

Turbulent Trade: Europe and the Biden Challenge

Under Joe Biden, US trade policy will continue to be influenced by domestic opposition to free trade. It is in European leaders' interest to propose a new transatlantic trade compromise that alleviates such opposition.

By Michiel Foulon

Most European leaders hope that Joe Biden will improve transatlantic relations, especially regarding international trade. European leaders realize that their economy relies on a stable and rules-based trade system. Moreover, they are well aware that Europe has long enjoyed a trade surplus with the US. At the same time, they recognize that the US no longer views Europe as its top priority.

Biden's trade policy, like that of outgoing President Donald Trump, will be influenced by economic nationalism and domestic opposition to international free trade. International free trade harms certain sectors, resulting in job losses and industry liquidation. This in turn leads governments to implement protectionist measures. Such patterns are familiar to students of economic history and international political economy. Ever since the rise and widespread adoption of the liberal market economy, international free trade has provoked opposition.¹

Domestic opposition has grown increasingly apparent, as Trump's "America first" policy emphasized the use of trade policy to protect US jobs and adopted a unilateral, confrontational approach. Although American public opinion has become somewhat more favorable to free trade in recent years, incoming President Biden stresses that he "will not enter into any new trade agreements until we have invested in Americans and equipped them to succeed in the global economy."² Biden's priority will be protecting American workers from free trade's negative effects.

Due in part to these effects of free trade, the US government for the past four years has questioned the logic of free

trade and the rules-based trade system. Trump withdrew the US from the Trans-Pacific Partnership, blocked the World Trade Organization's (WTO) dispute settlement mechanism, and adopted a unilateral, confrontational, and transactional trade policy. Trump does not totally reject free trade, as the new trade agreements with China and with Mexico and Canada respectively show, but he wants a better deal for the US – even if it requires creating turmoil in the global trading system.

Transatlantic relations have reached a critical juncture in history: either they return to supporting free trade or they slide into rejecting it. Trump may be an exception among US presidents, but his economic nationalist approach made domestic opposition to free trade more apparent than before. In the long run, transatlantic relations can-

Key Points

- Biden, like Trump, will promote an economic nationalist trade policy that is influenced by domestic opposition to free trade from workers who have been losing from it.
- Unlike Trump, Biden will be open to a new, shared position with Europeans that aims to revive the rules-based trade system underpinning transatlantic relations.
- Transatlantic relations will continue to be strained due to domestic opposition unless Europe and the US craft a new trade compromise.
- Europe must therefore proactively propose a new compromise that not only revives the WTO's dispute settlement mechanism but also values the industries that have been suffering from free trade.

not endure this domestic opposition unless the US and Europe strike a new trade compromise. Ideally for European leaders, transatlantic relations would return to pre-Trump free trade. However, given the reality of rising domestic opposition in the US, European leaders must compromise so that transatlantic relations will be based on mostly, albeit imperfect, free trade. Biden, like Trump, favors an economic nationalist approach that is designed to protect domestic workers and industries. However, Biden offers an opportunity for Europe because he is likely to follow a path that will give European leaders a chance to reform the trade system underpinning transatlantic relations.

Economic Nationalism and Free Trade

One way to protect domestic interests against negative trade effects is to employ economic nationalism. Economic nationalism is rooted in political realism. It maintains that states should enlarge their income from foreign investors and international trade. Ideally, the balance of payments should reflect a small current account surplus. Furthermore, states should produce certain goods, including those relevant to national security, within state borders and protect their manufacturing industries and jobs against international competition.

Economic nationalism offers two different answers to free trade's negative effects.³ One answer is defensive economic nationalism, which protects a state's economy by means of the rules-based trade system. This approach informs Biden's trade policy. The other answer is skeptical economic nationalism, which questions the logic of free trade and the rules-based trade system, viewing liberal internationalism as a negative force. This was the view that informed Trump's trade policy.

Trump and Skeptical Economic Nationalism

Against the backdrop of its economic nationalism, the Trump administration made trade issues a priority and fought job losses and industry liquidation. The administration imposed tariffs and adopted a unilateral, confrontational approach while questioning the logic of free trade and liberal internationalism more generally. It sought to extract larger gains from trade, even if this meant disrupting the global trading system.

This skeptical economic nationalism was bound to produce mixed economic results, however. For example, a state's trade deficit may decrease vis-à-vis another state when the former imposes tariffs on the latter. But the former state's trade deficit with third states is likely to grow when its underlying macroeconomic factors worsen, as reflected, for example, in budget deficits and overspending. Furthermore, tariffs may benefit one industry's employment, but they may trigger retaliatory tariffs that harm other industries, or even that same industry. When the US imposed tariffs on European steel, it aimed to favorably affect US employment. However, one of the implications of these tariffs was that the European Union (EU) retaliat-

ed with tariffs on US steel, aluminum, and agricultural goods. These retaliatory tariffs had a negative effect on these industries. Meanwhile, the US trade deficit in goods with the EU worsened from 152 billion USD in 2017 to 178 billion USD in 2019.⁴

In contrast to the Trump administration's confrontational approach, most European leaders would instead be interested in cooperating with the US on the basis of shared values and modernization of the rules-based trade system. European leaders worry about trade's security implications. They realize that fully decoupling their economy from China's economy is unrealistic, since these economies are deeply intertwined. They have an interest, however, in limiting collaboration with China in such areas as 5G and artificial intelligence. European leaders also dislike unfair trade practices by third parties, including China. However, European leaders realize that their economy relies on a stable rules-based trade system and that the EU economy presently enjoys a trade surplus in goods with the US. Accordingly, European leaders want to reform the trade system, not to dismantle it.

Biden and Defensive Economic Nationalism

European leaders now face an opportunity in Biden's approach to trade policy. This is because Biden's defensive economic nationalism departs from Trump's skeptical view. Biden will protect US workers and industries through the rules-based trade system. He also prefers cooperation with Europe in modernizing trade rules. It is in this way that European leaders, in preparing to deal with the Biden administration, now enjoy an opportunity to reform trade on a constructive basis.

To be sure, Biden also builds on Trump's political legacy. Biden places priority on protecting US workers from free trade's negative effects, including job losses and industry liquidation. Like Trump, he is likely to pull back somewhat from US advocacy of free trade. This means that European leaders should expect Biden to work hard to increase US manufacturing exports, to return offshored jobs, and to improve US workers' international economic competitiveness.

Accordingly, Biden presents a dual challenge to European leaders: collaborating with the US to revive the rules-based trade system while reducing harm to US sectors that have suffered losses from free trade. The latter is necessary in order to avoid the rise of more skeptical economic nationalism.

Biden's defensive economic nationalism affects how European leaders should approach his administration in three areas: tariffs, WTO reform, and negotiations for a limited trade agreement.

Rolling Back Tariffs

European leaders should expect Biden to uphold tariffs – at least in his presidency's initial stage and unless European leaders meet some of his demands. Biden may consider roll-

ing back tariffs on European steel and aluminum (even as he remains unclear on how protectionist his trade policy will eventually be). Biden's Cabinet will include free trade advocates, including Janet Yellen, Biden's choice for Treasury Secretary. Yet, the US debate on trade policy has shifted from the views on liberal engagement that were prominent in the 1990s to today's support for modifying these views in order to account for the negative effects of free trade. Biden inherits a worse trade deficit than the one Barack Obama left Trump in 2016. If Biden considers reducing tariffs, he will likely demand concessions first.

European leaders could offer the US an incentive to reduce tariffs by linking this discussion to other economic issues. One way to broaden the debate would be to focus on Europe's demands to implement global digital tax rules for technological companies. As EU Commission President Ursula von der Leyen announced, the EU seeks to advance the global digital tax debate in 2021. Discussion on subsidies for aircraft industries could also be included. This would reduce frictions over Airbus and Boeing and prevent them from worsening in 2021. Such an effort could help the US and Europe to forge a consensus on subsidies that they could also use as leverage in negotiations with third states like China.



Vice President (now President-elect) Joe Biden with Belgian President (now President of the European Council) Charles Michel in Brussels, February 2015. *Yves Herman / Reuters*

Reforming the WTO

Biden's defensive economic nationalism also offers an opportunity to revive the WTO and its dispute settlement body (DSB). The US remained involved in the WTO under Trump, and yet in recent years the organization has approached a kind of all-or-nothing moment. The US laments that the WTO's DSB operates in an inefficient and ineffective manner. The Trump administration threw sand in the gears of the DSB when, in 2019, it halted the appointment of new Appellate Body members, who are needed in order for the body to hear appeals.

In response, European leaders have advanced reform proposals. For example, the European Commission's Directorate-General for Trade has presented a concept note for WTO reform, while the European Commission has proposed a broader plan to revive post-Trump transatlantic relations. Both proposals suggest improving the DSB. In advancing such proposals to enforce trade rules, European leaders will find a like-minded negotiation partner in Antony Blinken, whom Biden picked to become Secretary of State. This could make it easier to settle trade disputes in a structured and rules-based system, rather than via unpredictable trade wars.

When European leaders seek to revive the rules-based trade system, they must also consider the broader picture. The Biden administration will likely withhold appointments of new Appellate

Further Reading

Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1944).

Provides an historical account about protectionism and international free trade interaction.

Foreign Policy, *The Biden Transition*, 2020.

Analyses and updates of Biden's foreign policy plans and cabinet appointments.

Ursula von der Leyen, *State of the Union 2020*, Speech at the European Parliament Plenary, 16.09.2020.

EU Commission President von der Leyen's view for Europe – including international trade.

Robert O'Brien / Marc Williams, *Global Political Economy: Evolution and Dynamics* (London: Red Globe Press, 2020).

An introduction to contending perspectives, like economic nationalism, on international trade.

Body members unless European leaders meet some of its demands. Even if DSB reform is successful, the underlying US concerns will remain unaddressed. Satisfying these concerns will require reforming trade principles on such issues as market access.

A Limited Trade Agreement

These debates about reforming the WTO and trade principles relate to the final area of Europe's approach to the Biden administration: negotiating a trade agreement. A comprehensive trade agreement like the previously proposed Transatlantic Trade and Investment Partnership (TTIP) is unlikely. But an agreement that is more limited in scope is possible. In an effort to reach such an agreement, European leaders should agree with the US on a timeframe and also improve the conditions for trade negotiations. These conditions should reduce the hurdles that hindered the TTIP negotiations.

Such conditions require, first, that Europe regains domestic support for a trade agreement with the US. This demands debate about international free trade's benefits and harms, as measured in employment, business closings, and wage depression. Europe should also consider ways for governments to offer support for sectors that lose from import competition.

Second, when Europe and the US negotiate a trade agreement, they must limit the scope of the negotiations. Specifically, they should now exclude the most politically contested issues. They should focus instead on less contested issues, as well as on issues that they can leverage against third states. Such negotiations are narrower than the earlier, but failed, TTIP negotiations, but they are the realistic route. They would preclude the obstacles that hindered the TTIP negotiations and reduce domestic opposition.

Finally, Europe should also consider these negotiations for a trade agreement in geopolitical terms regarding third states. The European Commission's plan to revive transatlantic relations proposes that the EU and the US collaborate on issues such as 5G. This draft plan should be taken further. Europe and the US share an interest in setting trade standards regarding the use of subsidies, the use of technologies, and forced technology transfer as a precondition for market access. They can leverage their shared power to address third states' trade practices on such matters. When members of the incoming Biden administration

criticized the negotiations for an EU-China Comprehensive Agreement on Investment (which were concluded in principle at the end of 2020), they said that they preferred US-Europe cooperation in addressing China. Certainly, US-Europe trade negotiations are not Biden's priority. After all, Biden's agenda will, at least initially, be dominated by domestic economic recovery and the COVID-19 pandemic. Furthermore, the focus of US foreign policy has shifted to Asia. However, by considering trade negotiations in geopolitical terms, Europe will gain a higher position on the Biden administration's agenda, secure an earlier US commitment to negotiations, and enhance European leaders' chances to conclude a new agreement.

Conclusion: Rising to the Biden Challenge?

Even as free trade stimulates competing calls for economic nationalism, Biden, unlike Trump, offers European leaders a chance and a constructive basis to revive the rules-based trade system that underpins transatlantic relations. The challenge that European leaders face with the Biden administration is two-sided: work with the US and return to supporting free trade, and avoid harming workers who have become increasingly opposed to it. Accordingly, European leaders must demonstrate to the Biden administration that they can make a new compromise that benefits both sides and those sectors that have been losing from free trade. When European leaders consider in this way the challenge that the Biden administration poses, they have a more realistic baseline to craft a new compromise. Without such a new compromise, transatlantic relations will languish while opposition to free trade rises and the road is cleared for more skeptical economic nationalists to be elected in years to come.

Selected sources

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3. Robert O'Brien / Marc Williams, *Global Political Economy: Evolution and Dynamics* (London: Red Globe Press, 2020).
4. United States Census Bureau, *Trade in Goods with European Union*, census.gov, 2020.

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