179)

³ Flash Eurobarometer 42, [Internationalisation of Small and Medium-sized Enterprises](#), October 2015.

⁴ Belgium, Germany, Spain, Italy, the Netherlands and the UK.

- 3.8 The EESC regards with concern the outstanding issues with the EU's trading partners as presented in the Commission's report, notably the fact that EU products continue to face barriers to accessing markets in partner countries. Non-bureaucratic mutual recognition of technical standards should be given high priority.
- 3.9 The EESC emphasises that, as underscored by an EPRS study⁵ based on an analysis of trade flows in some Member States, the export performance of the EU is positively and strongly correlated with GDP and trade is highly concentrated in a few Member States.
- 3.10 The EESC recalls that the territorially uneven impact of globalisation was recognised by the Commission in its Reflection Papers on *Harnessing Globalisation* and *The Future of EU Finances*, underlining that while the benefits of globalisation are widespread, the costs are often localised.
- 3.11 The EESC places particular emphasis on the role of cohesion policy in improving the competitiveness of the EU through targeted investments in key sectors such as network infrastructures, research and innovation, IT services, environmental and climate action, quality employment and social inclusion.
- 3.12 The EESC highlights the role that the European Globalisation Adjustment Fund (EGAF) can play in helping people who are unemployed as a result of structural changes due to globalisation, digitisation, migration and climate change. In view of the enormous scale of the looming economic and employment crisis, the EGAF should be financially strengthened, its rules made more flexible to suit the nature and size of the crisis, and linked to the Just Transition Fund.
- 3.13 The EESC agrees that flexible working arrangements and tele-working play an important role in preserving jobs and production, but despite efforts to mitigate its social impact, the crisis is expected to significantly increase unemployment and income inequalities. EU's revised Green Deal policy could play an important role in ensuring that globalisation results in positive economic, social, territorial and environmental effects for business, employees and civil society and contribute to reducing market distortion.
- 3.14 The EESC believes that a mechanism tackling the "carbon footprint" in manufacturing and efforts to decarbonise industries could be used to level the competitive playing field; it notes, however, that such a measure must balance environmental, trade and fairness concerns to avoid market distortions, triggering retaliation against EU countries and thus damaging EU industry and industrial jobs.

⁵ EPRS, *Interactions between trade, investment and trends in EU industry: EU regions and international trade*, study conducted at the request of the CoR, 27 October 2017, available at [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_STU\(2017\)608695](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_STU(2017)608695)

3.15 The EESC shares the view that reducing the gap in productivity performance between highly productive economies, regions and firms and all others is crucial, and that effective institutions and efficient tax systems could support productivity.

3.16 A new industrial policy is needed to focus on boosting activities with a higher innovation content and generating greater added value, which is inseparable from the promotion of quality and new jobs. Such a policy, if wisely conceived and correctly executed, would contribute to avoiding the negative influence of further drops in GDP, the fragmentation of the Single Market and the disruption of value chains.

4. **Mitigating the negative impact of unique developments**

4.1 The EESC calls on all key institutional players to reconsider the links between the EU-27 and the UK, which will largely define the impact of the UK's withdrawal on their respective economies; appropriate measures must be devised for sectors that would suffer a particularly adverse impact.

4.2 The EESC regrets the fact that the USA's decision to introduce additional tariffs on European products, as a countermeasure to the aid granted by the EU to the manufacturer of Airbus, will mainly impact agricultural and agri-food products produced in EU Member States. The effectiveness of the EU's safeguard measures for steel, which are traditionally in the focus of the CCMI's attention, should be reassessed in light of the troubled economic environment for the steel industry, in order to avoid further damage to domestic steel companies and to ensure a level playing field for EU businesses and labour.

The EESC stresses that US steel tariffs have led to significant trade diversion of steel products from third countries, which are entering the European market in increasing quantities, in particular being used in public infrastructure construction contracts.

4.3 The EESC notes that although no country can isolate itself from globalisation without incurring enormous costs, the risk of a collapse of the multilateral trading system is real and the EU therefore has to reflect upon this. It welcomes, in this regard, the Commission's Work Programme for 2020, which sets out an initiative for WTO reform by the end of 2020 as well as the proposed Recovery Plan.

4.4 The EESC shares the view that the EU needs to change into a more decisive approach to ensure real reciprocity in practice and tackle protectionism in access to procurement markets in third countries.

The Chinese public procurement market and protection of intellectual property rights are notable for their divergences from international standards and, despite joining the WTO, China is still a largely protected marketplace. Furthermore, China has not yet joined the WTO Government Procurement Agreement (GPA), despite its promise when been accepted in the WTO. The debate on China has become more sensitive in the EU. Ambitious programmes such

as the Belt and Road Initiative, Made in China 2025 and the "16+1 Guidelines (2017 Budapest, 2018 Sofia, 2019 Dubrovnik)"⁶ have caught the attention of a number of private and public actors including the EU institutions. The 5G issue has brought digital security into the picture, providing fertile ground for advancing towards EU digital independence. Boosting EU programmes for investment in research and innovation appears to be the most rational and rewarding approach in this regard.

- 4.5 Policy recommendations and concrete measures should take into account two strategic features. The first is that the G20, which could have become a global political forum, complementary to the United Nations system, to also address global imbalances and inequalities has lost much of its weight. The second, closely linked, is that the EU lacks an effective "foreign economic policy". Industrial policy and other EU policies affecting factors relating to production, energy, internal market, research and innovation, transport, etc. are being disconnected from, or only partially mirrored in, the external projection of the EU trade and external services, as well as the Member States' export credit agencies which should combine forces. This absence makes it harder to confront major international players, and decreases the role of the EU in multilateral and international fora and in preventing market distortions.

5. **The impact of the crisis generated by the coronavirus (COVID-19) pandemic**

- 5.1 The outbreak of COVID-19 has had an extraordinary macroeconomic and fiscal impact, which is still unfolding. The EESC shares the view that there was no alternative to the recently announced financial and expansive monetary policies in the EU and around the world. The key challenges include an incomplete and uneven recovery and an increase in unemployment. Although policy measures should limit the rise of the latter, the necessary policy measures will cause public deficits and increase public debt.
- 5.2 The EESC stresses that this crisis has serious long-term implications for the EU. Due to the fact that politics delayed the EU's coordinated engagement in fighting the pandemic, there might be a loss of confidence in politics in general.
- 5.3 Other risks include a longer lasting pandemic than assumed, financial instability both globally and in the EU, a rise in protectionism, the fragmentation of the Single Market and entrenched structural divergencies.
- 5.4 The EESC believes that Europe urgently needs a new project for internal integration, a common economic, social, (including public health coordination), fiscal, energy and environmental strategy and a coherent trade policy. The absence of an effective European strategy has been alarming and it has to be reversed towards a new collective European approach.
- 5.5 A massive recovery and reconstruction package for investment is needed to support the EU economy after the crisis as part of the new multiannual financial framework, in addition to what

⁶ 2017: https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1514534.shtml;
2018: https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1577455.shtml;
2019: https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1655224.shtml.

the European Stability Mechanism, the European Investment Bank and the European Central Bank are already doing. The necessary investment recovery plan would be further financed through existing EU funds, financial instruments and recovery bonds, clear defined in terms of problems resulting from the coronavirus crisis, guaranteed by the EU budget. In this context the EESC sees the Recovery Plan recently presented by the European Commission as a concrete first step in this direction.

- 5.6 The EESC stresses that rules-based trade is also essential in times of crisis and as part of the EU strategy to exit the crisis. The EU Member States must respect the Single Market and ensure that there are no internal barriers to EU trade by launching a more comprehensive negotiation on a plurilateral agreement that would lead to a level playing field, including the possible permanent liberalisation of tariffs on medical equipment, and help to ensure that global supply chains can operate freely in this critical sector. Along with these measures, tariff liberalisation and export finance, well coordinated between the respective bodies of the EU and the Member States, could ease the pressure on businesses and prevent market distortions.

Brussels, 15 July 2020.

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