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A Stress Test Not Only for Transatlantic Trade Policy

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Facing external and internal challenges, the transatlantic partners have deviated from their traditional global agenda, addressing not only international trade policy from a questionable nationalist and exclusionary perspective. It is time to reflect on this realignment:

- *How could we address rising social inequality while acknowledging that globalization is not an inclusive success story, even in industrialized countries?*
- *Can we let nationalism and protectionism – currently the most popular responses to this development – go unchallenged?*
- *What would global trade governance without transatlantic partners imply for the European Union and the United States, its people, and global affairs?*

Trade has been at the centerpiece of transatlantic relations since the end of World War II. Not only have the United States and the European Union constantly enhanced their bilateral trade relations, but they have also advanced multilateral trade policy. The global integration of markets has become one of the main signifiers for the notion of the liberal global order promoted by the transatlantic partners. The year 2016, however, has the potential to mark the end of this partnership and its global role: external and internal challenges have been shaking the transatlantic trade partnership. So far, the United States and the European Union have reacted by deviating from their traditional global agenda, instead following an increasingly nationalist and exclusionary approach. It is time to evaluate this realignment.

A main **EXTERNAL CHALLENGE** to transatlantic trade and trade policy is easy to detect: the rise of China as an economic and political power. In 2001, China joined the World Trade Organization (WTO) – the multilateral trade policy project promoted by the United States and its partner, the European Union. These two countries had dominated decisions and processes of the WTO, even though the WTO is designed as a consensus-based organization with almost all countries as member states (January 2017: 164). For a long time, countries opposing policy initiatives of the transatlantic partners, like Brazil and India, had lacked sufficient countervailing power. When China joined this group, it turned the group of emerging countries into a significant minority, and called transatlantic guidance effectively into question.¹ Since then, progress in the WTO has stalled: neither the old leading powers nor the newly powerful countries are willing to compromise.

Consequently, the European Union and the United States turned to an alternative strategy to further integrate markets.ⁱⁱ They shifted their focus to mega trade deals, which comprise a smaller number of member states while representing an immense share of global trade. The Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States is a main pillar of this new strategy. It will bring the already highly integrated transatlantic market closer together by establishing so-called behind-the-border rules that go farther than existing WTO regulations: these rules span the fields of regulatory cooperation, competition policy, public procurement regulation, and environmental and labor rights. The goal is to further integrate and to successfully implement advanced rules in what is currently the largest market in the world. The potential global effect of such an ambitious project is intended. Due to the sheer size of the transatlantic market, TTIP would allow the transatlantic partners to write the future rules for global trade – without interference from China or other emerging countries.ⁱⁱⁱ Similar reasons motivate the 20 WTO member states, including the United States and the European Union, to negotiate a Trade in Services Agreement (TISA). China is excluded, although it wanted to join the negotiations. Moreover, the United States has negotiated a Trans-Pacific Partnership (TPP) with eleven other Pacific-Rim countries. Again, China is not part of the deal. In short, the main external challenge for the transatlantic trade agenda – which has always been a global trade agenda – is a rising China that increasingly demands a role in shaping global trade governance, even at the expense of the WTO. To cope with this challenge, the transatlantic partners have also increasingly deviated from ‘their’ WTO and turned to negotiating preferential trade agreements. More exclusionary trade deals with specially chosen members seems to be a promising alternative for promoting the transatlantic trade agenda.

Since Brexit, and especially since the election of Donald J. Trump as the next President of the United States, **INTERNAL CHALLENGES** to transatlantic trade policy have joined the stage. The European Union has to master the unprecedented departure of a member state – a member state that has always been a strong supporter of free trade and is one of the largest economies in the European Union. At stake are not only the negotiations with Great Britain on future political and economic cooperation, but also the consolidation and advancement of the remaining European Union. This state of uncertainty demands some time for recovery and self-discovery, making the European Union a less attractive candidate for current trade negotiations. The Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union that has been temporarily blocked by the Belgian regional

parliament of Wallonia in October 2016 is just the first prominent example of the European Union's inner turmoil and its potential departure from a decisive free trade agenda. Many voices in the European Union are more national than European, more exclusive than integrating.

On the other side of the pond, president-elect Donald Trump promised to make the dismissal of TPP a main priority for his presidency. In his third day in office, he delivered and withdrew the United States from TPP. Trump had made his criticism of plurilateral and multilateral agreements such as the WTO and the North American Free Trade Agreement (NAFTA) a centerpiece of his campaign. He is convinced that in all these agreements, the United States could fare significantly better than it currently does. He expects that in bilateral negotiations, the United States would be powerful enough to define the terms of trade agreements because countries would have to yield to American leadership. This is what he calls 'fair' trade deals for the American people.^{iv} Whether he considers TTIP to be such a bilateral trade agreement and hopes to dictate its terms to the Europeans is not yet clear. Incredibly, Donald Trump has never yet commented on TTIP. All we know is that his suggestions for trade policy would lead to a massive departure from the last seventy years of American trade policy. These policies include a close relationship with the European Union with a common global agenda, the sustained effort to come to terms with China without direct confrontations, and the fundamental idea of a multilateral global trade governance. His oft-repeated slogan is unambiguous: America first! In different times, a strong European Union might have been able to counteract some of these tendencies. In its current stage, however, its response is rather defensive as exemplified by EU Trade Commissioner Cecilia Malmström: "For quite some time, TTIP will probably be in the freezer and then what happens when it is defrosted, we will have to wait and see."^v Currently, the European Union lacks the capabilities to push for the maintenance of a strong transatlantic partnership, let alone a common transatlantic agenda for global trade.

These observations leave us with the question whether the year 2016 is not only a stress test, but marks the end of seventy years of transatlantic partnering and global leadership in trade policy. Many are already discussing the potential end of the West.^{vi} In light of the current state of affairs on both sides of the Atlantic – the European Union has no roadmap for Brexit, and Trump has no trade policy – the level of uncertainty is unprecedented since the end of World War II. For the first time in decades, the United States and the European Union lack a unifying vision for global governance. But how does one effectively address decision-makers

without knowing their agenda? Simply giving narrow **RECOMMENDATIONS** on trade policy seems problematic. Ultimately, the current developments are not only a stress test for transatlantic trade policy, but also question transatlantic partnership and its general principles. Accordingly, it seems more appropriate to give some thought to a broader audience, including decision-makers and civil society:

- The integration of markets has helped to increase the national welfare of many countries. The European Union and the United States have benefitted from the liberalization of global markets in particular. The success of Brexit and Trump, however, showed that globalization is not an inclusive success story. It also creates losers and spreads social inequality – in both developing and industrialized countries. How could we respond to the increasing social divide? Is it necessary to accept it or is there an alternative?
- The most popular response to this development seems to be a rise in nationalism and protectionism. Brexiters demand more autonomy for Great Britain, particularly in order to restrict access for foreigners to the British job market. Trump supporters want to buy and hire American, build a wall to Mexico, and deport millions of people. Will protectionism be able to deal with the current problems of globalization? Can nationalism go unchallenged?
- Globalization will not stop just because transatlantic partners decrease their global political engagement and turn to protectionism. Instead of following the transatlantic lead as before, emerging powers like China, Brazil, and India have the potential to continue to shape global trade governance on their terms. Global supply chains will prevail despite the United States and the European Union withdrawing from global trade governance. How can this scenario be advantageous for the European Union and the United States? Would it reduce social inequality there? And finally, what would it imply globally?

ⁱ Cora Lacatus, “Is the Transatlantic Century Over?,” *LSE Ideas Policy Brief*, December 2015.

ⁱⁱ Edward D. Mansfield and Eric Reinhardt, “Multilateral Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trading Arrangements,” *International Organization* 57 (2003), 829-862.

ⁱⁱⁱ Walter R. Mead, “The Return of Geopolitics,” *Foreign Affairs* 93 (2014), 69-79.

^{iv} “Full Transcript: Donald Trump’s jobs plan speech,” *Politico*, June 28, 2016. Accessed July 10, 2016. <http://www.politico.com/story/2016/06/full-transcript-trump-job-plan-speech-224891>.

^v Philip Blenkinsop, “U.S. trade talks in deep freeze after Trump win, says EU,” Reuters, November 11, 2016. Accessed January 30, 2017. <http://www.reuters.com/article/us-usa-election-eu-trade-idUSKBN1361UN>.

^{vi} Jeffrey Anderson, G. John Ikenberry and Thomas Risse, *The End of the West? Crisis and change in the Atlantic Order*. Ithaca: Cornell University Press, 2008.