

Europe and the superpowers: The rise of economic nationalism

Ditchley Park, Oxfordshire
10-11 November 2023



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Does China's rise herald the end of the neoliberal age? Between 1989 and 2008, the world economy was governed by a set of rules and institutions that limited tariffs and subsidies, bailed out countries in exchange for fiscal retrenchment, and provided development finance conditioned upon reform and anti-corruption measures. Now, the US and the EU are following the Chinese model of subsidising industries of the future. The US sees China's accession to the World Trade Organisation as a mistake and is seeking to limit the WTO's power. And China is seeking to supplant the World Bank and western governments' role in development finance.

At the Centre for European Reform's annual economics conference at Ditchley Park, we will discuss how Europe should respond to growing economic nationalism in China and the US. For rich but small and medium-sized economies that rely on international law to keep markets open, the rivalry between China and the US is a huge challenge. We will hold five panels on:

- ★ Is the global trade system 'brain-dead'?
- ★ How should the West deal with China?
- ★ Will the EU's green industrial strategy work?
- ★ Does Europe's economic model have a future?
- ★ Is the global financial system becoming 'geopoliticised'?

Friday, 10 November 2023

13.30-15.00 Arrival of participants and afternoon tea

15.00-15.15 Welcome and introduction

15.15-16.45 **Session 1: Is the global trade system 'brain-dead'?**

China's beggar-thy-neighbour exports strategy, the digitalisation of the economy, and climate change are undermining the principles of the WTO. China has curbed imports, forced the transfer of technology from Western companies, and subsidised its export sector through its state-controlled financial system. The US is trying to stop China from achieving technological parity by inhibiting the export of advanced microchips, and the capital goods required to make them. And as the EU cuts industrial emissions, it is trying to prevent carbon-intensive imports from weakening its climate efforts. Are the principles of the WTO – no discrimination between trade with one country versus another, and the gradual, negotiated reduction in trade barriers – out of date, or should they be saved? Can the WTO accommodate fractures between China and the West? Are the current account imbalances that developed in the first two decades of the 21st century evidence that the system has not worked? Should democracies promote deeper integration between themselves, by reducing tariffs, aligning regulations and more stringently enforcing the non-discrimination principle, while curbing economic ties to autocracies? If so, how?

Speakers: Alan Beattie, Meredith Crowley, Ignacio García Bercero and Catherine Mann

Chair: Zach Meyers

16.45-17.15 Coffee break

17.15-18.45

Session 2: How should the West deal with China?

Despite hopes that China's growing integration with the global economy would make it more liberal, the West has become increasingly fearful of Chinese assertiveness and Western dependencies on China for strategic goods. Yet the US and the EU have both vacillated in recent months – at times emphasising the economic benefits of trade and investment with China, while at other times stressing the risks Chinese economic ties pose for the West. The US is seeking to prevent China from achieving technological parity, and it is pursuing an anti-China industrial policy that violates WTO rules. And there are reasons to believe that, if China invades Taiwan, it will be hard to enact sweeping sanctions given its integration with the global economy. Can de-coupling remain limited to sectors where it suits the West? Are efforts to onshore or 'friend-shore' important supply chains realistic? Could the West impose wide-ranging sanctions on China and how effective could those sanctions be? And are the EU's interests better served by seeking to align with the US or by pursuing a different and more independent strategy?

Speakers: Jennifer Harris, Matthew Klein, Martin Wolf and Yu Jie

Chair: Charles Grant

18.45-19.30

Drinks reception

19.30

Dinner

22.00

Bus transfer to the Macdonald Bear Hotel

Saturday, 11 November 2023

07.45-08.30 Breakfast served at the Macdonald Bear Hotel

08.30 Bus transfer to Ditchley Park

08.00-08.45 Breakfast served at Ditchley for guests staying in the house

09.00-10.30 **Session 3: Will the EU's green industrial strategy work?**

Caught between the US Inflation Reduction Act (IRA) and China's generous subsidies for domestic manufacturing, the EU is nervous about losing the green tech race. It is now trying to revamp its industrial policy, but it can neither match the tax credits of the IRA nor the unscrupulousness of China's support for domestic manufacturers. Loosening state aid rules will only help bigger, richer member-states, and production targets are unlikely to move industry without further incentives. And the carbon border adjustment mechanism (CBAM) will be limited to a few commodities in an attempt to start simple and keep it compatible with WTO rules. Will national state aid distort the single market? Does it make sense to pursue more domestic production of 'strategic' technologies? Should carbon taxes on imports expand to cover more classes of goods, or should Europe accept that some of its industry will inevitably move offshore? Is there an economic rationale behind the rush to 're-shore' and 'friend-shore' key economic activities, or is it just covert protectionism? Should Europe create a Recovery Fund 2.0 to power its way through the energy transition with more public investment, or are we hitting capacity constraints?

Speakers: Luis Garicano, Réka Juhász, Shahin Vallée and Jeromin Zettelmeyer

Chair: John Springford

10.30-11.00 Coffee break

11.00-12.30

Session 4: Does Europe's economic model have a future?

EU member-states' economies are more open than their size and wealth would predict, in part because of the strictures of EU membership. Some have argued that is one reason why their welfare states are more generous than those of other countries, as the heightened risk citizens face from import competition has been socialised. In part thanks to the euro, Germany's export competitiveness has grown, but its recent weakness suggests its growth model is in trouble. France's growth has disappointed for decades, and Italy's has been disastrous. The UK has had no real wage growth for 13 years. Poland and other central and east European states continue to converge on western European living standards, but eventually the fruits of European integration will be exhausted. Is globalisation no longer a source of potential growth for Europe? Does Europe need much faster immigration to offset the effects of ageing? Should governments seek to promote investment by doing more of it themselves, and by using tax incentives and regulation to spur private sector capital spending, especially in energy and training? Do European tax systems and welfare states inhibit growth or promote it? Has Europe gone too far in promoting the interests of consumers over those of workers in the tradeable sector?

Speakers: Agnès Bénassy-Quéré, Marco Buti, Jean Pisani-Ferry and Martin Sandbu

Chair: Christian Odendahl

12.30-13.45

Lunch

13.45-15.15

Session 5: Is the global financial system becoming 'geopoliticised'?

The global financial system and the institutions that govern them seem to be increasingly ensnared in geopolitical rivalry. The use of the dollar and the euro in imposing sanctions, most notably on Russia, has angered non-aligned powers, with some saying they intend to use alternative currencies for international transactions. Meanwhile, amidst the largest debt crisis in middle- and low-income countries since the 1980s, the IMF is struggling to roll out its traditional bail-out programmes. Debt restructurings are made harder by intransigent Chinese creditors, whose rise has diminished the importance of the Western-dominated 'Paris Club'. After incurring losses, the Chinese may now reduce lending under the Belt and Road Initiative, but other emerging economies with deep pockets like the Gulf States are also offering loans that challenge Western finance. The World Bank's firepower might be too limited as funding needs mount with the intensifying climate crisis. Is there a threat to the dollar and the euro as the world's major reserve currencies? Do the Fed and the ECB need to become more geopolitical, for example by expanding swap lines for offshore liquidity, as the People's Bank of China is starting to do? Has the IMF always pursued the political aims of the West, and can it accommodate the interests of rising powers? How can the US and Europe step up their support to developing countries, despite tight budgets and nationalist politics?

Speakers: Mark Bowman, Megan Greene, Elina Ribakova and Brad Setser

Chair: Sander Tordoir

15.30

Departure of participants

List of participants

Alan Beattie	Senior Trade Writer, <i>Financial Times</i>
Agnès Bénassy-Quéré	Deputy Governor, Banque de France
Ashok Bhatia	Director, Offices in Europe & Senior Resident Representative to the European Union, International Monetary Fund
Mark Bowman	Vice President for Policy & Partnerships, European Bank for Reconstruction & Development
Marco Buti	Tommaso Padoa-Schioppa Chair, Robert Schuman Centre for Advanced Studies, European University Institute
Liam Byrne	Member of Parliament for Birmingham Hodge Hill, House of Commons, UK, & Chair, The Parliamentary Network on the World Bank & International Monetary Fund
David Claydon	Partner, Kaya Partners
Meredith Crowley	Professor of Economics, University of Cambridge
Arnab Das	Global Macro Strategist, Invesco
Ignacio García Bercero	Director for Multilateral Affairs, Strategy, Analysis & Evaluation, Directorate-General for Trade, European Commission
Luis Garicano	Professor of Public Policy, London School of Economics & Political Science
Francesco Garzarelli	Head of Macro Research, Eisler Capital
Heather Grabbe	Senior Fellow, Bruegel
Charles Grant	Director, Centre for European Reform
Megan Greene	External Member, Monetary Policy Committee, Bank of England
Lucas Guttenberg	Advisor, Minister's Staff, Federal Ministry for Economic Affairs & Climate Action, Germany
Jennifer Harris	Acting Executive Director, BuildUS & Senior Advisor, Kaya Partners
Réka Juhász	Assistant Professor of Economics, University of British Columbia
Anatole Kaletsky	Chairman & Chief Economist, Gavekal Dragonomics
Mehreen Khan	Economics Editor, <i>The Times</i>
Matthew Klein	Founder, The Overshoot
Eric Lonergan	Portfolio Manager, Eisler Capital
Sam Lowe	Partner, Trade & Market Access, Flint Global
Selma Mahfouz	Finance General Inspector, Ministry of Economy, Finance & Industrial & Digital Sovereignty, France
Catherine Mann	External Member, Monetary Policy Committee, Bank of England
Zach Meyers	Senior Research Fellow, Centre for European Reform
Soňa Muzikářová	Non-Resident Fellow, Atlantic Council
Sandy Nairn	Chairman, Nairn Capital
Christian Odendahl	European Economics Editor, <i>The Economist</i>
Jean Pisani-Ferry	Senior Fellow, Bruegel & Peterson Institute for International Economics & Professor, Sciences Po

Elina Ribakova	Non-Resident Senior Fellow, Peterson Institute for International Economics
Martin Sandbu	European Economics Commentator, <i>Financial Times</i>
Fiona Scott Morton	Theodore Nierenberg Professor of Economics, Yale School of Management, Yale University
Yael Selfin	Vice Chair & Chief Economist, KPMG in the UK
Brad Setser	Whitney Shepardson Senior Fellow, Council on Foreign Relations
John Springford	Deputy Director, Centre for European Reform
Simon Tilford	Director, The Oracle Partnership
Sander Tordoir	Senior Economist, Centre for European Reform
Ángel Ubide	Managing Director, Citadel
Ann Westman	Economic Counsellor, Delegation of the European Union to the United Kingdom
Martin Wolf	Chief Economics Commentator, <i>Financial Times</i>
Shahin Vallée	Senior Research Fellow, Center for Geopolitics, Geoeconomics, & Technology, German Council on Foreign Relations (DGAP)
Yu Jie	Senior Research Fellow on China, Chatham House
Jeromin Zettelmeyer	Director, Bruegel