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**Research Report**

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# Europe in the Trumpworld: EU trade and security under the new US executive

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## 1. INTRODUCTION: DECODING TRUMP'S AGENDA

PREPARE FOR CHAOS. Exactly what policies that will come out of Donald Trump's new administration is a mystery, but the new America he wants to fashion will have consequences for Europe's trade and security policy. The outcome of the Brexit referendum already amplified a number of underlying political concerns about Europe, including the long-term viability of the European project, and devalued our region's position in the world. Trump's election win has now made them urgent.

Obviously, Donald Trump is not sympathetic to high-standard trade deals that liberalise markets and rein in the ability of governments to err on the side competitive distortions. He is a replica of old American mercantilists. Trump is cosy with American tycoons, but has a vision about America's economy that takes a pop at global capitalism and the architecture of global trade that have been critical for U.S. foreign economic policy since the end of World War II. His America-first attitude is much about expanding American exports and reducing its imports, and as a consequence balance the Federal budget. He wants to use trade policy to favour some commercial interests at the expense of others.

It is to stretch the definition of policy to say that he has a trade policy. However, his seven-point campaign agenda on trade states that he won't sign the Trans-Pacific Partnership (TPP) agreement, that he wants to re-negotiate NAFTA, and takes a hardline stance against China, focusing on enforcement of existing trade rules to create a leverage in his favour. It's probably safe to say that other items on the trade agenda will be embraced by the same anti-trade attitudes, or that the general stance on trade will put also less contentious trade issues on the backburner for a good while. At best, the Trump administration will set out a defensive trade policy that will make any progress extraordinarily difficult, let alone impossible, on issues like TTIP and the Trade in Services Agreement (TiSA). At worst, he will take the U.S. out of the World Trade Organization (WTO), and tear the global trading system apart.

**REALITY SINKING IN**

Trump's attitude is obviously worrying. It should, though, be put in context. To begin with, even Hillary Clinton vowed to renegotiate both NAFTA and TPP – and the trade agreement with Canada and Mexico was a target already in her first Presidential run. Even the other agenda items – on China and enforcement – are practically straight out of the playbook for left-wing Democrats. Taken at face value, both contenders in this year's presidential race promised the same responses to the same trade policy problems – just with different degree of eloquence and pertinence.

Even the last incoming U.S. President, Barack Obama, campaigned on similar policies. In 2008, he expressed clear dislike of NAFTA, pledging to renegotiate it if elected. He wanted to label China as a currency manipulator (with corrective trade action to follow), and took strong positions against the trade agreements that then were up for political approval (with Korea, Panama and Peru). Then he got into office – and with the exception of the ill-fated ACTA (which he supported on behalf of his campaign donors in Hollywood), trade policy was absent from President Obama's first term. Like many others, President Obama had campaigned in poetry but governed in prose. Confronted with economic and political realities, he gradually conformed to the consensus about the benefits of trade and trade agreements.

Furthermore, nothing in Trump's character or past experience indicates that he is a micro manager or particularly details driven. Similar to the last two presidents, preoccupied with more urgent issues (like the War on Terror, healthcare reforms, global financial crisis, or playing golf), Donald Trump will have little bandwidth for a wonky portfolio like trade. Instead, it is widely assumed that he will hand over the responsibilities to his cabinet appointees for Commerce Secretary and U.S. Trade Representative, possibly coming from his eclectic group of advisors on trade.

Trump has so far surrounded himself with 1970s-style protectionists like Dan DiMicco from the steel industry. Among his supporters there are also libertarian tech venture-capitalists like Peter Thiel and Carl Icahn. They may all share Trump's zero-sum outlook of the world (with the U.S. at the losing end), but inarguably represent very different schools of economic thought. Whoever ends up being in charge of trade, he or she is likely to report to Trump's running mate, Vice President Mike Pence, a staunch supporter of trade liberalisation that is poised to take a central role in running the executive office in the same manner that Vice President Dick Cheney was charged with policy coordination under President G W Bush. Unlike Donald Trump and his advisors, VP Pence is deeply rooted in the orthodox Republican position on trade as a job creator and a positive-sum game.

**OF RECIPROCITY AND LEVERAGE**

Just like President Obama's reality check on NAFTA, Donald Trump's ideas about trade will face obstacles even if they are not reined in by his VP or the U.S. Congress. If Trump follows his campaign temperament and opts for radical policies, the U.S. economy will suffer and he will have to spend a good amount of time explaining why he is killing American export jobs and industries. The point with trade agreements is that they are reciprocal: if you hurt someone, they will respond similarly.

Renegotiating NAFTA, for instance, comes with a price. Levelling the playing field on issues like trade in timber with Canada or cutting the access to the U.S. market for Mexican truckers will have consequences for the more than three million U.S. jobs that depend on NAFTA. Like all forms of mutually assured destruction, a threat to withdraw from NAFTA is not a particularly credible threat. Similarly, slapping big tariffs on imports from China won't improve the U.S. trade balance. Imports from China would just be replaced by imports from South-East Asia or Latin America; manufacturing jobs would not repatriate to the United States.

China's retaliation, however, would have direct consequences for U.S. exports to China. Likewise, a radical re-orientation of U.S. trade policy would have consequences for U.S. foreign economic policy, including the status of the U.S. dollar as the dominant reserve currency of the

world, or what rightly has been called an “exorbitant privilege” in the global economy. While Trump’s policy is likely to be constrained by the realism of economic diplomacy, his hands are still virtually untied from traditional political interests. Despite his blue-collar voter base, Trump is constrained neither by organised labour like President Obama nor by the GOP establishment that didn’t lend him much of a hand in his campaign. The country’s core business groups didn’t support him. Moreover, Donald Trump has proven that he is not bound by the conventional standards of decency inside the Beltway, or even by his own words. While President Obama had to resort to contrived excuses like calling TPP the fulfilment of his promised “renegotiation of NAFTA”, Donald Trump is probably free to backtrack on many of his campaign promises. President Trump could probably even pursue a trade deal with China if he suddenly thinks it’s a good idea – by simply justifying the deal as something that “makes sense” or is about “winning”.

In a way, his unaccountability and “undiplomatic immunity” create a unique policy space in trade negotiations – or to paraphrase his own words: He could probably get away with the trade policy equivalent of shooting someone on Fifth Avenue without losing any supporters. The election posturing has created an expectation amongst his counterparts of a worst-case scenario in trade, similar to the one in foreign policy and migration. Thanks to the trepidations and incessantly low expectations from his counterparts, Donald Trump is able to open any negotiation with much poorer starting bids than his predecessors. Similarly, he could also surprise his counterparts by making relatively or marginally reasonable offers, luring them into thinking they fared much better than their worst-case scenarios – but ending up in a deal that is strongly in America’s favour. In essence, he could be using the leverage of “rational irrationality”, the art of deal-making perfected by North Korea.

#### TRADE POLICY UNDER THE TRUMP ADMINISTRATION

While Trump is a mercantilist with a disposition for negative unilateralism, he may still choose to pursue deals in the Pacific and with emerging markets simply because he follows the money and moves to where market opportunities present themselves. With his likely hostility to trade-policy rules that constrain government behaviour, there may be opportunities for purely transactional relationships based on quid pro quo. That is a relation that China and other Asian powers understand and enjoyed with previous Republican Presidents. When the U.S. opened diplomatic relations with Beijing in 1972, it also received exclusive market access for Pepsi and other backers of President Nixon. President Reagan successfully imposed “voluntary” quotas on Japanese cars by making Tokyo believe the alternative would be much worse. President George W. Bush imposed nuisance import restrictions on steel and other Chinese products, which he offered to lift in exchange for better market access for U.S. beef. In other words, despite all the circus, the Trump administration’s trade agenda may end up much like U.S. trade policy in the 1980s: Mercantilism infused with much use of creeping protectionism like safeguards and anti-dumping (the so-called Section 201 and 301-actions), market-share deals and orderly market arrangements such as voluntary export restraints.

Less contentious items on the trade agenda, like TTIP and TiSA, did not need Trump to face big difficulties. TTIP is still alive, but has been fighting with its own slowing death because all the great technical and political obstacles for this agreement. With next year’s election cycle in Europe, it is unrealistic to think that TTIP could reach a conclusion before 2018 or 2019, if it could be reached at all. Just like in TiSA, the problems have not just been about U.S. politics; European trade politics is equally responsible for the lack of progress in TTIP, if not more, by demanding a lot but offering little.

Whether the Trump administration seeks to renegotiate the TPP agreement or withdraws from it altogether the TPP agreement will consume the U.S. trade agenda for the better part of the Trump’s term in office. TTIP was simply never a priority of the same order as the TPP for the Obama administration. The Trump administration is not more (or less) likely than its predecessor to play the role of demandeur, and thereby making sacrifices on state sovereignty to get a trade deal done with a Europe that requests access to state-level public procurement. Considering the UK’s demand to negotiate state legislation on financial services, the same conclusion goes for a deal with post-Brexit UK.

## THE EU IN THE POST-2016 WORLD

And that takes us back to Europe. As a values-driven, idealist and non-realist power, the European Union is unaccustomed to dealing with transactional forms of economic diplomacy. Regardless of President Trump, Europe's trade policy has been losing authority and steam. External trade policy has not played much of a role for European trade for almost two decades because there has not been much material change through new trade agreements. The trade agreements that have been signed have had little importance for Europe's aggregate trade and market integration with the world. Behind the deteriorating role of EU trade policy stands also the demise of U.S. trade policy.

Just like in security policy, Europe has been dependent on American trade leadership. It was the political and economic leadership of the U.S. that fostered successive trade agreements in the GATT and the WTO. American leadership has also been critical for regional integration in Europe. Europe often played a supportive role in global talks, but needed the pressure from U.S. leadership to accept trade liberalisation. Lately, U.S. trade policy has been important to foster political agreements in Europe about the need to negotiate bilateral trade agreements with countries like Korea or TPP countries like Japan.

A collapsing trade agenda in the U.S. – which, in essence, means the collapse of the TPP agreement – would on the one hand release the EU from the passenger seat of global trade governance. On the other hand, it requires that Europe takes greater care of its own trade agenda and that others step in to offer strong and determined leadership. For instance, if TPP gets killed by President Trump, Japan would be out of the constraints from its agreement with the U.S., and able to give tariff concessions that the EU seeks for its high-end foods and beverages in the EU-Japan FTA. However, the EU could also be captivated by inaction or protectionism as Europe loses one of the political narratives that have influenced reluctant countries to stand behind the ambition of an EU-Japan trade agreement: the EU needs this agreement for its companies not to be disadvantaged on the Japanese market when the U.S. and Japan deepen their trade relation.

Equally, Europe is either forced to lead or fall into passivity if the Trump administration pulls the plug on TiSA talks or if Europe is thrown out from the talks due to its weak commitments on e-commerce. The EU Member States have to come to terms with either their own desires for better conditions for its services trade, or simply surrender to the ferociously vocal objection against digital and services trade amongst some constituents and EU governments, and fashion a less ambitious agenda for trade liberalisation. With ambitions gradually being lowered, Europe may even eventually accept a low-standard FTA with China in lack of other opportunities. In any case, it can no longer hide behind U.S. leadership.

## A EUROPE READY TO LEAD?

Trump's policy on security can have even greater consequences for the global order than trade. Similar to how his ideas on trade exaggerates current tendencies in U.S. trade policy, Donald Trump's controversial proposal that Korea and Japan ought to be allowed to develop their own nuclear arsenal takes the current U.S. policy – that U.S. allies under its Pacific and North Atlantic security umbrella should be taking bigger financial and operational responsibility – to the extreme.

And in the same vein – Europe is likely to confront a different NATO member than it is used to. U.S. leadership has been critical for not just the security of Europe, but the expansion of NATO. European countries have exploited U.S. leadership, partly because there has not been a political consensus in Europe about what each and every government needs to commit in order for the solidarity pact to work. A U.S. that radically reduces its military support to Europe, or weakens the solidarity clause of NATO by other means, returns the issue about security responsibilities in Europe back to – Europe.

As the restoration of an autonomous military power is a historical and political objective for Prime Minister Abe in Japan, the Trump Presidency may simply turn those long term objectives into a something closer to a political necessity in the short term. In contrast, a European defence union independent from NATO may be a recurring federalist dream of Berlin and Brussels idealists – but it's essentially nothing more than a pipedream. The political compact on security in Europe is fraying at the edges, to say the least. Firstly, NATO countries differ somewhat on their perception about threats to themselves, especially about the threat from Russia. The EU security and foreign policy has by and large adopted the ambiguity of German strategic doctrine: entrenched in the historical Prussian position between East and West, a frenemy of both Russia and the Atlantic powers, it is open to doing business with anyone. Ultimately, this position does not sit very well with the former countries of the Eastern Bloc.

Secondly, Europe's willingness to assume security responsibilities depend on its capabilities. The goal to scale up of military expenditures to 2 percent of GDP is not more than a promise of an ambition. One of few European NATO countries to live up to that target, the UK, is on its way out of the EU; much of France's capabilities also depend on shared resources with the British Armed Forces. Furthermore, the question is not just how much each NATO country spends, but also on what. Germany, which is one of the lowest spenders and amongst one the biggest free riders, spends a mere 1.2% and mostly on administration rather than boots on the ground. With only a half of German fighter jets, frigates, submarines and tanks actually deployable and operational, an EU-led security guarantee simply does not assure the same level of confidence as NATO in the Baltics and Eastern Europe.

Thirdly, the question of capability is separate from the one about leadership. Europe's collective inability to defend human rights in Bosnia-Herzegovina without an US-led NATO intervention convinced European governments of the necessity of NATO, and to effectively dismantle and incorporate its own defence structures under West European Union (WEU) under NATO command. Subsequently, France has returned to full participation and reintegrated into NATO. Whether the EU structures are fit to replace US-led NATO goes to the heart of Europe's existential question: Can the EU provide leadership, when its ability for survival is called into question? The problems that the EU faces in its current core competence, namely economic policy, are largely structural: the EU is facing increasing opposition from governments in Europe – a problem that is built in horizontally across all policy areas, from a trade agreement with Canada to its security policy on Russia.

## CONCLUSIONS

Trump's instincts on trade will likely be constrained by the reality of trade diplomacy, namely reciprocity and the preservation of America's self-interest. The election of Trump into the Oval Office is much of a non-event for EU trade-policy detail, possibly even the TTIP: they have been deteriorating for years. Europe and the global trading system can survive new trade frictions and creeping protectionism, but a Trump that wants to go radical will make everyone miserable. A Trump administration that accelerates America's declining role as global hegemon, and withdraws from the TPP, WTO or NATO, will have huge consequences for the global order generally, including trade and security policy in Europe.

Europe is in no position for re-writing treaties, improve solidarity, or shoulder greater responsibilities. There is also little point of attempting bigger changes when European countries have obvious difficulties delivering what they already have promised. What is required in Europe is for member states to start honouring the obligations they have already agreed to. The trade ambitions that the EU Member States have already set out needs much further attention. On security, now is a good time as any for the Member States to build the capacity to protect its borders. But to try to assert strategic leadership, or even pre-emptively break away from an US-led coalition, will acerbate its own structural problems.