

Professor Danuta Hübner
EPP representative in the INTA committee on the US,
European Parliament

Speech at panel debate on "The future of the global economy"

10th transatlantic think tank conference

Wilfried Martens Centre, Brussels

July 16th, 2020

We like to see Europe as being on a way out of crisis. But the rest of the world is still in the midst of sanitary and economic crisis. Any foresight is distorted by often unrealistic expectations, which are dangerous on the way to the future. Second wave of the virus can come.

No doubt Covid will have major consequences for our life. We talk about health and rightly so. But we have to relook at many things. Even if health will stay with us as the key issue for long time.

We have to look at trade policy and there is a growing role of the new industrial policy behind it. There are new risks which will be repriced. There are abandoned state aid rules which can lead to enlarging the space of inefficiency. Huge amount of state aid is being and will be poured into economy, mostly in rich countries. Back in 2008 G 20 made a strong statement for free trade. We hear silence this time around. Leveling back playing field will be very difficult and painful. Not only China will be distorting competition and fair trade. The thin line between protection and protectionism is getting thinner and thinner, becoming increasingly easy to cross.

Multilateralism will survive in my view. But its condition will get worse. EU's open strategic autonomy concept combines openness, rules based global relations,

multilateralism with the right to protect through tools against foreign subsidies, FDI screening and building capacities to cope with supply chains to make them less prone to disruptions. The question is whether we can achieve resilient supply chains without reaching out to reshoring or self sufficiency. Whether stress testing, more transparency and reporting can be an adequate way to move forward on fixing the challenge supply chains will continue to cope with. Whether we can reform profoundly WTO establishing also mechanisms allowing to avoid reaching out to high tariffs or restrictions in the time of stress.

To avoid unilateral actions damaging others who are part of global system the cooperative approach to the global economy must survive but needs refreshing. There is no obvious answer to the question whether it is possible to build today a global coalition of like minded democratic countries based on a renewed trust. Vaccine might be the first test for such a coalition, but access to food and water might come next.

But cooperative global economy will not function without effective global institutions. Adequately regulated globalization can reduce conflicts, damage and risks. It must be, however, resilient to member states rather high propensity to undermine its capacities through exploiting its weaknesses. Perfect multilateralism does not exist.

Global trade will change and it will require robust global rules. Leveling the playing field with China is a big concern for many. This will be difficult to achieve. EU cannot look away anymore. We cannot have this illusion that as long as we talk with China there is a realistic hope. We have to put price on every breach of rules. But the real game changer can be a big coalition able to put put on the table a non negotiable solutions to Chinese problem. This coalition would have to be a broad one to be effective and include EU, US, Japan, Canada, other democratic Asian or African states.

For global economy to function well in the long run we need to see that, in times of crisis, with which testing moment comes, there is a high level of determination on the part of political leaders. It does not come easy. But even if understanding comes slow it is more than obvious that only together we can fend off the catastrophe.

There is the question of what role the EU – US relations could play in building the new global world, including specifically the economy. Having unrealistic expectations on the road toward a better future is probably dangerous. Still I trust that we can do it but to move our relationship forward something big is needed. Covid is big enough to be a game changer. It is true that it is difficult to find anything functioning in this relationship. It is underperforming on nearly all accounts. We have our bilateral problems, disputes, which require solutions but there is this big world out there. And I want to believe that we still share a lot in terms of values, global responsibilities, commitment to democracy and human rights. And I also believe that Covid and post Covid world needs global leadership. Transatlantic leadership has its achievements. The challenge is to see that global mindset returns to the US political leadership.

Finding solutions to our bilateral problems would help. There is a potential for constructive approach to the future. I think that the most important issue that would create a win win situation is the approach to standards issue. That was the big powerful element of TTIP negotiations. Now is the chance to sit together again and think big, and work on standards in the newest technologies areas decisive for the future. I think here of automation, robotics, AI, digitalization. It is always easier to build together new standards from scratch, even if as systems we do it differently, then to try to bring closer standards already existing and well established. Brexit will add one more dimension to the standards issue. Many of our businesses might have to live in three divided regulatory spaces. Another area where space for joint approach seems to exist is the supply chain challenge. Businesses on both sides of the Atlantic would certainly see benefits in identifying vulnerabilities and strengthening the supply chain relations. It has to start from a common reflection.

In the EU, first immediate reactions of public authorities to the pandemic and its immediate consequences came at national and European level, with a variety of national measures, in many cases supported by existing European instruments. The latter were mostly related to available European budgetary means and existing regulatory flexibility.

Common concern in this acute survival phase was to protect jobs, address risks to liquidity and look at possible regulatory relief at national and European levels.

National prescriptions for preserving employment were different. Some member states offered support to workers that were made redundant, others supported businesses to enable maintaining employment. Future will tell us who was right.

What we quickly understood, however, was the importance of European level support, which could handle better visibly diverging consequences at national level. Even though the shock was in principle symmetric, its consequences often linked to the structural characteristics of the member states, regions, sectors, fiscal situation or institutional quality of the intervention were different, in reality asymmetric. One could say that this first line of defense offered by national governments was not sufficiently coordinated. But could we coordinate better?

The first survival targeted wave of public action at European level focused on reaching out to already existing measures, which was a smart choice, on exploiting fully the flexibility of rules on different European policies, in particular those based on European budget, relaxation of state aid and economic discipline rules, involvement of EIB financing channels and unprecedentedly very quick response of the ECB. To those who say that it took two years during the 2008-09 crisis to hear from the ECB President the line that ECB will do "what it takes" and now the Bank reacted overnight, I would say that Mario Draghi had to go against the cast in stone orthodoxy of the ECB. Now the world is different.

But the survival actions, although they toughened our backs, were not enough. They have been followed by recovery focused approach as we are moving toward more long term thinking and efforts to create a strong foundation for recovery and resilience. We see also with more clarity and realism the importance of market based financing. This is also this wake up moment when we admit that jobs are created by private companies. We recognize the importance of openness and the role International trade will play in this recovery.

Unfortunately, the recent summer forecast by the European Commission shows that recession will be deeper than expected and rebound will come later than expected.

For the recovery and resilience phase we painfully try to get agreement on a combination of MFF and a resilience and recovery facility and fund aka NewGenerationEU. In a way it was helpful that the virus hit in a moment when a big

share of preparation of MFF had been already done and we had committed Europe to digital and green transition. Europe which is climate friendly, sensitive socially, competitive globally and committed to human rights and democracy is what we would like to see in the post Covid time.

There is a strong political dimension to this process and it is not difficult to envisage that it might be difficult to reach agreement on the future among European institutions and among member states.

Economy is, in this time, a "political" economy as well. And we have to be very attuned to this political dimension.

This week, actually tomorrow and the day after the debate during the European Summit should take us closer to the final stage of decisions on recovery concept and funding. Many issues are still open for compromise seeking, the very size of both instruments, the proportion between grants and loans, criteria for allocation and conditionalities. And we are not yet anywhere close to decide how to ensure swift implementation of these unprecedented financial tools. The level of determination on the part of those who favor more expansive solutions will be crucial.

I hope we will have the courage to bet on Europe that has risen to the challenge and does not shy from bold decisions.

Future cannot be left to come all by itself. Shaping it does not belong to those who have a crystal ball. It belongs to those who have courage to question orthodoxies, abandon them or , if needed, go against them.

My comments on the new globalization, on the EU – US relations in the time of Covid and on the European recovery lead me to some realistic rather than optimistic conclusions.

We as human beings have been through many tragedies in our history. I wish I could say that normally we emerge from such periods wiser and more cooperative. Unfortunately, European integration is one of very few examples here. Will we pass the test? I am worrying that we can see more nationalism rather than less. What will be the end of the story depends not only on political leaders but also on corporate responses?