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THE EUROPEAN UNION AND THE FRAGMENTATION OF INTERNATIONAL TRADE: a view from Barcelona

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The seminar "The European Union and the fragmentation of international trade: a view from Barcelona", organised in collaboration with the Metropolitan Area of Barcelona and with the support of the Barcelona Chamber of Commerce, took place on December 13th, 2023. The experts present provided insights on how the European Union and Barcelona are responding to the fragmentation of international trade.

Antoni Segura, the president of CIDOB, introduced the seminar by positing that the liberal international order is splitting into two blocs, one around the United States and the other led by China. These blocs are also beginning to emerge in the system of international trade. The World Trade Organization (WTO) Annual Report 2023 warns of signs of fragmenting international trade along these lines. Commerce between "hypothetical blocs" has grown by between 4% and 6% slower than trade within these blocs since the onset of the war in Ukraine in 2022. The European Union (EU), then, whether it looks east or west, is faced by actors who are undermining the rules-based system of international trade. Oriol Illa, from the Metropolitan Area of Barcelona, said that understanding the EU's response to this international situation is crucial to be able to take public administration decisions in Barcelona as there is a direct and significant relationship between macro and micro policies.

The CIDOB seminar began with an opening address from Ignacio García Bercero, a director at the Directorate General for Trade of the European Commission, who explained the EU's response to fragmenting trade. He was followed by a panel of experts who elaborated on the issues highlighted by Mr García Bercero. This briefing provides a summary of the main ideas discussed. Overall, the experts agreed the EU is ready to defend itself from aggressive geo-economic action on the part of third countries, even if that means lowering its trade openness sights. Chinese investment will continue to come to Barcelona, but it may be limited in the tech field.

1. EU response

Ignacio García Bercero kicked off the seminar with a review of the current international political instability. He recalled that the EU's goal is to secure strategic autonomy while limiting the fragmentation of international trade as much as possible, even if some degree of fragmentation is inevitable. He also outlined the European economic security strategy, which is based on three pillars: (1) promoting competitiveness and reinforcing the resilience of the single market; (2) protecting itself from external economic coercion; and (3) strengthening partnerships with like-minded countries. EU trade policy supports the pursuit of this strategy through its three lines of work: the multilateral agenda, the bilateral agenda and the development and implementation of a toolbox of "autonomous instruments".

At multilateral level, the EU remains committed to the future of the WTO. The WTO is at a critical juncture and faces three possible scenarios. The first is for things to remain as they are where the WTO continues to have a marginal but useful role, though this scenario is unrealistic. The second is further fragmentation of international trade where the WTO plays an even smaller part. The final scenario is a reform of the WTO, increasing its relevance in international trade. Reform must mean that the WTO contributes to goals such as the green transition or sustainable development, agrees new rules on services, digital trade, subsidies and investments, and restores the dispute settlement system. The EU is working to make the reform happen and the next step is to delve deeper into this issue at the upcoming ministerial conference in February. At present, China is more active in the WTO than the United States and has yielded to allow an agreement on fisheries subsidies. But it will be much harder for it to back down on key elements of its agenda such as industrial subsidies.

The EU's bilateral agenda continues to be the most ambitious in the world, in contrast to the United States. Recently, the commission has signed agreements or modernisations of agreements with New Zealand, Kenya and Chile, and remains ready to do the same with Mercosur and Mexico, as well as to continue negotiations with India, plus Indonesia and other Association of Southeast Asian Nations (ASEAN) members. Still, the EU must relax its approach to bilateral negotiations. Rather than negotiating only global agreements, it is necessary to think about other more specific and flexible forms of free trade, like the agreement on investment with Angola or on digital trade with Japan. In addition, it is important to look at how trade policy can interact with other policies such as development or regulatory cooperation. For its trade agreements, the EU thinks in terms of value chains to promote its diversification while ensuring security of supply. It should not limit itself to like-minded countries alone.

Lastly, the EU has autonomous instruments that can be classified into three types. The traditional level playing field instruments include its anti-dumping and anti-subsidies tools, to which it has added instruments to control the subsidising of foreign companies operating in the single market, or on reciprocity in public procurement. Regarding the instruments in this first group, effective and vigorous implementation is a must. The second group comprises the European Green Deal instruments like the Carbon Border Adjustment Mechanism (CBAM) and deforestation or due diligence regulations. These tools help Europe to achieve its decarbonisation goals, but at the same time they have an adverse effect on our relations with developing countries. The ambition is to reconcile the two goals, and one way of doing it could be through trade facilitation. The last group covers economic security tools that include foreign investment and dual-use export controls and the anti-coercion instrument. Unlike the other groups of instruments that require improvements in implementation, the economic security tools require better policy development. That is why the commission will shortly present a proposal for an instrument to control outbound investment. China appears to be more concerned about the autonomous instruments than the United States.

In Mr García Bercero's view, EU trade policy has evolved. Now it must not only try to preserve and boost trade multilateralism, as well as further bilateral and regional freed trade agreements, it must also protect the environment and ensure security – for example, through de-risking or reduced dependence on a single supplier for risk products in sectors such as the critical minerals required in new technologies.

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2. Is this the best response?

Oscar Guinea, a senior economist at the European Centre for International Political Economy (ECIPE), opened the panel discussion by criticising the imbalance in trade policy over the last few years. Much greater weight has been given to defensive action (new instruments) recently, rather than going on the front foot (new free trade area agreements), and this has had a negative effect on trade. If the EU is to achieve its goals, to be at the forefront of technology and decarbonisation while maintaining strategic autonomy, it must increase its access to markets and boost its resilience. This requires more ambitious agreements that lower the cost of trade.

Jerónimo Maillo, professor of Public International Law and International Relations at CEU University San Pablo, shared some ideas about the new outbound investment screening instrument that the European Commission will propose in 2024. The instrument's main goal is national security, as it will try to prevent key technologies from falling into the hands of rivals. National security is the responsibility of each member state in the EU and, therefore, one would expect a framework instrument, as in the case of the screening of inbound investment, which limits the EU's role to coordination. In terms of its scope, it may well only cover direct investments and those in certain tech areas at first. Some countries like Germany are already drawing up national instruments of this type, so it will require swift action on the part of the EU. In Mr Guinea's view, autonomous instruments – this one included – could increase the EU's bargaining power with China, though he pointed out that this would only be possible if the measures were discretionary rather than automatic.

Olga Baus Gibert, deputy head of unit at the Directorate General for International Partnerships of the European Commission, laid out the Global Gateway that seeks to change the EU's relations with developing countries by facing the triple climate, demographic and digital transition together. In Latin America and the Caribbean, for example, this will be achieved with an investment agenda that has clear public policy goals. These projects will be delivered through a "team Europe" approach that includes not just the EU institutions and member states, but also development banks (including the European Investment Bank) and private companies. The Global Gateway can help European industry to export while also helping to limit the impact of the autonomous instruments in third countries. China feels threatened by the Global Gateway as it (unsuccessfully) lobbied Latin American countries to reject a digital partnership with the EU in the framework of the initiative.

Luís Pinheiro, senior economist at CaixaBank Research, went next with a presentation on de-risking. He said that when developed countries try to reduce their dependence on certain Chinese products, rather than de-risking triangulation occurs. For example, while trade between the United States and China in certain goods has fallen, US trade with Vietnam in those same products has doubled, and trade between China and Vietnam has increased by 40%. This would suggest that Chinese companies relocate to Vietnam in order to continue exporting to the United States. Thus, rather than de-risking it appears to be leading to a diversion of trade flows and it may make value chains less transparent. In the short term, there is no alternative to China in terms of regional specialisation, though we are witnessing a reconfiguration of value chains, the scale of which is unknown. To paraphrase Deng Xiaoping, we could be looking at "a globalisation with Chinese characteristics".

The final speaker on the panel, Josep Maria Gomes, international business developer at the Barcelona Chamber of Commerce, spoke of Barcelona's enduring appeal to investors, especially Chinese investors. There has been an increase in interest from Chinese firms to invest in Barcelona through the creation of their own establishments and trade networks. In addition, they are beginning to want to sell with their brand rather than as others' house brands. Barcelona entrepreneurs have tried to diversify their suppliers by seeking alternatives in India, but they have found that the main suppliers in India are Chinese, making diversification futile.

Ignacio García Bercero wanted to close the round of contributions by emphasising that while it is true the balance appears to have tipped in favour of trade defence instruments, that has not been the case as far as the commission's work and effort is concerned. Closing a free trade agreement is a long and arduous process, as is the reform of the WTO. He also pointed out that the EU can only move forward on economic security with more and better coordination and treading very carefully, as it is an issue of national responsibility. On the subject of de-risking, diversification from China's value chains is achievable, but only in the medium term and it only makes sense if it focuses on a small number of products linked to defence and technology.

The Global Gateway seeks to change the EU's relations with developing countries by facing the triple climate, demographic and digital transition together. In the case of Barcelona, this tool can help foster the internationalisation of local companies.

3. Conclusion

The seminar made it clear that the EU has taken steps to defend itself from aggressive geo-economic action, though its goal remains rules-based trade centred around the WTO. What the EU is doing is blocking any attempt by third countries to get their hands on its technology, be it by investing in the EU or by attracting investment from European companies.

The EU has no wish to depend on certain strategic products from countries that offer only limited supply guarantees. It also wants to maintain good relations with developing countries. The Global Gateway is a tool that can help achieve both goals and, moreover, foster the internationalisation of companies from Barcelona.

Barcelona will continue to receive Chinese investment. Problems will only arise if the targets of investment are tech companies.