A Stronger Europe in the World: Major Challenges for EU Trade Policy

Sabine Weyand
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Abstract

On 29 January 2020, Dr. Sabine Weyand, Director-General for Trade at the European Commission, gave a lecture on “‘A stronger Europe in the world’: Major challenges for EU trade policy” at the College of Europe in Bruges. She started out with the challenges posed by the rise of populism and the shift towards more power-based relations and protectionism, arguing that trade is increasingly seen as a proxy through which the battle for political supremacy is fought. Dr. Weyand then explained the trade priorities of the new European Commission: reforming the World Trade Organisation for the benefit of a predictable, rules-based multilateral system; managing the bilateral relations with major powers including the United States, China and the United Kingdom; contributing as a ‘geopolitical Commission’ to other policy fields and in particular the European Green Deal; and levelling the playing field by promoting EU standards.
About the speaker

Dr. Sabine Weyand is Director-General for Trade at the European Commission. From October 2016 to May 2019 she was Deputy Chief Negotiator of the Task Force for the Preparation and Conduct of the Negotiations with the United Kingdom under Article 50 TEU. She joined the European Commission in 1994 where she worked on industry and trade issues before serving in the Cabinets of Trade Commissioner Pascal Lamy and Commission President Barroso and heading the private office of Development Commissioner Louis Michel. She then became Director in the Secretariat-General of the Commission in charge of policy coordination on economic, social and environmental policies before joining DG Trade in 2016 as Deputy Director-General, covering multilateral trade policy, trade relations with North America and European neighbourhood countries as well as trade defence. She holds an MA in political science and economics from the University of Freiburg, a Master’s degree from the College of Europe in Bruges and a PhD from the University of Tübingen.
Ladies and Gentlemen,

Thank you very much for having me here for this guest lecture. It is an honour to return to the College of Europe – where I studied myself – to share some of the things I have learned about international trade in recent years.

When you look at the world, it is clear something has changed. The old presumptions we based our worldview on have been abandoned. Executive tweets move markets and old ties are cut, while new, often digital and intangible ties, have come to define our world. This is not easy to make sense of – to put it bluntly, there is a lot going on.

It was the trend of the 20th century to look for stability through the separation of politics, security and trade. Indeed, that was what the EU was built on. It seems that the trend of the early 21st century is the opposite.

Across the West, we have seen economic crisis and demographic change. Along with these trends – perhaps even because of them – we see the meeting point of trade, security and the economy increasingly politicised. In our discourse, facts and evidence driven policy are increasingly abandoned. Experts have been put by the wayside and the rhetoric around policy is weaponised to win elections and achieve other goals.

This is not only notable in trade policy, but other policies too. This is a dangerous experiment – and takes us in the direction that Hannah Arendt warned us of, where people might ‘at the same time believe everything and nothing, think that everything was possible and nothing was true’.

I will use the term populism in this lecture, but I do not want to be misunderstood. There is a tendency among those discussing society these days to use the term populism as a pejorative, to encompass anyone who wants to make changes to the way we live. I want to use it specifically – to describe a particular political strategy and outlook.

Populism, like democracy, accepts popular sovereignty and majoritarianism. However, it fuels itself using anti-democratic means. It calls for a homogenous society, promotes tribalism and rejects the liberal concept of protection of the individual – and of leaving the chance of the minority to become the majority. It is
anti-pluralist, believing that society cannot function with different systems, groups and sources of authority. In short, it is in opposition to many of the basic tenets of the EU.

But how did we get here? To this point, where populism has enough oxygen to catch alight. When I reflect on this, I can trace it back to three concepts – trust, fear and power.

In terms of trust, recently we have seen it eroding – in our institutions, in our governance and in our leaders. Much of this springs from the economic crisis. The presumptions that underpinned much of our globalised society were challenged – presumptions about increased stability and risk and responsibility. When people saw that those responsible for the crisis carried on at their expense, they questioned who these institutions were accountable to – a topic so expertly treated by the late Irish political scientist Peter Mair in his powerful work “Ruling the Void”.

The second thing accountable for the rise of populism is fear. Another political scientist, this time Bulgarian, Ivan Krastev described it well in his book “After Europe”. He described a world where people saw their societies transforming, their young moving away, and untrustworthy leaders as inclined to abandon them. This is combined with inflammatory language targeting foreigners and other scapegoats, as well as a blatant disregard for facts and evidence. Altogether, we find ourselves in a fearful environment ripe for exploitation.

Finally, the last thing fuelling this kind of populism is a fundamental shift in the balance of power on the world stage. Many of the presumptions that underpinned international relations during the 20th century are changing – we are entering a multipolar world, governed by a battle for technological supremacy and cyber threats. We see the global economic centre of gravity shift east and alternative models challenging liberal democracy.

How can we respond to these issues? We need a multi-layered and creative approach – accounting for societal transformations, public opinion and a changing world. But before anything else, we need demonstrable and responsible leadership – and we need institutions and societal norms that hold leaders to account and that do not try to give simple answers to complex questions. This is also and perhaps particularly true in trade policy.
Today I am going to try to paint a picture in three parts. First, I will discuss the challenges we face – trade tensions, technology war, the great decoupling of the US and China. Second, I will illustrate Europe’s response – becoming more assertive on the world stage, standing up for multilateralism and green issues, cutting a path between American belligerence and China’s authoritarian state-led model. Finally, I will talk about what this future might look like – the benefits trade could and does bring, the potential for a rules-based world where Europe sets regulatory standards and is listened to through the power of its single market.

**Analysis of the problem: The great decoupling**

The 20th century painted a shocking picture of industrial-age destruction – war, environmental degradation, growing inequality. We responded to this, but not always on time or in the right way. We built institutions and coalitions to stand up for freedom. However, now those institutions are aging, the world is changing – and the 21st century, the cyber-age is no more immune to crack-ups and catastrophes. Nowhere is this clearer than in the battle for supremacy between China and the US. This battle is potentially the biggest development for globalisation since the collapse of the Soviet Union.

But why is it happening? Fundamentally, it is a great power competition – a battle in technology, in global economics and in values. Indeed, often when we talk about trade policy these days, we are not actually talking about trade policy. If we were actually talking about trade, the fact that these tensions are already disrupting beneficial flows of technology, talent and investment worldwide would be factored in. But no, it has become a proxy through which this battle for international political leadership is taking place.

At the moment this battle is more or less centred around the 4.5 trillion EUR global tech sector – we see struggles over 5G, semiconductors and other critical technologies – but its also moving into a broader array of economic activity – cars, steel and more. Supply chains have been weaponised, imports are being blocked based on foreign policy disputes, and we are even seeing economic pressure applied to companies and individuals – as in the National Basketball Association in the US, when a tweet in support of Hong Kong resulted in a scandal that prompted questions about free speech and Chinese cultural influence.
This unravelling has led to tensions, and more explicit clashes over security, influence and values – and with a patriotic fervour on both sides that is not as ideologically stark as the Cold War, but I suspect will prove just as persistent.

Visualisation of the problem: Spill overs on the global economy

All this has further spill over effects on trade. It has in effect caused a crisis in the rules-based international trading system. The World Trade Organisation, which has underpinned international trade for generations, is on the verge of collapse. There has been a movement towards power-based relations, and a tendency to revert to unilateralism and protectionism.

As self-defeating and destructive as protectionism is, it is clearly on the rise. Since the financial crisis, every year we have witnessed double-digit increases in barriers around the world, costing EU entrepreneurs billions of euros every year. Only since 2015, 207 new barriers have been reported by our Member States and businesses – this is almost half of the overall stock of 440 market access barriers recorded by the EU for its companies abroad.

The International Monetary Fund has a tool for tracking trade uncertainty. Their latest Global Economic Policy Uncertainty Index shows highly elevated levels. Having been stable at low levels for about 20 years, the index jumped 10-fold from previously recorded highs as the US-China trade war escalated in the first quarter of 2019. Global growth is projected to slow to approximately 3% in 2019 and 2020 from 3.8% in 2018. With the weakest annual growth since the crisis, downside risks are mounting. Growth has been revised down in almost all G20 economies.

Ironically, during this time of flux, the US took a step back from its leadership role in global politics. This allowed China to seek a greater role – presenting authoritarian state capitalism as both competition and an alternative model. This is concerning – they seek to revise the international order. As far as the EU is concerned, our primary goal is fairness, and there can be no fairness in global trade when two-fifths of the global economy writes their own rulebook independently.

The US seems to get conscious that leaving a void is not necessarily conducive – evidenced by the fact that they have just appointed a special envoy with the mandate to stall China’s growing influence at the United Nations. However, better
than confronting China directly, it would be desirable that the US goes back to showing leadership and directly influencing the development of global institutions to promote the integration of China on fair terms. This is the only sustainable fix for the global economy.

**Solution of the problem: More assertive EU**

It is against this background that the EU needs to take on a stronger role in the world. This Commission has declared itself a ‘geopolitical Commission’”. We want to have our own voice and weigh in on global efforts. We want to uphold multilateralism and stand up for climate goals. We want to defend ourselves against unfair practices and alternative economic and political models. We want to leverage our Single Market to make our voice heard.

In regulation, this means both holding multinationals to account for the taxes they owe and unifying the market for military trade within the EU. And in trade, it means guaranteeing a level playing field and stability on the world stage for EU companies, so the EU can continue to benefit from international trade.

We also need to be clear about what we want to achieve - we are not interested in wielding power for power’s sake. The EU wants to make sure that its values are represented on the world stage - openness, democracy, a belief in multilateralism and fairness. We have already seen how this market-leverage for values promotion can be successful in the General Data Protection Regulation - a standard gradually being adopted worldwide.

It is with this in mind that the priorities for the new Commissioner for Trade were set.

**Visualisation of the solution: New trade priorities**

**Priority number one** is preserving a stable, predictable and rules-based international trading environment. The first step will be leading the reform of the World Trade Organisation. It has become clear that there is a need for reform and modernisation - and not only on the dispute settlement side, but also on the rules side. We need better answers to the systemic questions of industrial subsidies, forced technology transfer and state-owned enterprises. But we also need answers to more existential ones - like climate change, sustainable development and more.
The current crisis has deep roots and there is no single source. That said, a lot is linked to the concern that the system is not adapted to deal with forms of state-capitalism. When China joined the WTO, there was a presumption that reforms would happen - reforms that never came. Now we are suffering the fallout - significant distortions in trade that affect the rights and balances of the WTO agreement.

While we welcome the US and China finding ways to de-escalate their trade tensions - as they are benefiting no one - our goal is to convince both to strive for a more structural, rules-based solution within the WTO.

We look for a kind of triangular solution. We need to convince the US to realise that they will not be able to take on China on their own. It is only jointly that we may have a chance of pushing for some structural changes, within a rules-based multilateral order. On the other hand, China needs to understand that it is only through the system they can guarantee safety from unilateralism. This may require a new Chinese down payment into the system; i.e. updated/stricter rules in the WTO.

Critically, the Appellate Body, the highest dispute settlement body of the WTO, stopped working towards the end of last year. Appointments to the arbitration mechanism continue to be blocked by a frustrated US. We have come up with interim arrangements with willing partners, but this should not be confused with the goal of reforming the system.

Our second priority is managing key relationships bilaterally. This is a multi-layered objective. The US is high on our list here - we need to restart and rejuvenate our relationship. The transatlantic connection remains a central artery of the world economy. We have a deep trade and investment relationship and shared values.

The US exports almost half a trillion EUR to the EU, while EU investment in the US is well over 2 trillion EUR. 2.7 million US jobs are created by EU trade and over 4 million US jobs from EU investment. We are as critical to them as they are to us, but current difficulties distract us from the importance of common goals and cooperation. We need to maintain a positive agenda with the Americans, and manage our divergences through negotiation - for example, the Airbus/Boeing dispute, France’s digital tax, and the steel and car tariffs.

China is another important relationship to manage. We released a communication on this in March 2019. It highlighted the need for a more differentiated and nuanced
relationship. Here too, we would prefer bilaterally agreed solutions, like through the EU-China investment agreement. We have made some, but certainly not sufficient progress there. There, as well as in other areas like rules on subsidies and forced technology transfer - China will need to show more ambition.

Besides these, we seek to continue to diversify our trading relationships. We have spent the past several years successfully negotiating many agreements - we now have more than 40 agreements with over 70 countries worldwide. These agreements are about more than trade. They are building blocks for future rules and standards we hope to lock into the multilateral system. They are platforms for cooperation on global challenges, championing international standards, like those of the International Labour Organisation and the Paris Agreement. They are also strategic partnerships - alliances for open global trade in a time of protectionism.

We want to finalise the negotiations we already have underway - Australia, New Zealand, Chile, Mexico and Indonesia - and find new agreements where they would be beneficial. We are looking to reinforce our relationship with Africa - and we are developing a new strategy in the coming year. We also want to build on engagement with our neighbours - including the modernisation of the EU-Swiss relationship and of course get things right with the UK.

All of these relationships, new and old, will be receiving special attention from a new post in DG Trade - the Chief Trade Enforcement Officer, or CTEO. Now that we have so many agreements, we need to make sure they work right. The CTEO will work on enforcement and implementation: making sure that markets open up as agreed, that rules are followed, and that high consumer, environmental and labour standards are met.

This will be critical to our third priority - contributing to other policy fields and overarching topics that matter for Europe. Trade does not exist in a vacuum. It needs to contribute to other policy areas too. A geopolitical Commission will require a much more integrated approach when it comes to certain policies. This will make them more effective, and also increase our leverage.

A centrepiece of this new Commission is the EU Green Deal. Trade can contribute to this in a number of ways. To start, I will borrow from the medical community’s rule number one: Primum non nocere, or ‘first, do no harm’. That is the bare minimum. But
this does not mean shutting down trade and development for the sake of climate goals. We must have a more nuanced position than ‘trade means more emissions’.

It is better for the climate to buy strawberries or tomatoes from Spain than to heat greenhouses in the UK. Poultry from Brazil and lamb from New Zealand have their transport emissions offset by other factors. And trade can have other, indirect spill overs on the environment too: encouraging innovation, triggering investment in low-carbon production to meet EU standards, and lowering costs of environmental goods and services.

We have a responsibility to keep our approaches evidence-based. Striking that balance will be important. Then, trade policy will need to contribute and to ensure that we can deliver effectively on our climate policy. We need instruments that ensure the effectiveness of climate goals. It is through this prism that we are looking at a Carbon Border Adjustment measure that is on our agenda for the coming year.

It is not just green issues either – trade will need to pull its weight across the board. In industrial policy, we will need to fight to protect our interests – but not give into protectionism. We need to find a balance that will help Europe develop its strategic autonomy and maintain its security – home-grown technology, secure supply chains, intellectual property – while staying true to the values of a free market and competition. We are already working in this area with the FDI screening mechanism and the reform of dual use regulations.

Trade needs to contribute to the Sustainable Development Goals too. We have already put labour rights, human rights, environmental and consumer standards in our agreements – we now need to make sure they are implemented properly. We can build on these efforts for a complete and coherent trade policy – one fit for the 21st century.

At the same time, we must acknowledge one critical thing – trade policy is not foreign policy. Neither is it security policy. Nor industrial, development or climate policy. Trade is trade – and it cannot solve all the world’s problems. We must not lose sight of its primary objective to bring prosperity, strengthen the economy – being an engine for jobs and growth.

Last but not least, we have priority four – levelling the playing field. This means promoting our standards and protecting EU companies and workers from unfair
competition. We have a unique opportunity to do this. Our market encompasses more than 500 million people. We have a nominal GDP of over 17 trillion EUR. If we decide to set standards, if we fly the flag for open trade, if we promote the rules – people have to listen.

Our preference is and always has been negotiated solutions. However, if that does not work, we need to be more assertive and stand up for our rights. We do this in using our Trade Defence Instruments. And we have made a proposal for the updating of the Enforcement Regulation – to defend our interest when others block dispute resolution. In a similar spirit, we are advancing with the International Procurement Instrument – the EU has some of the most open public procurement markets in the world. This is a good thing, but markets elsewhere are not as open to EU companies as ours are. We are also reflecting on new instruments to address the distortive effects of foreign subsidies on our internal market.

So that is how the EU plans to assert itself on the world stage:

- fighting for predictable, rules-based trade;
- managing key relationships, new and old;
- leveraging trade for other objectives; and
- levelling the playing field.

We do this not for an imaginary future, nor for ideological reasons – we do it because it is what works. The EU is arguably more integrated into global markets than any other region in the world. We have gained spectacularly from it, and we want to continue to do so.

**Future perspectives**

In an age of division and in the face of a digital Cold War, the European Union refuses to surrender to our lesser instincts. We will cut a path – based on multilateralism, on environmentalism, on openness – that means we do not ‘pick a side’. Instead, we will use our weight to move the centre of gravity back towards these issues. In trade, this means rallying partners to demonstrate the benefits of interconnection and showing that interdependence is not a weakness, but a strength. You can see this strategy in our negotiating agenda over the past several years. The EU have a large number of agreements now – we signed 15 in the last
Commission’s mandate alone. It is still early days for a number of these new agreements, but signs are good nonetheless.

Japan is another great success. It is the biggest bilateral trade agreement ever negotiated. It covers an area of over 630 million people. It accounts for almost more than a quarter of the world's GDP. The barriers lowered should add 33 billion EUR to EU GDP by 2035.

These are more than just numbers – they have real world impacts. They support over 36 million jobs at home, and connect us to global growth in a time where we need it. In the coming years, 85% of growth will happen outside Europe. Trade policy brings stability and predictability to all economic operators in the EU and beyond. It opens up opportunities for business to continue to grow and thrive, and lowers prices and increases quality for consumers.

And our policy makes sure there are rules to play by – a critical thing in particular for smaller businesses who rely on these opportunities. Often big businesses can navigate more uncertainty, but smaller ones can be crushed in the jostling of international relations.

I could go on into other benefits – how the Vietnam agreement has given us a foothold in ASEAN, strengthening our presence in Asia and our leverage on encouraging sustainable development in the region. I could go into detail on Cambodia – how respect for human and labour rights is central to our Generalised System of Preferences and Everything But Arms initiatives. I could talk about the perception of trade policy – how our Eurobarometer shows that 60% of Europeans feel that they personally benefit from international trade. That is 16 percentage points more than 10 years ago.

But, as in academia and research, it is often better to get references from others rather than assert something yourself. Just the other day, the US’s Commerce Department attempted to introduce rules to block US companies working with Huawei and other Chinese companies. This was blocked by the Pentagon – an organisation one would think is probably well versed in security. They pointed out that blocking key sources of revenue and exchange would deprive them of money and incentives – just the ingredients for the research and developed needed to help the US maintain a technological edge.
This gives me hope. The debate is not over. We still have the opportunity to make sound arguments and build support for international trade worldwide. We can make facts matter again. We can stand up for our values on the world stage, building alliances and supporting multilateralism.

**Conclusion**

The current trade environment is characterised by manifold challenges. Many of these are driven by the swing towards populism and away from liberalism. Others come from mega-trends like digitalisation and climate change. In light of these challenges, there are three things we need to do.

First, we need to accept that uncertainty has become the new normal. We have experienced an unprecedented period of growth and stability – particularly in Europe – over the past several decades. We have become used to these calm seas, but now we are entering uncertain waters. We need to get used to this style of navigation.

Second, we need to explain more and much better. Not just to each other, but also to citizens. There is a lot at stake – communicating in tangible terms on the benefits of trade is key, but being honest about the possible negative effects too. It is only through this that we will rebuild trust – and ultimately fight the instinct to build up borders and barriers.

Finally, we need to be prepared to break down the barriers in our own institutional thinking. The fact is that the worlds of security, economics, trade and technology are now colliding. We must find a way to cope with this new reality – projecting our values at multiple levels. This is in part behind the thinking of our four priorities.

It is here, in the College of Europe, that the next generation of EU official, diplomats, civil society activists, business representatives and politicians are preparing themselves for the world. I feel lucky to address you directly, and in light of these lessons I would ask you to do three things for us:

- we need you to think interdisciplinary,
- we need you to be politically sensitive communicators, and
- we need you to be prepared to operate in a new, uncertain environment.
While the first two are skills that you can learn here in the College, the last is the most difficult to ask. For inspiration, I will leave you with the words of a wonderful Bohemian-Austrian poet and true European, Rainer Maria Rilke:

“Have patience with everything that remains unsolved in your heart. Live in the question.”

Thank you – I look forward to our discussion.
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