

The Future of US-German Relations (I):: Trade Policy

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The Future of US-German Relations (I): Trade Policy

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Key Points

- Should the US enter into a phase of trade protectionism, Europe must respond as follows: the stronger the isolationist efforts on the part of Washington, the stronger Berlin must pursue its liberalisation efforts.
- Direct punitive tariffs or import quota should not be reciprocated. Protective tariffs should only be imposed as a last resort, exclusively for tactical political reasons, for instance to strategically exert pressure on US Members of Congress in their constituencies.
- The EU's Directorate General for Trade must be equipped with considerably greater resources. The European Commission should make concerted efforts to revive the dormant negotiations on numerous free trade agreements and push ahead with them.
- Contacts with US federal states must be intensified to try circumventing the extensive presidential powers in matters of trade policy.
- A policy of multilateral, rules-based trade is in Germany's and Europe's vital interest. In the event of the US engaging in a protectionist trade policy, the EU should pursue an active course of taking cases to courts of arbitration and help strengthening the WTO.

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Background

Donald J. Trump's election as president of the United States of America has prompted an uproar in international politics due to his opposition to the status quo. With his slogan "America First", he intends to review America's role in the world and embark on new paths, particularly in the fields of immigration, climate and security policy. It is still unclear whether or not the Trump administration is in fact seeking to reverse US foreign policy traditions – and if so, what precisely this may entail.

In a series of three papers, the KAS Working Group of Young Foreign Policy Experts came up with a number of suggestions on how German politics should act in view of the ambiguous signals from Washington. Germany and the US are still linked by many different ties, and Germany has benefited greatly from the US's international leadership over the last few decades. But how can this partnership be strengthened so as to withstand the new challenges of the future?

This first paper deals with trade policy and a European response to US protectionism. The two other papers deal with security and defence policy in conjunction with NATO and with the development of multilateral cooperation, using climate, health and UN reform as examples.

Contours of the US's future trade policy

Since Donald Trump came into office, the future of the US's trade policy has been high up on the White House's political agenda. Initial measures indicate that the prospect of a protectionist agenda put forward during the election campaign was more than rhetoric. A confrontational stance in response to negative effects of the North American Free Trade Agreement (NAFTA) on employment, the trade deficit with some countries of the European Union as well as the undervaluation of the Chinese renminbi is indicative of a trade policy that is based on a zero-sum game and no longer fully supports the existing order of world trade. The refusal of the United States to sign a final declaration at the G20 summit in Baden-Baden in support of open markets is a further indication of a strategic reorientation. The withdrawal of the US from the TPP ratification process through a presidential directive suggests an impending wholesale revision of US trade policy.

This will affect a number of scenarios involving US-German trade and investment relations. The US administration will focus more strongly on bilateral trade agreements in which it believes the US to be in a comparatively stronger negotiating position. President Trump would like to replace multilateral negotiations with bilateral deals. The appointments to the National Trade Council and to the position of Secretary of Commerce underpin these aims. An active policy of trying to weaken multilateral trade institutions is therefore a definite possibility. During the election campaign, candidate Trump explicitly criticised the World Trade Organization (WTO) as the guarantor of multilateralism in trade and rules-based arbitration. Unilateral protectionist measures, including changes to the tax system to the detriment of imports ("border adjustments"), the imposition of punitive taxes on companies relocating jobs to other countries and the setting of punitive cross-sector tariffs are likely courses of action in descending order.

Trade policy as a zero-sum game

Indications of an impending wholesale revision of US trade policy

Risk of the global trade regime being undermined

President Trump prioritises unilateral protectionist measures

President Trump has extensive decision-making powers

Wide-ranging presidential powers

Hopes that President Trump's radical trade agenda may be curbed by moderate forces in the US Congress may be dashed at any time. While the president requires the Senate's approval for the ratification of negotiated trade deals, he can unilaterally impose punitive tariffs of up to 15 per cent due to trade deficits. One section of the relevant law allows the president to impose tariffs on account of "unfair trading practices". Under the Trade Expansion Act 1962, the president can impose tariffs for the purpose of protecting "national security". The vague wording of the relevant passages grants the president a wide scope of interpretation that he can use to virtually invalidate existing trade relations and agreements. At the same time, the likelihood of entering into new trade deals is very low considering the conflicting interests in the US Senate. The probability of a creeping destruction of parts of the existing international trade regime is high.

Protectionism creates a geopolitical vacuum

Impacts of strategic indecision

The US's reorientation in the area of trade policy in general and its pulling out of the transpacific agreement, the TPP, in particular have created a geopolitical vacuum in global free trade. Free trade agreements are far more than mere deals about business and trade rules. They are political instruments and create opportunities to shape and influence matters. They create structures, partnerships and alliances, for instance to agree on common technical and social standards on a mandatory basis.

In the case of the TPP, the multilateral negotiations were also a sign of the US's commitment to engage the entire Asia Pacific region. They were seen as promises made in the spirit of partnership to allies such as Japan and Vietnam. The fact that Australia, one of the US's closest partners, has started talking about considering China in connection with future free trade deals now that the US has pulled out of the TPP underlines the strategic instability of this region. Washington's strategic indecisiveness will no doubt also affect security-related aspects.

Defend EU's authority in the area of trade policy

Formulate European interests

The German government should, as the Chancellor had already made clear during her first visit to the new US president, spell out to the Trump administration that the negotiating authority with respect to trade policy lies with the European Union. The German government must rebuff bilateral advances. It should do all it can to persuade all member states to defend this institutional assignment of authority. Even once the UK leaves the EU, the European Union with a population of 440 million will be in a stronger negotiating position than individual member states.

At the same time, public relations work will take on greater significance in Europe and Germany over the next four years. The dispute about open markets and free trade agreements is by no means merely an external disagreement between the EU, Germany and the US. Free trade is not just a peripheral phenomenon but has had an impact on the very core of German society. It will therefore be necessary to be much more vocal in promoting the benefits of open markets while not neglecting the challenges resulting from globalisation and continuing innovation. Beside the growth potential for the German economy, the German government should above all keep stressing that the EU can only defend its own standards and set new ones by pushing for free trade agreements of its own.

Drive forward free trade agreements globally

The EU should use the coming years to finalise the numerous free trade agreements with other states or groups of states that are currently under negotiation. Negotiations on trade deals are underway with Japan, China, India, Mexico and Indonesia as well as with the MERCOSUR states and dynamic, up-and-coming economies in Southeast Asia such as Thailand and Singapore among others. But most of these negotiations have stalled. The EU should make greater efforts to drive the negotiations forward. During the upcoming EU budget negotiations, Germany should therefore advocate that adequate human resources be made available to the Directorate-General for Trade in the European Commission which is suffering from understaffing.

Make available more resources to the Directorate-General for Trade

Strengthen contacts with US federal states

The confidence that businesses have in a reliable political framework must not suffer greater damage. A situation must be avoided in which the United States turn into a risky market for foreign investors. Confidence in the US market means confidence in investment security and therefore job safety on both sides of the Atlantic. The EU and its member states should make efforts at a diplomatic level to try and ensure that the general conditions for transatlantic trade do not deteriorate and that existing trade barriers are eliminated to the greatest possible extent. To this end, existing contacts with US federal states benefitting from subsidiaries of European companies should be strengthened. More intensive collaboration of US-German chambers of commerce with the German political foundations in the US would represent another possibility of exerting greater influence on the shaping of Euro-Atlantic trade relations at a business and civil society level.

Offensive multilateralism

A rules-based trade policy is one of Germany's core interests

Should the US actually promote protectionism over internationalism as a national guideline, Germany and Europe will have to fill the resulting gap in support of multilateralism. This will involve first and foremost measures to support and strengthen the WTO as the forum of rules-based trade policy. The political legitimisation of the global trade system created by the US and Europe depends on the involvement of the largest number of states possible. While bilateral trade agreements should retain their high strategic value, WTO multilateralism remains the foundation of German and European foreign trade policy. Open markets represent a core component of German interests. This means that the stronger Washington's isolationist tendency becomes, the stronger Berlin's liberalisation efforts must be. Protectionist measures on part of the US should therefore be countered by an offensive multilateralism, for instance by pushing ahead with negotiations on other trade agreements and an active policy of taking cases to the courts of arbitration of the WTO. Germany should therefore do all it can to have arbitration proceedings speeded up so that rulings can be obtained more quickly. This would strengthen the reputation of the WTO as an effectively operating organisation of international law. Germany can make a contribution to increasing staffing levels within the WTO to enhance its operation.

Engage in an active policy of taking cases to courts of arbitration

There must be no reciprocal action in response to direct punitive tariffs or import quota. Instead, assistance should be provided to affected European industries, for instance through tax advantages. The aim is to survive a possible protectionist phase with a policy of strategic patience. The imposition of punitive tariffs should be considered as a last resort, exclusively for tactical political reasons. Temporary punitive tariffs could thus be applied to selected agricultural products such as walnuts (the US walnut industry is highly reliant on transatlantic trade) in order to put political pressure on members of the US Congress in specific constituencies with the ultimate aim of bringing about a change in the course of US trade policy.

Regulatory cooperation
strengthens political
cooperation

Take President Trump
at his word

Concluding the free trade agreement TTIP remains a transatlantic imperative. The opening up of the US public procurement sector would be a milestone for the European and German economies. In addition, the chapter on regulatory cooperation would create a dialogue forum for the establishment of a legal framework for the megatrends of digitisation and automation. Regulatory cooperation would enable a political dialogue about a joint legal framework for the technologies of the future, thereby preventing trade barriers resulting from different standards, for instance, from arising in the first place in the transatlantic market. The agreement would then become a vehicle for more intensive transatlantic cooperation. While a further opening up of the US market to European goods is seen as unlikely under Trump, concerted efforts will have to be made to continue and complete negotiations on the agreement. The EU should take President Trump by his word when he expresses his intention to initiate a new generation of free trade agreements and continue to pursue a deep transatlantic free trade zone as one of its key aims.

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*Further information at
<http://www.kas.de/wf/en/71.6391/>*

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