Club of Three Webinar
1 February 2023

World Trade, Leadership, and the New Agenda

Meeting summary

In February, the Club of Three held a webinar on the topic of trade in collaboration with the UK-based Institute of Leadership and Management.

The global context for trade had significantly changed since the 1990s and 2000s. Populism and protectionist tendencies, the Covid-19 pandemic, Western sanctions, US-China rivalry and economic decoupling had all had a major impact on trade as an engine for prosperity and mutual development. As a result of these new dynamics, trade was now very often seen as a weapon in a zero-sum view of the world. Sustainability and the ESG agenda were not immune to these trends. In Europe, the US Inflation Reduction Act (IRA) of 2022, which contains a number of very important green provisions, was also seen as a way of gaining competitive advantage over European businesses.

Faced with this situation, should Europe embrace power politics and “weaponise” its sustainability and ESG agenda in order to match the US and protect its industry? Or should it rise above power politics and aim to establish open, sustainable trade as a force for good? Could it do both? And can trade be re-thought in a way that addresses the challenges of the 21st century – great power competition, climate change, inequality and the digital transformation – while continuing to achieve global economic integration? What kind of leadership will this require?

Some 30 senior figures from business and the policy field in France, Germany and the UK participated in this discussion. The main speakers were **Joachim Lang**, Managing Partner at Strategic Minds and CEO of the BDI between 2017 to 2022; **Rebecca Harding**, International Trade Economist, former CEO of Coriolis Technologies and author of “The Weaponization of Trade: the Great Unbalancing of Policy and Economics”; and **Nicolas Köhler-Suzuki**, Trade Policy Adviser at International Trade Intelligence in Paris, co-founder of the Trade Policy Exchange and Associate Researcher at the Jacques Delors Institute.

The discussion highlighted the multiple pressures that European companies were experiencing. They were having to deal with the aftermath of the Covid-19 pandemic and the impact of the war in Ukraine. Countries with a high trade to GDP ratio were particularly affected. With a ratio of around 75% compared with currently 36% in the UK and 18% in the US, Germany had become the biggest victim in the current international context. And the export controls put in place in the United States to contain innovation in China were inflicting further pain on its industry. One of the German participants called for EU protection from these US instruments. In particular, careful attention needed to be paid to the debate about outbound investment screening in the US.

This was a moment for a united European response, and leadership on the part of both businesses and political leaders. In the sustainability field, the European Commission's Green Deal Industrial Plan released on 1 February in response to the US IRA and net-zero investments in other large economies was a welcome step.

Tensions over subsidies and tax credits between the US and EU were currently centered around the US IRA. However, the EU was also using green legislation to its own advantage with its Carbon Border Adjustment Mechanism. Sustainability was being weaponised on both sides of the Atlantic and, according to a UK participant, this trend was going to accelerate and perhaps even evolve into a trade war. Another participant from Britain agreed about the risk of "abusing trade" in the pursuit of net-zero objectives. As an energy transition front-runner, the EU had made sustainability the cornerstone of its future industrial strategy and growth.

The drive towards sustainability, which had accelerated in Europe since the war in Ukraine with the end of Russian gas imports, was going to create trade disruptions and also meant that trade would soon need to be measured in an entirely different way – as noted by one of the participants. It could no longer be based on the direction of oil flows but rather on where rare-earth metals were coming from as well as on the resilience of supply chains. This was going to be a significant challenge. Making alternative energies a part of our supply chains, which are still heavily reliant on fossil fuels, was also going to be a major undertaking.

Other disruptive effects were expected from regulations like the EU taxonomy rules on the classification of sustainable activities, which were going to seriously alter banks' capital ratio in relation to their risk-weighted assets.

A Paris-based participant argued that global markets remained the best solution to make supply chains more resilient. Despite the hype around reshoring or friend-shoring and de-globalisation, the evidence showed that global economic integration was not in retreat but evolving. Trade and globalisation needed to be rethought in order to fine tune the balance between managing risks and efficiency in a world dominated by great power competition – and in which supply chain management had moved from a 'just in time' to a 'just in case' basis post-Covid-19.

One major problem was that the US and Europe were not fully aligned on how to reform the international trading system. The EU and UK were a lot more dependent on international trade and were therefore very keen to keep multilateralism alive and well. The US however, as one participant noted, had shown in recent years that it was willing to undermine the current system to counter the rise of China as well as for political reasons at home. Its preferred option now was a return to the type of system in place during the early GATT years, which was at odds with the inner workings of the EU. The EU wanted a stronger WTO, and a UK representative pointed out that Britain was working in close cooperation with its European partners towards this goal. However, mobilising support from other countries around the world was going to be an uphill task.