

Global Trade: Time for Europe to Take the Lead?

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Executive Summary

- > The project of a Transatlantic Trade and Investment Partnership was presented in both the US and the EU as a major political enterprise with 'geo-economic' implications and a declared intent to reaffirm transatlantic leadership and to secure, in the face of emerging rivals, a rules-based international economic and political order. These objectives have not been achieved.
- > The current cooling of transatlantic relations, reflected most visibly in the G7 and G20 meetings during the first months of the Trump Presidency in 2017 and at the World Economic Forum in Davos a year later, means that the conditions for any revival of this project are currently difficult to imagine.
- > In response, the EU should protect the World Trade Organization and enhance a rules-based international trading system, while pursuing the conclusion of modern trade agreements with its partners, including a possible relaunch of a transatlantic agreement.
- > In this process, the EU also needs to convince skeptical citizens that an open global economy can contribute to jobs and growth and to the reduction of international tensions.

Transatlantic approaches to trade differ profoundly at a time when the collective strength of Western leadership is being challenged. The withdrawal of the United States (US) from support for the global trade order it helped to establish makes it necessary for the European Union (EU) to work with others to avoid a destructive protectionist spiral. The Trump administration has raised questions over the future of transatlantic relations and taken measures which could lead to trade conflicts. Yet, this also provides an opportunity and a test for the EU to show the relevance and effectiveness of its own

approach to global trade and to build up global support for the philosophy of rules-based international trade.

The EU should discourage the US efforts to undermine the World Trade Organization (WTO) by showing that US interests lie in re-joining the process of rule-making, without which it risks increasing isolation.

This policy brief assesses the potential for the EU to take the initiative at a time of confusion and uncertainty as to the Trump administration's strategic view of global trade and transatlantic relations.

From TTIP to a transatlantic trade war?

The Transatlantic Trade and Investment Partnership (TTIP) project was advanced as part of a global strategy of the US in which Europe was just one element. TTIP could have been, it was argued, a confirmation of the ability of the US and Europe to shape events and to cement their relationship as the Cold War faded in the collective memory. Some even viewed TTIP as an 'economic NATO'.

China saw TTIP as part of a global US containment strategy, which also included the then-planned Trans-Pacific Partnership (TPP). Russia saw TTIP as part of an ideological offensive to shore up American global leadership. In the words of Prime Minister Medvedev, both TTIP and TPP undermined the WTO and were "a unilateral attempt to change the rules of the game in terms of world trade" (Sputnik News 2016).

The TTIP project did not succeed, but it addressed issues about the future of world trade which still require answers. If the EU and US cannot provide them together, the EU should keep up the momentum. The fact remains that "[d]espite all the hype about rising powers and emerging markets, Europe — including countries inside and outside the EU — remains the most important and profitable commercial market in the world for the United States and the major geo-economic base for U.S. companies" (Hamilton 2018: 3). Transatlantic trade still represents about one third of global trade in goods and

more than 40% of trade in services. Moreover, for almost all other countries either the EU or the US is the largest trade and investment partner.

Despite this structural context, Donald Trump continues to disdain the EU project, welcoming Brexit and rubbishing German leadership. No US ambassador to the EU has been nominated even a year after Trump took office. For good measure the President also said that “the European Union has been very, very unfair to the United States. And I think it will turn out to be very much to their detriment” (Reuters 2018). The US has been looking at how to protect certain industries on national security grounds. The recent imposition of import tariffs on aluminium and steel has caused outrage in Brussels.

Shortly after the President’s remarks, a Commission spokesperson said: “We here in the European Union believe that trade can and should be win-win. We also believe that while trade has to be open and fair it also has to be rules-based. The European Union stands ready to react swiftly and appropriately in case our exports are affected by any restrictive trade measures by the United States.”

Crisis as opportunity

In Davos in January 2018, EU Trade Commissioner Malmström argued that Europe still has a lot to offer to the rest of the world. Speaking on the ‘New Momentum for Europe’ panel, Malmström said she saw the current lack of US leadership as an opportunity for the EU “to show we can do good trade agreements which are sustainable and mutually beneficial. We can promote European values through that, and we can create alliances and friendship with countries across the globe” (Boffey 2018).

The EU is not, therefore, adopting a mere ‘wait and see’ approach, hoping for a change in the political weather in the US. It is in the meantime moving towards a new type of trade agreements which will have to include climate change, sustainable development and data privacy as conditions for ratification, in line with the Commission’s 2015 ‘Trade for All’ strategy. This not only represents a response to public concerns about these issues but also comes as a warning to the US (and China) that the EU will not be a weak negotiating partner.

Trump’s abandonment of the United States’ traditional trade agenda is, in this view, indeed an opportunity for Europe, as many countries seek new trade partnerships. Besides market access, these EU deals can help uphold the international rules-based order by setting high standards.

The EU can also build on its deep relations with Canada and Mexico to go around Washington in its own continent. This is not just a matter of European self-interest, but also an opportunity for America’s ‘friends’ to try to convince the US that it really does need the rest of the world.

Making China ‘Great Again’?

In response to what it perceived as the threats represented by TPP and TTIP, China had developed its own ideas to put itself centre-stage through the Belt and Road Initiative (developing infrastructure in Eurasia) and the Regional Comprehensive Economic Partnership (deepening trade relations in the Asia-Pacific). US withdrawal from TPP provided China with an excellent opportunity to take the lead in regional economic and trade cooperation in the Asia-Pacific. Yet, as its economy is notoriously closed to foreign competition it is not sufficiently trusted by many countries in its region (Japan, Australia) to fill the gap left by the US. The confirmation of TPP without the US came around the same time as the controversial protectionist measures on steel and aluminium were decreed by President Trump.

In this rapidly evolving context, the basic geopolitical dimension of TTIP remains as relevant as ever. The EU may share some common ground with China on its general approach to globalisation, and trade with China is continuing to grow. The EU is not, however, overlooking the need for China to advance beyond rhetoric and towards genuine domestic economic reform. The EU shares US concerns about China on intellectual property and dumping. These concerns condition EU views on trade and investment agreements with China even if European leaders never echo the deliberately aggressive rhetoric chosen by the US President to communicate his views about China. The EU accepts that it has common interests to pursue with China (and the US) despite differences on issues of values.

The US and the EU are hesitant about finally according China WTO ‘market economy status’ without meaningful safeguards. The EU has adroitly joined in US anti-protectionist actions towards China within the WTO as part of its objective of discouraging the US from following its ideological instinct in a way that would bring down the whole WTO house.

Moving ahead without the US

As the former WTO Director General Pascal put it: “nations who have long depended on the United States to drive the policy agenda and lead the battle to lower global trade

barriers are looking to see who, if anyone, they might be able to count on to fill the leadership vacuum the U.S. has left” (Cassella 2017).

The EU is pressing ahead with the implementation of the EU-Canada Free Trade Agreement as well as deepening trade relations with Japan, Mexico, MERCOSUR and members of ASEAN. By announcing the EU-Japan trade agreement on the eve of the G20 meeting in Hamburg in July 2017, Japan and the European Union sent a rather clear message that free trade is alive and well.

TTIP negotiations had already ground to a halt some time before Donald Trump came into office. His decision to immediately pull the US out of the Trans-Pacific Partnership took on even more global significance when the 11 TPP countries moved ahead towards their own agreement without the US. Former US Trade Representative Froman, who led the US TPP and TTIP negotiations under the Obama Administration, said that the fact that TPP is now advancing without the US “shows how our allies and partners continue to see the value of putting in place high standards and tearing down trade barriers across the region. Clearly, as the US retreats, the rest of the world is moving on” (Donnan 2017).

Under pressure from Canada, it was decided to change the name of the deal to the less snappy ‘Comprehensive and Progressive Agreement for Trans-Pacific Partnership’. Intellectual property issues have been left out, but the 11 countries will go ahead with new rules on state-owned enterprises and free data flows. In theory, this would also leave the door open to the US eventually re-joining the agreement in the future. As all TPP countries have deepening trade relations with the EU, they could be its natural partners in saving global trade rules.

Time for Europe to take the lead?

Although TTIP did not work out as planned, the current context might still turn out to be an opportunity to reboot the entire process. The EU has no reason to abandon its commitment to seeking a deal with the US which would generate jobs and growth whilst safeguarding environmental and consumer standards.

As US leadership on globalisation and liberal values is abandoned, Europe should adopt a self-confident approach, combining effective defence of common interests and values. “‘America First’ cannot mean that Europe’s interests come last” was the way President Juncker put it in July 2017 (De Carbonnel 2017). The EU is now expecting strong leadership from France and

Germany on several issues. Transatlantic trade could be one of these.

Ideas for reducing trade barriers across the Atlantic have been looked at regularly over recent years. In 2007 Senior US officials and EU Ministers set up a Transatlantic Economic Council to discuss regulatory, intellectual property and other issues. The aim was to remove barriers to economic expansion and the creation of jobs and growth. A return to a less ambitious, more practical approach could be adopted by the two sides, concentrating on measurable goals rather than provocative rhetoric.

Hamilton (2018) has suggested a pragmatic way forward based on the concept of a common jobs and growth agenda without the thorny investment issue. In fact, the Investor-State Dispute Settlement System (ISDS) was a concession too far by the EU to US corporate interests. A trade agreement with Canada has been agreed by the EU, but – in response to potential ratification problems without the ISDS element. This was replaced by an Investment Court System, something the US is unlikely to be ready to consider as sufficient.

Bringing the US back to the process it so successfully led for many decades will not be easy and success is not certain. It may be worth a try, if there is a sufficient level of shared ambition. It is also clear that political circumstances in the EU and the US are not at all propitious for any short-term initiatives. US mid-term elections in late 2018 will be followed by the European Parliament (post-Brexit) elections in May 2019. Then the next US Presidential cycle begins with Donald Trump hoping to show how successful a President he has been.

In view of President Trump’s explicit and negative comments about the EU, the EU should also take its case to US public opinion. In this way it might be possible to build a positive spiral upon the initial open-minded comments from the Administration and the Commission. The European Parliament, the European External Action Service and the Commission can, perhaps, find avenues around the White House to build understanding and support for a revival of trade negotiations. Public diplomacy across the US could play a big part in this process. The reaction by city and state authorities to the President’s announcement of US withdrawal from the Paris Climate Agreement may be an indicator of a useful, pragmatic way forward.

In December 2017 Members of European Parliament and US Congress members agreed to explore ways to further

deepen transatlantic trade and investment relations. They confirmed their “belief in a rules-based, open, and non-discriminatory multilateral trading system that plays a crucial role in promoting global economic growth and sustainable development” (European Parliament & US Congress 2017). They also agreed to work together to address trade barriers imposed by other countries, particularly.

The Brexit side-show

Brexit was seen by Trump and some of his strategists as a sign that the US would not be alone if it chose to break with the consensus on global trade which the EU and the Obama administration had been trying to build up. The EU and the UK are currently checking out the terrain for a bilateral trade and investment agreement which the UK Government could hope to see in place by the time of the next UK election in 2022. The US Commerce Secretary accuses the UK of “extreme protectionism” (Ahmed 2017) and, therefore, an agreement with the UK seems a priority for the US as well. The UK had been a champion of TTIP, but it is not clear whether an alternative bilateral agreement will avoid the controversies over regulatory issues which dogged the project or whether the US President will be able to improve his image in the UK in a

way that creates the necessary benevolent political context.

Recommendations for EU trade policy in the Trump era

Based on this analysis, what should be the EU’s priorities for the transatlantic and global trade agenda? The EU should

- protect and enhance the WTO and all structures designed to assure a rules-based international trading system.
- follow up and achieve agreements with Canada, Japan, Mexico and MERCOSUR and deepen trade relations with the TPP and ASEAN countries.
- work with the US in relation to China while at the same time seeking to conclude an agreement with China on investment.
- remain ready to relaunch efforts to deepen transatlantic economic relations, if and when the political climate changes.
- ensure that trade policy is not seen as only favouring corporate interests and proving that an open, organised global economy represents a deepening of interdependence which can contribute to jobs and growth globally and to the reduction of international tensions.

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