



Rebuilding the Global Economy

A series outlining policy priorities and solutions

MEMORANDUM ON

CONCRETE INITIATIVES FOR A MORE OUTWARD-LOOKING, GEOPOLITICAL EUROPE

To: The President of the European Commission
From: Jean Pisani-Ferry
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Background: In the Political Guidelines you presented to the European Parliament immediately after your designation in July 2019, you set the goal of making an “ambitious, strategic and assertive Europe” capable of acting to “uphold and update the rules-based global order.” Europe, you added, regards multilateralism as its “guiding principle in the world.” A year later, in your State of the Union speech, you said that you want the European Union to “lead reforms of the WTO [World Trade Organization] and WHO [World Health Organization]” and behave strategically. The rebuilding of the global economy is definitely a key tenet of your agenda—even more so for the post-COVID-19 world.

Europe, however, is not wired for your agenda. First, it has for many decades been obsessed with internal issues: the single market, monetary union, enlargement, the euro crisis, and Brexit. Because agreements between member states are so hard to reach and sustain, its politics remain fundamentally inward-looking. Second, the European Union is not used to behaving strategically. Because it is itself a rules-based entity, its natural habitat is a world of rules sheltered from the interference of geopolitics.

You are right: Europe should continue fighting for what it believes in. In the years to come there won't be that many defenders of the rules-based international order among the great powers, and the European Union will need to speak up in the name of all those who want to resist the weaponization of international relations. At the same time, it would be foolish not to adapt to a new context of power and sovereignty.

Words have changed already: You have called for a “Geopolitical Commission” and European Council president Charles Michel regards “strategic autonomy” as goal number one for the present generation. But these concepts are understood differently in different European capitals. Your task now is to spell out what they mean in policy terms.

The changeover in Washington, DC will test your capacity to translate broad notions into concrete policy decisions. President Donald Trump's adversarial attitude toward the European Union's policy philosophy and stated priorities gave you no choice but to remain on the defensive. His peculiar behavior also made it tempting for European allies to postpone hard choices. President-elect Joseph Biden will be a friendlier partner but a much more demanding one. He will also be speaking for a nation that has changed: You

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should underestimate neither the shift in attitudes that has taken place in the United States vis-à-vis the international order nor the implications of the growing rivalry with China. You should brace for testing moments.

Challenges will continue emerging on many fronts. Here are seven important priorities.

KEY PRIORITIES

PRIORITY 1: Define and implement a China strategy

The European Union belatedly gave up its predominantly mercantilist perspective to wake up to the magnitude of the challenges that China represents. But still disparate responses to issues posed by Chinese telecommunications giant Huawei and, despite strengthened coordination mechanisms, the lack of a truly common foreign investment screening policy indicate that Europe is still at pains defining its stance and adapting its toolbox. Although the European Union shares many of the American concerns about Beijing's behavior, its priority and strategy cannot be identical to those of the United States: Unlike the United States, the European Union does not regard China as a geopolitical rival; but it does regard China's stance as a potentially lethal threat to its own perspective on international relations—and therefore to its own identity. To engage effectively with both the United States and China, Europe needs to be much clearer about its own aims and means.

PRIORITY 2: Engage the United States, China, and other players on global trade reform

The European Union has traditionally been a staunch defender of the WTO and its Appellate Body. But long-standing US grievances culminating in aggressive bullying by the Trump administration have changed the debate, and it is now accepted that the global trading regime needs reform. As the Commission has undisputed authority on trade matters, you are well placed to play a leading role in WTO reform. But you need to forge a new pan-European consensus on trade matters in spite of opinion having grown more skeptical of globalization, more fearful of China, and more distrustful of the United States. Successful global trade reform requires building up domestic support for your agenda.

PRIORITY 3: Take responsibility for the international dimension of your climate strategy

You are committed to radically enhancing the European Union's climate objectives for 2030 and beyond. Even if other major countries step up their effort, Europe is most likely to be far ahead of others on the path to decarbonization. To avoid carbon leakages, the extension of the cap-and-trade system should be accompanied by an efficient and trade-friendly border adjustment mechanism. But its introduction will be delicate, as the initiative could well be captured by protectionist lobbies and elicit adverse reactions from trading partners. Your responsibilities will be to (1) design a template for mechanisms that reduce distortions and do not create obstacles to trade; (2) convince trading partners that it won't be used for beggar-thy-neighbor purposes; (3) help build a climate coalition with similarly minded countries, possibly including the United States; and (4) address the adverse spillover effects of the European strategy on neighboring fossil fuel producers.

PRIORITY 4: Push hard for fair taxation of multinational companies

At a time when citizens care more about inequality, tax avoidance on a massive scale heightens grievances against globalization. The Organization for Economic Cooperation and Development's Base Erosion and Profit Sharing (BEPS) initiative has paved the way for

a redefinition of taxing rights that does not single out the digital sector but addresses the problem at the root. Even if some of the EU member states benefit from the current situation, you should push for a speedy agreement with the United States and other participants in the BEPS initiative. It should be clear that any acceptable solution will imply that Europe also cedes certain taxing rights on its own multinationals to trading partners from advanced and emerging-market economies. In the short term, a minimal tax (BEPS Pillar 2) is a priority.

PRIORITY 5: Turn the euro into a full-fledged international currency

The emergence of a multipolar monetary regime is a distinct possibility in the medium term. The question is if the euro will be part of it. It is time to break with the European Union's stated neutrality on the international role of its currency and to decide what to do about two major weaknesses that hamper its offshore adoption. The first is the lack of a common safe asset; the postpandemic context and the launch of the NextGenerationEU program provide a basis to rethink the issue. The second has to do with lingering doubts over the ability of the European Central Bank (ECB) to extend swap lines to partner central banks in times of liquidity stress; it can be remedied only if the ECB is given assurances that facilitating the use of the euro in third countries or for key commodities is part of its mandate and that it will be backed by the European Union if corresponding risks materialize.

PRIORITY 6: Complete the economic homework

The never-ending completion of Economic and Monetary Union may not appear to be a priority from an international perspective. But you should not forget that the European Union remains a surplus economy in a world of excess savings. Outdated fiscal rules and the lack of a common fiscal capacity risk being obstacles to an effective use of fiscal policy and the global coordination advocated by Lawrence Summers in his [memo](#) to the US Treasury secretary. Moreover, scars left by the pandemic crisis risk bringing the euro area's persistent frailties back to the fore. You may be hesitating because the task of reforming the euro policy system is a hard one. But the remarkable response to the COVID-19 shock engineered by the ECB and through the Recovery and Resilience Facility provides a strong basis for reform action.

PRIORITY 7: Defend the system, not your privileges

As reforms of voting rights lag behind economic realities, the EU member states are increasingly overrepresented in several international organizations, starting with the Bretton Woods institutions. This situation contributes to aggravate the emerging world's distrust of the prevailing system of global governance. Europe cannot at the same time defend the system and defend its privileges. It must end rearguard battles and offer emerging-market and developing partners a clear quid pro quo: The more ownership of the system they demonstrate, the faster Europe will contribute to the rebalancing of voting rights.

The arrival of a new US president who is committed to changing the course of US international economic policy is an opportunity for developing a new global agenda between the United States and the European Union. However, on China, trade, climate, taxation, and currencies, views will get closer but are unlikely to converge entirely. Your responsibility is to ensure that by the time the European Union starts speaking to the new US administration, it has settled on priorities, potential concessions, and red lines. In the current world context, successful partnership can no longer be based on ambiguities.