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School of European Political Economy

EUROPE IS ON THE MOVE

First steps towards a multilateral global scenario

Valeria Termini

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Europe is on the move on three fronts which, in combination, are leading towards a truly extraordinary scenario. At the economic and geopolitical level, the *Comprehensive Agreement on Investment*, the major commercial agreement sealed with China on 30 December 2020, is among the first steps of a multilateral strategy.

Together with this strategy, there are two EU economic strategies. The *Green Deal* takes us beyond the traditional alternative between growth and environment, displaying the innovative concreteness of a growth model guided by respect for environmental and social standards. Finally, at the political level, the *Next Generation EU* funds pave the way for new directions in EU governance. Commissioner Paolo Gentiloni will have to find funds for the European budget itself, creating the basis for a common budget and taxation system. These three European dynamics constitute the groundwork upon which extraordinary potentialities can develop for the reconstruction and innovation of the post-Covid order.

European independence

The economic agreement with China shows the EU striking with unprecedented independence. Indeed, it may prompt the Biden administration to follow the same line of “regulated economic rivalry” in successive developments. **China is not an enemy, but a great rival.** This is a point I wish to emphasise; the time has come to recognise that we will no longer be able to play on the – dangerous and sterile – direct contraposition between the West and China, nor on the “clash of civilisations” evoked by Samuel Huntington. The failure of Donald Trump’s foreign policy shows that there is no room for bilateral contrapositions. If Europe continues along the path it has taken, we will once again have a triangulation of powers recalling the pattern described by Kissinger in the “World Order”. Moreover, China is not alone, but at the centre of the composite Asian region where the ASEAN countries have taken on a significant geopolitical role in the great free trade area created in Eastern Asia.

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The agreement between the European Union and China, concluded as Germany's EU presidency came to an end, is a major step forward in the transition between the election of Joe Biden and his inauguration with effective powers. It affects a good part of the manufacturing sectors – from chemicals to electric automotive transport, from the digital world to energy – while also covering services, including financial services. For China it means committing itself to respecting the rules established by the WTO (which it has been a member of since 2001), as well as the standards of protection in the workplace, transparency, and even subsidies for state-owned enterprises (SOE). It opens up access for European enterprises in China without the customary constraints, such as compulsory sharing of technologies used or obligatory partnerships with local firms, which generated nontariff barriers and a marked failure, reflecting the Western world's rules on competition. The Agreement even extends to commitment to the environmental standards of the Paris climate conference. Guarantees on data security and sensitive information constitute a crucial aspect. If China respects these commitments, it will mark a historic advance in international trade dynamics, setting new lines for international institutions.

In a nutshell, the Agreement is important for at least two reasons. The first and most significant is the **autonomous step taken by the EU towards multilateralism**, with a long-term global strategic view. It is the first advance in the new direction in international relations contemplated to follow the hiatus produced by the Trump administration. The second reason lies in the speed with which the **Agreement overturns the rationale of the US programme in direct opposition to China**, doggedly pursued throughout the four years of the Trump presidency. This might be mistaken for a wedge forcing the reconstruction of the Atlantic axis between the United States and Europe. But it is not the case. **Taking on its leading role, Europe is opening a route of international cooperation for the new US administration**, which has to cope with serious problems regarding its own democratic procedures as it gears into action.

Within the EU new energies are being generated by the cooperation between the Member States, with a transparent pragmatism that reflects the values of its Constitution. **The rules of the new Agreement provide for the substitution of the previous 25 different bilateral agreements between China and the Member States**. The protagonists finalising the agreement included Xi Jinping in person on one side and EU Commission President Ursula Van der Leyen, EU Council President Charles Michel and German Chancellor Angela Merkel – with the support of French President Emmanuel Macron – on the other.

Little if any attention to the Agreement has been paid in Italy, which is resentful at having failed to gain a place at the table, sharing its protest with Poland, Belgium and Portugal. But Italy really needs to take an interest, because many of the details have yet to be defined within the framework established. Italy's industry and government cannot afford political wavering here: Italy's trade with China accounts for about 47 billion euro (in 2020 it imported 30 billion worth of goods and exported about 17 billion); China plays a part in the strategic value chain of renewable energy, in infrastructures and in logistics, as well as in another field that Italy excels in, namely pharmaceutical products.

Now we come to the economic contents of the Agreement. Its primary aim is to reduce the industrial asymmetries with China. China relies on an integrated Asian market, but it also needs the European market. It needs to offset the weight of the dollar and boost circulation of the renminbi; consequently, it must offer the EU guarantees on financial flows in euro. China's direct investments in the EU, amounting to 120 billion

euro, are more than offset by Europe's 140 billion euro finding their way into China (2020 EU data). The economic convergence of interests is evident. Antagonistic bilateral relations with China are unsustainable; the Chinese economy is too fully integrated in the new value chains of global production. Just a few days ago an agreement was sealed between Tesla (electric vehicles) and the Chinese group Yuhua, the major producer of lithium hydroxide for batteries. At the same time, Tesla has opened a battery factory in Germany. Thus, in the triangulation it will benefit from the new CAI agreement which establishes the rules and places for settling the industrial disputes that might arise. This represents a great advance in setting trade with China on a sounder footing.

The issue of democracy

Xi Jinping is a born leader, showing striking flair in his choice of occasions and interlocutors for action on the international arena. Now he has forestalled China's great rival, the United States. Just as Joe Biden is taking over the US presidency, the commercial agreement with the EU stands in the way of the risk that the United States and Europe – with transatlantic relations restored – might form an old Chinese commercial alliance. Again, he is showing perfect timing.

There is some significance in the fact that the United States has shown concern about these agreements.

The failure of Trump's approach to trade is all too clear. Today the Asian free trade area (accounting for 30% of the world GDP) includes China but excludes the United States. After Trump walked out of the Trans-Pacific Partnership (TPP) agreements, which would have created a free trade area between the United States and 11 Asian countries excluding China (2017), a gradual process of convergence set in within the area of the ASEAN countries (Brunei, Cambodia, Indonesia, Lao, Malaysia, Burma, Philippines, Singapore, Thailand and Vietnam). To these were added Japan, South Korea, Australia and New Zealand, recently coming to form the *Regional Comprehensive Economic Partnership* (RCEP), which includes China in an Asian free trade area covering a population of 2.2 billion and 27% of the world's trade. The area accounts for 70% of the world's electricity production, 50% of the car production and, overall, 50% of the manufacturing industry. It was founded as recently as November 2020.

However, a serious political problem remains. The EU Constitution rests on **democratic values**: the indissoluble link between human dignity and social rights was reaffirmed in the Lisbon Treaty of 2009. There can be no denying that China fails to respect these principles. The line adopted by the EU seems to be to protect Europe's democratic structures, safeguarding them from Chinese social dumping, and to avoid any complicity in conditions contrary to its values, but without taking on the exportation of these democratic values. Economists like Daniel Rodrick are calling on the new US administration to protect and enhance democracy at home, and not to export it. The US might thereby follow Europe's example .