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Session II. Corporate strategies for a fragmenting world

Thank you for having me today in Frankfurt. It is such a pleasure to be back in this vibrant city at the heart of Europe.

The 33rd European Banking Congress is aptly titled: « Navigating a world at risk of fragmentation ». So, as public authorities, how can we help economic players navigate?

To be clear, this is about addressing, rather than eliminating fragmentation. Fragmenting forces were unleashed by the Covid pandemic and the Russian invasion of Ukraine. They can be mitigated to some extent, but they are here to stay.

For the sake of analytical clarity, we should first differentiate between different instances of fragmentation. Let me identify three of them: *economic*, *strategic* and *regulatory fragmentation*.

Economic fragmentation is easier to see. In fact, it is all around us. Covid and Ukraine have wreaked havoc in global value chains. This has been by and large mended, but with a long-term cost: longer value chains and the lingering threat of disruption will make international trade permanently costlier. [1] Moreover, Covid and Ukraine have evidenced our dependency on critical inputs such as raw material and chips, as well as our energy dependency.

Strategic (or geopolitical) fragmentation can be illustrated by the impact of financial sanctions on the global financial system, and by the rise of sovereignty concerns about critical technologies and data.

Looking ahead, *regulatory fragmentation* could come next. Has it materialised yet? How would it materialise? Here we can see the good, the bad, and the ugly.

Good news come from the financial sector, where the Basel Committee and Financial Stability Board uphold cross-border cooperation and provide global consistency. As antitrust enforcer, I have also been pleased to see a high level of international cooperation and convergence of minds in competition enforcement, when it comes to strengthening merger control and fighting against monopolisation (or abuse of dominance), particularly in the digital space. This is hardwired in the European framework, which combines tight coordination, leadership from the European Commission, and ample room for action at a national level. At the global level, the International Competition Network and OECD are important fora for international cooperation, and our G7 meeting in Tokyo last week was another show of commitment and commonality.[2] With the Digital Markets Act, Europe has provided a template which

[1] On the price impact of supply chain risks, see also M.G. Attinasi, D. Ioannou, L. Lebastard and R. Morris, « Global production and supply chain risks : Insights from a survey of leading companies », ECB Economic Bulletin, No. 7/2023. On the lengthening of global value chains, see H. Qiu, H.S. Shin and Y. Si Yin Zhang, « Mapping the realignment of global value chains », BIS Economic Bulletin No. 78, 3 October 2023.

[2] Japan Fair Trade Commission, Results of the G7 joint competition enforcers and policymakers summit, 8 November 2023.

many regions are now trying to adapt and implement. For sure, there will be potholes down the road, but they can be avoided.[3]

Results have been more mixed in the trade space. The momentum at the World Trade Organisation remains weak in spite of Director General Okonjo-Iweala's commendable efforts. It has to contend with the recent fad of « friend shoring », or what I would rather call « trust shoring », that is, moving production to countries you trust. Moreover, free trade agreements are challenged by strong interest groups, such as farmers lobbying against the Mercosur agreement.

Where I see a risk of fragmentation becoming ugly is data and technology. This is for reasons we can understand: national security concerns prevail, and approaches to privacy vastly differ across regions. But it will levy a huge cost on the economy. The transatlantic data privacy framework will almost surely be challenged again in the European Court of Justice. Demand for « sovereign cloud » (that is, cloud services with data location requirements) is rising. Artifical Intelligence (AI) regulation, because it is driven by ethical and strategic, not economic considerations, is shaping up differently in different regions. I will come back to this in a moment.

Persistent global fragmentation would raise the cost of doing business globally, prevent an efficient allocation of resources, and make it more difficult for our nations to deliver global public goods, such as fighting climate change.

Europe has risen to the global challenge by stepping up is strategic vision and building a new industrial policy toolkit.

This retooling is good news – but it also comes with downside risks. If not carefully designed, the new industrial policy toolkit comes with the risk of raising barriers that would harm the global economy, and of creating intra-European fragmentation. Indeed, if industrial policy keeps relying on government subsidies and a permanent relaxation of the state aid rule book, it will stretch government finances, test our fiscal rules nationally and Europe-wide, and harm the single market in a way that will eventually outweighs the benefits.

The solution is twofold.

First, we need a decisive push towards a genuine Capital Market Union (CMU), so that public money can supplement, rather than substitute private savings. I fully subscribe to President Lagarde's call earlier this morning for a quantum leap (in her words, a Kantian shift) to complete the CMU.[4] In fact, the « C » of « CMU » could as well stand for « Climate ». Given the amounts which will be needed (€620Bn per year on average until 2030 according to the European Commission), there will be no climate transition in Europe without a genuine CMU.

And second, a joint European approach to public financing – although I am well aware, speaking here in Germany, that there is a very narrow path leading to it.

How does the innovation challenge fit into this picture? It is again about fragmentation, but it spans across different dimensions. Let me take generative AI as an example.

Generative IA promises a new industrial revolution in industries where productivity has been stagnant for decades, particularly in the provision of services such as health or education. We want these benefits to be spread across firms, large and small. We want them to be spread across industries and across social groups. But what you need to build and distribute IA capacity is vast amounts of data, strong

[3] The Microsoft /Activision merger feuilleton is an example, with diverging outcomes initially in different jurisdictions, but convergence eventually.
[4] C. Lagarde, « A Kantian shift for the capital market union », speech at the European Banking Congress, Frankfurt-am-Main, 17 November 2023.

computational capacity and well-performing cloud services. These assets are today in the hands of a few incumbents with strong market power – and with a history of abusing it. Looking ahead, behaviours such as tying, bundling, excluding competitors, exploiting suppliers and customers or limiting access to data are all tangible risks along the AI value chain.

We cannot afford to let the benefits of AI be captured by two or three companies. We need an AI regulation which is pro-competitive so that a variety of AI models can flourish and productivity gains can spread across our economies and societies. As antitrust enforcers, we will stand ready to act.

I thank you for your attention.