



# The new post covid-19 international trade order

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# The new post covid-19 international trade order

Draft Discussion Paper\*  
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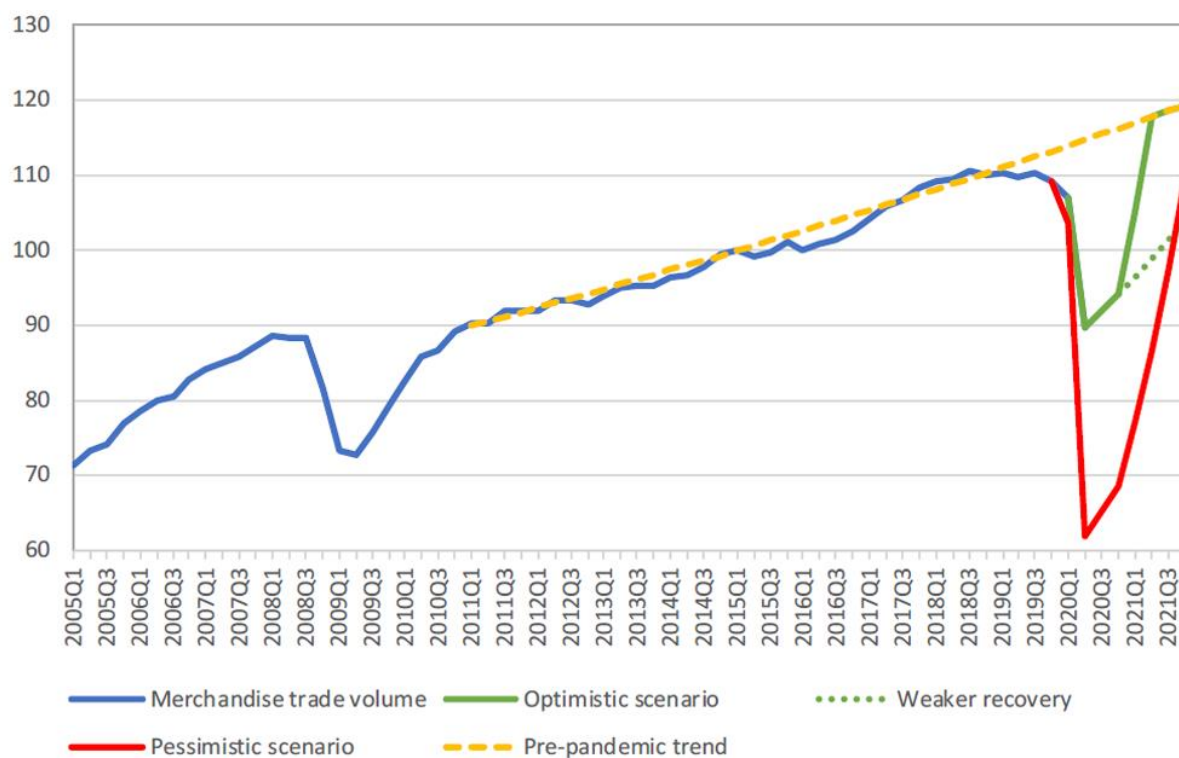
*What will the new post-covid-19 international trade order look like?*

*What to expect from the conflicting imperatives put forward by the EC, the WTO, the OECD, to « Save the International Order*

\* This draft discussion paper is circulated for comments and contributions. It has been presented at the July 30<sup>th</sup> European Liberal Forum *On The Agenda* Webinar. The opinions are strictly those of the author and have not been discussed with ELF.

*» on the one hand, and to SOS "Save Our Souls » from the same EC and national governments: rebuild our industries, our health systems, re-localise jobs?*

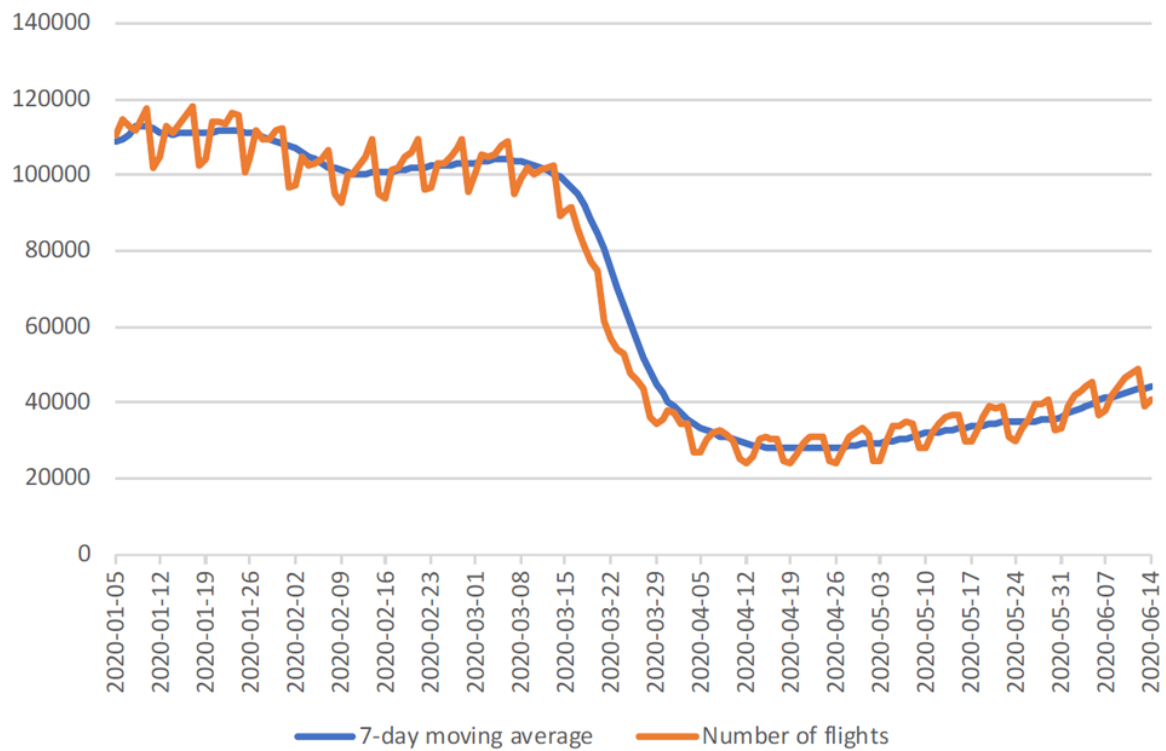
The World Bank, OECD and IMF have released forecasts showing significant slowdowns in global trade and GDP. The World Bank's forecast sees global output decline by 5.2% in 2020. These estimates imply a less negative trade response to declining GDP growth than was observed during the global financial crisis of 2008-09.



Source: WTO June 2020

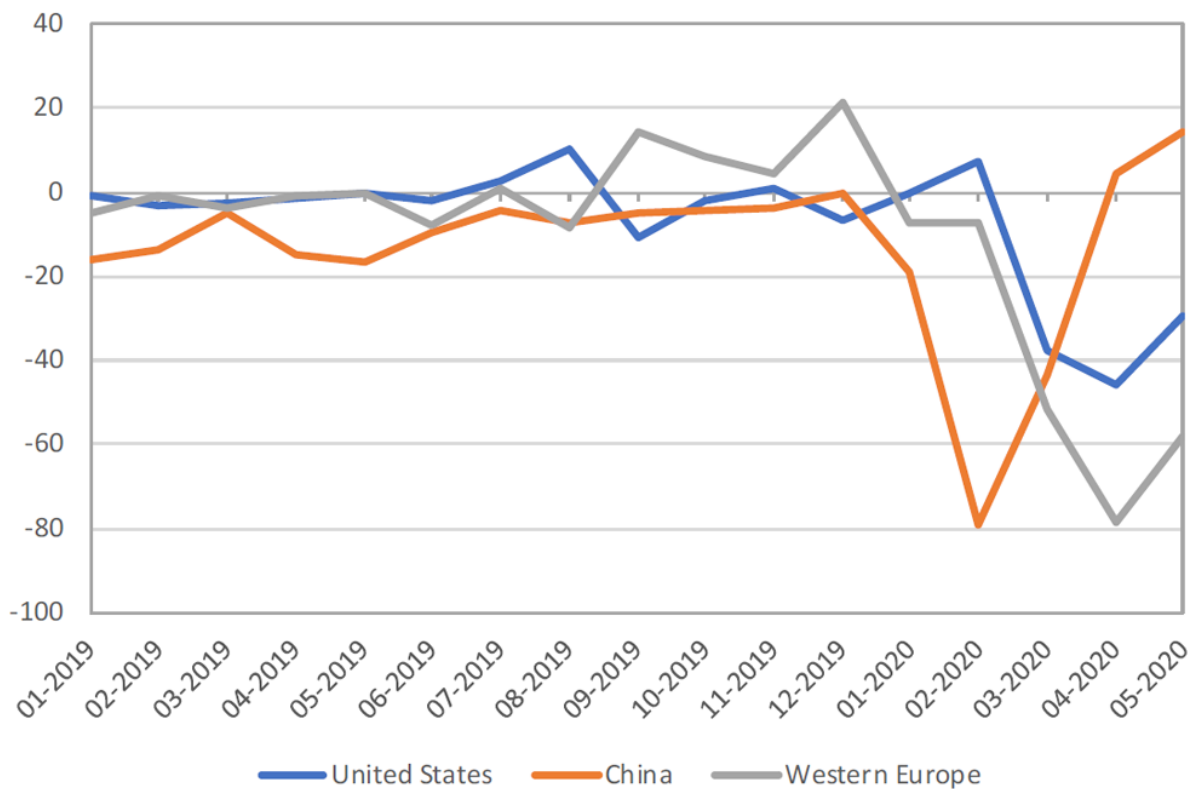
Some industries however have been significantly more affected:

Air Travels



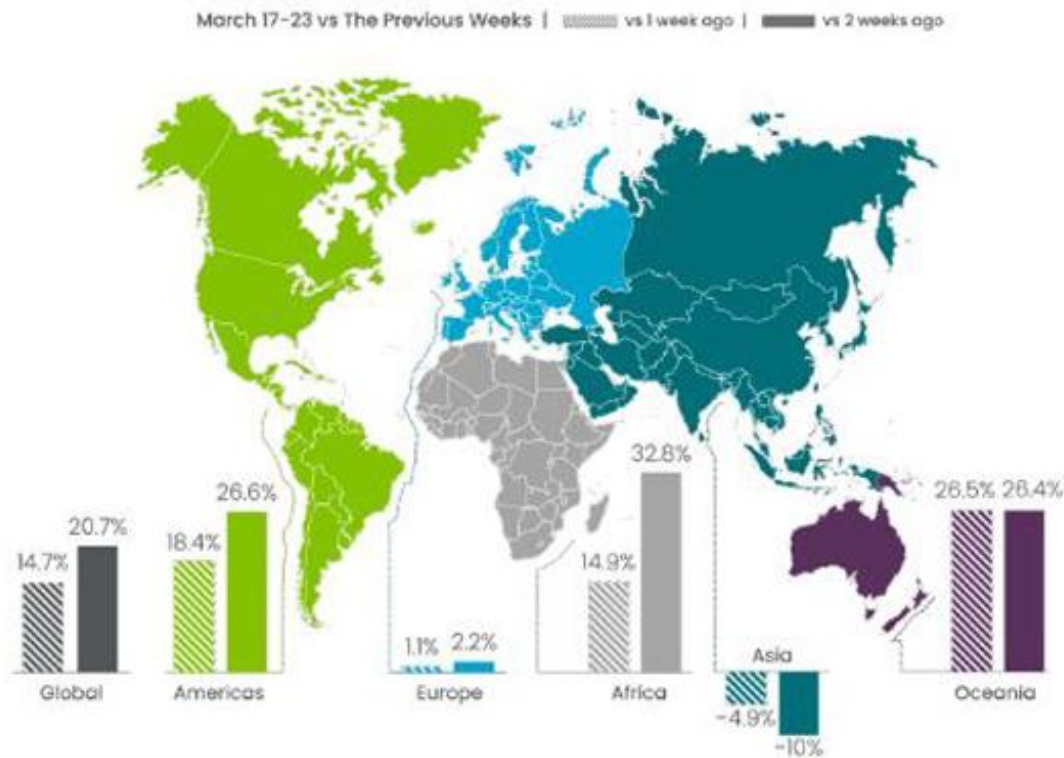
Source: WTO

Automobile industry:



Source: WTO

Conversely, other activities, like video streaming, have expanded during the crisis:



Source: Conviva, 2020

From

Pogorel & Preta, Convergence in Media and Telecom in the face of COVID-19, Fondation Robert Schuman, European Issue n°559, May 2020

If we now turn to future perspectives, the Summer 2020 Economic Forecast published July 7 by the EC -before the adoption of the Recovery Plan- paints a gloomy picture of the European Economy and emphasizes the « Exceptionally high risks »:

"...protectionist policies and an excessive turning away from global production chains could also negatively affect trade and the global economy ».

But from the same EC we can hear strong words about regaining sovereignty in the technological, industrial, and digital areas. This clearly hints at re-assessing supply chains, re-localising production, within a context not only of increasing mistrust of China. but of long-lasting echoes of « Made in America by American Workers », to quote from US Presidential election candidate Joe Biden's program, not to forget about Brexit.

What to expect from the conflicting calls to « Save the International Order » on the one hand, and on the other hand to "Save Our Souls », rebuild our industries, our health systems, our jobs, when we look at the disturbing state of the European economy.

The Covid crisis has dramatically emphasized the blind spots, shortcomings and fragility of the international trade order. National economies and the international trade order are now in confusing limbo, facing big risks as the pandemic crisis goes on.

How can the EU regain its footing, and, hopefully, enhance its status and policies?

In March 2020 the EC announced an effort at defining a long-term industrial strategy with three main priorities: global competitiveness with level playing field, climate neutrality in 2050, digital future. In addition, the Commission will “analyse the risks and needs of different industrial ecosystems (Open Industrial forum to be set up September 2020)”.

Projects of Common European Interest have been established for strategic value chains that will get the EC’s blessing for public support: hydrogen, low-carbon industries and batteries.

The July 2020 Recovery Plan and the Multiannual Financial Framework are to be discussed at European and national parliaments.

The widely accepted overall evaluation is there is still a lot to be done.

In this very preliminary outline for an ELF discussion paper, to be closely articulated with the numerous studies and policy initiatives which are already taking place on this topic, we intend to contribute to the work of Renew MEPs and ELF partners and help clarify some strategic issues.

### **The international political context is heavy with constraints:**

- The US is in deep political and policy turmoil: Strong EU Transatlantic relations however are an essential tenet to preserve a balance in the international system by matching the population and economic weight of China, India.
- The role and the game played by China in trade and international policy is to be assessed, and the EU has to evaluate what it must do and realistically can do in its dealing with a 1.3 billion people gorilla. How to redefine trade (and political relations) with China?
- Relations with India, SE Asia, Africa will play a significant role in power plays and re-balancing the international trade order.

There is a widely shared view that globalisation is here to stay. It has demonstrated the benefits of international competitive trade extend across countries and industries. However, even before the current crisis had highlighted its tragic shortcomings, it had reached a plateau. In the last few months, the opinion has gained ground that the new international order will combine in a principled, optimal and realistic way the dual requirements of strategic autonomy at national and regional (EU) level and the benefits. For that purpose, reference principles must be defined.

### **What is “strategic” for Europe needs clarification**

1/ If a core set of strategic goods and services to be produced locally or regionally is to be defined, it better be internationally coordinated. It might look like a paradox, but core strategic production sets internationally agreed to avoid trade wars, will be the first step of the future international negotiation to take place immediately once the horizon is cleared after the current crisis.

2/ This core strategic industry set ‘CSIS’ will delineate:

- Vertical requirements for the production of certain goods, as well as for health products, energy, communications networks, infrastructures.
- Horizontal i.e. social, environmental, and health standards.

On important point is that the practical implementation of the CSIS will warrant competitive efficiency and the drawbacks of bureaucracy and protectionism shall be avoided as much as possible. The CSIS includes already existing initiatives to protect companies from foreign take-overs and acquisitions.

3/ A delicate issue is how far can the EU go in demanding a level social and environmental field from its third-party trading partners? How to reconcile legitimate policy goals with international trade mechanisms which rely on comparative advantages: International trade cannot just refer to innovative advantages, most often the overall cost of manpower and resources are major factors. Some trade-offs are needed, but how to define them? Beyond the CSIS, international trade principles shall define a playing field based on best practices and the lessons of the experience of the previous globalisation phase. The definition of the playing field will address levels of social, environmental, and health standards and governments subsidies issues in a non-naïve manner, consistent with the level of development of the countries concerned, resulting in different categories of trading partners being considered. The Core Strategic Industry Set will in principle be exempt from high-level trade rules.

4/ To match the scale of international trading partners, both the core strategic industry set and International Trade Principles for Europe will be defined at EU level, with special emphasis on consistency and solidarity principles.

**In conclusion**, to contribute to the EU institutions position regarding the Open International order/Sovereignty trade-offs, we must look into the policy objectives framework and the instruments.

<p><b>The EU multi-dimensional policy objectives framework:</b></p> <ul style="list-style-type: none"> <li>- Fix the health sector at EU level</li> <li>- Green transition</li> <li>- Improve risk response capabilities</li> <li>- Expand Connectivity and Digital literacy</li> <li>- Factor in the lessons of the crisis for Gender Equality and the role of front-line workers</li> <li>- Restore the relationship between the EU and the US</li> <li>- China: define the economic and policy trade-offs</li> <li>- Strengthen the relationships with the many countries on all continents sharing Europe' concerns</li> </ul>
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<p><b>Reinforce the EU hard and soft instruments</b></p> <p>A clarification of the available instruments, combining hard and soft, will be needed</p> <ul style="list-style-type: none"> <li>- Select areas to be monitored</li> <li>- Funding is a powerful tool, either Direct (hard instrument) or Incentive (soft instrument)</li> <li>- Checking supply chains (cost efficiency and security, duplicates,...) with industry bodies (soft instrument), and possibly impose regulatory rules (hard instrument).</li> </ul>
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- Stick as much as possible to Competition policy within the updated framework.