



Europe and the US-China Trade War

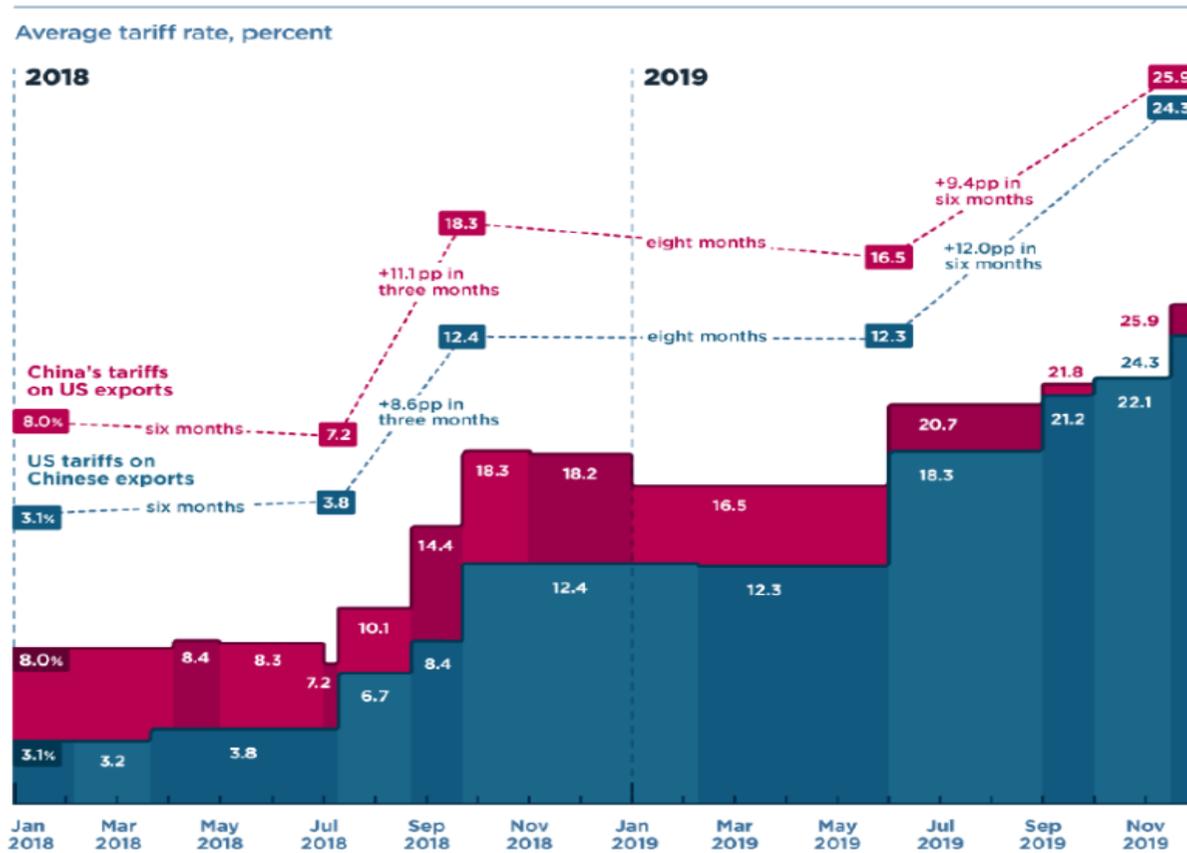
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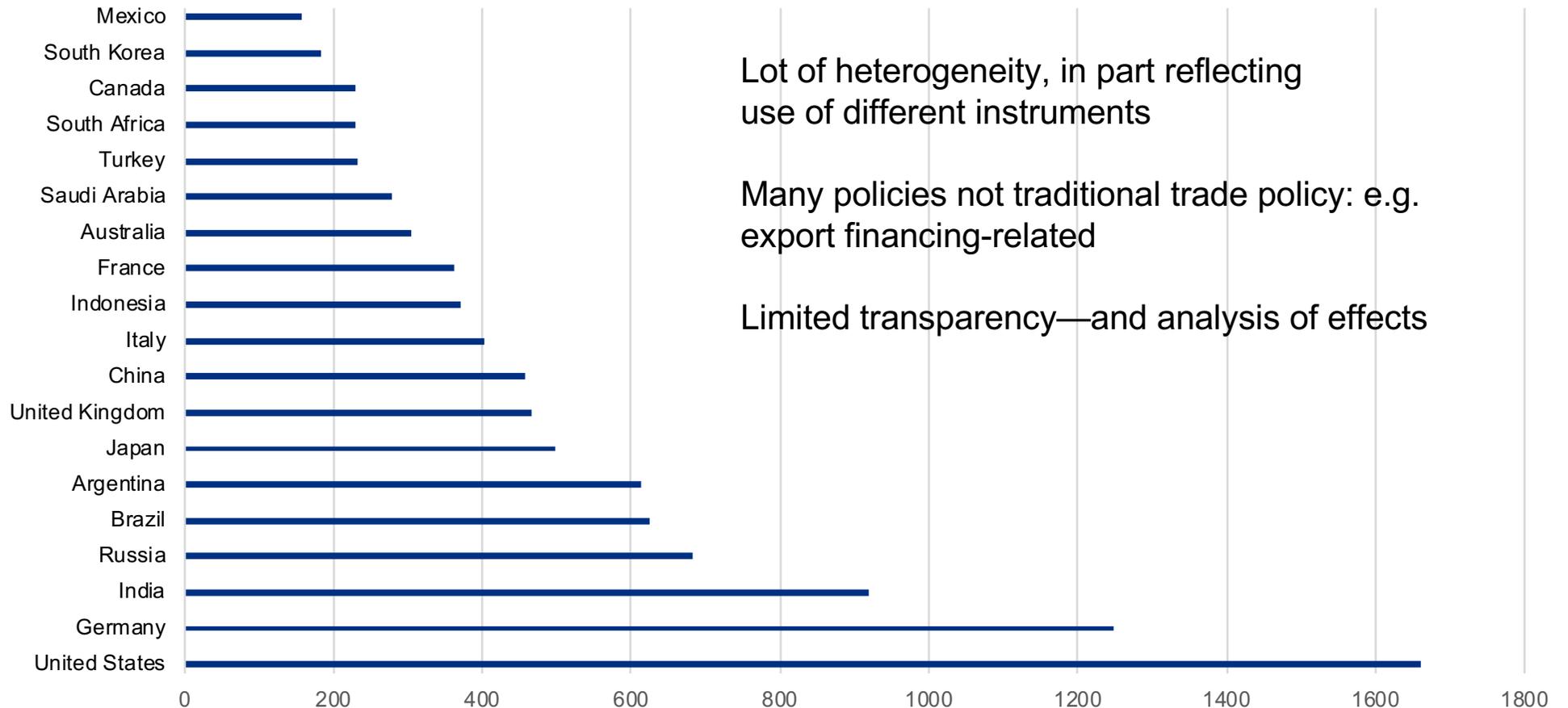
Europe and Japan Under the Shadow of Sino-American Hegemonic Rivalries, EUI, 11 February 2020

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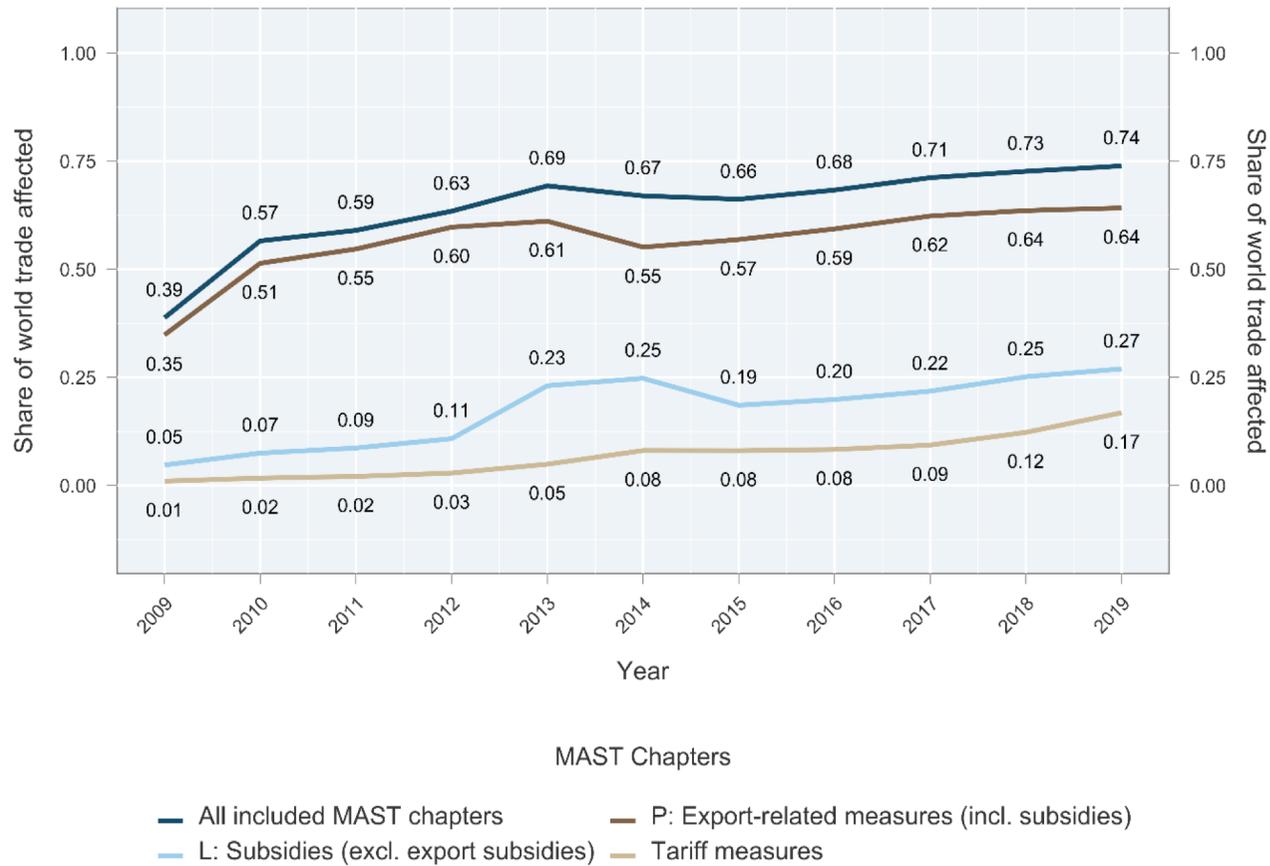
Tit-for-tat dynamics of US-China tariffs



Use of potentially trade-distorting policies (number, 2009-18)

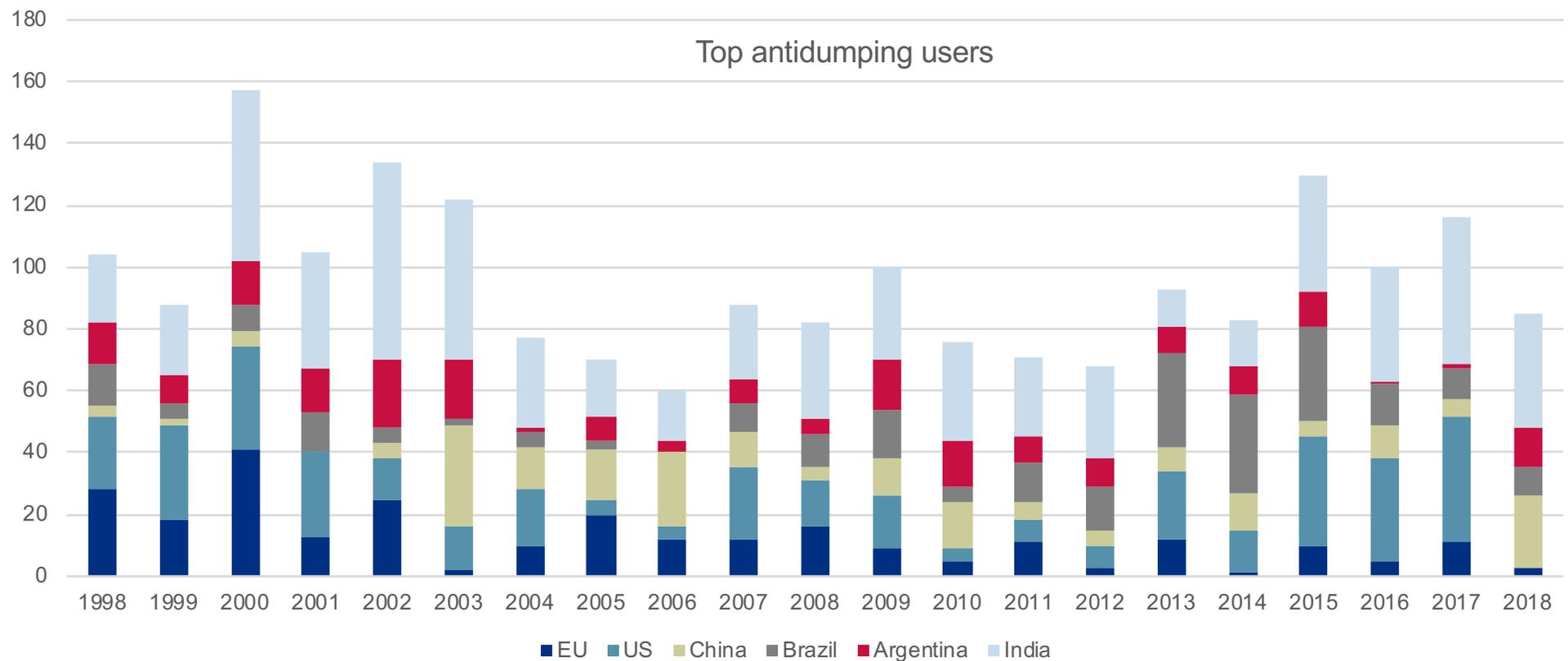


Share of trade affected by post 2008 trade-related measures

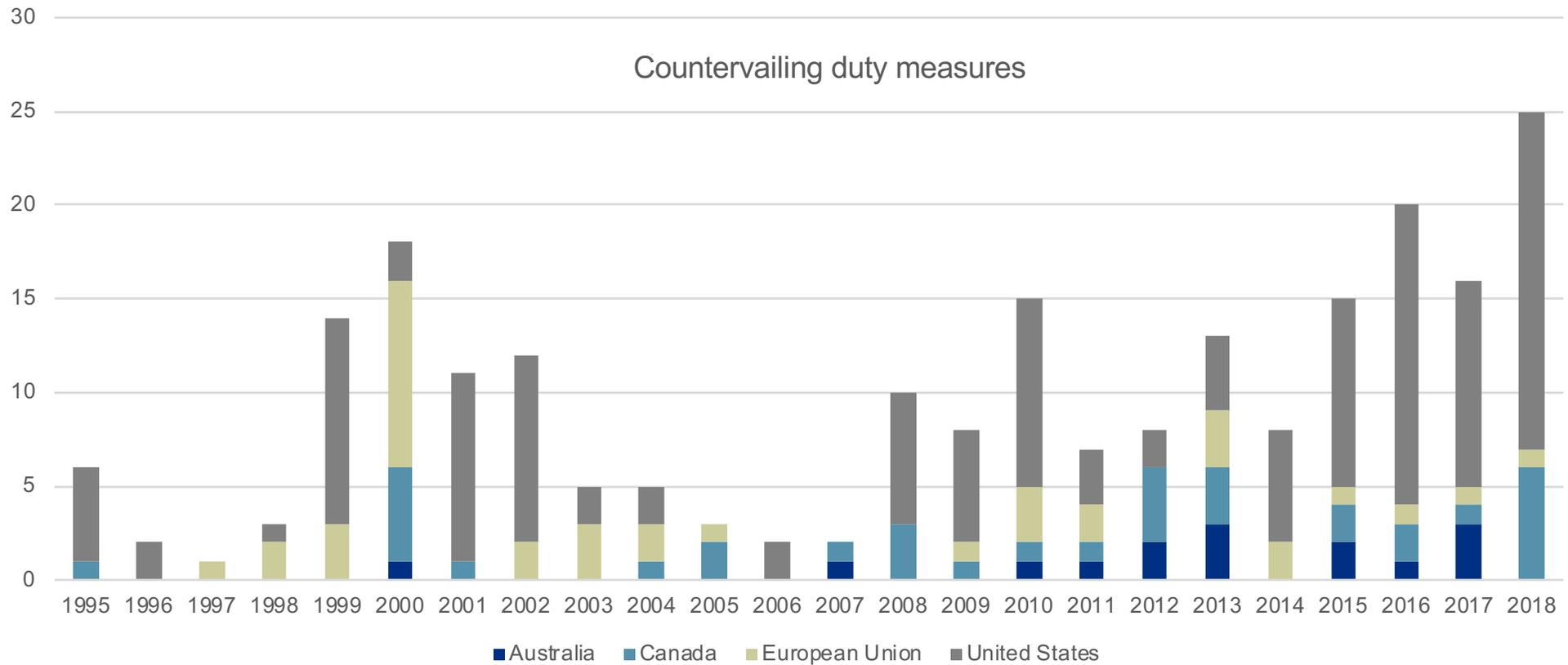


Source: Global Trade Alert; Evenett chapter in Hoekman & Zedillo eds., Brookings, forthcoming

Antidumping – EMs and US are leading users; EU use down substantially (new measures imposed, 1998-2018)

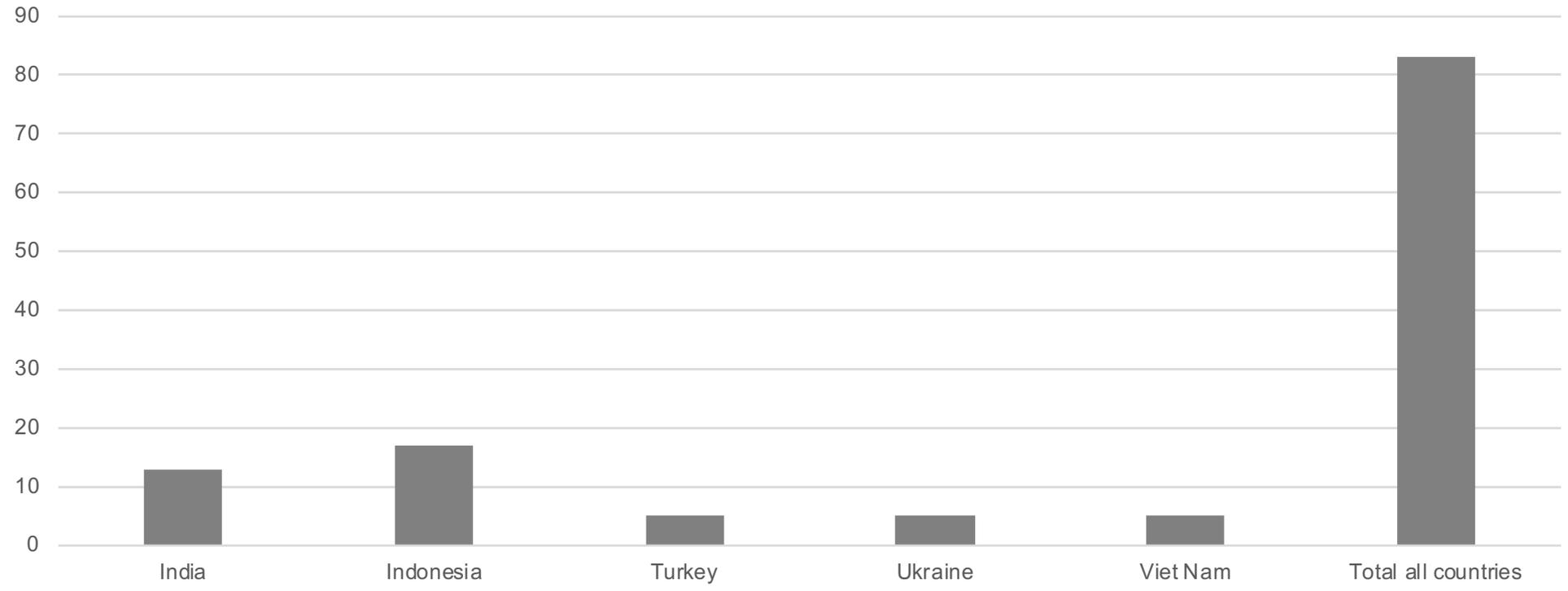


US is the dominant user of countervailing duties—EU largely MIA (main users of CVDs, 1995-2018)



Global safeguard measures, 2009-18 (total for EU = 0)

Main users of global safeguards, 2009-18



Source: WTO

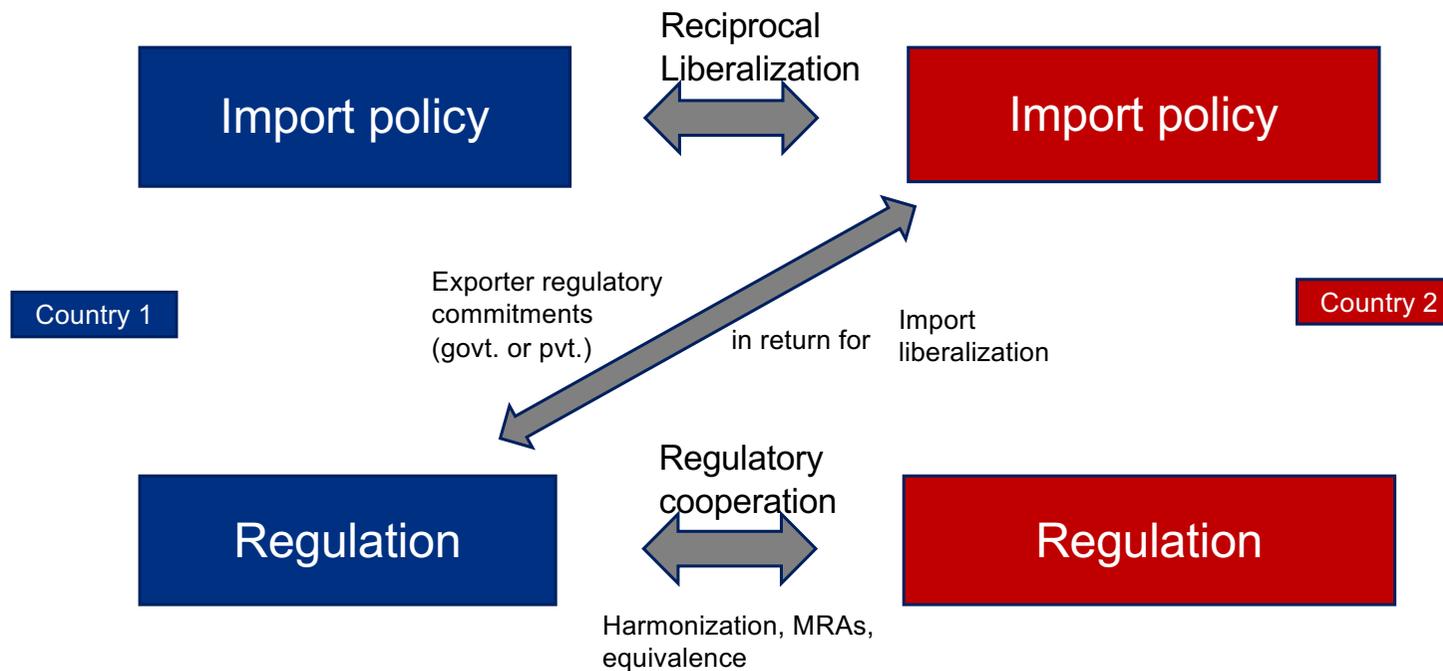
EU: A long history of a multi-track strategy anchored on market access

- Limited hard power – essentially access to the single market
 - Non-reciprocal preferences
 - Reciprocal trade/partnership agreements
 - Multilateral cooperation in WTO
- Soft power: Norms and standards
 - Linkage to access to the single market
 - Good regulatory practice (independent of direct access benefits)
- Development assistance and FDI
 - Mix of EU values and self-interest (migration...)
 - Relative importance increasing as EU becomes more open / markets are less distorted (CAP reform, etc.)
- Bilateral dialogue with both countries
 - Extensive for China (60+); regular engagement with US govt/regulatory bodies

Response to US aggressive unilateralism and China state capitalism

- Bilateral dialogue
- Retaliation against US invocation of “national security”-motivated protectionism (steel...)
- Dispute settlement cases in WTO
- Trilateral discussions on industrial subsidies and SOEs
 - Complemented by bilateral discussions between the 3 dyads: US, EU, Japan
- Bilateral negotiations
 - From TTIP to sectoral damage limitation trade deals with US
 - Comprehensive agreement on investment with China – but not trade
- Multilateral dialogue
 - E-commerce and domestic regulation of services, but not on subsidies
 - EU leadership to put in place an ad hoc appeals mechanism
 - WTO reform discussions

Different approaches to cooperation



Source: Mattoo (World Bank working paper, 2018)

Open plurilateral agreements (OPAs) as part of a solution

- A response to consensus constraint in WTO but also to differences in preferences, priorities and capacities (Hoekman and Sabel, *Global Policy*, 2019)
- Nondiscriminatory in the sense of open to any country, ex ante and ex post
- More feasible for policy areas that are regulatory in nature and apply equally to national and foreign firms or products
 - But also can span market access-related issues where the “critical mass” needed to permit cooperation is relatively small
- Critical to move forward on a Green Deal
 - Example: New Zealand led initiative on a trade-climate OPA
- EU-Japan leadership opportunities

Example: Subsidies

- In contrast to other policy areas, no epistemic community exists
 - Many professionals (primarily lawyers and economists) work on subsidy related matters in:
 - Ministries of Finance; national competition agencies and DG Competition
 - International organizations: e.g., IMF, OECD
 - A plurilateral initiative to bring together stakeholders
 - Role for G20 Trade and Investment Working Group?
 - Start with laying potential foundation for cooperation through compilation and analysis of data on subsidies
 - Necessary to build trust
 - Indicators to help legitimate the overall program (viz. Producer Support Estimates for agriculture)
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Diagnostics: (when) are subsidies a problem?

- Understanding policy objectives and assessing whether interventions are effective and at what spillover cost is important
 - Subsidies may be beneficial: negative effects on competitors may be offset by positive welfare effects
- Take into account market structure and barriers to entry: what matters for welfare is whether markets are contestable
 - Apply basic insights from economics of predation and competition policy
- Lessons from EU – approach subsidy disciplines via competition policy
 - Focus on state resources (subsidies or tax expenditures) that lead to a selective advantage for an undertaking (firm) or activity that distorts competition and affects trade
 - Use of block exemption for measures deemed to raise few concerns in distorting competition – such as those that target environmental goals
 - Ownership or control not the issue; potential anti-competitive effects of grants are