



**Ministry for Foreign Affairs**  
Department for International Trade Policy and the  
EU Single Market

## Building a resilient Europe through a strong multilateral trading system, access to global markets and a strong single market

### Introduction

The Covid pandemic has demonstrated the vulnerability in a globalised trading environment, but the lesson is primarily positive. Trade did not cease but adapted. In times of crisis, we can improve policies and strategies to be better prepared to handle the next crisis.

At present, our efforts focus on handling the Covid pandemic. Access to medicines and medical devices is critical. For some critical goods, where even the slightest delay is unacceptable, **stockpiling** might be the best solution. However, the next crisis might be different, and we need to work with general solutions.

Real resilience builds on the ability to adapt quickly to new situations.

The EU has a very diversified supplier base.<sup>1</sup>

- 91% of all products (HS6) are imported from at least 10 countries, amounting to about 99.3% of the EU27 import value
- A small group of 80 products out of about 5000 stem from at most 3 countries.

A robust platform of **diversification** supports the flexibility necessary to quickly adapt to new situations. It is necessary that the strengthening and diversification of value chains is driven by the companies themselves. They know their needs best and are able to diversify in order to meet challenges.

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<sup>1</sup> G. Felbermayr, "Fostering the Resilience of EU Trade Links", sept 2020

With the possibility to source goods from different parts of the world, we secure the access to necessary products, even in times of crisis.

We should also keep in mind that it is **companies that trade with each other**, not countries. Public interference into supply chain can reduce competitiveness of domestic firms thus reducing their resilience. We should also continue to encourage the development of rules and standards that are both relevant and facilitate market access.

To quote the EU Commission: *“Europe’s strong trade and investment links will help get the economy back on track. With 85% of the world’s future growth projected to occur outside of the EU and with 35 million European jobs depending on exports and 16 million on foreign investment, trade and investment will be key to connect Europe to external sources of growth. This is especially true as demand is likely to pick up asymmetrically after the crisis.”*<sup>2</sup>

#### State-driven reshoring or diversification?

There is a debate about whether EU-countries should promote re-shoring, i.e. **state-driven re-shoring**. In this, three aspects need to be kept in mind:

1. EU countries produce substantial quantities for our health sector. **Two thirds of EU imports of pharmaceutical products come from the internal market**, and 80 percent of vaccines.
2. The global market reacted quickly during the pandemic spring of 2020. Example: Before the pandemic, **South Korea** was not among the top exporters of diagnostic tests. As the pandemic hit the country in February 2020, however, Korean companies quickly increased production and soon the country was one of main exporters of Covid-19 test kits. Within only two months, by April, **40 different South Korean firms** were providing **more than 100 countries** with Covid-19 test kits. The steps taken from no knowledge of the virus to millions of exports of authorised test kits were the result of different tasks performed in multiple countries.
3. If reshoring reduces the number of suppliers, it risks creating vulnerability when disruption hits a certain geographical area.

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<sup>2</sup> EU Strategic Foresight Report 2020

As a response to the corona crisis, the EU has proposed in the WTO to removing tariffs and trade barriers on medical products. Like the South

Korean example shows, this would help the recovery – both economic and health-wise.

### Actions that promote resilience

1. Increase access to global markets by liberalising import tariffs and inputs and removing trade barriers by
  - resuming TiSA, extending ITA
  - promoting new plurilaterals for critical sectors
  - improving existing FTA:s, implementing concluded FTA:s and concluding new FTA:s with strategic partners
2. Strengthen the Single Market by
  - working for compliance of existing rules,
  - removing remaining barriers and
  - promoting further integration and
  - promoting an internationally oriented European standardisation.
3. Discipline the use of emergency trade restrictions

#### 1. Increase access to global markets

Most international trade and investment take place within global value chains (GVCs). Only 30 percent of international trade is with finished products. **70 percent is raw materials, parts and components, services for businesses and capital goods.** The Airbus A 350 has 3000 suppliers around the world. It is the same situation for most products, including medical devices. Services and service exports have become increasingly important for the EU economy as industrial and service production has become integrated.

GVCs have allowed firms to source their inputs more efficiently, to access knowledge and capital beyond the domestic economy. They have helped developing countries to expand their role in international trade, Costa Rica is one good example.

The multilateral trading system in the **WTO** is the foundation for rules-based trade and needs to be strengthened. There is also the possibility to work with like-minded countries in the plurilateral format, in order to progress in areas

where there is common ground; e.g. resume TiSA negotiations on services and extend the Information Technology Agreement in the WTO (ITA). The possibility of new plurilaterals for critical sectors could also be explored, e.g. the Trade and Health Initiative.

The EU has 41 bilateral **trade agreements** (FTA:s) covering 72 countries. They cover 31 percent of our trade, which means there is room to improve. SE supports the approach to extend the network of FTA: as well as evaluating and updating existing FTA:s. Regional trade agreements are of particular interest in this regard. Their broad coverage would contribute to strengthening our supply chain resilience.

## 2. Strengthen the Single Market

The Single Market is the **world 's largest economy and one of the EU's greatest achievements**. It has been the key driver of EU competitiveness and the results are clear: robust growth, more jobs and a higher welfare. Thanks to the Single Market people, goods, services and money can move around the EU almost as freely as within a single country. That is why the single market in itself is a source of improved resilience and robustness. It is therefore crucial to ensure the proper functioning of the single market, even in times of crisis, by actively working for compliance of the existing rules and by removing remaining barriers and promoting further integration.

## 3. Discipline the use of emergency trade restrictions

During the pandemic, countries introduced emergency trade restrictions. Such measures could prevent necessary products and equipment to reach those in greatest need and also hinders manufacturers from fulfilling their contractual obligations. Therefore, robust systems must be in place to prevent countries from taking such measures in the future.

Such systems should be based on a common definition and interpretation of critical functions in society, based on thorough risk analysis. They should also include measures to promote proper application of agreed principles and policies depending on the context (internal market, international trade).

**Conclusion: A functioning Single Market with broad and deep trade links to the emerging world is a better defence against shocks than re-shoring production with trade barriers and subsidies.**