Summary Roundtable Event: The EU and Global Economic Governance

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The event was organized by the Jean Monnet Chair in EU External Relations, Prof. Crina Viju-Miljusevic

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Preface

On November 15, 2024, the Carleton University Jean Monnet Chair in European Union (EU) External Relations hosted a roundtable event entitled “The EU and Global Economic Governance.” This event brough together five academic experts to discuss how the EU is affected by the evolving balance of power and the increasingly multipolar world. Topics for the panelists included examining how the EU has grappled with its recent internal crises (including the Eurozone crisis and Brexit) as well as how the EU is navigating an increasingly competitive global environment all while trying to maintain itself as a strong, cohesive actor. This summary presents the major points provided by each panellist during their opening remarks as well as a condensed (and edited) version of the question-and-answer session that followed the event.

Panelist #1: Dr. Eugénia da Conceição-Heldt (Professor, Technical University of Munich)

Dr. da Conceição-Heldt began her remarks by reflecting how recent economic security policies taken by major economies around the world have undermined global trade. This includes policies taken by the United States (US) under the Biden administration, including the CHIPS and Science Act and the Inflation Reduction Act. Both Acts securitized US environmental and industrial policies by including incentives to boost domestic production of goods while establishing barriers to international trade. The EU has also followed a paradigm shift from market-oriented to economic security-focused industrial policy, including publishing the new European Industrial Strategy, the Net-Zero Industry Act, as well as several other defensive economic instruments.

These measures are negatively affecting the global trading system by undermining the international institutions that govern global trade. This includes the World Trade Organization (WTO) – which allows members to use national security as an exemption to global trade rules – but which is currently experiencing significant gridlock in its adjudication mechanisms due to an ongoing refusal by the US to nominate judges to the Appellate Body. What are the implications of this increased use of national security measures on the multilateral trade system? First, a geopoliticization of trade and resulting erosion of global trade rules; second, a fragmentation of international trade regulation due to unilateral positions taken by individual WTO member states; third, vagueness of WTO national security exemption allows members to continue using it as a way to circumvent international trade regulation; fourth, the need for the WTO to adapt to an international system increasingly based on national security and defensive economic interests.

International trade organizations like the WTO need to introduce more flexibility in their governance to effectively respond to this paradigm shift in global trade. The EU, as a major trading power, can play a crucial role in leading these reforms. This includes forming coalitions within the WTO (alongside partners like Canada, Australia, and the United Kingdom (UK)) to spearhead reforms rather than wait for the US to take a leadership role. This can also include exporting the EU's own model of differentiated trade integration to the WTO in order to introduce more flexibility to the WTO system. Introducing these reforms will help strengthen the current institutions against the global trend towards defensive trade strategies.

Panelist #2: Dr. Amy Verdun (Professor, University of Victoria)

Dr. Verdun spoke to how the Eurozone crisis and Brexit have impacted the EU's contribution to global economic governance. While both crises happened several years ago, they still present important lessons for learning how events in the past influence the EU's responses to current geopolitical and geoeconomic challenges.

With the Eurozone crisis, the EU was forced to deal with a series of complex situations in different member states while simultaneously having no established instruments to help the countries affected. Strong leadership from member state central banks, governments, and the European Central Bank (ECB) became crucial to helping member states in the absence of established EU institutions. Coming out of the crisis, the EU formalized many of the temporary institutions it established to quickly support member states, thus leading to a deepening of integration in areas like banking and capital markets (though these projects are still incomplete) as well as increased coordination of fiscal policies through the European Semester.

The impact of the Eurozone crisis also served as one of the motivating factors that led to Brexit. Since becoming a member of the EU in 1973, the UK has always been skeptical of any deepening of integration amongst members, instead favouring enlargement to increase the size of the EU. Over time, this criticism of the EU increased amongst the British electorate and culminated in their decision to leave the EU via referendum in 2016. Importantly, Brexit showed how large-scale international trade cooperation and regulatory regimes can change when public support for such cooperation erodes. This understanding can be applied to the current shift in global trade, as domestic opposition to international trade in the US and other countries pose a significant challenge to the global trade institutions that uphold these regimes.

What can these events tell us about global economic governance today? These events show us that we are currently sitting at an interesting crossroads in history. After roughly two decades of relatively stable liberal international trade, new dynamics are emerging that challenge this status-quo (including isolationism from the US and an increasingly multipolar world order). The EU, which has so far existed primarily as a regulatory institution and a normative leader, is looking at these changes and grappling with ways to strengthen its role in the international system. This includes promoting lessons it learned from the Eurozone crisis, such as the 'innovative governance' strategy, in which countries cooperate without formal institutions to provide more flexibility and speed in the response to crises. Brexit has also had a positive effect on deepening EU integration, as seen in increased cooperation in terms of environmental policy, cybersecurity, and in spearheading international sanctions against Russia after its invasion of Ukraine in 2022. As the EU grapples with the current changes to global economic governance, it is again being forced to innovate and evolve its governance and actions.

Panelist #3: Dr. Ramūnas Vilpišauskas (Professor, Vilnius University and 2024 Konrad Adenauer Stiftung Visiting Professor at Carleton University)

Dr. Vilpišauskas spoke to the relationships between the EU, China, and the US, including a background on their progression, the growing tensions between the EU/US and China, and the alignment of the EU and US policies towards China. Dr. Vilpišauskas also spoke about how these dynamics are expected to change given the new EU Commission (starting in December 2024) and the second Trump administration (starting January 2025).

In response to China's increasing assertiveness in the areas of geopolitics, economics, and human rights, the US (and, to some extent, the EU) have developed increasingly restrictive policies towards China. Therefore, the EU and the US are becoming more aligned in their respective relations with China, though this alignment is still relatively limited overall. The US continues to have a much stronger focus on 'containing' China's rise as a global economic and military power because of concerns regarding the challenge that China might pose to the US global hegemony. This focus, which maintains strong bipartisan domestic support, sees increasingly restrictive trade policies towards China in order to counter its economic power. The EU is more focused on 'managing' the risks ('de-risking') that result from interdependencies that exist in its relationship with China. This view is manifested in the EU labeling China as a "partner, competitor, and systemic rival." Therefore, while the US and the EU are both increasingly wary of their relationship with China, they have differing motivations for introducing such restrictive policies.

By securitizing their relations with China, both the US and EU are more prone to taking unilateral trade actions and therefore contributing to further undermining the international trade order. However, despite the increased intensity in the US-China relationship, interdependence between the two remains very high. This interdependence means that a crisis between the US and China would have significant implications on the global economy.

The EU has been increasingly doubting a core concept of its organization, namely that 'more economic interdependence reduces the risk of conflict.' This doubt first appeared following Russia's manipulation of EU energy supplies following its 2022 invasion of Ukraine. Some EU officials and member states are now applying this doubt to the EU-China relationship, though there is still a significant diversity of opinions (e.g., German car manufacturers are still increasing their dependency on China). Therefore, there exists a gap between the EU's rhetoric and its member states' actions. This gap highlights an additional challenge for the securitization of the EU's relationship with China: that while trade is an EU competency, national security remains a competency of member states.

Looking ahead, there are a few scenarios that could happen to the EU-China and US-China relationships once the new administrations in both the US and EU take office. For the US-China relationship, there are two options: one, continued (or even an escalation) of containment policies; two, a shift to transactional dealmaking (i.e., more bilateralism). Shifting to transactional dealmaking would be more unpredictable than containment policies and could lead to decisions that benefit privileged actors (e.g., those with political influence over Trump). Both options are expected to further harm trade relations between the US and China. Interestingly, these strategies could also be applied to the US-EU relationship, in which case there could be strong fragmentation amongst member states on how to respond – including whether to increase cooperation with the US or increase cooperation with China. This response will also be affected by the new Commission and its emphasis on security and competitiveness.

Panelist #4: Dr. Patrick Leblond (Associate Professor and CN-Paul M. Tellier Chair on Business & Public Policy, University of Ottawa)

Dr. Leblond spoke about the governance of the digital economy and EU's role in this area. While some have criticized the EU for being too lethargic to respond to changes in the 'real' world, it has consistently taken a leading role in governing the digital economic space. The EU, along with China, have done the most work to govern the digital space and outpace the rest of the world (including the US and Canada) by a long distance. What does this leadership position mean internationally? It means that the EU currently exists in the digital space as a 'passive avant-garde' leader, wherein it offers regulatory leadership and requirements to follow EU laws to do business with the EU, but it does not actively promote its view for how the digital space should be governed.

To better understand this role, we first need to backtrack and ask what the current challenges are to governing the digital space. The first challenge is trying to find a balance between promoting international trade (especially the flow of digital data) while simultaneously protecting fundamental rights to privacy and equality. The second challenge revolves around improving digital inclusion worldwide. Currently, there is a large digital divide between developed and developing countries (as well as a rural/urban divide within developed countries) with regard to digital infrastructure, access to the digital space, and access to digital services. The third challenge – and the one where the EU has had the most proactive leadership – is the taxation of digital multinational corporation (e.g., Meta, Alphabet, and Apple) which tend to sidestep regular tax jurisdictions by establishing their presence in low tax locations (e.g., Ireland and Luxembourg). In responding to the third challenge, the EU (through the Organization for Economic Cooperation and Development (OECD)), has promoted a global regulatory framework to govern digital taxation. While this framework has received significant support, it has not been implemented because of opposition by the US.

The EU wants to promote its model of digital governance internationally, but not directly. Instead, the EU prefers to promote and support other institutions (including the United Nations Digital Compact) to solve these current challenges in digital governance. The EU also prefers to present itself as a model for other countries to follow – though it does not take an active role in influencing other countries to adopt its model. Other actors, including China, are taking a much more active role in leading global digital governance and challenging the EU's influence in this area. Therefore, while the EU continues to be a leading actor in digital governance, it could increase its assertiveness to have the EU model adopted internationally.

Panelist #5: Dr. Wolfgang Alschner (Professor, University of Ottawa)

Dr. Alschner spoke about the EU's unilateral approach to trade, contextualizing this approach in relation to the US trade unilateralism, providing examples of the EU unilateral 'toolkit,' and explaining what this approach means for Canada.

Compared the to the US, the EU can be described as a 'reluctant unilateralist.' Its reluctancy comes from its desire to have international institutions (like the WTO) govern global trade, but it is currently resorting to a unilateralist approach out of frustration that these institutions are not functioning properly. While it is taking a unilateral approach, the EU continues to justify its actions through general international law that governs the relations between states. This includes establishing ad-hoc dispute resolution bodies outside of the WTO in order to resolve trade disputes with other countries. Interestingly, however, the most important aspects of the EU's new trade regime are not directly trade policies but instead are 'non-trade' measures that indirectly affect trade given their large scope. There are three major measures which have significantly affected EU trade: first, the Anti-Foreign Subsidy measure which prevents non-EU countries from subsidizing businesses located in the EU; second, the Carbon Border Adjustment Mechanism, which prevents companies from producing goods in places with lower environmental standards and exporting those goods to the EU; third, the EU Anti-Deforestation Regulation, which requires producers to show that their goods have not been produced on recently de-forested land. While the Carbon Border Adjustment Mechanism and the Anti-Deforestation Measure were implemented to promote the EU's internal climate policies, they both have significant implications for the EU's trading partners.

Canada is heavily affected by the Carbon Border Adjustment Mechanism and the Anti-Deforestation Regulation because of the high levels of carbon-intensive products (e.g., steel, aluminum, fertilizers) that it exports to the EU and because so many Canadian goods are produced on deforested land (e.g., timber and agriculture). This means that Canadian businesses will face high costs to ensure that their products comply with the EU measures so they can continue their trade relationship. These measures therefore put Canada at a crossroads between the EU and the US: On the one hand, Canada must regulate more to maintain access to the EU market, but on the other hand Canada must de-regulate to stay competitive in the US market. The size of this divide, and how Canada navigates it, will have a large effect on both the Canada-EU and the Canada-US trade relationships in the near future.