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„Europe is challenged to pivot to a different world“

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You invite us to reflect on globalization, geo-economics and geopolitics. This sounds like an innocent thought interesting question but actually, at least in my view, this is an existential question. Since pandemic we have been shifting European business model based on cost efficiency of investment toward a model of public policy or even public expenditure driven investment decisions. This immediately raises the question whether this move from cost efficiency to resilience and security based investment decisions can be indeed sustainable. When will business community move back to decisions based on efficiency.

This kind of a deep transformation of the economic paradigm could be detrimental for the long term competitiveness of European economy and deserves a common reflection. It deserves exchanges between policy makers, legislators, regulators and business community to understand better its consequences.

Is there indeed a tradeoff between cost efficiency and competitiveness on the one hand and resilience and economic security on the other. Can you be resilient in an efficient way ? To accept this paradigm shift then we have to ask the next question about how to generate such an efficient resilience. That implies cooperation based diversification regarding supply chains, critical materials, energy. Europe has already made first steps toward diversification of energy sources and substantial shift toward renewable energy and green transition with all the consequences for moving away from business model based on cheap energy, energy intensive products and processes, as well as long term supply dependencies. The challenge we face now is to avoid shifting dependencies, for example those related to critical materials.

This multidimensional pivot to a new world takes place in a truly transformative time of confluence of old and new threats and challenges, and the growing risk of the world heading towards instability and disorder. We have been for a while replacing

globalization we used to know, and maybe understand, to a globalization where interdependencies are generated by a combination of old and new global flows. The old globalization got millions out of poverty, but did not address inequalities or even exacerbated them. Western assumption that the rest of the world will love western democracies was naive. The expectations that China as a WTO member would liberalize its economy, open it and gradually embark on the transition to democracy failed, this vision did not materialize. Autocratic regimes are on the rise, Russian invasion accelerated weaponisation of all flows, related to trade in commodities, goods and services, financial services, as well as digital, information and cybersecurity related ones.

Pandemic and Russian aggression tested our dependencies, our supply chains, energy availability, but also our capacity to build international alliances of like minded partners and the resilience of multilateral rules based order.

Moving away from cost efficiency to resilience and security to avoid distortions and disruptions, through the path of subsidies race will further increase development gaps, but allow the biggest non democratic regimes to generously use this opportunity.

It is true that world economy grows, trade plays its role, new flows with high relevance for green and digital transition provide boost to growth, still you can see investors focusing on doing business in countries their government is friendly with and global institutional order shows signs of troubles. With the risk of protectionism and reduced relevance of global rules, some would doubt whether it is an environment conducive to peace and security.

Resilience implies longer term contracts, dual sourcing, location policy, self sufficiency. In such environment it is a challenge for companies to build business models based on long term resilience not through concentration at home but making the resilience that would come from diversification, openness and trade. Any new European policies and regulations must boost this sustainable balance between efficiency, resilience and security.

In the context of building green economy, the US launched a new business model, reflected in the Inflation Reduction Act aiming at bringing industry back, based on buy American philosophy, using tax credits as financing tool within the logic of state

subsidies. A very noble goal, green investment, clean technology, clean energy, but the policy tools used might bring risks of global subsidy race, and distortion of level playing field globally.

The EU, to some extent in response to American challenge, combined together all the climate related efforts in the Green Deal Industrial Plan, starting the process with two major legal acts and new approach to relaxation of state aid rules. There are ambitious goals, the aim is long term sustainable competitiveness through clean tech investment, the path is to climate neutrality, and the regulatory environment looks for net zero industries.

Where we are today is a pragmatic discussion with the US on the need to aim at the common goals using mutually supportive instruments and ways of action. We have started this approach during pandemic, in particular in the context of supply chains, then the war and energy crisis have added new dimension to it, and now we look for solutions for critical raw materials in the context of the IRA.

The announced critical raw materials club is supposed to be a club of like minded trade partners. But our main platform for this type of cooperation is the EU-US Trade and Technology Council. You ask me about the policy and instruments of diversification as a business model allowing to avoid risks of dependencies. I see in the diversification process the effort to move away from autocratic regimes toward democracies and use of trade agreements with like minded partners. Again, that means that the effort to diversify is about choosing the security and resilience based policy options rather than focusing purely on the cost effective decisions of investors. So indeed we see more and more in the new global economy competitiveness built on managed trade, security and resilience as major factors behind investment decisions. This is behind the developed economies' more generous openness toward state subsidies.

The question whether we are moving toward a bipolar world where the EU has to find its space between the US and China as major global players pops up in many discussions in Europe and outside. In November last year the Nobel prize winners in economy shared during their annual lunch a vision of old Europe drowning between the two global powers, US and China. One can say that the jury is still out there but I would say that the world cannot afford such a future.

Let me say in this context few more comments on IRA. It is many things. A climate, industry and trade policy response, a very powerful one rooted deeply in a security framework. It is a strategy of technological race against China. Actually it is about the ambition to win over China.

For the EU the main issue is whether we are ready to share this kind of global design, linking economy and security in the emerging geopolitical reality. The security angle has never been strong in our economic arrangements. Replacing already during the pandemic the concern about cost effectiveness of supply chains with the concern about resilience and supply security has been a meaningful step reflecting the change of heart. Efforts have been made at both European and national levels to incentivize businesses to on shoring their investment and reduce dependencies. This policy has been combined with a deployment of a more generous state aid. One feels tempted to underline in this context that location policy brings a variety of risks and this approach runs the risk of generating heavily subsidized products that in the open economy would damage the level playing field, risking the WTO compatibility.

Our Green Deal Industrial Plan does not look like a strategic response to the China security related risk, more like an economic response. We combined together decades of climate crisis related efforts, we formulated ambitious goals aiming at long term sustainable competitiveness through clean tech investment and climate neutrality path. We want to work on it within a regulatory environment for net zero industries. But the question is open whether Europe will pursue the US security approach in its way of thinking of economy. You ask me if in the context of the US policy toward China Europe should pick sides. What seems to me clear is that the US policy on China is unlikely to yield the desired outcomes without a close alignment with Europe. This alignment can be attained through partnership, cooperation within the platform of the TTC. I would even say that the US cannot afford losing the EU if it wants to prevail in the economic rivalry with China. But Europe has to decide if we want to reposition our security approach on the US model. We have actually never developed such a clear cut link between security and economy because security was always seen as coming from somewhere else, through different channels. Different times today justify different approach. Certainly, IRA has created a new context for our cooperation in coping with challenges raised by China.

I belong to the club of those who believe that the transatlantic cooperation is the best way for either side to de-risk its dependency on China and to face it successfully globally. In particular, when it seems that a new target for China's global race seems to be the financial sector. On clean energy, we know that today China dominates the clean energy value chain: it controls 75% of global production of battery cells and 85% of all solar photovoltaic cells. Seven out of the top ten wind turbine producers are Chinese companies. The European clean energy supply chains are already dangerously dependent on China. We should be weary of not replacing the current EU's dependencies on Russian fossil fuels with a dependency on China's rare earths or semiconductors that will be needed to develop our green energy network. I mentioned them before.

Some analysts already suggest that China could become the biggest battery manufacturer in Europe within a decade. The EU so far has seen the challenges brought by China less as a security threat and more an economic one. But as the US, also the EU, both have to be strategic on China and continue to talk about how they can jointly face the global challenge posed by China. This may require a move in the EU's security approach toward the US model.

Some say that the health of the transatlantic relationship will hinge on the EU's willingness to work with the US to confront China's geo-economic challenge. The TTC certainly is a good platform for this but I feel tempted to see this issue as a part of a broader challenge Europe is facing which is the need to reposition itself for a different world.