

The EU must be cautious of lurching into an era of global trade wars

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Europe's increasingly protectionist policies are sabotaging its trade relations across the world, argues Massimo Cugusi.



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In recent years the European Union has become increasingly protectionist.

In addition to the Brexit crisis, where the mutual inflexibility of both Britain and the EU risks torpedoing their trade relationship indefinitely, the EU is sabotaging trade relationships around the world in the name of defending its own industries.

In its widening trade war with the US, while Trump shares the blame, the EU is hardly an innocent bystander.

The US threat of further tariffs against the EU is rooted in a 15-year dispute between the two over subsidies to their respective plane-makers, Boeing and Airbus.

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Last year the World Trade Organisation (WTO) ruled that the EU had paid Airbus \$22bn in illegal subsidies causing damage to Boeing, prompting the US government to pursue a comprehensive raft of retaliatory tariffs.

Meanwhile, the EU is facing fallout from the escalating US trade war with China, which has already hit one third of EU firms with forced technology transfers, inadequate intellectual property protection, and unequal treatment compared to Chinese firms.

The EU is now rightly alarmed that it might lose access to China's supply of critical raw materials such as rare earth minerals – used in key technology products such as smartphones, electric car motors and jet engines – if the trade war escalates.

But China would only play this card if it believed the EU was siding with the Americans in the US-China trade war.

“In its widening trade war with the US, while Trump shares the blame, the EU is hardly an innocent bystander”

As superior Chinese finance and technology has successfully targeted central and eastern Europe, several EU powers are concerned that the ‘free market’ has given Chinese companies too much of a free pass in Europe.

After Italy signed a Belt and Road Initiative agreement with China in April, alarmed policymakers in Brussels, Paris and Berlin reacted with calls for greater protections for EU industries.

Under such pressure, the European Commission resurrected a proposal to grant EU governments the power to apply financial penalties to Chinese companies bidding for tenders in Europe, if EU companies in the same sector fail to receive an open door in China.

Not only will such an approach incentivise China in exactly the opposite direction, it could lead to a vicious cycle of mutual protectionism, penalties and tariffs – plunging the EU into a direct trade war with China.

And it is not just China that the EU looks intent on alienating, the EU is sabotaging its once lucrative trade relations with the ASEAN trade block.

“The EU must remember that if it continues down this protectionist path, it will not only erode the foundations of its own prosperity, it will end up destroying the very rationale for its own existence as the world’s heartland of economic integration”

In March, the EU classified palm oil for biofuels – produced largely by Indonesia and Malaysia – as unsustainable, due its impact on deforestation and climate change, preventing it from being counted towards EU renewable energy targets.

While the EU’s approach will protect its own biofuel industries against Asian competitors, many experts say this ‘ban’ on palm oil will worsen climate change and shift consumption to other vegetable oils which not only are still polluting but take up far more land in places like the Amazon.

Instead of a ‘ban’, these experts call for better certification and stronger regulation.

Now, the EU faces the possibility that the ASEAN-EU free trade agreement (FTA), currently under negotiation, could be jeopardised, as its members have objected to the EU’s approach on palm oil.

Indonesia and Malaysia are now preparing to lodge complaints with the WTO, and the EU could end up being slapped with further tariffs while losing crucial trade opportunities in Asia.

The EU must remember that if it continues down this protectionist path, it will not only erode the foundations of its own prosperity, it could destroy the very rationale for its own existence as the world’s heartland of economic integration.

About the author

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