

Rising Protectionism and the Future of EU-US Trade

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If America comes first, who comes next? This is a question European politicians and political analysts are still contemplating in the time following President Donald Trump's first 100 days in office. The initial outlook following his election seemed quite pessimistic, it was not easy to discern temperamental politics from future policy largely due to the unpredictability of the President's statements. This sentiment was reflected in a policy analysis released by the European Parliament at the beginning of the year: "It is hard to predict confidently what path his administration will take in a wide range of foreign policy areas."ⁱ

The populist rhetoric which colored President Trump's campaign rallies and speeches often seemed to harken back to an old style of protectionism whenever he would discuss trade policy. His plans to renegotiate the North American Free Trade Agreement (NAFTA), or his swift departure from the Trans-Pacific Partnership (TPP), mirrored the "America First" tone conveyed in his run up to the presidency. The pledge given during his inauguration to "protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs" surely served to sow further anxiety regarding TTIP and the future of EU-US trade relations in general. That

being said, there is still no way of confidently asserting that this new brand of US economic nationalism will be aimed at the EU. After all, Trump as of yet has not criticized trade with the EU, or the TTIP in particular, as one of the US' "bad deals". Will this large political shift truly result in less indulgent or preferential treatment towards the EU?

Conflicting points of view diverge more so on the specific form the administration's trade policy will take, rather than the overall direction of the President's policy. As one expert, Luigi Zingales from the University of Chicago, has confidently predicted, "it is clear that [the Trump presidency] will be pro-business, not pro-market", e.g., favoring established domestic enterprise over international competition.ⁱⁱ The administration's trade strategy document (released in March 2017) and a trade-related executive order (signed in April 2017), confirm this with language emphasizing "national sovereignty over trade policy" and a strong focus on "trade deficit reduction". One could paint these points with a positive or negative light depending on perspective.

Critics often claim that Trump's views on international trade are presented as a zero-sum game, with clear losers and winners

– frequently with trade balance as the defining factor.ⁱⁱⁱ When a nation begins to view trading partners as aggressors rather than allies, it could lead to a cascade effect of regressive, predatory trade policies (commonly referred to as trade war). It is especially foreboding when these signals are being sent by the United States, the traditionally unwavering proponent of free trade following the Second World War – as evidenced by 14 bilateral and region-specific free trade agreements not to mention its instrumental role in the implementation of supranational groups such as the WTO, the IMF, or the World Bank. This governmental shift in attitude is especially high-risk given the wave of populism sweeping through much of the western world. Economic history has already shown that protectionism begets protectionism.

On the other end of the spectrum, supporters of this policy welcome the shift, often stating firstly that the United States cannot project strength abroad without being strong domestically.^{iv} Some investors seem to share this confidence in a strengthening domestic market, as U.S. stocks increased by nearly \$3 trillion in their value following the election. In addition to that, unconditional support of free trade is not always beneficial when the playing field is not even. China is often the primary example used by the administration as a trading partner who's devotion to free trade is not as balanced, e.g., significantly larger auto tariffs (25% to 2.5%) or heavily subsidized/state owned businesses in competition with private firms.^v The President could certainly ensure stricter compliance with international trade rules and enact policies such as the border adjustment tax without being “protectionist”.

Regardless of their respective views on potential US trade policy priorities, as

Mr. Trumps first 100 days in office have come to pass, fears in Europe have abated somewhat due to a softening in numerous positions from the administration. Reports of the Trump administration's shift in policy priority from Britain to the EU bolster this assertion. Where Trump initially endorsed the Brexit referendum results and pledged to initiate a swift bilateral trade agreement, his stance has reportedly altered following his meeting with German Chancellor Angela Merkel. This confidence in a strengthened resolve to re-engage in a trade agreement was announced on the other end as well, by Wolfgang Schäuble (Germany's Finance Minister); He stated after a meeting that he was “optimistic a U.S.-EU trade deal could be reached soon.”^{vi}

The largest impediment to further progress is likely to be the newfound fixation on trade deficit reduction, which could of course sour negotiations – based on a US census report, the trade balance between the US and EU in 2016 was roughly 270 million in exports to 416 million imports.^{vii} However, a focus on trade deficit reduction could be less adversarial in its implementation than many fear. The director of the White House National Trade Council has indicated his wish to place emphasis on increasing exports through deals persuading others to buy more American goods.^{viii} This tone seems less combative than the claims made by the US Secretary of Commerce that “we are in a trade war”. Trump claimed in front of Congress that he “believe[s] strongly in free trade, but it also has to be fair trade”; time will tell what the President's definition of “fair” entails.

Although the US is more likely to be the one to disrupt the status quo in the US-EU partnership, a widening gap in political ideology as well as a rapidly changing electoral climate, indicates that change could instead

come from Europe. One of the most pivotal factors contributing to this potential instability is the cycle of French presidential and parliamentary elections in 2017. The populist candidate of the National Front party, Marine La Pen, started with the intention to repeat the political upset the Trump victory represented, even praising the result as American voters “showing the way”.^{ix} This mirrors the US election on many fronts. The desire of the French ‘identitarians’ to limit foreign trade, or even withdraw from the EU, could sooner or later hollow out the EU’s exclusive supranational capability of brokering external trade deals, placing a question mark behind France and Germany’s steadfast dedication to the European project as a bulwark against the tide of populism and Euro-skepticism.

With an American president whose enthusiasm for the European project as well as NATO is often called into question, now would be an inopportune time for Europe to lose its resolve. The upcoming NATO summit as well as the G7 and G20 summits will provide further insight into how both groups plan to approach cooperation. President Trump’s penchant for unrepentantly disrupting the status quo will likely continue throughout his term, whether or not that disruption will favor the EU remains to be seen.

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