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## Between Nationalism and Multilateralism: A Renewed Approach for Transatlantic Economic Engagement

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Can U.S.-EU “open bilateralism” or a tripolar world best counter Chinese state capitalism?

Will transatlantic enforcement of more coercive trade and investment rules gain legitimacy?

What longer-term currents in U.S. trade policy would a Democratic administration embrace?

The Ancient Greeks invented the concept of the Golden Mean, and the idea that “the truth lies somewhere in the middle” is a well-rooted one. Given the opposing international economic policies of U.S. nationalism and European Union multilateralism that are contributing to the polarization of transatlantic relations, is there a center ground that the United States and the European Union could jointly occupy?

Yes, but not because these two concepts are equal outliers judged against a commonsense mid-point of policy. Multilateralism has a 75-year record of mitigating trade, currency, environmental, and other economic conflicts through the World Trade Organization, the International Monetary Fund, the UN, and similar institutions and agreements. Nationalism—and its associated destruction in the twentieth century—gave rise to the postwar multilateral institutions that were created to serve as its antidote. Multilateralism’s performance today may be lackluster (especially in trade policy) but a return to the protectionism and mercantilism of the 1930s would shipwreck the global economy.

These considerations notwithstanding, there is a space that lies between the “America First” nationalism of the Trump administration and a historic allegiance within the EU to multilateralism where policies can be crafted to promote the global economic interests of both sides of the Atlantic. But for this approach to be successful it will be essential that Americans and Europeans first grasp the distinction between liberalism and multilateralism in international economic relations.

### A U.S.-EU Center Ground or a Tripolar World?

The idea that transatlantic compromise and cooperation provide a promising route for advancing U.S. and EU policy objectives clearly goes against the grain of the Trump administration’s inclination to deal in a unilateral way with challenges like Chinese state capitalism, reforming the WTO, or U.S. trade imbalances. But it also faces headwinds in Europe, where China’s ascent and U.S. nationalism are giving rise to considerations of a tripolar world—the U.S., China, the EU—and how to strengthen the EU’s role within it. Just as in the United

States—and in part because of the unilateralist actions of the United States itself—the primacy of the transatlantic relationship is also in question within the EU, which should be a cause for concern given its ongoing strategic importance.<sup>1</sup>

This line of thought encompasses governments and non-governmental policy organizations alike. One notable example of the former is German economy minister Peter Altmaier’s “National Industrial Strategy 2030.” Although the document was intended as a starting point for discussion—and has generated considerable pushback in Germany—it is notable that it calls for the creation of European industrial champions and the participation of European companies in EU-only production value chains.<sup>2</sup> In an interview with a German financial newspaper, Austrian chancellor Sebastian Kurz made the link to a tripolar world explicit when he said “we need national and European champions in order to meet the competition from the U.S. and China.”<sup>3</sup>

## The Quest for European Sovereignty

Granted, voices urging the EU to strengthen its institutions and policymaking in anticipation of a new tripolar world generally see such reinforced European sovereignty not as an end in itself but rather as a way to reinforce multilateralism. In an open letter to the new European leadership, the Brussels-based think tank Bruegel recommends “You should aim not only to strengthen Europe but also to support all multilateral frameworks that can help offset a bipolar scenario” where the U.S. and China divide up the world between them.<sup>4</sup>

Yet the EU leadership needs to think carefully about whether multilateralism should be placed at the apex of its values. That mental frame could distract from or even close off more pragmatic avenues for promoting its interests in the global economy. Importantly, a more ad hoc, less institutional approach to international economic relations could help preserve a modicum of transatlantic entente, which will remain a lynchpin of U.S. and European security and prosperity.

## Disentangling Liberalism and Multilateralism

With 75 years of a liberal economic order organized according to the principle of multilateral cooperation it can be hard to imagine one without the other. The World Trade Organization (WTO) and its predecessor the General Agreement on Tariffs and Trade (GATT) have been the institutions through which an open and

rules-based trading system has developed.

Yet the fact that liberalism and multilateralism have an intertwined postwar history should not blur the reality that they are distinct

phenomena of international economic relations. Liberalism [see box] is a set of economic values, while multilateralism is one means to promote those values. Liberalism can thrive outside of a multilateral framework and multilateralism does not guarantee

the primacy of liberal values. The Transatlantic Trade and Investment Partnership (TTIP) launched in 2013 (and put aside in favor of more narrowly focused U.S.-EU talks that started in July 2018) is an example of the former. The inability of the WTO to counter certain Chinese economic practices—subsidies to state-owned enterprises, disrespect for intellectual property protection, forced technology transfer—is an example of the latter.

Perhaps because many Europeans have lived for six decades within a framework—the European Union—that rests on liberal values and whose governance model could be described as “multilateralism plus,” there has been a tendency on the other side of the Atlantic to conflate the two concepts. In one representative example of this way of thinking, a recent report from London-based Chatham House examined the possibility for “mid-sized states to assume greater responsibility for sustaining the ‘liberal world order’, broadly defined as the lattice of multilateral institutions, agreements and norms that for decades has underpinned a relatively stable and open international system.”<sup>5</sup>

## Pragmatism vs. Institutionalism

Looked at another way, it is hardly surprising that the European Union prefers to work through institutions rather than in a more ad hoc fashion to advance its international economic objectives. The EU is itself an institution and not a nation-state. By channeling its economic diplomacy through multilateral institutions, it reinforces the legitimacy of its own way of policymaking. It is also true that as a quasi-supranational organization the EU cannot act or react with the same swiftness as unitary states or draw upon the integrated policy kit spanning trade, diplomacy, and defense that such states have at their disposal. But the EU can thrive in the more predictable framework of international institutions that operate according to longer time horizons and where power does not necessarily confer an advantage.

Given the White House’s suspicion of what President Trump calls “globalism,”<sup>6</sup> the U.S. will not be convinced of the need for transatlantic cooperation if it is justified by the EU as a way to strengthen multilateral institutions. But if the United States and the European Union are able to work together more pragmatically and less institutionally there should be common ground to advance their interests. Perhaps unfairly, the onus will mostly be on the EU to find ways to work with the United States, the dominant global economic player that remains its largest commercial partner. Whether it is incentivizing China to reform its economic model, establishing new rules and norms for digital trade and artificial intelligence, or remaining at the frontier of technological innovation, neither the U.S. nor the EU can succeed in isolation.

## The Way Forward: U.S.-EU “Open Bilateralism”

In the absence of prospects to strengthen international economic liberalism at the multilateral level a second-best approach is what could be called “open bilateralism.” On a case-by-case basis, the U.S. and the EU would identify where they have common interests that would be served by cooperation, including the option to broaden their joint efforts to other like-minded countries.

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To a certain degree, this kind of transatlantic economic engagement based on pragmatism rather than institutionalism is already taking place.

One case in point: in July of 2018 the U.S. and the EU agreed to begin negotiations on a limited trade deal encompassing a reduction of industrial tariffs and streamlining the assessment of the safety of manufactured products destined for each other's markets. President Trump's threat to levy tariffs on European (and other) cars and car parts is weighing on these talks, and the U.S. wants to renege on its commitment to exclude agriculture from the negotiations. But the logic behind TTIP—to serve as an avant-garde for high-standard trade and investment rules that other countries would want (or feel obliged) to join—is even stronger now as China's influence grows. At nearly 50 percent of global GDP the U.S.-EU economic relationship is a conspicuous missing piece in the trade policy puzzle.

Another case in point: at the 2017 WTO ministerial meeting in Buenos Aires the U.S., the EU, and Japan launched a trilateral consultation process with the goal of developing a common approach to WTO reform. The three sides have met five times since, the latest gathering taking place in May 2019. While China has not been mentioned in any of the joint statements issued by the three governments, it is clearly their chief concern given the issues in focus: non-market economic behavior, industrial subsidies, and state-owned enterprises. In order to gain additional heft ahead of a possible presentation of their recommendations to the WTO, the trilateral group is considering expanding the forum to additional countries, including Australia, Canada, and Norway.<sup>7</sup>

There are at least two other grounds for ad hoc cooperation between the U.S. and the EU that would be consistent with the increasing emphasis that the two sides are placing on countering the international impacts of China's economic behavior.

First, the EU's new common framework for screening inward investment that took effect in April 2019<sup>8</sup> includes the goal of promoting international cooperation. One way of ensuring that Chinese or other companies do not try to play off the U.S. against the EU in the search for markets abroad would be the signing of a Transatlantic Agreement on Investment Security creating a mechanism for Washington and Brussels to consult with each other on investments above a certain monetary threshold and apply similar criteria to the screening of such investments.

Second, the U.S. and the EU could agree upon a binding code to address subsidies to state-owned or state-directed companies. This step would require the EU to accept the idea that coercive economic measures are legitimate elements of twenty-first century statecraft within bilateral agreements and not just in a multilateral context. And it would force the U.S. to abandon its preference for national approaches in the application of such measures. Neither of these changes will happen overnight. But with the likely failure of U.S. unilateral tariffs to change much of the Chinese economic model and increasing pressure in the EU to become a more forceful actor in international economic relations, this idea should remain on the table.

In both these cases—foreign investment screening and enforceable trade codes—the U.S. and the EU could open their cooperation to third countries such as Japan, Canada, Mexico, and Australia, as well as the UK after Brexit if it opts for alignment with open, high-standard trading partners rather than closer investment ties with China.

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## Looking Beyond 2020

One of the most important unknowns surrounding the future of transatlantic economic engagement is the extent to which the Trump administration is an anomaly in its resort to nationalist approaches to trade policy or rather heralds a new normal. More concretely, if a Democrat were to win the presidency in 2020, would the U.S. return to the business as usual of comprehensive U.S.-EU free trade negotiations in the TTIP mold, placing a priority on strengthening multilateralism, and economic diplomacy rather than more coercive measures to promote its interests? The answer to this three-part question is most likely yes, maybe, and no.

While the Trump administration may be an extreme case in its imposition of tariffs on essentially all Chinese imports, Democrats are concerned about China's failure to respect global trade rules. None of the current Democratic candidates for president have pledged to immediately remove these tariffs upon taking office.<sup>9</sup> At the same time, Democrats prefer working together with European and other allies in order to be more effective in pushing back against China.<sup>10</sup> The Democrats do not appear to see a contradiction between employing coercive approaches to trade and coordinating with like-minded partners. In terms of negotiating new free trade agreements, if consideration is given to the strict conditions in the areas of labor standards, human rights, or environmental protection that at least two leading candidates have placed on any future FTAs,<sup>11</sup> then the EU emerges as one of the few acceptable partners.

What about the multilateral trading system? In Congress, Democrats distinguish themselves from the Trump White House in their endorsement of cooperation with the EU on China and their interest in an ambitious bilateral free trade agreement with the EU. What is less clear is how much political capital Democrats are willing to expend on behalf of strengthening and reforming the WTO.<sup>12</sup> The party of Roosevelt and Truman remains strongly committed to U.S. participation in international organizations. But in addition to new concerns about multilateralism's effectiveness, there are important political considerations. The idea that the global trading system has been unfair to the United States is well anchored among Midwestern swing voters who are key to Democrats recapturing the presidency in 2020. Even without Donald Trump in the White House, the European Union may find that bilateral relations will be a more fruitful ground than multilateralism for international economic engagement with the United States in the coming decade.

## LIBERALISM: A DEFINITION.

The term “liberalism” is a particularly elusive one in a transatlantic context. To an American, the word signifies a strong welfare state and other government involvement in the economy. When many Europeans (although not all) hear the word “liberal,” they think of the free market, and a government that maintains a light regulatory touch (what Americans might call “conservative”). With the rise of populism—and indeed of “illiberalism”—it would be useful for Americans and Europeans to have a common understanding of international economic liberalism. One such definition could be a set of policies that balances the need for global order with a desire for human progress: openness to innovation and exchange; the rule of law; high standards for workers, consumers, and the environment; the primacy of the individual over the state; and fairly regulated competition, among others.

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- <sup>1</sup> See Mark Leonard, et al., “Redefining Europe’s economic sovereignty,” Bruegel Policy Contribution, June 25, 2019; Mark Leonard, “The end of ‘Chimerica,’” ECFR Commentary, June 25, 2019; Josef Braml, “Die Geo-Ökonomie der USA,” *Der USA-Experte*, June 27, 2019.
  - <sup>2</sup> “National Industry Strategy 2030,” Federal Ministry for Economic Affairs and Energy, 2019.
  - <sup>3</sup> Sven Afhüppe and Thomas Sigmund, “‘Ich will ein Land der Eigentümer’: Österreichs Kanzler wirbt um deutsche Investoren,” *Handelsblatt*, May 8, 2019.
  - <sup>4</sup> Maria Demertzis, André Sapir, Guntram Wolff, “A Strategic Agenda for the New EU Leadership: Memo to the presidents of the European Commission, Council and Parliament,” Bruegel, June 2019, page 8.
  - <sup>5</sup> Roland Paris, “Can Middle Powers Save the Liberal World Order?” Chatham House Briefing, June 2019, page 2.
  - <sup>6</sup> Laura King, “Trump denounced ‘globalism’ at the U.N. – but what does that word really mean?” *Los Angeles Times*, September 26, 2018.
  - <sup>7</sup> Bryce Baschuk and Shawn Donnan, “U.S., EU, Japan Push for Pact to Rein In China’s State Subsidies,” *Bloomberg*, May 20, 2019.
  - <sup>8</sup> “Foreign Investment Screening: new European framework to enter into force in April 2019,” European Commission Press Release, March 5, 2019.
  - <sup>9</sup> Alayna Treene, “2020 Democrats punt on Trump’s China tariffs,” *Axios*, June 28, 2019.
  - <sup>10</sup> Alan Rappeport, “Echo Trump’s Tough Talk, or Lift Tariffs? Democrats Clash Over Trade,” *The New York Times*, July 31, 2019.
  - <sup>11</sup> Alex Thomson and Adam Behsudi, “Warren moves to outflank Trump on trade,” *Politico*, July 29, 2019; “Candidates Answer CFR’s Questions: Bernie Sanders,” Council on Foreign Relations, July 30, 2019.
  - <sup>12</sup> Personal communication with Senate Democratic staff.
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