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Ditchley conference report: COVID-19, the global economy and the return of power politics

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Summary
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At the CER's annual Ditchley conference (which took place online this year), we asked 50 top policy-makers and thinkers in economics and foreign policy to consider how the EU should respond to the pandemic, US-Chinese rivalry and its unstable neighbourhood. There was consensus that the EU needed to be more assertive internationally and less slow-moving internally, but there were disputes about how far it should go to achieve those goals. The *Macronistes* wanted a Gaullist EU with governments clubbing together to be more able to quickly confront crises, and with the EU more nimbly dealing with the big men of modern geopolitics. Their more cautious opponents emphasised that member-states should act together where possible, and focus on what was achievable with an EU of 27 leaders with different domestic political pressures.

In the first session, on the recovery from the pandemic, the conference agreed that massive monetary easing and fiscal support were needed, and that furlough schemes and subsidised lending to businesses were the best way to ensure that viable companies did not go under. As for the recovery phase, when vaccines had been widely administered, disagreement broke out. Some participants argued that governments should continue to stimulate consumption to offset any increase in precautionary saving by households. Others said that high levels of saving by richer office workers would mean that consumption would jump anyway. And there were disputes about whether governments should seek to subsidise private investment, with some arguing that private sector borrowing costs were very low, suggesting that consumption was the problem. Others argued that capital and workers would have to be re-allocated from insolvent businesses to growing sectors of the economy, and fiscal and monetary support for the private sector would have to be reduced. Still others contended that the EU's recovery fund was a sensible attempt to counteract stagnation in Europe, which preceded the pandemic, despite the risks of waste and corruption and the fact that most of the spending would happen after the pandemic was over.

The rise of China – the focus of the second session – was both a problem and an opportunity for Europe, with the conference broadly agreeing that the balance had become negative as Beijing had become more assertive about its authoritarian model of government, and less willing to follow Western rules and norms. It was good for Europe's economy if Chinese people continued to get richer, raising demand for European products. Europe could not seek to follow the US into a struggle for supremacy. But as it was not a unified state, the EU relied on international law to achieve its objectives, and would struggle in a world of great power competition. However, participants agreed that the EU should work with the incoming Biden administration to curb China's intellectual property and subsidy policies and counter its strategic use of foreign investment for foreign policy aims. Some argued that the EU was unlikely to speak with one voice on China's human rights abuses, to US annoyance, but governments should realise that Europe could only rebuild the frayed international order with the help of America.

US dominance in tech was the focus of the third session. The conference divided on whether it mattered that Europe did not have tech giants. On the one hand, their contribution to productivity across the economy was not as big as the giant companies of yesteryear, and there was no reason why Europe could not import digital platforms just as the US imported German and Japanese industrial robotics. But on the other hand, it was proving difficult to regulate tech companies, and if they were European companies it might be easier to bear down on the bad effects of their algorithms. And because Europe lacked tech expertise, it did not come up with digital innovations that could do more to improve society. However, while the EU continued to be around 20 per cent poorer than the US, a series of pro-competition reforms in Europe, starting in the early 2000s, meant telecoms, flights and other services were far cheaper than in the US, raising living standards especially for poorer people. And the EU was having some success in exporting its internet rules internationally, and was winning the argument for better safeguards against hacking, disinformation and the abuse of personal data.

The concept of 'strategic autonomy' in trade and investment policy proved a controversial one in our fourth session. For some participants, the use of vague terms that overegged the EU's power would do little to impress the Biden administration, which would want to know how the EU planned to help it achieve some of its concrete goals, such as curbing China's foreign investment in strategic infrastructure and opposing expansionism in the South China Sea. Others were more positive, arguing that the EU had the power to set standards globally, because multinational companies had to sell into the EU's large market and follow its rules. However, there was agreement that it was important that the EU avoid using strategic autonomy as a cover for moves to create European champions, and the bloc should limit the distortions to trade from its attempts to change the behaviour of other jurisdictions. The border carbon adjustment mechanism, for example, would be more efficient if it were a carbon tax that was levied indiscriminately on European polluters and carbon intensive imports.

There was consensus in the final session that the EU could offer more ways for countries in its unstable neighbourhood to integrate with the bloc. Most Eastern Partnership countries, such as Ukraine, Armenia, Georgia and Moldova, wanted a closer relationship with the EU and a more distant one with Russia. Liberals in Turkey, North Africa and the Western Balkans needed the promise of better living standards, which a closer relationship with Europe would bring, in order to defeat their corrupt and clientilistic opponents. The EU's foot-dragging on Turkey's accession had weakened the incentive for further reform of the Turkish state and had allowed Recep Tayyip Erdoğan to pull away from the Western model of governance. As for Sub-Saharan Africa, the EU was fearful that rapid population growth would raise migration to Europe, but the region should be seen as a source of opportunity for higher trade and investment. African immigration could also help provide workers as European societies continued to age. But the region needed more official lending to help it get through the pandemic, and more help with security, especially in the Sahel.

Session 1: The global recovery from the pandemic: How can we get it right this time?

Europe's recovery from the financial and euro crises was slow, relied in the early years on external demand, and came at a considerable cost in terms of incomes and employment. The slow recovery was one reason why the politics of the last decade was so fractious, and it undermined Europe's global standing. The post-COVID-19 recovery may be more rapid, as it was not the result of a collapse of trust in financial markets, and policy-makers have learned from their mistakes. But at the same time, businesses will emerge from lockdown in a highly indebted state, many jobs will be lost, and political pressure to reduce fiscal and monetary support to the economy will grow over time. How concerned should policy-makers be about a slow and uneven recovery once the pandemic is over? How can the recovery be made more inclusive? Will the EU's recovery fund be enough to foster the transition to a green and digital economy, and forestall further divergence between Northern and Southern Europe? And what if the US and China are unwilling or unable to provide another dose of external stimulus for Europeans?

Catherine Mann looked back at the mistakes in handling the economic fallout of the global financial crisis of 2008-9, in which both monetary and fiscal authorities were slow to respond. She argued that this mistake was understandable: policy-makers had little experience with a major global financial crisis that cascaded through the system. By contrast, during the COVID-19 crisis, the monetary and fiscal response was immediate and big, which helped to prevent these 'cascading effects'. The response was also seeming to be sustained – which was different from the period after the global financial crisis, when stimulus in Europe was withdrawn too quickly, causing a double-dip recession. But some economic problems were the same as then: the crisis was hitting business investment, unemployment was high (even though much was hidden in furlough schemes) and there was a danger that policy-makers supported unviable firms, thus creating 'zombies'. The result would be lower productivity growth. She argued that fiscal support needed to be re-directed over time to help stimulate business investment.

Olivier Blanchard put forward three reasons why governments had to spend big. First, the pandemic was a temporary supply shock that would pass, so governments should avoid damage to Europe's economic fabric. Second, the crisis was nobody's fault, so there was no 'moral hazard' (when governments shoulder responsibility for risks and therefore encourage people to take more of them). Governments should prioritise protecting firms, workers and the financial system through furlough schemes (which had proven very successful), cheap loans, and grants. Third, governments had to support aggregate demand, as uncertainty was constraining corporate and consumer spending. He argued that governments could afford to spend, and should bear the financial burden of the pandemic: all taxpayers, not workers or firms that were hit hardest, should pay the costs. And from an efficiency standpoint, the public sector was most able to bear the losses: debt servicing for governments was cheap, and would be for some time yet. While there was a risk that markets would lose confidence in some more vulnerable advanced economies, debt-to-GDP ratios should be reduced very slowly after the pandemic was over.

Elina Ribakova looked beyond Europe and argued that a full-blown financial crisis in emerging markets was less likely than in the past. Emerging economies that could issue government debt in their own currency found it easier to carry the debt in the absence of a global lender of last resort (the International Monetary Fund was too small to play this role). But China, India and other emerging markets were unlikely to contribute as much to the global recovery as they had after 2008-09, despite China's relatively healthy rebound. There were also geopolitical risks that needed to be taken into account, especially the power struggle between the US and China, which would continue under President Biden. However, while US international economic policy was increasingly conducted with foreign policy goals in mind, tariffs and trade policy were becoming less important, while export and investment controls for sensitive technology and sanctions were becoming more so. Europe found itself in that power struggle but without a united foreign policy to deploy, while China was developing new strategic economic tools, such as a digital currency, faster than its opponents.

Maarten Verwey said that policy-makers should lower extremely high economic uncertainty as much as possible. Reducing uncertainty helped to stabilise the economy in the short run and limited scars over the long run. The policy response in Europe, on all levels, had been big, swift and surprisingly well co-ordinated compared to the past. The clearest sign of EU unity was the agreement on the recovery fund, which would have a macroeconomic impact, and spending was skewed towards countries that were most in need, helping to counteract economic divergence. The positive effects of the fund depended on how the money was spent, and that depended on the quality of the national reform and investment plans that the European Commission was reviewing. While economic stimulus was necessary, the recovery fund went further: to foster the green and digital transitions of the European economies, and make them more resilient to economic shocks in the future. The implementation of the plans was a major challenge, considering that the sums involved were very large for some countries. It was important that these investments be accompanied by reforms in order to make them as successful as possible.

The discussion started with how to target fiscal policy to stimulate the recovery when vaccines were rolled out. Some doubted that private investment was the right focus of policy: there was no lack of cheap funding, and firms would invest when they had a market for their products, not when they received subsidies. To get the economy started, governments needed to stimulate private consumption. Others argued that policy-makers could not support the economy indefinitely. Instead, they would need to shift from protecting the economy to allowing the reallocation of resources to new sectors and firms. Policies beyond demand stimulus were needed to drive private investment, such as regulatory or tax policies. Prolonged deficit spending had not yielded terribly good results in some European countries in the past. However, another panellist pushed back, arguing that while protection and re-allocation could be combined, there was a trade-off between the two at the time of the conference, and his preference was clearly for protection at this stage of the pandemic.

But would the usual fiscal stimulus work during the recovery? One participant cautioned that, just like 'Depression babies', people might save more in the future to build up larger cash buffers after the pandemic. That in turn could depress spending during the recovery. Another added that demand weakness was concentrated to social forms of consumption, like bars, hotels and cinemas. Stimulating overall demand may not help much. One panellist pushed back, saying that the strength of the rebound in activity in the third quarter of 2020, when virus prevalence was low, suggested a swift bounceback in social forms of consumption once restrictions were lifted. But the aim should be to lower the need for people to save precautionarily. Another panellist agreed, adding that raising welfare payments to low-paid workers or subsidies for a smaller set of important investments may also be a way to boost demand with limited fiscal resources.

One participant argued that fiscal policy-makers should not make stimulus time-limited, but it should be 'state-contingent', continuing to support aggregate demand until the economy had properly recovered, just as monetary policy had ended up doing after the financial crisis. He added that the debt-to-GDP ratio should no longer be a goal but should be seen as a policy tool to reach a target like an inflation or unemployment rate. That required a re-think of Europe's fiscal rules, whose 60 per cent debt target was not only obsolete but no longer economically useful. A panellist agreed, arguing that the best option was to continue to support the recovery until aggregate demand had recovered.

Turning to monetary policy, one panellist argued that the European Central Bank (ECB) had to strike a balance between supporting asset prices and allowing price signals to work. It had been trying raise the volume of new lending to businesses, but so far that strategy had not been working as it had been largely raising asset prices. One participant strongly disagreed, arguing that the ECB did not greatly distort asset prices from their fundamental values. Another panellist argued that the ECB should err on the side of supporting funding for existing firms, because the cost of letting viable businesses go bust was higher than keeping zombie firms alive. Another discussant highlighted that, once the recovery was properly underway, Europe would need to decide on whether to tighten monetary or fiscal policy first. In his view, the choice was not obvious, but he thought there would be a temptation to first tighten fiscal policy in order to contain debt-to-GDP ratios.

As for the European recovery fund, a panellist argued there was a trade-off between spending on a speedy recovery and on transforming the economy. Trying to transform the economy quickly would mean that more money was wasted. In his view, the speed of the recovery should be the priority. Another added that the pandemic had also led to falling oil prices, which made green investments more challenging. In response, participants said that policies could at least in part be designed to give consumption a new, greener direction, and that there was a significant cost to returning to the old brown economy. On the practicalities of the recovery fund, one panellist explained that take-up of grants from the recovery fund was very high, and that it was natural for governments to focus on grants first, rather than loans. Low borrowing costs for all governments lowered the appeal of loans from the fund, for the moment at least. But he was confident that demand for loans would rise over time. The plans submitted so far were good, albeit stronger on the spending than on the reform parts.

Session 2: How should Europe respond to China?

In May 2020, China came under increased pressure to allow an international investigation into the outbreak of COVID-19, prompting a diplomatic backlash by Beijing against the West. Meanwhile, China's treaty violations in Hong Kong and human rights abuses in Xinjiang have strengthened the case of hawks on both sides of the Atlantic. At the same time, engagement with China seems economically and politically inevitable, given the size of its market and its hegemonic role in Asia – especially for the EU, which does not have a common foreign policy and lacks the power to change China's behaviour. Has China abandoned its policy of 'peaceful co-existence' with the West for good, and if so, what will replace it? Is China's continued economic growth a given, considering its demographic change and high debt, or is the country approaching the limits of its growth model? In which policy areas should the EU seek co-operation with China, and when should it be more assertive? Is the EU's role to be by America's side, or should it act as the 'third option' for other countries to align with in a world of two hegemons?

Manuel Muñiz Villa outlined three economic trends that should inform the EU's China policy. The hope that digitisation would 'flatten' the world, spreading economic opportunity, had not come to pass: instead, over the last decade technology-related jobs had become concentrated in a few cities, mostly in the US. Second, only a small number of 'frontier' companies had reaped the benefits of emerging technologies, and almost all large companies competing for dominance in the digital market were now American or Chinese. Third, most successful technology start-ups were from either the US or China. Manuel argued that this concentration of activity would raise geopolitical competition between America and China. And it posed a problem for Europe: the EU should not give Chinese and American tech companies full access to its market without rules to prevent them from stifling competition from smaller European technology companies. Europe's policy towards China should take more account of how emerging surveillance technologies would impinge on privacy and even personal agency, and whether data was owned by companies or owned by states. To counter these trends, the EU needed more nuanced and sophisticated regulation of data privacy and ownership.

Jean Pisani-Ferry outlined two challenges related to China. First, both Europe and China had structural weaknesses. China struggled with an ageing population, inefficiency and financial fragility; Europe was not investing enough in education, research and development and did not have enough frontier companies. Jean suggested that in the economic sphere Europeans needed to accept the rise of China while addressing their own weaknesses. The second challenge was systemic: the EU had for too long pursued a strategy of complacent mercantilism in their relations with China. This had changed since 2019, when the Commission had cast China in a white paper as a "negotiating partner", "strategic competitor" and "systemic rival". However, there was a risk that Europeans aligned their China policy too much with that of the US. While Europeans and Americans shared many grievances, such as China's insufficient implementation of World Trade Organisation (WTO) provisions on intellectual property and subsidies, and its foreign investment strategies, the US and Europe did not have the same strategic outlook on China's rise. Jean proposed a thought experiment: a perfectly democratic and market-oriented China would still constitute a problem for the US, because the US and China were in competition for global dominance. A 'transactional' China, on the other hand, which eschewed rules in favour of bilateral deals, would always present the bigger problem for the EU, which was not a unitary state and relied upon multilateralism.

Daniela Schwarzer reviewed the events of 2020 that had shaped the EU's China policy. First, the planned September EU-China summit had been cancelled due to the pandemic, but the run-up to the summit had demonstrated how hard it was to forge a common EU approach. The most important items that Europeans finally agreed to put on the agenda were the EU-China investment agreement, as well as the broader trade agenda, intellectual property provisions and subsidies; climate change; and China's engagement in Africa. Second, the COVID-19 crisis had changed how European governments perceived their relationship with China. Member-states implemented the EU's investment screening rules with more urgency, and governments had begun to widen the scope of 'critical industries' (in which governments could intervene in investment decisions) to include medical provisions and pharmaceutical companies. Third, Europeans had developed a greater awareness of Chinese attempts to influence European journalism, social media and think-tanks. Fourth, the election of Joe Biden might offer some opportunities for Europe, but Daniela did not think it would lead to substantive changes to the US policy of 'decoupling' from China. Europe needed its own cost-benefit analysis to determine when it should follow the US and when it should choose a different path. Finally, more European countries had begun to pay attention to China's military activities in the Indo-Pacific region. She suggested that EU member-states, together with the UK, should develop an overarching 'geo-economic' strategy, combining security and economic concerns and hedging against China by building ties with other countries in the region.

Nathalie Tocci said that, since its 2019 white paper, the EU had decided that the most important subject for negotiations with China was climate change. Events in Taiwan and Hong Kong had shown Europeans that China wanted to expand its power, and the EU had gained a clearer view of the problems with China's economic model, but had not yet agreed on the right response. In some ways, Europeans were better placed to address these challenges in 2020 than they had been in 2019 as there were fewer divisions between member-states. China's divide and rule approach might become less effective: some countries in the '17+1' format (of co-operation between China and Central and Eastern European countries) were disappointed with Chinese investments. In addition, there was now greater awareness amongst Europeans about Chinese disinformation and propaganda tactics. European governments were hardening their attitudes towards Chinese 5G infrastructure and investment in strategic industries. But she was more pessimistic on the EU's response to Chinese human rights violations and its activities in the South and East China Seas, Hong Kong and Taiwan. Here, the US was going to expect more from the Europeans, and the EU had not yet found a united approach.

The discussion focused on the alignment between the US and Europe in their relationship with China. Some participants thought that while some US hawks thought it was in America's interest to restrain China's rise and keep the Chinese poor, Europe did not have a problem with a fast-growing China per se. One participant urged the conference to take into account how China had changed over the last decade. Ten years ago, Europe had been comfortable with the assumption that China's growth was compatible with Europe's interests. Today, China's newly assertive autocratic regime and surveillance state meant that it was difficult to envision any political change in China that was not driven by the central authorities. Europeans were at risk of enabling and promoting a systemic rival. One asked if the supposed misalignment between the US and Europe was not more about differences in tactics than in overall objectives. Europe could only rebuild and sustain the liberal order with the US. There could not be equidistance between the US and China; China and the EU simply adhered to different norms regarding political models and values, the right to privacy, free speech and political participation.

Others argued that China posed a greater threat to Europe than the US because China had no regard for the rules-based multilateral order and threatened the system upon which European success depended. The US and China shared a sovereignty-focused approach to international relations. One participant observed that the discussion had so far assumed that Washington would pursue a strategy of decoupling and possibly confrontation, despite the fact that the US and China were economically highly intertwined. In the US too, there were those who took the long view and advocated pragmatic accommodation of this growing power.

Session 3: Is Europe falling behind technologically, undermining its power on the global stage?

Europe's comparative advantage in the global economy is the production of high-technology industrial machinery, aircraft, cars and trucks, chemicals and pharmaceuticals, food and drink, and other mature industries. It is starting to be squeezed by China, Turkey and other industrialising countries, which are increasingly competing with Europe in higher value-added manufacturing. And the US continues to develop transformational technologies, such as military technology, new forms of energy, driverless cars and other ways to use artificial intelligence to provide services, as well as new drugs and medical equipment. China is investing heavily in many of these areas too. In which sectors are European countries close to the technology frontier, and how should innovation be stimulated in those sectors? Should the EU accept that most new technologies will be developed outside its borders, and seek to use regulation and competition policy to drive up standards domestically and in other countries? Can a quasi-federation of sovereign states ever pool enough resources to be able to co-ordinate an industrial strategy at a continental scale, as the US and China can?

Hal Varian said that in recent years, on balance, funding for innovation was not slowing down in either the US or Europe, as one might expect if the tech industry were maturing. And research and development (R&D) spending had not fallen since the mid-1980s: the US federal government had cut it dramatically since then (as a share of GDP), but business R&D had grown in that period on both sides of the Atlantic. In the US, this had been led by the tech sector, and in Europe by the car and pharmaceuticals industries. Top US tech firms and universities were dominating R&D spending in neural networks and machine learning, but skills in these sectors were global, and the technology was spreading internationally. It was true that start-ups were much more likely to be bought by larger companies than float on a stock market, but for Google, the typical acquisition was to bring talented people into the company, not the intellectual property of finished products: when it purchased Android the start-up only had five engineers and some plans for an operating system. This meant that the so-called kill zone (areas of R&D that were not worth investing in because the big players were too dominant and defeat would be guaranteed) was less of an issue than commonly assumed: venture capitalists were looking to fund good ideas whoever had come up with them.

Monika Schnitzer argued that top European research was as good as that of the US in many fields, including in tech. Europe had as many patents as the US in the 'Fourth Industrial Revolution', which included smart devices that were connected to the internet, such as industrial machinery, cars and household appliances. But the problem was that European ideas were less likely to become profitable businesses. The majority of R&D took place in the large companies in Germany, most of whom were founded in the early 20th century. These established companies already had profitable business models, and that could make them slow to innovate. Car companies had many patents for electric vehicles in the past but were slow to turn them into products for the market, because their petrol and diesel models sold so well. The lack of a 'European Tesla' was also down to politicians' tendency to favour preserving existing jobs over creating new ones: the German state had stakes in Volkswagen, Commerzbank and Lufthansa. A European industrial strategy should not be used to promote established companies into European champions, which would curb innovation. Instead, governments could club together, using public procurement to help new ideas and companies. New start-ups needed to be able to grow quickly, and that required a deeper single market, especially in tech, where economies of scale and 'network effects' meant a big market was very important. The third pillar of the strategy should be to amend competition laws as new markets developed, in order to prevent the growth of monopolies.

Thomas Philippon said that the EU had been about 20 per cent poorer than the US in 2000, and it was about 20 per cent poorer still: there had been no convergence because while Europe was deployed US technology, Americans were moving on to the next thing. But that did not mean that Europe had not had its successes, the biggest of which was competition policy. Take the high degree of concentration (the share of the market taken up by the largest firms) and mark-ups (a measure of profit margins) in US telecoms: US consumers paid twice as much for broadband and mobile phones as Europeans. Europe's lower prices were the result of a series of pro-competition reforms, starting in the late 1990s, such as giving mobile spectrum to new companies. Investment had been exactly the same in the US and the EU, so higher American prices could not be put down to more investment in fibre or 5G networks. This was one reason why the growth of real incomes for the bottom half of the distribution had been faster in Europe than in the US since then. US tech companies' productivity performance was mixed: while they spent more on R&D, they improved the productivity of their workforce more slowly than the biggest firms in earlier decades. However, another way tech giants could improve productivity would be by hiring workers from less productive companies: re-allocating labour improved average productivity across the economy. That was happening, albeit more slowly than in the past.

Merle Maigre argued that the digital single market could be a source of global power for the EU. European standards on competition, privacy, data flows, misinformation and cybersecurity might be taken up globally. One key cybersecurity and defence policy was the 2018 Directive on Network and Information Systems, which required member-states to have a cybersecurity strategy, with special protections for critical service providers, such as banking and healthcare. It also made member-states report incidents so that others could take defensive action. The 2018 General Data Protection Regulation (GDPR) was setting global standards for privacy, data governance and anti-hacking measures. And the €7 billion European Defence Fund was an attempt to create supply chains between big defence companies and smaller companies in cyber technology, drones, and other forms of digital warfare. Did all this regulation make the balkanisation of the internet inevitable, by forcing non-European companies to choose whether to follow its rules or stop providing content in the EU? Those who argued for more sovereign control were winning the argument. That was because the internet was becoming the primary arena for conflict between Russia, Iran and China on the one hand, and democracies, especially the EU and the US, on the other. In this contest the democracies were on the defensive, but we needed co-operation between democracies to prevent the emergence of different rules between them.

The discussion started with the different forms research and innovation took in the US and in Europe. One speaker said that American tech workers shifted between big tech firms, academia and start-ups, with the majority of people who left Google, for example, joining start-ups. That created a flux of ideas between these spheres. Europe's industrial companies tended to stay within their own market, while tech companies moved into new markets all the time. Another participant pointed out that European car companies were now making big investments in electric and autonomous vehicles in part because of the threat from Tesla.

However, several people pointed out that there were plenty of start-ups in Europe, but that they did not become big businesses. One asked why the EU's superior competition policy regime was not encouraging the growth of challengers to the big players. There was consensus that firms grew more slowly in Europe because there was less venture capital in Europe, and its more fragmented market meant that European start-ups went to the US to scale up. One former official suggested that the problem was Europeans' tendency to subsidise existing technology (such as subsidies for consumers to buy electric cars) rather than new R&D (battery technology). However, a speaker argued that Europe's lack of dynamism in this regard was not as costly as commonly supposed; new companies grew rapidly in the US, but their new tech was taken up by existing firms in Europe after a few years. And it would be harder in the US for small tech companies to challenge the big players, one participant argued, because the latter had become so dominant.

The conference then considered whether European policy-makers should care that there was no 'European Google.' One participant argued that as long as the technology could be imported to Europe there was no need to produce it there, just as most countries in the world were happy to buy industrial robots from Germany and Japan. But because the tech giants were also a threat to competition, privacy and national security, it was uncertain whether European governments and the EU would be able to regulate US firms sufficiently. Tesla, on the other hand, was an unmitigated good for Europe – it was reducing Europe's carbon emissions and challenging incumbents – and Europe had the power to regulate it. Regulators were indifferent to the algorithms that underlay Tesla's vehicles, as long as cars were safe, while the platforms' algorithms were not transparent and outcomes were hard for regulators to easily discern. Another said that the European Commission's new competition tools would allow it to take into account a wider set of harms than inflated prices, such as data protection. But a participant wondered why a European Google was needed, since we already had one, Google Europe, and the 'right to be forgotten', for example, had been legislated by the EU and complied with by Google. And another pointed to the spill-overs that tech companies provided – their workers would start new companies.

Tech platforms were vehicles for misinformation, said one speaker, and the companies that owned them had been slow to tackle it. They were also unwilling to be transparent about their algorithms, which allowed misinformation to spread, or may even have encouraged its spread. But an attendee countered that the companies did not want the platforms to be used to spread falsehood, and were experimenting with changes that allowed freedom of expression while minimising the opportunities for people who acted in ways that were damaging to society. On the other hand, the conference agreed that Europe should ensure that when people handed over their data to companies they had to prevent data getting misused, hacked or leaked. That was why tough scrutiny of Huawei's involvement in European 5G hardware was perfectly legitimate. And it was why the US was borrowing from EU regulation, and also heading down the the GDPR road.

Session 4: Can the EU use trade and investment policies to advance its strategic goals?

Under Donald Trump, the US weaponised trade policy. It has also started its attempt to decouple from the Chinese economy, while pushing allies to follow its lead. Multilateralism, which has underpinned globalisation for decades, is under serious threat, as the world's two hegemons no longer feel it promotes their interests. Meanwhile, Europe is struggling to offset the side effects of trade openness and financial integration: rising inequality, destabilising capital flows, carbon leakage and the proliferation of predatory tax practices. Are we entering a phase of de-globalisation – or re-regionalisation – of trade and investment flows? Will that harm Europe's prosperity, or allow Europe more control over its own rules and regulations? Is there any hope for enforcing a fair corporate tax regime? And how can Europe use its trade and investment policies more openly to advance its strategic goals?

Caroline Freund questioned whether de-globalisation was, in fact, happening. While there had been a drop in global trade flows at the beginning of the coronavirus pandemic, trade in goods had actually held up fairly well, taking into account the steep fall in global GDP. While there had been shortages, it was more because demand had surged than because supply had been disrupted. Trade in services, however, had been badly hit by travel restrictions. Caroline argued that before 2020 the world had been experiencing a period of 'slowbalisation'. Liberalisation had slowed down or gone into reverse in some cases, and technologies that facilitated trade were advancing more slowly than in the past. But trade had slowed down before and bounced back: after the 1980s a period of slow trade growth was followed by the creation of the North American Free Trade Agreement (NAFTA), deeper EU integration and rapid convergence as developing countries caught up with the rich world. Despite the present period of disruption, there was still reason for hope: new technologies such as artificial intelligence and blockchain might support trade growth; automation might increase productivity and reduce prices; and new plurilateral trade deals such as the Asia-Pacific agreements (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership, RCEP) and the African Continental Free Trade Area should raise regional trade volumes. Her optimism was tempered by political risks, especially whether the traditional trade system could accommodate a China that bounced back from COVID-19 more quickly than most other countries, and which controlled vital resources such as rare earth metals.

Anu Bradford emphasised the EU's role as a rule-maker for the global economy. Very few global companies could afford to stay out of the EU's market, which meant that EU rules, which were usually more stringent than other jurisdictions, often ended up being adopted across the global market. But Anu questioned whether the EU's ability to shape global rules would extend to the digital economy. The EU had some success as a first mover on issues such as GDPR and regulating hate speech online, and had several new policies coming down the line, such as the Digital Services Act, Digital Markets Act and digital services tax. If the EU failed to shape the global digital environment, either the techno-libertarian Americans or digital-authoritarian Chinese would do so. But the EU should be careful not to entirely repurpose its digital agenda to geopolitical ends, and avoid data localisation measures and weaponised competition rules. Instead the EU should co-operate with the US to jointly develop digital norms and combine EU regulatory power with US innovation to provide an alternative to Chinese digital authoritarianism, which made both equally uncomfortable.

Gabriel Felbermayr said that the EU had recognised the need to combine geopolitics and geoeconomics and break out of policy silos. He said that there had been a notable shift in European thinking: strategic rivalries were now being accounted for by businesses and trade economists – two groups who had not paid much attention in the past – and officials were now thinking about trade policy as a tool to change competitors' behaviour. However, credibility was key: there was no point in the EU having new tools to penalise bad behaviour if other countries did not believe the tools would be used. The EU needed to close the credibility gap by 'preparing for war to guarantee peace' and be quick to punish other countries if they failed to play by the rules. But Gabriel did not see a contradiction between the EU using regulatory instruments to defend itself and continued openness to trade. The EU could regulate and be open so long as it was not actively discriminating against foreign companies. There was also a need to be sensitive: the EU should develop new regulations in the least trade distorting way possible and European politicians should avoid relying on beggar-thy-neighbour justifications for policy interventions.

Alan Beattie questioned whether the EU concept of 'open strategic autonomy' was useful when working with the US to confront China's trade and investment strategy, arguing that the US was not interested in abstract principles. Rather the US was interested in what the EU had to offer and what it wanted to do; international institutions were only useful to the US if they helped achieve American goals. The US wanted to know the practical steps the EU would take to create China-free supply chains; remove Huawei from telecoms; facilitate cross-border data flows; combat Chinese subsidies; and oppose Chinese expansionism in the South China Sea. The EU had to be much more honest about what it could do – which was often not much. Where it was able to act, and wanted to work with the US, it had to be able to explain why – for example the EU could argue it wanted to work with the US to unblock the WTO's appellate bodies appointment process so that they could use it to challenge Chinese unfair practices. More fundamentally, the EU needed to be pragmatic, cynical and tactical – it should only pursue specific issues when it had the standing to do so; stop saying 'open strategic autonomy'; and tell the world in concrete terms what it intended to do.

The discussion started with a debate over the usefulness of 'open strategic autonomy'. One discussant argued that while it should not form the basis of bilateral discussions with the US, it could be a useful overarching concept and it was inevitable that EU trade policy would become more embedded in its foreign policy. This was supported by others on the panel who thought it had some worth – for example when thinking about digital taxation, dealing with unfair Chinese subsidies or a future border carbon adjustment – despite it being unrealistic to expect trade policy to be the conduit through which the EU could achieve all of its foreign policy objectives. However, one participant responded that open strategic autonomy would only be useful as an overarching framework, connecting trade and foreign policy, if the EU actually had an effective foreign policy (defined as having a big enough army, or enough money, to confront its enemies), which it did not.

The conference agreed that the EU's global regulatory influence was limited in areas where there was internal disagreement between member-states. Its inability to engage coherently in international discussions around cross-border data flows was an example. However, one discussant raised the point that it is not unusual for external action to be constrained by internal disagreement: countries such as the US and Canada had disparate domestic regulatory/political environments which prevented them from fully engaging on issues such as procurement and agriculture in trade discussions.

The EU's development of new powers – for example the border carbon adjustment, tools to combat foreign subsidies, and the digital services tax – raised the question of whether the EU was actually planning to use the new tools to protect itself, or simply wanted a deterrent to effect international behavioural change. One member of the panel argued that the EU was a "contingent unilateralist", preferring to resolve issues multilaterally, but in areas such as digital taxation would deploy unilateral measures if the multilateral approach broke down. Another argued that for new defensive instruments to be deemed credible they would need to be tested. They pointed to the EU's retaliatory measures against the Trump administration's steel and aluminium tariffs as a good example of the EU flexing its muscles and creating clear red lines.

One discussant argued that the Transatlantic Trade and Investment Partnership (TTIP) had been a missed opportunity for the US and EU to come together to create joint regulatory standards. They said the fragmentation of the internet and increased data localisation requirements was ultimately not in the EU's strategic interest and that it should move quickly to reach agreement with the US. Self-driving cars were identified as an opportunity for the EU and US to co-operate on future rules by one member of the panel, who pointed out that quite a few sections of TTIP were already written and ready to go.

The subject of data ran through the entire discussion, where questions were raised about the EU's ability to shape the international agenda, as well as whether the EU's focus on privacy (particularly pushed by member-states such as Germany) was stymieing EU innovation. One panellist argued that the EU had successfully exported its rules, pointing to GDPR as an example. They acknowledged that GDPR had proven costly for small companies, and entrenched the power of established incumbents, but they were hopeful that the EU would revise its approach to address this problem. On the privacy point, they argued that there would be many more scandals coming down the line, and ultimately the EU approach might prove prescient. Another panellist pointed out that privacy concerns did not mechanically mean that the EU had to vacate the international discussion on data flows: they pointed to Japan as an example of a country that commits to the free flow of data in its trade agreements and has a data privacy regime deemed equivalent to the EU's.

Finally, the discussion turned to Asia, and particularly whether the pandemic would lead to further divergence from the West. One panellist was optimistic, pointing out that the inward-looking discussions in the US and EU around medical supply chain nationalisation, local content requirements and open strategic autonomy were not happening so much in Asia, leaving open the possibility of continued co-operation and liberalisation with the EU and others in time. One discussant wondered whether the arrival of RCEP (whose 15 signatories included China, Japan, Indonesia, Australia and South Korea) was a point of departure for Asia, signalling a greater focus on intense regionalisation. But a panellist argued that RCEP was largely about tying up existing trade agreements with the benefits mostly limited to more accommodating rules of origin provisions – it did not need to result in the separation of the world into two big blocs.

Session 5: Can the EU bring countries in its neighbourhood further into its orbit?

The EU's neighbourhood and enlargement policy has had a mixed record over the past decade. In the Western Balkans, integration with the EU still has appeal. In the eastern neighbourhood, Ukraine, Georgia and Moldova have trade agreements with the EU, but integration has stalled. In the South, EU efforts to draw in its neighbours have largely been unsuccessful: the region is more unstable and not much more prosperous than it was a decade ago. Turkey has turned away from the EU and is in some ways a rival. Across the neighbourhood, Europe increasingly competes with Russia, Turkey, China, and the Gulf States, all of which offer economic and political models that can be more appealing to local elites than that of the EU. How important is the EU's neighbourhood to Europe's stability and prosperity? What can the EU do to make its offer to neighbouring countries more appealing? Are there specific sectors in which co-operation should be deepened? How should the EU's political offer look to neighbours it is unwilling to offer membership to? How should the EU deal with countries that do not want closer integration or membership?

Sergei Guriev highlighted the contrast between Russia's relationship with the EU and that of the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine). While many of the EU's eastern neighbours wanted closer relations with the EU, Russia was not interested in improving its relationship with the bloc. Vladimir Putin's ambition was to assert Russia's status as a 'great power'. The EU should engage with Russia on issues of mutual interest, such as resolving the Nagorno-Karabakh conflict, but the EU should also remember that Russia sought to undermine it. To protect itself, the EU should strengthen its own rule of law, and crack down on Russian corruption and money-laundering in European cities such as London and Berlin. On the Eastern Partnership, Sergei highlighted the transformative power of the EU's Deep and Comprehensive Free Trade Areas (DCFTAs) in driving the reform process forward in Georgia and Moldova, despite some setbacks in countries such as Ukraine.

Beata Javorcik said the outcome of the internal EU dispute on the rule of law mattered to countries in the Western Balkans. Linking the disbursement of funds to the quality of democratic institutions within the EU would make it clear that democracy and an end to corruption must be permanent, strengthening conditionality in accession countries. However, the prospect of EU accession must be a credible prospect if politicians were to be able to defeat powerful, corrupt opponents. The process of implementing EU reforms damaged their interests, and those of their clients. It may be difficult to replicate the success of the 2004 enlargement because post-1990s optimism about the liberal global order had faded, nationalist populism had grown, and there was reduced appetite in the EU for external spending due to the COVID-19 pandemic. China and Russia also now provided alternative models of governance that challenged EU values in the region.

Şebnem Kalemli-Özcan discussed why the relationship between the EU and Turkey had soured. In the 1990s Turkey engaged closely with the EU, implementing the customs union from 1996. Turkey then enjoyed a period of rapid growth (averaging 5 per cent per year to 2007). But the EU's foot-dragging on accession weakened the incentive for Turkey to reform. Recep Tayyip Erdoğan then pulled away from secular governance, social inclusion, economic restructuring and co-operation with the EU and US. But it was possible to improve relations, particularly with a new Biden administration in the US. She stressed the need for the EU to adopt more positive rhetoric on Turkey: emphasising how far Turkey had come rather than how much it still needed to do would be more effective at changing Turkey's behaviour. Şebnem identified three areas for potential re-engagement with Turkey: upgrading the customs union, bringing the country into the EU's energy community, and working with Turkey to improve its integration into global markets. Without re-engagement, Turkey would continue to destabilise the region and relations with the EU could worsen still.

Abebe Aemro Selassie focused on the EU's relations with Sub-Saharan African countries, in the context of rapid population growth. By 2030 half of all new entrants into the global labour force would be from Sub-Saharan Africa, but this growth was too often seen as a challenge for Europe rather than an opportunity for investment in a growing market. Economic and social development would ultimately result in lower birth rates, and Europe had the ability to shape this demographic transition. However, without investment in security, infrastructure, green energy, health and education the consequences could be severe, both in terms of migration flows from Africa and climate change. Abebe concluded by making three recommendations. First, the EU should help offset the security spending of countries in the Sahel fighting against Islamist militants, so that these governments could continue to invest in healthcare and other essential services for their citizens. Second, the EU should help counter the devastating economic effects of COVID-19 in Africa with more official lending. Third, Europe should do more to think about how to raise trade and investment with a rapidly growing region of the world.

In the discussion that ensued a participant highlighted differing member-state objectives and interests made it difficult for the EU to act strategically within its neighbourhood, Russia being an important example. European electorates were also sceptical about the value of foreign spending. Another participant asked if European politicians lacked the courage to act decisively, in the face of increasingly strident domestic nationalism, or if they lacked creativity in selling the advantages of investing in a strong partnership with neighbouring countries. Arguments based on the fear that China would take Europe's place in the EU's neighbourhood were not enough to win public support for increased engagement.

Another participant emphasised the need to provide more EU market access to the Western Balkans, and help to develop the region's capital so that it could fulfil its growth potential. The Western Balkans had a trade deficit with the EU, and the emigration of skilled workers was causing problems. Another attendee suggested that high emigration from the Western Balkans might force these countries to reform and curb corruption, given the strong relationship between quality of institutions and intention to emigrate. For another participant, the pandemic might damage the reform process: the more benign the macroeconomic conditions, the easier it was for governments to compensate losers from reforms, and the more rapidly labour and capital would be reallocated between sectors. COVID-19 would make it harder to overcome domestic opposition to reform.

Migration was a prominent theme in the discussion. One participant highlighted a contradiction in the EU's policy towards its southern neighbourhood: it promoted better governance on the one hand (which should be the EU's priority), but on the other hand prioritised short-term concerns about migration that obliged the EU to work with countries that had poor governance records. One attendee highlighted the possibility that African migration could fill gaps in the European labour market and that it should not be treated as a threat. Another responded that a small number of Africans lived in Europe relative to the size of Africa's population, and that few Africans would want to move to Europe, particularly if living standards in their home continent rose. However, several participants drew attention to the fact that rising living standards tended to lead to increased migration, not reduced. Differences in per capita income between rich and poor countries would have to narrow substantially before migration rates dropped.

Several argued that the EU needed a better offer in order to strengthen incentives for neighbouring countries to reform: countries that were unlikely to become full members might be allowed to join the customs union, the energy community, foreign policy co-operation, and other aspects of the single market. Membership of the customs union could be especially attractive if the EU's planned carbon border adjustment were to materialise, because it might reduce the risk of tariffs being applied. However, several speakers countered that many people in the neighbourhood were strongly pro-European and would be unwilling to give up the dream of EU membership. One questioned whether participation in some EU policies would be attractive to neighbouring countries without any prospects for the free movement of people or a say in the EU's political decisions. TTIP had been politically controversial in Turkey because it may have had to open its market without any reciprocity due to its customs union with the EU, for example.

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