

Thinking out loud on globalisation

Blog post by Chief Economist Gregor Irwin, 11 May 2017

The European Commission published this week its assessment of how the benefits of globalisation can be harnessed, while addressing the anxieties that are also created and which are impacting on political debates across Europe.

The Commission provides a punchy analysis of the challenges, covering import dumping, tax avoidance, weak environmental and social standards abroad, displaced workers and integrating migrants. All this is contributing to widening inequalities and social polarisation, not to mention radicalisation and the belief by many citizens that their identities are being threatened.

Does the Commission have fresh ideas on how to respond? Not really. There are certainly no specific policy proposals that match the scale and nature of the challenge. There are, however, some useful clues on how policy thinking is - or is not - developing. Five points stand out. Business should take note.

First, there will be another crack at reforming trade defence instruments, which are used to address dumping (below-cost imports, often aimed at building a dominant market position) and unfair foreign competition backed by state subsidies. This has been tried before, resulting in incremental change. The Commission now looks to be setting its ambitions higher. Without the UK to champion a liberal approach, the balance of the debate might be about to shift in Brussels.

Second, the Commission wants tougher enforcement of existing EU rules, in an unspecified but potentially wide range of areas. The language is vague, but the intended target is "all companies present or active in the EU". That could signal more high-profile cases being brought against international companies, like Google and Gazprom, which the Commission believes are not playing by its rules. It could prove popular with the public at large; the risk for companies is that success also proves intoxicating in Brussels.

Third, the position on conventional trade policy is more defensive than ambitious. The Commission is doubling down on its proposal for a Multilateral Investment Court and wants to kill off arbitration through the existing model of investor-to-state dispute settlement. It also wants to push ahead with its proposal for an International Procurement Instrument, which is designed to encourage reciprocity in procurement practices. But perhaps the most significant potential changes are on process, with the Commission offering more transparency and "inclusive decision making". It also wants to reopen the divisive and legally vexing issue of whether current institutional arrangements for ratifying and implementing deals are right. In short, it's time to end the Wallonian veto.

Fourth, the Commission wants reciprocal market opening within a rules-based system covering human rights, working conditions, food safety, public health, environmental protection and animal welfare. It wants to maintain "existing EU high standards" in these fields, while safeguarding industry from unfair competition. As well as being a mouthful, that's unobtainable and suggests a lack of self-awareness. In short, the EU wants to maintain sovereignty over its rules, while requiring others to adopt them.

Fifth, the report has remarkably little to say on foreign investment, other than to note concerns about state-owned enterprises buying European companies for their technology. The Commission says “careful analysis and appropriate action” is required, but that won’t satisfy the growing number of member states, including Germany and France, that want to have more leeway to block takeovers for strategic reasons. This might hint at a liberal strain to the Commission’s policy thinking. More likely, the caution is because the new powers being sought are for member states, not Brussels. Or perhaps it’s borne out of concern for what this might mean for the EU’s relationship with China, just as the two are attempting to negotiate a bilateral investment treaty.

In sum, this is a set of policy aspirations that don’t come close to meeting the challenge the Commission has itself identified. To be fair, the Commission would be the first to acknowledge this is a work in progress and for now this is the Commission thinking out loud. But the political risks associated with these issues mean they will not go away and these policy areas are ripe for change. Any business “present or active” in the EU will want to pay careful attention to when and how that happens.