

SESSION 6

Globalization 2.0: Should the US and the EU be 'Friendshoring'?

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- The scene was set by comparing how the U.S. Treasury Secretary Yellen and WTO Director-General Ngozi Okonjo-Iweala view friendshoring, with the former seeing value in deeper ties with certain partners while the latter has warned that a friend today may not be a friend tomorrow. The discussion focused on three major themes as follows:

The future of the WTO

- Part of the problem is that since the global financial crisis of 2008, the global economy has been characterized by fragmentation, something that has accelerated since then owing to China's distortion of multilateral trade rules and other protective measures. As the prime institution managing globalization, the WTO is in need of reform. One impetus for this is that companies need predictability to trade and invest, which requires the enforceability of WTO rules. There needs to be more consequences for rule-breakers.
- Another dynamic driving WTO reform is the composition of the membership. It has managed to become a near-universal institution, which could be seen as a success, but that is also the reason for its difficulties. There is a vast diversity of membership, but there are no provisions for suspending membership based on a country's trade practices. And this dynamic leads to greater calls for reorienting trade toward more like-minded partners through friendshoring.

U.S. and EU trade relations and policies

- Objections were raised to the U.S. Inflation Reduction Act—the Biden administration's key climate legislation—mostly because of what was seen as its protectionist aspects. There is a need to resolve ongoing tensions over steel tariffs and aircraft subsidies and conclude a critical minerals agreement as a basis for the future
- Both sides need to work harder together to build closer relations with countries that will be important to the green transition, like Argentina and Brazil. The EU's updated free trade agreement with Chile, for example, will strengthen cooperation on lithium production and exports in a way that also increases value-added in Chile. Furthermore, the EU should build out its cooperation with the U.S. through measures like the anti-coercion instrument to deal with foreign actors who try to use trade policy to counter European strategic interests.

The idea of a geopolitical club of economies

- One idea proposed was a WTO 2.0 with real enforcement that would include free people and countries in the way that NATO—which was also seen as a club—does in the security domain. Such a club could also include investments and aid from richer countries to poorer ones as a carrot to join. This would enable action to be taken where the WTO is blocked from being unable to remove members not following the rules. One reaction was to ask if the U.S. and the EU should forsake the WTO for a trading club, or rather, would stronger rules with teeth within the WTO accomplish the same objective of raising standards for their trade?