Geopolitics and Trade in changing times

A view from Barcelona

Patricia García-Durán Huet and Eloi Serrano Robles (eds.)

CIDOB
BARCELONA
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AMB Àrea Metropolitana de Barcelona

MONOGRAFÍAS CIDOB 79

CIDOB edicions
Elisabets, 12
08001 Barcelona
Tel.: 933 026 495
www.cidob.org
cidob@cidob.org

Print: Book-Print S.A.
ISBN: 978-84-92511-92-1
Legal deposit: B 3109-2021

Barcelona, February 2021

Cover photo:
Suzy Hazelwood,

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INTRODUCTION

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Economics studies the management of scarce resources given infinite needs. Management means prioritising to achieve established objectives. The formulation of objectives and prioritisation are determined by two essential components: ideology (values) and the correlation of forces, in other words, politics. Hence the close link between politics and economics. A great deal of work in the social sciences studies this relationship, and particularly the organisation of the planet's productive structures.

Various methodologies can help in this analysis. Institutionalist schools maintain that the rules of the game determine the behaviour of the different agents and their subsequent development (Acemoglu, Robinson and North are some of key authors in this area). Indeed, significant scientific consensus exists over the links between political geostrategy and geoeconomics. Niall Ferguson and Eric Hobsbawm, for example, have studied the relationship from different long-term analytical perspectives. From empires to latecomers, a country or city's political position in the international context has largely been conditioned by the country's interests, economic capacity and business structure, and vice versa.

Barcelona and its metropolitan area are no exception. The city's role as a technological, logistical and commercial hub means that the world's geopolitical situation necessarily affects its future development. We believe we are entering a period of disruption, with a technological revolution looming that will create new rules of production and change the social order in ways that remain difficult to envisage (Zuboff, 2019). Alterations with uncertain outcomes are also affecting the global geopolitical scene, such as the leadership of the United States, the roles of China and the European Union, the direction of multilateralism, and regionalism. In short, the ground is shifting in both geoeconomics and geopolitics.

This monograph seeks to make a significant contribution to the analysis of the impact of all these changes, which the COVID-19 pandemic has accelerated. The health crisis, whose political, economic and social implications remain to be seen, has heightened the need to reflect on the conditions of an ever closer future.

In a hyperglobalised context, the study and analysis of the interrelation between geopolitics and geoeconomics is essential to understanding the development of territories and their residents' well-being, and particularly Barcelona. The monograph is therefore structured in two parts. The first focuses on analysing business behaviour and Barcelona's position in the light of the new challenges; the second aims to analyse the phenomenon from a more macro perspective.

The impact of global and European value chains on companies and logistics: a perspective from Barcelona

Business decisions are conditioned by internal and external factors. The internal relate to the company's resources and capacities, while the external concern the company's insertion in a particular local, regional or global context or reality. Understanding geopolitics is therefore essential to understanding business behaviour. At the same time, understanding resource distribution and the capacity to generate technology is vital to understanding different countries and regions' political positions. Business internationalisation and country specialisation theories seek to explain the productive insertion of the different economies in the global context.

Successive technological revolutions have all involved increases in production. In both quantity and diversity, as supply has grown exponentially, so has trade. Linked to this phenomenon, international competition has intensified at the same rate as the world has become more interrelated (i.e. globalised). Companies are both subject and object in this process, and their strategies are increasingly designed to cope with this scenario. Global value chains are thus the product of a business mindset of maximising profits, optimising resources and obtaining competitive advantages in a globalised environment.

The first section begins with an illustration by Jordi Bacaria, Professor at the Autonomous University of Barcelona, of the general framework the volume will study. Bacaria argues that we are not immersed in a period of deglobalisation. On the contrary, we may be witnessing a regional reorganisation of trade driven by new technologies (and COVID-19 in the short-term) that will condition the structures of global value chains. In his view from Barcelona, a paradigm shift is needed, based on technological, industrial and energy development, which places the emphasis on education, training, innovation and health. Optimistic foresight should prevail over nostalgic hindsight.

The coordinators have considered it appropriate to include Latin America in the analysis. The region's preferential relations with Spain, Catalonia and Barcelona make it pertinent to the volume's object of study. Antoni Estevadeordal, from the Inter-American Development Bank, suggests that there is an opportunity to deepen this relationship, taking advantage of the EU's global leadership on issues such as climate change, the digital transformation and social inclusion. In this sense, EU–LAC relations are well placed to promote the transformations the region needs more than ever.

Lourdes Casanova, Director of Cornell's Emerging Markets Institute, incorporates the role of Spanish companies into the analysis. She argues that a state of affairs is forming that is totally different from the one in which Spanish companies began to internationalise in the 1990s. The way the process has matured towards more complex activities and more advanced economies is perfectly described. Yet, in her view, the outlook is complicated by three challenges: first, the levels of indebtedness of these companies; second, the crisis caused by the pandemic on both sides of the Atlantic; and, finally, society will demand that companies make a greater commitment to solving social and environmental problems.

Two works focused on Barcelona conclude the first section of the monograph. Paloma Fernández, Professor at the University of Barcelona, presents a historical view of Barcelona's role in global value chains that is both highly informative and valuable for understanding the current context. She quotes Michael Porter's argument that the competitiveness of value chains, and the territories in which they are located, depends not only on companies' productive and commercial capacity, but also on the institutional and social environment, which must be in synch and coordinated with their companies. She therefore argues that Barcelona's problems may have begun when the Olympic Games finished, when a shared vision of the country came to an end, along with projects in which institutions, companies and citizens could all be winners. Institutional stability is needed to take advantage of the location and specialisation advantages of the metropolitan area.

Joan Trullén and Vittorio Galletto, from the Barcelona Institute of Regional and Metropolitan Studies, make an extraordinary contribution to understanding Barcelona's fit in international geopolitics and trade. Their reading is that the metropolis of Barcelona is the clear leader of Spain's international and interregional trade, and that the direction of these flows has been transformed since the Great Recession, with exports abroad exceeding those to the rest of Spain. The foreign trade balance and that with the rest of Spain is generally positive and intra-industry trade plays a significant part, suggesting that the industrial sector remains strong. The authors believe that Barcelona's leadership on the southern shore of the Mediterranean is vital to mitigate the impact of COVID-19 and the recession in the tourism industry.

The effects of geopolitical changes on international trade and supply chains

The focus of geopolitics has evolved. Before the Cold War ended, when people spoke of geopolitics they meant security issues. In the post-Cold War period, however, observers have tended to agree that geopolitics and geoeconomics overlap. The struggle for political power between the major global players is no longer primarily for military ascendency, but also economic power (Roberts et al., 2019).

At the end of the Cold War, economic competition was contained by shared rules of the game. International bodies like the World Trade Organization (WTO) provided frameworks within which conflicts could be settled and multilateral agreements reached. The emergence of new global powers – particularly China – and the advent of a new technological revolution have jeopardised this organisation of global trade relations. The trade and technology war between the United States and China over recent years suggests a return to economic relations based on force rather than shared rules.

In a world where economic power helps define the global powers, the EU's role is by no means trivial. In market terms it has nothing to envy the USA or China. So, depending on how the EU defines its trade policy, the value chains in which Barcelona participates may be multiplied or reduced.

In her contribution, Clàudia Canals from CaixaBank Research argues that new technologies may both reduce trade flows and boost them. New technologies like the electric car and 3D printing that represent advances in automation are likely to reduce the attractiveness of countries with low labour costs, and thereby cause reshoring towards developed countries. On the other hand, technological advances like 5G and blockchain that improve information and communication channels may help companies slice up their production processes and carry them out in different countries.

The author estimates that deglobalising technological forces could endanger 10%–15% of trade flows over the next decade. Meanwhile, pro-trade technological forces could increase flows by between 6% and 11%, according to McKinsey estimates, meaning the two forces appear to be fairly balanced. However, the COVID-19 crisis is also expected to accelerate the trend toward shorter value chains and automation, while the consequences of US–China tensions point in the same direction.

The analysis of the EU's relations with China by Miguel Otero of the Elcano Royal Institute also indicates that there are factors for and against greater economic integration between the two. On the one hand, the EU views China as a strategic partner and, on the other, a negotiation counterpart, an economic competitor and a systemic rival. As a strategic partner, few international issues can be resolved without Chinese participation. As a systemic rival, it defends a social and political system that is far removed from EU liberal and democratic values. These differences make China a counterpart in both international organisations and bilateral negotiations. It has become an economic competitor because it is no longer merely the world's factory for low value-added products, but is committed to becoming a mainstay in sectors of high technological value. Europe still considers that a positive-sum game can be achieved, believing that whatever is good for China is not necessarily bad for the EU and vice versa.

Biden's rise to power in the US is also expected to be good for EU trade. However, in the view of Marc Ibáñez from Yale's Master's in Global Affairs, several obstacles stand in the way of new negotiations over a transatlantic economic integration agreement. While trade and investment between the two markets have risen during Donald Trump's presidency, European citizens no longer see the USA in the same light. Achieving strategic autonomy in both defence and foreign affairs is widely supported in Europe. The United States' management of COVID-19 has reinforced the idea that something has broken in transatlantic relations. On the other hand, the need to defend the Western model against China and the existing economic interdependence between the two markets will help the alliance survive.

WTO reform will be another major determinant of the future of globalisation and the EU's role in it. Xavier Fernández Pons, Professor at the University of Barcelona, argues that reform will be an almost impossible task. The author believes that the main obstacle to reform is the emergence of new commercial powers (especially China) that do not share the same vision of how global trade should be organised. The gravity of the WTO crisis is shown in the stagnation of multilateral trade negotiations (of the Doha Round); the proliferation, in recent years, of increasingly ambitious bilateral, regional and mega-regional trade agreements; trade wars; the US blockage of the WTO Appellate Body; policies that seek to ensure a certain level of self-sufficiency in the wake of COVID-19; and the frictions from the contested leadership of the fourth Industrial Revolution (5G and artificial intelligence).

Ignacio García Bercero and Iciar Chávarri Ureta, from the Directorate-General for Trade of the European Commission, are somewhat more optimistic. If there is one area in which the EU can influence, it is in trade. Reforming the WTO is undoubtedly difficult, but President Biden's arrival in power in the US and China's progressive acceptance that the status quo in the organisation is untenable may help achieve a reform that allows the multilateral body to continue offering a trading system based on shared rules. The EU is carrying out a strategic review of its trade policy with two objectives: to help the economic recovery, and to build an EU based on a model of open strategic autonomy. To achieve this, it is proposed that efforts should be concentrated on relaunching multilateral cooperation and the reform of the WTO. The EU must also achieve trade defence instruments that facilitate a level playing field and guarantee security of supply. The authors emphasise that it is not a question of the EU becoming protectionist. That would go against its interests, since trade helps both economic growth and employment in the EU. The key is to achieve a better balance between autonomy and openness.

Conclusion

This monograph clearly shows the existence of a tendency towards regional protectionism. The hyperglobalisation process experienced since the 1990s is being fragmented around the world's three great factories (Baldwin and López-González, 2014): the American (around the United States), the European (around Germany) and the Asian (around China). This will increase the regionalisation of value chains.

This trend has been spurred by the COVID-19 pandemic, but it was a reality even before the crisis. Its main causes are twofold: the rise of China (and the United States' response to it) and the nature of new technologies. The lines separating economic and security objectives have become blurred, creating the need for strategic protectionism, above all in the field of digital commerce.

This reading of the geopolitical situation suggests that the Metropolitan Area of Barcelona should encourage its companies to focus on the EU's internal value chains. But the contributions in this monograph also indicate that this trend towards deglobalisation – or perhaps better said regionalisation – is temporary.

We are in a period of transition towards a new form of globalisation. In this transitional period, the large global players are taking up positions to enable them to participate in the budding digital globalisation in the best possible conditions.

This second reading suggests that Barcelona must continue to open up to new value chains. In particular, several authors in this monograph consider that it is especially well placed to take advantage of the development of value chains with Africa.

The WTO will continue to be the barometer of globalisation, but it must be reformed. To survive, new rules of the game must be agreed that suit China and other emerging countries, as well as the West. If the WTO is successfully reformed, we will enter a new period of globalisation. If not, the trend towards fragmentation will continue.

The EU can play a key role in writing the next chapter of globalisation. Its position as a commercial giant and its relations with the US and China give it an essential mediating role in WTO reform. And indeed, its priorities have recently shifted: from negotiating bilateral/regional agreements to concentrating efforts on multilateral agreements.

In summary, institutional factors have been inseparable from economic ones at all points in history. The authors agree that we are facing significant changes. Transformations are underway that will bring new conditioning factors to globalisation and the structuring of global value chains: technological revolution, increased regional multilateralism, the consolidation of some emerging markets, and changes resulting from the distribution of power and the governance model (changes that COVID-19 may notably shake up).

In the new scenario Barcelona should aim to build new consensuses that enable the area's potential to be exploited. The data indicate that the city remains in good condition to face the new times with relative success, but tweaks must be made in some of its areas of productive activity, such as tourism.

This introduction cannot conclude without expression our gratitude to the Metropolitan Area of Barcelona. Without their support, this initial work on the geopolitical challenges we face could not have been written.

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PART I: THE IMPACT OF GLOBAL AND EUROPEAN VALUE CHAINS ON COMPANIES AND LOGISTICS: A PERSPECTIVE FROM BARCELONA

- DISRUPTED GLOBAL VALUE CHAINS AND GEOPOLITICAL SHIFTS

  Jordi Bacaria Colom

- GEOPOLITICS AND TRADE: FUTURE RELATIONS BETWEEN THE EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN

  Antoni Estevadeordal

- SPANISH MULTINATIONALS FACE AN UNCERTAIN FUTURE

  Lourdes Casanova

- *VALUE CHAINS AND TRADE IN BARCELONA. A HISTORICAL VIEW AND A PROPOSAL FOR THE FUTURE*

  Paloma Fernández Pérez

- GEOPOLITICS AND FOREIGN TRADE: AN ECONOMIC–TERRITORIAL VIEW OF THE METROPOLIS OF BARCELONA. A FUNDAMENTAL MUTATION

  Joan Trullén and Vittorio Galletto

DISRUPTED GLOBAL VALUE CHAINS AND GEOPOLITICAL SHIFTS

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Introduction

Long before the wave of protectionist activity led by President Donald Trump's trade wars, with their anti-multilateralist slant, globalisation faced criticism for its effects on inequality and debates raged over whether it was still growing or had fallen into decline. This protectionism has weakened the global value chains (GVCs) that are key to international trade. But then, perhaps the value chains contributed to bringing on that protectionism. It is hard to separate cause from effect.

Whatever the sequencing, the result is that the pandemic has disrupted global value chains. It matters little now if they were growing or shrinking before, the impact is causing profound change that is affecting the industrial sector, particularly transport and tourism services. Sectoral and regional displacement is underway.

Barcelona, a nerve centre for many industrial and services value chains, is at a turning point. The question is how changes in global value chains will affect the sectors involved in international trade and how geopolitical changes influence these GVCs. Should we talk more about *geoeconomics* than *geopolitics*?

1. Protectionism against globalisation

US protectionism does not begin or end with Donald Trump. The Barack Obama presidency was an exceptional period for the signing of multilateral agreements including the Paris Agreement on Climate Change in 2015. Fostered by US diplomats in the first decade of the 21st century, according to Sullivan (2018) these agreements emerged from formal, legal, top-down institutions taking more practical, functional, regional approaches to managing transnational issues, and what the author calls "coalitions of the willing". The Paris Agreement achieved broad participation because its substantive commitments are voluntary and states have the flexibility to decide how they fulfil them. In trade terms, the United States' blockage of the World Trade Organization by preventing the renewal of two Appellate Body judges is the heaviest institutional blow. But, in Sullivan's view, the rest of the world will be able to move on even if the United States withdraws. The new structures are designed to draw greater participation and contributions from more actors in a range of places, even as the leading power renounces its leadership role. It is an optimistic outlook, and a challenge for the European Union, the defender of multilateralism.

The question is how changes in global value chains will affect the sectors involved in international trade and how geopolitical changes influence these GVCs. Should we talk more about *geoeconomics* than *geopolitics*?

But with President Trump already fulfilling much of his unilateral programme, will such structures be able to survive? The United States has withdrawn from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP or TPP-11), the Paris Agreement and the Iran Nuclear Deal (JCPOA). It has started a major trade war with China by raising tariffs and banning its technology. It has questioned NATO's principle of mutual defence. It has even forced Canada and Mexico to negotiate a new agreement, the T-MEC (UMSCA). It is the action against China that has accelerated responses. The signing of the Regional Comprehensive Economic Association (RCEP) treaty on November 15th 2020 should be seen in these terms. Led by China, it covers 28% of world trade, and includes 15 states, ten from the Association of Southeast Asian Nations (ASEAN), plus Australia, China, Korea, Japan and New Zealand.

Despite rampant protectionism, Anne O. Krueger (2020) highlights the spectacular trade failure of the United States, based on the "effectiveness of Trumpian bilateral browbeating". The overall US trade deficit grew from $750 billion in 2016 to $864 billion in 2019. While exports to China, the main target of trade policy, only grew 1.8% year-on-year to August 2020, Chinese exports to the US increased by 20%, thus widening the bilateral trade deficit. In addition, the tariffs have increased prices for consumers and displaced Chinese demand towards other competitors, increasing unemployment in the United States. Krueger writes that bilateralism and Trump's rejection of the WTO has hurt the entire international system and inflicted great damage on US businesses and households.

Another example of the paradox of this policy is that in August 2020 Mexico reached a historic surplus of $12.76 billion in its trade balance with the United States. This resulted from a collapse in Mexican purchases of US-origin products due to fragile domestic demand, with the Mexican economy expected to fall by around 10% in 2020, due to the effects of the COVID-19 pandemic.[1]

The fact is that today's trading system, based on value chains and fragmented production, could crumble if its foundations are undermined. Trust, investment, technology transfer and bilateral and multilateral agreements are all crucial, but above all it will be in jeopardy if the sea and air transport system for manufactured goods is unable to withstand the crisis.

It may be that the United States is unable to continue along the path of globalisation and is contemplating a strategic retreat in the hope of recomposing the old order in which it had leadership capacity. If so, the unilateralist attitude is essentially a withdrawal provoked by an inability to keep pace with rapid globalisation. Although it may also be because

1. *El Economista*, October 6th 2020. https://www.eleconomista.com.mx/empresas/Mexico-registro-superavit-comercial-record-con-Estados-Unidos-en-agosto-20201006-0059.html globalisation based on transcontinental value chains is undergoing a shift prompted by technological transformation and the fight against climate change.

At the 2018 World Economic Forum, the event's Executive Chairman, Klaus Schwab, referred to *Globalization 4.0*, distinguishing *globalisation* (flows) from *globalism* (governance). *Globalisation* is a phenomenon driven by technology and the movement of ideas, people and goods, while *globalism* is an ideology that prioritises the neoliberal global order over national interests. His warning was clear: globalisation is not in dispute. The question is whether all policies should be "globalist" at a time when voters are calling for the control taken by global forces to be reclaimed. In democratic systems this is a key issue.

The study "Globalization in transition: The future of trade and value chains" (Lund et al., 2019) confirms that global trade has taken a backwards step in recent years, leaving more space for imports and exports that stay within in a defined regional area. International trade, which used to grow at twice the rate of global wealth, has seen the pace of that growth halve. And trade intensity – the proportion of goods sold abroad – is in decline. In 2007, 28% of the world's GDP travelled, so to speak. Today the figure is 22.5%.

The major debate at the turn of century surrounded offshoring. Companies were moving their production centres to countries with low labour costs and exported from there. But this phenomenon soon receded. Today, only 18% of trade fits this cheap production model, and this kind of outsourcing only affects 3% of the global workforce. Above all, China is no longer a competitor due to its cheap labour but due to its technology.

Emerging economies now consume more and more of what they manufacture. By 2030, their populations will account for half of global demand. With less need for goods to travel today, they are more likely to stay in the country or region. China is a perfect example, as its consumers have ever more purchasing power. In 2007, China sold 17% of what it produced abroad; ten years later, only 9%. Since the pandemic, its exports have recovered, although domestic consumption growth still lags despite policy targeting domestic consumption.

Since 2013, intra-regional trade as a share of global trade has risen by 2.7% (at the expense of trade operations between distant regions), and now accounts for almost half of the total. Increased trade has been particularly evident in homogeneous areas like the European Union, and in the Asia–Pacific region. Regionalisation is tangible in innovation value chains, where the closest suppliers must be integrated (Lund et al., 2019).

Technology is also a factor. Automation has made labour costs less important and the speed of business decisions more important. These decisions must be made where goods are produced, making companies rethink "offshoring". Automation may also reduce the global trade in goods by 10% by 2030 (Lund et al., 2019). The pandemic has also provided further evidence of the pharmaceutical industry's dependence on raw materials and active ingredients from China, and European industry is considering restarting production.

The fact is that today's trading system, based on value chains and fragmented production, could crumble if its foundations are undermined. Trust, investment, technology transfer and bilateral and multilateral agreements are all crucial, but above all it will be in jeopardy if the sea and air transport system for manufactured goods is unable to withstand the crisis.

Lund and Tyson (2018) warn that economic leadership is shifting east and south, as the United States draws in on itself and the EU and the United Kingdom divorce. The authors do not believe that globalisation is in retreat. What is happening is that trade based on global value chains that take advantage of cheap labour is slowing. Digitalisation plays a part, as more actors can now participate in cross-border transactions, from small businesses to multinational corporations. It is not deglobalisation we are heading towards, but a new, different phase.

The major debate at the turn of century surrounded offshoring. Companies were moving their production centres to countries with low labour costs and exported from there. But this phenomenon soon receded.

So, in this new era, why is the United States turning towards its domestic market? And what is the effect of this strategic shift towards its immediate south if the South in general is likely to form part of this new economic leadership?

Lund and Tyson (2018) point out that the digitalisation of globalisation has tilted its centre of gravity. So, while in 2000 just 5% of the largest international companies were in the developing world, by 2025 the figure will be 45%, and China will have more companies with annual revenues over $1 billion than the United States and Europe put together.

Above all, China is no longer a competitor due to its cheap labour but due to its technology.

2. Global value chains realign

The globalisation based on trade in manufactures that began in the 1960s is being turned on its head. The introduction of the shipping container brought major growth and enabled intermodalism in transport logistics. In fact, the container better explains the growth of international trade than trade agreements. In a set of 22 industrialised countries, containerisation accounts for a 320% increase in bilateral trade in the first five years after its adoption, and 790% over 20 years. By comparison, a bilateral free trade agreement increased trade by 45% over 20 years, while GATT membership added 285% (Bernhofen et al., 2016).

GVCs linked to low labour costs and offshoring have lost their utility, although fragmented production will continue to the extent that advantages are generated by global economies of scale. Some supply and production chains will completely reverse: in electric car production, for example, stimulated by regulation and demands to reduce emissions. They are also being changed by the new major competitors for 5G network connections; in the case of China, they are even perceived as a strategic risk.

In fact, value chains began to shift as services acquired importance. In the last decade, global trade in services has grown 60% faster than trade in goods, and in some subsectors, including telecommunications and information technology, commercial services, and intellectual property fees it is two to three times faster (Lund et al., 2019).

These events are producing a geostrategic change that will force not only the United States to make a decision, but Europe and the rest of the world too. At a bilateral summit in June 2020 the EU, which considers China a "strategic rival", demanded the trade relationship be rebalanced in spite of the common ground on the multilateral agenda like WTO reform and the fight against climate change. Another geopolitical change may occur as a result of the technological transformations that result from the Fourth Industrial Revolution and emissions reduction policies. The shift from using hydrocarbons controlled by a few suppliers, to the use in battery production of "critical minerals" (rare earths, lithium and cobalt) found in only a few places in the world, China among them (Kalantzakos, 2020), may dramatically transform today's supply chains.

Until today, GVC development has been associated with falling costs of maritime transport and their increasing efficiency. This is particularly true in the intercontinental transport of manufactured goods between Asia, Europe and America. Technological advances — especially in the information and communications field — have further reduced business and coordination costs. But foreign direct investment (FDI) has also been an important factor in the growth of GVCs. Between 30% and 60% of G20 exports consist of intermediate inputs traded within GVCs (OECD-WTO-UNCTAD, 2013).

The globalisation based on trade in manufactures that began in the 1960s is being turned on its head.

GVCs linked to low labour costs and offshoring have lost their utility, although fragmented production will continue to the extent that advantages are generated by global economies of scale. Some supply and production chains will completely reverse.

But this state of affairs was halted at the beginning of 2020. The fall in international trade produced by the pandemic crisis may be one reason value chains fail. Depending on how long the pandemic lasts, the economy may pass from demand shock to supply shock. Company bankruptcies and the dismantling of production equipment cause supply shocks and break value chains. GVC links may be broken at one of their most critical points, maritime and air transport, which will be very difficult to rebuild in terms of equipment and short-term investments. This is what almost happened at the end of the Great Recession. In September 2016, the bankruptcy of the South Korean shipping company Hanjin caused a rapid rise in transport costs and tensions in the global supply chain.

Logistics networks, ports, airports and supply and distribution chains are all affected. The port of Barcelona, for example, saw container traffic (in TEU units) fall by an accumulated -20% in June and July 2020, compared to the same months of the previous year. It should be noted, however, that lower traffic was already detected in the last quarter of 2019 – before the pandemic – with a 3.2% fall in December.

Meijerink et al. (2020) believe international trade will recover faster from the pandemic crisis than it did from the Great Recession of 2008. The authors acknowledge, however, that their analysis applies only to the trade in goods, meaning any recovery in services (including international travel and tourism) is not included. This may be a highly significant factor in the results, as passengers and freight share much international air travel, and airlines failing to recover may affect supply chains. Given the uncertainty, the WTO is more cautious and expects a fall in the volume of global merchandise trade of 9.2% by 2020, followed by an increase of 7.2% in 2021.[2]

While the prospects for international trade remain good even amid the crisis caused by the pandemic, a report from the International Transport Forum (2020) confirms that the COVID-19 pandemic is having a major impact on air and maritime trade. Shipping companies risk bankruptcy if they cannot tackle their indebtedness, with container shipping companies particularly affected.

2. WTO press release, October 6th 2020 (online) [Accessed on 22.01.2021]: https://www.wto.org/english/news_e/pres20_e/pr862_e.htm

Value chains may also be disrupted by technological changes affecting both production and consumption. The Fourth Industrial and Technological Revolution, associated with "machine learning" and "deep learning", is shifting the system of global value chains towards more regional chains.

Last but not least, value chains may also be disrupted by technological changes affecting both production and consumption. The Fourth Industrial and Technological Revolution, associated with "machine learning" and "deep learning", is shifting the system of global value chains towards more regional chains. Combined with greater sensitivity to tackling climate change, this shift will transform patterns of production and consumption. In the automotive sector, Tesla, which is located in California without offshoring production, provides an example of artificial intelligence applied to production and services. In some aspects, Tesla's strategic architecture resembles those of the Apple Store and digital marketing (Cooke, 2018).

Conclusion

The evolution of the globalisation of trade means the pandemic's impact will depend on how long it lasts and the damage it causes to the productive structure and supply chains. But deglobalisation is not to be expected, quite the opposite. A change of phase will result in which trade in services becomes more important, while value chains simultaneously shift towards regional spheres, something that has already taken place in the Indo-Pacific. The great technological leap forward and measures to decarbonise the economy will determine the future of the global value chains the pandemic's disruption will have helped to accelerate.

Faced with this paradigm shift, the view from Barcelona should be strategic about technological, industrial and energy development, and emphasise education, training, innovation and health. Optimistic foresight should prevail over nostalgic hindsight.

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GEOPOLITICS AND TRADE: FUTURE RELATIONS BETWEEN THE EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN

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The COVID-19 pandemic has hit the global economy and posed a number of enormous challenges to developing regions such as Latin America and the Caribbean (LAC). The health crisis came at a time when the multilateral system of economic governance was weakened by the geopolitical rivalry between the United States and China and rising protectionism since the 2008–9 global financial crisis. In this context, relations with the European Union (EU) emerge as a strategic option to help the region overcome the pandemic's effects and establish the conditions for a sustainable and inclusive recovery. As this chapter relates, despite China's growing influence and traditional US dominance, the EU remains a major economic partner for Latin America and the Caribbean. These economic ties are supported by a formal integration architecture that has made great advances in recent years, helping to strengthen rules-based trade. The present context gives an opportunity to deepen this relationship, drawing on the EU's global leadership on issues such as climate change, the digital transformation and social inclusion. In this sense, EU–LAC relations are well placed to promote the transformations the region needs more than ever.

1. Evolution of trade and investment between Latin America and Europe

Trade between the EU and LAC grew rapidly in the first decade of the 21st century, driven by high commodity prices and strong economic growth in the region. But after reaching an all-time high of $287 bn in 2013, exchanges between the EU and LAC began to fall and, despite a moderate recovery in 2017–8, sat at $248 bn by 2019. The contraction in interregional trade has been particularly evident in LAC exports to the EU, which began to decline in 2012 and by 2019 had fallen by 24% from their peak – compared to the 12% decline in Latin American imports.[1] These lower exports are largely due to global commodity prices, as three products – crude oil, iron ore and copper cathodes – account for nearly a third of the region's decline in exports in this period.

1. Author's calculations based on IMF direction of trade statistics.

The health crisis came at a time when the multilateral system of economic governance was weakened by the geopolitical rivalry between the United States and China and rising protectionism since the 2008–9 global financial crisis.

The rising trade between LAC and China since the start of the 21st century has diminished the EU's relative importance as a trading partner for the region, especially for South American commodity-exporting countries. Nevertheless, Europe continues to play a key role in LAC trade relations, especially for economies such as Argentina, Brazil, Costa Rica and Ecuador, where the EU accounts for between 12% and 17% of total trade, making it one of the two largest extra-regional partners.

LAC also exports a relatively diversified basket of goods to the EU, especially compared to China. While the region's main exports are mining and agricultural raw materials, manufactured goods such as cars and cellulose pulp have figured among the ten largest LAC exports to Europe since 2017. Overall, Latin American exports to the EU are less concentrated than they are to China: mining and agricultural products account for only 28% of the region's sales to Europe, compared to 64% for China.[2]

Trade in services represents another dynamic field of LAC–EU economic relations. Indeed, since 2005, it has been growing at a much higher rate than the trade in goods.[3] Services exports to the EU have grown more than imports in this period, although they are concentrated in categories like travel and transport, which are highly affected by the COVID-19 pandemic. Knowledge-intensive services still account for a small percentage of LAC exports to Europe (11%), but constitute a larger share of the region's imports (28%), creating opportunities to improve the productivity of Latin American companies.[4]

As well as trade, the EU is LAC's main source of foreign direct investment (FDI). Annual FDI flows reached $64 bn on average between 2012 and 2018, representing 42% of foreign investment in the region during this period.[5] Investment from the EU has also accelerated in recent years: annual flows grew from $47 bn in 2012 to $63 bn in 2018, during which time FDI from the US declined. Apart from the amount of investment, European companies stand out for their presence in strategic sectors in the region, such as renewable energy, information and communication technologies (ICTs), infrastructure, and industries like the automotive and aeronautics sectors, which form the backbone of the region's manufacturing sector.

2. The current commercial and investment architecture between Latin America and Europe

The development of trade and FDI between the regions has been underpinned by a network of free trade agreements (FTAs). Currently, 11 LAC countries – Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama and Peru – participate in various FTAs with the EU. In this regard, the 2019 conclusion of negotiations on the agreement between the European Union and Mercosur (an area of economic integration formed of Argentina, Brazil, Paraguay and Uruguay) represents a very important milestone in formal integration between the regions.

Even so, the consolidation of the architecture of LAC–EU integration faces a number of political economy challenges. Firstly, on the European side, powerful agricultural lobbies have opposed greater access to the

2. Author's calculations based on UN Comtrade data.
3. Trade in services between the EU and LAC grew 23% on average per year between 2005 and 2019, compared to 5% for trade in goods. Data based on WTO trade in services statistics.
4. Knowledge-intensive services include insurance and pensions, financial services, telecommunications and information and charges for the use of intellectual property.
5. While some of the FDI attributed to the EU is investment from other regions that is redirected via jurisdictions such as Luxembourg and Dutch overseas territories, even when these countries are excluded, the EU remains the leading investor in the region.

European market for industries in which LAC has significant comparative advantages. EU civil society organisations also exert influence on FTA negotiations, criticising them for potentially diluting European standards in areas such as environmental protection, GMO food, and more recently, the privacy and processing of personal data – concerns shared by various European governments. Secondly, on the LAC side, there is resistance to liberalising strategic manufacturing industries in some countries and protectionist instincts exist in areas such as public procurement, which is increasingly important in trade negotiations. All these issues have arisen in the EU–Mercosur negotiations – now ongoing for 20 years – and are obstacles to the ratification of the agreement by national legislatures.

In the field of climate change, promoting sustainability at the global level has been a central pillar of European foreign policy, and the EU has several tools for advancing this agenda in its relations with developing regions.

On the other hand, a number of factors have favoured the resolution of these issues. First, the importance of the European market, especially for LAC agricultural exporters, has created incentives for governments in the region to strengthen protection in areas of great importance to Europeans like the environment. That the EU negotiates trade policy on behalf of member states only strengthens these dynamics. Moreover, EU agreements and cooperation have appeared more attractive due to the contrast with overtly protectionist and unstable US trade policy and the growing caution of some actors in the region about China's influence.

As well as the EU–Mercosur agreement, recent achievements have been made in the EU's integration processes with Mexico and Chile. In the first case, in April 2020 the parties concluded a modernisation of the trade component of their 2000 economic cooperation agreement. The updated treaty significantly expands market access, particularly in the agricultural sector, with 85% of tariff headings fully liberalised. It also contains new measures to promote trade in services, investment protection and competition in public procurement, where for the first time in an FTA Mexico will open up subnational tenders to European proposals. In the second case, a modernisation of the existing EU–Chile agreement is being negotiated that would expand the scope and depth of the agreement, especially on issues such as trade in services, public procurement and digital commerce, among others.

3. Impacts of the COVID-19 pandemic on LAC–EU economic relations

The COVID-19 pandemic has severely affected many aspects of the global economy, but it has also created opportunities for positive transformations. The importance of relations with Europe for the LAC region has been revealed. Interregional trade remained relatively healthy during the first half of 2020, mainly due to the robustness of the exchange of agricultural and food goods. The category of food, beverages and tobacco, which accounts for 30% of the region's exports to Europe, even rose by 1% compared to the same period in 2019.[6] In terms of foreign investment, the effects have varied by sector. The automotive and aeronautical industries, in which European investment is important, suffered significant supply and demand shocks and foresaw large production and investment declines for 2020. Tenders for energy projects, including renewables, have also been postponed or even cancelled in several countries, affecting European companies operating in the sector.

6. Based on Eurostat data

On the other hand, EU institutions mobilised funding and cooperation funds for the immediate response to COVID-19, redirecting cooperation funds to address the effects of the pandemic. Economic integration processes have not stopped during the pandemic, which is reflected in the completion of the modernisation of the EU–Mexico agreement and the continued progress in the negotiations to modernise the EU–Chile agreement. All of this demonstrates the importance of the EU-LAC partnership on both sides and its future potential, especially in today's difficult environment.

The EU can help the region in both fields. First, it can play an important role as a source of external financing and technology for the expansion of digital infrastructure.

4. Opportunities for a new trade and investment architecture in the context of economic recovery

The multilateral system crisis and the growing geopolitical rivalry between the United States and China have undermined the opportunities for global cooperation in response to the pandemic and worsened the protectionist pressures that had been growing for several years. However, this scenario also opens the door to greater leadership by actors such as the European Union, both globally and in the LAC region. On trade and investment, paralysis in the WTO has encouraged the emergence of regional attempts to deepen integration. In Asia, after the US left the original treaty, the Trans-Pacific Partnership (TPP) was consolidated under Japanese leadership. Participants include three LAC economies (Chile, Mexico and Peru). In recent weeks, negotiations for the Regional Comprehensive Economic Partnership (RCEP), the first trade agreement to include Japan, China and Korea, have also been concluded.

The EU has also been central to promoting regional and interregional integration agreements. In recent years it has negotiated and implemented major agreements with Japan and Canada and, as mentioned above, a historic agreement was reached in 2019 with the Mercosur bloc, the conclusion of which creates one of the largest integration areas in the world, covering some 780 million consumers and accounting for more than a quarter of global GDP. It is also an ambitious agreement, which completely liberalises all manufacturing imports into the EU from Mercosur countries and 82% of agricultural products. For its part, Mercosur has agreed to eliminate tariffs on 90% of EU manufacturing imports and 93% of agricultural imports. The alliance also establishes measures to facilitate trade in services, remove technical barriers to trade, simplify customs procedures and increase access to public tendering processes. Finally, labour and environmental issues played an important role in the negotiations, as reflected in commitments to implement the Paris Agreement and guarantee the right to collective bargaining.

These agreements are key advances in extending the architecture of formal integration between the regions, and help support rules-based international trade in an adverse global political context. They also create opportunities to expand the scope of interregional integration, enabling the inclusion of critical public policy issues such as climate change, the digital transformation, and an inclusive recovery from the pandemic. Its global leadership in these areas means the EU is well placed to promote them in LAC and consolidate its strategic relationship with the region.

In the field of climate change, promoting sustainability at the global level has been a central pillar of European foreign policy, and the EU has several tools for advancing this agenda in its relations with developing regions. First, the European Union has included a chapter on sustainable development in all its free trade agreements in order to link economic relations with environmental protection. In the case of the EU–Mercosur agreement, endeavours are made to ensure the parties comply with the Paris Agreement. Beyond trade agreements, the EU supports sustainable development through the EIB, a leading provider of global climate change financing, with an LAC portfolio that includes 15 sustainable development and climate change projects worth over $650 m in total. What is more, the official development aid provided by the European Commission to governments in the region has a strong sectoral focus on climate change, and accounts for 30% of bilateral aid in recent years. The EU also supports sustainable development policies in the region through technical cooperation and public policy dialogues like the Global Climate Change Alliance Plus, seeking to share the knowledge of European countries on a wide range of public policies.

EU financial and technical cooperation is essential to support green recovery strategies in the region. As well as highlighting the vulnerability of our economic and social systems to the environment, the pandemic has created enormous pressures to immediately generate employment while the fiscal margin is severely reduced. This may lead short-term projects to be prioritised over the medium-term investments needed to achieve sustainable transformations in the economy. To avoid this trade-off, the region's governments need external funding for sustainable development projects, as well as technical cooperation and political support for green recovery strategies.

EU–LAC relations can also encourage the use of new digital technologies in the region – another key task on the development agenda. The pandemic has served to reveal the region's weaknesses in the regional digital transformation. While examples of successful digital endeavours and innovative e-government tools exist in LAC, significant gaps remain in the access to and use of digital technologies in the region. To work around this situation, both digital hardware and software need to be improved. In terms of hardware, expanding and renovating digital infrastructure, including the deployment of 5G networks, is critical to ensure that businesses and consumers can use the latest technologies like artificial intelligence and the internet of things. Software improvements should include regulatory and public policy frameworks that facilitate data flows and the provision of digital services.

The EU can help the region in both fields. First, it can play an important role as a source of external financing and technology for the expansion of digital infrastructure. The European Commission has invested in major digital connectivity initiatives such as the Building Europe Link to Latin America (BELLA) project, which is laying an underwater fibre optic cable between Portugal and Brazil. In the private sector, European companies such as Nokia and Ericsson are among the handful of global players developing 5G networks that, unlike existing infrastructure, rely on a large number of small cells. In terms of regulatory frameworks, the EU's experience in promoting the Digital Single Market in Europe provides a relevant precedent for LAC in its efforts to improve connectivity at regional level. In general, cooperation and knowledge sharing between regulatory entities and private sector actors in the two regions would be productive, as the speed of innovation in digital services is a challenge for regulators. Brazil, for example, has launched several public policy dialogues with the EU and industry players on the deployment of 5G and the internet of things, which has guided the government's strategy on these issues. As with climate change, free trade agreements themselves can be tools for promoting the digital economy, as in the case of the EU–Chile agreement, where the modernisation process seeks to establish measures to facilitate the trade in digital services.

Finally, LAC governments face the serious challenge of preventing the pandemic from worsening already high inequality levels and reversing the social progress many countries have made since the 1990s. In the short term, workers and businesses whose incomes have severely declined during the pandemic must be supported, and the measures to contain the pandemic must be backed. In the medium term, access to public services such as health, education, pensions and childcare, which are essential to creating more equitable societies, needs to be strengthened and expanded.

The region's governments will face these challenges in a context of limited fiscal resources and rising debt levels. The EU can be a key source of external funding, both through its traditional aid budget and with new tools such as mixed financing and guarantees that help mobilise private resources. Through multilateral institutions the EU can play an important role in finding mechanisms that allow regions like LAC to continue to access external financing while gradually refinding the path of fiscal sustainability.

As well as highly important to the region, this agenda advances the EU's development cooperation and foreign policy priorities as it seeks to position itself as a global leader on issues such as combating climate change and digital policy. In the difficult global context, where multilateral action is lacking, the EU has an opportunity to consolidate itself as a strategic partner for LAC.

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* *The author would like to thank Daniel dos Anjos and Vineetha Pachava, researchers at the Emerging Markets Institute, Cornell University, for their help with data collection and the graphs.*

In this second wave of the pandemic, the data in the media remind us that the tragedy remains unresolved. Forecasts of economic crisis worry and affect citizens. But how have the large Spanish companies that bet on globalisation been affected? Specifically, those companies that were nourished by and contributed to the economic boom that drove Spain's transition from an underdeveloped country to one with a per capita domestic product at similar and sometimes higher levels than the European average. But first we should ask what made that great business success possible?

1. In the 1990s, attack was the best form of defence

It was 1985 and the cover of *Actualidad Económica*, the main economics magazine of the day, bore the title "The New Napoleons". The metaphor compared Napoleon's invasion of 1808 with the large-scale entry of French capital following the opening up of the Spanish economy. Following that *invasión* half of Spain's largest companies were French and they dominated in areas such as the automobile and retail sectors. Carrefour, Decathlon, Leroy Merlin, Renault, Peugeot and Michelin became the country's leading brands and still are.

Although the key players deny it, this seems to have acted as a trigger for the internationalisation of major Spanish companies. The then president of Telefónica, Cándido Velázquez, decided to explore possible purchases abroad. He tried his luck with telecommunications tenders in Greece, Belgium and Chile. And while his efforts failed in Europe, in 1990 the purchase was made of a controlling stake in Chilean fixed line operator CTC. So began a phase some scholars called the *reconquista*. Next came the purchase of Telefónica de Argentina. The following year, Telefónica was part of a consortium, led by GTE, that bought CANTV, Venezuela's national telecommunications company. In 1994, it paid $1.8 billion for a controlling stake in Telefónica de Perú. The crown jewel was entering Brazil in 1998. When Brazil's Telebras was broken up and auctioned off in July 1998, the Spanish company offered $5.3 billion for the purchase of fixed-line operator Telesp, cell operators Tele Sudeste Celular and Tele Leste Celular. The oil company Repsol followed suit and bought Argentina's YPF the following year.

In January 1999, Brazil decided to liberalise the Brazilian real, and it fell by 32%. Telefónica managed to weather the Brazilian storm and later the Argentinian crisis of 2002, when the peso went through the same process and devalued by 100% in a few months.

So should we proclaim victory for these companies? It is true that an aggressive international expansion occurred that was first Latin, then European and, more recently, American. On the other hand, the companies grew as a result of boom times in their domestic market.

2. The golden age of the new millennium

In this second *golden age*, Telefónica consolidated its positions in the companies it had bought and became a majority partner. Soon, it formed a winning duopoly in the region alongside Mexico's América Móvil, with both expressing their commitment to regional development and growth. Latin success encouraged European expansion, and in 2005 Telefónica bought the English company O2.

Telefónica paved the way for other large Spanish companies such as Repsol, Banco Santander, BBVA and Endesa (later sold to Italy's Enel), Iberdrola and pharmaceutical company Grifols. The latter entered Chile in 1990, Mexico and the United States in 1993, and Brazil in 1998. Today, it is one of Spain's most globalised companies, with a presence in 35 countries on four continents. It was in Latin America that these firms learned the process of internationalisation and created the global ambition to follow the example of the pioneering companies in looking to make it big in the Americas. The region was their natural market, with a shared language – or a similar one in the case of Portuguese – a common history and a similar culture. Information flows faster in such markets, making economic ties easier. It is no coincidence that it also worked the other way and Spain became a stepping stone to Europe. Madrid hosts the European headquarters of the Mexican cement company Cemex, while Portugal is a launchpad for Brazilian companies in Europe. But what were the mechanisms of internationalisation?

3. How do we get in? The greenfield route towards Latin America and acquisitions in Europe

The two most common forms of international expansion are greenfield, in other words direct investment, and mergers and acquisitions. Greenfield investments create new subsidiaries that generate their own income. Mergers and acquisitions are purchases of or fusions with other companies. Although databases such as fDi Markets from the *Financial Times* have only gathered data since 2003, they give us a sense of where such investments head. As of August 2020, Latin America accounts for five of the ten countries receiving most investment. Mexico is the leading destination for Spanish greenfield investment, followed by Brazil, the United States, Chile and the United Kingdom. Widening the focus to all countries, Spanish direct investment in greenfield projects in Latin America represents 42% of the total.

As well as Spanish companies' substantial presence in Latin America, the data show that Spanish companies have diversified in other countries. With the purchase of O2 in the UK, Telefónica entered Europe, and then came the United States. The US is now the third-largest destination, accounting for 7% of Spanish capital expenditure in the past 17 years (see next section).

Table 1. Destination countries for announced Spanish *greenfield* investment: January 2003–August 2020				
Destination country	**Number of projects**	**Capital expenditure**	**Percentage of total**	**Jobs created**
Mexico	508	43,903.8	12%	123,581
Brazil	298	27,705.7	8%	66,203
United States	623	26,088.3	7%	40,524
Chile	212	20,397.7	6%	26,138
United Kingdom	309	17,239.6	5%	16,469
Colombia	243	11,838.1	3%	40,026
Portugal	228	11,722.2	3%	21,443
Peru	137	10,979.5	3%	13,978
Romania	97	10,762.8	3%	59,337
China	255	10,246.4	3%	34,639
Total	**5,907**	**347,809.3**		**818,964**

Source: Compiled by the author using 2020 data from fDi Intelligence from the *Financial Times* Ltd for greenfield projects announced and not cancelled. Capital expenditure data (millions of dollars) and employment figures are fDi Markets estimates based on greenfield project announcements. Accessed September 2020.

Which companies are behind these investments? As Table 2 shows, the largest international greenfield investor is Iberdrola, which accounts for 10% of capital expenditures, followed by Telefónica, the construction companies Acciona and Abengoa and, between those two, the oil company Repsol. While they are above all services, construction and tourism companies, the list also includes Gestamp, a car part manufacturer. Gestamp's main customers are European leaders in the automotive sector: Volkswagen, Daimler and BMW from Germany and the French company Renault account for 50% of its sales. The key to its success is being part of a regional value chain, in this case European, well-integrated, efficient and of excellent quality. In this new post-pandemic era, with global value chains being questioned in favour of regional ones, Gestamp is well-placed.

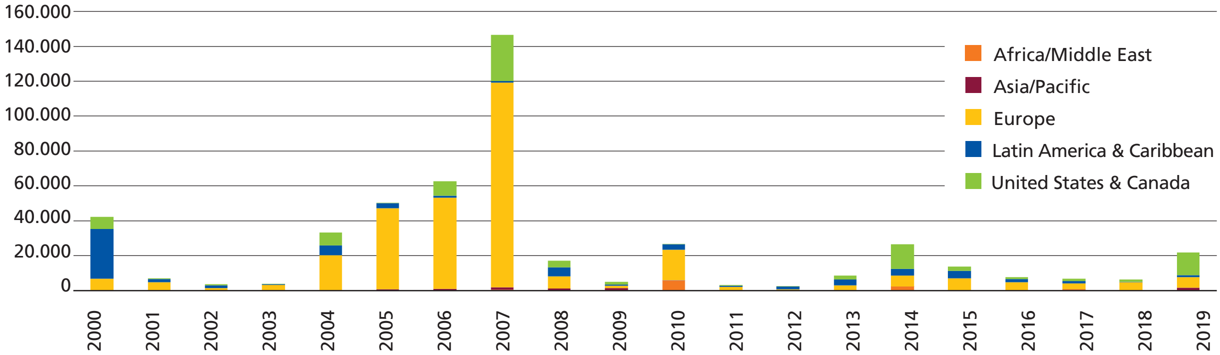
Table 2. Spanish companies investing most in announced *greenfield* projects: January 2003–August 2020				
Company	**Number of projects**	**Total capital expenditure**	**% of total**	**Jobs created**
Iberdrola	107	35,591.9	10.2%	13,433
Telefónica	202	29,714.8	8.6%	38,307
Acciona	94	15,822.2	4.5%	13,989
Repsol SA	36	15,252.6	4.5%	6,670
Abengoa	52	15,020.7	4.5%	5,720
Endesa	24	7,357.8	2.1%	2,294
Sol Meliá Hoteles	69	6,693.5	2%	17,367
Grupo Santander	136	6,370.2	2%	20,470
Cepsa	7	5,759.0	1.9%	2,493
Gestamp	70	5,746.9	1.9%	10,363
Total	**5,907**	**347,809.3**		**818,964**

Source: Compiled by the author using 2020 data from fDi Intelligence from the Financial Times Ltd for greenfield projects announced and not cancelled. Capital expenditure data (millions of dollars) and employment figures are fDI Markets estimates based on greenfield project announcements. Accessed September 2020.

4. Acquisition is a faster route into Europe and the United States

The greenfield data from the previous section confirm the importance of Latin America as the destination for almost half of Spanish investment. However, in the last 20 years, as the data in Table 2 shows, Europe has been the main target for acquisitions, followed by the United States. Iberdrola, BBVA, FCC and Telefónica are four of 700 Spanish companies in the United States, making Spain the seventh-largest investor in the world's biggest economy, with total investment of $127 billion. The pharmaceutical company Grifols, which entered the United States in 1993, strengthened its presence in October 2020 by purchasing 14 additional plants in the country.

Figure 1. Total value of international mergers and acquisitions announced whose country of origin is Spain, 2000–2019



Source: Author, using data on announced and non-cancelled mergers and acquisitions from Standard & Poor's Capital IQ. Database accessed: September 2020.

While the different Latin American crises mentioned negatively affected the results of Spanish companies, the geographical diversity described above made it possible to compensate losses on one side with profits in other regions.

5. Time to rest on their laurels? The outlook is grey

So should we proclaim victory for these companies? It is true that an aggressive international expansion occurred that was first Latin, then European and, more recently, American. On the other hand, the companies grew as a result of boom times in their domestic market. This triumph is reflected in the presence of nine Spanish companies in the *Fortune 500* ranking of the world's largest global companies in 2020. Spain belongs to the exclusive club of only 32 countries with companies in that ranking. This global expansion is also reflected in Spain's surplus, with its overseas investments much larger than the investments into its domestic market. In that sense, Spain is also part of the small set of countries committed to international expansion as a means of growing, learning and winning in the big league.

However, three challenges complicate the picture in 2020: first, the indebtedness of these companies; second, the crisis caused by the pandemic on both sides of the Atlantic; and finally society is likely to demand that companies make a greater commitment to solving social and environmental problems.

The expansion was built on *debt* and forecasts of growth in the services sector and in the countries in general. As a result, Telefónica's total liabilities, for example, are $110 billion. While a long way below the debt leader, AT&T ($177 billion), Telefónica's debt is substantial enough to affect its credit risk rating. Logically, one of the company's strategic objectives is to reduce debt. In 2019, Telefónica announced that it was reorganising its Latin American assets (except Brazil) and would seek either a strategic partner or an initial public offering.

Medium and long-term thinking is needed to create industrial policies that support the trends the pandemic is highlighting. On the one hand, there is a need for quality public services, particularly health and education. On the other, there is the digitalisation into which we have been forced and which will continue, whether we like it or not.

Other sales have continued. With the same goal of reducing debt, Naturgy, previously Gas Natural Fenosa – which had entered Chile in 2014 – sold its $3 billion stake in CGE Chile in November 2020 to the Chinese State Grid Corporation of China (SGCC), which already has numerous investments in Brazil. The aggressiveness of Chinese investment in Latin America in electricity, banking and startups has been notable over the past ten years. Despite being a new competitor that was until recently relatively unknown, as well as SGCC, Sinopec and ICBC, Tencent and Huawei are here to stay. Around the same time BBVA sold its American subsidiary to the US bank PNC for $11.6 billion. In this case, the intention was to consolidate its presence in Spain with the purchase of Banco Sabadell, for which agreement seems unlikely to be reached.

After 30 years of great overseas success, what is behind this change of course? As well as reducing debt, the situation in Latin America has become critical. The impact of the pandemic follows five years in which average growth was just 1.2%. There are several reasons for this disappointing growth: the falling commodity prices on which the region remains dependent, political instability, and discontent in a population that sees no improvement in its situation. And with the pandemic, the forecasts for the region could hardly be worse. The International Monetary Fund expects a contraction of 5.3% in 2020. Employment has fallen by 20% and in some countries reached 40%. As well as no improvement in raw materials prices, the paralysis is worth noting in the travel and tourism sectors. Several airlines like Chile's LATAM, Colombia's Avianca and Aeromexico have filed for bankruptcy.

Meanwhile, the health emergency in the region remains unresolved: Brazil, with 6 million cases, is the third-most affected country in the world, Argentina, Colombia and Mexico have over one million cases, and Peru is approaching that figure. All are among the 12 countries with the world's highest case numbers. The crisis seems likely to hit hard. Another 16 million people are expected to enter extreme poverty – living on less than $1.9 a day – bringing the total in Latin American to 83.4 million. Social demonstrations that began in 2019 have continued to take hold across the region this year, with radical protests reflecting the discontent in Colombia, Chile, Peru and Guatemala. The economic forecasts for Spain are also pessimistic.

6. Paradigm shift

Moreover, a paradigm shift is occurring in the economic model, partly forced by the crisis, partly because of the rise of Chinese companies that play by other rules. In the unstable balance between governments and markets, for the last 20 years the markets have *ruled*. Government intervention was heresy. But, contrary to the previous orthodoxy, during the

Great Lockdown European governments have stepped in to save their national champions. They have rescued flag carriers like Iberia, Air France and Lufthansa in Germany, and medium-sized and small businesses. In the dark days of March, governments dusted off their so-called *golden shares* in privatised companies. At a time of falling stocks, these allowed governments to block unwanted potential acquisitions. In some countries, including Spain, the government renounced that privilege. This defensive posture is being reintroduced to prevent companies from countries outside the European Union from taking control of companies in sectors considered to be strategic. Repsol, Telefónica and others are thereby protected from being purchased for next to nothing.

But what happens after this exceptional period in which anything goes in order to prevent an economic cataclysm? Medium and long-term thinking is needed to create industrial policies that support the trends the pandemic is highlighting. On the one hand, there is a need for quality public services, particularly health and education. On the other, there is the digitalisation into which we have been forced and which will continue, whether we like it or not. Finally, there is a need to support the weakest with initiatives like the minimum income launched in Spain and to expand social programmes across Latin America.

First and foremost, to emerge from the crisis, all countries need consensus. It is said that the art of politics is to try again where many have previously failed. We need national agreements in which the private sector helps in the efforts to escape an economic crisis of a scale not seen for 100 years. Latin America was once the promised land for Spanish companies, and gave them experience that boosted their global expansion. Ties with Latin America must be maintained with commitments to inclusive development and innovation. On both sides of the Atlantic, Spanish companies will be asked to be part of the solution to the COVID-19 economic crisis. They will be asked to contribute to maintaining and creating jobs and to see the social good as their own good. Their survival also depends on them getting the best out of themselves. To overcome the major health and economic challenges before us, the private, public and civil society sectors must emerge together. Or we may not emerge at all.

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VALUE CHAINS AND TRADE IN BARCELONA: A HISTORICAL VIEW AND A PROPOSAL FOR THE FUTURE

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1. A context of war, or change in the networks underpinning our value chains?

"We are in a context of war". Not a quote from a 100-year-old document from when Barcelona's companies were stressed by the import shortages and inflation caused by World War I, the population suffered one of the 20th century's deadliest pandemics and value chains and trade in the city and across Europe were broken, and more profoundly than today. No. These were the words of Martín Sellés, President of Farmaindustria, the Spanish pharmaceutical trade association on September 3rd 2020. Farmaindustria is an association of 141 laboratories, as of June 29th 2020; 45 are national, while the others are subsidiaries of or owned by multinationals from the rest of Europe and the United States. Among the national companies are some of the oldest family groups created in Barcelona, such as Almirall, Esteve and Ferrer. Grifols is not a member of Farmaindustria, but it produces medicines and is one of the world's three largest plasma derivatives companies. Its corporate headquarters are in Sant Cugat del Vallés and its historic headquarters in Calle de Jesús y María next to Paseo de la Bonanova in Barcelona. The words of the President of Farmaindustria are important. He speaks on behalf of a highly competitive, internationalised sector, in which Barcelona has shone since the first third of the 20th century with a resilience that is closely linked to the existence of networks with the outside world. It is a sector that has been accustomed, since the 1920s, and especially after World War II and the boost given by entry to the EEC, to stable alliances with companies from leading countries (Fernández Pérez, 2019a; 2019b; Donzé and Fernández, 2019; on Grifols see Fernández et al., 2019; and Fernández Pérez, 2021).

Companies in a sector so firmly rooted in our city did indeed find themselves on a war footing when their trade and value chains were interrupted midway through 2020. Opening the 20th Meeting of the Spanish Pharmaceutical Industry in Santander, Sellés declared that Spanish companies in the sector had suffered from problems with the supply of intermediate and final imported products and great uncertainty around long-term planning, which is so essential in the sector. As they did a century ago, pre-existing networks with companies, associations and institutions from around Europe and the world enabled companies in Barcelona and Spain to continue supplying medicines to Spanish consumers, "I can assure you that in a context of war this has not been easy, but we have succeeded" (Sellés, 2020).

To speak of value chains is to speak of competitiveness. Michael Porter accurately summarised that such competitiveness has to do with two sets of elements. On the one hand are the individual links in the chains connecting raw materials with final consumption, and on the other, the way economic agents incorporate added value in each chain involved in the process of transformation, storage, transportation and connection between production and final consumption.

Value chains cannot be improvised, it takes time to integrate them and correct inefficiencies. And, although by nature they are dynamic in their composition and form of connection, their long-term value lies in the ability to correct or minimise changes when the chain is operating at full capacity in each of its phases and components.

On the other hand, value chains involve a range of companies, sectors and territories. No business today, large or small, is an island disconnected from its environment. From global corporations to micro-SMEs, all must form networks to obtain raw materials, human resources, technology and knowledge.

The networks that make up value chains form over a relatively long time. Business demography suggests that since the mid-20th century the mortality rate for new companies in the private sector around the world has been high – they rarely last longer than five years. Creating and consolidating networks to establish stable value chains between companies, sectors and territories is a long-term process that requires synergies between the business world, institutions and society.

We are not witnessing the collapse of capitalism, or the first great dismemberment of global trade and production. We are witnessing a new reconfiguration of a system of connecting productive forces on a global scale. Yes, we are living through a crisis, but it is not the first, may not be the most serious, and is certainly not the last. History gives us a highly instructive laboratory of past experiences of creating and recreating global value chains, showing that over the past ten centuries there have been several major waves of cohesion and fragmentation of highly productive value chains around the world.

2. Global value chains have been reconfigured many times since the Middle Ages

Global value chains are very old. One of the oldest and best studied is the Silk Road, which linked Asia with the Middle East, Africa and the West at a time when China was more developed than the West. Chinese products were sought out, stored, transported and transformed around the world through agents of different nationalities and cultures, operating using very different payment systems. The Silk Road collapsed due to an interaction between climate change effects (oases dried up) and political conflicts, which obstructed the normal flow, transport and rules of the game in the silk trade.

A second route that produced international value chains in the Middle and Modern Ages linked northern and southern Europe to exchange wood, tar, iron and cod from the north for wines and spirits (especially Catalan) from the south. This route, which increased the competitiveness of so many agricultural businesses and trades in Catalonia, was affected by the numerous wars that broke out in Spain and the rest of Europe in the 17th century.

And, of course, in the 15th century the Spanish and Portuguese bumped into America as they sought alternative maritime routes to China due to blockages on old land routes. An unexpected third new and prolonged era of global value chains between the Atlantic and Pacific began and established and accelerated the forces of capitalism in the world. The so-called Atlantic Revolutions – US independence, the French Revolution and new European countries' wars of independence – redefined Atlantic value chains and, in some cases, completely broke them.

Prior to the 1929 crisis, the first half of the 20th century was generally a time of high expectations that Latin American, North American and Japanese economies and companies would join global value chains. But World War I, the Russian Revolution and World War II transformed and seriously damaged Latin American value chains, those within Europe and those between Europe and emerging economies in Africa and Asia. For half of the 20th century, communism in Asia and wars of independence in Southeast Asia created new value chains that were separate from the Atlantic ones.

The fall of the communist bloc in Eastern Europe, China's opening up, the end of Bretton Woods and the global financial deregulation that followed Bill Clinton's presidency set the scene for a highly interesting final two decades of the 20th century in terms of value chain creation. A new globalisation was in prospect that would connect the Atlantic and the Pacific and their economic agents. That was the last era of apparent prosperity, and numerous analyses, including Thomas Piketty's, suggest that it once again worsened inequality around the world, rather than helping improve it.

Since 2008, the global value chains established in the 1980s and 1990s have been in crisis. The formation of new blocs has fragmented global trade, and the Donald Trump presidency and the sudden halt to mobility, trade and consumption provoked by the COVID-19 pandemic have only worsened the situation.

Global trade grew most strongly in the last century in periods dominated by world peace and higher productivity in various sectors of the economy. Peace means stability, trust, planning and safe long-term investments. Higher productivity thanks to various waves of technological change in the economic system brought economies of scale, fragmentation and coordination of production processes.

The combination of the two factors saw global value chains proliferate after World War II, energising the global economy. However, the economic growth model has shown signs of exhaustion and a lack of sustainability, first in developed countries and later in developing countries. Doubts surround the highly productive industries that generated wealth and employment in the mid-20th century and were so central to the acceleration of global value chains. Pollution and its contribution to climate change are one reason, but they also do not create enough employment or wages to absorb and sustain mass industrial production with the dynamism of the 1950s and 1960s. The leading industries in value chains tend to counteract trends towards falling prices with mergers, alliances and oligopoly. These oligopolies and large sectors concentrated within few companies tend to maintain their productivity by cutting jobs and wages.

Barcelona has borne witness to several of the world's waves of global value chain creation. Nearby Tarragona was a central piece of the Roman Empire, which helped to bring roads that connected Barcelona with Rome, as well as aqueducts, civil infrastructure, technology, knowledge, human capital, amphitheatres and a great civilisation that hybridised elements of multiple European cultures. By medieval times Roman Barcino had Visigoths and Counts of Barcelona and was showing potential as an incipient Mediterranean port that, while far smaller than Seville and Santander, provided good connections with other large ports on the Spanish, French and Italian Mediterranean periphery. Ships arrived in Barcelona with much-needed Sicilian cereal, luxurious Italian handicrafts, Dutch cloth and Nordic metal and tar. And ships left its port carrying wine and spirits that would establish Barcelona's competitiveness for five centuries as an outlet for products from the Catalan hinterland. Barcelona's shipyards repaired large vessels and in the Modern Age migrants attracted by the port's economic diversity and its area of influence began to arrive from southern France, Italy, and the Catalan, Castellonian and Aragonese agricultural interior. The period of good growth in the 18th century and, above all, Barcelona's leadership in the Spanish industrial and transport transformation of the 19th century and much of the 20th consolidated the city and its metropolitan area as a territory that had accumulated experience in creating, maintaining and expanding international value chains.

3. The recent crisis and its impact on Barcelona

In order to function properly, value chains require competitive markets in which the fragmentation of economic agents and companies enables job and wealth creation. In situations like the current one – of crisis in the existing model of globalisation – three major business trends tend to arise. One, the legal disappearance of businesses (but not business people) whose liquidity is submerged in crisis and regulations. Two, the oligopolisation and merging of large companies to survive the expected sharp increases in defaults and falls in demand. And, finally, partnerships form and (formal and informal) networks strengthen between medium-sized and small companies that are highly specialised in certain market niches. This increases their voice and representation to face public authorities and oligopolies that impose tougher conditions on them in terms of prices and access to intermediate products. These trends, which emerged in the 1920s and 1930s, seem to have returned since the financial crisis of the early 21st century and COVID-19.

The halt in activity and trade and adaptation in industry – with hybrid remote working models – have accelerated job loss in SMEs and the concentration of the economy in more competitive and larger companies, which tend to maintain their size or seek mergers and enlargement in order to survive. The speed with which value chains have been broken as skilled companies and personnel leave them has been greatest in countries with more SMEs and less digitalised employment.

Barcelona's history of accumulating know-how has created a hub of connections with the outside world. This logistical, transport, commercial, industrial and educational (creating human capital specialised in a wide variety of fields) knowledge has earned it a consolidated reputation for innovation and professionalism that is not likely to disappear. Its strategic position between Europe and Africa has made it a site for exchanging goods, capital, human resources and culture. It will continue to play that role. Deglobalisation crises seriously affect the city when they produce or coincide with centrifugal forces moving in different directions that splinter the local innovation system that unites political, business and union representatives. The territory, its institutions and economic actors emerge as winners from crisis eras when they join forces: in the context of World War I, with the work of the Mancomunitat, for example; and today with the Mediterranean Corridor and the ambition of having airport facilities that are hubs for quality global flights, international meetings of sectors with high added value such as the Mobile World Congress, among many others, and science parks that are global leaders in research.

Barcelona's history of accumulating know-how has created a hub of connections with the outside world. This logistical, transport, commercial, industrial and educational (creating human capital specialised in a wide variety of fields) knowledge has earned it a consolidated reputation for innovation and professionalism.

Barcelona is a territory with a highly diversified economy whose largest companies are linked to global value chains that are extremely fragile due to their foreign dependence, as is the case with the automotive, chemical, pharmaceutical and energy industries. In general, SMEs have based their foreign presence on products that are not very competitive in added value terms, but which have very good marketing and make good use of the location on the borders with France and Portugal: for over a century wines and cava, horticultural and meat products, hotels and tourism have been typical examples.

Barcelona's problems in the current crisis accelerated by COVID-19 perhaps began with the end of the Olympic Games, the end of a shared vision of the country, with the end of projects in which institutions, companies and citizens were winners. It was also the beginning of the end of the European regional convergence funds. The Olympics and the European funds helped, but at the same time reinforced a problem that began in the 19th century with the *Febre d'Or* (Gold Rush): easy, abundant money accustomed many institutions and economic actors to spending on pharaonic works to glorify the ruler or party of the day, which were not always of great social utility. The end of the Olympic Games was also the beginning of the end for a generation of public administrators in Barcelona who had been at the forefront of anti-Franco political struggles during the transition to democracy. The landscape in Barcelona, where old and new value chains were coordinated, was transformed. The time had come for a generational change at the head of the political, academic, business, social, union and banking institutions, but this process of replacement lacked a common enemy or project to unite forces of different stripes. The absence of a collective motivating project like the Olympics, or the erasure of the inheritance of a common perceived enemy like Francoism left the generational replacement in the decision-making centres of the city and its metropolitan area fragmented, divided and perpetually opposed in the struggle to achieve power every four years in every association and body.

In this fragile framework, fragile decision-making affected a wide range of key links in the value chains – in transport, communications, digitalisation, internationalisation, multilingualism, multiculturalism, research, education and finances. The effects have been palpable when external tsunamis have attacked our value chains, like the Lehman Brothers crisis, the uncertainties about Donald Trump, the falling employment and consumption from COVID-19. At these times Barcelona and its metropolitan area have either not responded, have done so quietly or have been at odds with one another. The unions on one side, the business ministry on the other, the presidency of the Generalitat occupied with other issues, and the employers' associations divided.

4. The need to build exciting and pragmatic projects at a time when globalisation is being redefined

Michael Porter has clearly explained that the competitiveness of value chains and the territories in which they are located does not only depend on the productive and commercial capacity of their companies. The institutional and social environment must be in sync and coordinated with them. Like so many crisis accelerators, COVID-19 must be more than a cause for concern whose devastating effects we work to fight. It should also be an opportunity to think again about the country we want, the country we have had and the country we will have if we keep doing things the same way. The value given to our production, our logistics and our sales depends not only on us reducing costs and improving prices, but on all of us reducing the volume and noise of the confrontation in order to focus again on a project that excites everyone, and not just 50%. Only from a pragmatic, realistic negotiating position that brings together the diverse ideas and resources that meet in Barcelona will the city be able to attract and meld resources from other parts of Catalonia, Spain and abroad to reinforce and renew our value chains in this new, harsh era of the redefinition of globalisation.

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GEOPOLITICS AND FOREIGN TRADE: AN ECONOMIC–TERRITORIAL VIEW OF THE METROPOLIS OF BARCELONA. A FUNDAMENTAL MUTATION

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1. Introduction

Geopolitics and foreign trade. The thesis: the strategic role of Barcelona's economy in the Spanish and southern European economies

We begin with the fact that the metropolis of Barcelona is formed of a central nucleus, the municipality of Barcelona; a network of industrial cities; proximal (Metropolitan Area of Barcelona, AMB) and orbital services (Metropolitan Region of Barcelona, RMB); with deep historical roots; and a network of European cities defined by the Barcelona–Lyon mega-region, which takes in the cities of the Mediterranean arc.

We will argue that:

The economy needs geopolitics to weave networks of synergy and complementarity between the cities in the mega-region. The aim is to achieve productivity growth based on the interaction between city networks, many of which are endowed with localisation economies linked to industrial activities.

The fundamental mutation is to the nature of Barcelona's external trade. The city has gone from being the capital of protectionism, the reserve of the Spanish internal market, to become a metropolis that is both open to foreign competition and competitive in its own right, and fundamentally geared towards European Union markets.

Unlike the metropolis of Madrid, whose profound trade deficit requires it to attract foreign savings (black hole effect), the metropolis of Barcelona shows the capacity to generate current account surpluses (star effect). This makes it central to achieving external balance in the Spanish economy.

2. The construction of a global metropolis since 1986

The fundamental mutation is to the nature of Barcelona's external trade. The city has gone from being the capital of protectionism, the reserve of the Spanish internal market, to become a metropolis that is both open to foreign competition and competitive in its own right, and fundamentally geared towards European Union markets.

Spain's entry into the European Communities on January 1st 1986, which coincided with Barcelona's nomination to host the 1992 Olympic Games, represents the starting point of the new open and competitive Barcelona based on advanced social strategies (Pasqual Maragall, 1991; Richard Sennet, 2019).

Once the capital of protectionism, Barcelona became an outpost among the European Union's global metropolises. In just 15 years, a major job market was woven around Barcelona that grew into a very powerful network of industrial cities, shaped by the arc of Mataró, Granollers, Sabadell, Terrassa, Martorell, Vilafranca del Penedès and Vilanova i la Geltrú. The metropolis expanded as the target markets for its industrial production exports grew. In just a few years, the metropolis of Barcelona became the leader of Spain's international and interregional trade. The growth of tourism following the 1992 Olympic Games brought additional external stimulus, and Barcelona began to emerge as the open and competitive capital of the Spanish economy.

The growth of the markets determined the size of the metropolis. Barcelona's attractiveness increased, its absorption capacity shrank and the metropolis spread, generating a powerful network of cities. So, since 1986 Barcelona's labour market has undergone a process of metropolitanisation.

And as globalisation advanced, spatial interaction increased. A city network grew, giving rise to the planet's eleventh-largest mega-region by GDP volume: the Barcelona–Lyon mega-region (Figure 1). This is a strategic framework for the south-western European Union, which is the economic and commercial driver of this area of the EU (IERMB, 2016).

3. Barcelona/Catalonia foreign trade: some stylised facts

Barcelona became a global metropolis. This metropolitan and mega-regional reality needs a defined geopolitical strategy in which foreign trade plays a central role.

Defining an economic and territorial strategy is a central task for the AMB and the Barcelona Institute of Regional and Metropolitan Studies (IERMB) (AMB-IERMB, 2012, 2013, 2014, 2015) (IERMB, 2011, 2015). We do not intend to make a synthesis of the strategy here, but it is worth noting that analysis of the external sector of Barcelona's economy has played a key role in its definition.

In this third section, we will take an economic–territorial perspective to highlight some stylised facts that enable us to make a geostrategic reflection of the kind promoted by CIDOB and the AMB on geopolitics and trade.

Each stylised fact is supported by a figure that helps the reader understand its quantitative importance.

Finally, in the fourth section some consequences are identified that are meant to be useful for defining geostrategic priorities.

STYLISED FACT 1. Business leadership

The metropolis of Barcelona is the clear leader in international and interregional trade in the Spanish economy (Figure 2). External demand propelled the emergence from the Great Recession, with Barcelona's economy the main bastion of exportation (AMB-IERMB, 2012; 2013).

An effort was made to substitute domestic demand for external demand as the engine of economic growth. Manufactured goods exports formed the bulk of that external demand. The sudden disruption of the model of attracting foreign savings on which the financing of domestic demand rested (mainly led by the construction sector) meant goods and services exports needed a boost.

It was in this context that Barcelona's economy, with its industrial and export base, began to play a central role in ending the crisis, acting as the effective capital of the Spanish economy (AMB-IERMB, 2011).

Figure 3 shows that Barcelona's economy generates 20% of Spain's exports. Madrid, Valencia and the Basque Country contribute half of what Barcelona does.

STYLISED FACT 2. The great mutation

Since the Great Recession, a fundamental strategic change has taken place in Barcelona's economy and its foreign trade.[1] Historically, the volume of exports to the rest of Spain has been higher than to the rest of the world. Since the Great Recession, however, foreign exports have exceeded those to the rest of Spain (Figure 2). The crisis was exported abroad. Of course, while the share of exports to the rest of Spain decreases, it remains strategically important for its decisive contribution to the external balance, as we will see in Stylised Fact 3.

STYLISED FACT 3. Generally positive trade balance with rest of Spain and abroad

Data for Catalonia show permanent deficits in the foreign trade balance that fluctuate with the economic cycle (Figure 4). By contrast, Catalonia's trade balance with the rest of Spain is systematically in surplus.

Historically, the foreign trade deficit has been offset by the surplus with the rest of Spain. The Spanish internal market is therefore essential to achieving external balance. We may therefore say that this is an economy that is very open to the outside and for which the internal market is essential.

1. The lack of available data for the metropolis of Barcelona obliged us to take data for Catalonia from CIntereg and the Spanish Tax Agency (AEAT).

Madrid's economy, which is similar in size to Catalonia's (Barcelona), performs an economic function of absorption, while Barcelona's radiates production, balancing the rest of Spain.

STYLISED FACT 4. BARCELONA/Star - MADRID/Black hole. Interregional trade

Figure 5 shows Barcelona's significant leadership among the large metropolises and the radically different role it plays to Madrid's economy.[2] Barcelona accounts for around 80% of Catalonia's foreign trade.

Catalonia's interregional trade includes exports of €38.44 bn, imports of €20.22 bn, and a very favourable positive trade balance: €18.22 bn.

It contrasts with the deficit in Madrid's economy, whose exports are €14.58 bn, imports €24.30 bn, and has a deficit of €9.71 bn. The profile of the Valencian economy is similar to Madrid's, with a deficit in interregional trade of €5.46 bn. Madrid stands out for its low export capacity to the rest of Spain.

Madrid's economy, which is similar in size to Catalonia's (Barcelona), performs an economic function of absorption, while Barcelona's radiates production, balancing the rest of Spain.

STYLISED FACT 5. Intra-industry trade

The composition of intra-industry trade fits the pattern of an advanced economy, with a significant presence of commercial exchanges between particularly important sectors.

Figure 6 presents import and export data for the province of Barcelona, based on AEAT information. The largest ten sectors of activity are shown, ordered according to their economic weight. One conclusion stands out: seven sectors feature in the top ten for both exports and imports, and account for 67% of exports and 64% of imports.

Another notable feature is the volume of intra-industry trade in Barcelona's leading industrial sector: the manufacture of motor vehicles, trailers and semi-trailers, with exports of €11.56 bn and imports of €13.43 bn. The chemical industry is the second-largest sector in terms of both imports and exports. Also notable for its dynamism is the manufacture of pharmaceutical products, which ranks third in exports and fifth in imports.

STYLISED FACT 6. Exports by main destination

Exports from the province of Barcelona by main destination are distributed in a trend pattern in which the European Union internal market predominates. There are signs of a slight decline in its relative weight, but the EU-15, along with the rest of Europe, contributes around 70% of exports (Figure 7). Also noteworthy is the relative growth in the share of China and the BRIC countries as a whole and the rest of the world, but with a far lower volume than European markets.

2. In the absence of homogeneous data at city level, we have used autonomous community series data from C-Intereg.

STYLISED FACT 7. Southern shore of the Mediterranean

In order to identify the next markets with potentially strong future trajectories, the figures for imports and exports of the five economies on the southern shore of the Mediterranean are presented with AEAT data developed by the IERMB (Figure 8). Together, they account for 4.51% of exports and 2.48% of imports.

It should be noted that the data refer not to the whole of Catalonia but to the province of Barcelona, which excludes the significant share of Algerian imports going to the economy of Tarragona.

Overall, the data show relatively low levels given the region's demographic and economic potential. It is therefore essential to deploy a commercial and investment strategy that empowers Barcelona as a promoter of a new economic and demographic reality on the southern shore of the Mediterranean.

STYLISED FACT 8. Effects of COVID-19 on gross domestic product

This chapter cannot be concluded without referring to the effects of COVID-19 on economic growth. There are no precedents in official statistics for such an intense and widespread impact on economic activity as that caused by the outbreak of the coronavirus in February 2020.

Figure 9 shows (very provisional) official information on the differential impact on the Catalan (Idescat), Spanish (INE) and eurozone (Eurostat) economies in the second quarter of 2020. The Catalan economy registered a 21.3% fall in GDP; the Spanish economy, 21.5%, and the euro zone as a whole, 14.01%.

In his appearance at the Commission for Social and Economic Reconstruction of the Congress of Deputies on June 23rd 2020, the Governor of the Bank of Spain, Pablo Hernández de Cos, said that the severity and temporary and global nature of the situation required both shock therapy to attempt to stimulate the productive system to adapt to the new reality in the short term, as well as the adoption of urgent structural reforms in a new, early, ambitious, comprehensive, permanent (with consensus) and assessable strategy, and with the political agreement of several legislatures.

It is noteworthy, in the context of the CIDOB–AMB meeting, that the governor identifies the breakdown of global value chains in a new environment prone to protectionism as a new strategic challenge that will affect the largest industrial sector in Catalonia and Spain: the automotive industry.

STYLISED FACT 9. Consequences of COVID-19 for world trade

Figure 10 shows the year-on-year growth in the volume of the global trade in goods. On the one hand, it shows the evolution of world trade and, separately, that of exports in advanced economies.

The Barcelona–Lyon mega-region is a reference framework that can be used to define a strategy based on city networks that is articulated around the Mediterranean axis as an infrastructure priority.

A very important conclusion may be drawn from this: a fall in exports from advanced economies is evident that is greater than that recorded in the Great Recession of 2008–2009. The consequences on external trade for the global economy as a whole are half of those registered by the most advanced economies. This duality suggests a poor prognosis for the new trade strategies of these economies, with a potential rise in protectionism.

STYLISED FACT 10. The collapse of international tourism

No peacetime precedent exists for the collapse of such a strategic sector of Barcelona's economy as that of international tourism activities.

For tourism activities, the outbreak of the COVID-19 pandemic has brought a generalised collapse of demand. Since the major boost of the Olympic Games, Barcelona has generated a productive base that is not only industrial but also tertiary in nature, with tourism activities playing a very important role.

Addressing its strategic importance requires a precise diagnosis of the situation that is beyond the scope of this study. Figure 11 presents the evolution of international tourism revenues between 2000 and 2019 for the Spanish economy as a whole, along with three possible scenarios for 2020.

It should be noted that, according to the latest INE data, tourist arrivals in Spain have fallen by 75% and tourist spending has dropped by 80%.

4. Geostrategic priorities

A) Barcelona must exercise its function as economic capital of Spain in foreign trade.

B) The Barcelona–Lyon mega-region is a reference framework that can be used to define a strategy based on city networks that is articulated around the Mediterranean axis as an infrastructure priority.

C) The European strategy for the southern shore of the Mediterranean must be redefined, with Barcelona in a leadership role.

D) Barcelona should be at the heart of the industrial policies for overcoming the crisis.

E) In the face of neo-protectionist ideas, Barcelona must promote an open economy model based on inclusive growth, in which employment must be a fundamental political objective.

F) Cooperation is the right instrument for promoting strategies based on city networks.

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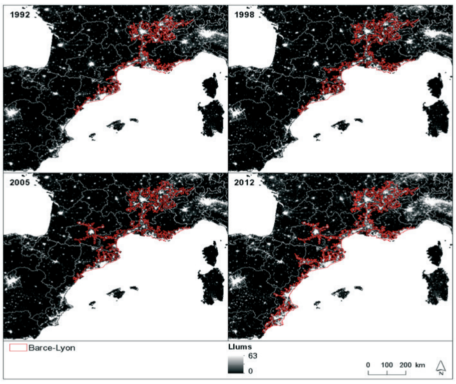
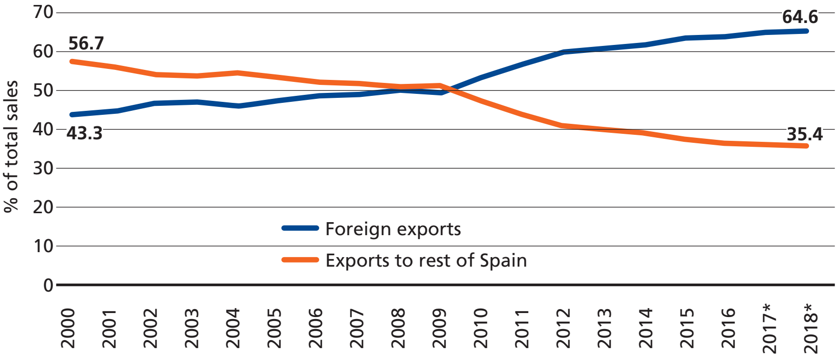
Annexe of figures

Figure 1. Expansion of the Barcelona–Lyon mega-region: 1992, 1998, 2005, 2012



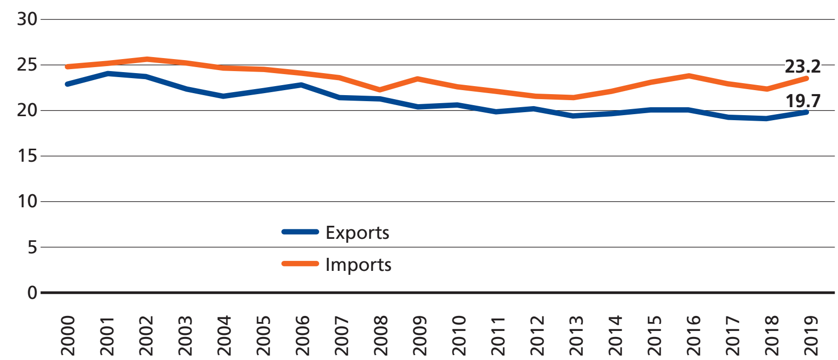
Source: IERMB.

Figure 2. Exports from Catalonia to the rest of Spain and abroad, as % of total, 2000–2018



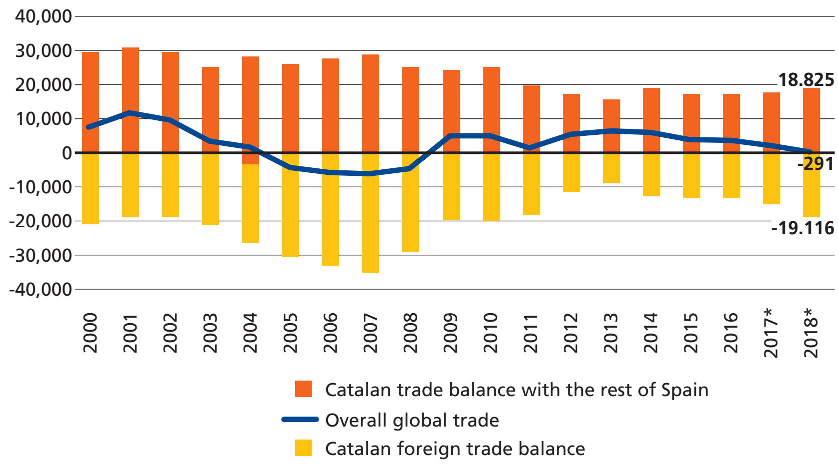
* Provisional estimates of exports to the rest of Spain (2017 and 2018) and abroad (2018).
Sources: IERMB based on AEAT and C-Intereg.

Figure 3. Exports and imports in the province of Barcelona as % of Spanish total, 2000–2019



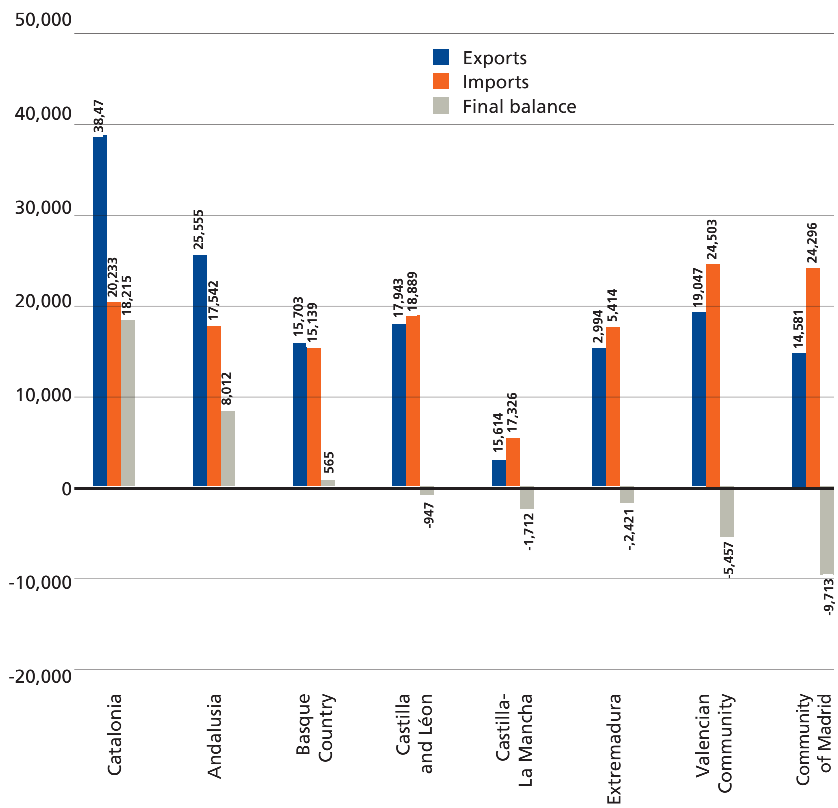
Source: IERMB using AEAT data.

Figure 4. Catalonia's trade balance with Spain and abroad, millions of euros (real), 2000–2018



* Provisional estimates of exports to the rest of Spain (2017 and 2018) and abroad (2018).
Source: IERMB using data from AEAT and C-Interreg.

Figure 5, Interregional trade by autonomous community, 2017



Source: IERMB using data from C-Intereg.

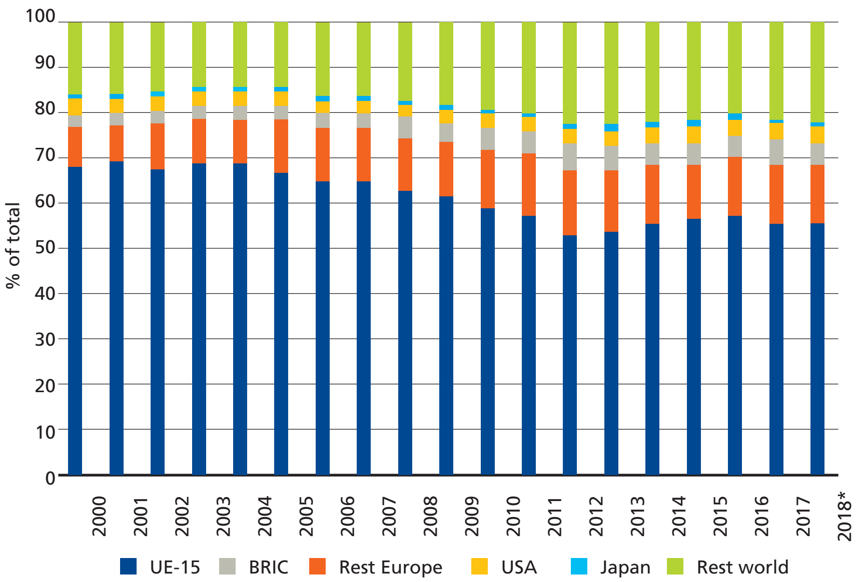
Figure 6. International trade in the province of Barcelona, 2018
Top 10 export/import activities in the province of Barcelona by sector of economic activity, in millions of euros and % of total, 2018.

Exports	2018	% total
Manufacture of motor vehicles, trailers and semi-trailers	11,555	20.7
Chemical industries	8,074	14.5
Manufacture of pharmaceutical products	4,678	8.4
Industrial food production	3,813	6.8
Manufacture of machinery and equipment not elsewhere classified	3,667	6.6
Manufacture of wearing apparel	3,101	5.6
Manufacture of electrical material and equipment	2,616	4.7
Metallurgy; manufacture of basic iron, steel and ferroalloy products	2,152	3.9
Manufacture of rubber products and plastic materials	2,027	3.6
Manufacture of metal products, except machinery and equipment	1,703	3.1
Other sectors	**12,440**	**22.3**
Total exports	**55,827**	**100**

Imports	2018	% total
Manufacture of motor vehicles, trailers and semi-trailers	13,429	18.3
Chemical industries	10,356	14.1
Manufacture of wearing apparel	5,549	7.6
Manufacture of machinery and equipment not elsewhere classified	4,866	6.6
Manufacture of pharmaceutical products	4,708	6.4
Industrial food production	4,500	6.1
Manufacture of computer, electronic and optical products	3,812	5.2
Manufacture of electrical material and equipment	3,559	4.8
Other manufacturing industries	3,229	4.4
Crop and animal production, hunting and related service activities	2,643	3.6
Other sectors	**16,745**	**22.8**
Total Imports	**73,396**	**100**

Source: IERMB using AEAT data.

Figure 7. International trade in the province of Barcelona, 2018



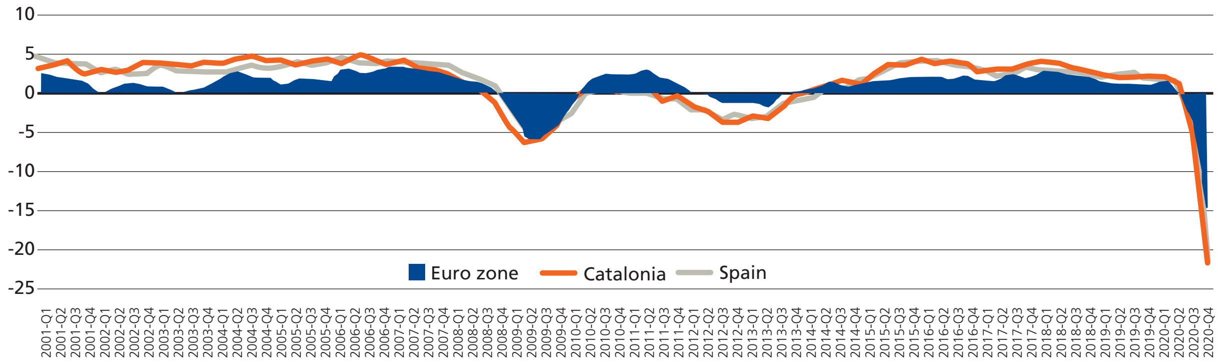
*Provisional data. Source: IERMB using AEAT data.

Figure 8. Exports and imports from the province of Barcelona to five countries on the southern shore of the Mediterranean, euros, 2019

Country of origin/destination	Exports	% Total	Imports	% Total
Morocco	1,074,930,817	1.88	1,379,534,494	1.85
Algeria	829,588,148	1.45	166,676,985	0.22
Egypt	347,259,003	0.61	173,560,942	0.23
Tunisia	269,646,265	0.47	115,922,380	0.16
Libya	58,781,614	0.10	17,130,986	0.02
Total 5 countries	**2,580,205,848**	**4.51**	**1,852,825,788**	**2.48**
Total	**57,187,510,399**	**100.00**	**74,706,847,697**	**100.00**

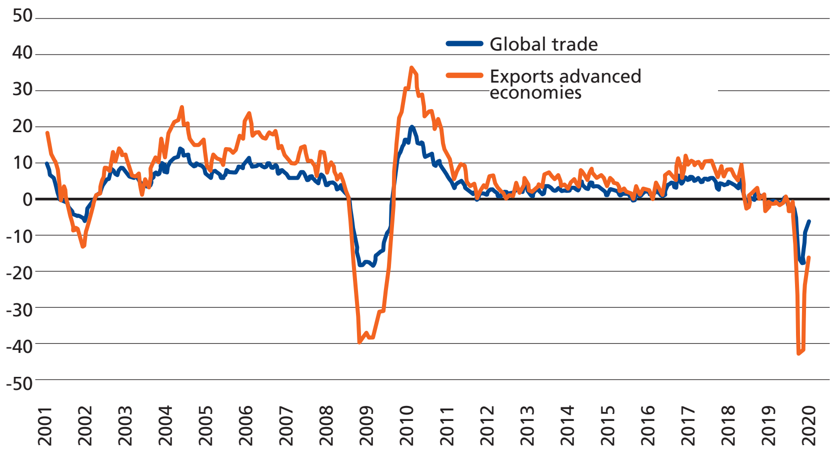
*Provisional data. Source: IERMB using AEAT data.

Figure 9. Gross domestic product, YoY change in volume %, Catalonia, Spain and the euro zone, 2000–2020 (Q2) (seasonally adjusted data)



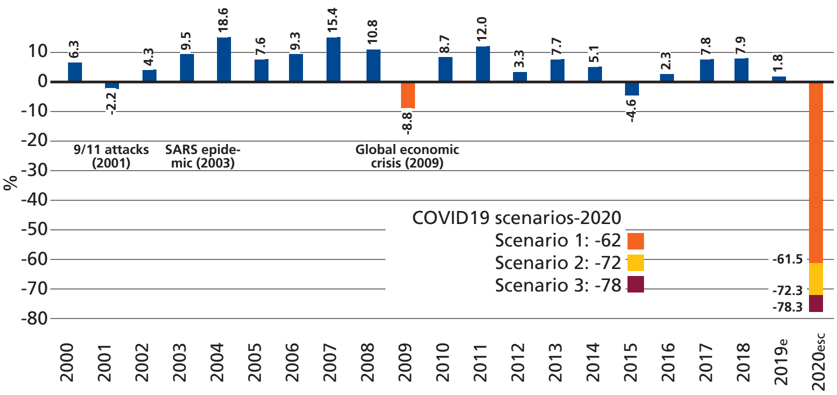
Source: Eurostat, Idescat and INE.

Figure 10. World merchandise trade, YoY volume growth (%) AE, 2001 to 2020 (July)



Source: SOURCE: CPB WORLD TRADE MONITOR.

Figure 11. Income derived from international tourism, % growth (nominal $), 2000 to 2019 and scenarios for 2020



Source: UNWTO, 2020.

PART II: THE EFFECTS OF GEOPOLITICAL CHANGES ON TRADE AND INTERNATIONAL SUPPLY CHAINS

- TECHNOLOGICAL REVOLUTION AND INTERNATIONAL TRADE 4.0

  Clàudia Canals

- CHINA AND THE EUROPEAN UNION: FROM STRATEGIC PARTNERS TO SYSTEMIC RIVALS

  Miguel Otero-Iglesias

- CAN THE TRANSATLANTIC RELATIONSHIP BE REDIRECTED?

  Marc Ibáñez Díaz

- REFORMING A WORLD TRADE ORGANIZATION IN CRISIS: MISSION IMPOSSIBLE?

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  Ignacio García Bercero and Iciar Chávarri Ureta

TECHNOLOGICAL REVOLUTION AND INTERNATIONAL TRADE 4.0

Clàudia Canals
Lead Economist at CaixaBank Research

The central role of technology in the take-off and subsequent consolidation of international trade is clear to anyone with a little historical perspective. With the sole interruption of the interwar period, trade flows have grown dramatically since 1820, supported by various industrial revolutions and advances in the fields of transport and information and communication technologies (ICT). In the most recent phase, the enormous ICT advances seen since the 1990s have allowed companies to slice up their production processes and place different parts in different countries to take advantage of the specialisations of each. This has given rise to what have become known as *global value chains* (GVCs), which have driven international trade to volumes that were unthinkable a few decades ago.

Whether this trend will continue is less clear. The relentless evolution of information and communication technologies – now embracing 5G and blockchains – may continue to encourage international trade to grow as it has over the last two hundred years. But other recent technological advances, such as those in automation, the electric car and 3D printing, could reverse some GVCs and reduce trade.

As well as new technologies, other factors also have the potential to significantly impact trade flows and, with them, the production processes of some goods and services. The US policy of decoupling from China and the impact of COVID-19 are two notable examples.

This multitude of forces makes it difficult to forecast the evolution of international trade. Still, it is worth trying. And that is the purpose of this chapter.

1. Automation: favouring reshoring

Automation is a process that has been underway for centuries. But today's robots, equipped with artificial intelligence and at costs that have fallen substantially in recent decades, represent a full-blown revolution.[1] The improved productivity these new robots offer may see manufacturing processes shifted over the past three decades to emerging countries in search of lower labour costs return to advanced economies. In other

1. The price of robots in real terms has halved over the last 30 years (McKinsey, 2017).

words, the trend towards *offshoring* may recede in favour of *reshoring*, which would substantially reduce trade flows.

Automation could put 10%–15% of such trade at risk in the coming decade.

What volume of trade are we talking about? It seems clear that automation could put 10%–15% of such trade at risk in the coming decade. This is a simple first approximation based on the results of a couple of relatively recent analyses. Specifically, one study estimates that adding one robot per 1,000 workers represents a reshoring of offshored activities of between 2.5% and 3.5% (see Krenz et al., 2020). Add in the potential 50% rise in automation in the manufacturing sector over the next ten years, and the most recent International Federation of Robotics estimates placing the number of industrial robots per 1,000 workers at 8.5 globally, and we reach that 10%–15% range.[2] It also fits with the estimate of 10% made by the McKinsey group in one of its 2019 analyses.

Finally, it is worth noting that it is not only the manufacturing sector that will be affected by this reshoring. Services like call centres are already returning to advanced countries thanks to chatbots. Many countries' labour cost advantages pale in comparison to the savings offered by the new software that uses artificial intelligence and natural language processing.[3]

2. ICT: supporting trade flows, just not always

The continued evolution of ICT via 5G and blockchain technology will reduce logistics costs and encourage trade in both goods and services. Digital platforms and the development of electronic commerce have made it possible to quickly and cheaply connect buyers and sellers around the world. 5G will encourage the development of the internet of things, allowing shipments to be tracked faster and more securely in the case of goods, and improving connections for trade in services. Blockchains, meanwhile, have the potential to greatly facilitate international payments. Analysis by McKinsey claims that these factors could increase trade by between 6% and 11% in the next ten years.

However, ICT advances have also changed consumers, with high levels of global connectivity increasing the volatility of trends in sectors like fashion. Celebrities on Instagram and TikTok set and change trends in an instant – at the speed of a hashtag; production processes must be sped up and CVGs shortened to bring them closer to the final consumer. On the other hand, consumers are also increasingly responsible in their purchasing decisions and demand more sustainable, local products, which again reduces international trade flows. In short, ICT may drive nearshoring and even reshoring in certain areas. This could benefit countries with low labour costs that are physically closer to more advanced economies: Turkey, for its proximity to Europe, and Mexico, for its proximity to the USA (see McKinsey, 2018).

3. Digitalisation and the data revolution: a new player in the city

Trade flows have been joined by a new player in recent years: data. The explosion of data exchanges has gone hand in hand with the ongoing ICT evolution (or revolution) mentioned above. In the last ten years, for example, internet traffic has multiplied by 12, and mobile traffic by more

2. The 50% rise in robots in the manufacturing sector is based on estimates made by Boston Consulting Group.
3. Even so, it is worth noting that compared to the relocation processes in manufacturing the offshoring that occurred with services like call centres was negligible. In many cases, its scale was more anecdotal than really having the capacity for macroeconomic impact.

than 30. These data flows have not only facilitated classic commercial exchanges of goods and services, they also constitute a highly marketable flow in themselves. The enormous digital advances have opened the door to a world where data itself is a product whose use can substantially improve a company's competitiveness.

Data flows are ever more important, but remain a long way short of full capacity. Mainly, this is because the technology needed for their exploitation is in its infancy. But it is also true that such flows of information pose risks to privacy if the countries trading in them lack the protection systems of the data's country of origin.

The continued evolution of ICT via 5G and blockchain technology will reduce logistics costs and encourage trade.

4. 3D printing and the electric car: more and less

Finally, we come to some technological advances that also have the potential to significantly impact trade flows, specifically 3D printing and the electric car.

As mentioned at the start of the chapter, 3D printing is a technology that can shorten GVCs and thereby prompt the reshoring of some manufacturing activity. Indeed, the technology removes the need to send the physical products at all – possessing the files for their manufacture is enough. Nevertheless, a World Bank study shows a sharp rise in trade flows following the adoption of 3D technology in hearing aid production (see Freund et al., 2019). While this is a highly specific case, it reveals interesting effects that should be considered. The hearing aid industry adopted 3D printing for virtually all of its parts when it became technologically feasible about ten years ago. Since then industry-related trade flows have risen by 60%. The main reason for the rise is that 3D printing has led to a huge fall in the production cost of hearing aids as well as improvements in terms of quality, causing a sharp rise in demand for the product. And with higher demand, the international trade in hearing aids has grown.

Another case worthy of special attention is that of electric cars, which have the potential to considerably reduce international trade. Classic combustion engine cars require a multitude of parts and gears that are usually manufactured in different countries in order to take full advantage of the competitive advantages of each. In fact, the automotive sector is responsible for a large chunk of the trade in intermediate goods. The electric car, on the other hand, has much simpler mechanics, with many fewer parts that are also less subject to wear and tear, and as such could change the sector and the trade.

5. The coronavirus: trend accelerator

There is no doubt that beyond the devastating short-term effects on economic activity, the current coronavirus crisis will trigger structural changes in many respects. Notable among them is a strategic shift towards more robust CVGs. While it is difficult to generalise about what "robust" means here, production chains are likely to be shorter and therefore less globalised, more redundant in their key links, and with more controls at all stages of production (see Canals, 2020).

3D printing electric cars has the potential to considerably reduce international trade.

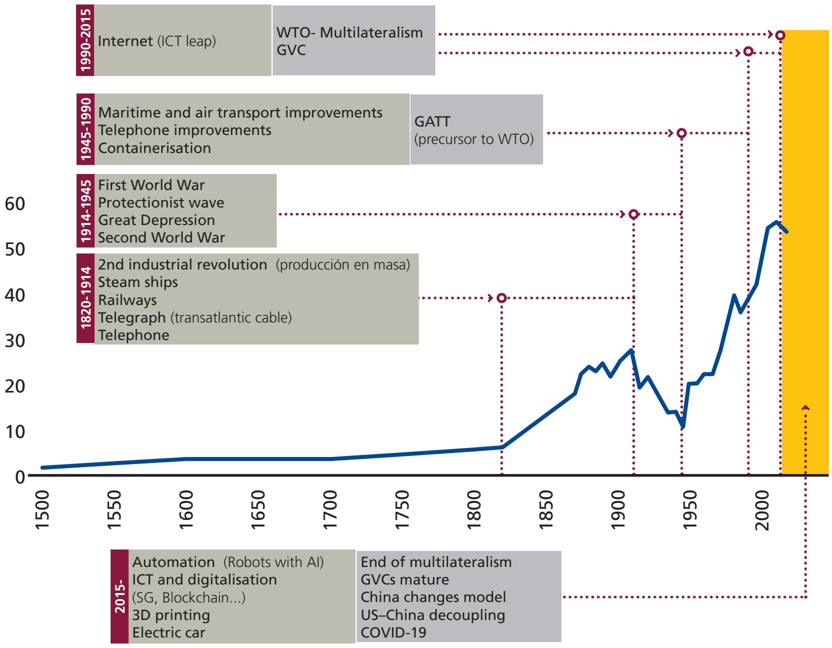
As well as this direct effect of the pandemic on trade flows, the coronavirus crisis will impact international trade indirectly by accelerating some technological trends. The COVID-19 crisis has shown that more digitalised and automated companies are more resilient in disruptive contexts such as the current one. In this sense, in the medium term companies are likely to increase investment in automation and digitalisation. As mentioned above, this is likely to promote reshoring, with a contractionary impact on many classic trade flows (see Chernoff and Warman, 2020). Nevertheless, the advances in digitalisation also have the potential to encourage new forms of commerce, above all those based around data flows.

6. Geopolitics: always present

Finally, it should not be forgotten that geopolitics has always played an essential role in international trade. In fact, for decades, international trade flows and investment relationships between economies have been conceived, in part, as instruments for promoting civil and political liberties and, ultimately, as deterrents to armed conflict. After all, the more integrated two countries are from an economic point of view, the higher the cost of a war between them.

But this view of international trade as a factor of cohesion between countries is increasingly scarce. Particularly since China's clear challenge to the hegemony of the US, leading defender of this liberal economic vision. This is the context of the trade tensions that emerged in 2018 between the two powers and which were calmed slightly by the "first phase" trade agreement reached in early 2020, as well as the battle in the technological field, which is currently in full swing.

International Trade. Index of trade openness (exports + imports/ global GDP)



Source: Compiled by author using Our World in Data (various articles and databases)

There can be no doubt that the US policy of decoupling from China, which has broad bipartisan support in the country, will lead to a gradual change in global trade relations. After all, China is the world's leading goods exporter and the US its largest services exporter (see Canals and Singla, 2020).

In short, after years of production chains being hyperglobalised through technological, communication and logistics advances, the various 4.0 technologies may end up having the opposite effect on trade flows. ICT and digitalisation will continue for the most part to encourage trade growth, but automation and advances in the electric car may turn back the globalisation of goods and services. Factors like the coronavirus crisis combine with this contractionary trend, exacerbating the automation and digitalisation dynamics already underway. We do not expect the adoption of new technologies to cause a radical, abrupt change in trade relations. Rather, we expect them to mark a change of trend in the flows over the coming years that ushers in a new paradigm: international trade 4.0. History reminds us that technological development and international trade are not immune to what happens in the geopolitical sphere. And on this front, the commercial–technological tensions between the US and China will play a decisive role.

The coronavirus crisis will impact international trade indirectly by accelerating some technological trends.

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CHINA AND THE EUROPEAN UNION: FROM STRATEGIC PARTNERS TO SYSTEMIC RIVALS

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Introduction

In 2003, the European Union and China signed a strategic partnership agreement. The Europeans believed that as China developed it would become more liberal and perhaps even more democratic. Two years earlier the Asian giant had joined the World Trade Organization (WTO), integrating itself into global economic structures and value chains, and it was hoped that within 15 years – as the accession treaty stipulated – China would became a market economy. It is crucial to understand the mindset of the time. The Berlin Wall had fallen just over a decade earlier, the Soviet Union had disappeared, and the central and eastern European countries of the former Warsaw Pact were engaged in democratic transition processes and on the verge of EU membership. In this context of democratisation, many assumed that China would follow a similar path. Hence the commitment to a strategic partnership.

Almost two decades on, the mental and geopolitical framework is very different. EU–China trade ties have strengthened, with goods and services worth €1bn exchanged every day. China is the EU's largest source of imports and second-largest export market. That makes China the EU's second-largest trading partner (after the US), while the EU is China's largest. But this extremely close economic relationship has not brought greater political understanding. On the contrary, the consolidation of Chinese state capitalism; the rise of Xi Jinping, a strong man, to power in 2012; the unexpected victory of Donald Trump, a major critic of China, in the 2016 US elections; and the origin of the coronavirus pandemic in the Chinese city of Wuhan this year have greatly strained relations between Brussels (and European national capitals) and Beijing. A strategic document published by the European Commission in 2019 (i.e. before the pandemic) reflected this. For the first time China was called a systemic rival, and an unprecedented ratification of this new conceptual framework by the European Council of heads of state and government followed.

Brussels's relationship with China has become multifaceted, as Josep Borrell, the EU's High Representative for Foreign Affairs, has said on several occasions. For the EU, China has four faces: strategic partner, negotiation counterpart, economic competitor and systemic rival. Each side of the rhombus of the new relationship merits analysis.

1. Strategic partner

China remains a Strategic partner, negotiation counterpart, economic competitor and systemic rival.

Its growing structural power means China remains a strategic partner for the European Union. Not only is the Asian giant home to almost a fifth of the world's population, it is the world's second-largest economy in nominal terms, and largest by purchasing power parity. For many years it has also contributed over twice as much as the US to the annual growth of the world economy. Despite its relative decline, the US can still be considered the world's indispensable power. But China is its inevitable power. Few of today's international relations matters can be resolved without involving China. Its help in stabilising the euro zone periphery in the debt crisis of 2010 to 2012 was perhaps the most palpable example from a European point of view, but the same is true of strategic issues as important as the fight against climate change, the preservation of the biosphere and water resources, global public health, the resolution of international conflicts (China contributes more UN peacekeeping troops than any other country) and the governance and stability of international economic and financial relations.

The environment is often given as an example of a field where cooperation with China is essential on several fronts. It is true that great potential exists for collaboration in this field, from smart cities to meeting the ambitious goal of carbon emissions neutrality set for the EU in 2050 and China in 2060. But that is just one of the big issues on the table. A better understanding with China is crucial to almost all the questions usually grouped within the concept of *multilateralism* (including, of course, the whole of the 2030 Agenda). And that understanding will be all the more necessary in the future, because China is no longer the somewhat passive actor in international institutions of the past, but has become more proactive and assertive. This much is evident from its activism in shaping the human rights debate at the UN, its stance in traditionally Western-dominated institutions like the International Monetary Fund and the World Bank, and even from the creation of new organisations like the New Development Bank and the Asian Infrastructure Investment Bank, as well as its greater ambition in setting the rules and standards on 5G, the internet of things, facial recognition and artificial intelligence.

2. Negotiation counterpart

Logically, the divergence in interests and values in almost all these areas makes China a counterpart in negotiations for the EU and its member states. In economic matters, the dialogue occurs at the highest level. At the (informal) G20 forum of heads of state and government, for example, in multilateral institutions like the World Bank, IMF and WTO, and in the technical international agencies that oversee the architecture of globalisation, such as those concerned with internet governance. But it also includes all existing bilateral dialogues. As Figure 1 shows, the central pillar of the bilateral relationship may be economic, but it also takes in political or strategic dialogue (pillar 1) and people-to-people relations (pillar 3).

Hence, the most important negotiation currently underway between the EU and China is the bilateral investment agreement, negotiations on which began in 2014. Over time, this has become an attempt at a comprehensive investment agreement that goes beyond its initially narrow scope to become a negotiation over how much market and how much state the bilateral relationship should contain. In other words, it is essentially a negotiation of a different social relationship. The EU seeks to achieve a series of objectives with this agreement that are worth recapping. First, it wants greater access to the Chinese market, and calls for the removal of quantitative restrictions, limits on ownership of Chinese companies and joint venture requirements. Second, it seeks equal treatment with Chinese companies, to prevent, for example, technology transfers and public procurement difficulties. Third, it wants greater transparency and predictability from Beijing in terms of legislation, regulations and obtaining licences. The fourth goal relates to greater market discipline and transparency on aid to state companies. The fifth objective is to establish minimum environmental and working conditions in China. The sixth is to get Beijing to accept the European dispute resolution mechanism between states and companies. And, finally, the seventh objective is for the agreement to include an instrument for resolving disputes between the two parties: the EU and its member states and the Chinese state.

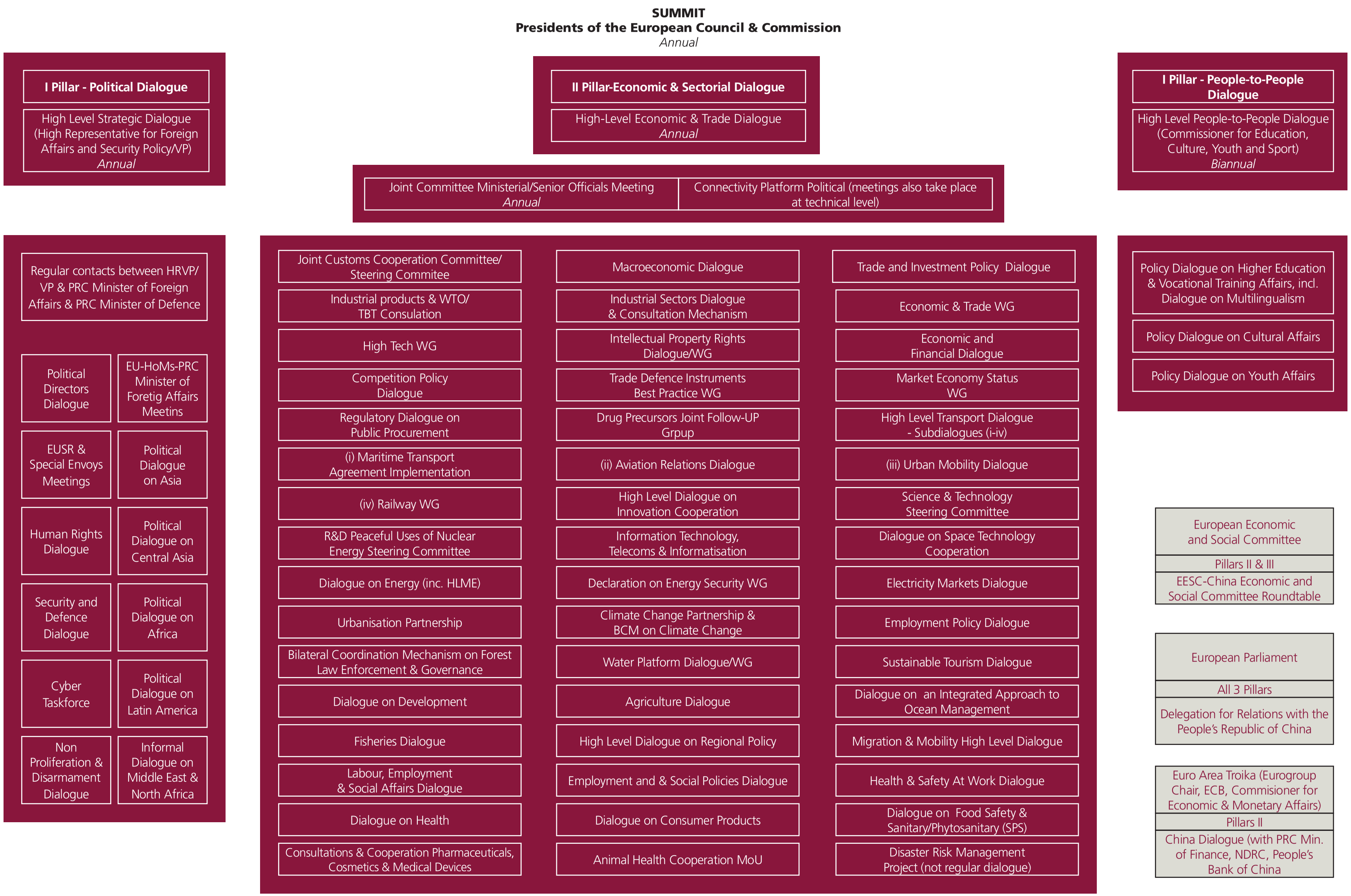
Despite its relative decline, the US can still be considered the world's indispensable power. But China is its inevitable power.

Clearly, these goals are not easy to achieve – they go right to the heart of the organisation of Chinese state capitalism. In general terms, both the EU and US – whose parallel negotiation is notable for a much more aggressive and coercive attitude – are asking China to change its model. Chinese Communist Party leaders, meanwhile, are increasingly convinced that its model is at least as valid as the one proposed by the West, if not superior. The handling of the pandemic has only reinforced this. Certain advances can be achieved: Beijing has recently accepted a hundred European denominations of origin, for example. And it is even possible that China will open up certain sectors to European investments and more harshly pursue intellectual property theft. But Beijing's commitment to state-owned companies and state aid is a red line of *national interest*, among other reasons because in the Chinese culture of *guanxi* (contact networks) a strict division between the public and private is oxymoronic. This also complicates any agreement within the WTO framework.

3. Economic competitor

The Chinese model of state capitalism is here to stay. Those who thought China would become more liberal and those who believed the Chinese model would fail because communism never works were wrong. In under 40 years, China has gone from being a poor country on the margins of global economic structures and value chains (willingly, in Mao's time) to become the world's second most powerful country, which in multiple economic sectors shapes trends and sets prices. Once Deng Xiaoping discovered in the 1980s that his country's competitive advantage was cheap labour, China became the world's factory. Joining the WTO was a key factor in further strengthening that advantage, but the rise of value chains has been of such magnitude that China can today be considered an innovation hub.

Figure 1: Architecture of the institutional dialogue between the EU and China



Fuente: https://eeas.europa.eu/

So sudden is the transformation that in a single generation, Chinese society has gone from doing business with bundles of banknotes to using mobile phones for around 80% of payments, leaving the credit card (still dominant in Europe) and cheques (still widely used in the US) as Western relics. Many young people who have studied in New York and London today visit Shanghai and Beijing and are fascinated by the dynamism and innovation shown by a country said to be unable to innovate due to its authoritarian political system.

Both the EU and US are asking China to change its model.

The Chinese strategy "Made in China 2025" encapsulates the challenge the country poses to Western economies. By the end of its next five-year plan China aims to be competing on an equal footing in multiple sectors of high technological and industrial value currently dominated by the advanced powers: automobiles, aviation, machinery, robotics, latest generation rail and shipping, low CO_2 vehicles, high-precision medical equipment and information and communication technologies, to name but a few. In all these key fields of future growth, Beijing is committed to "indigenous innovation" and "self-sufficiency" and establishes domestic component and material thresholds in various sectors. For example, semi-official documents estimate that 40% of all mobile phone chips, 70% of all robots and 80% of renewable energy generation equipment consumed in China by 2025 will be manufactured domestically.

We are therefore talking about a large-scale foreign technology substitution strategy that will affect European interests. It should not be forgotten that the trade deficit with China would be much higher were it not for the sales of Airbus aircraft to the Asian giant. Growing Chinese competition in high-tech sectors is already notable in the telecommunications field, with companies like Huawei and ZTE. It is not that European companies like Ericsson and Nokia cannot compete in cutting-edge technologies such as 5G, it is that Huawei's growth and market share projection is stunning. Thanks to very beneficial financing from China's policy banks, Huawei has emerged as a technological champion of such magnitude that the White House is seeking to halt its rise by any means, to the extent that it has even threatened to cut intelligence cooperation with European countries that use Huawei equipment at the core of their 5G networks. This has put countries like Germany and Spain in a bind, as at the time of writing they have yet to decide whether to accept Chinese technology in their networks or not.

4. Systemic rival

As a market, the European Union has always been relatively open to foreign products and investments. Huawei is a paradigmatic case. While the company was banned some time ago from the US market, in Europe Chinese companies were until very recently treated the same as Korean and Japanese: as long as they complied with European rules and standards they were welcome. But that is changing. The Chinese model of state capitalism is increasingly seen as incompatible with European norms and values. As such, since 2019 European leaders have considered China to be a systemic rival, as mentioned above. Not necessarily at strategic level, but in terms of having – and more often defending and promoting – a social and political system that is far removed from EU liberal and democratic values. This has led EU leaders to approve a series of defensive measures to better protect against competition (in certain cases unfair) from Chinese companies, such as creating an investment supervision instrument, reformulating trade defence mechanisms and adapting competition legislation to prevent companies from third countries receiving public aid that specifically violates the principle of free competition.

Beijing is committed to "indigenous innovation" and "self-sufficiency"

The European Union has generally taken a less aggressive stance towards China than the United States, which sees relations with its Asian rival as a zero-sum game. In other words, whatever is good for China is bad for the United States. In Europe, the prevailing view is still that a positive-sum game can be achieved, precisely because of the multidimensional relationship that exists with China. In contrast to the increasingly popular idea in Washington of "decoupling" the US economy from the Chinese to reduce (inter)dependencies, Brussels and the European capitals favour the diversification of value chains with China. The COVID-19 pandemic has shown that, as well its rare earth dependence, the EU is overly reliant on China for pharmaceutical products and medical and healthcare protective equipment. It hopes to reduce this dependence either through onshoring (attempting to bring some production to Europe), nearshoring, which would decrease vulnerability by shortening value chains to strengthen regionalisation, or by increasing the slack or stock of strategic reserves of material against any eventuality.

This leads us, logically, to the debate over the EU's strategic autonomy, conceived not just in military terms but more broadly to include economic sovereignty and, in turn, digital. Many European leaders have realised that if the EU wants to compete in the fourth (digital) industrial revolution, it cannot depend on third-country digital platforms and structures like clouds to manage its own data. Many future high added value sectors will incorporate artificial intelligence into their processes and key aspects such as big data, quantum computing, automation and the internet of things. If Europe is to compete with the US and China it will have to invest a great deal of resources and increase scale. This will also require the European Union to reform its social and economic model in order. The pandemic will increase inequalities and economic anxiety in many layers of society, and if the European model of capitalism, based on the social market economy, is not able to reduce them, Chinese techno-authoritarianism will look increasingly attractive.

Conclusion

The West, and Europe in particular, should be more self-critical in its relationship with China. Greater efforts should be made to understand what has worked in China to lift over 700 million people out of poverty and become the world's second superpower, and what has failed in Europe to produce levels of inequality and polarisation – as well as political radicalisation – not seen since the 1980s. Perhaps the insistence on hyperglobalisation and free trade and markets since the fall of the Berlin Wall and the neglect, or even elimination, of social and industrial policy have something to do with Europe's decline. From the embedded, inclusive liberalism of the Bretton

Woods system Europe shifted to a more laissez-faire liberalism from the 1990s to 2008, when the global financial crisis broke out. China, meanwhile, remained anchored to the Bretton Woods principles, with relatively fixed exchange rate policy, capital control, industrial policy and Keynesian macroeconomic control focused on full employment and the financial sector serving the real economy rather than the other way around. This is not to say that Europe should return to the Bretton Woods era or adopt Chinese techno-authoritarian state capitalism, but it should reflect on the relationship between the state and the market and the public and private sectors in our societies.

To imagine that over the coming years or even decades China will transform its socioeconomic model to make it more similar to ours is naïve – especially if it manages the pandemic crisis better than the West. More likely, it will consolidate its growth potential and the geostrategic rivalry with the US will continue, even after Joe Biden's arrival in the White House. This will present the EU with a serious challenge. It will have to decide between clearly aligning itself with Washington or sticking with its strategy of doing as much business as possible with Beijing as long as it does not irritate its US partner. At the global level there are also two options. Either the impossibility of Chinese and Western models operating under the same rules will give rise to a less integrated multilateralism of more or less peaceful multipolar (geo)economic coexistence; or attempts must be made to agree rules in the WTO that are acceptable to both Washington and Beijing. In the latter case, the EU would theoretically be in a mediating position, with its social market economy model including both collectivist and liberal elements. But to play this role it would have to propose a new embedded liberalism. In other words, a social liberalism for the 21st century, and it is far from clear that it can do that.

To imagine that over the coming years or even decades China will transform its socioeconomic model to make it more similar to ours is naïve.

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Introduction

The architecture of today's transatlantic relationship emerged at the end of the Second World War. Building on the collaboration between European countries and the United States (US), a liberal international order was created. Defending and maintaining that order has given rise to a close alliance at the political, economic, military and strategic levels. At governmental level, this alliance has been embodied in cooperation and agreements; at business level, in investment and the acquisition of companies; and, at the social level, in the values and interests shared between the two sides of the Atlantic.

Politically, the relationship has not been without cyclical crises. As well as the Iraq war, many examples of varying nature have arisen over the past 70 years, with disagreements traditionally limited to economic rivalry and particular issues. The relationship has also been based on mutual respect for differences. However, the current transatlantic crisis raises doubts about the foundations of the relationship, as President Trump replaces respect with coercion and imposition. This chapter argues that while the Biden Presidency will seek to improve the forms of the relationship, the underlying problems will persist and China will continue to be the priority for the US.

1. A slow, long-term erosion

The recent inability to conclude agreements like the Transatlantic Trade and Investment Agreement (TTIP) is the product of long deterioration and absent political will in the transatlantic relationship. When the Cold War ended, Europe ceased to be the main region of geostrategic importance for the United States.

The George H. W. Bush presidency was the last to focus on Europe. As well as managing the end of the Cold War, he responded to the Single European Act of 1987 by proposing a transatlantic free trade agreement. Bill Clinton signed the New Transatlantic Agenda in 1995, but the free trade agreement it was meant to produce failed to materialise as the

1. Postgraduate course funded by a grant from the "La Caixa" foundation (ID 100010434). The grant code is LCF/BQ/AA18/11680070.

president focused his efforts on ratifying the free trade agreement with Mexico and Canada.

Presidents George W. Bush and Barack Obama were more preoccupied with Asia, particularly the war on terror in the Middle East and the pivot of US foreign policy to the Far East, respectively. But President Trump's erratic foreign policy has disrupted the United States' global leadership position. Indeed, its credibility is so diminished that the capacity of the US to be a responsible actor in international society is questioned. Among other things, the president has not hidden his dislike for the European Union (EU), which he calls a competitor to the US.

The Biden Presidency will seek to improve the forms of the relationship, the underlying problems will persist and China will continue to be the priority for the US.

More recently the tension has emerged in security and multilateralism. The Americans believe that Europeans take advantage of the military protection the US provides without making the agreed investments in defence. In their days, Presidents Bush and Obama also called for increased military spending, but Trump has gone further, using aggressive rhetoric and calling European countries *debtors.*

He has cast doubt on whether the US will honour its security commitments to NATO. Indeed, the withdrawal of 12,000 soldiers from Germany generated debate about whether the Atlantic Alliance has been weakened. Transatlantic frictions have also exposed differences in foreign policy values, with the US turning its back on the use of multilateral agreements to solve global problems, as evidenced by the withdrawals from the Paris climate agreement and the nuclear agreement with Iran.

On an economic level, although a transatlantic free trade agreement has not been concluded, trade barriers are low, except in highly sensitive sectors like automobiles and agriculture – the source of the US trade deficit with the EU. This trade deficit is what lies behind the US belief that the trade relationship is unequal, even though the US actually leads when services and primary income are counted. The main transatlantic disputes have been over agricultural products like hormone-treated beef and industrial subsidies to Boeing and Airbus.

The dispute between the aeronautical giants has been ongoing since 2006, with little willingness to resolve it. The World Trade Organization has ruled that both the US and the EU provide unjustified subsidies, and has authorised both to cross-retaliate with tariff hikes. Hence, the dispute has led to higher transatlantic tariffs.

The last attempt to conclude a transatlantic free trade agreement was under President Obama. Negotiations over TTIP began in 2013, and one of its main US supporters, then Vice President Biden, called it an extremely ambitious agreement. The negotiation aimed to reduce tariff and non-tariff barriers to the trade in goods and services and to transatlantic investment. To achieve this, regulatory alignment needed improving through mutual recognition agreements to reduce type-approval costs. Finally, TTIP also proposed collaboration to reduce anti-competitive behaviour.

The tariff barriers TTIP proposed to lower are in highly sensitive sectors. The EU was not prepared to accept a tariff cut without the US opening up public procurement and cabotage markets. The lack of will to reach these agreements meant little progress was made in four years of negotiation.

The different regulatory attitudes of the two blocs made concluding mutual recognition agreements very complicated. But although the agreements did not materialise, the negotiation did enable dialogue to be established between the regulatory agencies that may help align future regulation and reduce transatlantic divergences. No progress was made on the issues of maximum intransigence, such as genetically modified organisms and denominations of origin.

When the Cold War ended, Europe ceased to be the main region of geostrategic importance for the United States.

In part, TTIP failed because the negotiations involved two economic actors of equal strength who are used to imposing their own conditions and who did not adapt to negotiating with an equal. America's maximum pressure strategy was counterproductive and showed an inability to understand EU dynamics. Such an ambitious agreement can only be reached if there is acceptance that each bloc has sensitive sectors in which agreement will not be reached. Political capital must be invested in both negotiations and in persuading public opinion of the need for the agreement. President Obama invested his political capital in the Trans-Pacific Partnership, and prioritised it to the detriment of TTIP.

2 . A change of economic strategy shakes the Atlantic

President Trump has brought these latent tensions in the transatlantic relationship into the light and tension is higher than in decades. The differences have been evident mainly at the economic level. Although trade flows have continued to grow, a shift towards protectionism and economic nationalism has characterised the Trump presidency.

His 2016 electoral victory capitalised on discontent with a globalisation that was accused of causing deindustrialisation and unemployment. But protectionist slogans are not unique to Donald Trump. President-elect Joe Biden has also used the slogans "Made in America" and "Buy American" in his campaign, and US protectionist tendencies will not vanish with the end of the Trump Administration.

Eventually President Trump has also shown some willingness to reduce transatlantic tensions. When the von der Leyen Commission took office, Secretary of State Pompeo travelled to Europe with the intention of relaunching transatlantic relations. It seems that, after initially questioning these relationships, the Trump Administration recognised that the US prefers a strong and united Europe.

The desire to rebuild ties stems from the fact that the transatlantic alliance is the world's closest economic relationship. The EU and the USA are each other's main trading partners and the relationship extends beyond the trade in goods to include services, investment and subsidiaries. For example, the sales of subsidiaries of European and US companies across the ocean are two and a half times higher than transatlantic trade. These foreign subsidiaries are part of the value creation network for large corporations; they are centres for receiving investment, generating value, research and development and repatriating profits.

The trade war the United States unilaterally began against China has impacted the EU.

This economic interdependence means that US trade and foreign policy impact European business interests. Inevitably, the trade war the United States unilaterally began against China has impacted the EU. On the one hand, higher trade barriers to Chinese exports have prompted China to seek new markets, increasing competition in European markets. On the other hand, Chinese retaliation affects the US subsidiaries of European corporations. For example, higher Chinese tariffs have affected the price of the commercial vehicles BMW exports to China from its factory in South Carolina. This causes European multinationals to lose competitiveness.

While transatlantic trade flows have continued to grow, tensions have not eased. In 2019, according to Eurostat, total exports and imports from the EU to the US rose by 9% and 11%, respectively, compared to 2018, the year President Trump launched a trade war over steel and aluminium. This war directly affected European exports to the US in this sector, which fell by 25% in 2019, according to UN Comtrade. Europe responded to the rise in steel and aluminium tariffs by raising tariffs on iconic US products from "swing" states.

President Trump's repeated threats to raise tariffs on European cars mean the trade wars cannot be considered to have stabilised. However, the potential tariff hike has been postponed thanks to then President of the European Commission, Jean Claude Juncker, making an offer to the US president in 2018 to begin negotiations over a new preferential trade agreement. This agreement is so unambitious that it is known as the *mini-deal*. The parties are still negotiating the scope of the negotiations: for example, the Americans want to include the agricultural sector, while the Europeans want to keep it out. Expectations of concluding the agreement therefore remain low.

Along the same lines, in August 2020 a small agreement was reached over lobsters. The agreement primarily benefits the state of Maine, an electorally important swing state for President Trump. The two giants' first mutual tariff reduction in over 20 years, it affects less than 0.02% of transatlantic trade and should be seen as a show of European good will to conclude the Boeing–Airbus dispute, but not to negotiate a trade agreement.

3 . Trump, a turning point

Europe will place new stumbling blocks in the relationship by possibly taxing digital companies. In this key sector for the US economy, the EU wants the large digital corporations to pay taxes where they create value. In parallel, the OECD is negotiating a new global agreement on multinational taxation. It should be noted that although the US has left that negotiating table and tried to block the result, negotiations remain ongoing. The US has begun a process of retaliation against luxury brands from European countries that want to apply digital taxes, which could well end up affecting Spanish companies such as Balenciaga and Loewe. President Biden may return to the negotiating table in Paris, but the underlying differences will remain.

There are also other pitfalls. First, the EU carbon tax, which will directly affect US exports. Second, the European Parliament's proposal to include intellectual property in the arsenal of commercial retaliation. The adoption and application of these measures against American companies would undoubtedly increase trade tensions. Hence, we cannot assume escalated tensions with the US have been avoided – it is possible that from now on elements of cooperation and competition will coexist in different economic sectors.

The Trump administration's main legacy will be US awareness of the need for a different foreign policy. The world it faces is multipolar and contains revisionist powers set on challenging its hegemony. In this sense, there is consensus in Washington that China poses a danger to the United States, but no agreement on the policies and strategies for dealing with it. The Trump administration has tried to deal with China unilaterally, but the strategy has not worked. In the medium term, the US will need allies to contain the Asian giant, including the Europeans. The transatlantic relationship will thus be contingent upon US and EU policy towards China.

Europe will place new stumbling blocks in the relationship by possibly taxing digital companies.

European ambassadors in the US interviewed by the Carnegie Endowment do not believe that the US policy of protectionism, isolationism and burden sharing will change in the coming decades. Nor do they believe transatlantic relations are likely to improve under President Biden. Although he is a defender of the transatlantic relationship and a good friend of European leaders such as Angela Merkel, he will fall short of the EU public's expectations of him. The president-elect will rejoin multilateral agreements and seek the support of allies to build a common front against China. But his priority will be domestic politics and his line in trade policy will be one of continuity, with a greater role for protectionism. This will make it difficult to resolve trade disputes between the EU and the US.

But the future of the relationship does not lie exclusively in American hands. Europeans also bear part of the responsibility for shaping the relationship. The von der Leyen Commission has had a more harmonious relationship with the Trump Administration than the Juncker Commission managed. Former Commissioner Hogan's pragmatic and transactional vision allowed progress to be made on selected disputed issues. His replacement by Vice-President Dombrovskis presents us with a series of unknowns, but they appear to share a similar predisposition.

However, the coronavirus pandemic has accelerated the change in European people's perceptions of the US. In recent months, citizens have seen China as a better ally than the United States,[2] reinforcing a trend that began with the US abdicating global leadership and returning to unilateralism. This attitude has reduced European citizens' trust in the US, making it difficult to imagine the transatlantic relationship returning to previous levels of collaboration. Without popular support, obtaining the political will for new large agreements such as TTIP will be problematic, although collaboration may be possible on specific regulatory matters, such as setting standards in areas such as new technologies and artificial intelligence.

The knowledge that at any moment a president like Trump could emerge and reverse all the progress made will make EU governments more reluctant to collaborate with the US government. France and Germany have shown their willingness to maintain good relations with the US while preparing to reduce dependence on it, setting the tone for the next few years. Another factor is the strongest bridge between the EU and the US – the United Kingdom – leaving the union. Brexit will complicate

2. Survey carried out by the ECFR between the end of April and the beginning of May 2020.

relations from now on, particularly if the Gaullist tendencies London previously counterbalanced take hold in EU foreign policy.

Conclusion

European citizens' trust in the US has been reduced.

The strongest bridge between the EU and the US – the United Kingdom – has left the Union.

The appetite for strengthening transatlantic economic relations is shown by the recent purchases of the American companies Varian Medical Systems by Siemens Healthineers and Alkahest by the pharmaceutical company Grifols. The strength of economic ties between the EU and the US will mean that in the short term the two blocs remain united by intersecting interests. Nevertheless, transatlantic relations are at one of their lowest points.

Latent political tensions have surfaced under the Trump presidency. At the bilateral level, these tensions have led to higher tariff barriers as a result of the steel and aluminium trade war and the Boeing–Airbus dispute. What is more, transatlantic interconnection means European companies are affected by American foreign policy towards third countries.

The EU's priority is undoubtedly to work on reducing tension and returning to a situation of cooperation rather than confrontation. But negotiating a deeper reduction in trade barriers will not be possible without investing political capital that neither partner wants to spend. The failure to resolve these issues will make it more difficult to solve new problems that emerge like digital taxation, the carbon tax or retaliation on intellectual property.

The Biden administration may be more willing to resolve disputes, but the red lines drawn by the Trump administration will not change. The transatlantic relationship appears destined to hit new potholes in a more uncertain geopolitical landscape.

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Interview with a senior official of the European Commission of the Directorate of Trade carried out in September 2020.

REFORMING A WORLD TRADE ORGANIZATION IN CRISIS: MISSION IMPOSSIBLE?

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1. Introduction

Since its launch in 1995, the World Trade Organization (WTO) has contributed to the liberalisation of international trade on a global scale. This has fostered the globalisation of the economy, the relocation of many companies and the formation of global value chains. For years, among other factors, the WTO has promoted economic growth, the expansion of transnational corporations and the development of emerging economies, particularly China and other rapidly industrialising Asian countries.

Even at its height, the WTO faced criticism, with various social movements holding resounding protests against neoliberal globalisation and its asymmetric beneficiaries during the 1999 Ministerial Conference in Seattle. But many voices have also defended the WTO and globalisation, stressing that opening up global markets has played a large part in lifting hundreds of millions of people in emerging economies out of poverty. It was also argued that a rules-based multilateral trading system guaranteed by an advanced dispute settlement mechanism chaired by the WTO Appellate Body would bring more legal certainty and predictability to international economic relations.

But the days of a rising WTO are gone. Its rules have not been updated to fit the large-scale, rapid transformations seen in the international sphere, and it is immersed in a deep crisis.

To a large extent the WTO continues to rely on the original agreements signed in Marrakesh in 1994, which focused on promoting free trade in goods and, to a lesser extent, services – the General Agreement on Trade in Services (GATS) is notable for its flexibility.

However, new technological advances (such as the increasing digitalisation of many services), the rise of China (with its peculiar political and economic system) and other emerging countries, and the increasingly urgent need to better combine free trade with fairer and more sustainable international trade mean WTO rules require modernisation.

The continuing failure to achieve this is due to the serious disagreements between advanced and emerging economies. This brief chapter aims to reflect on the various manifestations and causes of the WTO's current crisis and to evaluate the feasibility of its reform in this complex setting.

The clearest cause of the blockage is the growing difficulty reaching major global consensuses.

2. The Doha Round runs aground

The current crisis in the WTO has multiple manifestations. It first emerged in the form of deadlock in the Doha Round of multilateral trade negotiations, which began in 2001 with a highly ambitious agenda. As well as continuing to promote further liberalisation of international trade in goods and services, it sought to incorporate new issues into the multilateral system like the regulation of foreign investment (traditionally covered by bilateral treaties), anti-competitive business practices, transparency in government procurement and trade facilitation (removing or reducing bureaucratic barriers to cross-border trade).

But although the Doha Round was meant to be concluded in 2005, it remains uncompleted today and has thus far borne little fruit. The clearest cause of the blockage is the growing difficulty reaching major global consensuses. In the Uruguay Round (1986–1994) the consensus rule worked remarkably well. The clear hegemony of the United States at the time and the support of the European Union (EU) and Japan on many issues established a triad that proved decisive in building consensus and bringing then highly dependent developing countries with them.

The Doha Round, by contrast – at least since the Ministerial Conference in Cancún in 2003 – has demonstrated the growing prominence of certain emerging countries. Among others, India and Brazil defend their own priorities in the negotiations, which often run counter to those of the advanced countries. Likewise, successive WTO enlargements have seen a substantial number of countries join, including China in 2001 and Russia in 2012. Both make their renewed weight felt on the international stage and inevitably condition the formation of consensuses in the WTO.

3. Proliferation of preferential trade agreements

Another symptom of the WTO crisis is the growing proliferation of bilateral and regional trade agreements in recent years. The multilateral trading system has always co-existed with preferential trade agreements, but the Doha Round impasse has led some countries to promote an ambitious agenda of restricted trade negotiations with countries with whom they have closer relations or more compatible interests. These agreements tend to be very extensive, regulating multiple issues on the international trade in goods, services, intellectual property, government procurement, foreign investment, competition, sustainable development, e-commerce, and so on.

The EU clearly fits within this trend, calling its most recent agreements with third countries "New Generation Free Trade Agreements": the negotiations with South Korea, Colombia-Peru-Ecuador, Central America, Canada, Singapore, Japan, Vietnam and Mercosur are some examples.

Under Obama's leadership, the United States also promoted the Trans-Pacific Partnership (TPP) with 11 other Pacific-basin countries (and the notable absence of China) and the Transatlantic Trade and Investment Partnership (TTIP) with the EU; President Trump hobbled both initiatives. The other TPP-negotiating countries decided to continue and adopted the Comprehensive and Progressive Agreement for TPP (CPTPP), which entered into force on December 30th 2018 and currently has seven states parties: Australia, Canada, Japan, Mexico, New Zealand, Singapore and Vietnam. Perhaps, following Biden's victory, the United States will re-engage in such initiatives.

Doha Round impasse has led some countries to promote an ambitious agenda of restricted trade negotiations with countries with whom they have closer relations or more compatible interests.

China has also pushed for negotiations on other agreements, such as the Regional Comprehensive Economic Partnership (RCEP) with the countries of the Association of Southeast Asian Nations (ASEAN) and others in the Asia-Pacific region, where it is particularly keen to project its growing influence (Kelsey, 2019).

The proliferation of these preferential trade agreements – whose regulatory models vary according to the respective conceptions of the major powers driving them – could have the positive effect of establishing new regulations on international economic relations, but they may also deprive the WTO of relevance.

4. Rising trade tensions and geopolitical friction

In recent years, especially since the 2008 global financial and economic crisis, tensions have grown over key aspects of multilateral trade regulation. In particular, the United States and the EU have been closely watching certain Chinese practices that may or may not violate the letter of multilateral trade rules, but certainly go against their "spirit" (Steinberg, 2019). It has been alleged, for example, that China undervalues its currency exchange rate to obtain unfair competitive advantages; that it practices social and ecological dumping; maintains a highly interventionist economic model; imposes restrictions on the establishment of certain foreign investors; and requires forced technology transfer.

While continuing to defend the foundations of the multilateral trading system, the EU stresses that any such defence must not be naive. The EU believes that some emerging countries have benefitted handsomely from the opening up of markets promoted by the WTO without assuming the necessary responsibilities, and that it is necessary to level the playing field. For example, in 2017 the EU decided to reform its regulation on anti-dumping measures, envisaging a specific new regime for countries with "distorted markets". Its compatibility with the WTO's current Anti-dumping Agreement is questioned by China and other emerging economies (Huyghebaert, 2019).

During the Obama presidency the United States insisted that China could still not be considered a proper market economy and must continue making profound reforms to its system. But under Trump the tone of US criticism has sharpened, explicitly accusing China of abusing the multilateral trading system. It has unambiguously lamented the failures of the current WTO regime to prevent this and unilaterally launched aggressive trade wars, violating the most basic institutional and substantive multilateral rules.

The great powers are vying to lead the Fourth Industrial Revolution.

On January 15th 2020 the United States and China announced a truce in their trade disputes and presented the Phase One Trade Deal. However, the content of this truce (which includes some commitments that run contrary to the WTO's most essential principles) and the way it has been developed undermine the credibility of a multilateral trading system based on objective rules by subordinating commercial transactions to the variable balances of power between the great powers.

All of this has also coincided with the progressive escalation of geopolitical friction between the great powers. As well as vying to lead the Fourth Industrial Revolution (with the development of 5G networks and artificial intelligence), their interests clash in various areas of the planet, such as Hong Kong, Taiwan, Iran, Ukraine, Belarus and Venezuela, making the achievement of major global consensuses even more difficult. Unsurprisingly, some authors already speak of the advent of a new kind of Cold War or of a trend towards the fragmentation of the world into large blocs (Zhao, 2019).

Joe Biden's recent victory may bring about some thawing, but he too has underlined that China is currently the United States' great systemic rival and that American "economic security" is also a matter of "national security" (Biden, 2020).

5. Blocked appointments of new members of the Appellate Body

Trump's dissatisfaction with the current WTO regime has even led the United States to block the renewal of members of the Appellate Body. With only one member since December 11th 2019 it can no longer examine new appeals, for which a minimum of three is required. For years, it has been customary to call the WTO's dispute settlement system the jewel in its crown. The United States began criticising some aspects of the mechanism as early as 2002, presenting a proposal (alongside Chile) aimed at making it more flexible, arguing that the special groups and the Appellate Body in particular had been engaging in excessive judicial activism (doc. TN/DS/W/28, December 23rd 2002). But only Trump has gone as far as blocking the Appellate Body. It is hoped that Biden will take a more conciliatory stance on the matter.

6. Impact of the COVID-19 pandemic

The COVID-19 pandemic inevitably affects the WTO. The serious health and economic crisis has shown the fragility of certain basic supplies that depend on global value chains. Plans to ensure certain levels of self-sufficiency of essential products have been revived. The drift among states towards certain forms of protectionism that began following the 2008 crisis and its aftermath is growing, encouraging the relocation of companies and government support for national champions.

The EU continues to defend the opening up of international trade, but now insists on promoting greater "resilience" and "strategic autonomy" to reduce foreign dependence, promote reindustrialisation and foster European high-tech companies that can effectively compete with large

US and Chinese corporations (European Council Conclusions, October 1st and 2nd 2020).

The pandemic has also heightened mistrust between certain countries, which reproach each other over its origins, management and the information disseminated. For example, shortly after Australian authorities raised the need for an independent investigation into the origins of the disease in China, Beijing (coincidentally?) imposed a series of trade restrictions on Australian products (Palmer, 2020).

There is a drift among states towards certain forms of protectionism.

7. Is WTO reform feasible now?

In this complex global setting, it has become a commonplace to say that the WTO needs reform. Recent G20 meetings generically repeat it. But when attempts are made to define which specific substantive and institutional aspects of the WTO should be reformed and how, the same disagreements that have hamstrung the Doha Round also emerge.

In terms of doctrine, Petersmann (2019) argues that the WTO's substantive rules require deep reform to prevent them from serving either uncaring neoliberal capitalism or excessively interventionist state capitalism, and to promote a model of social capitalism that seeks to effectively encourage the defence of free and fair competition on a global scale, while taking into account crucial social and environmental factors and simultaneously promoting free, fair and sustainable trade.

Among the proposals for reforming the WTO made by its members, the EU's are worth highlighting. Alongside Canada, the EU has been leading the so-called Ottawa Group of countries seeking to identify areas of convergence on the improvements to be made (Akande, 2018). In September 2018 the European Commission presented an EU concept paper on WTO reform, pointing out the need to thoroughly update WTO rules. It argues, for example, that more provisions should be incorporated on social and environmental issues. It also points out the need to make certain institutional reforms (e.g. facilitating the conclusion of plurilateral agreements) and to modernise multilateral regulation in order to better tackle the unfair competition practiced by countries with markets distorted by the excessive intervention of their authorities. In particular, the EU has been calling for reform of the Agreement on Subsidies and Countervailing Measures (SCM) to expand the list of prohibited industrial subsidies.

On this last issue, the EU proposals match those of the United States and Japan, with whom it presented a joint declaration on January 14th 2020, proposing a thorough review of the SCM with an eye, particularly, on curbing the large industrial subsidies given by the Chinese authorities.

The United States has also been signalling the need for other far-reaching reforms, such as those suggested in the 2020 Trade Policy Agenda. The argument is made, for example, that each member's consolidated tariff schedules are now anachronistic and should be "reset". Certain rules on special and differential treatment for developing countries are also considered to no longer make sense on many occasions.

In many substantive respects, China's proposals are diametrically opposed to the stated approaches of the advanced economies (doc. WT/GC/W/773, May 13th 2019). China's economic model is officially classified as "*socialist market economy*", and it is reluctant to impose further limitations on industrial subsidies. On the contrary, it advocates multilateral rules that reinstate and expand the list of non-actionable subsidies, more effectively prevent the abusive recourse to trade defence instruments and protect publicly owned companies from potential discrimination. Nor does it seem willing to talk about social or ecological dumping or to question the current provisions on differential and more favourable treatment for developing countries.

In many substantive respects, China's proposals are diametrically opposed to the stated approaches of the advanced economies.

The proposals and current attitudes of WTO members show marked disagreements between advanced and emerging economies about the values that should inspire the multilateral trading system. For example, some emerging countries often criticise EU proposals to establish a carbon border tax and other penalties on product imports based on their carbon footprints, which the EU considers necessary to promote sustainable development. Indeed, Indonesia has filed a claim against the EU for penalising biodiesel extracted from palm oil, plantations of which have spread across the Asian country (and other tropical countries) at the cost of deforesting primary forests that were important carbon sinks and biodiversity reserves (doc. WT/DS593/1, December 16th 2019).

8. Conclusions

The necessary reform of the WTO currently looks like mission impossible. Or at least it looks very difficult, given the persistent divisions between advanced and emerging economies over its regulatory model. It is worth recalling that the environment in which the WTO was forged was a unipolar international order in which the United States (and the larger triad) clearly set the international agenda. Today's world of fierce multipolar tensions and rivalries provides a very different context.

Once Joe Biden enters the White House positive changes are expected in the forms and substance of US foreign policy (Nye, 2020). But the multiple underlying conflicts with China will not disappear. Many Democrats also make a range of criticisms of China (emphasising, for example, environmental or human rights issues) and many share the interest in containing the Asian giant's strength and further decoupling the two economies. Joe Biden wants to improve relations with the EU and other like-minded countries in order to regain the leadership of the international agenda, but it will not be easy to convince China and other large emerging economies to embark on the kind of WTO reform aspired to by the advanced economies.

And as long as the WTO remains unreformed, its future looks very bleak. Formally, it may survive in Geneva, but with diminishing practical relevance, overshadowed by multiplying preferential trade agreements and surpassed, on other occasions, by unilateral measures or solutions agreed outside of its principles.

The process of economic globalisation, so intense for decades, will not be completely reversed either, due to the numerous interdependencies.

But it is possible that the trend towards a degree of deglobalisation or more regionalised or fragmented international economic relations will be accentuated, particularly in the great powers' respective areas of influence. In this case, less global and more regional value chains could gain prominence.

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TRADE AND GEOPOLITICS: WHERE IS EUROPEAN UNION TRADE POLICY HEADED?

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* *The opinions expressed in this article are personal and do not represent the European Commission, where both authors work.*

Introduction

Trade is a fundamental part of the European Union (EU) economy. Indeed, the list of the EU's aims in Article 3 of the Treaty on European Union includes contributing to free and fair trade and to sustainable European and global development.

In recent decades, the European Union has been one of the main beneficiaries of an interconnected global economy in which the international trade in goods and services represents 43% of gross domestic product (GDP), while the value of foreign direct investment in the European Union makes up 40% of GDP. Trade is also essential for employment in the EU. Before the COVID-19 crisis, 36 million jobs depended directly or indirectly on exports to the rest of the world, and another 16 million on foreign investment.

Trade policy is one of the EU's exclusive competences and is constantly evolving as its priorities change. In particular, it adapts to the principles and goals of EU external action.

This chapter aims to analyse the reasons why the European Commission has considered it necessary to carry out a strategic review of its trade policy. Before proceeding to this analysis, we will begin by briefly reviewing the evolution of the European Union's trade policy over the last 15 years.

1. Evolution of EU trade policy

From the creation of the World Trade Organization (WTO) in 1995 until 2006, the European Union's trade policy was largely focused on multilateral negotiations. The EU was the main promoter of the so-called Doha Round, and sought global agreement to conclude the multilateral negotiations that began in 2001. However, after the WTO Ministerial Conference in Hong Kong in December 2005 brought very meagre results, the European Commission inaugurated a new phase in October

2006 with its Communication "Global Europe". It was proposed that the Doha Round negotiations should be combined with those on more ambitious bilateral agreements. The emerging economies of Asia were the first priority, and negotiations began with South Korea, the ASEAN countries and India.

European trade policy is at a turning point.

The aim of this new approach was to strengthen European competitiveness and take advantage of the opportunities created by the transition to a more globalised economy, in particular by opening up and integrating with the world's most dynamic markets. The new strategy also addressed new issues on the trade agenda, beyond customs duties: services and investments, intellectual property rights, regulatory barriers to trade, access to raw materials, competition policies and sustainable development. When the multilateral negotiations reached crisis point in 2008, the European Union, like the vast majority of countries, began to focus its negotiating efforts on bilateral free trade agreements, including launching negotiations with major trading partners such as the United States, Canada and Japan.

The debate around the negotiations with the United States and growing doubts about the benefits of international trade prompted the European Commission to adopt the "Trade for all" Communication. A more effective, more responsible and more transparent trade policy was proposed that would go beyond merely addressing issues that affect the economy. Trade agreements should be used as levers to promote European values like sustainable development, human rights and the promotion of fair and ethical trade. The Trump administration's arrival in power led negotiations to be suspended with the United States – although they were already in crisis under the Obama administration. However, negotiations with Canada, Japan, Singapore, Vietnam, Mexico and Mercosur were successfully concluded (the last two still pending ratification).

Despite its undoubted successes, European trade policy is at a turning point. Trade is increasingly exposed to the volatility of international relations, to tensions between the main global economies, to rising unilateralism and economic nationalism, to greater state participation in the economy and to the use of trade policy as an instrument for achieving economic or geopolitical objectives. As argued below, these are all factors that have led to the weakening of global governance structures in general and of the rules-based multilateral trading system in particular.

In this context, on June 16th 2020 the European Union began a process of reviewing its trade and investment policy in order to define new strategic directions that respond to the new economic and geopolitical context.

This review is governed by two key objectives. First, an assessment will be made of how trade policy can contribute to a rapid and sustainable socio-economic recovery, strengthen competitiveness in the post-COVID-19 context, and meet the challenges likely to face the European Union. The second objective is to define how trade policy can contribute to building a stronger union, based on a model of "open strategic autonomy", which benefits from openness for our companies, workers and consumers while at the same time protecting them from unfair practices and strengthening our resilience, so that the EU is better prepared to face future challenges.

This process includes a public consultation and will culminate in the adoption of a Communication in early 2021 that sets the course for the European Union's trade and investment policy for the next decade.

2. The new economic and geopolitical context

The economic impact of the pandemic accentuates the trends linked to economic transformations and the geopolitical context.

The review of the European Union's trade policy is therefore framed by the profound changes in the economic and geopolitical context that require both its internal and external policies to adapt.

To understand the reasons for these changes, we must look beyond trade policy and consider structural changes in the global economy with major geopolitical repercussions. Between 2000 and 2017, China's participation in global exports rose from 3.9% to 12.8%. China has become the world's second-largest economy and is increasingly influential in cutting-edge technologies and international institutions. This evolution has been accompanied by a larger role for the state in the Chinese economy, which distorts competition both in the Chinese market and globally. While the conflict between the United States and China began over trade, it is increasingly a geopolitical conflict with a significant economic dimension based on technological rivalry.

It has had a profound impact on the multilateral trading system. In fact, the conflict has largely disregarded WTO rules and includes the application of discriminatory tariffs, as well as purchase commitments that may adversely affect third countries. US unilateralism has not been limited to its relations with China, but has also raised trade tensions with the European Union and other trading partners.

Along with increased trade tensions, the world economy is also being affected by structural changes that are having a profound impact on international economic relations. The digitalisation of the economy creates new opportunities for trade in services, but also alters comparative advantages and restructures global value chains. The digital economy also poses new challenges for regulatory, tax and competition policies, with a shortage of international rules that are able to limit conflicts.

Of even broader significance is the need to introduce profound changes in the economic model to tackle the climate crisis and achieve the goal of climate neutrality by 2050.

These structural shifts are compounded by the most severe crisis in the multilateral system of rules since the WTO's creation in 1995. Since the de facto suspension of the Doha Round in 2008, the WTO's negotiating function has essentially been paralysed. This has prevented the international rules being updated to account for the new realities of the world economy and the distortions linked to state capitalism. The Trump administration's decision to block the appointment of members of the Appellate Body has also thrown the dispute resolution mechanism into crisis, whose legitimacy was previously accepted by all WTO members.[1] In the medium term, the risk is that countries decide that with no effective dispute resolution mechanism multilaterally agreed rules can be ignored. The stability the WTO provides is essential for the growth of the European economy, and the costs of a collapse of the multilateral system would be extremely damaging.

1. While the United States had long been critical of Appellate Body decisions, it had never before questioned the need to abide by its decisions or decided to reactivate unilateral actions based on section 301 of US law.

Opening up to international trade is compatible with a greater capacity to respond autonomously in defence of EU interests.

The economic impact of the pandemic accentuates the trends linked to economic transformations and the geopolitical context. Uncertainty about the duration of the pandemic remains, but all indicators suggest a much deeper recession than that of 2008, with high levels of unemployment, increased public debt and more state intervention in managing the economy. The impact may be particularly negative for vulnerable low-income countries, many of which are close to Europe geographically. Although the global economic crisis could provide an opportunity to strengthen international cooperation, the initial reactions have accentuated the tendencies towards economic withdrawal and raised the tensions over state support for national companies. The feeling of vulnerability due to supply problems with essential medical products has also sparked a debate on global supply chains, including calls to relocate production.

The course of the geopolitical conflict between the United States and China is another element of uncertainty. In the short term, the pandemic's impact has intensified the conflict between the two powers, at least at the rhetorical level. It remains to be seen whether collective effort will enable trade tensions to be redirected towards a reform of international trade rules that allows the negative external impacts of state intervention to be dealt with more effectively. It is possible, however, that a more negative scenario will result in which a worsening of the conflict leads the two economies to disconnect and fragments the global economy into areas of influence. Of course, a range of intermediate scenarios are also possible, including better cooperation between the United States and its allies to address unfair Chinese practices, while maintaining spheres of cooperation and offering to negotiate rules within the WTO framework.

The European Union will have to autonomously define its own role in the conflict between the United States and China. That is not to say it should be equidistant, since the transatlantic relationship is based on common values and interests that go beyond the policies of one or another administration. In fact, the European Union largely agrees with US criticism of Chinese trade and industrial policies. On the other hand, the change of administration in the United States improves the prospects of establishing stronger cooperation for the reform of the multilateral system.

3. Trade policy's contribution to the economic recovery and strengthening the European Union's geopolitical role

Trade policy is one of the European Union's instruments for exerting influence on the global economy, through its participation in multilateral organisations, its wide range of over 40 free trade agreements and the global impact of its regulatory policies. EU decisions will therefore significantly affect the potential contribution of trade policy to the global economic recovery, along with the European Union's ability to influence the global geopolitical scene.

European Union trade policy will have to avail itself of the necessary instruments to navigate these troubled waters and defend its interests autonomously while strengthening its resilience and reaping the benefits of trade openness. This does not mean that the European Union should focus only on itself or adopt protectionist policies. Opening up to international trade is compatible with a greater capacity to respond autonomously in defence of EU interests. This is what the Open Strategic Autonomy model seeks to achieve: promoting the EU's ability to develop alliances and lead the reform of the multilateral system in a direction that combines openness and sustainability and champions the rules over unilateral action. The European Union's actions should always align with its international obligations and with the objectives it advocates in terms of international cooperation.

The review of European trade policy should lead to greater integration and coherence between trade policy, industrial policy and other regulatory policies.

A policy of openness to the outside is essential if Europe aspires to lead the climate transition. A good balance must be found between the European Union's ability to ensure that access to its market contributes to the global reduction of carbon emissions and the importance of maintaining an environment of international cooperation in which the EU acts in coordination with a broad coalition of countries.

The new strategic trade policy orientation will look to support this transition through new initiatives in the WTO, using bilateral agreements as instruments to strengthen our diplomacy on climate issues, and ensuring that new autonomous instruments like the carbon border adjustment mechanism are compatible with multilateral rules.

The more active role of industrial policies also represents a major challenge for trade policy. Once again, it is a question of finding a balance between promoting competitive European industry and introducing effective digital and environmental regulations, while ensuring respect for international trade rules and consistency with the European aims of strengthening international digital standards and subsidy discipline.

The European Union has strengthened its autonomous instruments to ensure a level playing field exists. Alongside the traditional trade defence instruments (antidumping, anti-subsidy), a new instrument is being prepared to respond to the impact of third-country subsidies on the internal market. But fair competition conditions must not be limited to defending the internal market; they must also be extended to export markets, where the European economy's major source of growth lies. Hence the importance of international negotiations to strengthen subsidy discipline. This will undoubtedly be one of the most difficult issues on the WTO reform agenda.

The review of European trade policy should, therefore, lead to greater integration and coherence between trade policy, industrial policy and other regulatory policies. At the same time, the EU's ability to exert regulatory influence will largely depend on ensuring that the external dimension is sufficiently integrated into these regulatory policies. To meet the regulatory challenges of the digital economy and the climate transition, the EU cannot just passively wait for the impact of the so-called "Brussels Effect". A more active regulatory cooperation policy needs to be developed, which trade policy should support. This should involve both better cooperation with the United States on regulatory issues and the strengthening of such cooperation with Asian countries – the global economy's main pole of growth.

Along with greater internal coherence, trade policy should also be better coordinated with other external policies that support the EU's geopolitical aims. The EU's capacity to lead and exert influence will depend on its ability to adopt credible multilateral initiatives, establish alliances and support its initiatives with the shared diplomatic weight – and resources – of the EU and its member states.

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The other major geopolitical priority will be the European Union's support for stability and sustainable development in Africa and the countries in its neighbourhood.

Reforming the WTO will be the central priority of European Union trade policy. How to contribute to achieving the sustainable development goals, and ensuring the modernisation and rebalancing of the rules and conditions of competition should be key parts of the reform. The 2021 WTO Ministerial Conference should enable the first steps to be taken in the process of reforming and defining a medium-term agenda that reinforces the legitimacy and effectiveness of the multilateral system of rules.

The other major geopolitical priority will be the European Union's support for stability and sustainable development in Africa and the countries in its neighbourhood. To achieve these objectives, European policies on trade and cooperation must be better integrated and more coherent. The same is true of regulatory policy. Trade policy should help promote sustainable investment in Africa and support our neighbouring continent's integration process. This will require increased political dialogue between the European Union and the African Union, including on WTO reform and support for the African Continental Free Trade Area. At the same time, the best way to facilitate the integration of neighbouring countries into a common regulatory space remains unclear. Indeed, while neighbouring countries often take European standards as a benchmark, the EU's regulatory influence should also extend to offering closer cooperation and dialogue with neighbouring countries.

The trade policy priorities therefore match the geopolitical priorities of the EU's external action on multilateralism and stability in our neighbourhood. In this sense, the trade policy review brings an end to a cycle that was focused on negotiating preferential agreements in order to focus more on multilateral action and implementing existing agreements. Meanwhile, it is also important to conclude the negotiations that have already begun and ensure the ratification of the agreements already concluded.

Conclusions

The review of the EU's trade policy should lead to the adoption of a new strategic document in early 2021 that sets the direction of trade policy in the new economic and political context. Together with the immediate guidelines to help contribute to the economic recovery, it will also try to define a medium-term direction that results in the identification of strategic priorities.

At the time of writing, the public consultation on the review of the trade strategy remains ongoing, and it is therefore premature to identify the political priorities to follow. These will, in any case, be subject to debate with the member states and the European Parliament. In this chapter we have sought to contribute to the debate by pointing out why we think the trade policy review should be strategic in nature and offer guidelines that go beyond the short term. In reality, issues like WTO reform, climate and digital transitions, the better incorporation of Africa into global and regional value chains and the strategic positioning of the European Union in the US–China conflict require a continuous effort that will outlast the current European Commission mandate.

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