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How great power trade policy is reshaping globalisation

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About

- borderlex.net is the go-to resource for news, analysis, commentary, insights, in-depth technical analysis on trade policy and free trade negotiations in Europe.
- Our main focus is European Union trade policy, Britain's post-Brexit trade policy and key World Trade Organization developments. We are the only comprehensive news outfit on trade policy based in Europe.
- Iana Dreyer is the founder and editor of Borderlex.
- Iana Dreyer steers Borderlex's editorial activities and particularly likes to write about the politics shaping EU trade policy, systemic issues at the World Trade Organization, international trade disputes, the nexus between security and trade and EU-Asian trade relations.
- Before launching her publishing activity Iana Dreyer worked as policy analyst in think tanks with a focus on international trade and international energy policy, consulting on occasion for governments. Iana has worked with the European Centre for International Political Economy, the Institute Montaigne and the EU Institute for Security Studies. Iana has also worked for the Financial Times group and trained in journalism.



What this presentation will do

- Point to some of the great-power dynamics that are shaping trade and globalisation and their governance
- Focus in particular on the unique role of the EU in the current geopolitical environment
- Perspective of a long-time close observer, as a political and policy analyst



Context: end of unipolar world order

- 1995: Creation of World Trade Organization with full support of world's superpower United States
- 2001: China accedes to WTO
- 2008: Onset of global financial crisis
- Since GFC: growing trade and geopolitical frictions, "slowbalization", China-US rivalry sharpens
- 2013 - Xi Jinping becomes China leader
- 2014 – IMF: China overtakes United States as largest global economy in PPP terms
- 2015 – "Made in China 2025"
- 2015 - Paris Agreement on climate – climate crisis sharpens
- 2016 – Failure of US administration to ratify Transpacific Partnership
- 2017 – Donald Trump becomes US president
- 2019 – Trump administration blocks WTO Appellate Body
- 2020-2022 – Covid-19 pandemic
- 2021 – Biden becomes US president – no return to WTO Appellate Body, broad continuation of Trump trade policies, launch of big subsidy programmes to boost green tech investments to meet Paris goals
- 2022 – Russia attacks Ukraine – China does not condemn



Economic fragmentation is happening

- **International Monetary Fund (WEO April 2023):**
 - “FDI flows are increasingly concentrated among countries that are geopolitically aligned”
 - “The flow of strategic FDI to Asian countries started to decline in 2019 and has recovered only mildly in recent quarters. By contrast, flows of strategic investments to the US and Europe have proved more resilient. As a result, by the fourth quarter of 2022, a significant gap emerged between new investment directed to these regions, with strategic FDI to Europe about twice that going to Asian countries”.
- **EU Chamber of Commerce in China (2023, Business Confidence Survey):**
 - “investments begin to shift out of China as de-risking strategies emerge”
 - “businesses are increasingly pushed to further localise and create divergent systems, with one for China and one for the rest of the world”



Tech and climate geopolitics

- While United States was focused on advancing the shale gas revolution under the Bush then Obama administrations, which was aimed at increasing global energy security, China became a leader in green tech industries such as power, wind and electric vehicles
- China's lead accelerated whilst the Trump administration (2016-2020) rolled back environmental regulations and climate policies and waged a trade war against China (Section 301 duties)
- Biden administration vowed to see the US meet its Paris Agreement climate goals whilst continuing the Trump-era China hedging strategy
 - => Inflation Reduction Act – US\$ 500 bn subsidies in clean tech, with WTO non compliant local content rules devised primarily with keeping Chinese technologies out
- **EU** discovers it lagged behind in the EV revolution. Also turns to industrial policy: 2017 Battery Alliance. 2023 Net Zero Industry Act
- **EU Green Deal**: e.g. CBAM, deforestation regulation – WTO system challenged by EU **PPM** approach to trade

Tech and geopolitics: return of the trade weapon



- In last decade US loses its monopoly on IT innovation: 5G revolution has China in the lead, some EU firms come second
- China develops its own edge in AI innovation
- China a growing tech standards setter in global standard-setting bodies and promoting its technologies and standards in its 'Digital Silk Roads' programme
- Obama then Trump administration start restricting trade and investment ties with China in tech sector.
 - E.g. US sanctions on Huawei
 - EU takes softer approach: 5G Toolbox (2020)
- 2022 - War in Ukraine: US decides to stop China from acquiring more AI capacity, not least in view of its => sharpens semiconductor export controls to China
- US and EU tech export controls to Russia since 2014/2022
- US and EU tech export controls to China since Ukraine war: more to come? Where does it leave EU firms?



Focus on securing supply chains

- China under Xi Jinping: rising resort to strategic import and export bans to express disagreement with policies of certain countries (Japan, Australia, Lithuania....)
 - Increasing focus of G7 on cooperation in the face of 'coercion'
- Pandemic experiences:
 - Export bans on critical medical gear, equipment or medicines or medical ingredients – China, India, EU, US.....
 - Increases industrial policy focus and reshoring strategies in medical sector
 - Semiconductor shortages
 - Increases industrial policy focus and reshoring strategies: US Chips Act; EU Chips Act



Great power retreat from WTO: the exception is now the rule in Geneva

- China's industrial policies : many violate key WTO rules (subsidies, intellectual property, non discrimination)
- EU digital regulations and digital trade policy on cross border data flows since 2018: is WTO 'minus'
- EU Green Deal: PPMs – EU invokes Article XX exceptions in discourse to defend legality of measures.
- US: retreat from WTO dispute settlement system, refusal to engage in WTO disputes involving its national security decisions, argues non justiciability of Article XXI national security exception
- **Way out of impasse:** WTO reform and a grand bargain between big trading power. Likelihood of this happening is low



EU in all this

- EU: market power, not military power
- “Brussels effect” of regulation on global markets eg technical standards, data privacy (Anu Bradford). Brussels effect originally unintended and is not systematic
- In recent years EU has tried to ‘politicise’ or ‘leverage’ the ‘Brussels effect’ cf deforestation regulation, corporate sustainability due diligence legislation....
- Likely erosion of power of Brussels effect in coming years
 - Digital tech standards – China’s growing role in international standards ecosystem
 - Green Deal regulations: developing countries may turn to alternative markets (cf China)
- US long-term retreat from Europe (especially if new Trump administration elected in 2024) and China’s rise, mediated by war in Ukraine: existential challenge to EU
 - Domestic challenge to foundations of EU ‘power’: 5 SEE/CEE unilateral bans on imports from Ukraine – violation of single market and customs union

EU industrial policy effect on China links



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- Von der Leyen, March 2023: EU to “de-risk” from China ties, not ‘decouple’
- Are EU de-risking policies working as intended?
- 5G Tool box, EU industrial policy: early signs that Chinese companies in targeted sectors are feeling the pinch: esp 5G equipment, semiconductors
 - November 2023, China Chambre of Commerce to the EU report: Asked about their revenue expectations for 2023, 30% of Chinese firms operating in the EU’s industrial sector said they expect revenue losses and so did 26% of ‘IT and communication services firms’.
- Winners: South East Asian countries, EU FTA partners such as Vietnam
- **Emerging issue: electric vehicles** – cf DG Trade investigation into subsidies received by Chinese EV producers
- More trade defence cases? Solar panels, wind turbines



EU: the way forward

- EU dependent on trade and diversified trade relationships
 - Only 5.7% of global population but ca 30% of world's goods trade
- Precondition for its resilience in a strained world: institutional reform and greater capacity to act in a unified manner on 'hard' security matters, especially if Donald Trump wins 2024 elections
- Investment in its ability to compete in the technology field – education, migration, infrastructure
- Needs to diversify trade partners and trade alliances
- Investment in WTO reform, but also need to find alternatives.



Thank you for your attention!

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